African Reinsurance Corporation (South Africa) Limited

Financial Statements

for the period 17 December 2003 (date of incorporation) to 31 December 2004

African Reinsurance Corporation (South Africa) Limited

(Reg. No. 2003/031630/06)

Financial Statements

for the period ended 31 December 2004

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Declaration by company secretary

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

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Levitt Kirson Management Services CC
Secretary

16 March 2005

African Reinsurance Corporation (South Africa) Limited

Chairman and executive management statement

for the period ended 31 December 2004

African Reinsurance Corporation (South Africa) Limited ("Africa Re (SA)" or "the Company") was established as a wholly owned subsidiary of the African Reinsurance Corporation on 17 December 2003 and was duly licensed by the Financial Services Board to conduct both long-term and short-term insurance business.

Africa Re (SA) is registered to accept all classes of short-term insurance business with the exception of miscellaneous class as defined in the Short-term Insurance Act, 1998. The Company is also licensed to write Assistance, Disability and Life business as defined in the Long-term Insurance Act, 1998.

The period under review has been particularly challenging for Africa Re (SA) as the Company sought to establish itself in the local market as a fully-fledged South African reinsurer. However, 2004 as a whole proved to be a remarkable year from a market perspective with the majority of the industry players producing their best underwriting results ever.

This positive influence has assisted Africa Re (SA) to show figures which exceeded original expectations in its first year of operation. The company had a positive first year of operation and has reported impressive written premiums.

Gross premium for the period under review is R588.0 million, with a gross premium of R571.0 million for short-term business and R17.0 million for long-term business. The company's first results produced an underwriting loss of R1.6 million and net income before tax of R9.2 million.

Net investment income for the period is R10.8 million, a reasonably healthy achievement given that investment funds were composed of the initial paid up share capital and the steady increase in liquidity from collections during the period under review. Investment income was also greatly aided by the relatively good performance of South African equity and fixed income markets towards the end of 2004.

Also, there were fewer major losses in the property class and a continued absence of natural catastrophes contributed to the positive results shown by the Company in its first year of operation. Coupled with the positive state of the market, local cedants displayed a great deal of confidence in Africa Re (SA) and the Company has begun to develop strategic partnerships which we trust will grow from strength to strength thus producing positive results for all parties concerned.

Accrued tax expense charged to the income statement for the period is R2.3 million resulting in an after tax profit of R6.9 million.

The healthy operating results achieved by the company in the first year of operation is despite the fact that the Company had to bear the initial weight of establishing technical and statutory reserves. Being the first year of operation, there were no previous technical and statutory reserves to be released to reduce the impact of the reserves established during the period on the operating performance, and the full impact of the reserves are reflected in the results for the period. For example, although the company reported an after tax profit of R6.9 million, the retained earnings reserve in the statement of changes in equity has a deficit of R6.9 million after appropriation of R13.8 million to contingency reserve.

Chairman and executive management statement

for the period ended 31 December 2004 (continued)

We firmly believe that given the current strength of the South African economy and predicted continued growth in gross domestic product, Africa Re (SA) is uniquely poised to continue to show commitment to the local market, to show steady and controlled positive growth and to employ prudent underwriting principles whilst searching for opportunities to develop long term partnerships with our select clients.

Our sincere thanks go to all of our valued partners in both the short-term and long-term markets and in particular to our fellow directors who have assisted greatly during this our first year of operation.

To our staff who have delivered a sound performance during our first year, we wish to extend sincere thanks for all their valued efforts.

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Bakary Kamara
Chairman

____

Paul D Ray
Managing Director

African Reinsurance Corporation (South Africa) Limited

Directors' responsibility for the financial statements

for the period ended 31 December 2004

The directors are responsible for monitoring the preparation, integrity and fair presentation of the financial statements and related information included in the report of African Reinsurance Corporation (South Africa) Limited. The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act, and include amounts based on prudent judgments and estimates made by management.

In order for the board to discharge its responsibilities, management has developed and continues to maintain a system of internal controls. The directors are responsible for the company's system of internal controls and review its operation, primarily through the audit and risk-monitoring committee.

The internal controls include a risk-based system of internal accounting and administrative controls designed to:

- provide reasonable but not absolute assurance of accuracy and reliability of the financial statements;
- ensure that the company's assets are adequately safeguarded and transactions are executed and recorded in accordance with business practices and the company's policies and procedures; and
- prevent and detect misstatements and losses.

These controls are implemented by trained skilled personnel and are monitored by management and include a comprehensive budgeting and reporting system operating within strict deadlines and an appropriate control framework.

The directors have no reason to believe that the company will not be a going concern in the foreseeable future and the financial statements have been prepared on the going concern basis.

The financial statements for the period 17 December 2003 to 31 December 2004, as set out on pages 9 to 27 were approved by the board of directors on 16 March 2005 and are signed on its behalf by:

B Kamara	**P D Ray**
Chairman	**Managing Director**

African Reinsurance Corporation (South Africa) Limited

Statement of actuarial values and liabilities

for the period ended 31 December 2004

Statement of assets, liabilities, excess assets and capital requirements

	Paragraph	2004 R'000
Total assets as per balance sheet	2	18 545
Adjustment to fair value		Nil
Less intangible assets		Nil
Value of assets as per PGN 104		18 545
Actuarial value of policy liabilities	3	(1 446)
Current and other liabilities as per balance sheet		(6 197)
Value of liabilities		(7 643)
Excess Assets		10 902
Capital adequacy requirement (CAR)	5	10 000
Ratio of Excess Assets to CAR		1.09

African Reinsurance Corporation (South Africa) Limited ("ARCSA") only started writing long-term insurance business on 1 January 2004. The change in excess assets from the start of the year is shown below.

Description	Change (R'000)
Excess assets at start of the period	0
Capital raised from shareholders	10 300
Investment earnings	783
Insurance earnings	79
Tax	(260)
Excess assets at the end of the period	10 902

African Reinsurance Corporation (South Africa) Limited

Statement of actuarial values and liabilities

for the period ended 31 December 2004 (continued)

1. Valuation Methodology

The valuation was performed using the Financial Soundness Valuation method and was conducted in accordance with professional guidance note PGN104 of the Actuarial Society of South Africa (ASSA). Assets and policy liabilities have been valued on methods and assumptions that are consistent with each other.

This financial soundness valuation gives a statement of the financial position of a life insurance company.

All actuarial liabilities were calculated gross of reinsurance, as the portion retroceded as approved reinsurance with African Reinsurance Corporation (Nigeria) is held as an asset on the balance sheet of ARCSA. The following details the reserves that were calculated.

- For all lines a reserve was calculated for claims that have occurred, but have not yet been reported (IBNR). As a result of lack of past experience, I assumed an ultimate claims ratio (after allowing for reinsurance commission and brokerage from the retrocessionaire) of 92.5% for most lines of business with 97.5% for the Life and Disability Quota Share

- For the portion of the premiums that relate to future contractual risks appropriate reserves were established for the Credit Protection Quota Share treaty. Premiums are paid upfront for the full term of the contract. These contracts have an average term of 3.4 months. The unearned premium reserve was calculated as the aggregate of one third of the November premium and two thirds of the December premium.

2. Valuation of Assets

Assets were valued at balance sheet values, i.e. market or fair value, as per the accounting policies in the financial statements.

3. Valuation of Policy Liabilities

Composition of Policy Liabilities

The policy liabilities have the following composition:

Treaty	Proportion of total
Life and Disability ‘Variable’ Quota Share	68.22%
Multiprotect Quota Share	10.36%
Credit Protection Quota Share	1.31%
Excess of Loss Treaty	14.69%
Disability Quota Share	5.42%
TOTAL	100.00%

Statement of actuarial values and liabilities

for the period ended 31 December 2004 (continued)

4. Changes in Valuation Basis

ARCSA only started writing long-term insurance business on 1 January 2004. As a result there is no change in valuation basis.

5. Capital Adequacy Requirement

The capital adequacy requirement is the additional amount required, over and above the actuarial liabilities, to provide for further experience that is more adverse than that assumed in the calculation of policy holder liabilities. This additional amount is as required by the Long-term Insurance Act and is in accordance with PGN104 of ASSA.

The volume and nature of the business written by ARCSA is such that it does not warrant additional capital to be held in excess of the prescribed (PGN104) minimum of R10 000 000.

The Ratio of free assets to the capital adequacy requirement is 1.09 times.

6. Report by the Statutory Actuary

I hereby certify that:

The actuarial valuation of African Reinsurance Corporation as at 31 December 2004, the results of which are summarised above, has been conducted in accordance with the Long-term Insurance Act, 1998 and the Actuarial Society of South Africa's professional guidance note 104.

This Statutory Actuary's report has been produced in accordance with the Actuarial Society of South Africa's professional guidance note 103.

This Statutory Actuary's Report, read together with the annual financial statements, fairly represents the financial position of the company.

The life insurance fund of African Reinsurance Corporation (South Africa) Limited was financially sound as at the valuation date.

D S Nohr, FIA FASSA
Statutory Actuary
16 March 2005

Report of the independent auditors

To the member of African Reinsurance Corporation (South Africa) Limited

We have audited the annual financial statements of African Reinsurance Corporation (South Africa) Limited set out on pages 9 to 27 for the period 17 December 2003 to 31 December 2004. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with statements of International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

KPMG Inc.
Registered Accountants and Auditors
Chartered Accountants (SA)

Per BR Mallinson
Director
16 March 2005

African Reinsurance Corporation (South Africa) Limited

Directors' report

for the period ended 31 December 2004

The directors are pleased to present the directors' report that forms part of the financial statements of the company for the period 17 December 2003 to 31 December 2004.

Business

The business of the company is that of a professional reinsurer for short-term and long-term reinsurance business.

Share capital

The authorised and issued share capital of the company including share premium is R80 300 000. During the period seven ordinary shares of R0.01 each were issued of which one share was issued at a premium of R80 299 999.93.

Balance sheet

The company's shareholders funds represented by share capital and premium, statutory contingency reserves and accumulated losses amount to R87 221 523. Net insurance funds total R64 107 000.

Income statement

Net income after taxation is R6 922 000. The results for the period are presented in the accompanying revenue accounts and income statement and require no further amplification.

Holding company

The company is a wholly owned subsidiary of African Reinsurance Corporation established in Nigeria under the auspices of the African Union.

Dividend

This being the first year of operation for the company, the directors do not propose payment of a dividend. Any surplus income will be retained to strengthen the company's reserves.

Directors

The directors who served the company during the period were:

Bakary Kamara	Non-executive chairman (Mauritanian)	appointed 17 December 2003
Paul D Ray	Executive director	appointed 17 December 2003
Allan Peters	Non-executive independent director (British)	appointed 17 December 2003
Ganiyu Musa	Non-executive director (Nigerian)	appointed 17 December 2003

African Reinsurance Corporation (South Africa) Limited

Directors' report

for the period ended 31 December 2004 (continued)

Secretary

Levitt Kirson Management Services CC
Registration No. 1994/036439/23

4th Floor, Aloe Grove
196 Louis Botha Avenue,
Houghton Estate, 2198

PO Box 1523
Johannesburg
2000

Auditors

Messrs KPMG were appointed the statutory auditors of the company and have expressed their willingness to continue in office.

African Reinsurance Corporation (South Africa) Limited

Balance sheet
at 31 December 2004

	Note	2004 R'000
Assets		
Non-current assets		**224 640**
Equipment	*2*	**678**
Investments	*3*	**223 962**
Technical assets under insurance contracts		**220 894**
Retroceded unearned premium reserve		**83 846**
Retroceded outstanding claims reserve		**113 787**
Retroceded life policyholders liability		**1 085**
Deferred acquisition costs		**22 176**
Current assets		**168 555**
Cash and bank balances	*4*	**25 555**
Amounts due from companies on reinsurance accounts	*5*	**111 072**
Deposits retained by ceding companies		**30 138**
Accounts receivable		**992**
Amount due from holding company		**798**
Total assets		**614 089**
Equity and liabilities		
Capital and reserves		**87 222**
Share capital and share premium	*6*	**80 300**
Contingency reserve		**13 808**
Accumulated loss		**(6 886)**
Non current liabilities		
Deferred tax liability	*7*	**427**
Technical liabilities under insurance contracts		**285 001**
Gross unearned premium reserve		**111 795**
Gross outstanding claims reserve		**151 716**
Gross life policyholders liability		**1 446**
Deferred retrocession commission revenue		**20 044**
Current liabilities		**241 439**
Accounts payable and accrued expenses		**8 637**
Deposits due to retrocessionaire		**231 255**
Tax payable		**1 547**
Total equity and liabilities		**614 089**

African Reinsurance Corporation (South Africa) Limited

Revenue account for non-life insurance contracts

for the period ended 31 December 2004

	Note	2004 R'000
Income		
Gross written premiums		**570 963**
Retroceded premiums		**(432 881)**
Net written premiums		**138 082**
Provision for unearned premiums		**(27 949)**
Gross amounts		**(111 795)**
Retrocessionaire's share		**83 846**
Earned premium net of retrocession		**110 133**
Outgo		
Gross claims paid		**(215 084)**
Retroceded claims received		**161 264**
Net claims paid		**(53 820)**
Provision for outstanding claims		**(37 843)**
Gross amounts		**(151 372)**
Retrocessionaire's share		**113 529**
Claims incurred net of retrocession		**(91 663)**
Net commission incurred	*8*	**(10 215)**
Management expenses		**(9 886)**
Underwriting loss		**(1 631)**

African Reinsurance Corporation (South Africa) Limited

Revenue account for life insurance contracts

for the period ended 31 December 2004

	Note	2004 R'000
Income		
Gross written premiums		**16 977**
Retroceded premiums		**(12 905)**
Net written premiums		**4 072**
Outgo		
Gross claims paid		**(10 172)**
Retroceded claims received		**7 629**
Net claims paid		**(2 543)**
Provision for outstanding claims		**(86)**
Gross amounts		**(344)**
Retrocessionaire's share		**258**
Claims incurred net of retrocession		**(2 629)**
Net commission incurred	*8*	**(505)**
Management expenses		**(498)**
Transfer to policyholders liability		**(361)**
Gross amounts		**(1 446)**
Retrocessionaire's share		**1 085**
Underwriting profit		**79**

African Reinsurance Corporation (South Africa) Limited

Income statement

for the period ended 31 December 2004

	Note	**2004 R'000**
Underwriting (loss)/profit		
– non life		**(1 631)**
– life		**79**
		(1 552)
Net investment income	*9*	**10 754**
Net income before taxation	*10*	**9 202**
Taxation	*11*	**2 280**
Net income for the period		**6 922**

African Reinsurance Corporation (South Africa) Limited

Statement of changes in equity

for the period ended 31 December 2004

	Share capital and share premium R'000	Contingency reserve R'000	Accumulated loss R'000	Total R'000
Share capital subscription	80 300			80 300
Net income for the period			6 922	6 922
Transfer to contingency reserve		13 808	(13 808)	
Balance as at 31 December 2004	80 300	13 808	(6 886)	87 222

African Reinsurance Corporation (South Africa) Limited

Cash flow statement

for the period ended 31 December 2004

	Note	2004 R'000
Cash generated by operations	*17.1*	**159 607**
Interest paid		**(2 437)**
Taxation paid	*17.2*	**(306)**
Net cash inflow from operating activities		**156 864**
Cash flow from investment activities		
Net purchase of fixed assets		**(838)**
Net purchase of investments		**(221 051)**
Interest received		**10 134**
Dividends received		**146**
Net cash outflow from investment activities		**(211 609)**
Cash flow from financing activities		
Proceeds from share subscription		**80 300**
Net increase in cash and cash equivalents		**25 555**
Cash and cash equivalents		
Net increase in cash and cash equivalents		**25 555**
At 31 December 2004		**25 555**

1. Accounting policies

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

(a) Basis for preparation

The financial statements are prepared in South African Rand on the historical cost basis except for financial assets and liabilities that are classified as held at fair value. The financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act.

The preparation of financial statements in conformity with South African Statements of Generally Accepted Accounting Practice requires management to make use of judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses at the date of the financial statements and the reporting period. Although these estimates are based on management's best knowledge of current events and actions, the ultimate actual results may differ from those estimates.

(b) Premiums

Premium income on reinsurance contracts is brought into the accounts at the earlier of the date of notification or the date of receipt. Where statements of reinsurance contracts accounts have not been received at year-end, estimates are made based on the latest available information. Provision is made for unearned premium in accordance with note 1 (c).

(c) Unearned premiums

Unearned premium reserve is calculated for those portions of written short-term insurance premiums that relate to unexpired contract terms at the balance sheet date using principally the one over eighth basis for treaty business and the 50% basis for facultative business. Where the nature of the underlying business does not justify the use of the above methods, the unearned premium reserve is calculated on bases relevant to the risk profile. An additional provision is created when it is anticipated that losses will occur during the unexpired period of insurance.

(d) Acquisition costs

Acquisition costs which represent short-term insurance commissions, brokerage and other related expenses are deferred over the risk period in which the related premium is earned using the same bases as for unearned premium reserve.

(e) Contingency reserve

The contingency reserve is provided for in terms of the Short-term Insurance Act, 1988, and represents 10% of gross short-term insurance premiums written less approved reinsurance (as defined). The transfer to the reserve is treated as an appropriation in the statement of changes in equity. The reserve may be utilised only with the prior permission of the Registrar of Short-term Insurance.

1. Accounting policies *(continued)*

(f) Provision for outstanding claims and IBNR

Provision is made for all outstanding claims that have occurred to the balance sheet date and notified to the company. Adequate provisions are also made for claims incurred at the balance sheet date, but not reported at the date using best available information.

(g) Foreign currencies

Transactions in foreign currencies are translated at the prevailing rate at the date of the transaction. Monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Any foreign exchange difference is dealt with in the income statement in the period in which the difference occurs.

(h) Policyholder liabilities for life insurance contracts

The liabilities under life insurance contracts are valued in terms of the Financial Soundness Valuation (”FSV”) basis contained in PGN104 issued by the Actuarial Society of South Africa and are reflected as “Policyholder liabilities under life insurance contracts” in the balance sheet. The operating surpluses or losses arising from insurance contracts are determined by the annual actuarial valuation. These surpluses or losses are arrived at after taking into account the movement in actuarial liabilities under unmatured policies, provisions for profit commissions accrued and adjustments to contingency and other reserves within the policyholder liabilities as well as recoveries under retrocession agreement.

(i) Equipment

Equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight line basis at rates that reduce the cost of the equipment to its estimated residual value over its estimated useful life. The following rates are used:

Motor vehicles	4 years
Computer equipment	3 years
Computer software	3 years
Furniture and fittings	8 years
Office equipment	3 years

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

Gains and losses on disposal of fixed assets are determined by reference to their carrying amounts at the date of sale and are recognised in operating profit.

1. Accounting policies *(continued)*

(j) Investments

Investments that meet the criteria for classification as held to maturity financial instruments are carried at amortised cost. Interest income for financial assets that are classified under this category is recognised in the income statement using the effective interest rate method and is included in investment income.

Listed investments classified as fair value through profit and loss are carried at market value which is calculated by reference to stock exchange quoted ruling prices at close of business on the balance sheet date.

Gains and losses arising from changes in the carrying value of fair value through profit and loss investment instruments are included in net profit or loss in the year in which the change arises.

Gains and losses on disposal of investments are calculated on an average cost basis and are recognised in the period in which they are realised, with a reversal of applicable unrealised gains or losses previously accounted for in the income statement.

Dividends are recognised when the right to receive payment is established while interest is accounted for on the accrual basis.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash and current account balances and call deposits.

(l) Trade and other receivables

Outstanding premiums, amounts due from retrocessionaires and other trade receivables are carried at amortised cost. Provisions are made for debts doubtful of recovery based on a review of all outstanding amounts.

(m) Retirement benefit obligations

The Company contributes to a defined contribution pension plan for its employees. The Company's contributions to the defined contribution pension plan for its employees are recognised as an expense in the profit and loss account as incurred.

(n) Taxation

Income tax on the profit or loss for the period includes South African normal tax both current and deferred tax. The charge for normal tax is determined using taxation rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the balance sheet liability method, providing for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred tax.

Deferred tax assets are recognised for tax losses carried forward only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

2. Equipment

	2004 R'000
Cost	
Motor vehicles	405
Computer equipment	152
Computer software	57
Office equipment	41
Furniture & fittings	183
	838
Accumulated depreciation	
Motor vehicles	76
Computer equipment	38
Computer software	15
Office equipment	11
Furniture & fittings	20
	160
Carrying values	
Motor vehicles	329
Computer equipment	114
Computer software	42
Office equipment	30
Furniture & fittings	163
	678
Reconciliation of carrying values	
Additions	839
Disposals	(1)
Depreciation charge for the period	(160)
	678

Notes to the financial statements
for the period ended 31 December 2004 (continued)

	2004 R'000
3. Investments	
Held-to-maturity instruments at amortised cost	
Fixed deposits	
– non-life	**150 528**
– life	**6 056**
	156 584
Instruments at fair value through profit and loss	
Listed	
– bonds	**32 849**
– equities	**34 529**
	67 378
Total investments	**223 962**

Presented below are the maturity profiles and interest rate exposures of the company's interest bearing investments

Maturity period	Effective interest Rate %	Market value R'000
Within 1 year	7,25% to 7,50%	**156 584**
1 to 3 years	7,47% to 7,86%	**12 494**
3 to 5 years	7,82% to 8,04%	**20 355**
		189 433

4. Cash and bank balances	
Cash at hand	**3**
Current account balances	**25 118**
Call deposits	**434**
	25 555

Notes to the financial statements
for the period ended 31 December 2004 (continued)

		2004 R'000
5.	**Amounts due from companies on reinsurance accounts**	
	Non-life	
	Amount due from ceding companies	**56 244**
	Amount due from retrocessionaire	**50 304**
		106 548
	Life	
	Amount due from ceding companies	**587**
	Amount due from retrocessionaire	**3 937**
		4 524
	Total	**111 072**
6.	**Share capital and share premium**	
	Share capital	**–**
	Share premium	**80 300**
		80 300
	Authorised	
	7 ordinary shares of R0,01 each	**–**
	Issued	
	7 ordinary shares of R0,01 each	**–**

During the period seven ordinary shares of R0.01 each were issued of which one share was issued at a premium of R80 299 999.93.

		2004 R'000
7.	**Deferred tax liability**	
	Charged to income statement	**427**
	The net liability balance at the end of the period comprises:	
	– capital allowance	**(4)**
	– unrealised gains on revaluation of investments	**431**
		427

Notes to the financial statements
for the period ended 31 December 2004 (continued)

		2004 R'000
8.	**Net commission incurred**	
	Non Life	
	Gross commission and brokerage paid	**119 461**
	Retrocession commission and brokerage received	**(89 644)**
	Overriding commission received	**(17 470)**
		12 347
	Deferred acquisition costs	**(2 132)**
	Gross amount	**(22 176)**
	Retrocessionaire's share	**16 632**
	Overriding commission income	**3 412**
	Net commission incurred	**10 215**
	Life	
	Gross commission and brokerage paid	**4 566**
	Retrocession commission and brokerage received	**(3 424)**
	Overriding commission income	**(637)**
	Net commission incurred	**505**
9.	**Net investment income**	
	Interest received	**10 134**
	Dividend income received	**146**
	Unrealised gains on revaluation of investments	**2 871**
	Realised profit on disposal of investments	**40**
	Interest paid	**(2 437)**
		10 754
	Net investment income is allocated as follows:	
	– non-life insurance contracts	**9 971**
	– life insurance contracts	**783**
		10 754

		2004 R'000
10.	**Net income before taxation**	
	Net income before taxation is arrived at after charging the following items:	
	Actuarial fees	**90**
	Auditors remuneration:	
	– statutory and regulatory audits	**464**
	Consultancy fees	**193**
	Depreciation	**160**
	Directors remuneration	**952**
	Executive – for services rendered	**718**
	Non executive – for services as directors	**234**
	Investment management fees	**83**
	Legal fees	**83**
	Secretarial fees	**51**
	Staff costs including contribution to pension fund, medical scheme and allowance	**1 660**
	Number of staff	**10**
11.	**Taxation**	
	South African normal taxation	
	- Current tax	**1 853**
	- Deferred tax	**427**
		2 280
	Tax rate reconciliation	
	Effective tax rate	**24,8%**
	Exempt income	**0,5%**
	Capital gains	**4,7%**
	South African standard corporate tax rate	**30,0%**

12. Related party transactions

The company conducts reinsurance business with its holding company. The holding company also charges management expenses to cover the cost of insurance and accounting software used by the company. Transactions carried out with the holding company are on commercial terms and conditions no less favourable as to the public. Details of the related party balances and transactions included in the annual financial statements are as follows:

	2004 R'000
Balance sheet	
Assets	
Technical assets under insurance contracts	**198 718**
Amounts due from companies on reinsurance accounts	**50 304**
Amount due from holding company	**798**
	51 102
Liabilities	
Deferred retrocession commission revenue	**(20 044)**
Deposits due to retrocessionaire	**(231 255)**
Net assets	**49 623**
Revenue account for non-life insurance contracts	
Retroceded premiums	**(432 881)**
Retrocessionaire's share of provision for unearned premiums	**83 846**
Retroceded claims received	**161 264**
Retrocessionaire's share of provision for outstanding claims	**113 529**
Net commission incurred	**87 070**
Management expenses	**(4 980)**
Revenue account for life insurance contracts	
Retroceded premiums	**(12 905)**
Retroceded claims received	**7 629**
Retrocessionaire's share of outstanding claims	**258**
Net commission incurred	**4 061**
Retrocessionaire's share of policy holders liability	**1 085**

13. Retirement benefits costs

The Company contributes to a defined-contribution pension plan for all its employees. The Company's contributions to the defined contribution pension plan for its employees during the period were R102 812.

14. Operating lease commitments

The company leases photocopies, fax equipment and office premises. The minimum non-cancellable operating lease payments are payable as follows:

	2004 R'000
– less than one year	**151**
– between one and five years	**203**
	354

15. Financial instruments

The company's exposure to credit, interest rate, market price and currency risks that arises in the normal course of business are explained below:

Currency risk

Most of the company's transactions are in Rand which is the reporting currency and all assets and liabilities are held in Rand and the company is not exposed to any significant currency risk.

Interest rate risk

The company has no borrowing. Interest rates risk exposure is therefore limited to the company's investments in fixed interest rate instruments such as fixed deposits and bonds.

Credit risk

The major concentration of credit risk arises from outstanding premiums, reinsurers' balances and investments amounts. Reinsurance balances due from retrocessionaires are fully secured by deposits held by the company. Management has a credit policy in place where balances due and exposure to credit risk is monitored on an ongoing basis and there is no significant concentration of credit risk. Reputable financial institutions are used for investing and cash handling purposes within the company's strict guidelines on investment instruments and institution exposures. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Market price

The company is exposed to market price risk through fluctuation of the value of financial instruments due to changes in their market prices. Investments in marketable securities are valued at fair value and are therefore susceptible to changes in market prices. The maximum market price risk is limited to investments held in marketable securities.

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Notes to the financial statements

for the period ended 31 December 2004 (continued)

16. Fair value

The fair value of all financial instruments is substantially the same as the carrying values reflected in the balance sheet.

		2004 R'000
17.	**Notes to the cash flow statement**	
17.1	Reconciliation of cash generated by operations	
	Net income before taxation	**9 202**
	Adjusted for :	
	- depreciation	**160**
	- investment income	**(10 754)**
	- net unearned premium reserve net of deferred acquisition costs	**25 817**
	Cash generated by changes in working capital	**135 182**
	Amounts due from companies on reinsurance accounts	**(111 072)**
	Deposits retained by ceding companies	**(30 138)**
	Debtors and other receivables	**(992)**
	Amount due from holding company	**(798)**
	Creditors and accrued expenses	**8 637**
	Deposits due to retrocessionaire	**231 255**
	Net outstanding claims reserve	**37 929**
	Net life policyholders liability	**361**
		159 607
17.2	Reconciliation of taxation paid	
	Current tax charged in the income statement	**(1 853)**
	Balance payable at the end of the period	**1 547**
	Taxation paid	**(306)**

18. Comparative information

No comparative information is provided as 31 December 2004 represents the first reporting date for which financial statements have been prepared.