celebrating diversity

It is wondrous.
That nowhere, two of the same people exist.
That each is perfectly and completely unique.
Imagine for a second the value of that.
The inestimable value of human life.
In all its complexity;
this individuality;
this most, most incredible
diversity.

The year that was 2005 saw Metropolitan celebrate the diversity of its most valuable asset:

Its People.

METROPOLITAN
HOLDINGS LIMITED

WWW.METROPOLITAN.CO.ZA

our vision

Creating prosperity for Africa's people.

our mission

Serving Africa's people through affordable financial solutions that create financial growth and security.

SUSTAINABILITY 45

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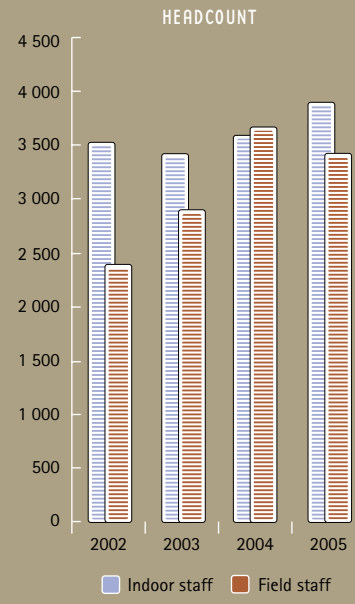
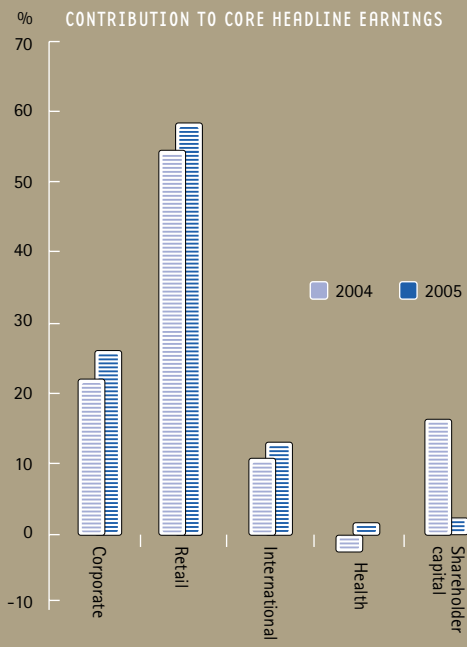
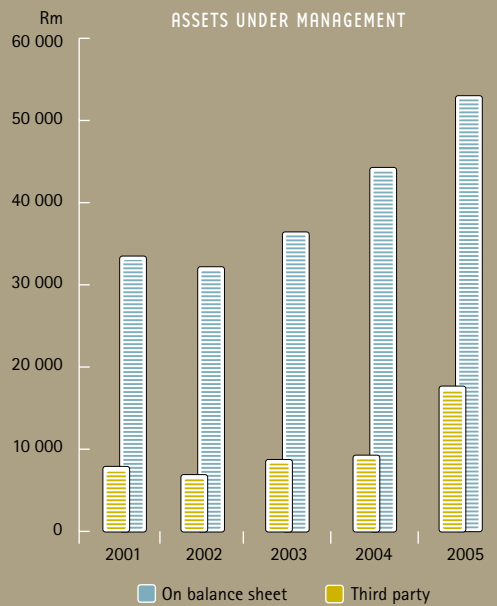
BUSINESS SUMMARY & FINANCIAL *highlights*







ANALYSIS OF CORE HEADLINE EARNINGS

	2005 Rm	2004 Rm
Corporate business	167	105
Operating profit	233	150
Tax	(66)	(45)
Retail business	369	259
Operating profit	523	370
Tax	(154)	(111)
International business	86	52
Operating profit	92	56
Tax	(6)	(4)
Health business	9	(11)
Operating profit	38	10
Tax	(29)	(21)
Shareholder capital	10	77
Holding company expenses	(40)	(42)
Finance costs - preference shares	(53)	(13)
Investment income on shareholder assets	208	214
Income tax on investment income	(105)	(82)
Core headline earnings	641	482
Total operating profit	886	586
Holding company expenses	(40)	(42)
Finance costs - preference shares	(53)	(13)
Investment income on shareholder assets	208	214
Total tax	(360)	(263)
Core headline earnings	641	482

EMBEDDED VALUE

	2005 Rm	2004 Rm
Adjusted net asset value	8 021	6 141
Net value of in-force business	3 447	2 915
Fully diluted embedded value	11 468	9 056
Fully diluted embedded value per share (cents)	1 499	1 225
Fully diluted adjusted net asset value per share (cents)	1 048	831

CORE HEADLINE EARNINGS PER SHARE UP **41%**

ALL BUSINESSES GREW OPERATING PROFITS IN EXCESS OF **40%**

RETURN ON EMBEDDED VALUE OF **27%**

EMBEDDED VALUE ATTRIBUTABLE TO GROUP

	Net asset value Rm	Value of in-force Rm	2005 Total Rm	2004 Total Rm
Metropolitan Life Ltd	5 166	2 886	8 052	7 081
Metropolitan Odyssey Ltd	241	200	441	352
Metropolitan International Ltd	47	-	47	95
Metropolitan Namibia Ltd	317	179	496	373
Metropolitan Life of Botswana Ltd	95	50	145	115
Metropolitan Lesotho Ltd	225	132	357	261
Metropolitan Health Group	82	405	487	325
Asset management	65	191	256	202
Metropolitan Holdings (after consolidation adjustments)	1 543	(247)	1 296	360
Goodwill	(109)		(109)	(108)
Total embedded value	7 672	3 796	11 468	9 056
Adjustments to group excess	(1 563)			
Statutory excess – long-term insurance business	6 109			

FUNDS RECEIVED FROM CLIENTS

	Gross inflow Rm	Gross outflow Rm	Net inflow 2005 Rm	Net inflow 2004 Rm
Retail business	4 928	(2 746)	2 182	1 424
Corporate business	1 981	(3 823)	(1 842)	243
International business	977	(548)	429	402
Long-term insurance business cash flows	7 886	(7 117)	769	2 069
Health business	7 935	(7 406)	529	618
Asset management	7 787	(3 285)	4 502	(540)
Total funds received from clients	23 608	(17 808)	5 800	2 147

FINAL DIVIDEND PER SHARE UP

24%

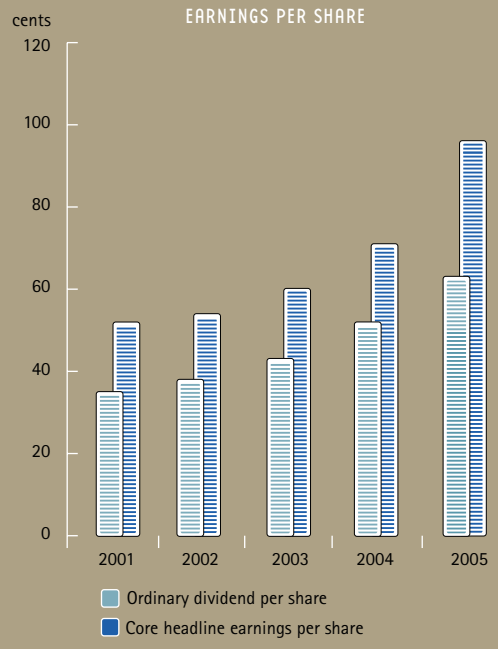
TOTAL ASSETS UNDER MANAGEMENT EXCEED

R70 BILLION

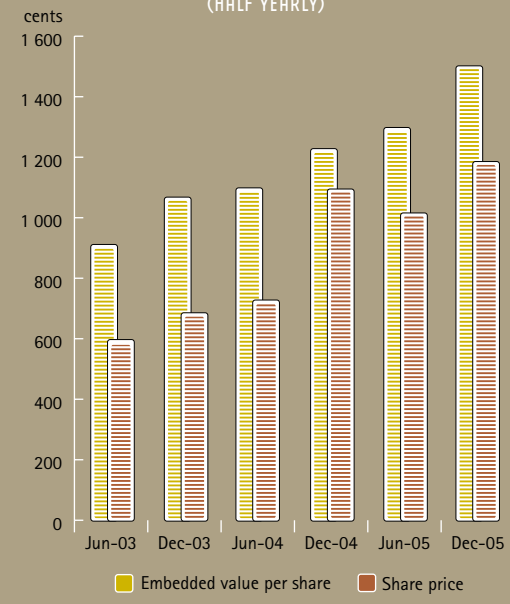
CAPITAL REDUCTION OF

100 CENTS PER SHARE

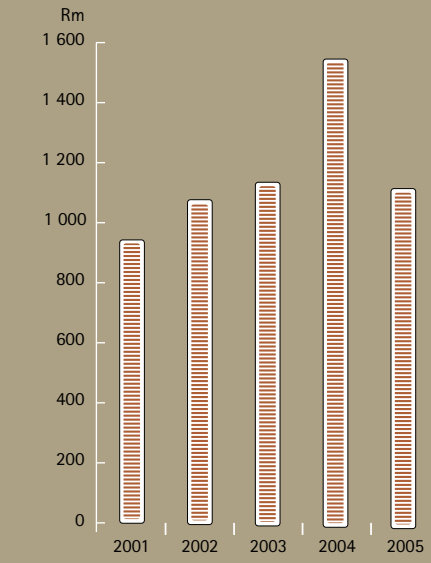
ORDINARY DIVIDEND AND CORE HEADLINE EARNINGS PER SHARE



EMBEDDED VALUE AND CLOSING SHARE PRICE (HALF YEARLY)



NEW BUSINESS APE



	COMPOUND GROWTH PA % (i)	2005 Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm
Total assets under management	14.3	71 392	53 725	45 525	39 525	41 837
Total assets per balance sheet		53 391	44 587	37 200	32 397	33 826
Third party assets		18 001	9 138	8 325	7 128	8 011
Net funds received from clients	7.8	5 800	2 147	3 106	2 824	4 292
Actuarial value of policy liabilities	13.1	42 855	35 612	29 570	25 857	26 200
Excess - long-term insurance business	6.7	6 144	5 367	4 695	4 088	4 739
Capital adequacy requirement (CAR)	0.5	1 426	1 563	1 640	1 726	1 397
CAR cover (times)	6.2	4.3	3.4	2.9	2.4	3.4
Inflow (ii)						
Net premiums received (iii)	3.0	7 886	7 754	7 084	6 824	7 009
Recurring premiums	9.0	5 770	5 190	4 593	4 332	4 087
Single premiums	(7.8)	2 116	2 564	2 491	2 492	2 922
Investment return (iii)	32.9	10 398	6 620	4 259	(1 286)	3 331
Investment income	(7.7)	1 677	1 571	1 762	1 843	2 314
Net realised and fair value gains	71.1	8 721	5 049	2 497	(3 129)	1 017
Other businesses						
Holding company (iv)	127.4	401	247	182	(111)	15
Asset management (iv)	16.3	106	78	71	62	58
Asset administration (iv)	8.2	63	40	37	54	46
Health administration (iv)	13.9	519	340	289	286	308
Outgo (ii)						
Net benefits and claims (iii)	12.1	7 117	5 685	5 115	4 921	4 500
Expenses (iii)						
Management expenses	2.4	984	910	938	862	894
Distribution costs	2.1	128	122	119	122	118
Administration expenses	2.5	856	788	819	740	776
Sales remuneration	20.5	862	747	579	477	409
Expenses - other businesses						
Holding company	119.6	93	55	34	24	4
Asset management	17.2	68	57	48	41	36
Asset administration	(16.6)	29	22	25	40	60
Health administration	12.4	470	328	271	267	294
Earnings	37.8	1 695	1 653	989	(449)	470
Core headline earnings	15.0	641	482	370	348	367
Diluted core headline earnings		708	495			
Core headline earnings per share	21.1	109.39	77.49	56.75	50.88	50.83
Diluted core headline earnings per share		95.93	71.12			
R/US$ exchange at year-end	(15.0)	6.32	5.64	6.62	8.59	12.09
Average R/US$ exchange rate for year	(7.6)	6.36	6.44	7.53	10.49	8.74

	COMPOUND GROWTH PA % (i)	2005	2004	2003	2002	2001
Ordinary dividend per share (cents)	15.8	63.00	52.00	43.00	38.00	35.00
Ordinary dividend cover (core headline earnings)	4.6	1.74	1.49	1.32	1.34	1.45
Fully diluted number of shares in issue (million) (v)		765	739	707	694	700
Share price at year-end (cents)	10.3	1 185	1 090	685	610	800
Market capitalisation (million)	12.8	9 065	8 055	4 843	4 233	5 600
Fully diluted embedded value (million)	11.0	11 468	9 056	7 550	6 323	7 553
Fully diluted embedded value per share (cents)	8.6	1 499	1 225	1 068	911	1 079
Return on embedded value (%) (vi)		26.9	29.6	21.3	(11.3)	7.5
New business premiums (Rm)						
Recurring premiums	9.5	917	1 311	884	829	639
Retail business		732	762	608	505	484
Corporate business		80	448	178	213	155
International		105	101	98	111	#
Single premiums	(8.6)	2 088	2 527	2 484	2 492	2 991
Retail business		1 369	1 258	1 019	882	1 033
Corporate business		545	1 059	1 398	1 556	1 958
International		174	210	67	54	#
	(4.6)	3 005	3 838	3 368	3 321	3 630
Annual premium equivalent (vii)	4.7	1 126	1 564	1 132	1 078	938
Number of in-force policies: individual life (million)	3.3	4.1	3.9	3.8	3.8	3.6
Number of employees	4.9	7 325	7 229	6 306	5 912	6 054
Indoor	0.0	3 899	3 578	3 416	3 522	3 898
Field	12.3	3 426	3 651	2 890	2 390	2 156
Consumer price index (viii)	6.4	128.3	126.1	123.8	115.7	100.0
CPI adjusted figures						
Premium income (Rm)	(3.2)	6 147	6 149	5 722	5 898	7 009
Core headline earnings per share (cents)	13.8	85.26	61.45	45.84	43.97	50.83
Dividend per share (cents)	8.8	49.10	41.24	34.73	32.84	35.00
Share price at year-end (cents)	3.7	924	864	553	527	800

(i) Over four years, based on rand amounts
(ii) Gross of consolidation adjustments
(iii) Consists of insurance and investment contract business
(iv) Includes fees received and investment return
(v) 2003 and 2002 are net of 41 million treasury shares; 2001 net of 28 million treasury shares
(vi) Growth in embedded value (before dividend and after increase in share capital) as a percentage of the embedded value at the beginning of the year
(vii) APE represents recurring premiums plus 10% of single premiums
(viii) Consumer price index - metropolitan areas as disclosed by Statistics South Africa (average over reporting year). The 1999 base value was set at 100.
Included in retail and corporate business as appropriate

OPERATIONAL *structure*

(as from 1 January 2006)

METROPOLITAN RETAIL

METROPOLITAN LIFE

Development, distribution and administration of individual life investment and risk products, targeting the lower and middle income markets

METROPOLITAN ODYSSEY

Development, distribution and administration of individual life investment and risk products, targeting the middle and upper income markets

METROPOLITAN DIRECT

Use of alternate channels such as

- direct mail and
- telemarketing

for the distribution (currently outsourced to DirectFin Solutions) of packaged financial services products, sourced on a group-wide basis

CUSTOMER MANAGEMENT

- customer services
- administration

METROPOLITAN EMPLOYEE BENEFITS

All aspects of retirement fund business, including

- investment
- risk management
- administration
- actuarial consulting

DEREK PEAD
Retail cluster

WILHELM VAN ZYL
Corporate cluster

JUSTIN VAN DEN HOVEN
International cluster

METROPOLITAN INTERNATIONAL

Widening the geographic spread of the group by opening up new markets, particularly in Africa, but also elsewhere in the developing world

Existing businesses

- Metropolitan Namibia
- Metropolitan Botswana
- Metropolitan Lesotho
- Metropolitan Kenya
- Metropolitan Ghana

METROPOLITAN ASSET MANAGERS

All aspects of asset management, including

- asset management for retirement funds
- collective investment management
- property management and administration

on behalf of all businesses within the group and third parties

ABEL SITHOLE
Asset management cluster

BLUM KHAN
Health cluster

PETER DOYLE
Group chief executive

METROPOLITAN HEALTH GROUP

Provision of

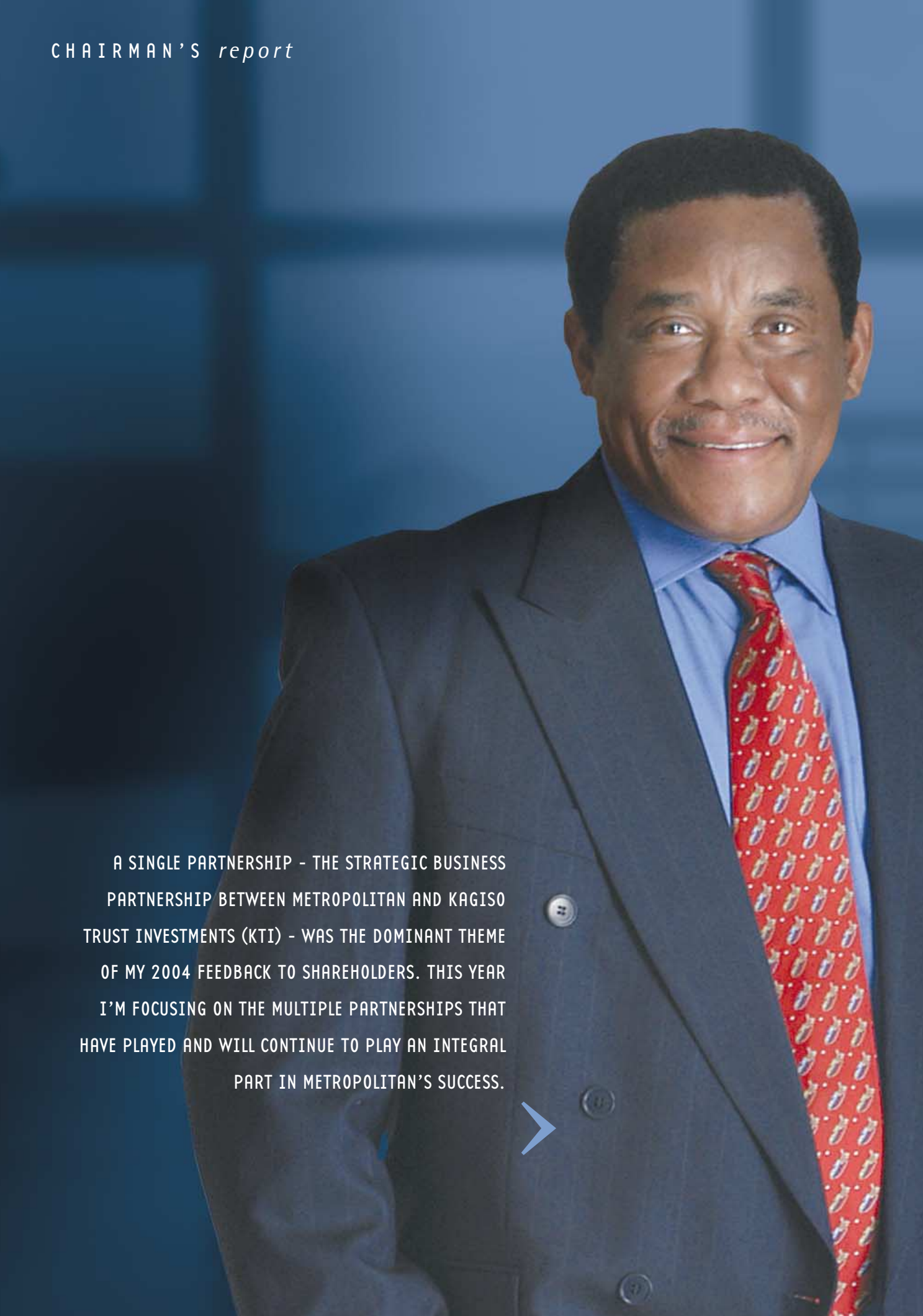
- medical aid administration services
- health risk management strategies
- managed healthcare - Qualsa
- administration system franchising to both corporate and retail healthcare schemes

GROUP SUPPORT SERVICES

- Group empowerment & corporate affairs: **Nkosinathi Chonco**
- People services: **Wiebke Lusted**
- Financial services: **Preston Speckmann**
- Strategic services: **Willem Coetzee**

‘To be here, now, in this moment, that is what truly matters. We spin out of control when we try to hold on to things; when what we should be doing is learning to let go. That’s when **freedom** begins.’

SHADRICK MAZAZA
Clinical governance executive, Qualsa



A SINGLE PARTNERSHIP - THE STRATEGIC BUSINESS PARTNERSHIP BETWEEN METROPOLITAN AND KAGISO TRUST INVESTMENTS (KTI) - WAS THE DOMINANT THEME OF MY 2004 FEEDBACK TO SHAREHOLDERS. THIS YEAR I'M FOCUSING ON THE MULTIPLE PARTNERSHIPS THAT HAVE PLAYED AND WILL CONTINUE TO PLAY AN INTEGRAL PART IN METROPOLITAN'S SUCCESS.

2005 - A YEAR OF MULTIPLE PARTNERSHIPS

On the one hand there is our partnership with government, with whom we interact regularly, in many different forums and on many different levels. On the other, there is our relationship with our clients and business partners, where our involvement is even more extensive. In 2005 the primary focus of many of these joint initiatives was the policyholder and what was in his or her best interests.

We - in the person of group chief executive Peter Doyle - were amongst the members of the Life Offices' Association (LOA) who represented the industry in the negotiations with national treasury following last year's spate of rulings against insurance companies from the office of the pension funds adjudicator (PFA). The rulings highlighted various bones of contention between the companies and their policyholders relating primarily to early termination values, including disclosure of costs and penalties. National treasury was adamant that the situation could not be allowed to continue.

Having deliberated long and hard to achieve a settlement that was equitable to all parties, we were ultimately one of the signatories of the industry-wide agreement with the minister of finance and national treasury. Known as the statement of intent, the agreement is aimed at ensuring that policyholders receive fair value for money through the application of minimum values if premium payments are stopped early for any reason, and through amendments to the upfront commission system.

The new commission system, the details of which have yet to be finalised, is due to be implemented in October 2006. In line with our commitment to providing all our stakeholders, not only our policyholders, with optimum value, we are continuing to play an active part in the implementation workshops being run by national treasury in conjunction with the LOA. It is of great importance to us that the interests of our intermediaries, the majority of whom fall into the so-called emerging or low-income market category, are protected in the proposed new commission dispensation.

Thanks to consultation and collaboration the way forward is clear, and we are confident that the industry will continue to fulfill its vital function, as we will ours: that of mobilising the nation's savings. With a fine balance between stakeholder interests having been achieved, our ongoing contribution to the financial well-being of the country and the community, as well as the individuals concerned, from institutional to retail investors, from policyholders to members of staff, is secure.

On the consumer protection front, we have always identified with the aims of the broad spectrum of legislative and regulatory authorities in South Africa established specifically for the purpose of ensuring the solvency and sound and prudent management of financial services institutions such as ourselves, and we have continued and will continue to support them in their endeavours. We are also closely allied with them in their efforts to safeguard consumers against poor advice from intermediaries, our own included.

But it is not only in terms of enhancing the value proposition for policyholders that industry and company have joined forces with each other as well as with government. We have also teamed up to resolve issues surrounding the affordability and accessibility of both life insurance and healthcare products and services to low income earners. The fact that we, together with other members of the LOA, are working together to refine national treasury's proposals regarding the creation of a national savings fund to meet the needs of entry-level employees in the formal sector and those working in the informal sector is evidence of our commitment to developing savings as well as risk products for the mass market.

In our capacity as employee benefits actuarial consultants, we have been actively involved in helping employers implement legislated changes to the way retirement fund surpluses are treated and assisting them with the resultant distribution thereof to former members. At present we are monitoring high-level discussions on compulsory retirement fund membership for a broader spectrum of the population and have every intention of stepping up our involvement once the planning stage is reached.

Understandably, for low income earners living expenses, such as housing, food and clothing, often take priority over insurance and savings. Consumer education is therefore a priority as far as we are concerned. Government and industry-led initiatives of a generic financial education nature have received and will continue to receive our support, in addition to our running more product-specific campaigns of our own.

Via Metropolitan Health, we are active participants in the LIMS (low income medical schemes) project, a private healthcare industry initiative which has the potential to attract three to four million new lives to the sector within the next few years. With Metropolitan Health having been awarded the administration contract for the Government Employees Medical Scheme (GEMS), our health business is also playing a pivotal part in government's drive to extend medical aid membership to increasing numbers of civil servants. It continues to take the lead in several public private partnerships established to try and achieve better usage of the public sector healthcare infrastructure so as to make healthcare more affordable and more easily accessible.

WE ARE CONFIDENT THAT THE INDUSTRY WILL CONTINUE TO FULFILL ITS VITAL FUNCTION, AS WE WILL OURS: THAT OF MOBILISING THE NATION'S SAVINGS.

Metropolitan Health also helped to consolidate the partnership between Metropolitan and KTI when they sold a 17.6% stake to KTI, cementing the already strong ties between us as business associates and enhancing the business advantages that the association generates.

Government has identified lack of knowledge and skills as a major impediment to putting and maintaining the economy on a new trajectory of growth. As long as this country suffers from a skills shortage, the shortage of small, medium and micro enterprises (SMMEs) will be ongoing. And it is in part to SMMEs that we must look for the creation of sustainable employment opportunities. Their owners and operators are true innovators, people capable of helping to get our economy into top gear.

At Metropolitan we are promoting government's economic transformation efforts through our wide-ranging skills development initiatives, both internal and external. For example, in direct support of SA's national skills development strategy, we offer both employed and unemployed learners learnership contracts that enable them to obtain a qualification reflective of employable knowledge and/or skills. Several of our major community-based social investment projects also have skills development as a key area of focus as do certain of our leading sponsorships. We are, by way of example, proud supporters of the Thabo Mbeki Education Trust, for which funds are raised at an annual presidential golf day hosted by us. As a group, we are participating in a European Union sponsored project known as Investors in People, being run under the auspices of the department of labour, in terms of which our progress towards international best practice benchmarks in human resource development is being measured and monitored.

WE ARE PROMOTING GOVERNMENT'S ECONOMIC TRANSFORMATION EFFORTS THROUGH OUR WIDE-RANGING SKILLS DEVELOPMENT INITIATIVES, BOTH INTERNAL AND EXTERNAL.

Mathematics and science have been identified as areas where South Africa's skills constraints are at their most acute. To address this urgent need, affecting the country as well as the life insurance industry and individual life companies like ourselves, we have embarked upon a joint initiative with the Actuarial Society of South Africa where learners from disadvantaged backgrounds are encouraged to study mathematics and science at high school in preparation for careers in the actuarial profession. In the past three years alone, 70 distinctions in mathematics and 29 in science were obtained by learners participating in Actuaries on the Move. Interestingly, the learners, who receive extra tuition in English to enable them to achieve their full academic potential, also achieved 36 distinctions in English.

Along with government, we are also championing the cause of enterprise development in areas other than skills development with a view to accelerating the pace at which SMMEs are transforming themselves into robust and resilient competitors. On the targeted investment front, we have deliberately aligned the objectives of our two socially responsible investment vehicles with government's socio-economic objectives: we invest in projects that create economic growth, that raise capital for greenfields ventures and economic expansion projects and that deliver basic services to previously disadvantaged communities while at the same time providing superior returns to investors within low risk parameters.

In March last year Fatima Jakoet, Sindi Mabaso and Bulelwa Ndamase joined our board, swelling the ranks of black female directors just as we were losing the services of former chairman Gloria Tomatoe Serobe, who retired with effect from 28 February, and shortly after the departure of Irene Charnley in December 2004. The insights and new perspectives that they have brought with them are most welcome. It is with regret that I report the resignation of Zuzi Buthelezi in September 2005 after almost ten years on the board, during which period we derived great benefit from his business development expertise in particular. In the same month, Derek Pead, head of retail, was appointed an executive director. His wealth of first-hand experience of our core life insurance business, from both the individual and the employee benefits side, is invaluable. Regretably, potential conflicts of interest obliged Sindi Mabaso to submit her resignation in October when she took up a new appointment.

President Mbeki has emphasised that South Africans are to hold themselves jointly and individually accountable for the accelerated growth initiatives of South Africa, sharing the responsibilities, the risks and ultimately the rewards inherent therein. As a South African life insurance company we believe that we are in a similar position: it is up to us, in partnership and independently, to tackle whatever issues are inhibiting the growth of our company, and our industry, and to ensure that they are resolved to mutual advantage.

Together with our many partners, including all levels of government, we at Metropolitan did a great deal to secure the future of our group, and simultaneously the future of our industry, during 2005. We will be continuing our collaborative endeavours into 2006 and beyond in line with our vision of creating prosperity for the people of Africa, and we look forward to your staying with us on the road to further financial growth.

ERIC MOLOBI | *Group chairman*

DURING 2005 SOUTH AFRICAN LIFE INSURERS, OURSELVES INCLUDED, FOUND THEMSELVES DEALING WITH A MIXTURE OF POSITIVE AND NEGATIVE SENTIMENT.

FAVOURABLE ECONOMIC CONDITIONS

On the one hand, statistics all pointed to an economy in a robust growth phase, soundly structured, with solid fundamentals and a stable outlook. Well over half a million new jobs were created, many for skilled workers. Thanks to increased optimism on the back of the good economic news, people who had despaired of finding jobs once again started looking for work, making it difficult to assess whether formal employment levels were rising or falling. Interest rates and the cost of debt were at all-time lows and domestic consumption was at an all-time high. Investment markets in general, and the equity markets in particular, were buoyant.

The resurgent equity markets drove earnings, embedded value and capital adequacy cover ratios higher, with strong performances boosting returns for both institutional and retail investors. Equity-linked investment products gained in popularity, often at the expense of smoothed bonus products, an area of expertise where Metropolitan is an acknowledged market leader, especially in the employee benefits arena.

We were, and will continue to be, strong supporters of the government's wide-ranging initiatives aimed at accelerating growth and are looking forward to a continuation of the positive economic trends in 2006.

WE ARE FULLY SUPPORTIVE OF THE CONCERTED EFFORTS BEING MADE TO ACHIEVE BETTER VALUE FOR MONEY FOR INDIVIDUAL POLICYHOLDERS, A STAKEHOLDER GROUPING OF VITAL IMPORTANCE BOTH TO THE COUNTRY AND TO US AS A GROUP.

ADVERSE REGULATORY ENVIRONMENT

The life industry, however, was subjected to pressure in the form of rulings against it in respect of poor termination values, especially in the case of retirement annuities, and was also berated for lack of transparency regarding its cost structures. Its credibility was called into question and consumer confidence took a knock as a result.

UPSIDE - A MUTUALLY AGREED SETTLEMENT

In December 2005 an industry-wide agreement, known as the statement of intent, was reached with national treasury. In terms of this agreement, minimum values are to be paid on both retirement annuity and endowment policies if premium payments are stopped early for any reason. The estimated pre-tax cost of the mutually agreed settlement is some R2.6 billion, Metropolitan's share of which is R175 million. After tax adjustments, the net cost to shareholders of these value enhancements will be R124 million.

DOWNSIDE - REPUTATIONAL DAMAGE

The critical stance adopted by the media in their coverage of the rulings against the industry meant that business, both new and existing, was under pressure in 2005. So while economic indicators were up, the mood of both the people selling and buying life insurance products was down.

OUR STANCE

We are fully supportive of the concerted efforts being made to achieve better value for money for individual policyholders, a stakeholder grouping of vital importance both to the country and to us as a group. While the minimum values and the proposed new commission system will present us all with many challenges during the transition period, we are convinced that the long-term gains - an industry that is not just viable but vibrant - will far outweigh any short-term losses.

OUR STATUS

Given our acute awareness of the need to achieve maximum differentiation from our competitors at minimum expense, cost reduction has been a major focus of the group for the past four years, and will remain so in 2006. Metropolitan Life, Metropolitan Employee Benefits and the Metropolitan Health Group (MHG) all have proven track records as low-cost administrators and we are constantly refining our business models to keep pace with the changing business environment, and to keep expenses pared to the minimum.

REALLOCATION OF EXECUTIVE RESPONSIBILITIES

Towards the end of 2005 we reconstituted our top executive team in order to:

- organise the group around five clearly identified profit centres, refining our structure to focus on specific areas of growth
- enhance the capacity and capabilities of the asset management business cluster
- promote leadership development and implement succession planning strategies.

In addition to retail, international and health, two new business clusters were created by splitting the former corporate cluster into asset management and corporate.

Asset management, headed up by group executive director Abel Sithole, currently comprises Metropolitan Asset Managers, Metropolitan Collective Investments and Metropolitan Property Services but it is our intention to launch several new undertakings in the near future as part of a concerted drive to increase our third party assets under management. The fact that the asset management function now enjoys full operational auto-

nomy is indicative of the increasingly important role it is destined to play in the group.

Former group actuary Wilhelm van Zyl has been appointed to head up the corporate business cluster, which is to be expanded beyond the scope of Metropolitan Employee Benefits to include a wider range of businesses through which to offer corporate clients investment, risk and consulting solutions.

BRAND POSITIONING

During the refocusing of responsibilities within the group services area, considerable emphasis was placed on the alignment of our brand positioning - the provision of affordable financial solutions - with various government-driven initiatives in the lower income market aimed at enhancing the affordability and accessibility of financial products and services.

PIVOTAL ROLE OF ASSET MANAGEMENT

The improvement in our investment performance during 2005 was dramatic; for example, we ended the year in third position in the Alexander Forbes Global Manager Watch survey, achieving the major goal we had set ourselves in terms of peer group performance. However, we remain acutely aware of just how crucial it is that we continue to live up to and exceed stakeholder expectations as far as performance, assets under management and profits are concerned. Intellectual capital is vital and a broad spectrum of knowledge and skills transfer programmes has been implemented to secure its retention. Development on a personal, professional and leadership level is actively encouraged, with career paths being mapped out for high achievers. Comprehensive succession planning ensures that any vacancies arising can be filled from within.

AFFORDABLE FINANCIAL SERVICES

Government is as much in earnest as consumers, the industry and we ourselves about developing products and services that are affordable for and easily accessible to lower income earners. Mandates and timeframes have been drawn up and task teams appointed in the health as well as the individual life insurance sector. We have been and continue to be major contributors to both; our wealth of expertise and experience in the lower income market (well over a hundred years) makes our input particularly valuable. From a group perspective, we are actively working towards establishing affordability - as both a socio-political and a commercial imperative - as our single most important brand differentiator.

OPERATIONALISATION OF KTI PARTNERSHIP

The second and last phase of our strategic partnership with Kagiso Trust Investments (KTI) was successfully concluded during 2005. This transaction boosted the direct empowerment shareholding in Metropolitan to 17.8%. At the invitation of KTI, a management trust acquired 25% of this holding, an effective indirect interest of 4.5%, leaving KTI with a 13.5% stake.

However, as far as we are concerned, signing a deal of this nature is in fact the beginning and not the end. The hard work continues for both ourselves and KTI as we strive to unlock maximum value from our alliance, at an operational as well as a strategic level. It is, for example, of great benefit to us to have JJ Njeke on the board of Metropolitan Health and Andile Sangqu as a director of Metropolitan Asset Managers. Thanks to their hands-on involvement, KTI has already helped to secure several large contracts for Metropolitan.

BROAD-BASED EMPOWERMENT

A glance at our Financial Sector Charter (FSC) scorecard reflects the fact that we continue to make steady progress as far as all the core components of broad-based empowerment are concerned, and not just ownership. Procurement was a key area of focus in 2005. Thanks to our multi-faceted approach, with enterprise development playing a central role, we raised our procurement score from 19% to 48%. In conjunction with empowerment experts SADECO Consulting, we ran various capacity-building and mentorship programmes for five black SMMEs to help them achieve optimum functionality as service providers, and also assisted five white SMMEs with their empowerment strategies and interventions with a view to their achieving BEE accreditation. With our assistance, T Systems, one of our biggest suppliers providing us with mainframe support, has put in place several programmes to accelerate its transformation and a host of new business opportunities has opened up for them as a result. Transformation remains high on our corporate agenda and our strong empowerment credentials continue to open business doors for us. Thereafter it is our innovative product and service offerings combined with superior delivery that win the day.

CAPITAL MANAGEMENT AS CATALYST FOR GROWTH

Refinements to our capital allocation strategy were on top of the agenda at our strategic planning meeting in 2005. Our primary goal remains highly competitive investment returns for shareholders, with the emphasis now on growing our business, whether it be organically

EXECUTIVE COMMITTEE

NKOSINATHI CHONCO

WILLEM COETZEE

BLUM KHAN

WIEBKE LUSTED

DEREK PEAD

ABEL SITHOLE

PRESTON SPECKMANN

JUSTIN VAN DEN HOVEN

WILHELM VAN ZYL

and/or by way of acquisition. Given that we meet all the FSC requirements in respect of broad-based ownership participation, we are not considering any further empowerment transactions but concentrating instead on capitalising to the full on the business advantages inherent in our existing partnership with KTI, including the fact that managerial staff are now involved.

INTERNATIONAL EXPANSION

Although we remain the best positioned financial services player in the key emerging markets in Southern Africa, the life insurance markets in those countries where we have been operating for some years (Namibia, Botswana and Lesotho), being relatively small, are close to becoming over-traded. Consequently we are expanding our operations into East and West Africa (Kenya and Ghana in the first quarter of 2006, with Nigeria a likely future opportunity). We believe our pioneering capabilities together with the proven portability of our business model will stand us in good stead in these largely untapped markets, rich in new business potential.

OUR PRIMARY GOAL REMAINS HIGHLY COMPETITIVE INVESTMENT RETURNS FOR SHAREHOLDERS, WITH THE EMPHASIS NOW ON GROWING OUR BUSINESS, WHETHER IT BE ORGANICALLY AND/OR BY WAY OF ACQUISITION.

NEW FINANCIAL SERVICES FOR EXISTING CUSTOMERS

However, we are not only diversifying geographically, but we are also extending the scope of our activities in the lower to middle income markets through the provision of Metropolitan-branded banking products. We ran a pilot project during 2005, the results of which indicated that such products had strong appeal for existing clients as well as for people outside our client base. We intend to establish an independent business unit that will be fully operational by the middle of 2006, making use of licensing and back-office outsourcing arrangements with Mercantile Bank Limited.

The fact that two of the six Government Employees Medical Scheme (GEMS) contracts - the highly prized administration and the medicine clearing house contract - were awarded to the Metropolitan Health Group (MHG) in the face of stiff competition from all the major health care companies in South Africa is not only an outstanding achievement for MHG, but also opens up a wealth of exciting opportunities for other businesses in the group.

Although the retail cluster retained its position as the major contributor to group earnings, the contributions from the other clusters continued to grow, once again demonstrating that our diversification strategy via the establishment of independent income streams is succeeding.

AIDS SCENARIOS

With emerging agreement amongst statisticians regarding HIV and AIDS numbers, less time and effort is being spent on arguing about statistics and more on identifying what can and should be done to mitigate the impact of the epidemic. Over the past year, Metropolitan has been working on a project to identify the key drivers fuelling the epidemic and has built four scenarios examining the potential impact of these drivers on South Africa by 2025. These scenarios are to be used as tools to engage different sectors (government, business, civil society) in creating a shared understanding of the possible outcomes so as to identify what needs to be done to intensify our country's response by simultaneously aligning activities and extending their depth and breadth.

A TRIBUTE TO TEAMWORK

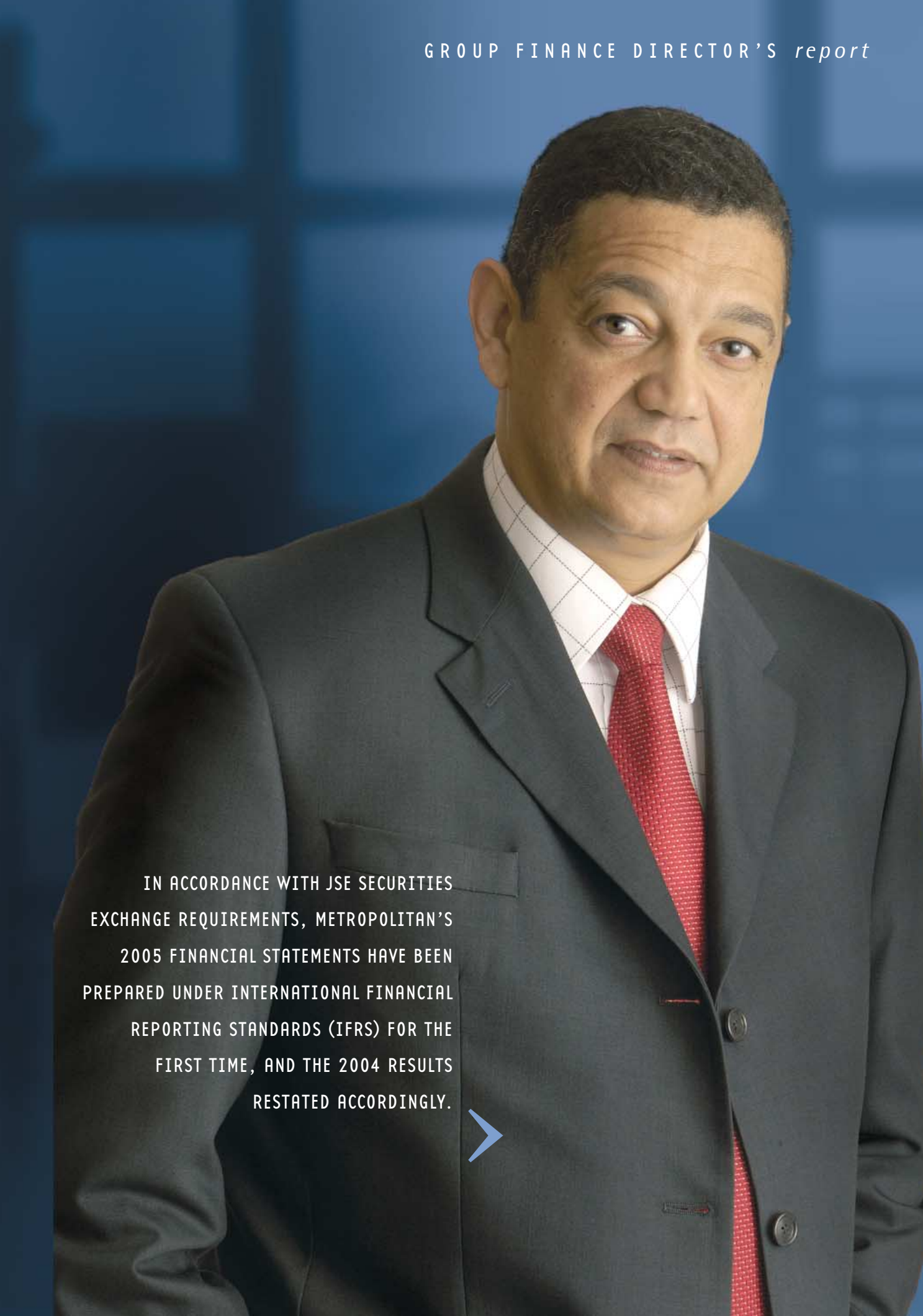
None of what we achieved in 2005 would have been possible without an unprecedented degree of co-operation - co-operation between businesses and between people at all levels within the group. In many instances it was teamwork that gave us the edge over our competitors and I would like to acknowledge the fact that each and every member of the Metropolitan team, regardless of role and/or responsibilities, made a vital contribution to our successes. My thanks to one and all.

LOOKING AHEAD

After concluding last year's overview by assuring stakeholders they could "look ahead to 2005 with confidence", I would like to place it on record that my abiding memories of the past twelve months will be of the instances where we were proactive rather than reactive, and by my count the former far outweighed the latter. I believe both the industry and Metropolitan, having taken a long, hard look at themselves, are in healthier shape than they were, being more attuned to and better equipped to meet stakeholder needs.

While our 2005 results were very satisfactory, we look forward to our 2006 results given that we are finding more, and more effective, ways of adding value for stakeholders.

PETER DOYLE | *Group chief executive*



IN ACCORDANCE WITH JSE SECURITIES EXCHANGE REQUIREMENTS, METROPOLITAN'S 2005 FINANCIAL STATEMENTS HAVE BEEN PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE FIRST TIME, AND THE 2004 RESULTS RESTATED ACCORDINGLY.

IN LINE WITH ITS COMMITMENT TO MAXIMISING RETURN ON EQUITY FOR SHAREHOLDERS, METROPOLITAN TOOK SEVERAL STEPS TO ENHANCE CAPITAL EFFICIENCIES WITHIN THE GROUP DURING 2005.

OVERVIEW

Thanks to prudent monetary and fiscal policies, the South African economy continued its upward trend in 2005. All indications are that economic growth for the year was at least 5%. The inflation rate remained stable, recording an annual average of 3.9% year-on-year. At 10.5%, the prime interest rate was at a 27-year low. The stable rand helped to hold prices steady despite increased international oil price volatility. Consumer and business confidence was robust, indicative of a high level of trust in the way the economy is being managed and also making it clear that people have faith in the sustainability of their financial well-being. Reversing trends of the past, the most recent statistics released by Statistics South Africa indicate that job creation is improving, with unemployment having dropped from 31.2% in March 2003 to 26.5% in March 2005. That, coupled with reduced taxes on the lower and middle income groups as well as small businesses, resulted in higher levels of disposable income. The fact that the personal disposable income increased by 6.1% from January to September impacted positively on business profits in the consumer sectors.

Shareholders are referred to the reviews of the various businesses for full details of their operational performance – retail p26, corporate p32, international p39 and health p41.

Settlement between SA life industry and national treasury

In December 2005 an industry-wide agreement was reached with national treasury in terms of which minimum values are to be paid on both retirement annuities and endowment policies if premium payments are stopped early for any reason: 65% of the investment account for affected policies going back five years (ie to 1 January 2001) and either 70% (all policies that are made paid-up) or 60% (endowment policies that are surrendered and retirement annuities that are transferred) in future. Metropolitan's share of the mutually agreed settlement is R175 million before tax. After adjustments for tax, the net cost to shareholders of these value enhancements is R124 million whilst earnings have been reduced by R101 million. The necessary regulatory and legislative changes are to be promulgated by the minister of finance in 2006, along with revised commission regulations providing for the implementation of a change from upfront to primarily as and when commission by 1 October 2006.

International Financial Reporting Standards

In accordance with JSE Securities Exchange requirements, Metropolitan's 2005 financial statements have been prepared under International Financial Reporting Standards (IFRS) for the first time, and the 2004 results restated accordingly. Please refer to note 39 on p136 of the financial statements for more detail.

Creating shareholder value

The group's performance objectives for 2005, set by the board and management, are set out in the preceding tables.

Adding shareholder value

In line with its commitment to maximising return on equity for shareholders, Metropolitan took several steps to enhance capital efficiencies within the group during 2005. The optimum allocation and utilisation of capital to add value for stakeholders, and shareholders in particular, remains one of the group's top priorities, with a targeted minimum return on capital of 20%. Adequate provision continues to be made for growth, both organic and by way of acquisition, as part of the capital management process.

Capital adequacy

The excess of the group's insurance and investment business assets over its liabilities amounted to R6.1 billion in 2005 (2004: R5.3 billion), clear evidence of the fact that Metropolitan remains in an extremely robust financial position, with its strong capital base once again having been bolstered by bull market conditions.

PERFORMANCE TARGETS ALIGNED TO SHAREHOLDER INTERESTS

OBJECTIVE	TARGET 2005	ACHIEVED
RETURN ON VALUE OF IN-FORCE	16%	✓
GROWTH IN EARNINGS (CHEPS)	12%	✓
VALUE OF NEW BUSINESS	R225m	✗
CUSTOMERS	VARIOUS	✓
PEOPLE & EMPOWERMENT	VARIOUS	✓

The group's statutory capital adequacy requirement (CAR) of R1.4 billion for 2005 (2004: R1.6 billion) was covered 4.3 times by the excess (2004: 3.4 times).

Metropolitan is still in the process of determining its optimum capital levels, taking into account that it comprises a number of growing businesses. Return on capital is the primary driver of the group's capital management process. The allocation of and return on capital is now being measured on an individual business as well as a group level, with all excess capital having been transferred back to group level.

After the capital reduction of 100 cents per share was implemented in January 2005, the board indicated that it would review the matter of a further distribution once the final phase of the group's empowerment partnership had been completed.

Although the Financial Services Board stipulates minimum CAR cover of 1.0 times, CAR cover of between 1.5 and 3.0 times is generally deemed appropriate. However, the board and management are of the opinion that Metropolitan requires a higher level of CAR cover given the relative size of its smoothed bonus business.

Capital reduction

At the board meeting on 14 March 2006 the directors announced that Metropolitan would be reducing its share capital by way of a cash payment of 100 cents per share to registered holders of both ordinary and preference shares. The payment, which will be made on 10 April 2006, is part of the group's ongoing capital management process and will result in a decrease of R765 million in share premium.

Share buy-backs

Metropolitan Holdings repurchased 41 million ordinary shares from Metropolitan Life at a cost of R423 million and cancelled them. A further 22 million shares were bought back through the open market at a cost of R242 million, and cancelled. Both share buy-backs helped to reduce the dilutory impact of the second phase of Metropolitan's black economic empowerment partnership with KTI, which came into effect in December 2005, and were therefore of benefit to all shareholders.

Second phase transaction

As indicated above, in November 2005 Metropolitan received shareholder approval for the second and final phase of its strategic alliance with KTI, announced at the launch of the partnership in October 2004.

- KTI acquired an additional 7.5% stake in Metropolitan.
- At the same time KTI included members of Metropolitan management in their empowerment consortium by entering into an agreement with a management trust in terms of which the latter acquired 25% of KTI's total holding of 17.8%, an effective indirect interest of 4.5%.
- The deal, valued at R500 million, has been structured in such a way that it is fully funded by external parties on commercial terms. The financing consortium comprises Rand Merchant Bank, Nedbank, ABSA and Sanlam Capital Markets.
- Metropolitan issued 47.1 million convertible redeemable preference shares to KTI at an issue price of

GROUP EXCESS - TOP 10 EQUITY SECURITIES

	31.12.2005 Rm	31.12.2005 %	31.12.2004 Rm	31.12.2004 %
MTN Group Ltd	220	5.7	330	10.1
Standard Bank Group Ltd	166	4.3	97	3.0
Anglo American Plc	125	3.2	103	3.1
Billiton Plc	106	2.7	67	2.1
FirstRand Ltd	106	2.7	72	2.2
Sasol Ltd	103	2.7	59	1.8
SABMiller Plc	97	2.5	69	2.1
Remgro Plc	91	2.4	66	2.0
Imperial Holdings Ltd	71	1.8	-	-
Naspers N-ord Ltd	64	1.7	48	1.5
Sanlam Ltd	-	-	50	1.5
	1 149	29.7	961	29.4
Collective investments	1 379	35.7	1 007	30.8
	2 528	65.4	1 968	60.2
Total equities backing excess	3 864	100.0	3 270	100.0

ON 14 MARCH 2006 THE DIRECTORS ANNOUNCED THAT METROPOLITAN WOULD BE REDUCING ITS SHARE CAPITAL BY WAY OF A CASH PAYMENT OF 100 CENTS PER SHARE TO REGISTERED HOLDERS OF BOTH ORDINARY AND PREFERENCE SHARES AS PART OF THE GROUP'S ONGOING CAPITAL MANAGEMENT PROCESS.

R10.18 per share, 12.7 million with an ordinary dividend entitlement and 34.4 million with a preferential dividend entitlement.

- Quantitative out-performance margins have been set in respect of the shares in accordance with a predetermined formula. All of these relate to the annualised average growth rate of various Metropolitan performance indicators.
- KTI enjoys full economic and voting rights in respect of these new preference shares, which are convertible into ordinary shares in Metropolitan on a one-for-one basis.
- Through their participation in the management trust referred to above, Metropolitan's four executive directors are the indirect beneficial owners of the following shares:

Peter Doyle	186 043 shares
Derek Pead	110 107 shares
Abel Sithole	450 395 shares
Preston Speckmann	379 408 shares

METROPOLITAN BENEFITED FROM KTI'S HANDS-ON INVOLVEMENT AT BOTH A STRATEGIC AND AN OPERATIONAL LEVEL DURING 2005, WITH KTI HAVING BEEN AN ACTIVE PARTICIPANT IN THE PROCESS THAT SAW THE GROUP SECURE SEVERAL LARGE CONTRACTS.

Metropolitan benefited from KTI's hands-on involvement at both a strategic and an operational level during 2005, with KTI having been an active participant in the process that saw the group secure several large contracts.

The board and management are confident that the second phase will see both parties reaping even greater business benefits as a result of the stronger ties between them. By affording staff an opportunity to participate in the value they are helping to create on behalf of other stakeholder groupings, the management trust further entrenches the culture of ownership and accountability that is one of the cornerstones of the group's success.

Subsidiary transaction

Metropolitan Health Corporate, the holding company of the Metropolitan Health Group, and KTI entered into an empowerment partnership in terms of which KTI, with effect from I January 2005, acquired a direct shareholding of 17.6% in Metropolitan Health Corporate for R135.7 million. Metropolitan Holdings loaned KTI R132 million of this amount. Taking this transaction into account, the effective direct black ownership of Metropolitan Health is 30%, which, together with its impressive credentials in other equally important areas of empowerment, makes it one of the most empowered players in the healthcare industry. Empowerment was undoubtedly an important consideration when both the SA Police Services Medical Scheme (Polmed) and Government Employees Medical Scheme (GEMS) contracts were awarded to Metropolitan Health.

International expansion

Through an initial investment of R6 million, Metropolitan has established a start-up life insurance company in Kenya that has been operational since 1 January 2006. The group has also purchased the life business of a composite insurance company in Ghana for R12 million. The latter is due to open its doors under the Metropolitan banner in the first half of 2006. Markets in East and West Africa are rich in new business potential whereas overtrading is becoming a problem in Southern African countries such as Botswana and Namibia.

The transfer of the life insurance business of Channel Life Namibia to Metropolitan Namibia was sanctioned by the Namibian High Court in November 2005, with retrospective effect to 1 January 2005. Metropolitan Namibia purchased 100% of Channel Life Namibia in December 2004 as part of its growth strategy.

Provision of banking products to existing clients

Metropolitan ran a three-month pilot project from September to December 2005 when existing clients were offered a Metropolitan branded banking product, the Metropolitan Goal Card. This is a hybrid debit card incorporating an unsecured loan and a savings account. Loans totalling R30 million were advanced and the response from people outside the Metropolitan client base was also positive. Card functionality checks were conducted, with further transactional testing underway prior to the launch of an independent business unit in July 2006 under the banner of Metropolitan Card Operations. The back-office arrangements have been outsourced to Mercantile Bank.

Cost containment

The 2005 target was a 7% increase in management expenses, with an amount of R54 million having been budgeted for business expansion together with a 1% increase in 'business as usual' life administration expenses. These targets were achieved even after taking into account expenses arising from the conversion to IFRS.

Core headline earnings per share

Fully diluted core headline earnings per share (CHEPS) increased by 35% from 71 cents in 2004 to 96 cents in 2005. The weighted average number of shares in issue for 2005 was 738 million compared to 696 million in 2004, taking into account the preference shares issued and the shares issued in terms of both the staff share schemes.

Management believes that the fully diluted CHEPS figure is the most appropriate measure of the group's earnings in view of the fact that the parties concerned are all resolved to convert the preference shares into ordinary shares in due course.

Dividends

Metropolitan's approved dividend policy is to provide shareholders with stable dividend growth that reflects expected underlying earnings growth in the medium term, while allowing the dividend cover to fluctuate.

A total dividend of 63 cents per share has been declared for 2005, giving a dividend cover of 1.5 times based on CHEPS.

Embedded value

Embedded value (EV) comprises the adjusted net asset value (NAV) of the group (ie the shareholders' net assets, adjusted to fair value) plus the value of the life insurance business on its books (value of in-force business or VOIF) at the year-end.

Metropolitan's EV increased to R11 468 million (2004: R9 056 million).

The group's NAV was R8 021 million compared to R6 141 million in 2004, thanks to higher investment returns and the fact that we bought back and cancelled shares during the year.

The increase in the group's VOIF from R2 915 million in 2004 to R3 447 million in 2005 was brought about by various factors, including the extended product range, increased product pricing, business expansion and the performance of investment markets in general.

Fully diluted EV per share increased from 1 225 cents in 2004 to 1 499 cents in 2005.

The dilutory effect of having issued preference shares at below EV was partially offset by the share buy-backs referred to above.

Return on embedded value

Return on EV is the fundamental measure of the performance of a life assurer. At Metropolitan the EV profit generated by each of the life insurance businesses in the group is taken into account. The profit is calculated on the basis of economic value-add minus a risk-adjusted charge for operational capital used.

CONTRIBUTION TO OPERATING PROFIT (before IFRS adjustment to health operations)

	% CONTRIBUTION		31 DECEMBER 2005	
	2005	2004	Rm	% INCREASE
CORPORATE BUSINESS	24	20	167	59
RETAIL BUSINESS	53	49	369	42
INTERNATIONAL BUSINESS	12	10	86	65
HEALTH BUSINESS	10	7	68	94

VALUE OF LIFE INSURANCE NEW BUSINESS AND MARGINS

	2005		
	VoNB#(Rm)	MARGINS (%)	NB APE* (Rm)
RETAIL BUSINESS	100	11.5	869
CORPORATE BUSINESS	6	4.3	135
INTERNATIONAL BUSINESS	28	22.5	122

 # VoNB = value of new business
** APE = annual premium equivalent, which represents new recurring premiums plus 10% of single premiums*

THE GROUP ACHIEVED A 27% RETURN ON EV, THE FUNDAMENTAL MEASURE OF THE OVERALL PERFORMANCE OF A LIFE ASSURER.

The group achieved a 27% return on EV for 2005 compared to 29% in 2004.

Preference dividend – performance margin

In terms of the dividend rights attached to the A1 Metropolitan preference shares, KTI is entitled to an additional performance margin of 0.5% every six months on the achievement of certain qualitative milestones, agreed upon in advance by Metropolitan and KTI. The margin is payable semi-annually, in conjunction with the half-yearly dividend, until the redemption of the A1 preference shares. A committee of the Metropolitan board approves the milestones and at the end of each period determines whether these have been achieved or not. This committee comprises independent, non-conflicted non-executive directors.

The committee has reviewed the achievement of the agreed milestones for the six-month period ended 31 December 2005 and after due consideration has concluded that KTI did not achieve the requisite weighted average of 70% which would have allowed it to award the performance margin. This was despite certain of the milestones having been successfully concluded.

The report of the committee is available on request from the company secretary.

PRESTON SPECKMANN | *Group finance director*

INVESTOR *relations*

MANAGEMENT WELCOMES INTERACTION WITH ANALYSTS AND FUND MANAGERS AROUND MATTERS OF CONCERN.

TYRREL MURRAY | *General manager, group finance*

Dear Shareholder

When Metropolitan introduced a formal investor relations programme in 2001, we were perhaps not fully aware of the many challenges that lay ahead. However, the team's dedication and the commitment of both the board of directors and key players within the businesses have enabled us to put in place a programme that adds value to both the group and its stakeholders.

Although investor relations is a very diverse discipline, our approach has been underpinned by the following core principles:

- We believe in regular, open and honest communication with our stakeholders at all times. Management welcomes interaction with analysts and fund managers around matters of concern. Only through regular interaction are we able to ensure that our stakeholders have a thorough understanding of the markets in which we operate, the strategies of our businesses and how the group has positioned itself to remain the dominant player in the lower end of the South African market.

To this end we see sell-side analysts as an important role player in assisting management to clarify messages and respond appropriately to feedback based on the market's perceptions.

- It is critical that the group's strategy is widely communicated and understood by all. The investor relations team uses a wide variety of mechanisms including one-on-one meetings, formal presentations, television and radio broadcasts, as well as local and international road shows to keep our stakeholders fully informed about our business.
- Improved disclosure of relevant information to stakeholders remains a key objective and our track record speaks of this commitment. Most notably, we were the first company to publish regular trading updates and performance objectives with targets as determined by Metropolitan's board of directors. It has been encouraging to see the market acknowledge our efforts in this regard.
- We view investor relations as an integrated function within the group and as such, we ensure that all information distributed to institutional shareholders is also communicated in an appropriate manner to sell-side analysts, journalists, individual shareholders and our own employees, of whom more than 90% hold shares through our share incentive schemes.

IMPROVED DISCLOSURE OF RELEVANT INFORMATION TO STAKEHOLDERS REMAINS A KEY OBJECTIVE.

Our ongoing efforts to improve communication with and disclosure to shareholders were recently rewarded when the group won the *Grand Prix for Best Overall Investor Relations* (Metropolitan Investor Relations Team) (non-JSE Top 40) and *Best Investor Relations Officer* (non-JSE Top 40) at the Investor Relations Magazine Awards 2005 South Africa.

I would like to thank the investment community for their recognition and also reaffirm our commitment to further enhancing communication with stakeholders.

Regards

Tyrrel Murray

‘Always have something to prove -
to yourself and others. Live by this and
you can achieve anything;
I know, I have!’

SANDILE MZAMO
National manager (south),
Metropolitan Retail

REVIEW OF OPERATIONS *contents*

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INTERNATIONAL CLUSTER 39

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RETAIL *cluster*

THE 2005 BONUS DECLARATION ON RETAIL'S SMOOTHED BONUS PRODUCT RANGE WAS THE HIGHEST SINCE ITS LAUNCH IN 1987, ADDING TO ITS APPEAL FOR SECURITY SEEKING INVESTORS.

DEREK PEAD | *Chief executive, retail*

INVESTMENT OVERVIEW

- Buoyant equity markets, and the dramatic improvement in the investment performance of Metropolitan Asset Managers, combined to make equity-linked investment products an extremely attractive proposition. At the same time, the 2005 bonus declaration on retail's smoothed bonus product range was the highest since its launch in 1987, adding to its appeal for security seeking investors.
- At 19%, retail's bonus rate on individual life smoothed bonus business (taxed) was also the most competitive in the industry. Contrary to some schools of thought, now would be a good time for risk-averse investors to evaluate the merits of smoothing and decide to lock-in these exceptional returns by buying a product of this nature.
- Despite increasing competition from non-traditional players, Metropolitan Odyssey's new generation investment products, the Odyssey Investment Plans, more than held their own in terms of price and innovative features. The premium suspension facility, known as GAP, in terms of which policyholders can, without incurring penalties, suspend premium payments for as long and as often as they like provided the contracted premium amount is paid prior to maturity, was an industry first. Metropolitan Life's FutureChoice range of new generation investment products, which also have premium flexibility as a differentiating feature, was well received by the market.
- The negative publicity surrounding the regulatory rulings against the industry, relating to premium reduction and early termination penalties, maturity values and costs, including the upfront commission paid to intermediaries, plus the related lack of disclosure, did, however, result in a depressed mood amongst sellers, prospective buyers and existing holders of life insurance products. Metropolitan Odyssey was particularly badly affected but the pressure on both new business and business already on the books was felt right across retail.
- Although the new and more stringent consumer protection legislation is warmly welcomed by the industry, we are concerned that in the financial services sector it is possible to over-protect less sophisticated consumers. Their need for simple, straightforward packaged products that can be bought (and therefore sold) with relative ease is very real and it would be ironic if over-legislation were ultimately to stand in the way of enhanced access.

RETAIL CLUSTER PERFORMANCE OVERVIEW

	2005 Rm	2004 Rm	% CHANGE
GROSS PREMIUM INFLOWS	4 928	4 482	10.0
RECURRING PREMIUMS	3 575	3 224	10.9
SINGLE PREMIUMS	1 353	1 258	7.6
PAYMENTS TO POLICYHOLDERS	2 746	3 058	(10.2)
OPERATING PROFIT NET OF TAX	369	259	42.5
PROFIT MARGIN ON NEW BUSINESS	11.5	15.2	(24.3)

PERFORMANCE OVERVIEW

Metropolitan Life

- 2005 was a year of consolidation for Metropolitan Life as the company geared itself to face the challenges of a more regulated and cost sensitive environment plus meet new product development and distribution requirements related to the Financial Sector Charter (FSC). Major changes to both hierarchical and physical structures as well as to core processes have had, and will continue to have, a disruptive effect on sales performance. Similar conditions will apply in 2006.

- Overall production was flat, with the direct writer and group schemes distribution channels showing a slight upturn but the general intermediaries channel unable to repeat its excellent 2004 performance.
- The conservation of stop order business at inception and throughout the first year improved dramatically but a swing in the mix of business towards debit orders meant that overall persistency was unchanged.
- With the focus of group scheme production switching from upgrading existing policies to selling new policies, there was a 20% increase in the number of group scheme policies sold.
- Acquisition costs were negatively affected by the costs of the retail enhancement, direct writer restructuring and virtual office initiatives (see below). Cost saving benefits are expected from 2007.

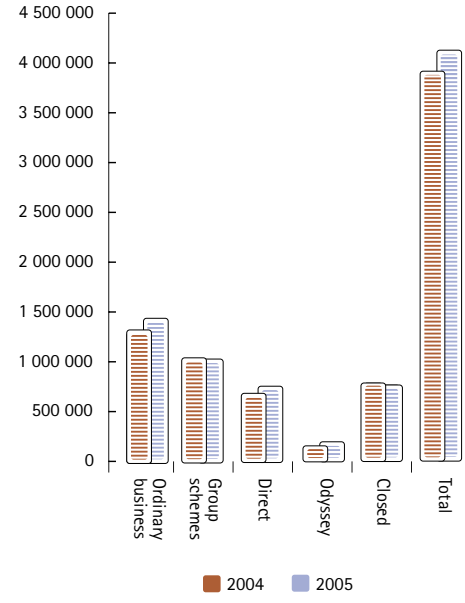
Metropolitan Odyssey

- Annual premium income of around R900 million and assets under management of R3.1 billion mean that the company should no longer be considered small as it has in fact attained medium size.
- Based on statistics supplied by the Life Offices' Association (LOA), the company's new business market share has grown from 0.47% in 2002 to around 2.0% in 2005.
- Joint projects with the Metropolitan Health Group and Metropolitan Collective Investments boosted new business figures.
- Given that the second half of 2004 was a bumper six months for single premium business, a flat performance in 2005 can be regarded as highly satisfactory, especially as the profit margin was higher.
- Most single premium investments were from so-called retired money, a key ongoing area of focus, with the success at least in part ascribable to a revamped product range.
- The average size of an investment of this nature increased from R116 000 to R160 000.
- Persistency is continuing to improve as the average monthly premium moves up, with twelve month persistency having reached 80% at the year-end. Lapses at inception had declined to 7%.

Metropolitan Direct

- The decision to outsource the company's distribution to an independent agency with specialist knowledge and skills began paying handsome dividends, especially as regards the latter's ability to secure additional, relevant databases, the lifeblood of any direct marketing operation.
- Greater emphasis is now being placed on telemarketing than on direct mail activities, with the 60/40 split that was the norm prior to 2004 having become 80/20 in 2005. Thanks to the growing popularity of cell phones amongst lower income earners, there is likely to be further swing to 90/10 in 2006.
- The average response rate for direct marketing campaigns has dropped from 4% prior to 1990 to below 1% in 2005 while the related expenses, eg paper, printing and other acquisition costs, have continued to rise despite the highly successful strategy of piggybacking on the distribution infrastructure of clients. Simultaneously there has been a levelling of telecommunications costs, which has given greater impetus to our switch from direct mail to telemarketing.
- Thanks to its more interactive nature, telemarketing's average response rate is considerably higher, with the associated acquisition costs being significantly lower.
- Although restricted to selling risk business in terms of the requirements of the Financial Advisory and

NUMBER OF POLICIES IN FORCE



Excludes compulsory and bulk administered direct schemes - 1.8 million members in 2004

EXECUTIVE COMMITTEE

EDDIE ARPESELLA

JACQUES COETZER

CAROLINE ENGELKE

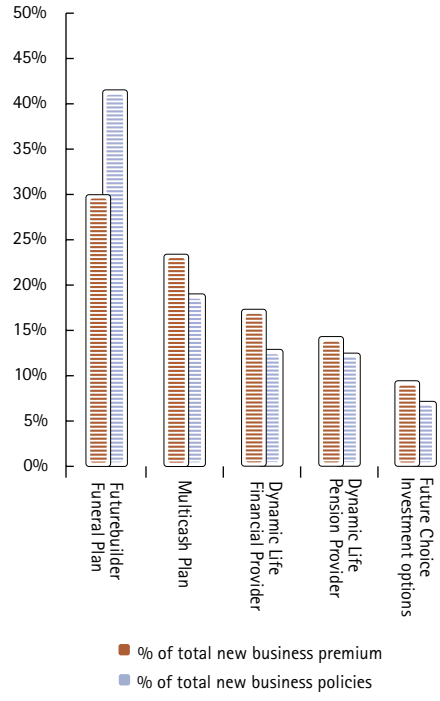
PHILLIP MATLAKALA

MIKE McDOUGALL

ANDY PITTER

LYNN WITTEN

BEST SELLING PRODUCTS



THE RETAIL ENHANCEMENT INITIATIVE (REI) IS A MAJOR PROJECT FOCUSING ON A FUNDAMENTAL OVERHAUL OF ALL PROCESSES RELATED TO THE CAPTURE AND ISSUE OF POLICIES.

Intermediary Services Act (FAIS), the company's ability to innovate gives it an edge over its competitors. It was, for example, the first of the life insurers to market a 'cash back' funeral product in terms of which policyholders are paid a no claim bonus every five years.

- Thanks to a higher level of campaign activity in 2005, the company's production increased by 40% over 2004: recurring premium new business production was R12.9 million compared to R9.1 million in 2004.
- Some 200 000 new policies were put on the books in 2005, almost 45% of the retail cluster's new policies and 21% of its new recurring premium income.
- The value of new business increased from R1 million to R26 million while the company's contribution to operating profit grew by 85% to R39 million.

Customer management

- Over 37% of maturity claims over R50 000 were reinvested, compared with 20% in 2004. In the case of death claims above that limit, the reinvestment percentage was 22% (2004:19%).
- The number of qualified leads being passed on to intermediaries by the customer-facing staff in the call centres and central service offices that were converted into sales rose from 5% to 17%.
- The majority of this customer-facing staff complement are in the process of becoming FAIS accredited in order to be able to act as advice givers.
- The exceptionally high customer satisfaction rating of 87% achieved by retail in 2004 on an index developed by independent rating agency Research International was maintained in 2005.
- A service immediacy initiative that was launched during the year to improve retail's ability to finalise customer enquiries at the first point of contact proved to be extremely successful. The ratio of customers being serviced without delay had improved from 75% to 90% by the end of the year.

SPECIAL PROJECTS

Retail enhancement initiative (REI)

- REI is a major project focusing on a fundamental overhaul of all processes related to the capture and issue of policies. The objectives are to reduce costs, improve customer and intermediary experience when doing business with Metropolitan and enhance compliance.
- The project has two key components:
  - Firstly, a cell phone based new business enrolment process, with a unique voice signature facility. When all the necessary information is available, policy issue times have decreased from an average of seven working days to less than a day from completion of the purchase.
  - Secondly, a tele-underwriting system involving far fewer and more targeted questions. As a result, a significantly reduced percentage of policy applications has to be referred for manual underwriting.
- REI was rolled out to the direct writer distribution channel in 2005; the general intermediary channel is being incorporated during the first quarter of 2006.
- Resistance to change and implementation challen-

ges meant that REI initially had a negative impact on direct writer new business volumes. As REI stabilises and the restructuring of the direct writer channel becomes entrenched (see below), production will increase. A similar change cycle is expected in the general intermediary channel but will lag the direct writer channel by some three to six months.

- The costs of developing and implementing REI have been expensed as they have been incurred. This includes consulting fees, internal systems development and all system and process roll-out costs. The current focus is on improving operational effectiveness to boost volumes by optimising the customer and intermediary experience. The focus will then shift to improving efficiencies and realising full cost savings.
- Thanks to REI, a core business process has been totally transformed through the implementation of a series of fundamental changes. In conjunction with Indutech, a change methodology for live operations has been developed that should make additional enhancements and internal process revisions easier to implement despite their disruptive nature.

Direct writer restructuring

- The restructuring of the direct writer distribution channel, known as Project Newco, was begun in 2005, the goal being flatter reporting structures with wider spans of control, while at the same time improving the calibre of management and retail's geographic reach.
- By the end of the year, two national managers and twenty area managers had been appointed, reducing the existing managerial staff complement significantly. The appointment of 149 branch managers countrywide will be completed by end of the first quarter of 2006. The net impact will be to effect the following reductions: 2 senior, 23 middle and 50 junior management positions.
- The focus has been on finding candidates capable of making the leap from being sales managers to being business managers. A similar focus will be applied to the calibre of intermediary being recruited.
- This change will increase the focus on writing a better quality as well as a greater quantity of business, which will in turn lead to higher retention and improved repeat business.
- Newco initially had a decidedly negative effect on morale and hence productivity. The full benefits of the project, in terms of cost savings and improved productivity, are expected from 2007.

Creation of virtual offices

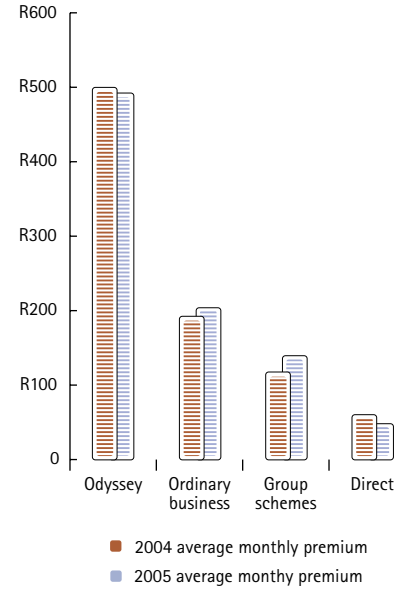
- Retail has continued the process of broadening its market footprint by enabling intermediaries to operate independently of sales offices. The virtual office project is aimed at reducing physical infrastructure.
- In light of the significant process and structural changes resulting from REI and Newco, the virtual office roll-out has only been to pilot sites to date.
- An accelerated roll-out is anticipated for late 2006 and into 2007.
- This, together with REI and Newco, will allow intermediaries to operate further afield and thus assist retail to meet the accessibility criteria laid down by the FSC council (see below).

Low income access project (CAT)

- The acronym CAT, borrowed from the UK, stands for fair **c**harges, easy **a**ccess and decent **t**erms; it is used to refer to the standards set by the FSC council for addressing the needs of low income earners.

THE RESTRUCTURING OF THE DIRECT WRITER DISTRIBUTION CHANNEL WAS BEGUN IN 2005, THE GOAL BEING FLATTER REPORTING STRUCTURES WITH WIDER SPANS OF CONTROL, WHILE AT THE SAME TIME IMPROVING THE CALIBRE OF MANAGEMENT AND RETAIL'S GEOGRAPHIC REACH.

AVERAGE NEW BUSINESS RECURRING PREMIUM



- In order to meet their obligations in respect of enhanced access, as agreed with government, members of the Life Offices' Association (LOA) are committed to selling and maintaining on the books 1.7 million policies in the LSM 1- 5 (subsequently defined as people earning less than R3 000 per month) market.
- To date, CAT standards (as far as charges and terms are concerned) have only been set in respect of risk products, being life, disability, credit life, funeral and mortgage protection insurance. As far as credit life insurance is concerned, retail is fully CAT compliant, the first of the major life insurance companies to achieve this status, and is close to achieving full compliance in respect of its funeral insurance and mortgage protection products. On the life and disability front, systems complications mean that there is still some way to go.
- Given that retail is already selling its products in the aspirant market (monthly income between R1 500 and R4 000), it is particularly well positioned to enhance its penetration by complying with the new transactional access requirements and will be capitalising on the strong business case for more and more proactive interaction with this market.
- Retail is examining all aspects of the CAT standards, including the prioritisation of the systems adjustments that are required, and everything possible is being done to speed up the attainment of full compliance.

MEMBERS OF THE LIFE OFFICES' ASSOCIATION (LOA) ARE COMMITTED TO SELLING AND MAINTAINING ON THE BOOKS 1.7 MILLION POLICIES IN THE LSM 1- 5 (SUBSEQUENTLY DEFINED AS PEOPLE EARNING LESS THAN R3 000 PER MONTH) MARKET.

MINIMUM VALUES

- Since the announcement of the settlement between the life industry and national treasury in December 2005, in terms of which minimum values are payable in all cases of early termination, spirits have lifted, with commentators and participants alike in a more optimistic frame of mind.
- An in-depth review of the bases on which termination and premium reduction penalties are calculated is currently underway in retail to determine whether they are equitable and reasonable. If necessary, further value enhancements will be implemented in line with the minimum values laid down in the settlement once this has been finalised.

ENHANCED DISCLOSURE

- In line with its long-standing commitment to openness and honesty, retail is also in the process of revamping all product-related documentation, including marketing material, to ensure that all relevant information has been included in plain language that can be easily understood by the man in the street.
- The aim is to achieve total transparency by disclosing everything that the policyholder needs to know in order to make informed decisions, both at inception and throughout the term of the policy, with a particular emphasis on managing benefit expectations at maturity.
- Where the level of independent representation on the boards of trustees of retirement funds underwritten by Metropolitan is inadequate, urgent steps are being taken to reconstitute the boards in question.

COMMISSION CHANGES

- A range of proposals for future life insurance commission structures and scales is currently being debated by the national treasury, the LOA and other industry bodies. The nature of the proposals ultimately agreed to will determine the nature of the interventions that have to be implemented to secure the long-term future of all the businesses within retail and their intermediaries.
- In the case of Metropolitan Life, the impact may not be so far-reaching as special consideration is to be given to the needs of emerging intermediaries and those selling lower income products when the revised commission regulations are finally drawn up. Purely from a systems perspective, a straight as-and-when commission option has been available on Metropolitan Life's flagship product range, Dynamic Life, since 1998.
- As far as Metropolitan Odyssey is concerned, the required systems changes could also be less sweeping as the company has had as-and-when commission options available for quite some time - since 2001 on its Odyssey LifePlans and since 2003 on its Odyssey Investment Plans.
- In addition, both Metropolitan Life and Metropolitan Odyssey have entered into outsourced distribution

agreements with various distribution networks representing independent brokers, an arrangement that works extremely well for all concerned. This is proving to be a particularly effective way of minimising fixed and maximising variable distribution costs.

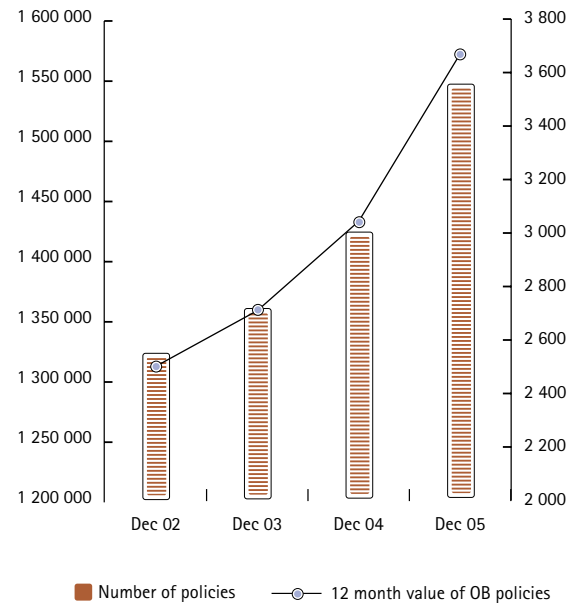
- As they have been doing for several years, all three businesses in the retail cluster continued to explore alternative distribution methods during 2005, including several alliances with non-traditional players such as Citadel.

LOOKING AHEAD TO 2006

- Retail has undertaken significant process and structure changes during 2005 aimed to ensure that we are ready for the challenges expected to face the industry over the next few years. The benefits will start to be realised during 2006 but will only be felt in full in 2007.
- Prospects are promising thanks to a thriving economy and flourishing investment markets combined with rising levels of personal disposable income, particularly in retail's selected target markets.
- The settlement with national treasury has gone some way towards restoring people's faith in the life insurance industry and it should now be possible for us, along with our peers, to restore credibility and rebuild confidence provided we continue to make it clear that we are focusing on enhancing the value proposition being offered to clients.
- Although government's drive to improve access to financial services for lower income earners will mean stiffer competition for us, our expertise and years of experience in the emerging markets should enable us to stay ahead of the pack. We have worked hard to establish ourselves as the company best able to provide entry-level products and services that are at once affordable and appropriate, and we retain our position as the dominant provider by regularly reviewing aspects like availability, charges, terms and conditions. We will in future attach equal importance to proper disclosure, especially of costs and penalties, communication and consumer education, in the form of both individual policyholder communication and broad-based information campaigns.

PROSPECTS ARE PROMISING THANKS TO A THRIVING ECONOMY AND FLOURISHING INVESTMENT MARKETS COMBINED WITH RISING LEVELS OF PERSONAL DISPOSABLE INCOME, PARTICULARLY IN RETAIL'S SELECTED TARGET MARKETS.

IN-FORCE GROWTH CONTINUES - GROUP



- On the new business front, retail has several exciting projects in the pipeline.
- The cost savings of REI and NEWCO, as well of the virtual offices that have been successfully piloted, should become manifest from 2007 onwards.

CORPORATE *cluster*

EXCELLENT ABSOLUTE AND RELATIVE INVESTMENT PERFORMANCE WAS ACHIEVED IN 2005.

ABEL SITHOLE | *Chief executive, corporate*

METROPOLITAN EMPLOYEE BENEFITS

Market overview

- Market conditions were extremely tough, with heavy outflows and reduced inflows still the norm across the life industry.
- Due to the buoyant equity markets, negative sentiment towards smoothed bonus products increased. Switching to equity-linked products accelerated amongst both institutional and individual investors.
- Competition was intense; Metropolitan Employee Benefits (MetEB) resisted the temptation to cross-subsidise between product lines or write loss-leading business.
- Opportunities to tender for administration and investment only business were limited, while risk business tenders were not always successful due to the rating cycle being in soft territory.
- The situation was exacerbated by the pension funds adjudicator's (PFA) rulings against the industry, which meant that consultants and clients were often more favourably disposed towards asset managers than retirement fund managers.
- Ongoing work related to the distribution of pension fund surpluses continued to generate income for actuarial consulting businesses.

CORPORATE CLUSTER PERFORMANCE OVERVIEW

	2005 Rm	2004 Rm	% CHANGE
GROSS PREMIUM INFLOWS	1 981	2 379	(16.7)
RECURRING PREMIUMS	1 437	1 320	8.9
SINGLE PREMIUMS	544	1 059	(48.6)
INCOME FROM ADMINISTRATION BUSINESS	169	118	43.2
PAYMENTS TO POLICYHOLDERS	3 823	2 136	79.0
OPERATING PROFIT NET OF TAX	167	105	59.0
PROFIT MARGIN ON NEW BUSINESS	4.3	9.7	(55.7)

Performance overview

- At R1 437 million, total recurring premium income was 8.9% higher than in 2004 (R1 320 million).
- However, both recurring premium new business and single premium business volumes were very disappointing, with the average premium equivalent (recurring premiums plus 10% of single premiums) dropping to R135 million (2004: R554 million).
- Although new business picked up in the fourth quarter of the year, no significant single premium mandates were secured.
- Service and client relationship management undoubtedly helped to stem the outflows, a sizeable portion of which was re-invested with Metropolitan Asset Managers under separate investment mandates, with linked absolute return products having particular appeal for investors.
- Exceptional bonuses of 22% were declared on our flagship smoothed bonus product for 2005 on the back of the group's excellent investment performance. All bonus stabilisation reserves are comfortably in positive territory.
- Thanks to extremely sound fundamentals, excellent new business growth in previous years, and the fact that in-force business was mostly profitable, MetEB made a substantial R115 million contribution to group net operating profit, 33% higher than in 2004 (R77 million).

Strategic interventions

- In the firm conviction that capital protection products with equity exposure remain an appropriate investment option for risk-averse investors, MetEB is working on improvements to the features incorporated in its current range, based on client feedback. A major marketing drive, focusing on both the in-house and the multi-manager versions, will be launched shortly.
- Given their popularity, a concerted effort is being made to capitalise on the potential of absolute return products, both in their own right as an alter-

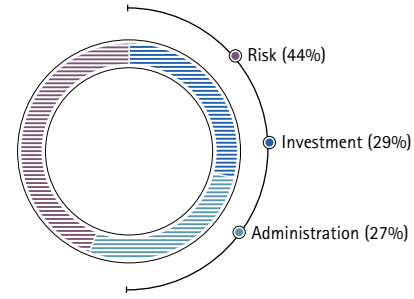
native capital protection option and as a retention mechanism. Research into additional products of this nature is ongoing.

- MetEB's range of products catering for other high return/lower margin market-linked investment products has also been expanded.
- On the group risk insurance front, a benefit rider was launched that adds significant value to MetEB's death benefit products without additional cost for the client. The rider provides various funeral related services to the member and his/her immediate family, including the repatriation of mortal remains.
- An area of particular promise is the design of customised investment and funding solutions for clients with specific financial and investment needs. These solutions are either implemented on or off balance sheet. We are optimistic about generating reasonable volumes of business from this source in 2006. Where these unique solutions have replication potential, this will be developed.
- Focused market development and distribution strategies have been put in place in collaboration with selected intermediaries, and the strength of the resultant relationships is starting to pay dividends when it comes to securing and retaining business.
- A special task team has been appointed to develop appropriate products that will enable MetEB to take full advantage of changes to the Pension Funds Act as and when these are promulgated, including retirement fund tax reforms, the establishment of a national savings fund and compulsory membership of retirement funds.
- The number of retirement fund members exercising individual investment choice has more than doubled over the past two years, opening up a wealth of new opportunities for which MetEB is developing innovative options.

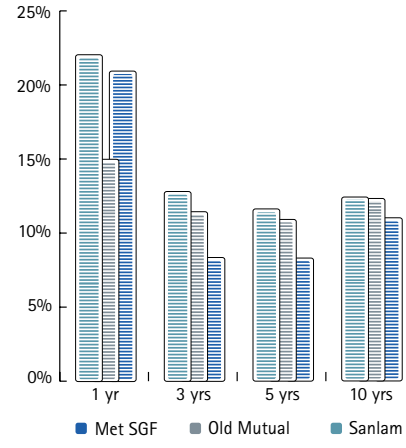
LOOKING AHEAD

- With Wilhelm van Zyl now heading up MetEB, the development and marketing of new products has been accorded high priority. Wilhelm is working in close conjunction with the business development and strategic marketing teams to increase MetEB's market penetration.
- Now that a settlement has been reached between national treasury and the life insurance industry, it should not be too long before confidence in the industry starts rebuilding. Having once again made its good faith, and its commitment to a fair value proposition abundantly clear, the industry can be relatively sure that people will sit back and reflect on the advantages of the additional security they enjoy thanks to the protective net it provides when investment markets turn down.
- Knowing full well that markets cannot run forever, older and wiser investors, with more experience of market fluctuations, will soon realise that it is time to consolidate gains, with capital protection products with some equity exposure an excellent way of achieving that objective.

RECURRING PREMIUM BUSINESS SPLIT



SMOOTH GROWTH FUND
Comparative returns: periods to 31/12/2005



Note: For calculation purposes OM's interim bonus was used for the period 1/7/05 to 31/12/05 as OM fund anniversary is June each year

EXECUTIVE COMMITTEE

THINUS ALSWORTH-ELVEY

TERESA BENDER

TJAART ESTERHUYSE

NIKKI FRANKLIN

DAVID KLUG

ALAN MARTIN

JOHN MELVILLE

GABI MURRAY

MAIKE SELEBALO

TONY VOGES

‘Surround me with people and I’m happy. We are not meant to be alone; it is not in our nature. My life is all about **sharing** - it is too short for anything else.’

JASON NANDAGO
Deputy managing director,
Metropolitan Namibia

METROPOLITAN ASSET MANAGERS

Philosophy

- There have been no changes to Metropolitan Asset Managers stated investment philosophy; it remains an active asset manager with a growth bias.
- The current growth environment and the company's mood and modus operandi are well matched. High levels of excitement have been generated as a result.

Performance

- Full advantage was taken of favourable investment market conditions, especially the buoyant domestic equity markets. Thanks to a combination of skillful asset allocation and adept stock-picking, the turnaround in both absolute and relative performance was remarkable, with comparisons against peers more pleasing than internal benchmarking.
- A third position (out of 11 participants) in the Alexander Forbes Global Large Manager Watch Survey for the twelve months ended 31 December 2005 is the clearest independent endorsement of just how much Metropolitan Asset Managers' performance improved during the period under review.
- In the retail space, the Metropolitan General Equity Unit Trust Fund ended 8 out of 56, achieving a top quartile ranking.
- Improved investment performance was evident across a wide range of funds, with most ending the year with first or second quartile rankings.
- Staff morale is at an all-time high, with the will to win now almost tangible; peer group performance is top of mind and determination levels are rising as the competition hots up and the gaps between survey positions narrow.

UNIT TRUST FUND PERFORMANCE

FUND	RANKING 31/12/05	FUND VALUE (Rm)
METROPOLITAN GENERAL EQUITY UNIT TRUST	8/56	1 409
METROPOLITAN RESOURCES UNIT TRUST	7/14	159
METROPOLITAN PROPERTY ABSOLUTE INCOME UNIT TRUST	3/24	99
METROPOLITAN INDUSTRIAL UNIT TRUST	4/10	46

Products

- The most far-reaching change was the creation of three new portfolio management silos for equities: a growth, a mainline and a specialist silo, with portfolio construction experts in each.
- The growth silo provides a separate model for funds where the investment mandate permits a greater degree of risk than is allowed for in the house view portfolio. The mainline silo is responsible for the core or house view portfolio in terms of investing on balance sheet funds, while the specialist silo concentrates on specialised investment mandates, eg retail collective investments and aggressive on balance sheet funds.
- Although Metropolitan's life insurance and healthcare products are generally aimed at the lower end of the market, this is not true of the group's asset management products. The latter are geared for the top end of the market, with many of the niche products, such as the inflation-linked bond fund, being market leaders.

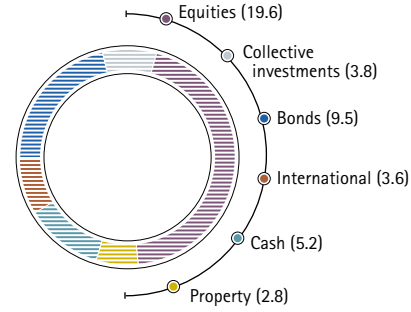
Process

- Dealing and implementation now report to the chief operating officer in line with international best practice which separates dealing from the placement of orders.
- The research function, which retains its strong emphasis on equities, continues to underpin all decision-making. The enhanced capacity and capabilities of an electronic facility have added immeasurably to its value.
- Having a larger 'universe' for equities, with the so-called A (large cap stocks) and B (medium and small cap stocks) lists now up and running, is a major stock-picking advantage in the current positive equity environment. The creation of the Eqi-B fund with its dedicated portfolio manager has provided on-balance sheet clients with exposure to the mid and small cap universe.
- A dedicated annuity investment manager has been appointed and a best of breed analytical system implemented to manage the Metropolitan Life annuity funds, enabling accurate quantification of hedging effectiveness and ensuring that appropriate investments are made to mitigate market risk. This capability is to be extended to include third party funds where there is a perceived need for annuity matching capabilities.

People

- Apart from the change in leadership, which saw Abel Sithole appointed as managing director, Liston Meintjes as chief investment officer and Carstens Mphelo as chief operating officer, additional knowledge and skills have been brought on board to build capacity and enhance current capabilities. The level of interaction between teams has also been increased so that everyone can derive maximum benefit from specialist expertise and experience.
- Although both organic growth and growth by acquisition form part of its growth strategy, the company is currently focused on the former through achieving greater penetration in existing markets and expanding into new markets and well as extending its product range. Its business development team, headed up by Rob Likhanya, has relocated to Johannesburg where additional staff will be recruited as necessary; countrywide brand-building initiatives and wide-ranging marketing activities are ongoing.
- While the return on and volume of assets under management will always be of paramount importance in the wealth creation process, Metropolitan Asset Managers, as true 'African wealth creators', are committed to promoting the well-being of stakeholders across the spectrum, including the communities within which they operate.

ASSETS UNDER MANAGEMENT, SPLIT BY ASSET CLASS
as at 31 December 2005



METROPOLITAN COLLECTIVE INVESTMENTS

- Gross inflows were 145% up from R2.9 billion in 2004 to R7.1 billion while net inflows were 223% higher at R4.0 billion (2004: R1.2 billion), R0.5 billion in Metropolitan funds and R3.5 billion in white label funds.
- Assets under management increased by 233% from R2.7 billion in 2004 to R9.0 billion, comprising R3.3 billion in Metropolitan funds and R6.0 billion in white label funds.
- At R18.1 million, profits after tax rose by 147% (2004: R7.3 million).
- The number of portfolios under administration increased from 34 to 73.

EXECUTIVE COMMITTEE

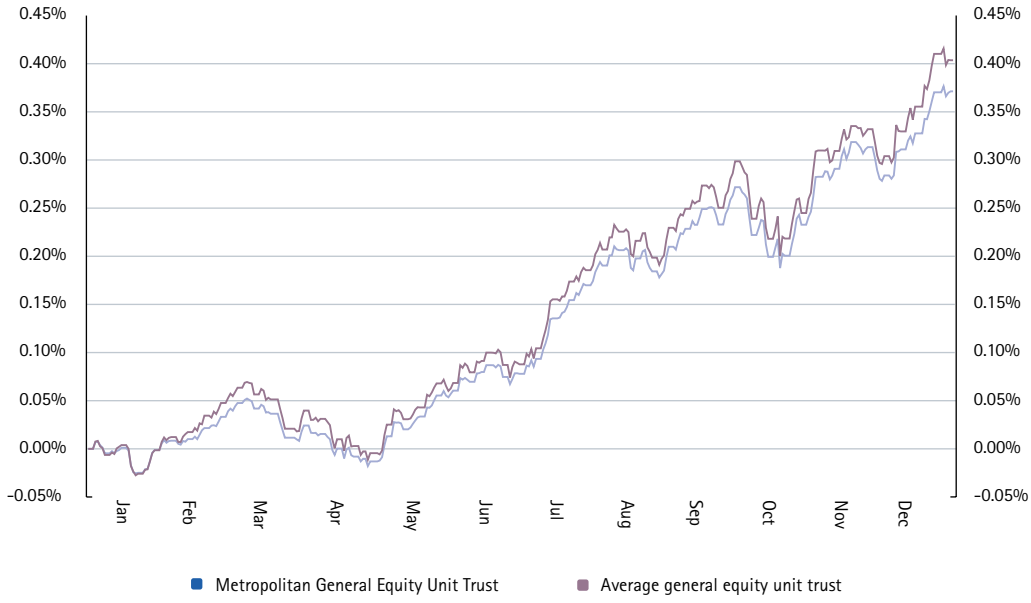
ANTON BERKOWITZ

LISTON MEINTJES

CARSTENS MPHELO

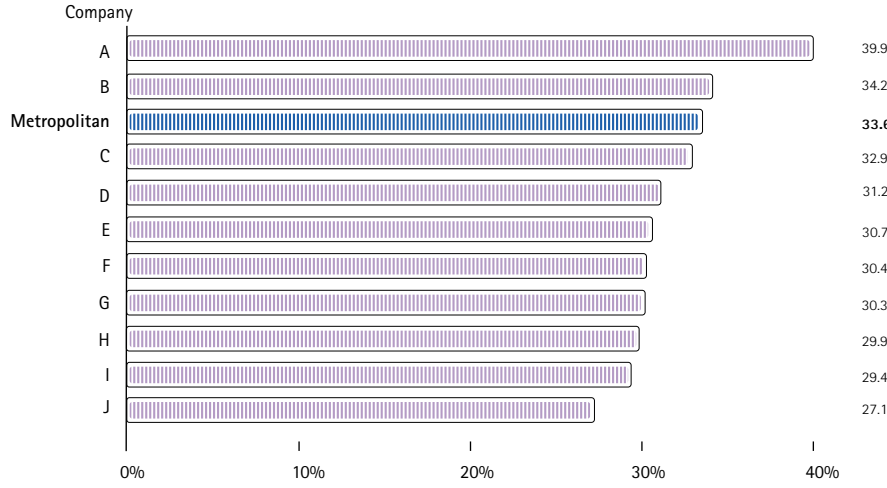
ROBERT WALTON

PERFORMANCE OF METROPOLITAN GENERAL EQUITY UNIT TRUST VS PERFORMANCE OF AVERAGE GENERAL EQUITY UNIT TRUST
1 year - 01/01/05 to 31/12/05



THE COMPANY IS CURRENTLY FOCUSED ON ORGANIC GROWTH THROUGH GREATER PENETRATION OF EXISTING MARKETS, EXPANSION INTO NEW MARKETS AND EXTENSIONS TO ITS PRODUCT RANGE.

PERFORMANCE (1 year as at 31 December 2005)
Source: Alexander Forbes Global Manager Watch



- Metropolitan Collective Investments (MCI) is the leading provider of so-called white label or third party branded unit trust funds in South Africa in terms of number of funds. As regards third party assets under management it ranks third. It has a 20% share of the total market, currently worth some R36 billion. Highly competitive pricing and unmatched service are largely responsible for its unprecedented success.
- MCI established its own multi-manager function in September 2005 and now manages two international fund-of-funds, branded Metropolitan, as well as two local balanced fund-of-funds, branded Metropolitan Odyssey. In addition, asset management consulting services are provided to both Metropolitan Odyssey and white label funds.

A MAJOR DRIVE TO INCREASE THIRD PARTY ASSETS UNDER MANAGEMENT IS CURRENTLY UNDERWAY.

METROPOLITAN PROPERTY SERVICES

- At 35% (2004: 17%) the return on Metropolitan's property portfolio was the best ever.
- Vacancies were at an all-time low of 3.4% (2004: 5.5%).
- Arrear rentals were well controlled.
- There were no major acquisitions or disposals but certain small underperforming properties in outlying areas were sold. There are no major development projects in the pipeline.
- All properties with market values in excess of R10 million were revalued externally to confirm their fair values and their capitalisation rates were adjusted in line with industry norms.
- Administration profits after tax increased from R5.2 million in 2004 to R5.8 million.

LOOKING AHEAD

- Asset management has now formally been acknowledged as core to the business of the group, as reflected in the most recent reallocation of executive responsibilities and the creation of an autonomous asset management business cluster. Being responsible and accountable for its own destiny has brought with it a new sense of ownership, for both successes and failures. The entire team is united in its determination to carry all before them. They are justifiably proud of what they have already accomplished, and confident that they can achieve a lot more in 2006 and beyond. Morale and motivation levels are high.
- Having a strong growth bias proved to be a major competitive advantage in 2005 and should continue to give the company the edge in 2006, the outlook for which remains rosy as far as the investment markets are concerned, particularly the equity markets.
- The major drive to increase third party assets under management currently underway should start delivering now that twelve month survey results are available.

INTERNATIONAL *cluster*

EXPERIENCE GAINED IN NAMIBIA, BOTSWANA AND LESOTHO HAS PROVED CONCLUSIVELY THAT THE KEY ELEMENTS OF METROPOLITAN'S BUSINESS MODEL ARE TRANSFERABLE FROM ONE DEVELOPING COUNTRY TO ANOTHER.

JUSTIN VAN DEN HOVEN | *Chief executive, international*

EXISTING MARKETS

- The existing international businesses - Metropolitan Namibia, Metropolitan Botswana, Metropolitan Lesotho and the Mauritius branch - grew their contribution to operating profit net of tax from R52 million in 2004 to R86 million, an increase of 65%.
- The value of new business from the international businesses increased from R16 million to R28 million.
- The embedded value contribution of R1 045 million from the international businesses exceeded the R1 billion mark for the first time.
- Employee benefits and credit life business remained the major drivers of new business growth and profitability in Namibia and Botswana.
- All aspects of the integration of Metropolitan Namibia and Channel Life Namibia proceeded according to plan. The Channel Life in-force book has been transferred to Metropolitan Namibia and this company will be deregistered in the first quarter of 2006.
- In Namibia all individual life business is already being administered on the new international platform, called Exergy, with employee benefits and credit life business due to follow shortly.
- Although the integrated entity is living up to expectations that it would be the biggest writer of new business in Namibia, the largely over-traded marketplace means that in essence it is only able to increase its market share at the expense of competitors.
- Given that Botswana is experiencing a slowdown in economic growth and disposable income levels are under pressure as a result, it is not surprising that sales of individual life policies have fallen.
- LQ Nkani, who was appointed to head up Metropolitan Botswana in January 2006, has made increasing the company's penetration of the individual life insurance market his top priority. A major revamp of both products and distribution channels is underway, and the appointment of tied agents is under consideration to boost the chances of success in challenging for the no 1 spot in the local industry.
- Metropolitan Lesotho remained the dominant player in that country's life insurance sector but because the local textile industry has been largely destroyed by the closure of foreign-owned textile factories, the economy is starting to falter and the strain on business, both new and existing, is increasing.
- The innovative range of single premium investment products being sold by Metropolitan Mauritius to meet the needs of South African citizens wanting to utilise their foreign investment allowances should regain its popularity now that the foreign exchange limit for individuals has been increased to R2 million.

NEW MARKETS

- Tough economic times and growing evidence of over-trading in the relatively small Southern African markets added fresh impetus to international's exploration and implementation of new business opportunities in East and West Africa.

EXECUTIVE COMMITTEE

LEEBA FOUCHÉ

LINUS MAKHULO

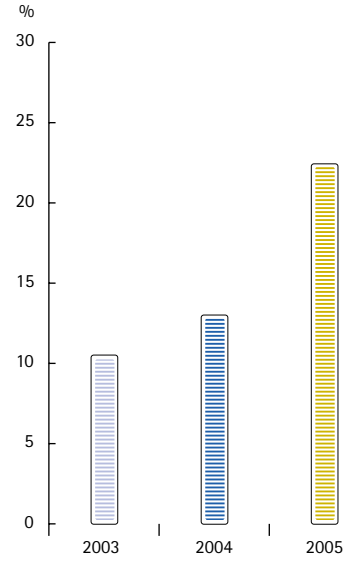
TSOANE MPHAHLELE

LQ NKANI

INTERNATIONAL CLUSTER PERFORMANCE OVERVIEW

	2005 Rm	2004 Rm	% CHANGE
GROSS PREMIUM INFLOWS	977	893	9.4
RECURRING PREMIUMS	758	646	17.3
SINGLE PREMIUMS	219	247	(11.3)
PAYMENTS TO POLICYHOLDERS	548	491	11.6
GROSS OPERATING PROFIT NET OF TAX	86	52	65.4
PROFIT MARGIN ON NEW BUSINESS	22.5	13.1	71.8

NEW BUSINESS PROFIT MARGIN



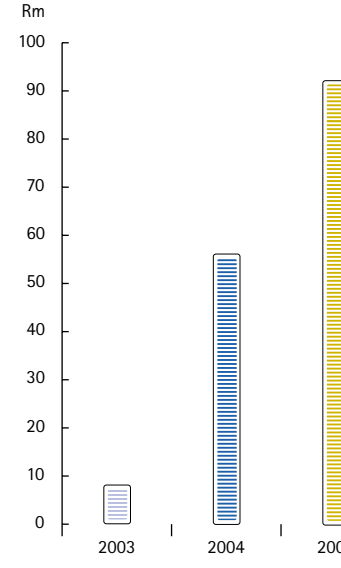
EMERGING MARKETS ARE EVEN MORE ACCESSIBLE THAN THEY WERE PREVIOUSLY NOW THAT THE GROUP HAS A PORTABLE ADMINISTRATION SYSTEM AT ITS DISPOSAL.

- Experience gained in Namibia, Botswana and Lesotho has proved conclusively that the key elements of Metropolitan's business model are transferable from one developing country to another. Emerging markets are even more accessible than they were previously now that the group has a portable administration system at its disposal. The system is uncommonly adaptable; adjustments for market-specific requirements, eg regulatory and cultural differences, can be made with remarkable ease.
- Metropolitan Kenya, a greenfields operation in which Metropolitan has a 67% stake in conjunction with local partners, opened its doors in Nairobi on 1 January 2006 after a new life license had been acquired.
- The majority of Metropolitan Kenya's newly appointed staff complement are locals, including the chairman, chief executive and national sales and marketing manager, who between them have a wealth of life insurance expertise and experience.
- A comprehensive range of new generation risk, investment and retirement products has been developed with the specific needs of Kenyans in mind. Customised HIV/AIDS products have been made available, tailored to Kenyan conditions but based on Metropolitan's pioneering approach to solving problems related to the pandemic.
- In Ghana, Metropolitan has purchased the life business of a well-established local composite insurance company, coincidently called Metropolitan Insurance Company of Ghana. Once again this has been done in partnership with a local consortium, with Metropolitan having acquired a controlling 60% interest. A prominent Ghanaian Sir Sam Jonah, non-executive president of AngloGold Ashanti and a member of the state president's economic advisory council in South Africa and Nigeria as well as in Ghana, is to chair Metropolitan Ghana.
- Thanks to its progressive outlook and enlightened policies, Ghana has maintained a GDP growth rate of over 5% for the past five years.
- In Nigeria, where Metropolitan's exploratory investigations are well advanced, the economy is booming on the back of rising oil prices. The administration of the state pension fund is in the process of being privatised, which creates the ideal opportunity to acquire critical mass in this country in a very short space of time.

POSSIBLE FUTURE MARKETS

- Investigations into the new business potential of mega markets such as India and China are ongoing, but only with a view to the possible roll-out of selected niche products in conjunction with local partners.

OPERATING PROFIT BEFORE TAX



HEALTH *cluster*

THANKS TO ITS UNREMITTING FOCUS ON QUALITY AND PRICE, METROPOLITAN HEALTH GROUP NOW DOMINATES THE RESTRICTED (CLOSED MEMBERSHIP) MEDICAL AID SCHEME MARKET IN SOUTH AFRICA WITH A 47% SHARE.

BLUM KHAN | *Chief executive, health*

Thanks to its phenomenal growth, it has become necessary for the Metropolitan Health Group (MHG) to restructure itself into three separate businesses, each focused on an area of core competency: healthcare administration; managed healthcare; healthcare technology. In all instances it has, however, retained its client-centric organisational structure as this not only gives it the advantage of scalability but also facilitates strong client relationship management, which remains key to its success.

From a horizontal perspective, the businesses are fully autonomous, having their own strategic and operational objectives, including succession planning, as well as their own brand identity. This newly gained independence is particularly important in the case of the technology business. Being recognised as a software vendor in its own right will make selling its franchise model that much easier.

Viewed vertically, MHG's service offering remains fully integrated, with the company able to provide a comprehensive suite of services to all clients administered from its platform.

TRANSFORMATION INITIATIVES

- During the year, a 17.6% stake in MHG was sold to Metropolitan's strategic empowerment partner, Kagiso Trust investments (KTI), for R135.7 million. Taking this transaction into account, effective direct black ownership of MHG is currently in excess of 30%.
- Both MHG and Qualsa, the company's managed healthcare provider, were awarded an A rating by independent empowerment rating agency, Empowerdex, when they were evaluated in November 2005 on the basis of the broad-based black economic empowerment criteria laid down by the department of trade and industry. This was a first in the healthcare industry, making them frontrunners in the drive to transform the sector.
- In addition to scoring well in the ownership component, both businesses fared particularly well in the areas of skills development, enterprise development and social development.

HEALTHCARE ADMINISTRATION

- Thanks to its unremitting focus on quality and price, MHG now dominates the restricted (closed membership) medical aid scheme market in South Africa with a 47% share. Its share of the overall market is in the vicinity of 16%.
- MHG underwent a Council for Medical Schemes audit late in 2004 and was awarded accredited medical schemes administrator status with effect from 17 August 2005.
- Systems efficiencies have enabled the business to reduce its administration costs to some 7% of contributions across all schemes, well below the industry average of 10%.
- Given that administration is a volume driven business, the conclusion with effect from 1 January 2005 of the Polmed contract, the medical aid scheme for employees of the South African Police Services (SAPS), with more than 130 000 principal members representing some 350 000 lives, was extremely pleasing. It is a three-year contract, with a renewal option for a further three years.
- Despite the size of the membership base the take-on was smooth and went live on the scheduled date,

HEALTH CLUSTER PERFORMANCE OVERVIEW

	2005 Rm	2004 Rm	% CHANGE
CONTRIBUTIONS UNDER MANAGEMENT	7 935	5 639	40.7
INCOME	519	340	52.6
ADMINISTRATION FEES RECEIVED, EXCL FRANCHISE FEES	502	320	56.9
FRANCHISE FEES	10	15	(33.3)
INVESTMENT RETURN	7	5	40.0
OPERATING PROFIT NET OF TAX*	68	35	94.3

** Before IFRS costs relating to the staff share schemes*

EXECUTIVE COMMITTEE

RONELL BOSHOFF

ESTELLE BURGER

SELOMANE MAITISA

KUSILE MTUNZI-HAIRWADZ

VUYO NGONYAMA

WAYNE POLE

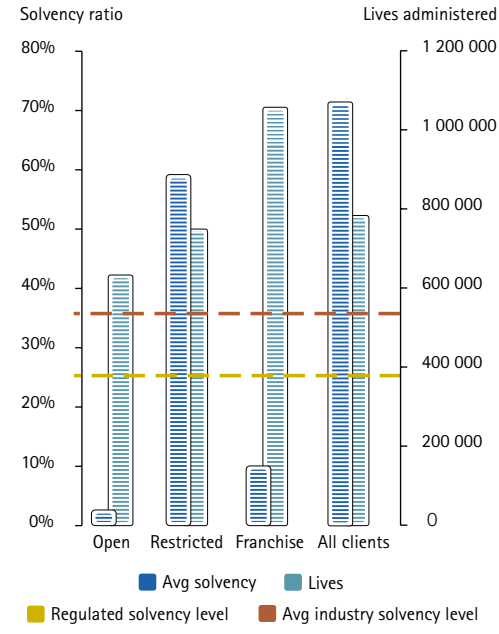
NICK RUDSTON

DAVID WATTS

providing further evidence of MHG's ability to handle large-scale projects. What made the take-on truly remarkable was the fact that it was completed within an extremely tight eight-week timeframe, especially as premises had to be secured in Pretoria, an office set up, some 350 staff employed, etc.

- Expansion within SAPS has meant that Polmed membership increased by some 10 000 during the course of the year, a trend that looks set to continue with the SAPS manpower budget increasing to 166 000 over a three-year period.
- The three biggest schemes administered by MHG - Bankmed, Polmed and Transmed - are all in an extremely robust financial position, with solvency levels well above regulated requirements.
- The comprehensive environmental controls, in the form of risk mitigation processes and procedures, incorporated in MHG's systems are helping to combat medical aid abuses such as over-servicing, giving the company an edge over competitors in this vital area of expertise.
- Scheme administration, which remains MHG's core source of revenue, contributed income of R328.2 million, up 44.5% on the R227.2 million of 2004.

QUALITY OF METROPOLITAN HEALTH'S CLIENT BASE
as at 31 December 2005



FUTURE TARGET MARKETS INCLUDE THE CURRENTLY UNINSURED AND THOSE CURRENTLY DEEMED UNINSURABLE BECAUSE OF INCOME CONSTRAINTS.

GOVERNMENT EMPLOYEES MEDICAL SCHEME (GEMS)

- MHG identifies closely with the twin objectives underlying the government's decision to establish a single state medical scheme to which all civil servants will ultimately belong: improved affordability and accessibility of healthcare for all South Africans. The company has made a concerted effort to align itself with the attainment of these goals from the outset.
- Bearing the company's track record in mind, it should not have come as a surprise that MHG secured two major GEMS contracts. Being awarded the administration contract, easily the largest and therefore the most sought-after of the contracts, was due recognition for its achievements.
- As MHG tendered on a full cost absorption basis, the profitability of the GEMS business will be on a par with other business.
- When membership reaches 200 000 principal members under administration, government has the option to appoint an additional administrator. MHG, in consultation with government, has opted to administer the contract from Cape Town where it was able to allocate and deploy resources in less than a month after being awarded the contract.
- Qualsa's well-established credentials in the field of cost-effective pharmacy benefit management (PBM) made it a leading contender for the medicine clearing house contract, which aims to improve adherence to treatment protocols and thereby reduce costs. Months of hard work paid dividends when the award went the company's way, also in the face of stiff competition from all the major players in the industry.
- The GEMS call centre received more than 10 000 calls in the first month of operation and membership is increasing daily.

MANAGED HEALTHCARE

- Qualsa, after undergoing a Council for Medical Schemes audit, was accredited as a managed care provider with effect from 8 November 2004.
- On 1 January 2005, the company secured its single largest contract ever - the managed care contract for Polmed.
- The necessary capacity building was accomplished without a drop in standards; for example, no failures to meet service level agreements were reported.
- In the last quarter of 2005, the managed care contract for Bankmed was concluded, with an effective date of 1 January 2006.
- MHG's managed care product development is both rapid and goal-directed because the company's administration and managed care systems are fully integrated. An end-to-end healthcare solution is

now acknowledged as the most effective way of achieving both cost and quality control.
- Once again, revenue generated from this diversified income stream almost doubled in 2005 from R76.8 million in 2004 to R146.9 million.
- Although Qualsa contributed 30% of MHG's total revenue in 2005, evidence of the fact that it has grown exponentially since its purchase from Hanover Re three years ago, it is seen as a business with enormous potential, offering plenty of exciting development opportunities.

HEALTHCARE TECHNOLOGY

- Through its technology franchise product, MHG licenses its systems to self-administered schemes and third party administrators at an affordable cost, giving the franchisees access to industry-leading systems without having to incur significant development and maintenance expenses.
- In line with its commitment to transformation, MHG has refocused its approach to franchising to include a strong emphasis on enterprise development. Management expertise is now being seconded to assist franchise operations to maintain standards, thereby reducing the risk of failure. Through this transfer of knowledge and skills, a broader spectrum of administrators is being empowered and should be in a position to assume responsibility for the administration of GEMS when the time comes for the government to award further contracts.
- MHG was a finalist in the main category of the Technology Top 100 competition, being the minister of science and tecnology's award for overall technology excellence for large and medium sized enterprises.
- The number of external clients should increase now that the technology business has become a fully-fledged technology player, and is starting to gain recognition as such.

COSTS

- MHG's continued success as a low-cost administrator means that it has been able to retain its competitive advantage from the all-important perspective of unit costs.
- Approximately 80% of MHG's cost base comprises fixed costs. Thanks to the recent rapid growth of its administration and managed care businesses, it has been able to extract significant economies of scale.
- Nevertheless, each and every factor in the overall cost equation is closely scrutinised, with the variable elements, such as people-related costs, subjected to the most rigorous monitoring.
- Technology services enjoy a decided advantage in this regard: systems costs do not rise in direct proportion to the size of the project whereas administration costs do. The take-on of Polmed, for example, had a minimal effect on technology expenditure although its impact on administration expenditure was substantial.

LOOKING AHEAD

- Setting aside the accounting impact of MHG's staff share incentive schemes on its core headline earnings when reporting under International Financial Reporting Standards (IFRS), as Metropolitan is doing for the first time in 2005, the company almost doubled its contribution to the operating profit of the group in 2005. This underlines just how successful its efforts to increase income and decrease expenditure were during the past year, and indications are that these up and downtrends will continue to accelerate in 2006.
- MHG has proved that it has the capacity and capabilities to respond to the constantly changing dynamics of the industry.
- The fact that MHG outperformed all comers to secure two of the six GEMS contracts speaks volumes for the high regard in which it is held, not only in the business and non-government sectors where it has been highly successful to date, but now also in the government sector. It is the first healthcare company to have spanned the divide between the private, parastatal and public sectors and to have done so in such convincing style augurs particularly well for the future.
- From its well-entrenched position as a low cost administrator, MHG is ideally positioned to capitalise on government's intention to establish a social health insurance system where medical cover is compulsory for everyone in formal employment.
- Given that its future target markets include the currently uninsured and those currently deemed uninsurable because of income constraints, MHG is an active participant in the private sector's low income medical scheme (LIMS) project. This has the potential to attract three to four million new lives to the private healthcare industry within the next few years, imperative if the latter is to overcome the membership stagnation from which it has been suffering for the past decade or so.
- Although MHG is almost exclusively focused on the extensive new business opportunities that are opening up in South Africa, it still keeps a watchful eye on developments elsewhere in the world. Should circumstances change, the company will be ready and waiting to take full advantage of the situation.

METROPOLITAN HEALTH IS THE FIRST HEALTHCARE COMPANY TO HAVE SPANNED THE DIVIDE BETWEEN THE PRIVATE, PARASTATAL AND PUBLIC SECTORS AND TO HAVE DONE SO IN SUCH CONVINCING STYLE AUGURS PARTICULARLY WELL FOR THE FUTURE.

‘The thing that distinguishes us from previous generations, I think, is **compassion**. It forms the basis for understanding, and from understanding comes healing. If I were to put my hope for the future in one thing, this would be it: compassion.’

NATHEA NICOLAY
Actuarial specialist and AIDS risk consultant,
Metropolitan Employee Benefits

SUSTAINABILITY *contents*

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"WE HAVE NOT INHERITED THIS LAND FROM OUR ANCESTORS;
RATHER WE HAVE BORROWED IT FROM OUR CHILDREN."

(African proverb)

THE SAME IS TRUE OF METROPOLITAN'S BUSINESS.

As a country and a company, we learn from the past while building for the present - and the future.

At Metropolitan we remain committed to meeting the needs of the present generation, using knowledge and skills garnered from previous generations to augment our own, but without compromising the needs of future generations.

In line with our commitment to sustainable development, we strive to add stakeholder value in an economically, socially and environmentally responsible manner, while simultaneously adhering to the principles of good corporate governance - such as accountability, ethics, fairness, openness and transparency.

We have produced a separate sustainability report, covering the four pillars of sustainability referred to above - economy, society, environment and corporate governance - for the first time this year.

In addition to those copies being distributed, copies are available on request from the group compliance officer. The full report can also be accessed on our corporate website **(http://www.metropolitan.co.za)** under the heading of investor relations.

Information relating to corporate governance, empowerment, HIV and AIDS that will be of particular interest to shareholders has, however, been included in the annual report for ease of reference.

The paper on which this report is printed was made with virgin fibre from forests certified by the Forest Stewardship Council (FSC). Any additional fibre was derived from post consumer waste. The virgin fibre bleaching process at the pulp mill was either totally or elemental chlorine free to protect the aquatic environment.

Assuming full **social** and **environmental** responsibility is as vital as applying sound **economic** and **corporate governance** principles if we are to achieve our sustainable development goals.

BOARD OF *directors*

DIRECTORS *(from left to right) front: Eric Molobi. (Middle): Peter Doyle, Preston Speckmann, Abel Sithole, Prof Willie Esterhuyse, Peter Lamprecht, Fatima Jakoet and Syd Muller. (Back): Bulelwa Ndamase, Derek Pead, JJ Njeke, John Newbury, Marius Smith, Dr Franklin Sonn, Andile Sangqu and Johan van Reenen.*

ERIC MOLOBI

58, BA

Group chairman of Metropolitan Holdings Limited and of Kagiso, Eric Molobi co-founded Kagiso Trust Investments (KTI) in 1994 and has served as its executive chairman since 1996. He chairs several companies within the wider Kagiso group, is the vice-chairman of Imperial Holdings and a former chairman of Telkom. Eric served as a political prisoner on Robben Island with a number of prominent leaders, including Nelson Mandela. Following his release, he was recruited by the South African Council of Churches to set up a community development programme aimed at the disadvantaged. In 1990, he joined the Kagiso Charitable Trust (Kagiso Trust) as CEO, where he was responsible for raising funds from foreign government agencies to channel into educational and community development projects in South Africa. He was awarded the prestigious Ordre National de la Legion D'Honneur by the French government in 1994. *2004

PETER DOYLE

50, B Bus Sc, FFA, CFP

As group chief executive, Peter Doyle also serves on the board of Metropolitan Life Ltd, Metropolitan Health Holdings Ltd, Metropolitan Asset Managers Ltd and various other subsidiary companies. He is a director of the Life Offices' Association and is widely recognised for his extensive research and actuarial modelling of the socio-economic impact of HIV/AIDS in South Africa. *1997

DEREK PEAD

55, BSc, ASA, CFP

As chief executive of the group's retail cluster, Derek Pead serves on the boards of Metropolitan Life, Metropolitan Odyssey and Metropolitan International. He also serves as non-executive chairman of the board of True South Actuaries and Consultants. *2005

ABEL SITHOLE

43, BA, MBA, CFP

Executive director of Metropolitan Holdings and joint MD of Metropolitan Life, Abel heads up the asset management cluster and is managing director of Metropolitan Asset Managers, a position he has held since June 2005. He was previously chief executive of Metropolitan Employee Benefits and headed up the corporate cluster. He has held senior executive positions at Southern Life and Eskom where he was responsible for employee benefits and asset management respectively. He served as president of the Institute of Retirement Funds of Southern Africa (IRF) and is a past board member of the Financial Planning Institute (FPI). He is deputy chairman of the board of the Financial Services Board (FSB) and serves on the policy board for Financial Services & Regulation. He has served on the editorial boards of IRF Focus, Pensions World SA and Blue Chip magazines. *2001

PRESTON SPECKMANN

49, B Compt (Hons), CA (SA)

Prior to joining Metropolitan Holdings Limited, group finance director Preston Speckmann held a senior position with Old Mutual. Previously he was an audit partner at Coopers & Lybrand and held directorships in the Pepkor Group and Seagram SA. He serves on the boards of Metropolitan Life Ltd, Metropolitan Health, Metropolitan Health Holdings and various other companies in the group. *1999

PROF WILLIE ESTERHUYSE

69, D Phil in Philosophy

Willie Esterhuyse is a part-time professor in business ethics at the Graduate School of Business, University of Stellenbosch and part-time lecturer at the Graduate School of Business, UCT. He also serves on the boards of Medi-Clinic, Plexus Asset Management and Barinor Holdings Ltd. He is a trustee of the Freedom Park Trust, Nations Trust and Sanlam Demutualisation Trust. *1991

FATIMA JAKOET

45, BSc, CA (SA)

Fatima currently conducts her own business consulting practice. She was formerly a general manager at both Denel and Eskom. Fatima previously served on the Metropolitan board from May 1996 to November 2001; she currently holds several other directorships, including the SA Reserve Bank and its subsidiaries, several MTN subsidiaries in West Africa and the Metropolitan Health Group. *2005

PETER LAMPRECHT

63, BSc, FIA, FASSA

Peter Lamprecht was formerly chief executive of life insurance companies and chairman of an actuarial consultancy. He chairs the risk committee and also serves on the board of Metropolitan Life Limited and the audit and actuarial committee. *2002

SYD MULLER

57, B Com (Hons), CA(SA), MBA, AMP(Harvard)

Syd Muller was formerly the chairman of Woolworths Holdings and a director of other companies in the Wooltru group. He is also active on the boards of a number of private companies. *1994

BULELWA NDAMASE

34, BA, LLB, LLM Georgetown, USA

Bulelwa is the managing director of Ndamase Incorporated, a 100% black female owned and controlled commercial law firm in KwaZulu-Natal. After serving her articles of clerkship in Durban, Bulelwa was admitted as an attorney of the High Court of SA in 1999. In her personal capacity, Bulelwa is involved in a number of community-based and professional organisations aimed at empowerment and skills development. She is a former chairperson of the Black Lawyers Association in KZN and sits on the environmental law committee of the Law Society of South Africa. She serves as a non-executive director on the boards of the International Convention Centre (ICC) and International Bank Vaults, both in Durban. *2005

JOHN NEWBURY

63

John Newbury serves on the boards of various companies, including Santam Limited, Dunlop Africa Limited and VenFin Limited. He is also active on the boards of various private companies. *1993

JOHNSON ("JJ") NJEKE

47, B Com, B Compt (Hons) CA (SA), H Dip Tax

Prior to his appointment as group managing director of the Kagiso group, JJ Njeke, a chartered accountant, spent 16 years as audit partner at Pricewaterhouse-Coopers. He is also the deputy chairman of Kagiso Media Limited and a director of several of the companies within the Kagiso group. He is the past chairman of the South African Institute of Chartered Accountants, is a member of its education committee and serves on the editorial board of the South African Journal of Accounting Research. He also serves on the boards of Ispat Iscor, NM Rothschild (SA) and the audit committee of National Treasury. * 2004

ANDILE SANGQU

39, B Compt (Hons), H Dip Tax Law, MBL

An accountant and tax expert, Andile Sangqu is currently the group executive at KTI. He completed his articles with PricewaterhouseCoopers and spent 12 years working in financial management positions at a number of South African corporations, eg Impala Platinum and Liberty Life. Prior to joining Kagiso Trust Investments, Andile was the CEO of Prodigy - Coris Asset Management. Andile serves on a number of corporate boards and also chairs the public works and department of local government audit committees. * 2004

MARIUS SMITH

65, B Com, FFA

Managing director of Metropolitan Life Ltd from January 1991 to April 1998, Marius Smith chairs the audit and actuarial committee and also serves on the boards of Metropolitan Namibia, Sasfin Holdings and Sasfin Bank. *1988

FRANKLIN SONN

66, BA (Hons), STD, FIAC

Former ambassador to the United States, Franklin Sonn is the recipient of several honorary doctorates and has held many distinguished positions. He was rector of the Peninsula Technikon from 1978 to 1994. Although he terminated all his directorships when he became SA ambassador to the USA in 1995, he is once again serving on the boards of many companies, including Absa Bank and SAPPI. He is vice-president of the Afrikaanse Handelsinstituut and a member of the Nelson Mandela Foundation & Children's Fund and the School of Tourism, Hospitality & Sport. Franklin previously served on the Metropolitan board from April 1983 to March 1995; he is currently the executive chairman of Africa Group Corporation, an employee benefits and financial services company. *1999

JOHAN VAN REENEN

50, BSc (Hons), MBA

Currently executive director of Cape Star Holdings, Johan van Reenen has a wealth of expertise and experience in investment banking and asset management, both locally and internationally, gained while he was executive director of Genbel Securities Limited from 1996 to 2001, and managing director of Gensec Asset Management from 1998 to 2000. He is chairman of Metropolitan Asset Management and serves on the investment and risk committees. *2001

** Appointed to board*

As corporate governance is about providing an assurance to all stakeholders that the business is being run in a just and equitable manner that ultimately protects the long-term future of the group, the shareholders have entrusted the running of the business to the directors and managers who have to ensure that there is effective and efficient risk management of all issues - strategic, operational, regulatory, financial, social and environmental.

As in previous years, Metropolitan strove to maintain good governance in 2005 by upholding its corporate values, which are clear and precise. Discipline, transparency, independence, accountability, responsibility, fairness and social responsibility are the main characteristics on which the group continuously focuses.

The board is satisfied that the group complied with the requirements set out in the Code of Corporate Practices and Conduct (King II).

BOARD OF DIRECTORS

Role and function of the board of directors

The Metropolitan Holdings Ltd board is accountable and responsible for the performance and affairs of the group. It achieves the above by delegating authority to the board committees and management.

The board's role and responsibilities include the following:

- ensuring that appropriate systems and procedures are in place for the group to be able to conduct its business in an honest, ethical, responsible and safe manner
- ensuring that effective audit, risk management and compliance measures are in place
- actively guiding the strategic direction of the group
- reviewing acquisitions, disinvestments and capital expenditure of the group
- reviewing and approving corporate plans, financial policies and operating budgets as well as monitoring financial performance and the integrity of reporting
- ensuring that there is effective, transparent and timely reporting to shareholders
- exercising an overriding control over the business of the group
- exercising independent judgement on issues facing the group.

INDEPENDENCE OF THE BOARD OF DIRECTORS

The group chief executive, Peter Doyle, assisted by the three executive directors and the executive management team, is responsible for the day-to-day running of the group. The heads of group businesses are invited to attend board meetings when necessary, eg when matters material to the group involving their businesses are discussed.

The chairman, Eric Molobi, is a non-executive director and his role and that of the group chief executive are kept separate. In addition to the four executive directors, the board comprises 11 non-executive directors, two of whom are not independent.

- The chairman manages the board and provides effective leadership in setting strategic direction.
- Appropriate governance principles are implemented at board meetings and possible conflicts of interest are managed properly.
- The board meets at least five times a year. Apart from those scheduled, additional meetings are convened as circumstances dictate. Directors are also afforded the opportunity to propose additional matters for discussion.
- The majority of the directors on the board's audit & actuarial, risk, nominations, remuneration, investment, and human resources & empowerment committees are independent and non-executive.
- Non-executive directors do not hold service contracts with the group and their remuneration is not tied to the group's financial performance.
- All directors have access to the advice and services of the company secretary and are entitled, at the group's expense and with the prior agreement of the group chairman, to seek independent professional advice on the affairs of the group.
- Possible conflicts of interest are dealt with as and when they arise.

Within subsidiary entities, the role of chairman and chief executive does not vest in the same person; chairmen are non-executive directors of the entities.

INDUCTION OF NEW DIRECTORS

As non-executive directors must exercise due care and skill in their fiduciary duties, they are required to have a sound understanding of the business and knowledge of the markets within which the group operates.

Consequently, an orientation programme for new directors is in place to ensure they are adequately briefed and have the required knowledge of the group's structure, operations and policies to enable them to fulfil their corporate duties and responsibilities.

APPOINTMENT AND RE-ELECTION OF DIRECTORS AND SUCCESSION PLANNING

The board is responsible for nominating directors and for filling vacancies that may occur between annual meetings of shareholders.

The appointment of new directors is in terms of a formal and transparent procedure; appointments are put

forward by the nominations committee and approved directly by the board, subject to shareholder confirmation at the following annual general meeting.

Because continuity is imperative, all non-executive directors are subject to retirement by rotation and re-election by shareholders at least once every three years in accordance with the group's articles of association. Reappointment is not automatic.

BOARD SUB-COMMITTEES

The board has a number of sub-committees that assist it in discharging its duties. The sub-committees meet independently and then report back to the board through their chairpersons. Membership details of these committees are provided on p63. A comprehensive framework setting out the authorities and responsibilities of the various sub-committees within the group is in place. Each sub-committee has a formal charter that clearly sets out its roles and responsibilities. All board-delegated authorities are reviewed and updated annually.

A number of Metropolitan Holdings directors have been appointed to the boards of subsidiaries. Whilst the holding company board retains overall responsibility for the affairs of the group, these subsidiary boards play an important role in the group's overall governance approach.

AUDIT & ACTUARIAL COMMITTEE

The chairman of this committee is an independent, non-executive director and all the members are non-executive directors. Committee meetings are attended by three executive directors, the head of the group's risk management division, the group actuary, the external auditors and other management.

Principal objectives

In addition to overseeing the financial reporting process, the group audit & actuarial committee's principal objectives include:

- acting as an effective communication channel between the respective boards and the external auditors and risk management
- satisfying the board that adequate internal, financial and operating controls are addressed and monitored by management, and that material financial risks have been identified and are being contained and monitored
- providing the respective boards with an assessment of the effectiveness of the external auditors and the internal audit function
- monitoring the application of the policy that governs the provision of non-audit services by the group's external auditors
- reviewing the extent and nature of all non-audit services provided.

The audit & actuarial committee meets at least four times a year and reviews the audit plans, budgets and scope of the external audit and risk management functions. The external auditors, the statutory actuary, the group secretary and the head of group risk management have unrestricted access to the chairman of the group audit & actuarial committee.

Actuaries assist the board in actuarial matters and conduct the actuarial valuations of assets and liabilities of the life companies in the group. The actuaries are subject to the professional disciplines of the Actuarial Society of South Africa. The statutory actuaries, who are responsible for all regulatory reporting to the Financial Services Board, have specific responsibilities relating to the interests of policyholders.

The audit & actuarial committee has reviewed the statements of internal control and considered the assumptions used to ascertain that Metropolitan Holdings Limited will continue as a going concern for the year ahead, and has recommended that the board approve disclosure thereof in these annual financial statements.

Internal, financial and operating controls

The board acknowledges its responsibility for ensuring that the group implements and monitors the effectiveness of systems of internal, financial and operating controls. These systems are designed to guard against material misstatement and loss.

The internal, financial and operating controls maintained by the group are designed to provide reasonable assurance regarding:

- safeguarding of assets against unauthorised use or misappropriation
- compliance with applicable laws and regulations
- maintenance of proper accounting records
- adequacy and reliability of financial information.

The identification of risks, as well as the detailed design, implementation and monitoring of adequate systems of internal, financial and operating controls to manage such risks, has been delegated to executive management by the board. The external audit and risk management functions help to provide the board and senior executive management with monitoring mechanisms to carry out this task.

The group audit & actuarial and risk committees regularly review these matters on behalf of the respective boards.

THE BOARD HAS A NUMBER OF SUB-COMMITTEES THAT ASSIST IT IN DISCHARGING ITS DUTIES. THE SUB-COMMITTEES MEET INDEPENDENTLY AND THEN REPORT BACK TO THE BOARD THROUGH THEIR CHAIRPERSONS. EACH SUB-COMMITTEE HAS A FORMAL CHARTER THAT CLEARLY SETS OUT ITS ROLES AND RESPONSIBILITIES. ALL BOARD-DELEGATED AUTHORITIES ARE REVIEWED AND UPDATED ANNUALLY.

However, even effective, well-designed systems of internal, financial and operating controls have inherent limitations, including the possibility of circumventing or overriding such controls. Consequently, such systems cannot be expected to provide absolute assurance. Effective systems of internal, financial and operating controls aim, therefore, to provide reasonable assurance as to the reliability of financial information and, in particular, of the financial statements.

In addition, changes in the business and operating environment could have an impact on the effectiveness of such controls. Thus changes of this nature are continually reviewed and reassessed.

To the board's knowledge, no issue that would constitute a material breakdown in the functioning of these controls occurred during the year under review, up to and including the date on which the annual financial statements were approved.

Internal audit

The internal audit functions of the group are located within the group risk management function. The group's internal auditors perform independent reviews of the group's operational activities. Group internal audit services is charged with examining and evaluating the effectiveness of the group's operational activities, the related business risks and the systems of internal, financial and operating controls. Major weaknesses are brought to the attention of the group audit & actuarial committee, the risk committee, the external auditors and members of executive management for their consideration and remedial action. The head of group risk management has direct access to the chairman of the group audit & actuarial committee.

THE INVESTMENT COMMITTEE REGULARLY REVIEWS THE GROUP'S INVESTMENT PERFORMANCE, INCLUDING THE ATTAINMENT OF PERFORMANCE BENCHMARKS AND COMPLIANCE WITH MANDATES. THE GROUP AND STATUTORY ACTUARIES ARE INTEGRAL TO THE PROCESS TO ENSURE APPROPRIATE ASSET MATCHING FOR POLICYHOLDER LIABILITIES AND SHAREHOLDER INVESTMENTS.

External audit

PricewaterhouseCoopers Inc. is the group's appointed external auditors. Deloitte reviews the group's statement of embedded value.

The board has approved a policy governing the provision of non-audit services by the group's external auditors. The policy limits the combined fees for non-audit services in any year to 50% of the external audit fee. Any further work to be undertaken requires the committee's approval.

HUMAN RESOURCES & EMPOWERMENT COMMITTEE

Chaired by the chairman of the board, this committee includes two executive and four independent, non-executive directors. Members of senior management also attend committee meetings. The committee, which meets at least three times a year, is responsible for managing and monitoring the group's human capital, employment equity and transformation initiatives. It is also tasked with ensuring that the group's succession planning is appropriately and adequately dealt with.

INVESTMENT COMMITTEE

The chairman and two of its members are independent, non-executive directors. The group's asset portfolios, each with its own unique investment mandate managed by Metropolitan Asset Managers, follow an investment strategy approved by this committee. The committee regularly reviews the group's investment performance, including the attainment of performance benchmarks and compliance with mandates. It comprises an independent non-executive chairman, three executive directors and two independent, non-executive directors. Members of senior management attend committee meetings. The group and statutory actuaries are integral to the process to ensure appropriate asset matching for policyholder liabilities and shareholder investments.

NOMINATIONS COMMITTEE

Chaired by the chairman of the board, the nominations committee is responsible for identifying fit and proper candidates who could be appointed to the board, and evaluating them against the specific disciplines and areas of expertise required on the board. The interests of different stakeholders are also considered. Proposals are presented to the board for a final decision.

REMUNERATION COMMITTEE

Meeting four times a year, this committee sets remuneration policy for all staff members. It comprises an independent non-executive director as chairman, one non-independent non-executive director and two independent non-executive directors. Members of senior management also attend meetings.

Guidelines, balanced scorecards and key performance indicators (KPIs) have been set to assist the directors and members of the sub-committees in evaluating the performance of individuals.

Principal objectives

The remuneration committee also deals with all aspects of the remuneration of directors and executive management, including share incentive arrangements.

The committee's principal objectives are to:

- ensure that executive directors and members of executive management are appropriately and fairly

remunerated and incentivised for their contribution to the group's financial and operating performance in accordance with the group's remuneration philosophy
- ensure that market-competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high-performance staff at all levels in order to realise corporate objectives and safeguard shareholder interests
- determine short- and long-term pay structures for executive directors and members of executive management
- assess and authorise specific reward proposals for executive directors and members of executive management, including approving all share incentive grants and bonus payments
- set remuneration levels for non-executive directors for submission to the board and approval by shareholders
- ensure compliance with applicable laws and codes.

Remuneration policy

The group's philosophy is to appropriately reward performance that results in the attainment of business strategies and goals. Remuneration packages are structured at levels that will attract, incentivise and retain top-calibre senior executives. In accordance with this philosophy, the packages of executive directors and senior executives include a fixed salary and benefit component, as well as a variable performance-linked bonus payment and an allocation of share incentives. The performance-related elements are linked to the achievement of strategic objectives in terms of a balanced scorecard that aims to align individual and organisational goals.

Fixed salary

The fixed element of remuneration is set at relevant market-related levels, taking individual performance and responsibility into account.

Performance bonuses

Targets and measures in the form of a balanced scorecard are included in annual business plans and approved by the board for the performance of the group, businesses and individuals.

For 2005 targets were set in following areas

Financial
- Growth in core headline earnings per share
- Return on embedded value of in-force
- Value of new business

Market share
- Net cash flow to the group

People and empowerment
- Employment equity at executive and management levels
- Equity procurement

All targets are cascaded and then evaluated from group to business to individual level.

Performance bonuses paid to individuals are dependent on the group rating, the rating of the relevant business and the individual's own performance rating. A performance bonus will only be considered once threshold performance objectives have been met; it is not a guaranteed portion of remuneration.

Both expected and stretch targets are set for each item, with bonus percentages increasing exponentially should target thresholds be achieved. Bonuses are determined by applying the achieved percentage to the total annual package.

All levels of management participate in the performance bonus pool. This amounts to approximately 968 people. In addition, a variety of performance based incentive programmes are used for employees in the group.

The executive directors participate in the performance bonus scheme described above.

Based on the group's 2005 performance, the board has approved an amount of R69 million to be distributed amongst all qualifying employees.

Share schemes

Executive directors also participate in the group's share schemes. This is intended to promote the alignment of the group's interests with those of shareholders and provide a longer-term incentive as part of the remuneration structure. At present the group is reviewing its share incentive scheme and consideration is being given to revising this incentive in line with leading practice.

Pension and medical aid

Pension and medical aid benefits are provided to executive directors on the same basis as they are provided to other employees.

Annual performance reviews

Packages, including performance bonuses and share allocations, are reviewed annually by the remuneration committee, with due regard to individual performance and market rates.

THE GROUP'S PHILOSOPHY IS TO APPROPRIATELY REWARD PERFORMANCE THAT RESULTS IN THE ATTAINMENT OF BUSINESS STRATEGIES AND GOALS. ALL PERFORMANCE-RELATED ELEMENTS OF REMUNERATION ARE LINKED TO THE ACHIEVEMENT OF STRATEGIC OBJECTIVES IN TERMS OF A BALANCED SCORECARD THAT AIMS TO ALIGN INDIVIDUAL AND ORGANISATIONAL GOALS.

IN ADDITION TO THE BOARD RISK COMMITTEE, THE GROUP FINANCE DIRECTOR CHAIRS A MANAGEMENT-LEVEL GROUP RISK MANAGEMENT COMMITTEE, TASKED WITH INTEGRATING AND MONITORING THE MANAGEMENT OF RISK IN RESPECT OF THE DAY-TO-DAY ACTIVITIES OF THE GROUP. AS RISK MANAGEMENT CONTINUES TO EVOLVE, BOTH LOCALLY AND GLOBALLY, THE GROUP'S PROCESSES AND STRUCTURE ARE CONSTANTLY BEING REVIEWED.

Executive directors are not present when their packages are discussed. The chairman appraises the performance of the group chief executive at least annually and the board performs a self-assessment. The appraisal focuses on the implementation of policies and strategies adopted by the board, operational performance and leadership. Appraisal results are reviewed and discussed by the remuneration committee and are used to determine the group chief executive's remuneration.

Fees for non-executive directors

Non-executive directors receive a fee for their contribution to the respective boards and board committees of which they are members. Fee structures are recommended to the board by the chairman of the remuneration committee, based on research on trends and levels of directors' remuneration.

Disclosure of directors' remuneration

Individual disclosure of the remuneration of executive and non-executive directors is provided on p61 of this report.

RISK COMMITTEE

In discharging its duties relating to corporate accountability and the associated risks in terms of management, assurance and reporting, the board has established this committee to review and assess the integrity of the non-financial risk control systems of the group. The committee comprises of an independent non-executive chairman, four independent non-executive directors and two executive directors.

Principal objectives

The risk committee's principal objectives include:

- reviewing the group's risk philosophy, strategy and policies recommended by executive management
- reviewing compliance with risk policies and with the overall risk profile of the group
- reviewing and assessing the integrity of the process and procedures for identifying, assessing, recording and monitoring risk
- reviewing whether client expectations are being met
- reviewing the adequacy and effectiveness of the group's risk management function and its implementation by management
- ensuring that material corporate non-financial risks have been identified, assessed and either have received or are receiving attention
- providing the board with an assessment of the effectiveness of the compliance function.

Certain defined risks that are monitored by the other committees of the board are excluded from the activities of the risk committee.

Responsibility for risk management

The board acknowledges its responsibility for establishing appropriate risk and control policies and ensuring that adequate risk management processes are in place.

In addition to the abovementioned board risk committee, the group finance director chairs a management-level group risk management committee. The members comprise executive directors, selected senior executives and the head of the group risk management division. The committee is tasked with integrating and monitoring the management of risk in respect of the day-to-day activities of the group. The objectives of the group's risk management division include facilitating the risk management and reporting processes on a corporate and business unit level. As risk management continues to evolve, both locally and globally, the group's processes and structure are constantly being reviewed.

Business continuity and technology recovery

A documented process is in place to allow the critical business processes to continue operating should a large-scale incident disrupt business activities. Testing of key aspects of the business recovery programme has been undertaken and will continue on a cyclical basis.

Compliance

The primary role of the group compliance function is to minimise regulatory risk by assisting management to comply with statutory, regulatory and supervisory requirements. The group compliance function, together with the compliance functions of the different businesses, facilitates the management of compliance through the analysis of statutory and regulatory requirements and the implementation of the required systems, processes and procedures.

GROUP EXECUTIVE COMMITTEE

This committee is comprised of the executive directors and senior group executives of the group. It is responsible for the day-to-day running of the group. The group chief executive chairs it. The committee meets once a month.

BOARD AND COMMITTEE SELF-ASSESSMENTS

In 2005 a self-assessment of all the board committees was conducted to ascertain, inter alia, whether the committees had discharged their duties with care and

skill, whether they had exercised the powers conferred on them for the benefit of the group, whether they had received the relevant information in order to be able to perform their duties, and which areas required improvement going forward.

SHARE DEALING

The group reviewed and enhanced its share dealing code during the year. Formerly, the code applied to directors and other senior personnel who, by virtue of the key positions they held, were deemed to have comprehensive knowledge of the group's affairs. The code now applies to all employees. The code imposes closed periods in order to prohibit dealing in Metropolitan Holdings Limited securities before the announcement of interim and year-end financial results as well as in any other period considered to be price-sensitive, having regard to the requirements of the JSE Securities Exchange South Africa. A closed period has been defined as the period from the end of a particular financial reporting period to the date on which the results relating to that period are released. Any period during which the group is trading under a cautionary announcement is included.

The company secretary undertakes the administration needed to ensure compliance with this code, under the direction of the group finance director.

The code goes further by restricting dealings of directors and other senior personnel in any security that may be affected by a transaction or proposed transaction.

FINANCIAL REPORTING

The group's annual financial statements are prepared according to accepted International Financial Reporting Standards (IFRS) and are supported by reasonable judgements and estimates. It is the first year that the group is adopting IFRS in its financial statements. The directors are responsible for the statements of the group and the company, and are satisfied that they fairly present the financial position, performance and cashflows, of the group and the company as at 31 December 2005. The external auditors are responsible for independently reviewing the financial statements (see report on p73). The embedded value statement is also subject to an independent actuarial review.

SHAREHOLDER COMMUNICATION

Metropolitan maintains highly rated standards of shareholder communication for which it was awarded best investor relations manager and best investor relations programme in the JSE non top 40 companies category by the prestigious international Investor Relations magazine. See p23 for a detailed report.

DIRECTORATE

The directorate of the group was largely constant during the past year, with the most significant development being the appointment of the following directors to the board: Fatima Jakoet, Sindisiwe Mabaso, who later resigned due to her appointment as a partner at Ernst & Young, Bulelwa Ndamase and Derek Pead.

In addition, Ntuthukoyezwe Buthelezi resigned due to business reasons.

The following persons acted as directors of the company during 2005. The appointments of these directors were confirmed at the annual general meeting of shareholders.

Non-executive chairman (non-independent)
Eric Molobi

Group chief executive
Peter Doyle

Executive directors
Derek Pead *(appointed 09.05)*
Abel Sithole
Preston Speckmann

Independent non-executive directors
Ntuthukoyezwe Buthelezi *(resigned 09.05)*
Willie Esterhuyse
Fatima Jakoet *(appointed 03.05)*
Peter Lamprecht
Sindisiwe Mabaso *(appointed 03.05; resigned 10.05)*
Syd Muller
Bulelwa Ndamase *(appointed 03.05)*
John Newbury
Marius Smith
Franklin Sonn
Johan van Reenen

Non-executive directors (non-independent)
JJ Njeke
Andile Sangqu *(alternate)*

COMPANY SECRETARY

The company secretary's functions include the following:

- providing the directors of the group, collectively and individually, with detailed guidance on their duties, responsibilities and powers
- providing information on legislation relevant to or affecting the group
- reporting at any meeting of the shareholders of the group or of the group's directors, any failure to comply

THE GROUP REVIEWED AND ENHANCED ITS SHARE DEALING CODE DURING THE YEAR. FORMERLY, THE CODE APPLIED TO DIRECTORS AND OTHER SENIOR PERSONNEL WHO, BY VIRTUE OF THE KEY POSITIONS THEY HELD, WERE DEEMED TO HAVE COMPREHENSIVE KNOWLEDGE OF THE GROUP'S AFFAIRS. THE CODE NOW APPLIES TO ALL EMPLOYEES.

with such legislation, including the listings requirements of the JSE Securities Exchange South Africa
- ensuring that minutes of all shareholders' meetings, directors' meetings and the meetings of any committees of the directors are properly recorded
- ensuring that the group has complied with its memorandum and articles of association; drafting resolutions for general meetings and registering them with the registrar of companies
- administering closed periods for dealing in the listed securities of the group
- managing the induction of new directors.

Bongiwe Gobodo-Mbomvu is the secretary of Metropolitan Holdings Limited. Her business and postal addresses are:

Parc du Cap 7, Mispel Road, Bellville 7530 and
P O Box 2212, Bellville 7535 respectively.

THE METROPOLITAN HOLDINGS BOARD HAS DELEGATED THE MANAGEMENT OF THE GROUP TO THE GROUP CHIEF EXECUTIVE, AT THE SAME TIME IMPOSING CERTAIN RESTRICTIONS, CONDITIONS AND LIMITS THAT THEY BELIEVE TO BE APPROPRIATE FOR THE EFFECTIVE EXERCISE OF SUCH DELEGATED POWERS. THE BOARD STILL HAS THE ULTIMATE DUTY TO MONITOR MANAGEMENT'S PERFORMANCE.

DIRECTORS' INTERESTS IN CONTRACTS

During the financial year the company entered into two strategic empowerment transactions with Kagiso Trust Investments (Proprietary) Limited (KTI), of which Eric Molobi, JJ Njeke and Andile Sangqu are directors. On 1 January 2005 a subsidiary of KTI acquired a 17.6% stake in Metropolitan Health Corporate (Proprietary) Limited for a consideration of R136 million, of which R132 million was financed by Metropolitan Holdings Limited in exchange for redeemable preference shares in the subsidiary that holds the investment in Metropolitan Health Corporate (Proprietary) Limited. These shares are redeemable after five years and the dividend rate is the greater of 80% of the ruling prime interest rate or any ordinary dividend rate declared for the corresponding period, compounded semi-annually. The dividends are payable semi-annually in arrears on 31 March and 30 September each year.

On 5 December 2005 a subsidiary of KTI acquired an additional 47 081 139 preference shares in Metropolitan Holdings Limited for a consideration of R479 million. Details of the shares issued are given in the directors report.

DIRECTORS' SHAREHOLDING

The direct and indirect holdings and transactions of the directors of Metropolitan Holdings Limited as at 31 December 2005 are set out on pages 59 and 60. The directors purchased these shares at ruling market prices. Only executive directors participate in the share purchase scheme. Non-executive directors have access to the group's shares through the open market.

INSIDER TRADING

As directors and certain employees are in a privileged position with regard to confidential information concerning the group and because the use of such information when buying or selling shares constitutes insider trading, the group has a policy on insider trading which is available on the group's website http://www.metropolitan. co.za.

DELEGATION OF AUTHORITY

The Metropolitan Holdings board has delegated the management of the group to the chief executive officer. In delegating these powers, the board has imposed certain restrictions, conditions and limits that they believe to be appropriate for the effective exercise of such delegated powers. The board approves the delegation of authority annually, whereupon it can vary or revoke it as deemed fit. Having delegated power in this manner, the board still has the ultimate duty to monitor management's performance.

SUSTAINABILITY

A separate, comprehensive report on non-financial matters, including health and safety and other aspects of business sustainability, will be issued in April 2006 and will be available on the group's website *http://www.metropolitan.co.za*, in the investor relations section.

LISTED SHARES 31 DECEMBER 2005	DIRECT BENEFICIAL '000	DIRECT NON-BENEFICIAL '000	INDIRECT BENEFICIAL '000	INDIRECT NON-BENEFICIAL '000	TOTAL '000
Peter Doyle	218			778	996
Balance at 1 January 2005	53			778	831
Trades in 2005	165				165
Willie Esterhuyse	50				50
Syd Muller		7			7
John Newbury	1		27		28
Abel Sithole	11				11
Johan van Reenen			183		183
Trades in 2005			183		183
Marius Smith			105		105
Franklin Sonn	3	43			46
Balance at 1 January 2005	3	52			55
Trades in 2005		-9			-9
Total listed shares – 2005	283	50	315	778	1 426

TRADES IN LISTED SHARES 2005	TRANSACTION DATE	PRICE	NUMBER OF SHARES	NATURE OF TRANSACTION	EXTENT OF INTEREST
Franklin Sonn	09.12.2005	R11.07	9 100	Sale	Direct - non-beneficial
Johan van Reenen	22.11.2005	R10.98	57 000	Buy	Indirect - beneficial
Johan van Reenen	21.11.2005	R10.91	126 000	Buy	Indirect - beneficial
Peter Doyle	01.12.2005		164 700	Listing	Direct - beneficial

TRADES IN LISTED SHARES 2004	TRANSACTION DATE	PRICE	NUMBER OF SHARES	NATURE OF TRANSACTION	EXTENT OF INTEREST
Willie Esterhuyse	20.05.2004	R7.50	10 000	Buy	Direct - beneficial
Willie Esterhuyse	01.10.2004	R8.81	40 000	Buy	Direct - beneficial
John Newbury	29.10.2004	R8.95	27 000	Buy	Indirect - beneficial

UNLISTED SHARES - DIRECT BENEFICIAL	ALLOCATION DATE	RELEASE DATE	SHARE PRICE R	NUMBER OF SHARES	NET LOAN R'000
Peter Doyle	05.12.1996	05.12.2001	7.00	17 700	124
	25.11.1997	25.11.2002	10.70	43 600	466
	30.11.1998	30.11.2003	8.88	70 200	623
	23.11.1999	23.11.2004	7.78	443 300	3 444
	25.11.2000	25.11.2005	8.05	500 000	4 020
	03.06.2002	03.06.2007	6.53	270 000	1 760
	02.12.2002	02.12.2007	6.25	300 000	1 872
Balance 2004				1 644 800	12 309
Capital reduction					(1 645)
Sold in 2005				(910 100)	(7 602)
Transferred to own name				(164 700)	
Balance 2005	Allocation 2002			570 000	3 062
Derek Pead	25.11.2000	25.11.2005	8.05	150 000	1 056
	03.06.2002	03.06.2007	6.53	150 000	828
	02.12.2002	02.12.2007	6.25	100 000	524
Balance 2005				400 000	2 408
Abel Sithole	27.07.2001	27.07.2006	9.45	727 500	6 868
	03.06.2002	03.06.2007	6.53	200 000	1 304
	02.12.2002	02.12.2007	6.25	200 000	1 248
Balance 2004				1 127 500	9 420
Capital reduction					(1 128)
Balance 2005				1 127 500	8 292
Preston Speckmann	31.05.1999	31.05.2004	8.51	253 800	2 157
	25.11.2000	25.11.2005	8.05	120 000	965
	03.06.2002	03.06.2007	6.53	150 000	978
Balance 2004				523 800	4 100
Capital reduction					(524)
Sold in 2005				(373 800)	(2 748)
Balance 2005	Allocation 2002			150 000	828

TRADES IN UNLISTED SHARES 2005	TRANSACTION DATE	PRICE	NUMBER OF SHARES	NATURE OF TRANSACTION	EXTENT OF INTEREST
Preston Speckmann	24.03.2005	R10.46	253 800	Sell	Direct - beneficial
Preston Speckmann	30.11.2005	R10.60	120 000	Sell	Direct - beneficial
Peter Doyle	01.12.2005	R10.63	910 100	Sell	Direct - beneficial
Peter Doyle	01.12.2005		164 700	Listed in own name	Direct - beneficial

DIRECTORS' EMOLUMENTS

The executive directors have standard employment contracts with the company or its subsidiaries. The remuneration committee determines the emoluments of the directors. There are no additional costs to the group. The remuneration is set out below.

	MONTHS IN OFFICE		FEES R'000		ANNUAL PACKAGE R'000		BONUS R'000		PENSION FUND CONTRIBUTION R'000		TOTAL R'000	
	05	04	05	04	05	04	05	04	05	04	05	04
Eric Molobi	12	6	880	80							880	80
Peter Doyle	12	12			2 557	2 053	2 350	1 000	461	324	5 368	3 377
Abel Sithole	12	12			1 630	1 554	1 000	650	257	235	2 887	2 439
Preston Speckmann	12	12			1 373	1 111	750	600	209	181	2 332	1 892
Derek Pead	3				379				69		448	
Ntuthukoyezwe Buthelezi	8	12	140	227							140	227
Irene Charnley		12		189								189
Willie Esterhuyse	12	12	220	210							220	210
Peter Lamprecht	12	12	331	260							331	260
Fatima Jakoet	10		174								174	
Sindisiwe Mabaso	8		112								112	
Syd Muller	12	12	246	245							246	245
Bulelwa Ndamase	10		165								165	
John Newbury	12	12	308	270							308	270
JJ Njeke	12	6	216	85							216	85
Andile Sangqu	12	6	113	4							113	4
Marius Smith	12	12	445	350							445	350
Gloria Serobe	2	12	24	370							24	370
Franklin Sonn	12	12	220	200							220	200
Johan van Reenen	12	12	380	270							380	270
Sandile Zungu		8		110								110
			3 974	2 870	5 939	4 718	4 100	2 250	996	740	15 009	10 578

MEETINGS HELD DURING 2005	HOLDINGS BOARD 7	AUDIT AND ACTUARIAL 6	REMUNERATION 3	HR AND EMPOWERMENT 4	INVESTMENT 4	RISK 4
MEMBERS	MEETINGS ATTENDED	MEETINGS ATTENDED	MEETINGS ATTENDED	MEETINGS ATTENDED	MEETINGS ATTENDED	MEETINGS ATTENDED
Eric Molobi	3§ •		2	2		
Peter Doyle	7	6*	3*	4	2	4
Derek Pead *(appointed 13 September 2005)*	2					
Abel Sithole	7	4*		4	4	
Preston Speckmann	7	6*			2	3
Ntuthukoyezwe Buthelezi *(resigned 13 September 2005)*	5			1		
Willie Esterhuyse	5		3	3		
Fatima Jakoet *(appointed 11 March 2005)*	4	4				
Peter Lamprecht	4	5				4
Sindisiwe Mabaso *(appointed 11 March 2005, resigned 17 October 2005)*	3	3				1
Syd Muller	6	6			4	
Bulelwa Ndamase *(appointed 11 March 2005)*	3			2		3
John Newbury	4		3	3		
JJ Njeke	5§	4				
Andile Sangqu *(alternate)*	5§					
Gloria Serobe *(resigned 28 February 2005)*						
Marius Smith	5	6			4	4
Franklin Sonn	6			3		2
Johan van Reenen	6		3		4	4

* Not a member - attends meetings

§ Due to a conflict of interests, these directors did not attend the two board meetings at which the second phase of the empowerment transaction was discussed

• Attendance limited because of illness

MEMBERS OF BOARD SUB-COMMITTEES

AUDIT & ACTUARIAL	REMUNERATION	HR & EMPOWERMENT	INVESTMENT	RISK	NOMINATIONS
CHAIRMAN					
Marius Smith	John Newbury	Eric Molobi *appointed 10.04*	Johan van Reenen *appointed 03.05*	Peter Lamprecht	Eric Molobi
MEMBERS					
Peter Lamprecht Syd Muller Fatima Jakoet *appointed 05.05* JJ Njeke Sindi Mabaso *appointed 05.05* *resigned 10.05*	Willie Esterhuyse Eric Molobi *appointed 08.04* JJ Njeke *appointed 12.04* Johan van Reenen	Zuzi Buthelezi *resigned 09.05* Peter Doyle Willie Esterhuyse John Newbury *appointed 01.05* Abel Sithole Franklin Sonn Bulelwa Ndamase *appointed 05.05*	Peter Doyle Syd Muller Abel Sithole Marius Smith Preston Speckmann	Peter Doyle Preston Speckmann Marius Smith Franklin Sonn Johan van Reenen	Peter Doyle John Newbury
EXECUTIVE DIRECTORS TO ATTEND					
Peter Doyle Abel Sithole Preston Speckmann	Peter Doyle				
MANAGEMENT ON STANDING INVITATION					
Lance Raftesath Sedick Steenkamp Justin van den Hoven Wilhelm van Zyl Jan Weers	Wiebke Lusted	Nkosinathi Chonco Wiebke Lusted	Allan Martin Mike McDougall Wilhelm van Zyl	Willem Coetzee Sedick Steenkamp Wilhelm van Zyl	

SECRETARY TO ALL COMMITTEES: Bongiwe Gobodo-Mbomvu

CURRENT EMPOWERMENT STATUS

(assessed on basis of new Financial Sector Charter requirements)

Financial Sector Charter (FSC) scorecard

As a signatory to the FSC, we at Metropolitan remain committed to the spirit and the letter of the charter, and have therefore once again completed the scorecard that forms part of this economically and socially significant document. In the belief that the scorecard clearly demonstrates the incremental nature of our progress towards successfully transforming all aspects of our business, we have incorporated it into our 2005 annual report (overleaf).

We also endorse the broad-based concepts underlying the department of trade and industry's draft codes of good practice for broad based black economic empowerment (BBBEE) and look forward to a speedy resolution of the current areas of difference between the charter and the codes.

WE ARE CURRENTLY UNDERGOING A FORMAL EVALUATION BY EMPOWERMENT RATING AGENCY EMPOWERDEX, THE RESULTS OF WHICH ARE DUE BY THE END OF APRIL 2006.

Scorecard data unverified

The scorecard is based on the amended reporting scorecard drawn up by the FSC council that was released at the end of January 2006. The data reflected in the scorecard is based on our own internal verification processes; it mirrors our positioning of our organisation from a BEE perspective and has not been externally verified. We are, however, currently undergoing a formal evaluation by empowerment rating agency Empowerdex, the results of which are due by the end of April 2006.

Comment on core scorecard components

Human resources development

Metropolitan continues to make major strides in two of the three sub-categories of human resources development, being employment equity and skills development. While we still have some way to go as regards learnerships, we moved a lot faster in 2005 than we did in 2004, and are continuing to pick up the pace in 2006.

Employment equity

In the last year we have devoted considerable time and effort to increasing the number of black women at decision-making levels within the group. Although the Financial Sector Charter does not stipulate targets for people with disabilities, we as an organisation are keen to integrate people with disabilities into our business. This has been achieved through a people with disabilities strategy that included a disability disclosure exercise as well as the setting of targets. We now have 11 people with disabilities in our employ whereas we only had one previously.

Skills development

Our focus for 2005 remained the upskilling of our sales force as pressure mounted in the run-up to the registration deadline for achieving FAIS (Financial Advisory and Intermediary Services Act) accreditation. Emphasis was also placed on the effective implementation of performance management skills at all levels across the group, an initiative that will be ongoing in 2006. This is in support of our working towards retaining our Investors in People (IiP) status. The final assessments for full IiP accreditation will be done at the end of 2006.

Learnerships

Our first intake of learnerships was successfully completed in mid 2005 and we immediately launched a second intake, this time comprising 37 unemployed learners. Our aim is still to provide the learners with a qualification that will make them employable as well as exploring all possible avenues of employment for them.

Procurement

Our procurement spend with black businesses (in terms of a broad-based assessment process) currently stands at 48%, and we are confident that we will meet and in all likelihood exceed the target of 50% by 2008. However, it must be stressed that this percentage was calculated using broad-based criteria, in line with the codes of good practice, to evaluate the overall empowerment status of suppliers and not only the ownership component as stipulated in the FSC.

Enterprise development

This has become a key area of focus for corporates, like ourselves, wanting to assist in accelerating the transformation of small, medium and micro enterprises (SMMEs). We launched the pilot phase of the programme in 2005 when we identified seven black SMMEs where capacity–building, training and mentorship programmes were introduced to assist them in achieving optimum functionality. At the same time, we identified three white-owned SMMEs that, with our assistance, would be able to develop strategies and implement strategic interventions to achieve BEE accreditation. In all instances, we believe that we will be making a substantial contribution to the sustainability of the companies concerned. The success of this pilot programme will determine the speed at which it is rolled out to additional SMMEs.

Access to financial services

Guidelines on the interpretation of effective access to financial services have now been agreed between the

Life Offices' Association (LOA) and the FSC council, and are subject only to minor clarifications and the completion of a full set of product standards.

Although 18 points were initially assigned to this category, it has been decided to subtract 4 points from the total because for the moment the life industry is not going to be evaluated in respect of savings products. Instead, life companies are to engage with other stakeholders to assist in the development of the national treasury's proposed national savings fund (NSF) for the informal sector and people with irregular income.

As a result, the maximum number of points that life companies can score in the access category is 14, with the number of points for the charter as a whole reduced to 96 (for life companies only).

Points are to be allocated as follows:

- Availability of products appropriate for the needs of individuals in LSMs 1 - 5 (subsequently defined as people earning less than R3 000 per month), known as CAT compliant products: 0.5 points per CAT compliant product, with a maximum of 2 points
- Transactional access to CAT compliant products: 1 point for each 25% of the targeted population to whom we can demonstrate we provide access, with a maximum of 3 points
- Market penetration (also called "usage") of CAT compliant products: maximum of 7 points
- Consumer education in respect of CAT compliant products: 2 points

CAT stands for fair **charges**, easy **access**, decent **terms** and denotes products that are needs-based, affordable and offer good value for money.

A company-specific target is being set for Metropolitan. Improving our penetration in the LSM 1 - 5 market, where the usage of our products is already high, will be challenging despite our wealth of expertise and experience. Not only will we have to maintain our in-force book of business but we will also have to put new CAT compliant business on the books.

By December 2005 the final targets and measurement approach for scoring had not been agreed. An estimate of our position as at that date relative to the latest version of the scorecard and preliminary targets is 7 of the 12 points.

Empowerment financing

Targeted investments by Metropolitan totalled R3.86 billion at 31 December 2005, while empowerment financing came in at R2.02 billion. Targeted investments include significant investments in infrastructure assets, both debt and equity, of some R2.1 billion. These investments performed strongly during the year, particularly the equity-related component. Metropolitan has committed to investing a further R140 million in infrastructure assets. Toward the end of the year, a R20 million investment was made in support of an empowered mining venture.

Empowerment financing is set to grow strongly in the new year, with a number of deals that were still in progress over the year-end due to be finalised. Commitments into private equity funds and other privately negotiated transactions in progress at year-end amounted to R245 million while uncalled commitments accounted for a further R160 million.

Metropolitan's Futurebuilder fund is one of the oldest socially responsible investment vehicles in the country, having been in existence since 1996. This fund houses the bulk of our equity infrastructure and BEE transactions and at year-end was valued at R920 million. It achieved an investment return of 26.6% for the calendar year 2005, and an annualised return of 27.6% over the past three years. Given the strong pipeline of new deals that are being investigated, the long-term investment return of the fund should remain above average.

Ownership and control

With the second and final phase of our strategic partnership with Kagiso Trust Investments (KTI) having been concluded, our direct black equity ownership stands at 17.8%. In addition, we have estimated indirect black equity ownership of 5% (black staff 2.9% and black policyholders 2.3%).

We understand that both our direct and indirect black ownership percentages are subject to revision once the debate around the definition of ownership has been concluded.

Corporate social investment (CSI)

We continue to devote our resources, both human and financial, to black community-based projects with a strong developmental and transformational focus. In 2005 our CSI spend of R6.1 million exceeded the FSC's target for 2008.

WITH THE SECOND AND FINAL PHASE OF OUR STRATEGIC PARTNERSHIP WITH KAGISO TRUST INVESTMENTS (KTI) HAVING BEEN CONCLUDED, OUR DIRECT BLACK EQUITY OWNERSHIP STANDS AT 17.8%.

FINANCIAL SECTOR CHARTER (FSC) SCORECARD

CORE COMPONENT OF BEE ITO FSC SCORECARD	FSC TARGET (2008/ 2010 OWNERSHIP)	METROPOLITAN'S 2005 STATUS	MAXIMUM POINTS ITO FSC SCORECARD	METROPOLITAN'S 2005 POINTS
HR DEVELOPMENT			**20**	**18.04**
Employment equity			15	15
Senior management				
Black people	20-25%	29%	4	4
Black women	4%	8%	1	1
Middle management				
Black people	30%	35%	4	4
Black women	10%	12%	1	1
Junior management				
Black people	40-45%	58%	4	4
Black women	15%	34%	1	1
Skills development			5	3.04
% spend (payroll) on black people	1.5%	1.7%	3	3
Learnerships				
% of total work force	4.5%	0.9%	2	0.4
PROCUREMENT	50%	48%	**15**	**15**
Enterprise development				
ACCESS TO FINANCIAL SERVICES			**14**	**9**
Life assurance products and services	80%	70%	12	7
Consumer education	0.2%	0.2%	2	2
EMPOWERMENT FINANCING	% of designated investment x R123.5bn	18%	**22**	**22**
Targeted investments	% of designated investment x R73.5bn		17	17
BEE transaction financing	% of share of BEE transaction financing x R50bn		5	5
OWNERSHIP AND CONTROL			**22**	**20**
Direct black ownership	10%	18%	12	12
Indirect black ownership	15%	5%	2	1
Board				
Black people	33%	50%	2	2
Black women	11%	12.5%	1	1
Executive				
Black people	25%	40%	4	4
Black women	4%	0	1	0
CORPORATE SOCIAL INVESTMENT	0.5%	1.2%	**3**	**3**
Total points				**87.04**

Note: scored out of 96 due to reduction in points for access to financial services

INTRODUCTION

HIV and AIDS are issues that face every employer in South Africa. Metropolitan was one of the most forward-looking organisations in South Africa when it recognised this business risk as long ago as 1990 and published the Doyle AIDS and demographic model. Since then Metropolitan has assisted various companies in assessing the impact of HIV and AIDS on their business.

The effect of implementing a comprehensive HIV and AIDS workplace programme in 2003 can clearly be seen, not only in the reduced AIDS mortality and AIDS morbidity at Metropolitan, but also in the savings in HIV and AIDS related costs for the group. These savings are expected to continue into the future under the current take-up rate of treatment benefits. Should the take-up rate of the disease management programme increase, further savings could be achieved.

HIV/AIDS is an internationally recognised risk for business in this country. Companies are increasingly expected to measure this risk, put strategies in place to manage and monitor it and report on their efforts. To this end Metropolitan Holdings has conducted its own internal HIV and AIDS impact assessment to assist with managing the risk to the group, as reported below.

This study provided a:

- demographic impact assessment
- financial impact assessment - the cost of employee benefits such as group life assurance as well as permanent health insurance costs
- financial impact assessment - the cost of human resources such as sick leave, productivity, recruitment and training costs as a result of AIDS sickness and death
- financial impact assessment - medical costs such as HIV and AIDS related hospitalisation and medication.

The study showed that since the introduction of the Metropolitan HIV and AIDS disease management programme in 2003, savings have been made in HIV and AIDS related costs. Even after taking into account the cost of antiretroviral treatment, the net savings for 2005 alone were R2.6 million. The study also projected that the potential net savings for 2006 could be as high as R11 million should the take-up of HIV disease management increase.

DEMOGRAPHIC IMPACT ASSESSMENT

The detailed actuarial impact assessment estimated the HIV prevalence rate for Metropolitan (percentage of employees who are HIV positive) to be 7.4% in 2005, increasing to 7.9% in 2006. This is less than the previous estimates of 9% for 2003 and 2004 that were calculated following the 2003 voluntary counselling and testing campaign (VCT). The previous estimates used a different methodology in that the results of the tested population were used to estimate the overall prevalence of the total group after allowing for a potential bias. For this impact assessment, Metropolitan's sub-population model for predicting HIV prevalence and AIDS mortality was calibrated using the death claims data from the group life assurance schemes as well as the VCT statistics from the 2003 to 2005 campaigns.

The 30 to 39 year old age group showed the highest HIV prevalence rate at 8.1% (2005) as well as the highest expected increase in HIV prevalence to 2016. The HIV prevalence rates for Metropolitan employees in different regions varied considerably, ranging from 14% in the North West province to 2% in the Western Cape (2005). The largest concentration of Metropolitan employees was in the Western Cape, with the second largest group in Gauteng where the HIV prevalence rate was 8%.

HIV AND AIDS DISEASE MANAGEMENT PROGRAMME: TAKE-UP RATE

The take-up rate of HIV benefits under the disease management programme was estimated to be 13% of the estimated number of HIV positive employees. The total take-up rate comprises those who are too early to treat (TETT) but who are receiving care and support, plus those who have commenced antiretroviral treatment (ART). It is estimated that 36% of AIDS sick employees have taken up ART. It is, however, not known whether those who are not on the Metropolitan treatment programme are accessing treatment elsewhere. Those that are too early to treat were estimated to have a much lower take-up rate of 8%.

SCENARIO MODELLING

The status quo scenario was based on the current 13% take-up rate, and demographics and financials were projected into the future using these assumptions. A no treatment scenario was also modelled for comparative purposes, which assumed no antiretroviral treatment and care. Under the effective treatment scenario it was assumed that most HIV positive employees receive care and all AIDS sick employees receive antiretroviral treatment. The difference between the no treatment scenario and the status quo scenario therefore indicates what savings have already been made under the current HIV/AIDS treatment programme. The effective treatment scenario provides an indication of potential further savings that might be possible.

THE EFFECT OF IMPLEMENTING A COMPREHENSIVE HIV AND AIDS WORKPLACE PROGRAMME IN 2003 CAN CLEARLY BE SEEN, NOT ONLY IN THE REDUCED AIDS MORTALITY AND AIDS MORBIDITY AT METROPOLITAN, BUT ALSO IN THE SAVINGS IN HIV AND AIDS RELATED COSTS FOR THE GROUP. SHOULD THE TAKE-UP RATE OF THE DISEASE MANAGEMENT PROGRAMME INCREASE, FURTHER SAVINGS COULD BE ACHIEVED.

THESE SAVINGS ARE EXPECTED TO CONTINUE INTO THE FUTURE, THEREBY PROVIDING A CLEAR BUSINESS INCENTIVE TO ENCOURAGE WIDE-SCALE PARTICIPATION IN THE METROPOLITAN HIV DISEASE MANAGEMENT PROGRAMME, AS WELL AS OTHER WORK-PLACE INTERVENTIONS SUCH AS VOLUNTARY COUNSELLING AND TESTING.

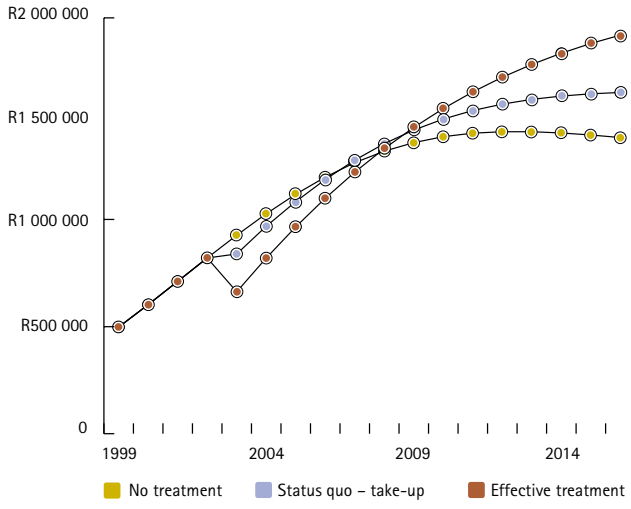
HIV PREVALENCE PROJECTIONS

Under the status quo scenario (assuming the current take-up of disease management continues), it was estimated that the HIV prevalence rate of 7% in 2005 could increase to 9% by 2016 as more employees join the Metropolitan treatment programme and fewer AIDS deaths occur. Under an effective treatment scenario, the HIV prevalence rate could, however, increase to 10% as the life expectancy of HIV positive employees increases. Longer life expectancy and better quality of life are the drivers of the reduction in HIV and AIDS related costs to a company, while giving rise to the apparent paradox of higher levels of HIV prevalence.

AIDS MORTALITY RATES

AIDS mortality seemed to have been slowed down under the status quo scenario; however, there is still considerable room for a further reduction in AIDS deaths by increasing the take-up rate of the disease management programme. Most companies in the private sector who have introduced HIV disease management programmes share this challenge. Quite a high percentage, namely 90%, of the current deaths of Metropolitan employees were estimated to be AIDS related under the status quo scenario in 2005. This percentage could be reduced to 70% under an effective treatment scenario in 2006. AIDS related deaths cannot be postponed indefinitely; however, the progression to the AIDS sick phase and to an AIDS related death can be dramatically reduced under an effective treatment scenario.

HIV RELATED SICK LEAVE COSTS



FINANCIAL IMPACT ASSESSMENT - EMPLOYEE BENEFITS

The financial impact assessment provided an indication of the savings in employee benefit costs due to a reduction in group life assurance (GLA) claims and permanent health insurance (PHI) claims. It was estimated that AIDS related GLA costs amounted to 0.6% of payroll during 2005, with a further 0.3% as a result of PHI claims. Metropolitan therefore estimated that up to 1% of payroll was spent on direct AIDS related employee benefit costs in 2005. This figure may increase to 1.4% of payroll by 2016; however, it could also be substantially lower should the take-up of disease management increase. It is estimated that effective disease management will cost an estimated 0.2% of payroll in 2006.

FINANCIAL IMPACT ASSESSMENT - HUMAN RESOURCE COSTS

The human resource costs that were incurred by Metropolitan as a result of HIV/AIDS include those associated with sick leave and absenteeism, loss in productivity, recruitment to replace employees who die of AIDS related causes and subsequent training of new staff. Although smaller than the employee benefit costs, this indirect impact of treatment on human resource costs was also measured. The study showed that in 2005 an estimated 0.57% of payroll was lost as a result of indirect HIV related human resource costs. The biggest part of this, namely 0.46%, was as a result of HIV and AIDS related sick leave and loss in productivity.

An interesting trend emerged from the projection of sick leave and productivity costs under the three different scenarios. Graph 1 shows clearly that Metropolitan only has until 2008 to reduce AIDS related sick leave costs under a treatment scenario. After 2008, employees who have taken up ART will start incurring sick leave costs, which will be more than those under a no treatment scenario. Where no treatment support is available in a workplace, fewer employees become AIDS sick later on in the epidemic due to the high numbers of AIDS deaths early on. The same observation can be made from graph 2, where it is shown that productivity losses will be smaller under the treatment scenarios until at least 2011.

FINANCIAL IMPACT ASSESSMENT - MEDICALLY RELATED COSTS

Medical costs as a result of AIDS related illnesses form a substantial part of the total HIV and AIDS related costs to Metropolitan. These costs include hospitalisation, medical care and medication. It was estimated that HIV related medical costs of 0.52% of payroll were

incurred in 2005. These costs are expected to increase to 1.2% by 2016 should the current take-up rate of HIV disease management remain unchanged. The study showed that there is huge scope for savings in medical costs under an effective treatment scenario. The net present value of potential future savings over the next 10 years can be up to R31 million.

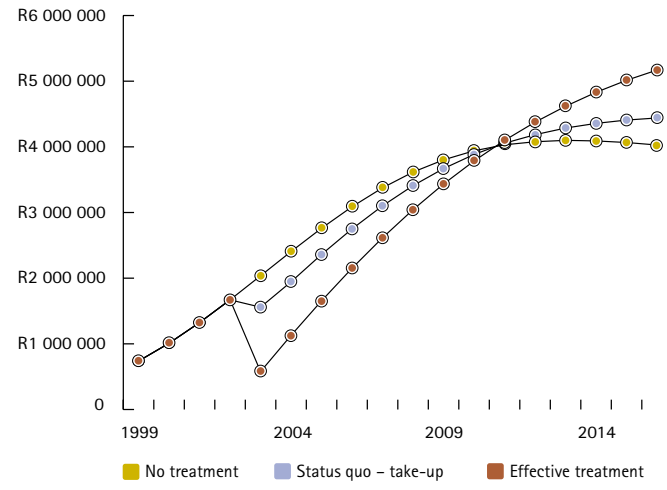
SUMMARY OF FINANCIAL IMPACT ASSESSMENTS

The impact assessment found that total HIV and AIDS related costs in 2005 were an estimated 2% of payroll. The largest component of these costs comprised the employee benefit costs, followed by the medical and human resource costs.

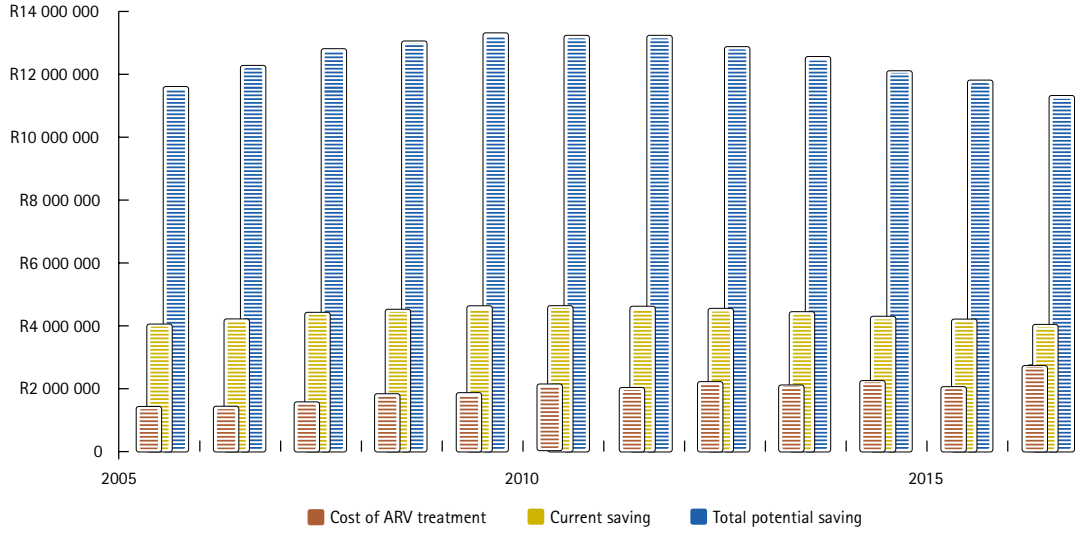
The study showed that Metropolitan has made savings in HIV related costs in 2005 as a result of the implementation of its HIV and AIDS disease management programme in 2003. The current saving, which is the difference between the no treatment and the status quo scenarios, was estimated to be R4 million for 2005. The saving for 2006 is estimated to be R4.2 million, with a further R8 million that could be saved if the take-up rate of disease management increases. After taking into account the cost of antiretroviral treatment, the net savings for 2005 were R2.6 million, as mentioned earlier.

The following graph clearly shows that the cost of ART is far less than the savings effected by introducing a workplace treatment programme. The total estimated cost of antiretroviral treatment under the effective treatment scenario was projected, taking the expected reduction in drug prices into account. A net total saving was calculated after allowing for the cost of ART. A net total saving of up to R10 million under an effective treatment scenario would have been possible in 2005 and up to R11 million in HIV and AIDS related costs could be saved in 2006. These savings are expected to continue into the future, thereby providing a clear business incentive to encourage wide-scale participation in the Metropolitan HIV disease management programme, as well as other workplace interventions such as voluntary counselling and testing.

HIV RELATED PRODUCTIVITY COSTS



TOTAL SAVINGS IN HIV AND AIDS RELATED COSTS TO METROPOLITAN



POLITAN
NGS LIMITED

METROPOLITAN ANNUAL REPORT 2005

DIRECTORS' RESPONSIBILITY AND *approval*

RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

The directors take responsibility for ensuring that these financial statements accurately and fairly represent the state of affairs of the company and of the group at the end of the financial year and the profits and losses for the year. The directors are also responsible for the accuracy and consistency of other information included in the financial statements.

To enable the directors to meet these responsibilities:

- the board is guided by the management of the group by whom the financial statements are prepared; opinions are obtained from the statutory actuaries of the life insurance companies and the external auditors of the companies.
- the board is advised by the audit and actuarial committee, comprising only non-executive directors. The committee meets regularly with the auditors, the statutory actuaries and the management of the group to ensure that adequate internal controls are maintained, and that the financial information complies with International Financial Reporting Standards. The internal and external auditors and the statutory actuaries of the companies have unrestricted access to this committee.

To the best of their knowledge and belief the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures occurred during the year under review.

The annual financial statements have been prepared in accordance with the provisions of the South African Companies Act, 1973 as amended and the Long-term Insurance Act, 1998 as amended and comply with International Financial Reporting Standards and guidelines issued by the Actuarial Society of South Africa.

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

It is the responsibility of the independent auditors to report on the financial statements. In order to do so they were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The audit report is presented on page 73.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements, presented on pages 74 to 154 and page 158, were approved by the board of directors on 14 March 2006 and are signed on its behalf by:

ERIC MOLOBI | *Group chairman*

Cape Town, 14 March 2006

PETER DOYLE | *Group chief executive*

Cape Town, 14 March 2006

CERTIFICATE BY THE COMPANY SECRETARY

In accordance with the provisions of section 268G(d) of the South African Companies Act, 1973 as amended, I certify that for the year ended 31 December 2005 the companies have lodged with the registrar of companies all such returns as are required of a company in terms of the act, and that all such returns are true, correct and up to date.

BONGIWE GOBODO-MBOMVU | *Company secretary*
Metropolitan Holdings Limited and Metropolitan Life Limited
Cape Town, 14 March 2006

REPORT OF THE INDEPENDENT AUDITORS

We have audited the annual financial statements and group annual financial statements of Metropolitan Holdings Limited and the annual financial statements of Metropolitan Life Limited for the year ended 31 December 2005, set out on pages 74 to 77 and 85 to 150. These financial statements are the responsibility of the companies' 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 fairly present, in all material respects, the financial position of the companies and of the group 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 South African Companies Act.

PRICEWATERHOUSECOOPERS INC. | *Chartered Accountants (SA); Registered Accountants and Auditors*
Cape Town, 14 March 2006

CERTIFICATE BY THE STATUTORY ACTUARIES

We hereby certify that:

- the valuations, on the statutory bases, of all the life insurance companies in the group, listed below, as at 31 December 2005, the results of which are summarised on page 84 and further explained on pages 96 to 98 and in notes 36 to 37.4 on pages 124 to 131, have been conducted in accordance with, and said commentary has been produced in accordance with, applicable Actuarial Society of South Africa Professional Guidance Notes
- the insurance companies were financially sound on the statutory basis as at the valuation date, and in our opinion are likely to remain financially sound for the foreseeable future.

JOHANNES WEERS FIA | *Statutory actuary*
Metropolitan Life Limited

MURRAY LE ROUX FIA | *Statutory actuary*
Metropolitan Life (Namibia) Limited,
Metropolitan Life of Botswana Limited
and Metropolitan Lesotho Limited

GILES WAUGH FIA | *Statutory actuary*
Metropolitan Odyssey Limited and
Metropolitan International Limited

Cape Town, 14 March 2006

The directors take pleasure in presenting their annual report, which forms part of the audited annual financial statements of the group and the company for the year ended 31 December 2005.

PRESENTATION OF FINANCIAL STATEMENTS

International Financial Reporting Standards

The consolidated balance sheet and income statement as set out on pages 85 and 86 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued and effective at the time of preparing these statements. The accounting policies of the group have been applied consistently to all the years presented, except for policies relating to the classification and measurement of financial instruments and insurance contracts. IAS32 - Financial instruments: disclosure and presentation - together with IAS39 (revised) - Financial instruments: recognition and measurement - and IFRS4 - Insurance contracts - were only applied from 1 January 2005.

The 2004 consolidated financial statements of the group were prepared in accordance with South African Generally Accepted Accounting Practice (GAAP), which differs in some areas from IFRS. The comparative figures were therefore restated to reflect the necessary adjustments. Reconciliations and descriptions of the effect of the transition from GAAP to IFRS on the group's equity and its net income and cash flows are disclosed on pages 136 to 139. The transition to IFRS had no material impact on the group's equity.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates as well as the exercise of managerial judgement in the application of the group's accounting policies. Such judgement, assumptions and estimates are disclosed on pages 124 to 126.

Annual financial statements of Metropolitan Holdings Limited and Metropolitan Life Limited

The annual financial statements of Metropolitan Life Limited, the largest operating subsidiary of the holding company, are disclosed with the Metropolitan Holdings group figures in this report. The annual financial statements of Metropolitan Holdings Limited are disclosed on pages 142 to 150.

Consolidated annual financial statements and a directors' report have not been provided for Metropolitan Life Limited as it is a wholly owned subsidiary of Metropolitan Holdings Limited. In the opinion of the directors, the consolidated financial statements of Metropolitan Holdings Limited best serve the needs of users. The registered office of Metropolitan Holdings Limited is disclosed on page 158.

NATURE OF ACTIVITIES

The Metropolitan Holdings group comprises registered life insurance and related financial services companies that transact individual life, group schemes, employee benefits and health insurance, as well as medical aid scheme administration, managed care and other related health risk management services, asset management business and collective investments in Africa.

RESULTS OF OPERATIONS

The operating results and the financial position of the company and of the group are reflected in the balance sheet, income statement, statement of changes in equity, cash flow statement, segmental report and the notes thereto.

Earnings attributable to equity holders for the year under review were R1 695 million (2004: R1 653 million restated, net of R37 million goodwill impaired). Core headline earnings were R641 million (2004: R482 million restated) and core headline earnings per share 109.39 cents (2004: 77.49 cents restated). Group core headline earnings were derived from the following businesses:

	2005		2004	
Analysis of core headline earnings	**Rm**	**%**	**Rm**	**%**
Retail business	369	57.6	259	53.7
Corporate business	167	26.0	105	21.8
International business	86	13.4	52	10.8
Health business	9	1.4	(11)	(2.3)
Shareholder capital	10	1.6	77	16.0
	641	100.0	482	100.0

The operations of the group and its major businesses are reviewed in the review of operations on pages 26 to 43.

SHARE CAPITAL

Repurchase and cancellation of shares

Under the specific buy-back authority obtained in 2005 Metropolitan Holdings Limited repurchased 41 million ordinary shares from Metropolitan Life Limited at a cost of R423 million and cancelled them. This transaction had no impact on group capital. In addition, 22 million shares were repurchased through the open market at a cost of R242 million and cancelled.

Issue of variable rate cumulative convertible redeemable preference shares

On 5 December 2005 Metropolitan Holdings Limited issued 12 700 000 A2 Metropolitan preference shares and 34 381 139 A3 Metropolitan preference shares at an issue price of R10.18 per share (par value 0.0001 cents per share) to a subsidiary of Kagiso Trust Investments (Proprietary) Limited, a broad-based empowerment consortium. These are variable rate cumulative redeemable convertible preference shares. The A2 Metropolitan preference share dividend rate is the greater of the corresponding dividend per ordinary share or 2.5% per annum. The A3 Metropolitan preference share dividend rate per annum is 72% of the ruling prime interest rate plus an initial margin of 0.5% per annum plus additional cumulative performance margins. The dividends are paid semi-annually in arrears on 31 March and 30 September each year.

Share options

The group has not issued any share options.

SHAREHOLDER DIVIDEND

Ordinary share dividend

An interim dividend of 24.00 cents per ordinary share was declared in September 2005 and paid in October 2005. On 14 March 2006 a final dividend of 39.00 cents per ordinary share was declared, payable to the holders of ordinary shares recorded in the register of the company at the close of business on Friday, 7 April 2006 and will be paid on Monday, 10 April 2006. The last day to trade "cum" dividend will be Friday, 31 March 2006. The shares will trade "ex" dividend from the commencement of business on Monday, 3 April 2006. Share certificates may not be dematerialised or rematerialised between Monday, 3 April and Friday, 7 April 2006, both days inclusive.

Staff share purchase scheme dividend

A dividend of R28 million (2004: R44 million) was declared on the unlisted shares in the staff share purchase scheme, as provided for in the trust deed.

Preference share dividend

A dividend of R23 million (9.9%) was paid on 30 September 2005 on the A1 Metropolitan preference shares issued during 2004. Dividends of R24 million (10.4%) (2004: R25 million, 9.2%), R5 million (39.00 cents per share) and R10 million (9.2%) have been declared on the A1, A2 and A3 Metropolitan preference shares respectively, payable on 31 March 2006. The declaration rate was determined as set out in the company's articles. These amounts are included under finance costs in the annual financial statements.

Secondary tax on companies (STC)

Estimated STC of R25 million is payable in respect of the total dividends declared.

DIRECTORATE AND SECRETARY

Eric Molobi was appointed chairman of the Metropolitan board with effect from 1 January 2005, replacing Gloria Tomatoe Serobe, who subsequently resigned as a non-executive director on 28 February 2005. Bulelwa Ndamase, Sindisiwe Mabaso and Fatima Jakoet were appointed as non-executive directors of the board on 11 March 2005. Derek Pead was appointed to the board as an executive director with effect from 13 September 2005. Ntuthukoyezwe Buthelezi and Sindisiwe Mabaso, both non-executive directors, resigned from the board with effect from 13 September 2005 and 17 October 2005 respectively due to other responsibilities. Detailed information regarding the directors and secretary of Metropolitan Holdings Limited is provided on page 50 in the corporate governance report. The directors of Metropolitan Life Limited are set out on page 158.

DIRECTORS' INTEREST

During the financial year the company entered into two strategic empowerment transactions with Kagiso Trust Investments (Proprietary) Limited (KTI), of which Eric Molobi, JJ Njeke and Andile Sangqu are directors. On 1 January 2005 a subsidiary of KTI acquired a 17.6% stake in Metropolitan Health Corporate (Proprietary) Limited for a consideration of R136 million. The shares issued are convertible to ordinary shares after five years and the dividend rate is the greater of 80% of the ruling prime interest rate or any ordinary dividend declared for the corresponding period, compounded annually. The dividends are payable annually in arrears on 31 March each year. R132 million of the purchase consideration was financed by Metropolitan Holdings Limited in exchange for redeemable preference shares in the subsidiary that holds the investment in Metropolitan Health Corporate (Proprietary) Limited.

On 5 December 2005 a subsidiary of KTI acquired an additional 47 081 139 preference shares in Metropolitan Holdings Limited for a consideration of R479 million. Details of the shares issued are disclosed under share capital above.

DIRECTORS' SHAREHOLDING

The aggregate direct and indirect holdings of the directors of the company at 31 December 2005 are set out below. The directors purchased these shares at ruling market prices. Executive directors participate in the staff share purchase scheme. At 31 December 2005, loans of R14 million (2004: R26 million) were owed by the executive directors to the share trust in terms of this scheme.

No shares in the scheme were allocated to executive directors during the course of the year. No other changes occurred between the financial year-end and the approval of the financial statements. The detail in terms of the listings requirements of the JSE Securities Exchange South Africa is set out on page 59 in the corporate governance report.

	Direct		Indirect		Total	Total
	Beneficial '000	Non-beneficial '000	Beneficial '000	Non-beneficial '000	2005 '000	2004 '000
Listed						
Executive directors	229			778	1 007	842
Non-executive directors	54	50	315		419	245
Unlisted						
(Share purchase scheme)						
Executive directors	2 247				2 247	3 296
	2 530	50	315	778	3 673	4 383

DIRECTORS' EMOLUMENTS

The executive directors have standard employment contracts with the company or its subsidiaries. There are no additional costs to the group. The aggregate remuneration of the directors is set out below. The detail in terms of the listings requirements of the JSE Securities Exchange South Africa is set out on page 61 in the corporate governance report.

	Fees R'000	Annual package R'000	Bonus R'000	Pension fund contribution R'000	Total 2005 R'000	Total 2004 R'000
Executive		5 939	4 100	996	11 035	7 708
Non-executive	3 974				3 974	2 870
Total	3 974	5 939	4 100	996	15 009	10 578

During 2004 the chairman was also entitled to a company car with a benefit value of R109 669.

SPECIAL RESOLUTIONS

General meeting – 22 November 2005

At a general meeting of shareholders of Metropolitan Holdings Limited held on 22 November 2005 the following special resolutions were approved:

Authorised share capital increased

The authorised share capital of Metropolitan Holdings Limited was increased by the creation of 12 700 000 A2 and 40 000 000 A3 variable rate cumulative convertible redeemable preference shares of 0.0001 cents each. The articles of association of the company were amended by the addition of new articles 136 and 137 setting out the terms and conditions attaching to these shares.

Change in the name of "Met prefs"

The "Met prefs" referred to in article 135 were renamed "A1 Met prefs".

Annual general meeting – 18 May 2005

At the annual general meeting of shareholders of Metropolitan Holdings Limited held on 18 May 2005 the following special resolutions were approved:

General approval for a share buy-back

The board of directors was authorised, by way of a general approval given in terms of section 85(2) of the South African Companies Act, 1973 as amended, to enable the company or a subsidiary company to acquire up to a maximum of 20% of its own issued share capital, or 10% of its holding company's issued share capital. Such authority is to remain valid until the company's next annual general meeting, but not beyond a period of 15 months after the date of the approval.

Specific approval of share buy-back

The board of directors was authorised, by way of a general approval in terms of section 85 of the South African Companies Act, 1973 as amended, to repurchase, at a price equal to the volume weighted average traded price of the ordinary shares of Metropolitan Holdings Limited on the JSE Securities Exchange South Africa over the 30 day period ending on the day of the meeting, the 40 690 146 treasury shares held by its wholly owned subsidiary, Metropolitan Life Limited.

CORPORATE TRANSACTIONS

Metropolitan Life (Namibia) Limited – integration of Channel Life Namibia Limited

On 7 November 2005 the Namibian High Court sanctioned the transfer of the Channel Life Namibia Limited long-term insurance business to Metropolitan Life (Namibia) Limited with effect from 1 January 2005. Metropolitan Life (Namibia) Limited purchased 100% of Channel Life Namibia Limited on 17 December 2004.

Metropolitan Health Group

Metropolitan Health Corporate (Proprietary) Limited and KTI entered into an empowerment partnership in terms of which KTI acquired a direct shareholding of 17.6% in Metropolitan Health Corporate (Proprietary) Limited with effect from 1 January 2005.

International expansion

During 2005 the group set up an insurance operation in Kenya at a start-up cost of 72 million Kenyan shillings (R6 million). Other opportunities are being investigated.

Metropolitan Card Operations (Proprietary) Limited

The group introduced a banking product, the Metropolitan Goal Card, in 2005 that consists of a hybrid debit card incorporating an unsecured loan and additional financial product options. During the three month pilot phase that ran from September to December 2005 the group advanced loans totalling R30 million and checked card functionality.

Settlement between the South African life industry and national treasury

In December 2005 an industry-wide agreement, known as the statement of intent, was reached with national treasury. In terms of this mutually agreed settlement, minimum values are to be paid on both retirement annuity and endowment policies if premium payments are reduced or stopped early for any reason. The effect of the settlement is to increase contract holder benefits by R175 million, decreasing embedded value by R124 million and earnings by R101 million.

POST BALANCE SHEET EVENTS

At the board meeting on 14 March 2006 the directors announced a capital reduction of 100 cents per share that will be payable in April 2006. This transaction will result in a decrease of net assets of R642 million.

No other material post balance sheet events occurred between the balance sheet date and the date of approval of the annual financial statements.

DEFINITION OF EMBEDDED VALUE

This report sets out the fully diluted embedded value, taking into account all shares issued, and the value of new business of Metropolitan Holdings Limited and its subsidiaries. An embedded value represents the discounted value of expected after-tax future profits from the current business. The embedded value is defined as:

- the shareholder net assets, adjusted to fair value
- plus the value of in-force business after allowing for the cost of capital in respect of the in-force business.

EMBEDDED VALUE RESULTS

Embedded value	2005 Rm	**2004 Rm**
Statutory excess – long-term insurance as per actuarial statement	6 109	5 327
Adjustments for	349	178
Asset management	191	140
Health business	405	290
Holding company expenses	(247)	(252)
Adjustments to statutory excess	1 563	636
Net assets - other businesses	157	(185)
Staff share scheme shares	313	460
Liability - convertible redeemable preference shares	945	469
Treasury shares held on behalf of contract holders	258	
Goodwill	(110)	(108)
Adjusted net asset value	8 021	6 141
Net value of in-force business	3 447	2 915
Individual life	2 776	2 288
Gross value of in-force business	2 913	2 444
Less: Cost of capital	(137)	(156)
Employee benefits	671	627
Gross value of in-force business	736	714
Less: Cost of capital	(65)	(87)
Fully diluted embedded value	11 468	9 056
Fully diluted embedded value per share (cents)	1 499	1 225
Fully diluted adjusted net asset value per share (cents)	1 049	831
Number of shares in issue (million)	765	739

The holding company expenses reflect the present value of projected recurring expenses of that company.

The adjustment for goodwill is goodwill arising on acquisition, less amounts impaired to date, in respect of Metropolitan Holdings Limited and its subsidiaries.

Value of long-term insurance new business	2005 Rm	2004 Rm
Retail business	100	135
Gross value of new business	107	140
Less: Cost of capital	(7)	(5)
Corporate business	6	54
Gross value of new business	7	67
Less: Cost of capital	(1)	(13)
International business*	28	16
Gross value of new business	33	20
Less: Cost of capital	(5)	(4)
Total value of long-term insurance new business	134	205

** Net of outside shareholders*

New business premiums		
Recurring premiums		
Retail business	732	762
Corporate business	80	448
International business*	105	101
	917	1 311
Single premiums		
Retail business	1 369	1 258
Corporate business	545	1 059
International business*	174	210
	2 088	2 527
Annual premium equivalent (APE)	1 126	1 564
Retail business	869	888
Corporate business	135	554
International business*	122	122
Present value premiums (PVP)	6 144	
Retail business	4 444	
Corporate business	1 056	
International business*	644	

** Net of outside shareholders*

The value of new business shows the embedded value added as a result of writing new business. The value of new business is calculated as the present value (at point of sale) of the projected after-tax profits of the new business sold during the financial year after allowing for the cost of capital required in respect of the business written.

Profitability of new business	Margin as a % of APE 2005	2004	Margin as a % of PVP 2005
Retail business	11.5	15.2	2.3
Corporate business	4.3	9.7	0.5
International business	22.5	13.1	4.3

Value of new business – other businesses	2005 Rm	2004 Rm
Asset management	22	11
Health business	76	173

CHANGES IN BASES AND ASSUMPTIONS

Metropolitan Holdings continuously reviews its embedded value methodologies to align them with evolving practice and to ensure consistency with other life insurers.

ASSUMPTIONS

The main assumptions used in the embedded value calculations are described below.

Economic

	2005 % per annum	2004 % per annum
Risk discount rate	10.0	10.8
Investment returns (before tax) - smoothed bonus	8.9	9.7
Expense inflation rate	4.3	5.0

The investment return assumption was determined with reference to the market interest rate on South African government stocks at the valuation date. The expected long-term asset distribution was used to calculate a weighted expected investment return by adding the following premiums/(discounts) to the market interest rate of 7.5% per annum (2004: 8.3%) on South African government stock as at 31 December 2005.

	% premium/ (discount) per annum	Gross return (% per annum) 2005	Gross return (% per annum) 2004
Equities	2.0	9.5	10.3
Properties	2.0	9.5	10.3
Government stock	-	7.5	8.3
Cash	(2.0)	5.5	6.3

Non-economic

The embedded value calculation uses the same best estimate assumptions with respect to future experience as those used in the financial soundness valuation.

The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business. The value of new business excludes premium increases during the current year resulting from premium indexation arrangements in respect of in-force business, but includes the expected value of future premium increases in respect of new policies written during the current financial year.

Secondary tax on companies (STC) was allowed for at a rate of 5% (2004: 7%) of the value of in-force business.

IMPACT OF CHANGES IN ASSUMPTIONS ON EMBEDDED VALUE

Economic assumption changes

Reducing the risk discount rate, future investment return assumptions and future inflation assumptions had the combined effect of an increase in the embedded value of R37 million.

Operating assumption changes

Adjusting the operating assumptions in the embedded value models resulted in an increase in the embedded value of R283 million. The operating assumption changes with the most significant impact were:

- improvement to mortality assumptions
- reduction in cost of capital
- reduction in long-term STC rate
- improvement of paid-up and partial surrender rates
- increase in the likely take-up rate of future premium escalation options
- reduction in the shareholder tax rate
- a worsening of the expected future renewal expenses in employee benefits (negative impact).

Impact of operating experience variance items on the embedded value

The positive operating experience variance from the non-life companies is mainly a result of an improved view on future fee income relative to the expected expense levels.

The most significant contributors to the operating experience variance of the long-term insurance business were:

- improvement in mortality experience
- higher than expected investment returns on miscellaneous reserves
- higher than expected employee benefits withdrawals (negative impact)

VALUATION OF OTHER BUSINESSES

	Net asset value as per balance sheet Rm	Write-up to fair value Rm	Embedded value Rm
Asset management	65	191	256
Health business	82	405	487

SENSITIVITY OF THE IN-FORCE VALUE AND THE VALUE OF NEW BUSINESS

This section illustrates the effect of different assumptions on the net worth, the value of in-force business, the value of new business and the cost of capital. For each sensitivity illustrated, all other assumptions have been left unchanged and, with the exception of the first two sensitivities and the "1% reduction in gross investment return" sensitivity, the central risk discount rate has been used.

The table below shows the impact on the embedded value (net worth, value of in-force and cost of capital at risk) and value of new business (gross and net of the cost of capital risk) of a 1% change in the risk discount rate. It also shows the impact of independent changes in a range of other experience assumptions. The effect of an equivalent improvement in these experience assumptions would be to increase the base values by a percentage approximately equal to the reductions shown below.

		IN-FORCE BUSINESS			NEW BUSINESS WRITTEN			
	Net worth Rm	Net value Rm	Gross value Rm	Cost of CAR Rm	Net value Rm	Gross value Rm	Cost of CAR Rm	Notes
Base value	6 109	3 447	3 649	(202)	134	147	(13)	
1% increase in risk discount rate		3 140	3 453	(313)	113	132	(19)	(i)
% change		(9)	(5)	55	(16)	(10)	42	
1% reduction in risk discount rate		3 827	3 901	(74)	158	165	(7)	(i)
% change		11	7	(64)	18	12	(47)	
10% increase in future expenses		3 241	3 443	(202)	115	128	(13)	(ii)
% change		(6)	(6)	–	(14)	(13)	–	
10% increase in policy discontinuance		3 385	3 587	(202)	102	115	(13)	
% change		(2)	(2)	–	(24)	(22)	–	
10% increase in mortality and morbidity		3 143	3 345	(202)	67	80	(13)	(iii)
% change		(9)	(8)	–	(50)	(46)	–	
1% reduction in gross investment return	6 110	3 407	3 624	(217)	139	152	(13)	(iv)
% change	–	(1)	(1)	7	3	3	–	
10% fall in market value of assets	6 078	3 348	3 550	(202)				
% change	(1)	(3)	(3)	–				
10% reduction in premium indexation take-up rate		3 316	3 518	(202)	127	140	(13)	
% change		(4)	(4)	–	(6)	(5)	–	
10% increase in non-commission related acquisition expenses					110	123	(13)	
% change					(18)	(16)	–	

Notes

(i) The risk discount rate appropriate to an investor depends on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future profits of Metropolitan Holdings and its subsidiaries.

(ii) No corresponding changes in variable policy charges are assumed, although in practice it is likely that variable charges will be modified according to circumstances.

(iii) Mortality decreases by 10% for annuities; mortality and morbidity increase by 10% for assurance.

(iv) Bonus rates are assumed to change commensurately.

(v) The change in the value of cost of CAR is disclosed as nil where the sensitivity test results in an insignificant change in the value.

ANALYSIS OF CHANGE IN GROUP EMBEDDED VALUE

The table below summarises the analysis of the change in group embedded value over the 2005 financial year.

	Other businesses	Long-term insurance business		Total 2005	Total 2004
		NAV	VoIF		
	Rm	Rm	Rm	Rm	Rm
Profit from new business	103		140	243	401
Point of sale	98		134	232	389
Expected return to end of year	5		6	11	12
Profit from existing business	63	596	(4)	655	827
Expected return - unwinding of RDR	22	–	334	356	300
Expected (or actual) net of tax profit transfer to net worth	–	371	(371)	–	–
Operating experience variances	25	190	(75)	140	109
Operating assumption changes	16	136	131	283	193
LOA statement of intent		(101)	(23)	(124)	
90:10 fund amalgamation					225
Embedded value profit from operations	166	596	136	898	1 228
Investment return on net worth	65	993	–	1 058	777
Investment variances	31	66	359	456	140
Economic assumption changes	1	4	32	37	111
Exchange rate movements	–	(13)	–	(13)	(17)
Total embedded value profit	263	1 646	527	2 436	2 239
Changes in share capital	(246)	4		(242)	(917)
Dividend paid	605	(931)		(326)	(290)
Staff scheme shares	55			55	23
Redeemable preference shares	481			481	464
Finance costs - preference shares	(53)			(53)	(13)
Movements in other reserves	(2)	63		61	
Increase in embedded value	1 103	782	527	2 412	1 506
Return on embedded value (%)				26.9	29.6

Notes

(i) Changes in operating (non-economic) assumptions represent the changes in mortality, morbidity, withdrawal and expense assumptions.

(ii) Investment return on net worth represents the actual return on shareholder net assets (excluding the write-up on subsidiaries).

(iii) Changes in economic assumptions represent the changes in the risk discount rate, future investment return and inflation assumptions.

REVIEW BY THE INDEPENDENT ACTUARIES

Deloitte & Touche have reviewed the results, methodology and assumptions underlying the calculation of the embedded value and the value of new business. Based on the information supplied to them by Metropolitan, they are satisfied that the methodology and assumptions:

- are appropriate for the purpose of including the embedded value in this report
- have been determined in accordance with generally accepted actuarial principles and in accordance with guidance note PGN107 of the Actuarial Society of South Africa
- have been applied consistently across the different business units
- have been applied consistently over the year.

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND *liabilities*

AT 31 DECEMBER 2005

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
REPORTING BASIS				
Total assets as per balance sheet	53 391	44 587	44 472	37 607
Actuarial value of policy liabilities	(42 855)	(35 612)	(37 129)	(31 212)
Other liabilities per balance sheet	(3 770)	(3 434)	(2 140)	(1 748)
Minority interest per balance sheet	(465)	(359)		
Excess – group	6 301	5 182	5 203	4 647
Net assets - other businesses	(157)	185		
Excess – long-term insurance business*	6 144	5 367	5 203	4 647

	INSURANCE BUSINESS*		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
Change in excess – long-term insurance business*	777	672	556	344
Increase in share capital	(5)	(113)	–	–
Exchange differences	17	9		
Change in other reserves	(63)	(6)	(61)	(5)
Dividend paid	932	475	876	470
Release from 90:10 fund		661		661
Total surplus arising	1 658	1 698	1 371	1 470
Analysis of surplus arising				
Operating profit	589	326	465	257
Investment income on excess	179	164	110	129
Capital appreciation on excess	836	639	725	562
Investment variances#	66	25	64	25
Basis and other changes	102	249	115	202
Other adjustments	(13)		(13)	
LOA statement of intent	(101)		(95)	
Shareholder share of 90:10 fund		295		295
Total surplus arising	1 658	1 698	1 371	1 470
Net consolidation adjustments	(128)	(184)		
Income tax expense	413	305	384	276
Adjustment for other expenses and profit of associates	(6)	(1)	–	2
Results of long-term insurance business*	1 937	1 818	1 755	1 748
Results of other businesses	427	253		
Results of operations per income statement	2 364	2 071	1 755	1 748
STATUTORY BASIS				
Reporting excess – group	6 301	5 182	5 203	4 647
Disallowed assets in terms of FSB requirements	(35)	(40)	(34)	(40)
Net assets - other businesses	(157)	185		
Statutory excess – long-term insurance business	6 109	5 327	5 169	4 607
Capital adequacy requirement (CAR) (Rm)	1 426	1 536	1 124	1 298
Ratio of long-term insurance business excess to CAR (times)	4.3	3.4	4.6	3.5

* The long-term insurance business includes both insurance and investment contract business and is the simple aggregate of all the life insurance companies in the group. It includes minority interests and other items, which are eliminated on consolidation. It excludes non-insurance business.

\# Investment variances reflect the impact of actual investment returns on the value of future expense recoveries.

BALANCE *sheet*

AT 31 DECEMBER 2005

	GROUP		METROPOLITAN LIFE LTD		
	2005 Rm	2004 Rm	2005 Rm	2004 Rm	Notes
ASSETS					
Property, plant and equipment	549	445	396	311	1
Investment property	2 255	1 875	1 351	842	2
Intangible assets	404	406	104	124	3
Interest in subsidiary companies			530	333	4
Investment in associates	7	8			5
Financial instruments					
Equity securities					6
- available-for-sale		25 416		21 654	
- fair value through income	29 019		24 584		
Debt securities					6
- available-for-sale		9 881		8 917	
- fair value through income	11 925		10 226		
Loans and receivables	2 422	2 340	2 455	2 939	7
Derivative financial instruments	99	117	59	117	8
Deferred income tax	4	6	–	–	9
Reinsurance contracts	181		139		10
Cash and cash equivalents	6 526	4 093	4 628	2 370	11
Total assets	53 391	44 587	44 472	37 607	
EQUITY					
Capital and reserves	6 301	5 182	5 203	4 647	
Share capital	559	870	624	624	12
Other reserves	428	367	423	362	13
Retained earnings	5 314	3 945	4 156	3 661	
Minority interest	465	359			
Total equity	6 766	5 541	5 203	4 647	
LIABILITIES					
Insurance contracts	25 496	35 612	20 695	31 212	14
Financial instruments					
Investment contracts					15
- with discretionary participation features	9 905		9 519		
- at fair value through income	7 454		6 915		
Borrowings	957	477	3	6	16
Derivative financial instruments	307	125	306	125	8
Employee benefit obligations	225	182	93	100	17
Deferred income tax	296	154	196	91	9
Other payables	1 703	2 394	1 335	1 359	19
Current income tax liabilities	282	102	207	67	20
Total liabilities	46 625	39 046	39 269	32 960	
Total equity and liabilities	53 391	44 587	44 472	37 607	

INCOME *statement*

FOR THE YEAR ENDED 31 DECEMBER 2005

	GROUP		METROPOLITAN LIFE LTD		
	2005 Rm	2004 Rm	2005 Rm	2004 Rm	Notes
Insurance premiums	7 027	8 036	5 238	6 209	
Insurance premiums ceded to reinsurers	(371)	(282)	(279)	(233)	
Net insurance premiums	6 656	7 754	4 959	5 976	21
Fee income					
Investment contracts	40		26		22
Administration business	561	368			22
Investment income	1 912	1 974	1 503	1 697	23
Net realised gains	2 413	1 372	2 046	1 338	24
Net fair value gains	6 166	3 640	5 373	3 183	25
Net income	17 748	15 108	13 907	12 194	
Insurance benefits and claims	6 640	5 825	5 748	5 104	
Insurance claims recovered from reinsurers	(229)	(140)	(182)	(103)	
Net insurance benefits and claims	6 411	5 685	5 566	5 001	26
Change in insurance contract provisions	5 459	5 215	4 211	4 063	14
LOA statement of intent	101		95		
Change in investment contract provisions	955		909		
Change in reinsurance provisions	(13)		(12)		10
Amortisation and impairment of intangible assets	54	85	39	108	3
Expenses for marketing and administration	1 555	1 305	741	715	27
Sales remuneration	862	747	603	559	
Expenses	15 384	13 037	12 152	10 446	
Results of operations	2 364	2 071	1 755	1 748	
Finance costs	(54)	(16)	–	(2)	28
Share of profit of associates	6	4			
Profit before tax	2 316	2 059	1 755	1 746	
Income tax expenses	(573)	(381)	(384)	(276)	20
Earnings for year	1 743	1 678	1 371	1 470	
Attributable to:					
Equity holders of group	1 695	1 653	1 371	1 470	
Minority interest	48	25			
	1 743	1 678	1 371	1 470	

STATEMENT OF CHANGES IN *equity*

FOR THE YEAR ENDED 31 DECEMBER 2005

	GROUP					
	Share capital Rm	Retained earnings Rm	Other reserves Rm	Minority interest Rm	Total Rm	Notes
Balance at 1 January 2004	1 781	2 877	70	346	5 074	
Total recognised income		1 653	(8)	23	1 668	
Earnings for year		1 653		25	1 678	
Foreign currency translation difference			(8)	(2)	(10)	13
Employee share scheme - value of services provided			10		10	13
Dividend paid		(290)		(1)	(291)	
Shares repurchased and cancelled	(295)				(295)	
Staff scheme shares reversed	(8)				(8)	
Capital reduction	(608)				(608)	
Net change in minority interest				(9)	(9)	
Distribution from 90:10 fund		(295)	295		–	
Balance at 31 December 2004	**870**	**3 945**	**367**	**359**	**5 541**	
First time implementation of IFRS4 and IAS39 (revised)						
Opening deferred acquisition costs and deferred revenue liabilities		**(11)**			**(11)**	
Treasury shares held on behalf of contract holders	**(198)**	**(19)**			**(217)**	12
Balance at 1 January 2005	672	3 915	367	359	5 313	
Total recognised income		1 695	51	44	1 790	
Earnings for year		1 695		48	1 743	
Earnings directly accounted in equity			61		61	13
Foreign currency translation difference			(10)	(4)	(14)	13
Employee share scheme - value of services provided			10	1	11	13
Dividend paid		(296)		(1)	(297)	
Net change in minority interest				62	62	
Staff scheme shares reversed	53				53	
Shares repurchased and cancelled	(242)				(242)	
Treasury shares held on behalf of contract holders	76				76	12
Balance at 31 December 2005	559	5 314	428	465	6 766	

	METROPOLITAN LIFE LTD				
	Share capital Rm	Retained earnings Rm	Other reserves Rm	Total Rm	Notes
Balance at 1 January 2004	624	2 956	62	3 642	
Earnings for year		1 470		1 470	
Employee share scheme - value of services provided			5	5	13
Distribution from 90:10 fund		(295)	295	-	13
Dividend paid		(470)		(470)	
Balance at 31 December 2004	**624**	**3 661**	**362**	**4 647**	
First time implementation of IFRS4 and IAS39 (revised)					
Opening deferred acquisition costs		**7**		**7**	
Opening deferred revenue liabilities		**(7)**		**(7)**	
Balance at 1 January 2005	624	3 661	362	4 647	
Total recognised income		1 371	56	1 427	
Earnings for year		1 371		1 371	
Earnings directly accounted in equity			56	56	13
Employee share scheme - value of services provided			5	5	13
Dividend paid		(876)		(876)	
Balance at 31 December 2005	624	4 156	423	5 203	

SEGMENTAL *report*

FOR THE YEAR ENDED 31 DECEMBER 2005

	Retail		Corporate		Health	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm	2005 Rm	2004 Rm
BALANCE SHEET						
Investment assets	23 640	18 818	16 673	14 728		
Intangible assets - goodwill	30	30	10	10	12	12
Other operating assets	790	804	327	140	387	271
Deferred tax					4	4
Total assets	24 460	19 652	17 010	14 878	403	287
Contract holder liabilities	23 599	19 028	16 422	14 313		
Borrowings						
Other payables	831	594	513	501	195	114
Deferred tax				1	1	
Total liabilities	24 430	19 622	16 935	14 815	196	114
INCOME STATEMENT						
Revenue						
Net insurance premiums	3 804	4 482	1 981	2 379		
Fee income						
Investment contracts	5		21			
Administration business			47	33	513	335
Inter-segmental fee income			103	78		
Investment return	4 603	3 199	3 828	2 452	6	5
Net income*	8 412	7 681	5 980	4 942	519	340
Results of operations*	525	385	233	164	49	10
Share of profit of associates						
Earnings - equity holders*	369	259	167	105	9	(11)
Core headline earnings	369	259	167	105	9	(11)
Depreciation, amortisation and impairment charges	–	–	1	2	32	28

* International includes investment return

International		Shareholder capital		Consolidation adjustments		Total	
2005 Rm	2004 Rm	2005 Rm	2004 Rm	2005 Rm	2004 Rm	2005 Rm	2004 Rm
3 443	2 773	6 475	6 792	48	291	50 279	43 402
				96	96	148	148
413	312	2 514	1 621	(1 471)	(2 117)	2 960	1 031
			2			4	6
3 856	3 085	8 989	8 415	(1 327)	(1 730)	53 391	44 587
2 834	2 271					42 855	35 612
5	1	952	476			957	477
218	244	744	1 440	16	(90)	2 517	2 803
		295	153			296	154
3 057	2 516	1 991	2 069	16	(90)	46 625	39 046
871	893					6 656	7 754
14						40	
		1				561	368
				(103)	(78)	-	-
643	372	2 265	1 216	(854)	(258)	10 491	6 986
1 528	1 265	2 266	1 216	(957)	(336)	17 748	15 108
254	166	1 483	1 608	(180)	(262)	2 364	2 071
6	4					6	4
208	138	1 128	1 427	(186)	(265)	1 695	1 653
86	52	10	77			641	482
9	6	72	116	(5)	(15)	109	137

CASH FLOW *statement*

FOR THE YEAR ENDED 31 DECEMBER 2005

	GROUP		METROPOLITAN LIFE LTD		
	2005 Rm	2004 Rm	2005 Rm	2004 Rm	Notes
Cash flow from operating activities					
Cash generated by operations	3 600	577	3 300	179	30.1
Income tax paid	(272)	(249)	(158)	(190)	30.2
Interest paid	(48)	(4)	–	(2)	30.3
Net cash in/(out)flow from operating activities	3 280	324	3 142	(13)	
Cash flow from investing activities					
Additional interest acquired in subsidiary	(5)	–			31.1
Adjustment to cost of business combination	–	(33)	–	(34)	31.2
Acquisition of subsidiary - net of cash received	–	65			31.3
Disposal of business	–	–	–	(72)	31.4
Disposal of associate	3	–			
Purchases of property, plant and equipment	(63)	(54)	(9)	(14)	
Purchases of intangible assets	(25)	(21)	(3)	(45)	
Net cash outflow from investing activities	(90)	(43)	(12)	(165)	
Cash flow from financing activities					
Proceeds from preference share issue - net of costs	471	534			
Shares repurchased and cancelled	(242)	(295)			
Finance leases repaid	(4)	(3)	(3)	(3)	
Dividends paid to equity holders	(296)	(290)	(876)	(470)	
Dividends paid to minority interest holders	(1)	(1)			
Reduction of capital paid on ordinary and preference shares	(684)	–			
Net cash outflow from financing activities	(756)	(55)	(879)	(473)	
Net cash flow	2 434	226	2 251	(651)	
Exchange (losses)/gains on cash resources	(1)	(36)	7	(29)	
Cash resources and funds on deposit at beginning	4 093	3 903	2 370	3 050	
Cash resources and funds on deposit at end	6 526	4 093	4 628	2 370	11

GROUP ACCOUNTING *policies*

BASIS OF PREPARATION OF THE STATEMENTS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued and effective at the time of preparing these statements. These statements have been prepared on the historical cost basis, modified by the revaluation of owner-occupied properties, investment property, financial assets and liabilities, and valuation of insurance contracts, valued on the financial soundness valuation basis, as set out in professional guidance note 104 issued by the Actuarial Society of South Africa. IFRS1 - First-time adoption of IFRS - has been applied to establish the financial position and results of operations of the group necessary to provide the comparative financial information for inclusion in the group's first set of IFRS financial statements for the year ended 31 December 2005.

The group has made use of the exemptions available under IFRS1 from full retrospective application of the following statements: IAS32 – Financial instruments: disclosure and presentation, IAS39 (revised) – Financial instruments: recognition and measurement and IFRS4 – Insurance contracts. The accounting policies applied to financial instruments and insurance contracts for the statements disclosed above remain unchanged from those applied at 31 December 2004. Details and reconciliations of the transition from Generally Accepted Accounting Practice in South Africa (SA GAAP) to IFRS are disclosed in note 39.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the group's accounting policies. There are areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements. These judgements, assumptions and estimates are disclosed in the notes to the annual financial statements.

CONSOLIDATION

Subsidiaries

Subsidiaries, including collective investment schemes and special purpose entities, are consolidated from the date on which effective control is transferred to the group, and are no longer consolidated from the date that control ceases. The group has effective control where it has the power to govern the financial and operating policies generally accompanying an interest equivalent to more than one half of the voting rights. All subsidiaries have financial years ending on 31 December and are consolidated to that date. The accounting policies for subsidiaries are consistent, in all material respects, with the policies adopted by the group. All intra-group balances and unrealised surpluses and deficits on transactions between group companies are eliminated.

Initial measurement

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities incurred at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the identifiable net assets and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Measurement - Metropolitan Holdings Limited

Subsidiary companies are stated at cost, including goodwill, less any impairment.

Subsequent measurement - Metropolitan Life Limited

Subsidiary companies are stated at fair value of the underlying net identifiable assets valued in accordance with these policies. Net identifiable assets include properties and financial liabilities. Changes in the valuation are shown in the income statement in the period in which they occur.

Impairment - Metropolitan Holdings Limited and Metropolitan Life Limited

The impairment tests are detailed under the section relating to financial assets.

Transactions with minorities

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Associates

Investments in associates are accounted for using the equity method of accounting. The equity method is discontinued from the date that the group ceases to have significant influence over the associate. Under this method, the group's share of the post-acquisition profits or losses of associates has been recognised in the income statement and its share of post-acquisition movements in reserves has been recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investments. The accounting policies for associates are consistent, in all material respects, with the policies adopted by the group. Profits and losses resulting from transactions between group companies are recognised in the group's results to the extent of the group's unrelated interests in the associates.

Measurement

Investments in associated companies are stated at cost, including goodwill, and the carrying amount is increased or decreased with the group's proportionate share of post-acquisition profits or losses, using the equity method of accounting.

Impairment

Under the equity method, the carrying value is tested for impairment at reporting dates by comparing the recoverable amount with the carrying amount. When the group's share of losses in an associate equals or exceeds its interest in the associate, no further losses are recognised, unless the company has incurred obligations or made payments on behalf of the associate.

FOREIGN CURRENCIES

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary assets, measured at fair value through income, are recognised as part of their fair value gain or loss. Translation differences on non-monetary items, such as available-for-sale financial assets, are included in the fair value reserve in equity.

Subsidiary undertakings

Foreign entities are entities of the group that have a functional currency different from the presentation currency. Assets and liabilities of these entities are translated into the presentation currency at the rates of exchange ruling at the reporting date. Income and expenditure are translated into the presentation currency at the average rate of exchange for the year.

Exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in equity. On disposal, such exchange differences are recognised in the income statement as part of net realised gains on financial assets.

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

PROPERTY, PLANT AND EQUIPMENT

Owner-occupied properties

Owner-occupied properties are held for use in the supply of services or for administrative purposes. Where the group occupies a significant portion of the property, it is classified as owner-occupied.

Measurement

Owner-occupied properties are stated at revalued amounts, being fair value reflective of market conditions at the reporting date less subsequent accumulated depreciation.

Fair value is determined as being the present value of net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. All significant properties are valued externally, in a three-year cycle, to confirm the fair value of the portfolio. The remaining properties are valued internally.

Increases in the carrying amount arising on revaluation of buildings are credited to a land and building revaluation reserve in equity. Decreases that offset previous increases in respect of the same asset are charged against the revaluation reserve, and all other decreases are charged to the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

Owner-occupied property buildings are depreciated over their estimated useful lives, not exceeding 50 years, on the straight-line basis to allocate their revalued amounts to their residual values. Land is not depreciated. The residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

Accumulated depreciation relating to these properties is eliminated against the gross carrying amount of the properties and the net amount is restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and the amount which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised.

Shadow accounting

Shadow accounting is permitted if there is a contractual link between payments to contract holders and the carrying amounts of, or returns from, owner-occupied properties. As the revaluation model is used for owner-occupied properties, the changes in the carrying amounts of the owner-occupied properties are recognised in a revaluation reserve in equity. The group applies shadow accounting where the changes in the measurement of the insurance liability resulting from revaluations of property are recognised in the revaluation reserve.

Gains and losses

When owner-occupied properties are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Properties under development

Properties under development are properties under construction that are not yet available to earn rentals for use in the supply of services or for administrative purposes.

Measurement

Properties under development are measured at cost directly attributable to the development of these properties.

Impairment

Properties under development are reviewed for impairment losses whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the cost of the asset capitalised to date exceeds the

recoverable amount, which is the discounted net value of assumed future rentals.

Plant and equipment

Measurement

Plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

All assets are depreciated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

Plant	10 - 20 years
Furniture and fittings	5 years
Computer equipment	3 - 5 years
Motor vehicles	6 years

The residual values and useful lives of the assets are reviewed at each reporting date and adjusted if appropriate.

Gains and losses on disposal of assets are determined by comparing proceeds with carrying amounts and are included in the income statement.

Impairment

Plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, the latter being the higher of the net selling price of the asset and its value in use.

INVESTMENT PROPERTY

Completed properties

Investment properties are held to earn rentals or for capital appreciation or both and are not occupied by the companies of the group.

Measurement

Investment properties comprise freehold land and buildings and are carried at fair value, reflective of market conditions at the reporting date. Fair value is determined as being the present value of net rental income, discounted for the different types of properties at the market rates applicable at the reporting date. Selected properties are valued externally, in a three-year cycle, to confirm the fair value of the portfolio. Where the property is not valued externally, it is valued internally.

Investment properties that are being redeveloped for continuing use as investment property, or for which the market has become less active, continue to be measured at fair value. Undeveloped land is valued at fair value.

Transfers to and from investment property

Where investment property is transferred to owner-occupied property that forms part of property, plant and equipment, the deemed cost of the property is its fair value at the date of change in use.

Where an owner-occupied property becomes an investment property, the carrying value of the property is its fair value at the date of change in use.

Properties held under operating leases

Properties held under operating leases are classified as investment property as long as they are held for long-term rental yields and not occupied by the group. The initial cost of these properties is the lower of the fair value of the property and the present value of the minimum lease payments. These properties are carried at fair value after initial recognition.

Gains and losses on the sale of property

Unrealised gains or losses arising on the valuation of completed properties and realised gains or losses on disposal of properties are included in the income statement.

INTANGIBLE ASSETS

Goodwill

Recognition and measurement

All business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the purchase consideration due at the date of acquisition plus any costs directly attributable to the business combination. The initial cost of a business combination is adjusted if the agreement provides for adjustments to the cost that are contingent on one or more future events, and the adjustment is probable and can be measured reliably.

At the acquisition date, goodwill is measured at cost, being the excess of the cost of the business combination over the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria. Subsequent to initial measurement, goodwill is carried at cost less accumulated impairment losses.

Goodwill on acquisition of subsidiaries is included in intangible assets whereas goodwill on acquisition of associates is included in investment in associates.

When the interest acquired in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the income statement.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment

At the acquisition date, goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination. Cash-generating units, to which goodwill has been allocated, are assessed at each reporting date for any

indication that they may be impaired. An impairment loss is recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

Deferred acquisition costs

Incremental costs that are directly attributable to securing rights to receive fees for asset management services sold with investment contracts are recognised as an asset if they can be identified separately and measured reliably, and if it is probable that they will be recovered. The asset represents the contractual right to benefit from providing investment management services, and is amortised as the entity recognises the related revenue on a straight-line basis over the anticipated lives of the contracts.

Impairment

Where there is evidence that future fees receivable are less than the incremental expenses on the contract, the balance is tested for impairment. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount.

Computer software

Recognition and measurement

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised on the basis of an expected useful life of five years, which is assessed annually.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with an identifiable and unique product or process, which will be controlled by the group and which has probable economic benefits exceeding the cost beyond one year, are recognised as intangible assets. Directly associated costs include employee costs of the development team and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their useful lives using the straight-line method.

Impairment

Computer software is reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, the latter being the higher of the net selling price and the value in use.

FINANCIAL ASSETS

Recognition and measurement

The group classifies its investments into the following categories:

- financial assets at fair value through income
- available-for-sale financial assets
- loans and receivables
- held-to-maturity financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through income

This category has two sub-categories: financial assets held for trading and those designated at fair value through income at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. Derivatives are held at fair value through income.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified in any of the other categories.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the review of loans and receivables.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities – other than those that meet the definition of loans and receivables – that management of the group has the positive intention and ability to hold to maturity.

Purchases and sales of investments are recognised on trade date, being the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus, in the case of a financial asset not at fair value through income, transaction costs that are directly attributable to the acquisition of the asset. Financial assets at fair value through income and available-for-sale assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost, using the effective interest rate method.

The fair value of quoted investments is based on current bid prices. Collective investments are valued at their repurchase price. For unquoted securities and for financial assets where the market is not active, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing.

Impairment of financial assets

Financial assets carried at fair value

At each reporting date the group assesses whether there is objective evidence that an available-for-sale financial asset is impaired, including a significant or prolonged decline in the fair value of the security below its cost in the case of equity investments classified as available-for-sale. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement.

Impairment losses on equity instruments recognised in the income statement are not subsequently reversed.

Financial assets carried at amortised cost

At each reporting date the group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Such assets are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and the event or events has an impact on the estimated future cash flows of these assets that can be reliably estimated.

The group first assesses whether objective evidence of impairment exists in respect of all financial assets that are individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate in respect of the financial asset. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Loans and receivables

A provision for loans and receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the assets. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

De-recognition of financial assets

Investments are de-recognised when the right to receive cash flows from the investments has expired or has been transferred, and the group has transferred substantially all risks and rewards of ownership.

Realised and unrealised gains and losses

Realised and unrealised gains and losses arising from changes in the value of financial assets at fair value through income are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as realised gains and losses.

Offsetting

Financial assets and liabilities are set off and the net balance reported in the balance sheet where there is a legally enforceable right to set off, where it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously, where the maturity date for the financial asset and liability is the same, and where the financial asset and liability are denominated in the same currency.

Scrip lending

The equities or bonds on loan, and not the collateral security, are reflected in the balance sheet of the group at year-end. Scrip lending fees received are included under investment income.

Securities borrowed are not recognised in the financial statements unless these are sold to third parties, in which case the purchase and sale are recorded, with the gain or loss included in the income statement. The obligation to return them is recorded at fair value under other payables.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which derivative contracts are entered into and are subsequently re-measured at their fair value. Quoted derivative instruments are valued at the South African Futures Exchange ruling price and the value of unquoted derivatives is determined by the directors, using generally accepted models.

None of the group's derivatives qualifies for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

NET INVESTMENT INCOME

Interest income and expense

Interest income and expense are recognised in the income statement, using the effective interest rate method, and taking into account the expected timing and amount of cash flows. Interest income and expense include the amortisation of any discounts or premiums or other difference between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on an effective interest rate basis.

Non-interest revenue

Fee revenue from investment contracts is described below under the heading of insurance and investment contracts.

Fees received

Fees received for investment management service contracts rendered by the asset management and asset administration businesses of the group are recognised on the same basis as fee revenue from investment contracts.

Fees received from the administration of health schemes are recognised as revenue as the services are rendered.

Other net income

Other revenue includes scrip lending fees, net rental income and dividends received from investments and is recognised in the income statement when the amount of revenue from the transaction or service can be measured reliably, when it is probable that the economic benefits of the transaction or service will flow to the group and when the costs associated with the transaction or service can be measured reliably.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at cost which approximates fair value. For purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

SHARE CAPITAL

Ordinary shares with discretionary dividends are classified as equity. The component of the convertible redeemable preference shares representing the value of the conversion option at the time of issue is included in equity.

Issue costs

Incremental external costs directly attributable to the issue of new shares, other than in connection with business combinations, are recognised in equity as a deduction from the proceeds. Incremental costs incurred directly in connection with a business combination are included in the cost of acquisition.

Treasury shares

Treasury shares are equity share capital of the holding company held by a subsidiary, consolidated collective investment funds and trusts, irrespective of whether they are held in shareholder or contract holder portfolios. The consideration paid, including any directly attributable costs, is eliminated from equity on consolidation until the shares are cancelled or sold. The consideration received for the shares, net of attributable incremental transaction costs and the related income tax effects on the subsequent sale, is included in equity.

De-recognition of staff share scheme shares

Shares issued to staff through the Metropolitan Holdings staff share schemes since 1 January 2001 do not comply with the de-recognition rules in IAS39 - Financial instruments: recognition and measurement (revised) - and are therefore reversed on consolidation of the share scheme trusts.

Earnings per share

Basic earnings per share

In calculating the basic earnings per share, the exclusion from the income statement of the income in respect of treasury shares and shares issued to staff through the staff share schemes after 1 January 2001 requires that these shares similarly be excluded from the weighted average number of shares.

Diluted earnings per share

Diluted earnings per share are calculated using the weighted average number of ordinary shares in issue, assuming conversion of all issued shares with dilutive potential. The convertible redeemable preference shares, the staff share scheme shares not recognised in accordance with IAS39 and the treasury shares held on behalf of contract holders all have dilutive potential. The preference shares are assumed to have been converted into ordinary shares and earnings adjusted to eliminate the interest expense. The staff share scheme shares are assumed to have been issued as ordinary shares with no adjustment to earnings. Earnings have been adjusted for the investment return on the treasury shares as these are shares in issue.

INSURANCE AND INVESTMENT CONTRACTS

The Metropolitan group issues contracts that transfer insurance risk or financial risk or both.

Classification of contracts

Insurance contracts

Insurance contracts are those under which the group accepts significant insurance risk from another party (contract holder) by agreeing to pay compensation if a specified uncertain future event (the insured event) adversely affects the contract holder.

Insurance risk is risk, other than financial risk, transferred from the holder of a contract to the issuer. Insurance risk is significant if an insured event could cause an insurer to pay significant additional benefits in any scenario.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided that in the case of a non-financial variable, the variable is not specific to a party to the contract.

Investment contracts

Investment contracts are those where only financial risk is transferred.

Contracts with discretionary participation features

The group issues insurance and investment contracts containing discretionary participation features (DPF). These contracts are smoothed bonus and conventional with-profit business. A discretionary participation feature is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

(a) that are likely to be a significant portion of the total contractual benefits
(b) whose amount or timing is contractually at the discretion of the issuer and
(c) that are contractually based on:

- the performance of a specified pool of contracts or a specified type of contract or
- the realised and/or unrealised investment returns on a specified pool of assets held by the issuer or

- the profit or loss of the group, fund or other entity that issues the contract.

All contracts with DPF are accounted for in the same manner as insurance contracts.

Insurance contracts and investment contracts with discretionary participation features

Measurement

The liabilities relating to insurance contracts and investment contracts with DPF are measured in accordance with the financial soundness valuation (FSV) basis as set out in practice guidance note (PGN) 104. The FSV basis uses best estimate assumptions regarding future experience together with compulsory and discretionary margins for prudence and deferral of profit emergence.

Assumptions used in the valuation basis are reviewed periodically and any changes in estimates are reflected in the income statement as they occur.

The valuation bases used for the major classes of contract liabilities, before the addition of the margins described under the heading of compulsory and discretionary margins below, were as follows:

- For group smoothed bonus business, other than with-profit annuity business, the liability was taken as the sum of the fund accounts, being the retrospective accumulation of premiums net of charges and benefit payments at the declared bonus rates.
- For with-profit annuity business, the liability was taken as the discounted value of projected future benefit payments and expenses. Future bonuses were provided for at bonus rates supported by the assumed future investment return.
- For individual market-related business, the liability was taken as the market value of the underlying assets less the present value of future charges not required for risk benefits and expenses.
- For individual smoothed bonus business, the liability was taken as the sum of the fund accounts less the present value of future charges not required for risk benefits and expenses.
- For conventional non-profit business, including non-profit annuities and guaranteed endowment business, the liability was taken as the difference between the discounted value of future expenses and benefit payments and the discounted value of future premium receipts.
- For conventional with-profit business, the liability was taken as the difference between the discounted value of future expenses and benefit payments (including future bonuses) and the discounted value of future premium receipts. Future bonuses were provided for at bonus rates supported by the market value of the underlying assets and the assumed future investment return. The resulting reduction in future bonus rates used in the valuation assumptions, relative to those declared for 2006, has been communicated to, and accepted by, both management and the respective boards of directors.
- For smoothed bonus business, bonus stabilisation reserves (BSRs) are held equal to the difference between the fund accounts, or between the discounted value of projected future benefit payments for with-profit annuity business, and the market value of the underlying assets. BSR is an actuarial term that constitutes either an asset or liability in accounting terms. The BSR is held in contract holder liabilities.
- A number of contracts contain embedded derivatives in the form of guaranteed death or maturity values. Liabilities in respect of these derivatives are valued in accordance with guidelines in PGN 110. Stochastic models are used to determine a best-estimate of the time value as well as the intrinsic value of these derivatives.
- Provision has been made in the valuation for amounts due to contract holders as a result of the settlement between the national treasury and the Life Offices' Association. This provision is included in contract holder liabilities.

Compulsory and discretionary margins

In the valuation of liabilities, provision is made for the explicit compulsory margins as required by PGN 104. The following additional discretionary margins are held in order to release profits as they are earned:

- Future fees exceed expenses and compulsory margins on employee benefits business. These excesses represent discretionary margins and are released in line with work done over the term of the policies.
- The shareholder share of the asset charge on individual linked, smoothed bonus and conventional with-profit business is not recognised until the period in which the charge is levied.
- Future profits from the surrender of smoothed bonus individual policies are not recognised until surrender occurs.
- The value of any assessed tax losses in the contract holder fund is not recognised until the losses are utilised.
- A prudential prospective reserve is held to cover the risk that the AIDS epidemic may be worse than the best estimate assumption. This margin is released in line with the unwinding of the associated mortality risk.
- A prudential reserve is held to cover the risk that the mortality and morbidity experience in respect of supplementary benefits may be worse than the best estimate assumption. This margin is released in line with the unwinding of the associated mortality or morbidity risk.

Embedded derivatives

The group does not separately measure embedded derivatives that meet the definition of an insurance contract and the entire contract is measured as an insurance contract. All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are at fair value through income.

Liability adequacy test

The FSV methodology meets the requirements of the liability adequacy test of IFRS4 and therefore no additional liability adequacy test is performed.

Reinsurance contracts held

Contracts entered into by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the

group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. The benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within receivables), as well as longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Impairment of reinsurance assets

If there is objective evidence that the reinsurance asset is impaired, the group will reduce the carrying amount of the reinsurance asset to its recoverable amount and will recognise that impairment loss in the income statement. The impairment loss is calculated using the same method adopted for loans and receivables.

Insurance premiums

Insurance premiums and annuity considerations receivable from insurance contracts and investment contracts with DPF are recognised as revenue in the income statement, gross of commission and reinsurance premiums and excluding taxes and levies. Where annual premiums are paid in instalments, the outstanding balance of these premiums, after providing for anticipated policy lapses, is recognised when due.

Reinsurance premiums

Reinsurance premiums are recognised when due for payment.

Insurance benefits and claims

Insurance benefits and claims incurred under insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in the income statement.

Death, disability and surrender claims are recognised when notified. Maturity and annuity claims are recognised when they are due for payment.

Reinsurance recoveries

Reinsurance recoveries are accounted for in the same period as the related claim.

Acquisition costs

Acquisition costs, disclosed as sales remuneration, for insurance contracts and investment contracts with DPF include all commission and expenses directly related to commission payable in the production of business.

The FSV basis makes implicit allowance for the incidence of acquisition costs; therefore, no explicit deferred acquisition cost asset is recognised in the balance sheet for contracts valued on this basis.

Investment contracts

Measurement

The group issues investment contracts without fixed terms and investment contracts with fixed and guaranteed terms.

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial asset portfolios that can include derivatives and are designated at inception as at fair value through income. The fair value is determined using the current unit values that reflect the fair value of the financial assets contained within the group's unitised investment funds linked to the related financial liabilities, multiplied by the number of units attributed to the contract holders at the valuation date. The fair value of financial liabilities is never less than the amount payable on surrender, discounted for the required notice period, where applicable.

For investment contracts with fixed and guaranteed terms, valuation techniques are used to establish the fair value at inception and at each reporting date using current market rates of interest at the relevant balance sheet date. Revenue from investment contracts is recognised uniformly over the term of the contract.

Amounts received and claims incurred

Amounts received under investment contracts, such as premiums and investment income, are recorded as deposits to investment contract liabilities and claims incurred are recorded as deductions from investment contract liabilities.

Revenue on investment management service contracts

Fees charged for investment management services provided in conjunction with an investment contract are recognised as revenue as the services are provided. Initial fees that exceed the level of recurring fees and relate to the future provision of services are deferred and amortised on a straight line basis over the lives of the contracts.

BORROWINGS

The fair value of the liability component of the convertible redeemable preference shares is determined by discounting the net present value of future cash flows. This amount is recorded as a liability on the amortised cost basis until extinguished on conversion of the preference shares. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholder capital. The value of the equity component is not changed in subsequent periods.

DEFERRED INCOME TAX

Measurement

Deferred income tax is provided for in full, at the current tax rates and in terms of laws substantively enacted at the reporting date, in respect of temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using the liability method. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets, including tax on capital gains and secondary tax on companies, are recognised for tax losses and unused tax credits carried forward only to the extent that realisation of the related future tax benefit is probable.

Offsetting

Deferred tax assets and liabilities are set off when the income taxes relate to the same fiscal authority and where there is a legal right of offset at settlement in the same taxable entity.

CURRENT TAXATION

Measurement

Current tax is provided for at the amount expected to be paid, using the tax rates and in respect of laws that have been substantively enacted at the reporting date.

Offsetting

Current tax assets and liabilities are set off when a legally enforceable right exists and it is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

LEASES

Finance leases

Leases of property, plant and equipment where substantially all the risks and rewards incidental to ownership have been transferred to the group are classified as finance leases.

Measurement

Asset

Finance leases are capitalised at the lower of the fair value of the leased property or the present value of the minimum lease payments at inception of the lease. The asset acquired is depreciated over the shorter of the useful life of the asset or the lease term.

Liability

The rental obligation, net of finance charges, is included as a liability. Each lease payment is apportioned between finance charges and the reduction of the outstanding liability. The finance charges or interest are charged to the income statement over the lease term so as to produce a constant periodic rate of interest on the liability remaining for each period.

Operating leases

Leases where substantially not all the risks and rewards incidental to ownership have been transferred to the group are classified as operating leases. Payments made are charged to the income statement on a straight-line basis over the period of the lease.

DIVIDENDS PAID AND RELATED SECONDARY TAX ON COMPANIES

Dividends paid to shareholders of the company and the related secondary tax on companies (STC) are recognised on declaration date.

PROVISIONS

Provisions are recognised when, as a result of past events, the group has a present legal or constructive obligation of uncertain timing or amount, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the increase specific to the liability.

Onerous contracts

The group recognises a provision for an onerous contract, except on insurance contracts, when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

CONTINGENT LIABILITIES

Contingent liabilities are recognised when the group has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group, or it is possible but not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

EMPLOYEE BENEFITS

Pension and provident fund obligations

The group provides a defined benefit pension scheme as well as defined contribution pension and provident schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations. With effect from 1 April 1999 the majority of employees converted their retirement benefit plans from defined benefit to defined contribution by way of transfer from the Metropolitan Staff Pension Fund to the Metropolitan Staff Retirement Fund. The defined benefit scheme was closed to new members from 1 April 1999. All new employees automatically become members of the Metropolitan Staff Retirement Fund. The group also sponsors the Metropolitan Health Group Retirement Fund (previously the Bankmed Retirement Fund) and the Commercial Union Staff Provident Fund, both of which are defined contribution funds that are closed to new members.

Defined contribution retirement funds

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group contributes to the defined contribution provident scheme, with employees contributing to the defined contribution pension scheme. The defined contribution provident scheme holds a surplus amount available to the group in order to subsidise contributions. The scheme's board of trustees is in the process of applying for formal recognition of this surplus amount as an employer surplus account in terms of section 15F of the Pension Funds Second Amendment Act of 2001. The group's contributions are charged to the income statement when incurred, except those contributions subsidised by the surplus amount.

Defined benefit fund

A defined benefit plan is a pension plan that defines the amount of the pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit scheme is actuarially valued every three years in accordance with the Pension Funds Act. Employees contribute to the scheme at a fixed percentage of salaries, with the group contributing

the balance of costs as determined by the actuarial valuation. The group's current service costs are recognised as expenses in the current year.

Post-retirement medical aid obligations

The group makes medical aid contributions on behalf of pensioners who have retired from the defined benefit pension fund. An accounting provision is made for the future medical aid contributions of these pensioners and for the post-retirement medical aid contributions of the in-service members of the defined benefit pension fund. The entitlement to these benefits is based on the employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. These provisions are calculated using actuarial methodologies for the discounted value of contributions and a best estimate of the expected long-term investment return (discount rate: 10.0%), as well as taking into account estimated contribution increases (medical inflation rate: 11.0%). The increase or decrease in the accounting provision for these costs is charged to the income statement.

The group has no obligation for post-retirement medical benefits in respect of other pensioners and in-service members.

Bonus plans

The group pays performance bonuses to senior employees of the group and thirteenth cheque bonuses to staff other than those who participate in the performance bonus scheme. Performance bonuses are based on certain objectives, taking into account past business experience and future strategic issues, agreed upon by the board of directors of the holding company. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based compensation

The group operates equity-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted, excluding the impact of any non-market related vesting conditions. Non-market related vesting conditions, such as the resignation of employees and retrenchment of staff, are included in assumptions about the number of shares expected to be released and these are revised at the reporting date. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment is made to equity over the remaining vesting period.

The fair value of equity instruments granted is determined by using standard option pricing models. The valuation technique is consistent with generally accepted valuation methodologies for pricing financial instruments, and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instrument.

The group has recognised a liability with respect to its obligation to purchase shares in Metropolitan Heath Corporate from the company's management. The liability has been measured with reference to the selling price formula that will be used to repurchase the shares from the employees and any change is charged to the income statement over the vesting period of the shares.

SEGMENTAL REPORTING

Primary segments

Primary segmental reporting is based on the type of business and correlates with the activities of the main operating businesses. The retail business sells life insurance products, using the Metropolitan Life and Metropolitan Odyssey brands. The corporate business sells employee benefit products and includes asset management, property administration and collective investment schemes administration. The international business sells life insurance and employee benefit products, provides asset administration services and administers health schemes. The health business administers health schemes and provides managed health care and related health services. Charges between the segments are at market-related rates.

Secondary segments

Secondary segmental reporting is based on geographical segmentation. The retail, corporate and health primary businesses are operational in South Africa, the group's home country. The international business is operational in Namibia, Botswana and Lesotho.

		GROUP		METROPOLITAN LIFE LTD	
		2005 Rm	2004 Rm	2005 Rm	2004 Rm
1	**PROPERTY, PLANT AND EQUIPMENT**				
	Owner-occupied properties				
	Valuation	414	330	347	250
	Accumulated depreciation	(10)	–	(8)	–
	Fair value	404	330	339	250
	Fair value at beginning	330	322	250	254
	Additions	8	7	22	–
	Disposals	(5)	(10)	–	(9)
	Revaluation	86	11	75	5
	Depreciation charge	(10)	–	(8)	–
	Transfer to investment property	(5)	–	–	–
	Fair value at end	404	330	339	250

If owner-occupied properties had been stated on a historical cost basis, the carrying amount would have been R230 million (2004: R248 million) for the group and R210 million (2004: R194 million) for Metropolitan Life Limited.
The shareholders of the group hold R374 million (2004: R242 million) of the owner-occupied properties, for which a land and buildings revaluation reserve is created when the market values of the buildings exceed the book values. For owner-occupied properties held by contract holders, the excess is held within contract holder liabilities.

Plant and equipment				
Cost	654	575	388	370
Accumulated depreciation	(509)	(460)	(331)	(309)
Carrying amount	145	115	57	61
Carrying amount at beginning	115	108	61	73
Additions	81	65	19	25
Business combinations	–	1	–	–
Assets written off	(2)	(7)	(1)	(5)
Depreciation charge *(note 27)*	(49)	(52)	(22)	(32)
Carrying amount at end	145	115	57	61

Equipment comprises furniture and fittings, computer equipment and motor vehicles.

Total property, plant and equipment	549	445	396	311
Value of property, plant and equipment held as security	11	4	1	3

IFRS adjustments and other adjustments/reclassifications
In 2004 owner-occupied properties were reclassified from investment properties, and acquired computer software with a carrying value of R16 million for the group and R15 million for Metropolitan Life Limited was reclassified to intangible assets. Owner-occupied properties with a carrying value of R1 million for both the group and Metropolitan Life Limited were reclassified to plant and equipment.

		GROUP		METROPOLITAN LIFE LTD	
		2005 Rm	2004 Rm	2005 Rm	2004 Rm
2	**INVESTMENT PROPERTY**				
	At 31 December investment property comprised the following property types				
	Industrial	139	132	115	105
	Shopping malls	1 608	1 307	1 048	613
	Office buildings	464	425	204	143
	Hotels	99	69	–	–
	Other	42	40	21	19
	Vacant land	11	23	6	6
	Property at valuation	2 363	1 996	1 394	886
	Accelerated rental income *(note 39)*	(108)	(121)	(43)	(44)
		2 255	1 875	1 351	842
	Fair value at beginning	1 875	1 776	842	778
	Capitalised subsequent expenditure	–	20		20
	Additions	6	37	326	20
	Disposals	(49)	(61)	(51)	(18)
	Revaluation	405	89	233	34
	Change in accelerated rental income	13	14	1	8
	Transfer from owner-occupied properties	5	–	–	–
	Fair value at end	2 255	1 875	1 351	842

At 31 December 2005, external valuations were obtained for all properties, including owner-occupied properties, with a market value greater than R10 million, which amounted to 90% of the portfolio. The other properties were valued using a discounted cash flow method. The capitalisation rates used ranged from 9.75% to 14% (2004: 11% to 20%) and the discount rates ranged from 17.5% to 20% (2004: 18% to 23%). A register of investment property is available for inspection at the company's registered office.

IFRS adjustments and other adjustments/reclassifications
In 2004 owner-occupied properties were reclassified to property, plant and equipment; property unit trusts to the value of R184 million for the group and R25 million for Metropolitan Life Limited were reclassified to equity securities.

3	**INTANGIBLE ASSETS**				
	Goodwill	148	148	40	40
	Deferred acquisition cost	24		14	
	Computer software	232	258	50	84
		404	406	104	124
3.1	**Goodwill**				
	Carrying amount at beginning	148	152	40	78
	Adjustment to cost of business combination	–	33	–	34
	Impairment charge	–	(37)	–	(72)
	Carrying amount at end	148	148	40	40

Impairment tests for goodwill

Goodwill is allocated to cash generating units (CGUs) for the purpose of impairment testing. The life book represents the CGUs of the two life insurance companies, Metropolitan Odyssey Limited and Commercial Union Life Association of South Africa Limited, which were acquired in 1999. The CGUs of the health companies, acquired during 2002, are represented by the investment in Qualsa Healthcare (Proprietary) Limited (Qualsa) and the membership administered with respect to Metropolitan Health Corporate (Proprietary) Limited.

For the life companies, the recoverable value of CGUs is determined based on the present value of the in-force business of the life book of each company. This calculation uses cash flow projections in respect of the in-force policies in order to estimate future profits attributable to shareholders. The calculation is based on actuarial principles, taking into account future premium income, mortality, disease and surrender probabilities, together with future costs and investment returns on the assets supporting the fund. These profits are then discounted at a rate of return that makes allowance for the uncertain nature of the future cash flows. This calculation is particularly sensitive to the assumptions regarding discount rate, future investment returns and the rate at which policies are discontinued.

For the health companies, the recoverable value of CGUs is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

Cash flows beyond the financial budgets available are extrapolated, using the estimated growth rates set out below.

	2005	2004
Risk discount rate	10.0	10.8
Investment return (before tax) - smoothed bonus	8.9	9.7
Secondary tax on companies (STC)	5.0	7.0
Expense inflation rate	4.3	5.0
Income inflation rate	4.3	5.5
Tax rate	29.0	29.0

During 2004 the goodwill relating to Commercial Union Life Association of South Africa Limited was impaired as a result of the integration of the 90:10 ring-fenced book in Metropolitan Life Limited.

IFRS adjustments and other adjustments/reclassifications

Under IFRS goodwill is not amortised but tested for impairment. Therefore goodwill amortised under SA GAAP in 2004 of R37 million for the group and R8 million for Metropolitan Life Limited was reversed. Internally developed computer software with a carrying value of R173 million was reclassified from goodwill. No impairment of goodwill was recognised as a result of the impairment test done on 1 January 2004.

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
3.2 Deferred acquisition cost				
Cost	33		20	
Accumulated amortisation	(9)		(6)	
Carrying amount	24		14	
First time implementation of IFRS4 and IAS39	14		7	
Additions	13		9	
Amortisation charge	(3)		(2)	
Carrying amount at end	24		14	

		GROUP		METROPOLITAN LIFE LTD	
		2005 Rm	2004 Rm	2005 Rm	2004 Rm
3	**INTANGIBLE ASSETS (CONTINUED)**				
3.3	**Computer software**				
	Acquired computer software				
	Cost	51	41	39	39
	Accumulated amortisation	(33)	(25)	(30)	(24)
	Carrying amount	18	16	9	15
	Carrying amount at beginning	16	14	15	13
	Additions	10	8	–	8
	Amortisation charge	(8)	(6)	(6)	(6)
	Carrying amount at end	18	16	9	15
	Internally developed computer software				
	Cost	415	400	172	169
	Accumulated amortisation	(201)	(158)	(131)	(100)
	Carrying amount	214	242	41	69
	Carrying amount at beginning	242	266	69	81
	Additions	15	18	3	18
	Impairment charge	(5)	(3)	(5)	(3)
	Amortisation charge	(38)	(39)	(26)	(27)
	Carrying amount at end	214	242	41	69
	Total computer software	232	258	50	84

Included in internally developed computer software is software with a carrying value of R161 million (2004: R173 million) relating to the software used by the Metropolitan Health Group.

IFRS adjustments and other adjustments/reclassifications
In 2004 acquired computer software with a carrying value of R16 million for the group and R15 million for Metropolitan Life Limited was reclassified to intangible assets. Internally developed computer software with a carrying value of R173 million for the group was reclassified from goodwill.

4	**INTEREST IN SUBSIDIARY COMPANIES**				
	Shares at fair value			530	333

Metropolitan Life Limited has investments in property subsidiaries only. The directors' valuation of these shares is equal to fair value. Indebtedness by subsidiaries is disclosed as loans and receivables in note 7.

5	**INVESTMENT IN ASSOCIATES**		
	Balance at beginning	8	3
	Share of results after tax	6	4
	Share of results before tax	8	5
	Share of tax	(2)	(1)
	Other movements	(7)	1
	Balance at end	7	8

	Country of incorporation	% Interest held by group	
		2005	2004
Methealth Namibia Administrators (Pty) Ltd	Namibia	46%	46%
FirstMet Collective Investments Ltd	Namibia	–	50%

Interest in both the associated companies is directly held by Metropolitan Life (Namibia) Limited and the percentages above reflect these direct holdings. Metropolitan Life (Namibia) Limited is not a wholly owned subsidiary of Metropolitan Holdings Limited and therefore the percentage holdings of these associates are further diluted on a group level.
Metropolitan Life (Namibia) Limited sold its interest in FirstMet Collective Investments Limited with effect from 31 December 2005.

IFRS adjustments and other adjustments/reclassifications
This investment is shown on the face of the balance sheet.

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
6 EQUITY AND DEBT SECURITIES				
6.1 Available-for-sale assets				
Equity securities				
Local listed shares		19 691		16 799
Foreign listed shares		112		–
Local unlisted unit trusts		1 470		1 107
Foreign unlisted unit trusts		2 448		2 327
Unlisted investments		1 695		1 421
		25 416		21 654
Debt securities				
Government stock		4 065		3 558
Stock of and loans to other public bodies		3 225		3 060
Debentures and corporate bonds		1 101		864
Unit linked investments (unlisted)		1 460		1 435
Unlisted investments		30		–
		9 881		8 917
6.2 Fair value through income				
Equity securities				
Local listed shares	23 284		19 630	
Foreign listed shares	145		–	
Local unlisted unit trusts	2 568		2 229	
Foreign unlisted unit trusts	2 703		2 556	
Unlisted investments	319		169	
	29 019		24 584	
Debt securities				
Government stock	3 587		2 934	
Stock of and loans to other public bodies	3 580		3 412	
Debentures and corporate bonds	1 513		1 293	
Unit linked investments (unlisted)	1 089		991	
Unlisted investments	2 156		1 596	
	11 925		10 226	

6 EQUITY AND DEBT SECURITIES (CONTINUED)

Equity and debt securities were classified as available-for-sale assets in 2004 and were designated as fair value through income on 1 January 2005. No adjustments to the fair value of these designated assets were required. The group has taken the exemption not to restate the comparative information for IAS39 and IAS32.

The directors' valuation of the unlisted investments is equal to their fair value.

A schedule of equity securities is available for inspection at the company's registered office.

IFRS adjustments and other adjustments/reclassifications

In 2004 investment in associates to the value of R8 million for the group and derivative investments to the value of R8 million negative for the group and Metropolitan Life Limited were reclassified to the face of the balance sheet. Property unit trusts to the value of R184 million for the group and R25 million for Metropolitan Life Limited were reclassified to equity securities. Collective investment schemes of which the group has effective control, were consolidated, increasing equity securities by R203 million and debt securities by R17 million.

Corporate bonds to the value of R1 082 million for the group and R857 million for Metropolitan Life Limited were reclassified from stock of and loans to other public bodies to debentures and corporate bonds. Loans to the value of R224 million for the group and R616 million for Metropolitan Life Limited were reclassified to loans and receivables from debentures and loans. Unit-linked investments to the value of R319 million and R1 218 million for the group and R227 million and R1 208 million for Metropolitan Life Limited were reclassified from government stock and stock of and loans to other public bodies respectively. Unlisted investments of R30 million for the group were reclassified from stock of and loans to other public bodies.

6.3 Details of listed equity securities

	GROUP		METROPOLITAN LIFE LTD	
Sector composition of listed equity securities	2005 %	2004 %	2005 %	2004 %
Basic industries	2.6	4.1	2.5	4.3
Cyclical consumer goods	1.5	3.4	1.4	3.4
Cyclical services	16.1	14.2	16.2	14.3
Financials	30.1	30.9	30.0	31.1
General industrials	6.9	5.2	7.0	5.2
Industrials	0.1	–	–	–
Information technology	0.4	0.7	0.4	0.7
Non-cyclical consumer goods	9.3	8.3	9.1	8.3
Non-cyclical services	11.9	12.5	12.4	11.9
Resources	21.0	20.5	20.8	20.6
Specialist securities	0.1	0.2	0.2	0.2
	100.0	100.0	100.0	100.0

The group's ten largest equity securities	2005 %	2005 Rm	2004 %	2004 Rm
MTN Group Ltd	9.3	2 174	7.0	1 761
Standard Bank Group Ltd	7.1	1 666	4.8	1 207
Anglo American Plc	5.9	1 366	4.4	1 104
Billiton Plc	4.8	1 129	3.1	777
Sasol Ltd	4.8	1 115	2.9	717
FirstRand Ltd	4.5	1 048	3.2	801
Remgro Ltd	4.0	930	3.0	754
SABMiller Plc	3.9	915	2.9	728
Imperial Holdings Ltd	3.2	750	*	*
Naspers N-ord Ltd	2.7	632	2.2	539
Sanlam Ltd	*	*	1.8	442
	50.2	11 725	35.3	8 830

** Not included in ten largest equity securities for year*

		GROUP		METROPOLITAN LIFE LTD	
		2005 Rm	2004 Rm	2005 Rm	2004 Rm
7	**LOANS AND RECEIVABLES**				
	Receivables arising from insurance and investment contracts with DPF and reinsurance contracts	1 292	1 266	1 056	998
	Due from insurance contract holders	1 106	1 169	920	939
	Due from investment contract holders with DPF	87		78	
	Less provision for impairment	(40)	(41)	(33)	(33)
	Due from agents, brokers and intermediaries	107	92	85	65
	Less provision for impairment	(51)	(30)	(40)	(15)
	Due from reinsurers	83	76	46	42
	Other receivables	311	341	138	96
	Accounts receivable	203	220	95	52
	Accelerated rental income *(note 39)*	108	121	43	44
	Loans	819	733	1 261	1 845
	Loans to related parties				
	Loans to group companies *(note 35.6)*			499	845
	Empowerment partners	208	47		
	Other staff loans	63	163	37	52
	Loans to staff share scheme trusts *(note 32)*			347	558
	Strategic loans	11	13	–	–
	Other	37	23	8	23
	Policy loans	500	487	370	367
		2 422	2 340	2 455	2 939

Policy loans are limited to and secured by the underlying value of the unpaid policy benefits. These loans attract interest at rates greater than the current prime rate.

Refer note 5 on page 146 of the annual financial statements of Metropolitan Holdings Limited for the terms and conditions of the loans to empowerment partners.

IFRS adjustments and other adjustments/reclassifications

In 2004 policy loans and receivables were reclassified from the face of the balance sheet to loans and receivables. Loans to the value of R224 million for the group and R616 million for Metropolitan Life Limited were reclassified from debt securities. Collective investment schemes of which the group has effective control, were consolidated, increasing loans and receivables by R6 million. Indebtedness by subsidiaries of Metropolitan Life Limited to the value of R860 million was reclassified from interest in subsidiary companies.

8 **DERIVATIVE FINANCIAL INSTRUMENTS**

	GROUP			METROPOLITAN LIFE LTD		
	Notional Rm	Fair value asset Rm	Fair value liability Rm	Notional Rm	Fair value asset Rm	Fair value liability Rm
2005						
OTC instruments						
Equity index options	1 196	30	(248)	1 166	18	(248)
Interest rate swaps	432	41	(47)	432	41	(47)
Exchange traded options						
Equity index	(726)	–	(12)	(726)	–	(11)
Exchange traded futures						
Equity index	90	28	–	–	–	–
		99	(307)		59	(306)

8 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	GROUP			METROPOLITAN LIFE LTD		
	Notional Rm	Fair value asset Rm	Fair value liability Rm	Notional Rm	Fair value asset Rm	Fair value liability Rm
2004						
OTC instruments						
Equity index options	1 101	7	(89)	1 101	7	(89)
Exchange traded options						
Equity index	(13)	74	(36)	(13)	74	(36)
Single equity	(357)	7	–	(357)	7	–
Exchange traded futures						
Equity index	90	29	–	90	29	–
		117	(125)		117	(125)

IFRS adjustments and other adjustments/reclassifications
In 2004 derivative investments were included in equity securities.

9 DEFERRED INCOME TAX

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
Deferred tax asset	4	6	–	–
Deferred tax liability	(296)	(154)	(196)	(91)
	(292)	(148)	(196)	(91)
Deferred tax asset	8	10	4	3
Tax losses and credits	4	5	4	3
Accruals and provisions	4	5	–	–
Deferred tax liability	(300)	(158)	(200)	(94)
Revaluations	(297)	(157)	(200)	(94)
Accruals and provisions	(3)	(1)	–	–
	(292)	(148)	(196)	(91)
Current	5	9	4	3
Non-current	(297)	(157)	(200)	(94)
	(292)	(148)	(196)	(91)
Movement in deferred tax				
Balance at beginning	(148)	(13)	(91)	15
Change in rate	5		3	
Revaluations	(145)	(145)	(109)	(109)
Accruals and provisions	(4)	8	1	–
Tax losses and credits	–	2	–	3
Balance at end	(292)	(148)	(196)	(91)

No deferred tax liability has been raised for contract holder tax on revaluations as the estimated accumulated tax loss exceeds the gain.
Tax losses have been provided for as deferred tax assets where at year-end there was certainty as to their recoverability.
Deferred tax on the revaluation of investment and owner-occupied properties has been calculated on the normal South African income tax rate applicable at year-end. If the capital gains tax rate had been used on these properties, the deferred tax raised would have been R14 million lower. The capital gains tax rate has been applied to other fair value revaluations.

IFRS adjustments and other adjustments/reclassifications
The transition to IFRS had no effect on deferred tax.

		GROUP		METROPOLITAN LIFE LTD	
		2005 Rm	2004 Rm	2005 Rm	2004 Rm
10	**REINSURANCE CONTRACTS**				
	Reinsurers share of insurance liabilities *(note 39)*	181		139	
	Current	147		113	
	Non-current	34		26	
		181		139	
	First time implementation of IFRS4	175		127	
	Movement charged to income statement	13		12	
	Net exchange difference	(7)			
	Balance at end	181		139	
11	**CASH AND CASH EQUIVALENTS**				
	Bank and other cash balances	405	454	229	283
	Funds on deposit and other money market instruments	6 121	3 639	4 399	2 087
		6 526	4 093	4 628	2 370
	Restricted balances	13	11	–	–

IFRS adjustments and other adjustments/reclassifications

In 2004 funds on deposit and other money market instruments were reclassified to cash and cash equivalents. Collective investment schemes of which the group has effective control, were consolidated, increasing cash and cash equivalents with R65 million.

12	**SHARE CAPITAL**				
	Authorised share capital				
	1 billion ordinary shares of 0.0001 cents each	–	–		
	129 million (2004: 76 million) variable rate cumulative redeemable convertible preference shares of 0.0001 cents each	–	–		
	1 billion ordinary shares of 43.1 cents each			431	431
	Issued share capital and premium				
	Nominal value of shares in issue				
	Ordinary shares of 0.0001 cents each	–	–		
	Ordinary shares of 43.1 cents each			314	314
	Share premium	1 805	1 998	310	310
	Preference share premium included in debt	(930)	(457)		
	Holding company share capital	875	1 541		
	Consolidation adjustments:				
	Treasury shares held by subsidiary	119	(303)		
	Treasury shares held on behalf of contract holders	(122)			
	Staff share scheme shares	(313)	(368)		
		559	870	624	624
	Number of shares in issue (million)				
	Balance at beginning	610	652	728	728
	Shares issued to share schemes	–	–		
	Adjustment for staff share scheme shares	6	2		
	Consolidation of treasury shares held on behalf of contract holders	(22)	–		
	Shares repurchased and cancelled	(22)	(44)		
	Balance at end	572	610	728	728

12 SHARE CAPITAL (CONTINUED)

On 5 December 2005 Metropolitan Holdings Limited issued 47 million (2004: 76 million) variable rate redeemable convertible preference shares. In terms of IAS32 these shares are compound instruments with a debt and equity component. The equity component has been calculated to be negligible and the debt component is disclosed in note 16.

Details of the 22 million shares repurchased in the open market and cancelled are disclosed in the directors' report on page 75.

Seven million of the unissued shares are under the control of the directors to allot and issue for the purpose of the Metropolitan Staff Share Purchase Trust and the Metropolitan Share Incentive Trust. This authority expires at the forthcoming annual general meeting of the company.

IFRS adjustments and other adjustments/reclassifications

In 2004 the equity component of the redeemable preference shares to the value of R274 million for the group was reclassified to borrowings. Under IFRS, own shares held by contract holders are reversed on consolidation; no such adjustment was required under SA GAAP.

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
13 OTHER RESERVES				
Land and building revaluation reserve	121	60	113	57
Foreign currency translation reserve	(15)	(5)		
Fair value reserve	27	17	15	10
Non-distributable reserve	295	295	295	295
	428	367	423	362
Movements in other reserves				
Land and building revaluation reserve				
Balance at beginning	60	60	57	57
Earnings directly attributable to retained earnings	61	–	56	–
Revaluation	85	–	72	–
Depreciation charged on revalued amount	(3)	–	(3)	–
Deferred tax on revaluation and depreciation	(19)	–	(17)	–
Shadow accounting	(2)	–	4	–
Balance at end	121	60	113	57
Foreign currency translation reserve				
Balance at beginning	(5)	3		
Currency translation difference	(10)	(8)		
Balance at end	(15)	(5)		
Fair value reserve *(note 39)*				
Balance at beginning	17	7	10	5
Employee share schemes - value of services provided	10	10	5	5
Balance at end	27	17	15	10
Non-distributable reserve				
Balance at beginning	295	–	295	–
Transfer from retained earnings	–	295	–	295
Balance at end	295	295	295	295

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
14 INSURANCE CONTRACTS				
Long-term insurance contracts – gross	25 496		20 695	
Less: recovery from reinsurers	(181)		(139)	
Long-term insurance contracts – net	25 315	35 612	20 556	31 212
Movement in long-term insurance contract liabilities				
Balance at beginning	35 612	30 231	31 212	27 817
First time implementation of IFRS4 and IAS39	(14 769)		(14 005)	
Premiums received	6 003	7 754	4 271	5 976
Investment return	6 331	6 646	5 274	6 218
Contract benefit payments	(3 846)	(5 685)	(3 074)	(5 001)
Expenses for marketing and administration	(1 749)	(1 658)	(1 293)	(1 313)
Contract holder tax	(22)	(31)	(14)	(22)
Business combinations	–	166	–	(668)
Other movements	(2 102)	(1 783)	(1 771)	(1 795)
LOA statement of intent	101		95	
Net exchange differences	(63)	(28)		
Balance at end	25 496	35 612	20 695	31 212

The other movements item consists primarily of the results of long-term insurance business, excluding net consolidation adjustments, as per the statement of actuarial values of assets and liabilities on page 84 (group: R2 065 million and Metropolitan Life Limited: R1 755 million), less the amount attributable to investment contracts (group: R177 million and Metropolitan Life Limited: R156 million). The residual is mainly an adjustment in respect of reinsurance premiums and claims; premiums received and contract benefit payments shown in the current year, in this note, are gross of reinsurance. Results of operations include returns on shareholder excess. For consistency, these are also included in investment return disclosed in this note.

14.1 Change in insurance contract provision				
Movement in liability balance	(211)	5 381	(998)	3 395
Adjusted for				
First time implementation of IFRS4 and IAS39	5 708		5 300	
LOA statement of intent	(101)		(95)	
Business combinations	–	(166)	–	668
Net exchange differences	66	–		
Shadow accounting	(3)	–	4	
	5 459	5 215	4 211	4 063

Change in insurance contract provision as disclosed in the income statement includes the change in the liability for insurance contracts and for investment contracts with DPF.

The group has taken the exemption not to restate the comparative information, which is based on SA GAAP. The disclosed comparative for insurance contract liabilities includes liabilities for insurance and investment contracts. If IFRS4 had been adopted retrospectively, the value of the liabilities of the group would have been R35 625 million at 31 December 2004 (insurance liabilities R20 781 million, investment contract liabilities R5 783 million and investment contracts with DPF liabilities R9 061 million). The value of the liabilities of Metropolitan Life Limited would have been R31 225 million at 31 December 2004 (insurance contract liabilities R17 085 million, investment contract liabilities R5 435 million and investment contracts with DPF liabilities R8 705 million). The total liabilities for both the group and Metropolitan Life Limited are R13 million greater than those disclosed in 2004 as a result of the implementation of IFRS4 and IAS39. Refer note 39.

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
15 INVESTMENT CONTRACTS				
Investment contracts with DPF	9 905		9 519	
Investment contracts at fair value through income	7 454		6 915	
Total financial liability *(note 39)*	17 359		16 434	
Movement in investment contracts with DPF				
First time implementation of IFRS4 and IAS39	9 061		8 705	
Premiums received	1 024		967	
Investment return	2 841		2 734	
Contract benefit payments	(2 794)		(2 674)	
Expenses for marketing and administration	(101)		(96)	
Current income tax	(1)		(1)	
Other movements	(122)		(116)	
Net exchange differences	(3)			
Balance at end	9 905		9 519	

Refer note 14.1 for the change in investment contracts with DPF provision.

16 BORROWINGS				
Cumulative redeemable convertible preference shares	946	470		
Finance lease liabilities	7	7	3	6
Other	4	–	–	–
	957	477	3	6
Current	19	15	2	2
Non-current	938	462	1	4
	957	477	3	6

16.1 Cumulative redeemable convertible preference shares

On 5 December 2005 Metropolitan Holdings Limited issued 47 081 139 (2004: 75 842 650) variable rate cumulative convertible redeemable preference shares at a nominal value of R479 million (2004: R540 million). The shares are convertible, at the option of the holder, into ordinary shares on a one for one basis after three years. If the shares are not converted, they are compulsorily redeemable after periods of either four or five years. There is no deferred tax implication. The dividends are payable semi-annually in arrears on 31 March and 30 September each year.

The effective interest rate for the cumulative redeemable convertible preference shares at the balance sheet date ranged from 8.5% to 10.8% (2004: 11.5%).

IFRS adjustments and other adjustments/reclassifications

In 2004 the equity component of the redeemable preference shares to the value of R274 million for the group was reclassified from share capital. This reclassification gave rise to additional capitalised interest of R9 million.

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
16.2 Finance lease liabilities – minimum lease payments				
Not later than 1 year	4	3	2	3
Later than 1 year and not later than 5 years	5	7	2	5
	9	10	4	8
Future finance charges on finance leases	(2)	(3)	(1)	(2)
Present value of finance lease liabilities	7	7	3	6

The effective interest rate for finance leases at the balance sheet date ranged from 16% to 31%.

The group provides third party finance arrangements for employees to assist them in the purchase of motor vehicles. These lease agreements have been classified as finance leases according to IAS17 - Leases. All rights and obligations under these agreements are transferred to the employees; therefore the group has not recognised the liability or the asset. The monthly rental is treated as a staff cost to the group. The outstanding balance as at year-end was R17 million (2004: R14 million).

IFRS adjustments and other adjustments/reclassifications

In 2004 the finance costs on finance leases were reclassified from expenses for marketing and administration to the face of the income statement.

17 EMPLOYEE BENEFIT OBLIGATIONS

17.1 Post-retirement medical benefits				
Balance at beginning	103	109	100	106
Contributions paid	(7)	(6)	(7)	(6)
Balance at end	96	103	93	100
17.2 Current service costs				
Balance at beginning	79	36		
Additional provisions	57	44		
Used during year	(7)	(1)		
Balance at end	129	79		
Total employee benefit obligations	225	182	93	100

17.3 Retirement benefit obligation

The defined contribution funds sponsored by the Metropolitan group have still to complete the surplus apportionment exercises as required in terms of the Pension Funds Second Amendment Act 39 of 2001. As a result of these exercises, the extent to which the group has economic use of any net asset or is liable for any net liability is still unknown.

The retirement benefit in the defined benefit pension fund is linked to final salary. The assets are held in an independent trustee-administered fund. The actuarial valuation at the surplus apportionment date revealed no actuarial surplus; therefore a nil surplus return was submitted to the Financial Services Board, who have noted it.

17.4 Metropolitan Health staff share scheme

The assumptions used in calculating the expense and liability under the Metropolitan Health management share scheme were a growth rate of 10% and a discount rate of 8%.

IFRS adjustments and other adjustments/reclassifications

In 2004 post-retirement benefit costs to the value of R103 million for the group and R100 million for Metropolitan Life Limited were reclassified from provisions for liabilities and charges. For current service costs refer note 39.

18 PROVISION FOR LIABILITIES AND CHARGES

IFRS adjustments and other adjustments/reclassifications

In 2004 post-retirement medical benefits to the value of R103 million for the group and R100 million for Metropolitan Life Limited were reclassified to employee benefit obligations. Similarly, annual leave pay and other provisions to the value of R44 million for the group and R24 million for Metropolitan Life Limited were reclassified to other payables.

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
19 OTHER PAYABLES				
Payables arising from insurance contracts and investment contracts with DPF	1 144	1 194	941	957
Claims in process of settlement				
Insurance contracts	802	1 106	669	904
Investment contracts with DPF	265		219	
Premiums paid in advance	71	80	52	51
Due to reinsurers	6	8	1	2
Deferred income liability	29		20	
Due to group companies			41	74
Other payables	527	473	333	328
Amounts due to shareholders	3	727		
	1 703	2 394	1 335	1 359

IFRS adjustments and other adjustments/reclassifications

In 2004 annual leave pay and other provisions and liabilities to the value of R44 million for the group and R24 million for Metropolitan Life Limited was reclassified from provisions for liabilities and charges. Collective investment schemes of which the group has effective control, were consolidated, increasing other payables with R6 million. Indebtedness to subsidiaries of Metropolitan Life Limited to the value of R74 million was reclassified from investment in subsidiary companies.

20 INCOME TAX

20.1 Current income tax liabilities

Balance at beginning	102	106	67	87
Charged to income statement	412	219	298	149
Additional provisions	418	220	298	149
Unused amounts reversed	(6)	(1)	–	–
Used during year	(232)	(223)	(158)	(169)
Balance at end	282	102	207	67

20.2 Income tax expenses

Current taxation				
South African normal tax	380	188	284	129
Tax on contract holder funds	16	20	13	19
Foreign countries - normal tax	16	11	1	1
	412	219	298	149
Secondary tax on companies	41	27	–	21
Deferred tax	124	135	86	106
Prior year under provision	(4)	–	–	–
	573	381	384	276

Tax rate reconciliation	GROUP 2005 %	GROUP 2004 %	METROPOLITAN LIFE LTD 2005 %	METROPOLITAN LIFE LTD 2004 %
Tax calculated at standard rate of South African tax on earnings	29.0	30.0	29.0	30.0
Prior year reversals	(0.2)	–	–	–
Secondary tax on companies	1.8	1.3	–	1.1
Taxation on contract holder funds	0.9	1.5	0.8	1.3
Foreign tax	(2.8)	(1.4)	0.1	–
Capital gains tax	(4.8)	(7.4)	(8.1)	(6.0)
Non-taxable items and tax losses	0.8	(5.5)	0.1	(10.6)
Effective rate	24.7	18.5	21.9	15.8

IFRS adjustments and other adjustments/reclassifications

The transition to IFRS had no effect on the income tax liability. In 2004 the income tax expense was increased by tax on contract holder funds in South Africa and in foreign countries to the value of R31 million for the group and R22 million for Metropolitan Life Limited.

	GROUP 2005 Rm	GROUP 2004 Rm	METROPOLITAN LIFE LTD 2005 Rm	METROPOLITAN LIFE LTD 2004 Rm
21 NET INSURANCE PREMIUMS				
Premiums received	7 027	8 036	5 238	6 209
Long-term insurance contracts	6 003	8 036	4 271	6 209
Investment contracts with DPF	1 024		967	
Premiums received ceded to reinsurers	(371)	(282)	(279)	(233)
	6 656	7 754	4 959	5 976

In 2005 premiums received under investment contracts without DPF have been treated as deposits, thereby increasing the value of investment contract liabilities; refer note 22. In 2004 total premiums received for insurance and investment contracts were disclosed as comparative information as the group has taken the exemption under IFRS4 not to restate comparative information.

22 FEE INCOME				
Contract administration	40		26	
Investment contracts	34		21	
Release of deferred front-end fees	6		5	
Administration business	561	368		
Health administration	513	335		
Asset management	16	–		
Asset administration	32	33		
	601	368	26	

IFRS adjustments and other adjustments/reclassifications

In 2004 this figure was adjusted for the reversal of intra-group asset management fees of R78 million.

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
23 INVESTMENT INCOME				
Dividends received - listed	451	495	323	416
Dividends received - unlisted	11	–	–	–
Interest received	1 156	1 219	948	1 027
Net rentals	285	258	228	252
Rental income	309	423	235	247
Rental income - other group companies	39	34	30	23
Direct operating expenses	(63)	(199)	(37)	(18)
Scrip lending income	9	2	4	2
	1 912	1 974	1 503	1 697
Depreciation included in net rentals	1	2	–	1
Fees paid to asset managers included in investment income	31	35	113	80

Investment income for 2005 includes income from insurance contracts, investment contracts with DPF and administration business; 2004 also includes investment income from investment contracts.

IFRS adjustments and other adjustments/reclassifications
In 2004 investment income was adjusted for profit of associates that is disclosed on the face of the income statement as well as the reversal of intra-group asset management fees of R78 million. Net realised and fair value gains were reclassified from investment return to the face of the income statement. Collective investment schemes of which the group has effective control, were consolidated, increasing investment income by R5 million.

24 NET REALISED GAINS				
Realised gains	3 253	2 418	2 957	2 280
Realised losses	(747)	(753)	(685)	(674)
Realised foreign exchange differences	(178)	(270)	(181)	(245)
Impairment of financial assets	(1)	(32)	(26)	(32)
Financial assets	2 327	1 363	2 065	1 329
Investment property	63	9	(19)	9
Other investments	23	–	–	–
	2 413	1 372	2 046	1 338

Net realised gains for 2005 include income from insurance contracts, investment contracts with DPF and administration business; 2004 also includes net realised gains on investment contracts. The 2004 figures reflect net realised gains on available-for-sale assets while the 2005 figures reflect net realised gains on assets at fair value through income. In 2004 the total net realised gains were included in investment return.

25 NET FAIR VALUE GAINS				
Fair value gains	7 090	4 814	6 231	4 363
Fair value losses	(1 346)	(1 270)	(1 292)	(1 181)
Fair value gains/(losses) on investments in subsidiaries			197	(37)
Financial assets	5 744	3 544	5 136	3 145
Investment property	324	96	234	38
Other investments	98	–	3	–
	6 166	3 640	5 373	3 183

Net fair value gains include income from insurance contracts, investment contracts with DPF and administration business. The 2004 figures reflect net fair value gains on available-for-sale assets while the 2005 figures reflect gains on assets at fair value through income. In 2004 the total net fair value gains were included in investment return.

		GROUP		METROPOLITAN LIFE LTD	
		2005 Rm	2004 Rm	2005 Rm	2004 Rm
26	**NET INSURANCE BENEFITS AND CLAIMS**				
	Insurance contracts	3 846	5 825	3 074	5 104
	Death and disability claims	1 448	1 270	1 230	1 084
	Maturity claims	710	1 245	557	1 079
	Annuities	512	723	454	667
	Surrenders	1 140	1 200	797	916
	Withdrawal benefits	36	213	36	231
	Terminations	–	1 174	–	1 127
	Investment contracts with DPF	2 794		2 674	
	Death and disability claims	18		17	
	Maturity claims	43		38	
	Annuities	36		34	
	Surrenders	6		6	
	Withdrawal benefits	140		106	
	Terminations	2 551		2 473	
		6 640	5 825	5 748	5 104
	Amounts recovered from reinsurers	(229)	(140)	(182)	(103)
		6 411	5 685	5 566	5 001

In 2005 claims paid under investment contracts without DPF have been treated as a deduction from the value of investment contract liabilities. In 2004 total claims paid for insurance and investment contracts were disclosed as comparative information as the group has taken the exemption under IFRS4 not to restate comparative information.

27	**EXPENSES FOR MARKETING AND ADMINISTRATION**				
	Administration fees received	(66)	(57)	(50)	(43)
	Auditors' remuneration	10	11	5	7
	Audit fees	8	9	5	6
	Other services	2	2	–	1
	Consulting fees	53	47	34	32
	Depreciation and impairment charge	55	52	27	32
	Owner-occupied properties	6	–	5	–
	Plant and equipment	49	52	22	32
	Distribution costs	128	122	101	91
	Employee benefit costs	903	765	455	436
	Management fees			(16)	(16)
	Marketing costs	88	65	65	47
	Other expenses	299	228	57	70
	Other related South African taxes	85	72	63	59
		1 555	1 305	741	715

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
27 EXPENSES FOR MARKETING AND ADMINISTRATION (CONTINUED)				
Employee benefit costs				
Salaries	697	597	383	360
Defined benefit retirement fund	1	1	1	1
Defined contribution retirement fund	67	55	33	30
Share-based payment expenses *(note 39)*	11	10	5	5
Training costs	30	34	24	29
Metropolitan Health staff share scheme	56	43		
Other	41	25	9	11
	903	765	455	436
Interest expense included above	9	3		
Directors emoluments included above			6	5

Expenses for marketing and administration include expenses from insurance contracts, investment contracts with DPF and administration business.

IFRS adjustments and other adjustments/reclassifications

In 2004 the amortisation and impairment of intangible assets and interest expense on finance leases, to the value of R38 million for the group and R36 million for Metropolitan Life Limited and R3 million for the group and R2 million for Metropolitan Life Limited respectively, were reclassified to the face of the income statement. Share-based payment expenses to the value of R10 million for the group and R5 million for Metropolitan Life Limited were recognised. Similarly, an expense relating to the Metropolitan Health staff share scheme of R43 million for the group was recognised.

28 FINANCE COSTS				
Interest expense				
Other	1	3	–	2
Redeemable preference shares	53	13	–	–
	54	16	–	2

IFRS adjustments and other adjustments/reclassifications

In 2004 interest expense on finance leases was reclassified from expenses for marketing and administration. Redeemable preference shares were reclassified in full as borrowings. This reclassification gave rise to an increase in the interest expense of R9 million.

29 EARNINGS PER SHARE

	Basic earnings		Diluted earnings	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
Attributable to equity holders of group				
Earnings (cents per share)	289.25	265.76	257.05	239.37
Headline earnings (cents per share)	289.25	271.70	257.05	244.68
Core headline earnings (cents per share)	109.39	77.49	95.93	71.12
Reconciliation of headline earnings – group				
Earnings - equity holders of group	1 695	1 653	1 695	1 653
Investment return on treasury shares			149	
Finance costs - preference shares *(note 28)*			53	13
Diluted earnings			1 897	1 666
Goodwill impaired *(note 3)*	–	37	–	37
Headline earnings	1 695	1 690	1 897	1 703
Fair value gains on treasury shares			(135)	
Net realised and fair value gains on excess	(999)	(639)	(999)	(639)
Basis changes, LOA statement of intent and investment variances	(55)	(274)	(55)	(274)
Shareholder share of 90:10 fund		(295)		(295)
Core headline earnings	641	482	708	495
Weighted average number of ordinary shares in issue (million)	586	622	586	622
Adjustments for:				
Assumed conversion of preference shares			80	19
Treasury shares held on behalf of contract holders			22	
Staff share scheme shares			50	55
Diluted weighted average number of ordinary shares in issue (million)			738	696

Headline earnings consist of operating profit, investment income, net realised and fair value gains, investment variances and basis and other changes.

Net realised and fair value gains, investment variances and basis and other changes can be volatile; therefore core headline earnings have been disclosed that comprise operating profit and investment income on shareholder assets only.

IFRS adjustments and other adjustments/reclassifications

In 2004 core headline earnings were reduced by the current employee service cost of R51 million, reclassification of goodwill amortised to intangible assets amortisation of R12 million and finance costs with respect to the preference shares of R9 million.

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
30 CASH FLOW FROM OPERATING ACTIVITIES				
30.1 Cash generated by operations				
Results of operations	2 364	2 071	1 755	1 748
Adjusted for				
Depreciation	55	52	27	32
Assets written off	2	7	1	5
Amortisation	49	45	34	33
Impairment charges	26	40	30	75
Net realised gains	(2 413)	(1 372)	(2 046)	(1 338)
Net fair value gains	(6 166)	(3 640)	(5 373)	(3 183)
Share-based payments expense	11	10	5	5
Metropolitan Health staff share scheme	56	43		
Changes in operating assets and liabilities (excluding effect of acquisitions and exchange differences on consolidation)				
Insurance liabilities	7 243	5 187	5 799	4 015
Re-insurance assets	(9)		–	
Intangible assets related to insurance and investment contracts	(13)		(28)	
Loans and receivables	(80)	(53)	49	(88)
Equity securities	3 649	(1 219)	3 545	(864)
Debt securities	(1 297)	(1 007)	(598)	(840)
Derivative financial instruments	40	157	79	157
Investment property	25	4	27	122
Other operating liabilities	58	252	(6)	300
	3 600	577	3 300	179

The change in investment property for Metropolitan Life Limited includes the property subsidiaries that were sold during 2004.

30.2 Income tax paid				
Due at beginning	(250)	(119)	(158)	(72)
Charged to income statement	(573)	(381)	(384)	(276)
Charged directly to equity	(23)	–	(19)	–
Business combination	–	1		
Due at end	574	250	403	158
	(272)	(249)	(158)	(190)
30.3 Interest paid				
Redeemable preference shares	48			
Other	–	4		2
	48	4		2

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm

31 CASH FLOW FROM INVESTING ACTIVITIES

31.1 Additional interest acquired in subsidiary

In 2005 the group purchased shares from the management who participate in the Metropolitan Health share scheme for a consideration of R5 million. Refer note 39.

31.2 Adjustment to cost of business combination

In 2004 R30 million was paid in settlement of a contingent cost relating to the acquisition of Commercial Union Life Association of South Africa Limited during 1999. A further R3 million in costs were incurred in the process of re-engineering the 90:10 fund in Metropolitan Life Limited.

31.3 Acquisition of subsidiary

On 17 December 2004 the group acquired a 100% holding in Channel Life Namibia Limited.

Purchase consideration	
Cash paid	85
Fair value of assets acquired	(85)
Excess	–
The assets and liabilities arising from the acquisition are as follows	
Investment assets	113
Tangible assets	5
Cash and cash equivalents	150
Receivables	30
Contract holder fund	(166)
Current liabilities	(47)
Fair value of net assets	85
Cash and cash equivalents in net assets acquired	(150)
Cash inflow on acquisition	(65)

31.4 Disposal of business

The bulk of the Lesotho business in Metropolitan Life Limited was transferred to Metropolitan Lesotho Limited with effect from 1 January 2004.

Disposal price	
Cash received	110
Fair value of assets transferred	(62)
Profit on transfer	48
The assets and liabilities disposed of are as follows	
Investment assets	523
Receivables	53
Cash and cash equivalents	182
Contract holder fund	(668)
Current liabilities	(28)
Fair value of assets transferred	62
Profit on transfer	48
Cash received	110
Cash and cash equivalents in net assets transferred	(182)
Cash outflow on transfer	(72)

32 STAFF SHARE SCHEMES

32.1 Share purchase scheme for senior staff

Ordinary but unlisted shares are allocated to participants and are financed by an interest-bearing loan from the trust, currently 8.0% (2004: 8.5%) per annum. A special dividend is declared each year to cover the interest payable by the participants. The shares are pledged to the trust as security for the loan. After five years from the issue date the shares can, on repayment of the outstanding loan balance, be released to the participant and listed on the JSE Securities Exchange South Africa.

In terms of the trust deed, the trust is financed by a loan from Metropolitan Life Limited on terms similar to those on which it grants finance to the participants.

	Shares available for issue		Shares held by participants	
Number of shares (million)	2005	2004	2005	2004
At beginning	80	75	60	70
Shares issued to participants				
June 2004 - R7.75 per share				1
October 2004 - R9.13				1
November 2005 - R10.92	(3)		3	
Shares released			(15)	(7)
Shares bought back from participants	3	5	(3)	(5)
At end	80	80	45	60

Of the shares held by participants, 6 million are currently available for release and an additional 3 million will become available for release during 2006.

32.2 Share incentive scheme for other staff

Ordinary listed shares are allocated to participants and are financed by an interest-free loan from the trust. Participants receive the same dividend as ordinary shareholders. After five years from the issue date the shares can, on repayment of the outstanding loan balance, be released from the trust. The participants have an option to put the shares back to the trust at a price equal to the original issue price.

In terms of the trust deed, the trust is financed by a loan from Metropolitan Life Limited on terms similar to those on which it grants finance to the participants.

At beginning	41	39	7	10
Shares issued to participants				
Shares released	(2)		(2)	(1)
Shares bought back from participants	1	2	(1)	(2)
At end	40	41	4	7

Of the shares held by participants, 500 000 are currently available for release and no additional shares will become available for release during 2006.

	METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm
32.3 Loans granted		
Loan from Metropolitan Life Ltd to the purchase scheme trust	307	492
Loan from Metropolitan Life Ltd to the incentive scheme trust	40	66
Loan from purchase scheme trust to participants	304	467
Loan from incentive scheme trust to participants	22	47

The recoverability of both loans from Metropolitan Life Limited is guaranteed by Metropolitan Holdings Limited, as set out in its financial statements in note 18 on page 150.

Both the trusts have been consolidated on a group level and shares issued to participants since 1 January 2001 have been reversed on consolidation. The value of the shares, R313 million, has been reversed and the effect on the number of shares can be seen in the stock exchange performance table on page 153.

32.4 Staff share schemes – value of services provided

The fair value of the services provided was determined using a modified binomial tree (Carpenter 1998) model. The significant inputs into the model were risk-free rates ranging from 7.36% to 7.8%, a continuously compounded dividend yield of 6.32% and volatility of 26.95%. Forfeiture rates of 5% and 10% were used for the staff purchase scheme and the staff incentive scheme respectively to calculate the value of services provided.

	GROUP		METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
33 COMMITMENTS				
Authorised but not contracted	49	30	8	–
Authorised and contracted	10	21	10	1
	59	51	18	1

The above commitments are in respect of sponsorships, computer equipment, promotions and new business opportunities. These commitments will be financed from internal sources.

34 CONTINGENT LIABILITIES

The South African Revenue Services has raised a tax assessment on Metropolitan Life Limited for which no provision has been made, based on legal grounds and on independent tax advice received by the group.

The group is party to legal proceedings in the normal course of business and appropriate provisions are made when losses are expected to materialise.

35 RELATED PARTY TRANSACTIONS

35.1 Holding company

Metropolitan Holdings Limited is the ultimate holding company in the Metropolitan Holdings group. The shares are widely held by public and non-public shareholders. Refer to the shareholder profile on page 152.

35.2 Transactions with directors and key personnel

Remuneration is paid to directors in the form of fees to non-executive directors and remuneration to executive directors and key personnel of the company. Transactions with directors are disclosed in the corporate governance and directors' report on pages 58 and 76 respectively. The group executive committee members are members of the staff pension scheme, the details of which are in note 17. Certain of these members have investments with the group that have been taken out in the ordinary course of business. The aggregate remuneration of this committee, excluding the executive directors, is R10 million (2004: R11 million) for the group and R6 million (2004: R8 million) for Metropolitan Life Limited. In addition to the shares held by directors disclosed on page 59 of the corporate governance report, other key personnel hold 2 million (2004: 4 million) shares in the staff share schemes and have loans of R15 million (2004: R29 million) outstanding at year-end.

35.3 Contract administration

Certain companies in the group carry out third party contract and other administration activities for other related companies in the group. These are eliminated on consolidation.

35.4 Staff share schemes

Loans were advanced to the two share schemes and to participants in the schemes. Amounts outstanding at the end of the year are disclosed in note 32. Interest paid, by the trusts to Metropolitan Life Limited, was R28 million (2004: R44 million).

35.5 Property lease agreements

Certain related parties of the group are lessees with Metropolitan Life Limited or its property subsidiaries. Rental income for Metropolitan Life Limited and its subsidiaries from group companies for the year ended 31 December 2005 amounted to R30 million (2004: R23 million).

35 RELATED PARTY TRANSACTIONS (CONTINUED)

35.6 Transactions with group companies

Loans are advanced between Metropolitan Life Limited, its subsidiaries and fellow subsidiaries as funding. These loans are interest free and repayable on demand. Set out below is a list of loans to/(from) subsidiaries and fellow subsidiaries included in loans and receivables and payables in the balance sheet of Metropolitan Life Limited.

	METROPOLITAN LIFE LTD	
	2005 Rm	2004 Rm
Indebtedness by/(to) companies		
Metropolitan Life property subsidiaries	375	786
Investment subsidiaries	(11)	11
Metropolitan Collective Investments Ltd	3	2
Metropolitan Asset Managers Ltd	(30)	(26)
Metropolitan International Ltd	5	1
Metropolitan Odyssey Ltd	64	9
Metropolitan Life (Namibia) Ltd	13	4
Metropolitan Life of Botswana Ltd	–	1
Metropolitan Lesotho Ltd	14	(48)
Metropolitan Holdings Ltd	18	31
Metropolitan Card Operations Ltd	7	
	458	771
Transactions with group companies		
Asset management fees paid	99	72
Internal recoveries	26	21
Interest received	76	123
Purchases of assets from property subsidiaries	341	–
Interest paid	22	10
Sale of property subsidiaries	–	17
Asset management fees received	8	–

36 CONTRACT HOLDER LIABILITIES ASSUMPTIONS AND ESTIMATES

The valuation of insurance liabilities is a function of methodology and assumptions. The methodology is described in the accounting policies on pages 96 to 98. The assumptions used are best estimate assumptions, with the addition of explicit compulsory margins required by PGN 104 of the Actuarial Society of South Africa and the discretionary margins listed on page 97 of the accounting policies. The excess at 31 December 2005 would have been R1 886 million (2004: R1 537 million) higher without the discretionary margins.

The process used to decide on best-estimate assumptions is described below:

Mortality

- Individual smoothed bonus and non-profit business: Mortality assumptions are based on internal investigations into mortality experience. These are carried out annually, with the most recent investigation being in respect of the 2004 financial year. Comparisons of claims and mortality charges are done quarterly, the most recent such investigation being in respect of the quarter ended December 2005 for individual business and June 2005 for grouped individual business.
- Conventional with-profit business (excluding home service funeral business): Mortality assumptions are based on standard tables (principally SA85/90), modified according to internal experience. Annual mortality investigations are carried out, with the most recent investigation being in respect of the 2004 financial year.
- Home service funeral business: Mortality assumptions are based on internal investigations into mortality experience, with the most recent investigation being in respect of the 2000 financial year.

- Annuity business: Mortality assumptions are based on the PA90 standard table, less two years in age, with an allowance for mortality improvement of 0.5% pa. The most recent investigation is in respect of the 2004 financial year.
- Allowance for worsening mortality as a result of AIDS has been made using the industry standard ASSA2000 model, calibrated to reflect the contract holder population being modelled.

Morbidity

- Morbidity and accident investigations are done annually, the most recent being in respect of the 2005 financial year.

Persistency

- Lapse and surrender assumptions are based on past experience. When appropriate, account is also taken of expected future trends.
- Lapse investigations are performed annually in respect of grouped individual business, the most recent being in respect of the year ended June 2005, and quarterly in respect of other individual business, the most recent being in respect of the quarter ended September 2005.
- Surrender investigations are performed annually, the most recent being in respect of the year ended November 2005.
- Experience is analysed by product type as well as policy duration.
- Lapses at inception for individual business were 14.0% per annum (2004: 14.2%).

Expenses

- Provision for future renewal expenses starts at a level consistent with the experience for the 2005 financial year and allows for escalation at the assumed expense inflation rate of 4.25%.
- The current level of expenses is taken as an appropriate expense base.
- The allocation of total expenses between initial and renewal is based on a functional cost analysis for both grouped and individual business.
- Non-recurring expenses are identified and excluded from the analysis.

Investment returns

- Market-related information is used to derive assumptions in respect of investment returns, discount rates used in calculating contract liabilities and renewal expense inflation.
- Contract holders' reasonable benefit expectations are allowed for by assuming bonus rates supported by the market value of the underlying assets and the assumed future investment return.
- These assumptions take into account the asset mix backing each liability type and are suitably adjusted for tax and investment expenses.
- For non-profit annuity business, yields of appropriate duration from the swap yield curve of the Bond Exchange of South Africa as at valuation date are used to discount expected cash flows at each duration.
- For guaranteed endowment business, the discount rates used are the yields to maturity of the assets backing each policy.
- For other business, a single gilt rate from the BEASSA Government Bond yield curve is taken, corresponding to the average discounted mean term of the contract liabilities, and rounded to the nearest quarter of a percent.
- Investment returns for the other asset classes are set as follows:
  - Equity rate: gilt rate + 2%
  - Property rate: gilt rate + 2%
  - Cash: gilt rate - 2%
- The assumed renewal expense inflation rate is based on the gilt rate, less a margin (currently 3.25%). This margin is set taking into account both internal and external factors affecting future expense inflation.
- The main best estimate assumptions, gross of tax, used in the valuation are:

	2005 %	2004 %
Gilt rate - risk-free investment return	7.50	8.25
Assumed investment return for individual smoothed bonus business	8.90	9.65
Renewal expense inflation	4.25	5.00

36 CONTRACT HOLDER LIABILITIES ASSUMPTIONS AND ESTIMATES (CONTINUED)

Tax

- Future tax is allowed for according to current tax legislation (S29A of the Income Tax Act and the relevant retirement fund tax legislation).
- No allowance is made for any assessed losses in the contract holders' tax funds.
- Capital gains are assumed to be realised on a six to seven year rolling basis. Capital gains tax charges are discounted to reflect this, resulting in some deferment of capital gains tax.

Basis and other changes

Assumptions and methodologies used in the valuation are reviewed at the reporting date and the impact of any resulting changes in estimates is reflected in the income statement as they occur.

- Basis and other changes increased the excess of assets over liabilities at 31 December 2005 by R102 million. The major contributors to this change were as follows:
  - Methodology changes and corrections (negative R18 million)
  - Experience basis changes (positive R120 million)
    The experience basis changes are in respect of mortality, withdrawal and expense assumptions.
- The impact of the reduction in investment return includes the consequent change in projected bonus rates, discount rates and the assumed level of renewal expense inflation.

Sensitivity analysis

- The sensitivity of the value of contract holder liabilities to movement in the assumptions is shown in the table below. In each case below, one assumption changes while all the other assumptions remain constant.

	Liability Rm	Change %
Central value (as published)	42 855	
Investment return - 1% (bonus rates adjusted accordingly)	43 199	0.8
Withdrawal rates + 10%	42 795	(0.1)
Mortality/morbidity + 10% (- for annuities)	43 193	0.8
Expenses +10%	43 122	0.6

- Additional information on the sensitivity of future embedded value earnings to changes in assumptions is provided in the embedded value report.

37 RISK MANAGEMENT

A key risk for the group is that the proceeds from its assets will not be sufficient to fund the obligations arising from its insurance and investment contracts. The risk arises from the presence of financial or insurance risk in the contracts issued by the group. This section provides information on the processes and structures in place to manage and mitigate such risks.

37.1 Responsibility for risk management

The board is ultimately responsible for risk management. The board has delegated the assessment of the quality, integrity and reliability of the group's risk management processes to a number of committees.

- The risk committee assists the board in the discharge of its duties relating to corporate accountability and the associated risk in terms of management, assurance and reporting. The committee reviews and assesses the integrity of the risk control systems and ensures that the risk policies and strategies are effectively managed.
- The audit and actuarial committee assists the board in carrying out its assessment of controls and the risk function. In fulfilling this duty, the committee reviews the financial reporting process and results, the audit process, the systems of internal control and the management of financial, actuarial and operational risks. It also monitors legislative and regulatory compliance and ensures good corporate governance.
- The investment committee reviews the asset management arrangements of the group and monitors investment performance in terms of mandates and set benchmarks.
- Risk management is implemented at an operational level via a number of committees, including:
  - the management risk committee, whose primary responsibility is the review of strategic, business, operational and financial risks facing the group.
  - the asset liability management forum, which is a cross-business management forum whose purpose is to promote the best possible standards of asset/liability management for the group. This includes ensuring that risks are addressed on a group level rather than just at an individual business unit level.

37.2 Capital adequacy requirement

The group is required to maintain a capital balance equivalent to the capital adequacy requirement (CAR). This is available to meet obligations in the event of substantial deviations from the main experience assumptions affecting the group's investment and insurance contract business.

The CAR is determined in accordance with the FSV guidelines in PGN 104. It is a risk-based capital measure that is intended to provide a 95% confidence level that insurers will be able to meet their existing liabilities.

The CAR includes provisions and scenario tests for a number of risks including:

- adverse selective mass termination of contracts
- financial risk from asset and liability mismatch under specified market movements (resilience test)
- random fluctuations in insurance and expense risks
- risk that long-term insurance and financial assumptions are not realised.

At 31 December 2005 the group's minimum CAR for insurance and investment contract business was covered 4.3 times (2004: 3.4 times). The ordinary CAR exceeded the termination CAR; therefore the CAR has been based on the ordinary CAR.

The following assumptions and resulting management actions were used to calculate the CAR:

- A decline of 30% in equity asset values and 15% in property values and a 10.4% increase in fixed interest asset values, resulting from a 25% relative decrease in fixed interest yields, will occur on the valuation date.
- Non-vesting bonuses will be removed, up to a maximum of 10% of the pre-decline fund accounts for smoothed bonus business, or pre-decline sums assured and accumulated bonuses for conventional with-profit business.
- In the three year period following the decline, bonuses will lag investment performance. The extent of the assumed lag varies by class of business, and the maximum allowable lag averages out at 10% of the pre-decline accumulated investment fund for smoothed bonus business, or pre-decline sums assured and accumulated bonuses for conventional with-profit business.
- Interim bonuses for individual smoothed bonus business will be reduced to zero.
- Assets backing the CAR are 100% invested in equities.

Should asset values decline as assumed, the above management actions will reduce contract holder liabilities by R1.2 billion (2004: R2.8 billion).

The offsetting management actions assumed have been approved by specific resolution by the respective boards of directors and the respective statutory actuaries are satisfied that these actions will be taken if the adverse scenarios materialise.

37.3 Insurance risk

Insurance risk is the risk that benefit payments and expenses exceed the carrying amount of the company's insurance liabilities. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year. Statistically, the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. Similarly, diversification of the portfolio with respect to risk factors reduces insurance risk.

37.3.1 Mortality, morbidity and medical risks

Underwriting processes are in place to manage exposure to death, disability and medical risks. The most significant measures are:

- Premium rates are required to be certified by the statutory actuary as being financially sound.
- Regular experience investigations are conducted and used to set premium rates.
- Reinsurance arrangements are negotiated in order to limit the risk on any individual contract.

The nature of risks varies depending on the class of business. The material classes of business most affected by these risks are discussed below:

Individual insurance business

- These are contracts providing benefits on death, disability, accident, medical events and survival that are sold directly to individuals. These contracts may also bear significant financial risk.

37 RISK MANAGEMENT (CONTINUED)

- Factors affecting these risks
  - The most significant factors that could substantially increase the frequency of claims are epidemics (such as AIDS or Avian flu) or widespread changes in lifestyle (smoking, exercise, eating, sexual practices), resulting in more or earlier claims.
  - Economic conditions can potentially affect morbidity claims where benefits are determined in terms of the ability to perform an occupation.
  - Medical advances can potentially affect the size of medical claims.
- How risks are managed
  - Risk premiums on most smoothed bonus and market-related contracts may be adjusted within the terms and conditions of the contracts. Group practice is to adjust these charges so that on average they reflect actual mortality experience, hence reducing mortality risk. There is residual mortality risk resulting from delays in identifying worsening experience and adjusting charges as well as marketing pressures.
  - To reduce cross-subsidisation of risks, and the possibility of anti-selection, premium rates differentiate on the basis of: age, gender, occupation, smoker status, education, income level, geographic region and the results of underwriting investigations. Experience investigations have shown these are reliable indicators of the risk exposure.
  - All applications are subject to underwriting rules. Applications for risk cover above certain limits are reviewed by experienced underwriters and evaluated against established standards.
  - Compulsory testing for HIV is carried out in all cases where the applications for risk cover exceed limits specified for each product. Where HIV tests are not required, this is fully reflected in the pricing and experience is closely monitored.
  - Underwriting is done to identify abnormal risks and take appropriate actions such as additional premium loadings or alteration of benefit terms.
  - Mortality on non-profit annuities is monitored and future mortality improvements are allowed for in the pricing.
  - An additional provision is held in respect of the potential deterioration of mortality experience as a result of AIDS risks using modern best practice models as advocated by the Actuarial Society of South Africa.
  - Reinsurance agreements are used to limit the risk on any single policy. Sums assured above a negotiated retention level are reinsured on a risk premium basis. Facultative arrangements are used for sub-standard lives and large sums assured. Currently no catastrophe cover has been purchased, but this is assessed on a regular basis.

The table below shows the concentration of individual insurance contract benefits by sum insured at risk.

Sum insured per benefit	Number of benefits	Amount (gross) Rm	Amount (net) Rm
0 - 20 000	2 346 042	11 291	10 906
20 000 - 50 000	406 814	13 488	12 390
50 000 - 100 000	126 108	9 279	8 375
100 000 - 200 000	59 720	8 331	7 342
200 000 - 500 000	45 182	14 502	11 238
>500 000	30 573	29 935	13 152

Group insurance business

- These are contracts that provide life and/or disability cover to members of a group (eg clients or employees of a specific company).
- Factors affecting these risks
  - Contracts are similar to individual insurance contracts but there is greater risk of correlation between claims on group schemes because the assured lives live in the same geographical location or work in the same industry.
  - Underwriting processes may be streamlined, with cover supplied up to certain limits without underwriting.

- How risks are managed
  - Rates are based on scheme experience and are reviewed annually.
  - Rate reviews take into account known trends such as worsening experience due to AIDS.
  - Reinsurance arrangements are in place to limit the risk on each individual life. In addition, catastrophe cover is used to limit the risk of a large number of claims arising as a result of a single event.

The table below shows the concentration of group schemes by scheme size (as determined by the number of lives covered).

Lives covered by scheme	Number
0 - 1 000	1 382
1 000 - 5 000	270
>5 000	136

Annuity business

- These are contracts that provide benefit payments contingent on the survival of the annuitant. The group is exposed to the risk that on average annuitants live longer than assumed in the pricing basis.
- Factors affecting these risks
  - Increased longevity due to medical advances and improvement in social conditions.
  - Selection bias - individuals purchasing annuities are in better health and therefore live longer than assumed in the pricing basis.
- How risks are managed
  - Pricing assumptions are based on international mortality tables, with an allowance for improving mortality trends.
  - Premium rates differentiate on the basis of age and sex.

The table below shows the concentration of individual annuity contracts by annual annuity amounts.

Annuity amount per annum	Number of annuitants	Total amount per annum Rm
0 - 50 000	38 411	252
50 000 - 100 000	843	58
100 000 - 250 000	218	31
>250 000	38	15

37.3.2 Contract persistency risk

- Contract holders generally have a right to pay reduced or no future premiums, or to terminate the contract completely before expiry of the contract term.
- Factors affecting these risks
  - Economic conditions and/or consumer trends can influence persistency rates.
  - Expenses incurred in the acquisition of contracts are expected to be recouped over the term of the policy. These may not be recovered where the premiums are reduced or the contract terminated early.
  - Terminations can have the effect of increasing insurance risk - eg contract holders whose health has deteriorated are less likely on average to terminate a contract providing medical or death benefits.
  - The liability held for some contracts may be less than the termination benefit payable. The net group surplus will reduce if these contracts terminate early.
- How risks are managed
  - Where withdrawal benefits are payable on termination, these can be adjusted to recover certain expenses. However, market and legislative forces may restrict the extent to which this may be done in future.
  - Persistency rates are measured on a monthly basis by a variety of factors and resources are directed towards the sale of business with higher persistency.

37 RISK MANAGEMENT (CONTINUED)

37.4 Financial risk

The company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The key financial risk is that of the proceeds from the group's financial assets being insufficient to fund the obligations arising from its insurance and investment contract liabilities.

- The group matches its assets and liabilities as accurately as is practical. The investment committee reviews the asset management arrangements of the group and monitors investment performance in terms of mandates and set benchmarks.
- The assets backing each major line of business are segregated to ensure that they are used exclusively to provide benefits for the relevant contract holders. These assets are subject to various market risks, particularly interest rate and equity price risk.
- Shareholders are exposed to the risk of fluctuations in the value of assets supporting shareholder capital.
- The main financial risks to which the group is exposed are described below under various contract categories. Each category represents distinct financial risks. Some categories may include both insurance and investment contracts.

The table below reconciles the liabilities for each category to the total contract holder liability on the balance sheet.

	Liability at 31 December 2005 Rm	Proportion of total contract holder liability (%)
Contracts with DPF	25 209	58.8
Individual contracts with DPF	14 542	33.9
Group contracts with DPF	10 667	24.9
Market-related business	10 173	23.7
Individual market-related business	4 902	11.4
Group market-related business	5 271	12.3
Other business	7 473	17.5
Non-profit annuity business	3 051	7.1
Guaranteed endowments	895	2.1
Structured products	386	0.9
Other non-profit business	3 141	7.4
Total contract holder liability	42 855	100.0

37.4.1 Insurance and investment contracts with discretionary participation features

- Bonuses are declared taking into account a number of factors, including actual investment returns, previous bonus rates declared and contract holders' reasonable expectations. Bonuses are generally designated as vesting bonuses, which can never be removed or reduced or non-vesting bonuses, which can be removed or reduced.
- For smoothed bonus business, bonus stabilisation reserves (BSRs) are held equal to the difference between the fund accounts, or between the discounted value of projected future benefit payments for with-profits annuity business and the market value of the underlying assets. The BSR is undistributed surplus in the asset portfolio that is earmarked for future distribution to contract holders.
- If the smoothing process has resulted in a negative BSR because of a downward fluctuation in the market value of the backing assets, the liabilities are reduced to reflect the amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years, provided that the statutory actuary is satisfied that if the market values of assets do not recover, future bonuses will be reduced to the extent necessary.
- The group is exposed to market risk to the extent that a negative BSR cannot reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years.
- Derivative structures may be utilised to minimise the extent of negative BSRs.

- The major classes of smoothed bonus business are:
  - Metropolitan individual smoothed bonus business
  - Metropolitan Employee Benefits guaranteed fund business
  - Metropolitan Employee Benefits with-profit annuity business
  - ex-Commercial Union Life individual smoothed bonus business

  The market value of underlying assets as a percentage of accumulated fund accounts was greater than 92.5% for all of these classes of smoothed bonus business as at 31 December 2005.

  The market value of the underlying assets in respect of all smoothed bonus business at 31 December 2005 was R20.9 billion (2004: R17.6 billion).
- The group earns management fees as a percentage of the fair value of the asset portfolio. To the extent that the assets are subject to interest rate and market price risk, these fees are volatile, although always positive.

37.4.2 Market-related business

- The group holds the assets on which unit prices are based in accordance with policy terms and conditions.
- The group is not exposed to significant market risk on these funds.
- The group earns management fees as a percentage of the fair value of the asset portfolio. To the extent that these assets are subject to interest rate and market price risk, these fees are volatile, although always positive.

37.4.3 Non-profit annuity business

- Benefit payments on non-profit annuities are fixed and guaranteed at inception (except to the extent that they are exposed to mortality insurance risk).
- Projected liability outflows on annuity business are closely matched by an actively managed combination of bonds of appropriate duration and interest rate derivatives. Credit risk for these policies is born by the shareholder.

37.4.4 Guaranteed endowments (include both insurance business and financial instruments)

- Guaranteed endowments are five-year term contracts with fixed benefit payments that are guaranteed at inception of the contract. The guaranteed benefits are closely matched by a combination of bonds and interest rate derivatives from inception.
- Credit risk for these policies is born by the shareholder. The structured assets backing this business have a credit rating that corresponds to senior bank debt and is equivalent to a long-term rating of AA from Fitch.

37.4.5 Structured products (financial instruments)

- The group issues tranches of fixed term contracts whose benefits are defined in terms of specified financial variables. A specific asset structure to match the financial liability is created for each tranche.
- Credit risk for these policies is born by the shareholder. The structured assets backing this business have a credit rating that corresponds to senior bank debt and is equivalent to a long-term rating of AA from Fitch.

37.4.6 Guaranteed maturity values

- A guaranteed maturity value is attached to the majority of the individual DPF business and some of the individual market-related business. Typically, guaranteed returns of 4% are provided.
- These liabilities are sensitive to interest rate and equity price movements and are valued using accepted proprietary models in accordance with valuation techniques as set out in PGN 110 - local guidance on the quantification of minimum investment return guarantees. These techniques are market-related without being market-consistent in all cases.
- Currently no structures are in place to match movements in this liability.

37.4.7 Other non-profit business

- These are primarily insurance contracts of varying duration.
- Backing assets are duration matched according to the tax-adjusted modified term of the liabilities.

37 RISK MANAGEMENT (CONTINUED)

37.5 Financial instrument risks

Credit risk

Credit risk is the risk that a counter party will fail to discharge an obligation on an asset held and cause the group to incur a financial loss.

Balances where the group has exposure to credit risk includes all financial instruments, amounts due from reinsurers and cash and cash equivalents on deposit.

Fair values of investments may be affected by the creditworthiness of the issuer of securities. The credit risk exposure policy is formally defined such that the exposure to any institution in which the group has placed deposits, or to which it has credit risk exposure, is limited to the lower of 25% of the institution's shareholder funds, 2.5% of the group's assets at market value and 2.5% of the institution's total assets. For institutions with an "A" category credit rating by Metropolitan Holdings, the limits are 50% of the institution's shareholder funds, 5% of the group's assets at market value and 5% of the institution's total assets. Where the group has strong collateral in respect of its exposure to the institution (ie immediately convertible to cash even though the institution may already be in curatorship or under liquidation), the exposure is reduced by this collateral to determine whether the group is within the limits as set out above. Provisions of the Long Term Insurance Act 1998 have the effect of limiting exposure to individual issuers due to the inadmissibility of assets for regulatory purposes if specified limits are breached.

Amounts receivable in terms of long-term insurance business are limited to and secured by the underlying value of the unpaid policy benefits in terms of the policy contract.

The group is exposed to credit risk in any reinsurance assets held. If a reinsurer fails to pay a claim, the group remains liable for the payment to the contract holder. Reinsurance is placed with reputable international companies. The credit rating of the company is assessed when placing the business and where there is a change in the status of the reinsurer.

Ratings of debt securities on a fair value basis	2005 Rm	2004 Rm
Government and parastatals	7 197	7 347
AAA	483	417
AA	2 313	462
A	772	162
BBB	14	11
Botswana corporate bonds - unrated	57	22
Unit linked	1 089	1 460
	11 925	9 881

Scrip lending

The group is authorised to lend scrip and bonds up to a maximum of 60% of its specific holdings in each instrument and was engaged in scrip lending in respect of 20.2% (2004: 6.9%) of its listed equities and 3.2% (2004: 6.8%) of its bonds as at the year-end. As at year-end, the group had securities with a market value of R3 570 million (2004: R1 227 million) on loan with appropriately accredited institutions. Fees received from scrip lending activities are included in investment income in the income statement.

Currency risk

Currency risk is the risk that the rand value of a financial instrument, as in the case of investment assets, will fluctuate due to changes in foreign exchange rates.

The group has unit trusts and cash invested offshore which are denominated in foreign currency. These investments were made for the purpose of obtaining a favourable international exposure to foreign currency and to investment value fluctuations in terms of investment mandates.

To the extent that offshore assets are held in respect of contracts where the contract holder benefits are a function of the returns on the underlying assets, currency risk is minimised.

The following assets and liabilities denominated in foreign currencies are included in the group balance sheet. Assets and liabilities denominated in Namibian dollar and Lesotho maluti, currencies that are pegged to the South African rand on a 1:1 basis, do not form part of the currency risk of the group.

31 December 2005	Pula Rm	£ Rm	US $ Rm	Euro Rm	Yen Rm	Total Rm
Financial assets	409	156	3 497	297	19	4 378
Equities	75	–	2 355	72	–	2 502
Debt instruments	196	155	689	67	–	1 107
Loans and receivables	41	–	–	–	–	41
Cash and cash equivalents	97	1	453	158	19	728
Other assets	49					49
	458	156	3 497	297	19	4 427
Insurance contract liabilities	(466)					(466)
Investment contract liabilities	(19)	(69)	(14)	(5)	–	(107)
Other liabilities	(40)					(40)
	(525)	(69)	(14)	(5)	–	(613)

31 December 2004	Pula Rm	£ Rm	US $ Rm	Euro Rm	Total Rm
Financial assets	368	187	3 062	90	3 707
Equities	71	186	2 309	68	2 634
Debt instruments	118	-	599	2	719
Loans and receivables	62	-	-	-	62
Other financial assets	117	1	154	20	292
Other assets	1				1
	369	187	3 062	90	3 708
Insurance liabilities	(343)	(49)	(2)	(1)	(395)
Other liabilities	(62)	(2)	(1)	–	(65)
	(405)	(51)	(3)	(1)	(460)

IFRS adjustments and other adjustments/reclassifications

In 2004 the Pula, US $ and Euro currency risk information changed as a result of IFRS adjustments and other adjustments and reclassifications.

Equity risk

Equity risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market-place. Equity investments are made on behalf of contract holders and shareholders. Equities are reflected at market values, which are susceptible to fluctuations. The stock selection and investment analysis process is supported by a well-developed research function.

Hedging

Under no circumstances are derivative contracts entered into purely for speculative purposes. All hedging transactions are to hedge the exposure to changes in the fair value of recognised assets or liabilities.

37 RISK MANAGEMENT (CONTINUED)

Expiry of options (nominal value)	0 to 1 year Rm	1 to 5 years Rm	>5 years Rm	Total Rm
31 December 2005				
OTC instruments				
Equity index options	(35)	(192)	9	(218)
Interest rate swaps	–	(4)	(2)	(6)
Exchange traded options				
Equity index	(12)	–	–	(12)
Exchange traded futures				
Equity index	17	11	–	28
	(30)	(185)	7	(208)

Expiry of options (nominal value)	0 to 1 year Rm	1 to 5 years Rm	>5 years Rm	Total Rm
31 December 2004				
OTC instruments				
Equity index options	–	(32)	(50)	(82)
Exchange traded options				
Single equity	–	7	–	7
Equity index	38	–	–	38
Exchange traded futures				
Equity index	29	–	–	29
	67	(25)	(50)	(8)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in interest rates. Changes in market interest rates have a direct effect on the contractually determined cash flows associated with floating rate financial assets and financial liabilities, and on the fair value of other investments. Fair values of fixed maturity investments included in the group's investment portfolios are subject to changes in prevailing market interest rates. Additionally, relative values of alternative investments and the liquidity of the instruments invested in could affect the fair value of interest rate market-related investments. The ongoing assessment by an investment research team of market expectations within the South African interest rate environment drives the process of asset allocation in this category.

31 December 2005	0 to 1 year Rm	2 to 5 years Rm	>5 years Rm	Open ended Rm	Total Rm
Financial assets					
Debt instruments					
Fixed interest	1 206	3 996	5 634	–	10 836
Unit-linked products	1 089	–	–	–	1 089
Loans and receivables	1 599	473	350	–	2 422
Cash and cash equivalents	6 526	–	–	–	6 526
	10 420	4 469	5 984	–	20 873
Financial liabilities					
Insurance contracts	2 727	4 604	17 223	942	25 496
Investment contracts with DPF	–	–	–	9 905	9 905
Investment contracts	665	832	2 457	3 500	7 454
Borrowings	19	938	–	–	957
	3 411	6 374	19 680	14 347	43 812

31 December 2004	0 to 1 year Rm	2 to 5 years Rm	>5 years Rm	Total Rm
Financial assets				
Debt instruments				
Fixed interest	861	998	6 560	8 419
Unit-linked products	1 462	–	–	1 462
Loans and receivables	1 657	298	385	2 340
Cash and cash equivalents	4 093	–	–	4 093
	8 073	1 296	6 945	16 314
Financial liabilities				
Borrowings	15	462	–	477

	BWP %		ZAR %	
Effective interest rates	2005	2004	2005	2004
Financial assets not at fair value through income				
Loans and receivables, including insurance receivables	7.8	8.1	3.4	1.1
Cash and cash equivalents	12.8	9.4	5.4	6.7
Financial liabilities at amortised cost				
Borrowings	–	–	10.7	9.9

Property risk

Property risk is the risk that the value of the investment properties will fluctuate as a result of changes in the rental environment.

Property investments are made on behalf of contract holders and shareholders and are all reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce this risk.

Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations when due.

- Liquidity requirements and cash resources are monitored by the investment committee and asset liability management forum.
- Appropriate assets back the group's liabilities and it has significant liquid resources. Metropolitan also continues to experience positive net cash flows.

38 METROPOLITAN HEALTH GROUP

Metropolitan Health provides a comprehensive suite of services to the private healthcare industry in South Africa and is organised into the following business units:

Third party administration

This business has a 47% market share of restricted scheme members and was recently awarded the Government Employees Medical Scheme (GEMS) administration contract, effective 1 January 2006.

*Contribution to turnover 55%

Managed care

Qualsa Healthcare provides a comprehensive suite of managed care services to the administration and franchise client base. Historically it has mainly contracted on a fee for service basis, but is increasingly harnessing its network competencies to provide risk products.

*Contribution to turnover 27%

38 METROPOLITAN HEALTH GROUP (CONTINUED)

Technology services

Metropolitan Health develops and maintains its own systems that it provides to all businesses in the health group as well as licensing systems to third parties via its franchise solution.

*Contribution to turnover 18%

Contract risk

All clients have contract termination notice periods not exceeding six months, except technology services that has notice periods not exceeding 12 months. Providing high quality services through client centric business units mitigates this risk.

Operational risk

Constant legislative change and increasing client demands make third party administration inherently a high-risk industry. The integration of the managed care and third party administration systems has greatly reduced the operational risks for both. Technology services' systems architecture is highly scalable and requires minimal lead-times to increase capacity to match growth demands. It is also subject to regular testing and reviews, including an external audit.

Legislative risk

Both the administration business and Qualsa have compliance officers who monitor ongoing legislative compliance. Both companies have received an "A" rating from Empowerdex, the highest rating achieved for the private healthcare industry. Technology services' risk is limited to confidentiality of member data and flexibility to accommodate legislative changes.

Financial risk

All the businesses are cash generative and annuity type businesses, with fees mostly being collected monthly in advance. They have a significant fixed cost base and as such profits are relatively sensitive to changes in members under administration.

Environmental risk

Consolidation is the dominant environmental risk in the private healthcare industry.

39 FIRST TIME IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

This is the first year that the group is presenting its financial statements under IFRS. The last financial statements under SA GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was 1 January 2004.

This note provides a reconciliation of net equity at 1 January 2004 and 31 December 2004 as well as net income for the year ended 2004 from the previously published consolidated financial statements.

Accounting principles under IFRS differ in various areas from SA GAAP. The most significant differences between IFRS and SA GAAP affecting net income and shareholder equity are detailed below.

Business combinations

IFRS requires the consolidation of all subsidiaries where there is evidence of control. This is presumed to exist where the investment in collective investment schemes managed by the group exceeds 50% of the issued units. The group's investment in these collective investments was previously shown at fair value in the financial statements, but has now been consolidated. The interest of external investors is recognised as a minority shareholder interest. This adjustment brings R285 million onto the balance sheet, but total assets under management remain unchanged.

The group has elected not to apply IFRS3 – Business combinations – retrospectively to business combinations that occurred before the date of transition to IFRS. On 1 January 2004, any accumulated goodwill amortisation was offset against the cost of goodwill to derive a net carrying value, which will no longer be amortised but is subject to annual impairment testing.

Employee share schemes

Metropolitan operates staff share schemes in terms of which shares are offered to staff on a deferred delivery basis. No cost was recognised in the income statement under SA GAAP. In terms of IFRS2 – Share-based payments – the shares are treated as equity settled transactions and the fair value of share-based payment instruments granted is recognised as an expense in the income statement on a straight-line basis until they are available for release.

Management of Metropolitan Health own shares in the group. They have the right to sell these shares back to the group and this right has been treated as an employee benefit cost under IAS19 – Employee benefits. The liability to the group has been measured with reference to the selling price formula that will be used to repurchase the shares from the employees and charged to the income statement over the vesting period of the shares.

Financial instruments

Under SA GAAP the Metropolitan preference shares issued as part of the empowerment transaction were considered to be equity instruments with a debt portion. Under IAS32 – Financial instruments: disclosure and presentation – they are recorded as debt instruments with an equity component. The value of the debt portion is calculated as the present value of all the cash flows using an appropriate discount rate. The difference between the consideration and the calculated debt portion is considered to be the value of the conversion option and classified as equity. The calculation results in a negligible value of the preference shares being classified as equity. Dividend payments are treated as an interest expense and accrued over time, rather than as dividends that are recognised when declared. The shares issued in 2005 have been treated in a consistent manner.

Insurance contracts

The group has made use of the exemptions available under IFRS1 not to restate comparatives for the following standards: IAS32 – Financial instruments: disclosure and presentation; IAS39 (revised) – Financial instruments: recognition and measurement; and IFRS4 – Insurance contracts. The accounting policies that have been adopted as a result of this standard are disclosed in the accounting policies note.

Following the publication of IFRS4, the South African statement applicable to insurers (AC121) was withdrawn. Consequently shareholder and contract holder funds are no longer differentiated. This has resulted in the consolidation of investments in certain collective investments managed by Metropolitan Collective Investments (Pty) Limited, and in the treatment of Metropolitan Holdings Limited shares held by contract holder funds as treasury shares, with effect from 1 January 2005.

Straight lining of operating lease income

Previously the accepted interpretation of AC105 (IAS 17) – Leases – in South Africa allowed companies to recognise lease revenue on a contractual basis as this was considered the most appropriate representation of the time pattern of the entity's benefit obtained from the leased asset.

In aligning itself with IFRS, the South African Institute of Chartered Accountants has revised its interpretation of IAS 17. The result is that rental income from and expenses for operating leases are now recognised on a straight-line basis over the lease term, and not on a contractual basis. There has been an offsetting effect in the fair value movement of the investment property for the lease accrual. There is no adjustment to total assets and no adjustment to profit for the year as a result of this change.

Other balance sheet disclosure

The adoption of IFRS has resulted in a number of reclassifications of amounts within the financial statements.

Income statement disclosure

As a result of the adoption of IFRS4 in 2005, contract holder income and expenditure is disclosed on the face of the income statement. The comparative numbers have been reclassified from the policyholder statement to the appropriate categories on the face of the income statement for 2004, although no changes were made in terms of the adoption of IFRS4, which is being applied prospectively from 1 January 2005.

Reconciliation of equity GROUP	**Assets** **Rm**	**Liabilities** **Rm**	**Minority interests** **Rm**	**Shareholder equity** **Rm**
Disclosed under SA GAAP at 31 December 2003	36 670	31 836	72	4 762
Consolidation of collective investment schemes	288	14	274	–
Reclassification of liability portion of derivative investments	242	242	–	–
Metropolitan Health share scheme liability	–	34	–	(34)
Restated balance under IFRS at 1 January 2004	37 200	32 126	346	4 728

39 FIRST TIME IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

GROUP	Assets Rm	Liabilities Rm	Minority interests Rm	Shareholder equity Rm
Disclosed under SA GAAP at 31 December 2004	44 134	38 555	75	5 504
Consolidation of collective investment schemes	291	6	285	–
Reclassification of equity component of redeemable convertible preference shares as debt	–	283	–	(283)
Reclassification of liability portion of derivative investments	125	125	–	–
Reversal of amortisation of goodwill	37	–	–	37
Metropolitan Health share scheme liability	–	77	(1)	(76)
Restated balance under IFRS at 31 December 2004	44 587	39 046	359	5 182

METROPOLITAN LIFE LTD	Assets Rm	Liabilities Rm	Minority interests Rm	Shareholder equity Rm
Disclosed under SA GAAP at 31 December 2003	32 733	29 091	–	3 642
Reclassification of liability portion of derivative investments	242	242	–	–
Restated balance under IFRS at 1 January 2004	32 975	29 333	–	3 642
Disclosed under SA GAAP at 31 December 2004	37 398	32 759	–	4 639
Reclassification of credit loan balances	76	76	–	–
Reclassification of liability portion of derivative investments	125	125	–	–
Reversal of amortisation of goodwill	8	–	–	8
Restated balance under IFRS at 31 December 2004	37 607	32 960	–	4 647

Reconciliation of earnings attributable to equity holders at 31 December 2004	GROUP Rm	METROPOLITAN LIFE LTD Rm
Disclosed under SA GAAP	1 677	1 467
Additional interest expense on reclassification of redeemable convertible preference shares as debt	(9)	–
Employee benefits – value of services provided	(52)	(5)
Reversal of amortisation of goodwill	37	8
Restated earnings under IFRS	1 653	1 470

Changes to the cash flow statement

There were no material changes to the cash flow statement as a result of the implementation of IFRS. Cash flow from investment assets, previously included in cash flow from investing activities, was reclassified as cash flow from operating activities.

Exemptions from full retrospective application

The following exemptions were not elected by the group or were not applicable:

- fair value or revaluation as deemed cost
- employee benefits
- cumulative translation differences
- compound financial instruments
- assets and liabilities of subsidiaries, associates and joint ventures
- decommissioning costs
- fair value measurement of financial assets and liabilities at initial recognition
- mining
- leasing arrangements

Recent IFRS pronouncements

The group has not opted to early adopt any of the following standards and amendments to standards issued by the International Accounting Standards Board as at 31 December 2005:

- Amendment to IAS1 (issued August 2005) – Presentation of financial statements: capital disclosures
- Amendment to IAS 19 (issued December 2004): Employee Benefits - actuarial gains and losses, group plans and disclosures
- Amendment to IAS 21 (issued December 2005): Net investment in a foreign operation
- Amendments to IAS 39 (issued April 2005): Financial instruments: recognition and measurement – cash flow hedge accounting of forecast intragroup transactions
- Amendments to IAS 39 (issued June 2005): Financial instruments: recognition and measurement: the fair value option
- Amendments to IAS 39 (issued August 2005): Financial instruments: recognition and measurement and IFRS4: Insurance contracts
- IFRS 6 (issued December 2004): Exploration for and evaluation of mineral resources, including the amendment issued June 2005 and the corresponding amendment to IFRS 1: First-time adoption of international financial reporting standards
- IFRS 7 (issued August 2005): Financial instruments: disclosures
- IFRIC 4: Determining whether an arrangement contains a lease
- IFRIC 5: Rights to interests from decommissioning, restoration and environmental rehabilitation funds
- IFRIC 6: Liabilities arising from participating in a specific market – waste electrical and electronic equipment
- IFRIC 7: Applying the restatement approach under IAS 19: Financial reporting in hyperinflationary economies
- IFRIC 8: Scope of IFRS 2: Share-based payments
- IFRIC 9: Reassessment of embedded derivatives

The adoption of these standards and interpretations will be implemented in accordance with their transitional provisions. The group is still investigating the impact of the adoption of the revised standards, but no effect on earnings is expected.

‘Diversity is not so much about people’s differences but about making a difference in other people’s lives. I’m happy when I know I’ve played a positive part in someone else’s life, be it a client or a colleague, when I can see I’ve made a difference.’

NATALIE AMOS
Investor & financial media relations assistant

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BALANCE *sheet*

AT 31 DECEMBER 2005

	2005 Rm	2004 Rm	Notes
ASSETS			
Equipment	0.4	0.5	2
Interest in subsidiary companies	1 176.0	1 167.4	3
Financial instruments			
Equity securities			4
- available-for-sale		730.8	
- fair value through income	649.6		
Loans	376.2	303.9	5
Cash and cash equivalents	552.0	844.5	
Total assets	2 754.2	3 047.1	
EQUITY			
Share capital	874.6	1 540.5	6
Fair value reserve	25.1	16.1	
Retained earnings	822.3	149.2	
Total equity	1 722.0	1 705.8	
LIABILITIES			
Financial instruments			
Borrowings	945.4	469.8	7
Deferred income tax	41.9	41.9	8
Other payables	27.7	818.8	9
Current income tax liability	17.2	10.8	10.1
Total liabilities	1 032.2	1 341.3	
Total equity and liabilities	2 754.2	3 047.1	

INCOME AND EQUITY STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

INCOME STATEMENT

	2005 Rm	2004 Rm	Notes
Investment income	1 018.1	515.3	11
Net realised gains	157.2	85.5	12
Net fair value gains	42.4	117.6	13
Net income	1 217.7	718.4	
Expenses for marketing and administration	(34.2)	(38.7)	14
Results of operations	1 183.5	679.7	
Finance costs	(52.6)	(13.4)	15
Profit before tax	1 130.9	666.3	
Income tax expenses	(65.7)	(43.4)	10
Earnings for year	1 065.2	622.9	

STATEMENT OF CHANGES IN EQUITY

	Share capital Rm	Retained earnings Rm	Fair value reserve Rm	Total Rm
Balance at 31 December 2003	2 540.0	(114.9)	6.9	2 432.0
Earnings for year		622.9		622.9
Employee share scheme - value of services provided			9.2	9.2
Capital reduction	(704.5)			(704.5)
Shares repurchased and cancelled	(295.0)			(295.0)
Dividend paid		(358.8)		(358.8)
Balance at 31 December 2004	**1 540.5**	**149.2**	**16.1**	**1 705.8**
Earnings for year		1 065.2		1 065.2
Employee share scheme - value of services provided			9.0	9.0
Dividend paid		(392.1)		(392.1)
Shares repurchased and cancelled	(665.9)			(665.9)
Balance at 31 December 2005	874.6	822.3	25.1	1 722.0

CASH FLOW *statement*

FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 Rm	2004 Rm	Notes
Cash flow from operating activities			
Cash generated by operations	**959.1**	478.6	16.1
Income tax paid	**(59.3)**	(18.7)	16.2
Interest paid	**(48.4)**	(0.3)	16.3
Net cash inflow from operating activities	**851.4**	459.6	
Cash flow from investing activities			
Proceeds from disposal of equities - net of purchases	**281.1**	258.4	
Additional investment in subsidiary company	**-**	(110.0)	
Net loans to subsidiaries (advanced)/repaid	**(58.1)**	118.8	
Purchases of equipment	**-**	(0.1)	
Net cash inflow from investing activities	**223.0**	267.1	
Cash flow from financing activities			
Proceeds from issue of preference shares - net of costs	**471.4**	532.6	
Shares repurchased and cancelled	**(665.9)**	(295.0)	
Dividends paid	**(392.1)**	(358.8)	
Reduction of capital paid	**(780.3)**	-	
Net cash outflow to financing activities	**(1 366.9)**	(121.2)	
Net cash flow	**(292.5)**	605.5	
Exchange losses on cash	**-**	(2.2)	
Cash resources and funds on deposit at beginning	**844.5**	241.2	
Cash resources and funds on deposit at end	**552.0**	844.5	

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The basis of preparation and accounting policies of the company are the same as that of the group, as set out on pages 91 to 100. These financial statements should be read in conjunction with the group financial statements.

	2005 Rm	2004 Rm
2 EQUIPMENT		
Cost	0.6	0.6
Accumulated depreciation	(0.2)	(0.1)
Carrying amount	0.4	0.5
Carrying amount at beginning	0.5	0.5
Additions	–	0.1
Depreciation charge *(note 14)*	(0.1)	(0.1)
Carrying amount at end	0.4	0.5

Equipment comprises furniture and fittings and computer equipment.

3 INTEREST IN SUBSIDIARY COMPANIES		
Equity investment in subsidiaries at cost	1 176.0	1 167.4

Details of interest in subsidiaries are disclosed in annexure 1.

4 FINANCIAL INSTRUMENTS

4.1 Available-for-sale		
Equity securities		
Local listed shares		730.8
4.2 Fair value through income		
Equity securities		
Local listed shares	649.6	

Equity securities were classified as available-for-sale assets in 2004 and were designated as fair value through income on 1 January 2005 as the company has taken the exemption not to restate comparative figures. No adjustment to fair value of these designated assets was required. A schedule of equity securities is available for inspection at the company's registered office.

4.3 Details of listed equity securities

Sector composition of listed equity securities	%	%
Basic industries	1.4	1.9
Cyclical consumer goods	1.0	3.2
Cyclical services	15.6	12.1
Financials	34.0	24.3
General industrials	5.4	4.1
Information technology	0.2	0.7
Non-cyclical consumer goods	10.0	7.3
Non-cyclical services	12.2	28.1
Resources	20.2	18.0
Specialist securities	–	0.3
	100.0	100.0

The company's five largest equity securities	2005 %	2005 Rm	2004 %	2004 Rm
MTN Group Ltd	10.1	66.0	25.8	188.7
Standard Bank Group Ltd	7.8	50.8	4.3	31.5
Anglo American Plc	5.8	37.5	6.2	44.9
FirstRand Ltd	5.1	33.5	3.7	27.1
Billiton Plc	4.9	31.9	*	*
SABMiller Plc	*	*	3.7	27.3
	33.7	219.7	43.7	319.5

** Not included in five largest equity securities for year.*

		2005 Rm	2004 Rm
5	**LOANS**		
	Loans to subsidiaries *(annexure 1)*	157.2	244.2
	Empowerment partners	204.1	46.5
	Other unsecured loans	14.9	13.2
		376.2	303.9

Loans to empowerment partners consist of a secured loan of R145 million, with a repayment date between five and ten years from date of issue, on which interest is charged at 80% of prime. The remaining loans are unsecured and attract an interest rate of 11%, with repayment dates between five and six years from date of issue.

6 SHARE CAPITAL

Details of share capital are disclosed in note 12 of the group financial statements on page 109.

7 BORROWINGS

7.1 Cumulative redeemable convertible preference shares

Details of the cumulative redeemable convertible preference shares are disclosed in note 16 of the group financial statements on page 112.

7.2 Finance lease liabilities – minimum lease payments

The group provides third party finance arrangements for employees to assist them in the purchase of motor vehicles. These lease agreements have been classified as finance leases according to IAS17 - Leases. All rights and obligations under these agreements are transferred to the employees; therefore the group has not recognised the liability or the asset. The monthly rental is treated as a staff cost to the group. The outstanding balance as at year-end was Rnil (2004: R242 000).

		2005 Rm	2004 Rm
8	**DEFERRED INCOME TAX**		
	Deferred tax asset	1.0	0.9
	Tax losses and credits	0.5	0.4
	Accruals and provisions	0.5	0.5
	Deferred tax liability	(42.9)	(42.8)
	Revaluations	(42.9)	(42.8)
		(41.9)	(41.9)
	Current	1	0.9
	Non-current	(42.9)	(42.8)
		(41.9)	(41.9)
	Movement in deferred tax		
	Balance at beginning	(41.9)	(21.0)
	Changes in tax rate	1.4	
	Revaluations	(1.5)	(20.9)
	Accruals and provisions	–	(0.1)
	Tax losses and credits	0.1	0.1
	Balance at end	(41.9)	(41.9)
9	**OTHER PAYABLES**		
	Other payables	9.7	7.5
	Intra-group loans	18.0	30.9
	Amounts due to shareholders	–	780.4
		27.7	818.8
10	**INCOME TAX**		
10.1	**Current income tax liability**		
	Movement in liability		
	Balance at beginning	10.8	7.0
	Charged to income statement	24.5	16.0
	Additional provisions	24.5	16.3
	Unused amounts reversed	–	(0.3)
	Used during year	(18.1)	(12.2)
	Closing balance	17.2	10.8
10.2	**Income tax expenses**		
	South African normal tax - current year	24.3	16.3
	- prior year	0.2	(0.3)
	Secondary tax on companies	41.2	6.5
	Deferred tax	–	20.9
		65.7	43.4
	Normal tax for year as % of interest received less related costs	29.0	30.0
11	**INVESTMENT INCOME**		
	Dividends received - listed equities	20.6	19.3
	Dividends received - subsidiary companies	975.9	472.6
	Interest received	21.6	23.4
		1 018.1	515.3
	Fees paid to asset managers included in investment income	2.2	3.0

Fees paid to asset managers were disclosed under expenses for marketing and administration in 2004.

		2005 Rm	2004 Rm
12	**NET REALISED GAINS**		
	Realised gains	182.3	108.1
	Realised losses	(24.8)	(22.6)
	Losses on foreign exchange	(0.3)	-
		157.2	85.5
13	**NET FAIR VALUE GAINS**		
	Fair value gains	141.0	145.2
	Fair value losses	(98.6)	(27.6)
		42.4	117.6
14	**EXPENSES FOR MARKETING AND ADMINISTRATION**		
	Auditors' remuneration	0.7	0.6
	- audit fees	0.3	0.5
	- other services	0.4	0.1
	Consulting fees	1.0	1.6
	Depreciation charge	0.1	0.1
	Directors' fees recovered from subsidiaries	(3.8)	(2.4)
	Employee benefit costs	22.0	18.0
	Management fees	0.4	0.9
	Marketing costs	1.1	2.1
	Non-executive directors' fees	3.8	2.8
	Other expenses	7.6	11.6
	Other South African taxes	1.3	3.4
		34.2	38.7
	Employee benefit costs		
	Salaries	18.6	15.3
	Defined contribution retirement fund	1.7	0.9
	Share-based payment expenses *(note 20)*	0.2	0.2
	Training costs	0.5	0.6
	Other	1.0	1.0
		22.0	18.0
	Executive directors' emoluments included above	11.0	7.7

Details of the staff share schemes are disclosed in note 32 of the group financial statements on page 122.

15	**FINANCE COSTS**		
	Redeemable preference shares *(note 20)*	52.6	13.1
	Other	-	0.3
		52.6	13.4

	2005 Rm	2004 Rm
16 CASH FLOW FROM OPERATING ACTIVITIES		
16.1 Cash generated by operations		
Results of operations	1 183.5	679.7
Adjustments for		
Depreciation	0.1	0.1
Net realised gains and losses	(157.2)	(85.5)
Net fair value gains and losses	(42.4)	(117.6)
Share-based payment expense	0.2	0.2
Changes in operating assets and liabilities		
Loans	(27.3)	2.0
Other operating liabilities	2.2	(0.3)
	959.1	478.6
16.2 Income tax paid		
Due at beginning	(52.7)	(28.0)
Charged and provided	(65.7)	(43.4)
Due at end	59.1	52.7
	(59.3)	(18.7)
16.3 Interest paid		
Redeemable preference shares		
Paid 31 March 2005	(25.4)	–
Paid 30 September 2005	(23.0)	–
Other	–	(0.3)
	(48.4)	(0.3)

17 RELATED PARTY TRANSACTIONS

17.1 Holding company

Shares in Metropolitan Holdings Limited, the ultimate holding company in the Metropolitan group, are widely held by public and non-public shareholders; refer to the shareholder profile on page 152.

17.2 Transactions with directors and key personnel

Remuneration is paid to directors in the form of fees to non-executive directors and remuneration to executive directors and key personnel of the company. Transactions with directors are disclosed in the corporate governance and directors' report on pages 58 and 76 respectively. There are three members, excluding executive directors, of the group executive committee employed by Metropolitan Holdings Limited. The aggregate remuneration, shares held and transactions of the group executive committee members are disclosed in note 35.2 on page 123 of the group financial statements.

17.3 Transactions with subsidiaries

Loans are advanced between Metropolitan Holdings Limited and its subsidiaries as funding. The loans to subsidiaries included in loans in the balance sheet are detailed in annexure 1 on page 151.

Metropolitan Holdings Limited purchased MHG UK Limited from Metropolitan Health Corporate (Proprietary) Limited. R132 million of the loan to Metropolitan Health Holdings (Proprietary) Limited was repaid during the year. The funds were used to provide funding to a subsidiary of Kagiso Trust Investments (Proprietary) Limited for the purchase of a 17.6% stake in Metropolitan Health Corporate (Proprietary) Limited.

Details of other transactions with subsidiaries included in the financial statements are listed below:

Administrative charges paid	0.6	0.9
Asset management fees paid	2.1	3.0
Rental expenses	2.0	2.3

18 CONTINGENT LIABILITIES

In terms of the staff share scheme trust, Metropolitan Holdings Limited has guaranteed any shortfall due to Metropolitan Life Limited, the funder of the trusts, at the termination thereof. At 31 December 2005 the company had an exposure of R128 000 in terms of this guarantee (31 December 2004: R221 000). This amount was determined by using the actual loan value and the ruling market price of the underlying shares at 31 December 2005.

19 RISK MANAGEMENT POLICIES

Details of financial instruments and risk management are disclosed in note 37 of the group financial statements on pages 126 to 135. The more important financial risks to which the company is exposed are credit risk, equity risk and interest rate risk.

20 FIRST TIME IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

This is the first time that the company is presenting its financial statements under IFRS. The last financial statements under SA GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was 1 January 2004.

This note provides a reconciliation of net equity at 1 January 2004 and 31 December 2004 as well as net income for the year ended 2004 from the previously published consolidated financial statements.

Reconciliation of equity	Assets Rm	Liabilities Rm	Shareholder equity Rm
Disclosed under SA GAAP at 31 December 2003	5 603.3	35.8	5 567.5
Revaluation of investments in subsidiaries at cost	(3 142.2)	–	(3 142.2)
Additional investment in subsidiaries as a result of employee share scheme costs	6.7	–	6.7
Restated balance under IFRS at 1 January 2004	2 467.8	35.8	2 432.0
Disclosed under SA GAAP at 31 December 2004	7 371.1	1 027.3	6 343.8
Revaluation of investments in subsidiaries at cost	(4 370.6)	–	(4 370.6)
Additional investment in subsidiaries as a result of employee share scheme costs	15.7	–	15.7
Reclassification of credit balances	30.9	30.9	–
Reclassification of equity component of redeemable preference shares as debt	–	283.1	(283.1)
Restated balance under IFRS at 31 December 2004	3 047.1	1 341.3	1 705.8

Reconciliation of earnings at 31 December 2004	Rm
Disclosed under SA GAAP	1 860.7
Reversal of equity-based valuation of subsidiaries	(1 228.4)
Employee benefits - value of services provided	(0.2)
Additional interest expense on reclassification of redeemable preference shares as debt	(9.2)
Restated earnings under IFRS	622.9

Explanation of changes

IFRS requires that investments in subsidiaries be valued in terms of IAS39 - Financial instruments: recognition and measurement - in the separate financial statements. In terms of this standard, the investments can be valued at impaired cost or fair market value instead of attributable net asset value as was the case previously. Because of the difficulties and costs involved in applying a fair market valuation to the subsidiaries, it has been decided to value them at cost and test for impairment where there is an indication thereof.

The share-based payment expense that is being recognised for the issue of Metropolitan Holdings Limited shares to the staff of subsidiary companies via the share schemes is also reflected in the separate financial statements of the subsidiaries. The cost of the investment in the subsidiary is increased by the value of the expense.

The explanation of the change in the accounting for the cumulative redeemable convertible preference shares can be found in the discussion on the transition to IFRS in the group financial statements on page 137.

Changes to the cash flow statement

There were no changes to the cash flow statement as a result of the implementation of IFRS.

SUBSIDIARY *companies*

ANNEXURE 1

	Issued share capital	Cost	Indebtedness by/(to) subsidiaries	Cost	Indebtedness by/(to) subsidiaries
		2005	2005	2004	2004
	Rm	Rm	Rm	Rm	Rm
Life insurance subsidiaries					
Metropolitan Life Ltd	624	639.5	(17.5)	634.3	(30.9)
Metropolitan Odyssey Ltd	35	194.6		194.2	
Metropolitan International Ltd	40	94.4		94.4	
Metropolitan Life (Namibia) Ltd	52	33.0		33.0	
Metropolitan Life of Botswana Ltd	27	24.5		24.5	
Metropolitan Lesotho Ltd	120	120.2		120.1	
MHG UK Ltd §	*	-	13.0	-	
Asset management subsidiaries					
Metropolitan Asset Managers Ltd	*	21.6	(0.5)	21.2	
Metropolitan Collective Investments Ltd	13	25.7		25.7	
Investment subsidiaries	*	0.3		0.2	
Health administration					
Metropolitan Health Holdings (Pty) Ltd	*	22.2	114.2	19.8	244.2
Banking					
Metropolitan Card Operations (Pty) Ltd	*	-	30.0		
		1 176.0	139.2	1 167.4	213.3
Indebtedness by subsidiaries		139.2		213.3	
Total interest in subsidiary companies		1 315.2		1 380.7	

The subsidiaries are all wholly owned (100%) except for:

- Metropolitan Life (Namibia) Ltd (31 December 2005: 81%, 31 December 2004: 80.9%)
- Metropolitan Life of Botswana Ltd (75.8%)
- Metropolitan Health Corporate (Pty) Ltd (31 December 2005: 81.2%, 31 December 2004: 98.5%), which is the operating subsidiary of Metropolitan Health Holdings (Pty) Ltd

The subsidiaries are all situated in South Africa except for:

- Metropolitan Life (Namibia) Ltd, which is incorporated in Namibia
- Metropolitan Life of Botswana Ltd, which is incorporated in Botswana
- Metropolitan Lesotho Ltd, which is incorporated in Lesotho
- MHG UK Ltd, which is incorporated in England

The aggregate amount of income after tax, before goodwill impaired, derived from subsidiaries is R1 745 million (2004: R1 528 million). The aggregate amount of losses after tax from subsidiaries is R7 million (2004: Rnil).

The indebtedness of R18 million to Metropolitan Life Ltd originated in the normal course of business. This will be repaid in the normal course of business.

** The issued share capital of these companies is less than R1 million.*

§ *MHG UK Ltd was purchased during the year from Metropolitan Health Corporate (Pty) Ltd. It is the holding company for the life insurance operations in countries outside southern Africa for the Metropolitan group.*

SHAREHOLDER PROFILE

SHAREHOLDER	Number of shareholders	% of issued share capital	Shares held (million)
Non-public			
Directors (excluding shares in staff share scheme)	8	0.1	1
Staff share scheme members - unlisted	4 038	6.3	48
Staff share scheme members - listed	1 935	0.9	7
Group policyholder funds	1	2.9	22
Kagiso Trust Investments (Pty) Ltd - SPV	1	17.8	136
Public			
Private investors	7 933	3.4	26
Pension funds	298	24.3	186
Collective investment schemes and mutual funds	357	19.9	152
Banks and insurance companies	319	24.4	187
Total	14 890	100.0	765

An estimated 64 million shares (8.4%) are held by foreign investors (2004: 51 million shares (6.9%)).

SIZE OF SHAREHOLDING	Number of shareholders	% of total shareholders	Shares held (million)	% of issued share capital
1 - 5 000	12 266	82.3	18	2.4
5 001 - 10 000	757	5.1	6	0.7
10 001 - 50 000	1 071	7.2	27	3.5
50 001 - 100 000	311	2.1	22	2.9
100 001 - 1 000 000	390	2.7	123	16.0
1 000 001 and more	95	0.6	569	74.5
Total	14 890	100.0	765	100.0

BENEFICIAL OWNERS

	Shares held (million)	% of issued share capital
Kagiso Trust Investments (Pty) Ltd - SPV	136	17.8
Public Investment Corporation (SA)	91	11.9
Staff - Metropolitan Holdings group	56	7.3
Sanlam Ltd	52	6.8
Liberty Group Ltd	37	4.8
Investment Solutions	26	3.4
Group policyholder funds	22	2.9
Total	420	54.9

Pursuant to the provisions of section 140A of the Companies Act of 1973 as amended, beneficial shareholdings exceeding 3% in aggregate, as at 31 December 2005, are disclosed.

	2005	2004	2003	2002
12 months to				
Value of listed shares traded (rand million) *	**3 347**	2 049	994	1 652
Volume of listed shares traded (million) *	**315**	250	165	246
Shares traded (% of average listed shares in issue)	**51.1**	37.9	24.4	36.7
Value of shares traded - life insurance (J857 - Rbn)	**70.0**	47.3	40.8	42.9
Value of shares traded - top 40 index (J200 - Rbn)	**1 028.2**	829.8	653.4	684.1
Trade prices (cents per share)				
Highest	**1 220**	1 100	750	902
Lowest	**950**	680	470	485
Last sale of year	**1 185**	1 090	685	610
Percentage change during year#	**19.70**	59.12	12.30	(23.75)
Percentage change - life insurance sector (J857)	**21.18**	36.04	0.45	(18.04)
Percentage change - top 40 index (J200)	**44.12**	20.11	9.37	(14.13)
31 December				
Price/core headline earnings ratio (diluted)	**12.35**	12.24	11.03	11.59
Dividend yield % (dividend on listed shares)	**5.32**	4.77	6.28	6.23
Dividend yield % - top 40 index (J200)	**2.24**	2.49	3.02	3.37
Total shares issued (million)				
Listed on JSE	**594**	641	678	676
Ordinary shares	**587**	632	668	669
Share incentive scheme	**7**	9	10	7
Unlisted - share purchase scheme	**48**	63	70	59
Total ordinary shares in issue	**642**	704	748	735
Treasury shares held by a subsidiary company	**-**	(41)	(41)	(41)
Treasury shares held on behalf of contract holders	**(22)**			
Adjustment to staff share scheme shares §	**(50)**	(53)	(55)	(47)
Share incentive scheme	**(5)**	(5)	(5)	(5)
Share purchase scheme	**(45)**	(48)	(50)	(42)
Basic number of shares in issue	**570**	610	652	647
Adjustment to staff share scheme shares	**50**	53	55	47
Treasury shares held on behalf of contract holders	**22**			
Convertible redeemable preference shares	**123**	76	-	-
Fully diluted number of shares in issue	**765**	739	707	694
Market capitalisation at period-end (rand billion) ◊	**9.07**	8.06	4.84	4.23
Percentage of life insurance sector (J857)	**6.83**	7.04	5.96	5.27

* 31.12.2005 is net of 22 million shares acquired for R242 million and cancelled as part of a share buy-back programme (31.12.2004: 44 million shares; R293 million).

\# 2005 adjusted for capital reduction.

◊ The market capitalisation is calculated on the fully diluted number of shares in issue.

§ These shares have been issued since 1 January 2001, the date on which the group adopted AC133 (now IAS39).

SHAREHOLDER *diary*

FINANCIAL YEAR-END		31 DECEMBER
Reporting	Interim results	14 September 2005
	Announcement of year-end results	15 March 2006
	Annual report published	April 2006
	Annual general meeting	30 May 2006
Dividends	**Interim**	
	Declared	13 September 2005
	Remat/Demat	3 October 2005
	Record date	7 October 2005
	Paid	10 October 2005
	Final	
	Declared	14 March 2006
	Remat/Demat	3 April 2006
	Record date	7 April 2006
	Paid	10 April 2006

NOTICE OF THE FIFTH ANNUAL GENERAL MEETING OF THE COMPANY'S SHAREHOLDERS

Notice is hereby given that the fifth annual general meeting of the shareholders of the company will be held at 14h00 on Tuesday, 30 May 2006 in the auditorium at Parc du Cap 7, Mispel Road, Bellville, Cape Town for the following business:

- to receive and adopt the annual financial statements of the company for the financial year ended 31 December 2005
- to transact such other business as may be transacted at an annual general meeting
- to consider and, if deemed fit, to pass the following special and ordinary resolutions, with or without modifications:

SPECIAL RESOLUTION NUMBER 1 - GENERAL APPROVAL OF SHARE BUY-BACK

It is proposed that the company renew its general approval for a share buy-back with the following special resolution:

"Resolved that the board of directors of the company and of any subsidiary of the company be and are hereby authorised by way of a general approval to repurchase shares issued by the company, subject always to the provisions of the Companies Act 61 of 1973, as amended ("the Companies Act") and the listings requirements of the JSE Securities Exchange South Africa ("the listings requirements") and any other stock exchange upon which the shares of the company may be quoted or listed from time to time, and subject to such other conditions as may be imposed by any other relevant authority, and subject further to the following conditions:

- this general approval shall be valid only until the company's next annual general meeting, provided that it does not extend beyond 15 months from the date of this resolution, during which time this general approval may be varied or revoked by special resolution passed at a general meeting of the company;
- the general repurchase by the company of its own shares shall not, in aggregate in any one financial year, exceed a maximum of 20% of the company's issued share capital of that class at the time this general approval is granted;
- in the case of an acquisition by a subsidiary of the company of shares in the company under this general approval, such acquisition shall be limited to a maximum of 10% in aggregate of the company's issued share capital at the time of such acquisition;
- any acquisition under this general approval shall not be made at a price more than 10% above the volume weighted average traded price of the company's ordinary shares concerned for the five business days immediately preceding the date of the acquisition;
- any acquisition in terms hereof may only be effected through the order book operated by the JSE trading system and may only be done without any prior understanding or arrangement between the company and the counter party;
- at any time, the company shall only appoint one agent to effect any acquisitions on the company's behalf in terms of this general approval;
- any such acquisitions of the company's shares shall be announced when an aggregate of 3% of the initial number of shares has been purchased and for each 3% in aggregate of the initial number of shares acquired thereafter;
- the company may only undertake an acquisition if, after such acquisition, it still complies with the shareholder spread requirements contained in the listings requirements;
- the company or its subsidiaries may not acquire the company's shares during a prohibited period."

GENERAL INFORMATION

Information relating to:

- the directors and management of the company can be found on pages 6 and 48 to 49 of the annual report accompanying this notice
- the major shareholders of the company can be found on page 152 of the report
- the directors' interests in the company can be found on page 76 of the report
- the share capital of the company can be found on page 109 of the report
- any litigation can be found on page 123 of the report.

DIRECTORS' STATEMENT

The directors of the company are of the opinion that, if the company were to enter into such a maximum repurchase during the period that the authority is valid, the requirements of s85(4) of the Companies Act will have been met and that:

- the company, and the company and its subsidiaries ("the group") will be able to pay its debts as they become due in the ordinary course of business for a period of 12 months after the date of this notice;

- the consolidated assets of the company and the group, fairly valued, will be in excess of the consolidated liabilities of the company for a period of 12 months after the date of this notice. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited annual financial statements of the company;
- the ordinary share capital and reserves of the company and the group will be adequate for ordinary business purposes for a period of at least 12 months after the date of this notice;
- the working capital available to the company and the group will be adequate for ordinary business purposes for a period of at least 12 months after the date of this notice.

REASON FOR AND EFFECT OF SPECIAL RESOLUTION NUMBER 1

The reason for and effect of special resolution number 1 is to grant the board of directors of the company a general authority in terms of the Companies Act for the acquisition by the company or any subsidiary of the company's shares. Such general authority will provide the board with the flexibility, subject to the requirements of the Companies Act and the JSE Securities Exchange South Africa ("the JSE"), to acquire the company's shares should it be in the interests of the company. This general authority shall be valid until its variation or revocation by special resolution at any subsequent general meeting of the company, provided that the general authority shall not be extended beyond 15 months from the date of passing of this special resolution.

ORDINARY RESOLUTION NUMBER 1 - APPROVAL OF FINANCIAL STATEMENTS

"Resolved that the company hereby receives and adopts the annual financial statements of the company for the financial year ended 31 December 2005, including the directors' report and the auditors' report, all as contained in the annual report accompanying this notice."

ORDINARY RESOLUTION NUMBER 2 - APPROVAL OF DIRECTORS' REMUNERATION

"Resolved that the company hereby confirms the remuneration paid to the directors for services rendered during the financial year ended 31 December 2005, as recorded in the financial statements."

ORDINARY RESOLUTION NUMBER 3 - APPOINTMENT OF AUDITORS

"Resolved that PricewaterhouseCoopers be and is hereby reappointed as the auditors of the company from the conclusion of this annual general meeting until the conclusion of the next annual general meeting of the company."

ORDINARY RESOLUTION NUMBER 4 - AUDITORS' REMUNERATION

"Resolved that the company hereby authorises the directors to fix the remuneration of the auditors."

ORDINARY RESOLUTION NUMBER 5 - RE-ELECTION OF DIRECTORS APPOINTED BY DIRECTORS

"Resolved that Mr D H Pead, having offered himself for re-election, be and is hereby re-elected as a director of the company with immediate effect in accordance with the articles of association of the company."

Prof W P Esterhuyse will be retiring as a director of the company with effect from 30 May 2006.

ORDINARY RESOLUTION NUMBER 6 - RETIREMENT BY ROTATION AND RE-ELECTION OF DIRECTORS

"Resolved that, as at least one third of the directors are required to retire by rotation as directors of the company at this annual general meeting in accordance with the articles of association of the company, the following directors, having offered themselves for re-election, be and are hereby re-appointed as directors of the company with immediate effect and by separate resolution:

6.1 Mr S A Muller
6.2 Mr M L Smith
6.3 Dr F A Sonn"

A brief curriculum vitae for each of the above directors is available on request.

ORDINARY RESOLUTION NUMBER 7 - APPOINTMENT OF DIRECTOR OR THE COMPANY SECRETARY TO IMPLEMENT RESOLUTIONS

"Resolved that any one director of the company or the company secretary be and is hereby authorised to take such steps, do all such things and sign all such documents as may be necessary or required for the purpose of implementing the special and the ordinary resolutions proposed at this meeting."

VOTING AND PROXIES

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies to attend, speak and on a poll to vote or abstain from voting in his stead.

A proxy need not be a shareholder of the company. A form of proxy is enclosed for the convenience of any certificated or "own name" registered dematerialised shareholder who is unable to attend the annual general meeting, but who wishes to be represented thereat.

The form of proxy must be received at the transfer office of the company, Ultra Registrars (Pty) Ltd, 5th Floor, 11 Diagonal Street, Johannesburg (or PO Box 4844, Johannesburg, 2000), by not later than 14h00 on Friday, 26 May 2006.

Dematerialised shareholders, other than those with "own name" registration, who wish to attend the annual general meeting must inform their CSDP or broker of their intention to attend the meeting and must obtain the necessary authorisation from their CSDP or broker. Should such shareholders be unable to attend the annual general meeting but wish to be represented thereat, they must provide their CSDP or broker with their voting instructions. This must be done in the manner and time stipulated in terms of the agreement entered into between a shareholder and the CSDP or broker concerned.

On a poll, every shareholder present in person or represented by proxy shall have one vote for every share held by such shareholder.

By order of the board

Mrs B Gobodo-Mbomvu
Company secretary

15 March 2006
Bellville, Cape Town

Registered office
Parc du Cap 7
Mispel Road
Bellville 7530

Directors: E Molobi (chairman), P R Doyle (group chief executive), D H Pead (executive), A M Sithole (executive), P E Speckmann (executive), Prof W P Esterhuyse, F Jakoet, P C Lamprecht, S A Muller, B Ndamase, J E Newbury, M J N Njeke, A H Sangqu (alt), M L Smith, Dr F A Sonn, J C van Reenen

ADMINISTRATION

METROPOLITAN HOLDINGS LTD

Secretary and registered office
Bongiwe Gobodo-Mbomvu
Parc du Cap 7
Mispel Road, Bellville 7530

Investor relations
Nico Oosthuizen
Telephone: +27 21 940 6111
Fax: +27 21 940 6690
E-mail: noosthuizen@metropolitan.co.za

Company registration number
2000/031756/06

American Depository Receipt
CUSIP: 592144109
Depository: Bank of New York

Postal address
P O Box 2212, Bellville 7535
South Africa
Telephone: +27 21 940 5911
Fax: +27 21 940 5370

Internet address
http://www.metropolitan.co.za
E-mail: info@metropolitan.co.za

Sponsor – South Africa
Merrill Lynch

Transfer secretaries – South Africa
Ultra Registrars (Pty) Ltd
5th Floor, 11 Diagonal Street, Johannesburg
P O Box 4844, Johannesburg 2000

Sponsor – Namibia
Simonis Storm Securities (Pty) Ltd

Transfer secretaries – Namibia
Transfer Secretaries (Pty) Ltd
Shop 8, Kaiserkrone Centre
Post Street Mall, Windhoek, Namibia
P O Box 2301, Windhoek, Namibia

Auditors
PricewaterhouseCoopers Inc.

Share codes
JSE - MET
NSX - MTD
Abbreviated name - MET LTD

METROPOLITAN LIFE LTD

Reg no 1949/032491/06
Registered office
Parc du Cap 7
Mispel Road, Bellville 7530
Postal address
P O Box 2212, Bellville 7535
Telephone: +27 21 940 5911
Fax: +27 21 940 5370
http://www.metropolitan.co.za

BOARD OF DIRECTORS

Mr E Molobi (chairman) *(appointed 03.05)*
Mrs G T Serobe *(resigned 02.05)*
Mr P R Doyle*
Mr D H Pead*
Mr F W van Zyl*
Mr P E Speckmann
Mr A M Sithole
Mr W F Coetzee
Mr P C Lamprecht
Mr A H Sangqu *(appointed 05.05)*

*Executive directors

METROPOLITAN LIFE (NAMIBIA) LTD

Reg no 89/327
RAVE Fouché - managing director
Postal address
PO Box 3785, Windhoek, Namibia
Telephone: +9264 61 297 3000
Fax: +9264 61 248 191

METROPOLITAN LIFE INSURANCE KENYA LTD

Reg no C97820
LO Makhulo - managing director
Postal address
PO Box 46783, GPO-00100, Nairobi, Kenya
Tel +9254 20 243126/42/58
Fax +9254 20 243179

METROPOLITAN CARD OPERATIONS (PTY) LTD

Reg no 2005/013683/07
WF Coetzee - managing director
Postal address
PO Box 145, Bellville, 7535
Tel +2721 940 5129
Fax +2721 940 5200

METROPOLITAN LIFE OF BOTSWANA LTD

Reg no 96/1957
LQ Nkani - managing director
Postal address
Private Bag 231
Gabarone, Botswana
Tel +9267 362 4400
Fax +9267 397 2501

METROPOLITAN LESOTHO LTD

Reg no 2003/22
TMO Mphahlele - managing director
Postal address
PO Box 645, Maseru 100
Telephone: +9266 22 222 300
Fax: +9266 22 317 278

METROPOLITAN ASSET MANAGERS LTD

Reg no 1943/016651/06
AM Sithole - managing director
Postal address
PO Box 2212, Bellville 7535
Telephone: +27 21 940 6001
Fax: +27 21 940 6969

METROPOLITAN HEALTH GROUP

Reg no 1999/027578/07
B L E Khan - chief executive
Postal address
P O Box 1242, Cape Town 8000
Telephone: +27 21 480 4511
Fax: +27 21 480 4759

METROPOLITAN ODYSSEY LTD

Reg no 1993/0072525/06
Postal address
P O Box 2212, Bellville 7535
Telephone: +27 21 940 5911
Fax: +27 21 940 5370

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FORM OF *proxy*

To be completed by certificated shareholders and dematerialised shareholders with "own name" registration.

Fifth annual general meeting to be held at 14h00 on Tuesday, 30 May 2006 in the auditorium at Parc du Cap 7, Mispel Road, Bellville, Cape Town.

I, _____

of _____

being the holder of _____ (number) shares in Metropolitan Holdings Limited, hereby appoint as my proxy the following person:

_____ (full name of proxy holder)

of _____

or, failing him, _____ (full name of proxy holder)

of _____

or failing him, the duly appointed chairman of the meeting, to attend, speak and vote for me and on my behalf at the annual general meeting of the company to be held in Bellville, Cape Town on Tuesday, 30 May 2006 at 14h00, as well as at any adjournment of the said meeting.

Signed at _____ on this _____ day of _____ 2006

SIGNATURE _____

VOTING INSTRUCTIONS

Indicate instructions to the appointed proxy by way of a cross in the spaces provided below; if no indications are given, the proxy may vote as he thinks fit.

SPECIAL RESOLUTION

Nature of resolution	For	Against	Abstain
1. General approval of share buy-back			

ORDINARY RESOLUTIONS

Nature of resolution	For	Against	Abstain
1. Approval of financial statements			
2. Approval of directors' remuneration			
3. Appointment of PricewaterhouseCoopers Inc as auditors			
4. Authorising directors to fix auditors' remuneration			
5. Re-election of Mr D H Pead as director			
6. Authorising the retirement and re-election of the following directors: 6.1 Mr S A Muller			
6.2 Mr M L Smith			
6.3 Dr F A Sonn			
7. Appointment of any director or the company secretary to implement the aforesaid resolutions			

NOTES

(1) Proxies must be lodged at the company's transfer office, Ultra Registrars (Pty) Ltd, 5th Floor, 11 Diagonal Street, Johannesburg (or PO Box 4844, Johannesburg, 2000), so as to be received by not later than 14h00 on Friday, 26 May 2006.

(2) A member may appoint one or more persons of his own choice as his proxy/ies by inserting the name/s of such proxy/ies in the space provided and any such proxy need not be a member of the company. Should this space be left blank, the proxy will be exercised by the chairman of the meeting.

(3) If a member does not indicate on this instrument that his proxy is to vote in favour of or against any resolution or resolutions or to abstain from voting, or gives contradictory instructions, or should any further resolution/s or any amendment/s that may be properly put before the annual general meeting be proposed, the proxy shall be entitled to vote as he thinks fit.

(4) Unless the above section is completed for a lesser number of shares, this proxy shall apply to all the ordinary shares registered in the name of the member/s at the date of the annual general meeting or any adjournment thereof.

(5) Companies and other corporate bodies are advised to appoint a representative in terms of section 188 of the Companies Act, 1973, for which purpose a duly certified copy of the resolution appointing such a representative should be lodged with the company's transfer office, as set out in (1) above.

(6) The authority of the person signing a proxy form under a power of attorney must be attached hereto unless that power of attorney has already been recorded by the company.

(7) Any alterations made to this form of proxy must be initialled.

METROPOLITAN HOLDINGS LIMITED