African Reinsurance Corporation (South Africa) Limited

Financial Statements

for the year ended 31 December 2006

African Reinsurance Corporation (South Africa) Limited

(Reg. No.: 2003/031630/06)

Financial statements

for the year ended 31 December 2006

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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 year ended 31 December 2006, 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.

Levitt Kirson Management Services CC
Secretary

15 March 2007

African Reinsurance Corporation (South Africa) Limited

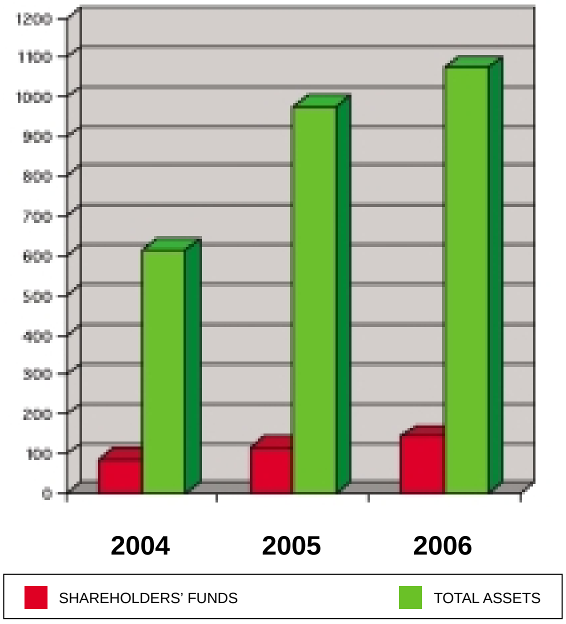
Financial highlights

for the year ended 31 December 2006

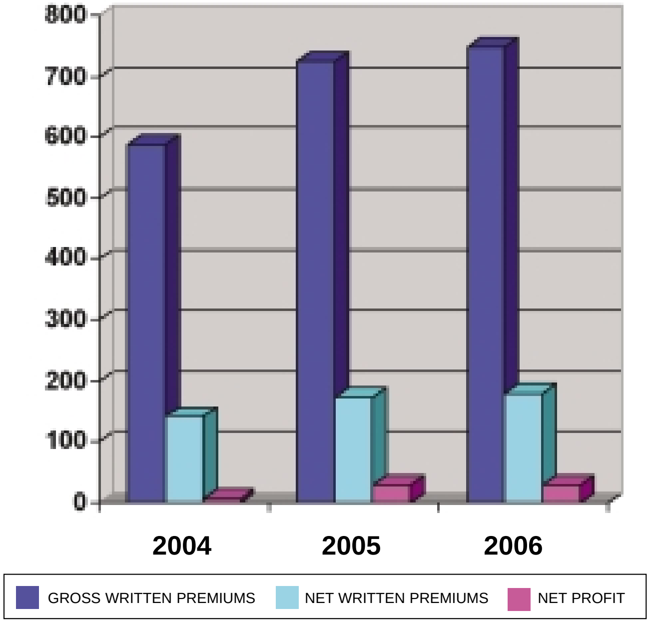
In R'000	2006	2005	2004
RESULTS			
GROSS WRITTEN PREMIUMS	**747 445**	725 005	587 940
NET WRITTEN PREMIUMS	**179 387**	173 859	142 154
NET EARNED PREMIUMS	**169 221**	166 756	114 205
NET PROFIT	**29 052**	28 899	6 922
FINANCIAL POSITION			
SHAREHOLDER'S FUNDS	**145 173**	116 121	87 222
TOTAL ASSETS	**1 075 351**	977 804	614 089
INTERNATIONAL SOLVENCY MARGIN[1]	**74%**	62%	55%

[1] International solvency margin is calculated as the non-life net assets expressed as a percentage of the non-life net written premium.

FINANCIAL POSITION 2004 - 2006
in Rand' Million



RESULTS 2004 - 2006
in Rand' Million



Chairman and executive management statement

for the year ended 31 December 2006

The year ended 31 December 2006, was the third year of operations for African Reinsurance Corporation (South Africa) Limited ("Africa Re (SA)" or "the company") and concludes a year of particular challenges both to the company and the insurance sector as a whole.

Challenges for the insurance industry include the introduction of risk based solvency requirements, the ramifications of which could introduce the need for a substantial increase in capital. The cost of the implementation will affect all sectors of the industry and Africa Re (SA) has taken steps to implement an internal solvency model in line with specific Financial Services Board requirements.

Coupled with the above, the industry was faced with an increase in attritional losses and whilst the severity of many of these remained low in general, one or two larger losses affected the company particularly during the third and fourth quarters of 2006.

The pattern of weather related losses which commenced during the latter part of 2005, continued into 2006 although the severity of the storms and their influence on the insurance results remained relatively low.

Increased competition negatively affected the rating of the underlying business which had the effect of not only reducing income flow into the general premium pool, but also put pressure on the profitability of certain classes of business.

Furthermore, the international market showed an increased appetite for South African business which not only reduced overall income levels, but also the amount of business available to locally registered reinsurers.

Notwithstanding these challenges, Africa Re (SA) were able to post another year of positive results, the second year in succession, following its establishment in January 2004.

Gross written premiums for the period under review was R747.4 million compared to R725.0 million recorded in 2005. This represents a 3.1% increase over the premiums recorded in the previous year. The growth in written premiums was recorded in the non-life business which grew by 5.2% from R709.4 million in 2005 to R746.3 million in 2006. Following the company's decision in March 2005 to stop writing life business and to focus on the non-life business portfolio, no new life business was written in 2006 and written premiums from life business decreased by 92.3% from R15.6 million in 2005 to R1.2 million in 2006.

Underwriting profit for the year was R0.4 million compared to an underwriting profit of R9.4 million reported in 2005. The decrease in underwriting profit for the year was due to an increase in the number of losses advised. The combined ratio increased from 94% in 2005 to 100% in 2006. Management expenses for the year under review were R15.9 million compared to R16.7 million in 2005.

Net investment income for the year was R39.9 million compared to R30.9 million recorded in 2005 representing an increase of 29.1%. The good investment income performance for the year under review is mainly due to an increase in cash flows and the continued strong performance of the equity portfolio due to the strong bull-run of the Johannesburg Stock Exchange market that has continued through 2006 from the end of last year. Investment income also increased due to increase in interest rates during the second half of 2006.

Accrued income tax expense charged to the income statement for the period was R11.2 million (2005: R11.4 million) resulting in an after tax profit of R29.1 million compared to R28.9 million in 2005.

The South African economy continues to perform well growing by more than 5% during the course of the year under review and this growth appears to be sustainable in the medium to long term thus providing additional opportunities for the company to continue to provide growth in income and profitability to the shareholder.

Chairman and executive management statement

for the year ended 31 December 2006 (continued)

Despite the many challenges facing our industry going forward, the board and management are confident that Africa Re (SA) will continue to show steady and controlled, positive growth, employing prudent underwriting principles whilst taking advantage of opportunities to develop long term partnerships with our select clients.

Our sincere thanks go to all of our valued partners, cedants and intermediaries who have continued to show confidence in Africa Re (SA) and the Corporation as a whole.

There were no changes to the Board of Directors who met three times during the course of the financial year ended 31 December 2006. These meetings were attended by all directors as detailed below:

B H Kamara (Chairman)
G Musa (Non-executive Director)
A F W Peters (Non-executive Director)
P D Ray (Managing Director)

The Audit Committee under the Chairmanship of A F W Peters met three times during the course of the 2006 financial year. During these meetings, the audit committee which is comprised of non-executive directors reviewed regular financial reports from management, the Annual Financial Statements and the external auditor's report.

Also in attendance at these meetings were Messrs. G Musa (Director/Member), P D Ray, D N De Vos and G Waweru of Africa Re (SA) Limited together with both the internal and external auditors.

The investment committee met four times during the course of 2006 to review the company's investment strategy, performance and risks.

In the field of Corporate Social Investment, Africa Re (SA) Limited continues to set aside funds for the promotion of the development of education and training and health initiatives within the previously disadvantaged community. The company will continue to seek out worthy individuals and causes and pledges ongoing support to these initiatives.

We believe that our employees continue to be our most important asset; that each and every staff member has played a pivotal role in the development of Africa Re (SA) and we are committed to developing and maintaining an environment of participation and learning thus allowing each employee to reach his or her full potential.

To all our staff who have done so much to ensure the positive growth of the company, management extend a sincere vote of thanks for their continued commitment.

Bakary H Kamara
Chairman

Paul D Ray
Managing Director

Directors' responsibility for the financial statements

for the year ended 31 December 2006

The company's directors are responsible for the preparation and fair presentation of the annual financial statements, comprising the balance sheet at 31 December 2006, and the income statement, the statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

Approval of the annual financial statements

The annual financial statements were approved by the board of directors on 15 March 2007 and are signed on their behalf by:

Bakary H Kamara
Chairman

Paul D Ray
Managing Director

Statement of actuarial values of assets and liabilities

for the year ended 31 December 2006

Statement of assets, liabilities, excess assets and capital requirements

	2006 R'000	2005 R'000
Total assets as per balance sheet	**14 446**	21 654
Adjustment to fair value	**Nil**	Nil
Less intangible assets	**Nil**	Nil
Value of adjusted assets	**14 446**	21 654
Current and other liabilities as per balance sheet	**2 574**	10 014
Net assets	**11 872**	11 640
Actuarial value of gross policy liabilities	**Nil**	234
Excess Assets	**11 872**	11 406
Capital adequacy requirement (CAR)	**10 000**	10 000
Ratio of Excess Assets to CAR	**1.19**	1.14

The change in excess assets from the start of the year is shown below.

Description	**2006 R'000**	2005 R'000
Surplus at start of year	**11 406**	10 902
Adjustment to capital	**Nil**	Nil
Expense experience	**(226)**	223
Mortality experience	**(24)**	(318)
Interest received	**1 057**	641
Tax paid	**(341)**	(42)
Surplus at end of the year	**11 872**	11 406

1. Valuation of policy liabilities

The valuation was performed using the Financial Soundness Valuation method and was conducted in accordance with professional guidance note 104 issued by the Acturial Society of South Africa (ASSA). Assets and policy liabilities have been valued on methods and assumptions that are consistent with each other.

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

Statement of actuarial values of assets and liabilities

for the year ended 31 December 2006 (continued)

On 16 March 2005 African Reinsurance Corporation (South Africa) Limited's board of directors decided to cease to enter into any more life treaties. The board also resolved that the company make applications to the FSB to have its Long-term license revoked. As a result, there were no treaties with outstanding periods of cover at 31 December 2006.

Due to the intention of African Reinsurance Corporation (South Africa) Limited to close its long-term license they entered into negotiations with their cedants to eliminate this liability with respect to all of its treaties. In this regard Longsmith Reinsurance Brokers has issued a letter that declares no further responsibility for claim payments to Prosperity Insurance in respect of the following treaties:

- Longsmith Disability Quota Share;
- Facultative Quota Share; and
- Facultative Funeral Benefits Quota Share.

The Catastrophe Excess of Loss treaties with Prosperity and NBC Holdings were the only two treaties with open periods of cover in 2006. Both treaties expired in the first quarter of 2006 and were moved to the short-term license under the accident class of business on renewal. I am satisfied that no liability can be expected under these treaties.

Hence, I have valued African Reinsurance Corporation (South Africa) Limited policyholders' liabilities as nil at the balance sheet date.

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:

	Proportion of total	
Treaty	**2006**	**2005**
Longsmith Excess of Loss Treaty	**Nil**	33.56%
Longsmith Disability Quota Share	**Nil**	20.80%
Facultative Quota Share Treaty	**Nil**	19.20%
Catastrophe Excess of Loss Treaties	**Nil**	26.44%
Total	**Nil**	100.00%

Statement of actuarial values of assets and liabilities

for the year ended 31 December 2006 (continued)

4. Changes in valuation basis

The methodology and assumptions used to value the liabilities have remained broadly the same as those applied as at 31 December 2005.

5. Capital Adequacy Requirement

The capital adequacy requirement is the additional amount required, over and above the actuarial liabilities, to provide for future experience that is more adverse than that assumed in the calculation of policyholder liabilities. This additional amount is as required by the Long-term Insurance Act, 1998 and is in accordance with PGN104 of ASSA.

The volume and nature of the business written by Africa Re (SA) 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 1.19 times.

6. Report by the Statutory Actuary

I hereby certify that:

The actuarial valuation of African Reinsurance Corporation (South Africa) Limited as at 31 December 2006, 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
15 March 2007

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, which comprise the balance sheet at 31 December 2006, and the income statement, the statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 10 to 47.

Directors' responsibility for the financial statements
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation (South Africa) Limited at 31 December 2006, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered Auditor

Per JD van der Sandt
Chartered Accountant (SA)
Registered Auditor
Director
15 March 2007

Directors' report

for the year ended 31 December 2006

The directors are pleased to present the directors' report that forms part of the financial statements of the company for the year ended 31 December 2006.

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 R80.3 million. The issued share capital comprises of seven ordinary shares of R0.01 each of which one share was issued at a premium of R80.3 million.

Balance sheet

The company's shareholders funds represented by share capital and share premium, statutory contingency reserves and retained earnings as at 31 December 2006 amount to R145.2 million (2005: R116.1 million). Net technical liabilities under insurance contracts at 31 December 2006 amount to R123.7 million (2005: R95.5 million).

Income statement

Net income after taxation for the year is R29.1 million (2005: R28.9 million). The results for the year are presented in the accompanying income statement and notes to the accounts and require no further amplification.

Holding company

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

Dividend

The directors do not propose payment of a dividend. As in the previous year, surplus income will be retained to strengthen the company's reserves.

Directors

The directors who served the company during the year were:

Bakary H Kamara	Non-executive chairman (Mauritanian)
Paul D Ray	Executive director
Allan F W Peters	Non-executive independent director (British)
Ganiyu Musa	Non-executive director (Nigerian)

Directors' report

for the year ended 31 December 2006 (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 2006

	Note	2006 R'000	2005 R'000
Assets			
Equipment	*6*	**801**	760
Intangible assets	*7*	**42**	44
Financial assets	*8*	**556 723**	548 897
- Fixed deposits and money on call		**394 643**	408 009
- Equities and bonds		**162 080**	140 888
Technical assets under insurance contracts	*9*	**433 842**	338 672
- Retroceded outstanding claims reserve		**256 608**	198 216
- Retroceded unearned premium reserve		**135 654**	105 156
- Deferred acquisition costs		**41 580**	35 126
- Retroceded life policyholders' liability		**-**	174
Amounts due from companies on reinsurance accounts	*10*	**68 033**	66 293
Deposits retained by ceding companies	*11*	**8 573**	3 601
Accounts receivable	*12*	**30**	211
Cash and cash equivalents	*13*	**7 307**	19 326
Total assets		**1 075 351**	977 804
Equity			
Share capital and share premium	*15*	**80 300**	80 300
Contingency reserve	*14*	**17 911**	17 010
Retained earnings		**46 962**	18 811
Total equity attributable to equity holders of the company		**145 173**	116 121
Liabilities			
Technical liabilities under insurance contracts	*9*	**557 591**	434 198
- Gross outstanding claims reserve		**342 142**	264 287
- Gross unearned premium reserve		**180 872**	140 208
- Deferred retrocession commission revenue		**34 577**	29 470
- Gross life policyholders' liability		**-**	233
Amounts due to companies on reinsurance accounts	*16*	**12 892**	104 143
Deposits due to retrocessionaire	*17*	**340 347**	293 052
Amount due to holding company		**6 318**	14 749
Other provisions and accruals	*18*	**2 001**	3 238
Deferred tax liability	*19*	**5 009**	4 654
Current income tax liability	*20*	**6 020**	7 649
Total liabilities		**930 178**	861 683
Total equity and liabilities		**1 075 351**	977 804

Income statement

for the year ended 31 December 2006

	Note	**2006 R'000**	2005 R'000
Income from operations		**388 064**	366 822
Net earned premiums from non-life insurance contracts	*21*	**168 943**	162 997
Net earned premiums from life insurance contracts	*22*	**278**	3 759
Commission earned	*23*	**162 628**	155 940
Transfer from policyholder liabilities on life insurance contracts	*22*	**59**	302
Finance income	*24*	**56 156**	43 824
Operating costs		**347 795**	326 486
Net claims incurred on non-life insurance contracts	*21*	**117 878**	111 303
Net claims incurred on life insurance contracts	*22*	**284**	3 107
Commission incurred	*23*	**197 400**	182 491
Finance expenses	*24*	**16 301**	12 912
Management expenses		**15 932**	16 673
Profit before taxation	*25*	**40 269**	40 336
Taxation	*26*	**11 217**	11 437
Profit for the year		**29 052**	28 899

Statement of changes in equity

for the year ended 31 December 2006

	Share capital and share premium R'000	Contingency reserve R'000	Retained earnings/ (accumulated loss) R'000	Total R'000
Balance as at 1 January 2005	80 300	13 808	(6 886)	87 222
Profit for the year			28 899	28 899
Transfer to contingency reserve		3 202	(3 202)	
Balance as at 31 December 2005	**80 300**	**17 010**	**18 811**	**116 121**
Profit for the year			**29 052**	**29 052**
Transfer to contingency reserve		**901**	**(901)**	
Balance as at 31 December 2006	**80 300**	**17 911**	**46 962**	**145 173**

Cash flow statement

for the year ended 31 December 2006

	Note	2006 R'000	2005 R'000
Cash (utilised)/generated by operations	*32.1*	**(31 316)**	289 320
Finance expenses		**(16 301)**	(12 912)
Taxation paid	*32.2*	**(12 491)**	(1 108)
Net cash (outflow)/inflow from operating activities		**(60 108)**	275 300
Cash flows from investment activities			
Net purchase of equipment and intangibles		**(241)**	(415)
Net purchases and disposals of investments		**(6 494)**	(302 703)
Interest received net of investment management fees		**42 821**	19 806
Realised gains on investment received		**9 934**	-
Dividends received		**2 069**	1 783
Net cash inflow/ (outflow) from investment activities		**48 089**	(281 529)
Net decrease in cash and cash equivalents		**(12 019)**	(6 229)
Cash and cash equivalents at the beginning of the year		**19 326**	25 555
Cash and cash equivalents at the end of the year		**7 307**	19 326

Notes to the financial statements

for the year ended 31 December 2006

1. General information

African Reinsurance Corporation (South Africa) Limited is a professional reinsurer underwriting both life and non-life insurance risks in the domestic and regional markets. The company is a public company incorporated and domiciled in the Republic of South Africa. The company is a wholly owned subsidiary of African Reinsurance Corporation.

The financial statements were authorised for issue by the directors on 15 March 2007.

2. Accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Statement of compliance

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations issued by the International Accounting Standard Board ("IASB") that are effective at the date of reporting. The company's year end is 31 December and it publishes comparative information for one year.

(b) Basis for preparation

The financial statements are prepared in South African Rand rounded to the nearest thousand. They are prepared on the historical cost basis except for financial assets and liabilities that are stated at fair value or amortised costs.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses at the date of the financial statements and the reporting period. The estimates and associated assumptions are based on historical experience and management's best knowledge of current events. These are believed to be reasonable under the circumstances and as a result actual results may differ from those estimates.

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

Notes to the financial statements

for the year ended 31 December 2006 (continued)

2. Accounting policies *(continued)*

(c) Classification of contracts

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

(d) Recognition and measurement of insurance contracts

Non-life and life insurance business is accounted for on an annual basis.

Non-life insurance premiums

Written premium income comprises premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of acquisition costs payable to intermediaries and other third parties and is accounted for net of value added taxation. Premiums written for the period also include adjustments to premiums written in prior accounting periods and estimates for pipeline or premium not yet advised by the insured for contracts in force at the end of the period. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Premium relating to the expired risk period is recognised as income for the period while premium relating to the unexpired risk period is recognised as a provision for unearned premium. The outward retrocession premiums relating to earned premiums are recognised as an expense in accordance with the retrocession services received. The unearned portion is disclosed as retrocessionaire's share of unearned premium provision.

Unearned premiums provision for non-life insurance contracts

The portion of gross written premiums on non-life insurance contracts which is estimated to be earned in the following or subsequent years is recognised as an unearned premium provision. This is computed separately for each contract 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 and risk does not justify the use of the above methods, the unearned premium reserve is calculated on bases relevant to the risk profile of the insurance contract.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

2. Accounting policies *(continued)*

(d) Recognition and measurement of insurance contracts *(continued)*

Claims arising from non-life insurance contracts

Claims incurred in respect of non-life insurance contracts consist of claims and claims handling expenses paid during the financial year and movements in provision for outstanding claims.

Outstanding claims comprise provisions for all the company's estimated ultimate costs of settling all claims incurred but unpaid at the balance sheet date whether reported or not and related claim handling expenses. Outstanding claims that have occurred at the balance sheet date and have been notified to the company by the cedants are carried at the claim amounts advised by the cedants. Adequate provisions are also made for claims incurred at the balance sheet date, but not reported at the balance sheet date using historical experience and best available information. Outstanding claim provisions are disclosed at their carrying amounts except where there is a particularly long period from the claim incident to settlement in which case outstanding claims are discounted using a discount rate that best reflects current assessment of time value of money and associated risks. Anticipated retrocession recoveries on claims are disclosed separately as assets.

Whist the directors and management considers that the gross provision for outstanding claims liabilities and the related retrocession recoveries are fairly stated on the basis of information currently available to them at the balance sheet date, the ultimate claim liability may vary as a result of subsequent events and information and may result in significant adjustments to the amount provided. Adjustments to the amounts of claims provision established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used to determine the estimates and the estimates made are reviewed regularly to take into account new information to arrive at the most accurate estimates at the time of reporting.

Unexpired risk provision for non-life insurance contracts

Where the expected value of claims liabilities and expenses attributable to the unexpired periods of the insurance contracts in force at the balance sheet date exceed the unearned premium provision relating to those contracts after deduction of any deferred costs, provision is made for unexpired risk liabilities for the estimated excess liabilities.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

2. Accounting policies *(continued)*

(d) Recognition and measurement of insurance contracts *(continued)*

Claims and policyholder liabilities arising from life insurance contracts

Claims incurred in respect of life insurance contracts consist of claims arising during the year. Outstanding claims on life insurance contracts that have occurred at the balance sheet date and have been notified to the company by the cedants are carried at the claim amounts advised by the cedants.

Policyholder 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. Anticipated retrocession recoveries under retrocession agreements are disclosed separately as assets.

Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition cost and by subsequently establishing a provision for losses arising from liability adequacy tests (unexpired risk provision as referred to above).

Reinsurance contracts and assets

The company buys reinsurance cover in the normal course of business through retrocession contracts for the purpose of limiting its net potential loss through the diversification of its risks. Retrocession arrangements do not relieve the company from its direct obligation to its cedants. Amounts recoverable under retrocession arrangements are assessed at each balance sheet date. These assets are deemed impaired if there is objective evidence, as a result of an event that occurred subsequent to its initial recognition, that the company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the company will receive from the retrocessionaire. The carrying amounts of the assets are reduced by the impairment losses and the impairment losses are recognised in the profit and loss account for the period.

Premiums retroceded and benefits reimbursed in respect of retrocession contracts are disclosed in the income statement and balance sheet on a gross basis. Amounts recoverable under the retrocession contracts are recognised in the same year as the related claims. Contracts that do not transfer significant insurance risk are recorded using the deposit method of accounting.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

2. Accounting policies *(continued)*

(d) Recognition and measurement of insurance contracts *(continued)*

Reinsurance contracts and assets *(continued)*

Retrocession assets include balances due from the retrocessionaires for ceded insurance business. Premiums on reinsurance assumed are recognised as revenue and accounted as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business. Amounts recoverable from retrocessionaires are estimated in a manner consistent with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each retrocession contract.

Deferred acquisition costs

The costs of acquiring new and renewed insurance business that is primarily related to the production of that business are deferred.

Acquisition costs comprise insurance commissions, brokerage and other related expenses arising from the conclusion of insurance contracts.

In respect of non-life insurance the proportion of acquisition costs that correspond to the unearned premiums are deferred and amortised on a pro rata basis over the contract term. For life contracts, deferred acquisition costs are amortised in proportion to the anticipated premiums. Assumptions of anticipated premiums are made at the inception or acquisition of the contracts and are consistently applied over the expected duration of the contracts.

Commission income

Commission received or receivable which do not require the company to render further service are recognised as revenue by the company on the effective commencement or renewal dates of the related policies. However, when it is probable that the company will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognised as revenue over the year during which the policy is in force.

(e) Contingency reserve

A contingency reserve is provided for in terms of the Short-term Insurance Act, 1998, and represents 10% of gross non-life insurance premiums written less approved reinsurance (as defined in the Act). The reserve is treated as a separate component of shareholders equity in the balance sheet and transfers to or from the reserve 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.

(f) Operating lease payment

Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease period.

2. Accounting policies *(continued)*

(g) Employee benefits under defined contribution plan

The company contributes to a defined contribution pension plan for all its employees. The company's obligations for the contributions to the defined contribution pension plan for its employees are recognised as an expense in the income statement as incurred.

(h) Foreign currencies transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Rand at the exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translations are recognised in the income statement in the period in which the difference occurs.

(i) Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated and charged to the income statement on a straight-line basis over the estimated useful life of each item of equipment. The estimated useful lives of each category of equipment are as follows:

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

The residual value and useful life, if not insignificant, is reassessed annually. Where the carrying amount of an asset is greater than its estimated recoverable amount, impairment losses are recognised to write down the value of the asset 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 the income statement.

(j) Intangible assets

Intangible assets consist of purchased software. Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of intangible assets. The useful life is reviewed annually.

(k) Financial instruments

Investments

The company's investments are classified into the following categories, depending on the purpose for which the assets were acquired:

Financial instruments at fair value through profit or loss, are financial assets which on initial recognition are designated by the company as being at fair value through profit or loss. The company's listed equity and fixed income investments are classified as financial instruments through profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company has positive intention and ability to hold to maturity.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

2. Accounting policies *(continued)*

(k) Financial instruments *(continued)*

Investments *(continued)*

Purchases of financial instruments are recognised on the trade date, which is when the company commits to purchase the assets. Financial instruments are derecognised when contractual rights to receive cash flows from the assets expire, or where the assets, together with substantially all the risks and rewards of ownership have been transferred.

Financial instruments are initially measured at fair values plus, in the case of financial instruments not at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. After initial recognition the company measures financial instruments at fair values without any deduction for transaction costs that it may incur on disposal.

A financial asset is derecognised when the company loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset on trade date. This occurs when the rights are realised, expire or are surrendered.

The fair value of quoted financial assets is their quoted bid price at the balance sheet date. Held-to-maturity financial assets are measured at amortised cost using the effective interest rate method, less impairment losses.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the profit or loss in the period in which they arise. Where the financial assets are interest-bearing, interest calculated using the current market or effective interest rate method is recognised in profit or loss.

Other receivables

Trade and other receivables and deposits retained by ceding companies are stated at amortised cost net of impairment for any amounts expected to be irrecoverable.

Trade and other payables

Trade and other payables are stated at amortised cost.

Deposits retained on reinsurance ceded

Deposits retained on reinsurance ceded are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits and are measured at fair value.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

2. Accounting policies *(continued)*

(l) Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the carrying value of the asset is reduced to the estimated recoverable amount by means of an impairment charge to the income statement. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(m) Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(n) Taxation

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

Current tax is the expected tax payable on the taxable profit for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, 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. Deferred tax assets and liabilities are not discounted.

(o) Comparative figures

Where necessary comparative figures have been reclassified.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

2. Accounting policies *(continued)*

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these financial statements. The standards applicable to the company are listed below.

	Standard	Effective date
IFRS 7	*Financial Instruments: Disclosures (including amendments to IAS 1 (AC 101), Presentation of Financial Statements: Capital Disclosures)*	Annual periods commencing on or after 1 January 2007

The disclosures provided in respect of financial instruments in the financial statements for the year ending 31 December 2007, as well as comparative information, will be compliant with IFRS 7.

The disclosure requirements of IFRS 7 require additional disclosure compared to that required in terms of existing IFRSs in respect of the following:

Qualitative disclosures

Further information regarding each type of financial instrument risk including the exposures to risk and how they arise, the company's objectives, policies and processes for managing the risk, the methods used to measure the risk, and any changes from the previous period.

Quantitative disclosures

Further information regarding each type of the company's financial instrument risk including summary quantitative data about exposure to that risk at the reporting date including any concentrations of credit risk, financial assets that are either past due or impaired, any collateral and other credit enhancements obtained, liquidity risk, market risk, and capital objectives and policies.

IAS 1

A consequential amendment on capital disclosures has been made to IAS 1 as a result of the introduction of IFRS 7. The additional disclosures will be included in the financial statements as part of the implementation of IFRS 7.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2006 and the comparative information presented in these financial statements.

4. Accounting estimates and judgements

Management discussed with the audit committee the development, selection and disclosure of the company's critical accounting policies, estimation methods and the application of these policies and estimation methods.

The critical accounting judgements and assumptions used in applying the company's accounting policies are described below:

Policyholder claims for non-life insurance contracts

The company's estimates for reported and unreported losses and the resulting provisions and related retrocession recoverables are reviewed and updated regularly to take into account new information to determine the most accurate estimates at the time of reporting. Adjustments resulting from this review are reported in the income statement in the period the adjustments are made. The process relies on the basic assumption that past experience adjusted for effects of current developments and likely trends, is an appropriate basis for predicting future events. Due to the limited past experience for the company, the assumptions provide for a conservative view in estimating unreported losses. Estimation of claims provision is a complex process and significant uncertainty exists as to the ultimate settlement of claim liabilities.

Policyholder claims for life insurance contracts

The company estimates for reported and unreported losses and the resulting provisions and related retrocession recoverables are based on past experience. The process relies on the basic assumption that past experience adjusted for effects of current developments and likely trends, is an appropriate basis for predicting future events.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

4. Accounting estimates and judgements *(continued)*

Policyholder liabilities

Limited data was available to derive statistical characteristics of claims development and due to the short period the business was in force, the application of statistical techniques to derive the future policyholder liabilities was not possible.

Information received directly from the cedants in respect of the remaining treaties in force, was used to determine the incurred but not reported (IBNR) loss reserves. Where this information was not obtained, the IBNR reserves were calculated assuming an ultimate claims ratio. An unearned premium reserve has only been raised where open periods of risk remain.

Estimates

As a result of the time delay experienced by reinsurers in the receipt of bordereaux or treaty account statements from their cedants, they are required to estimate insurance results where bordereaux or treaty account statements have not yet been received.

In the calculation of these estimates, cognisance is taken of the past performance of the treaty adjusted by the relevant current information.

5. Risk management objectives and policies

(a) General

African Reinsurance Corporation (South Africa) Limited ("Africa Re (SA)") is licensed to write all classes of insurance business as stipulated in the Short-term Insurance Act, 1998, and the Long-term Insurance Act, 1998.

Non-life insurance contracts

Africa Re (SA) underwrites non-life business both on a treaty and facultative basis in all classes of business, but mainly concentrates in the property and motor sectors where cover is provided to protect the insured’s material property and possible business interruption following such loss events. The most significant portion of the business is written on a treaty basis. These risks are accepted proportionally and non-proportionally.

Africa Re (SA) continues to strive towards writing a balanced account across all classes but limits its exposure to business of a long-tail nature thus avoiding the uncertainty regarding claims provisions for long-tail business. Most of the losses on the business written by Africa Re (SA) are expected to be reported within a fairly short period and as a result the bulk of the business underwritten by the company is regarded as being short-tail in nature.

The return to the stakeholders under non-life products arise from the difference between total premium income generated from cedants less amounts reserved and paid in respect of claims and expenses incurred by the company. There is also the possibility that the shareholder may earn income from the investment of the premium income, but as losses are reported within a fairly short period, such income is limited in respect of short-tail business.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

5. Risk management objectives and policies *(continued)*

Life insurance contracts

There were only nine life treaties in force as at the end of the 2005 financial year. The risks assumed under these treaties included disability, life and credit protection cover. Risks were accepted on a quota share and excess of loss basis.

Following a decision taken at Board level, the company stopped writing life business with effect from March 2005. As at 31 December 2006 all of the life treaties had expired and liability on those treaties had been extinguished through payments, portfolio transfers and agreements with the cedants leaving nil policyholder liabilities.

(b) Insurance risk management objectives and policies for mitigating risks

General

The key insurance risks faced by Africa Re (SA) are underwriting risks relating to premium pricing adequacy, negative claims development or reserves risk, event exposure and concentration risk and, reinsurance risk.

Premium pricing adequacy risk

This is the risk that premiums relating to current and past periods business will not be sufficient to fund liabilities arising from that business. With regards to the adequacy of premiums, Africa Re (SA) determines the appropriateness of the rates and/or premiums charged by the leading office by carefully examining past experience with market practice, rates and the company's return expectations. Africa Re (SA) does not accept or underwrite risks where the premiums are not considered adequate or commensurate to the risk.

Africa Re (SA) makes underwriting decisions in accordance with the group's underwriting guidelines. These guidelines set the criteria for assessing insurance risk before acceptance and approval levels for underwriting decisions. Compliance with the group's underwriting guidelines is verified through periodic audits by the group's Directorate of Central Operations and Inspection which in turn reports its findings to both Executive Management and the Audit Committee.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

5. Risk management objectives and policies *(continued)*

(b) Insurance risk management objectives and policies for mitigating risks *(continued)*

Event exposure and concentration risk

Africa Re (SA) is exposed to large or catastrophic losses and loss accumulation from single loss events. The largest exposure to significant losses to Africa Re (SA) relates to losses arising from catastrophic events such as floods and earthquakes. In this regard, Africa Re (SA) has identified that the greatest likelihood of a loss of this nature would result from an earthquake in the Gauteng region. Using international modelling tools, Africa Re (SA) has established that its exposure to a loss of this nature is limited to a one-in-three hundred-year event.

The group underwriting guidelines set the criteria for assessing insurance risk and exposure limits for single and portfolio risks before acceptance. In order to further minimise the insurance risk exposure to the company's net results, Africa Re (SA) has retrocession arrangements with its holding company which provide protection on a proportional and non-proportional basis. This is then further protected under the group's retrocession programme which is largely placed into the international and Lloyds markets.

Claims development or reserves risk

This is the risk that actual ultimate claims costs will be significantly different from the estimated outstanding claims.

The determination of reserves for the ultimate claims costs is done with reference to previous year's data and past experience, adjusted with the information and data available at the time of reporting. Although these assumptions and estimation bases are based on management's best judgement and information available at the time of reporting, estimation of claims provision is a complex process and the ultimate claims settlement costs may differ from these estimates.

To reduce the risk of inadequate reserving, the company takes a conservative view in estimating unreported losses due to the limited past experience.

Policyholder liabilities reserves risk

This is the risk that the ultimate actual policyholder liabilities under life insurance contracts will be significantly different from the estimated policyholder liabilities and the established reserves will not be adequate to cover these costs.

Due to the fact that the life operations are in run-off this risk is limited to the treaties where there are still unsettled and unreported loss events. As at 31 December 2006 all these risks had been transferred back to the cedant by means of a portfolio transfer and the gross outstanding policyholder liabilities were nil.

As a result of the company not continuing to underwrite life business there is no exposure as at 31 December 2006 to any lapse risk or to interest rate risk.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

5. Risk management objectives and policies *(continued)*

Financial risk management objectives and policies for mitigating risks *(continued)*

Reinsurance risk

The company retrocedes insurance risk to limit exposure to underwriting losses and accumulation of losses through proportional and excess of loss or stop loss cover agreements. These retrocession agreements spread the risk and minimise the effect of losses.

Under the terms of the retrocession agreements, the retrocessionaire agrees to reimburse their share of paid claims and acquisition costs. However, the company remains liable to its cedants with respect to retroceded insurance liabilities if the retrocessionaire fails to meet the obligations it assumes. This is a credit risk and as noted under the credit risk section, the retrocessionaire's shares of insurance liabilities are fully secured by deposits held by the company or bank guarantee in accordance with the regulatory solvency requirements and the retrocession agreement.

(c) Financial risk management objectives and policies for mitigating risks

General

Transactions in financial instruments may result in the company assuming financial risks. These include market risk, interest rate risk, credit risk, liquidity risk and reinsurance risk. Each of these financial risks is described below, together with a summary of the ways in which the company manages these risks.

Market price risk

Market price risk can be described as the risk of change in fair value of a financial instrument due to changes in market conditions and prices of these instruments. 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.

Africa Re (SA) conducts a sensitivity analysis on the effect of changes in market prices of its equity investment to determine the maximum risk it can tolerate without adversely affecting its operating performance and financial situation, and this, together with the investment guidelines determine the proportion of funds to be invested in equity instruments. The company does not make use of financial instruments to manage this risk. The maximum market price risk is limited to investments held in marketable securities.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

5. Risk management objectives and policies *(continued)*

(c) Financial risk management objectives and policies for mitigating risks *(continued)*

Credit risk

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

- retrocessionaire's share of insurance liabilities;
- balances due from insurers and retrocessionaire;
- amounts due from insurance contract intermediaries; and
- investment instruments held with financial institutions.

Retrocessionaire's share of insurance liabilities are fully secured by a combination of deposits withheld by the company and bank guarantees obtained from local banks. This is in accordance with the regulatory solvency requirements and the retrocession agreement.

Management has a credit policy in place where balances due from cedants and retrocessionaires are monitored on an ongoing basis. There has been no default on settlement of balances due from cedants and retrocessionaires.

The fixed income investments held by the company are issued by the South African government and are considered secure. Reputable financial institutions are used for investing and cash handling purposes within the company's strict guidelines on investment instruments and institution exposures limits and the probability of default is expected to be extremely low.

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

Asset/liability matching

A distinction is drawn between insurance and shareholders' funds. The overall philosophy governing the investment of insurance funds is driven by liquidity considerations and a strong emphasis on capital preservation. Most of the company's investments are held in readily realisable investments in line with the short-tail nature of the company's business. The maturity profile of investments will approximate the average term of operational liabilities.

Interest rate risk

Fluctuations in interest rates impact on the value of and cash flows from interest bearing assets and liabilities. The company has no borrowings. Interest rate risk exposure is therefore limited to the company's investments in fixed interest rate instruments such as fixed deposits and bonds.

Other than ensuring optimum money market rates for deposits, the company does not make use of financial instruments to manage this risk.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

5. Risk management objectives and policies *(continued)*

(c) Financial risk management objectives and policies for mitigating risks *(continued)*

Liquidity risk

The company is exposed to daily cash payment calls on its available cash resources arising mainly from claims. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The company has set limits on the minimum proportions of assets held as short-term investment and limits on the minimum proportions maturing funds available to meet such cash payment calls and unexpected levels of demand.

Currency exchange risk

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

	2006 R'000	2005 R'000
6. Equipment		
Cost		
Motor vehicles	**565**	565
Computer equipment	**332**	269
Office equipment	**128**	65
Furniture & fittings	**356**	272
	1 381	1 171
Accumulated depreciation		
Motor vehicles	**211**	217
Computer equipment	**215**	114
Office equipment	**64**	30
Furniture & fittings	**90**	50
	580	411
Carrying values		
Motor vehicles	**354**	348
Computer equipment	**117**	155
Office equipment	**64**	35
Furniture & fittings	**266**	222
	801	760
Reconciliation of carrying values		
Opening balance	**760**	636
Additions	**210**	390
Disposals	**-**	-
Depreciation	**(169)**	(266)
Closing balance	**801**	760

Notes to the financial statements

for the year ended 31 December 2006 (continued)

		2006 R'000	2005 R'000
6.	**Equipment** *(continued)*		
	Motor vehicles		
	Net carrying value at beginning of year	**348**	329
	Additions	**-**	160
	Depreciation	**6**	(141)
	Net carrying value at end of year	**354**	348
	Computer equipment		
	Net carrying value at beginning of year	**155**	114
	Additions	**63**	117
	Depreciation	**(101)**	(76)
	Net carrying value at end of year	**117**	155
	Office equipment		
	Net carrying value at beginning of year	**35**	30
	Additions	**63**	24
	Depreciation	**(34)**	(19)
	Net carrying value at end of year	**64**	35
	Furniture & fittings		
	Net carrying value at beginning of year	**222**	163
	Additions	**84**	89
	Depreciation	**(40)**	(30)
	Net carrying value at end of year	**266**	222
7.	**Intangible assets**		
	Computer software		
	Cost		
	Opening balance	**82**	57
	Acquisitions – purchased software	**31**	25
	Closing balance	**113**	82
	Accumulated amortisation		
	Opening balance	**38**	15
	Amortisation – software in use	**33**	23
	Closing Balance	**71**	38
	Carrying value	**42**	44

Notes to the financial statements

for the year ended 31 December 2006 (continued)

		2006 R'000	2005 R'000
8.	**Financial assets**		
	Held-to-maturity instruments at amortised cost		
	Fixed deposits and money on call		
	– non-life	**380 278**	387 058
	– life	**14 365**	20 951
		394 643	408 009
	Instruments at fair value through profit and loss		
	Listed equities and bonds		
	– bonds (non-life)	**88 034**	86 427
	– equities (non-life)	**61 049**	54 461
	– preference shares (non-life)	**12 997**	-
		162 080	140 888
	Total financial assets	**556 723**	548 897
	Cost of instruments disclosed at fair value through profit and loss		
	Bonds	**90 108**	83 373
	Equities	**38 225**	38 590
	Preference shares	**13 739**	-
		142 072	121 963

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**
At 31 December 2006		
On demand	6.61%	**12 997**
Within 1 year	8.00% to 9.63%	**395 646**
1 to 3 years	7.24% to 8.14%	**21 654**
3 to 7 years	7.48% to 7.75%	**58 600**
7 to 12 years	7.42% to 7.48%	**6 777**
		495 674
At 31 December 2005		
Within 1 year	7.00% to 7.34%	408 010
1 to 3 year	7.32% to 8.51%	11 752
3 to 7 years	7.81% to 8.24%	71 772
7 to 12 years	7.61%	2 902
		494 436

Notes to the financial statements

for the year ended 31 December 2006 (continued)

		2006 R'000	2005 R'000
9.	**Technical assets and liabilities under insurance contracts**		
	Technical liabilities		
	Non-life insurance contracts		
	-Gross claims reported but not yet settled	**235 931**	161 683
	-Gross claims incurred but not reported	**106 211**	102 604
	-Gross unearned premium provision	**180 872**	140 208
	-Deferred retrocession commission revenue	**34 577**	29 470
		557 591	433 965
	Life insurance contracts		
	-Gross policyholders liability	-	233
	Total technical liabilities	**557 591**	434 198
	Technical assets		
	Non-life insurance contracts		
	-Retrocessionaire's share of claims reported but not yet settled	**176 949**	121 263
	-Retrocessionaire's share of claims incurred but not reported	**79 659**	76 953
	-Retrocessionaire's share of unearned premium provision	**135 654**	105 156
	-Deferred acquisition costs	**41 580**	35 126
		433 842	338 498
	Life insurance contracts		
	-Retrocessionaire's share of policyholders liability	**-**	174
	Total technical assets	**433 842**	338 672
	Net technical liabilities		
	Non-life insurance contracts		
	-Claims reported but not yet settled	**58 982**	40 420
	-Claims incurred but not reported	**26 552**	25 651
	-Unearned premium provision	**45 218**	35 052
	-Deferred acquisition costs	**(7 003)**	(5 656)
		123 749	95 467
	Life insurance contracts		
	-Policyholders liability	**-**	59
	Total - net technical liabilities	**123 749**	95 526

Notes to the financial statements

for the year ended 31 December 2006 (continued)

9. Technical assets and liabilities under insurance contracts *(continued)*

9.1 Movements in technical assets and liabilities under insurance contracts

Outstanding claims

Year ended 31 December	**2006**		
	Gross	**Reinsurance**	**Net**
Claims reported but not yet settled	**161 683**	**121 263**	**40 420**
Claims incurred but not reported	**102 604**	**76 953**	**25 651**
Total outstanding at beginning of year	**264 287**	**198 216**	**66 071**
Increase/(decrease) in liabilities	**77 855**	**58 392**	**19 463**
-arising from current year claims	**143 902**	**107 927**	**35 975**
-arising from prior period claims	**(66 047)**	**(49 535)**	**(16 512)**
Total at end of year	**342 142**	**256 608**	**85 534**
Notified claims	**235 931**	**176 948**	**58 983**
Incurred but not reported	**106 211**	**79 660**	**26 551**
Total at end of year	**342 142**	**256 608**	**85 534**

Year ended 31 December	**2005**		
	Gross	**Reinsurance**	**Net**
Claims reported but not yet settled	74 501	55 876	18 625
Claims incurred but not reported	77 215	57 911	19 304
Total outstanding at beginning of year	151 716	113 787	37 929
Increase/(decrease) in liabilities	112 571	84 429	28 142
-arising from current year claims	141 045	105 784	35 261
-arising from prior period claims	(28 474)	(21 355)	(7 119)
Total at end of year	264 287	198 216	66 071
Notified claims	161 683	121 263	40 420
Incurred but not reported	102 604	76 953	25 651
Total at end of year	264 287	198 216	66 071

The expected timing of payment of outstanding claims involves considerable uncertainties. Outstanding claim payment patterns have not yet been established due to the limited number of years that the company has been in operation but most of the outstanding claims are expected to be paid within one year.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

9. Technical assets and liabilities under insurance contracts *(continued)*

9.1 Movements in technical assets and liabilities under insurance contracts *(continued)*

Unearned premium provision

Year ended 31 December	**2006 Gross**	**2006 Reinsurance**	**2006 Net**
At the beginning of year	**140 208**	**105 156**	**35 052**
Premiums written during the year not earned	**180 872**	**135 654**	**45 218**
Premiums earned during the year	**(140 208)**	**(105 156)**	**(35 052)**
Total at end of year	**180 872**	**135 654**	**45 218**

Year ended 31 December	2005 Gross	2005 Reinsurance	2005 Net
At the beginning of year	111 795	83 846	27 949
Premiums written during the year not earned	140 208	105 156	35 052
Premiums earned during the year	(111 795)	(83 846)	(27 949)
Total at end of year	140 208	105 156	35 052

The unearned premium provision is earned within a twelve month period from the date it was provided for.

Deferred acquisition costs

Year ended 31 December	**2006 Gross**	**2006 Reinsurance**	**2006 Net**
At the beginning of year	**35 126**	**29 470**	**5 656**
Acquisition costs deferred during the year	**41 580**	**34 577**	**7 003**
Transferred to costs incurred during the year	**(35 126)**	**(29 470)**	**(5 656)**
Total at the end of year	**41 580**	**34 577**	**7 003**

Year ended 31 December	2005 Gross	2005 Reinsurance	2005 Net
At the beginning of year	22 176	20 044	2 132
Acquisition costs deferred during the year	35 126	29 470	5 656
Transferred to costs incurred during the year	(22 176)	(20 044)	(2 132)
Total at end of year	35 126	29 470	5 656

Notes to the financial statements

for the year ended 31 December 2006 (continued)

9. Technical assets and liabilities under insurance contracts *(continued)*

9.1 Movements in technical assets and liabilities under insurance contracts *(continued)*

Policy holder liabilities

Year ended 31 December	**2006**		
	Gross	**Reinsurance**	**Net**
At the beginning of year	**233**	**174**	**59**
Liabilities utilised during the year	**(233)**	**(174)**	**(59)**
Total at end of year	**-**	**-**	**-**

Year ended 31 December	**2005**		
	Gross	Reinsurance	Net
At the beginning of year	1 466	1 085	361
Liabilities utilised during the year	(1 213)	(911)	(302)
Total at end of year	233	174	59

9.2 Short-term insurance contracts – assumptions, change in assumptions and sensitivity

The principal assumptions and estimation methods applied that will affect future cash flows on insurance contracts are as follows:

Estimates and outstanding claims

The bases applied in the determination of accrued pipeline premiums, claims, acquisition costs and outstanding claims are the historical data and past experience. These estimation bases and assumptions are adjusted with information and data available from cedants at the time of reporting. Due to the retrocession arrangement with the holding company it is anticipated that changes in the underlying assumptions will not have a significant impact on the net result on a year to year basis. Estimates are particularly sensitive towards quantum of unreported losses.

Unearned premium provision

The most significant portion of the business underwritten is short-tail in nature. Premiums are earned within a twelve month period, and no non-constant risks are currently underwritten. As a result the earning pattern of the written premiums can be accurately determined and the assumptions underlying the calculation are limited. The same assumptions underpin the calculation of the deferred acquisition cost.

The above assumptions and estimation bases are believed to be reasonable under the circumstances and as a result actual results may differ from those estimates. There has been no change in the principle assumptions and estimation bases from those applied in the previous reporting period.

Notes to the financial statements

for the year ended 31 December 2006 (continued)

		2006 R'000	2005 R'000
10.	**Amounts due from companies on reinsurance accounts**		
	Non-life		
	Amounts due from ceding companies	**47 918**	66 293
	Amounts due from retrocessionaire	**20 069**	-
		67 987	66 293
	Life		
	Amounts due from retrocessionaire	**46**	-
	Total	**68 033**	66 293
11.	**Deposits retained by ceding companies**		
	Non-life		
	At beginning of year	**3 601**	30 138
	New deposits retained	**8 573**	3 601
	Deposits released	**(3 601)**	(30 138)
	At the end of year	**8 573**	3 601
12.	**Accounts receivable**		
	Dividends receivable	**-**	53
	Other prepayments and sundry debtors	**30**	158
		30	211
13.	**Cash and cash equivalents**		
	Cash on hand	**3**	5
	Current bank account balances	**7 304**	19 321
		7 307	19 326
14.	**Contingency reserve**		
	Opening balance	**17 010**	13 808
	Transfer from income	**901**	3 202
	Closing balance	**17 911**	17 010

Notes to the financial statements

for the year ended 31 December 2006 (continued)

		2006 R'000	2005 R'000
15.	**Share capital and share premium**		
	Share capital	**–**	–
	Share premium	**80 300**	80 300
		80 300	80 300
	Authorised		
	7 ordinary shares of R0,01 each	**–**	–
	Issued		
	7 ordinary shares of R0,01 each	**–**	–

Share capital comprises of seven ordinary shares of R0.01 each of which one share was issued at a premium of R80.3 million.

		2006 R'000	2005 R'000
16.	**Amounts due to companies on reinsurance accounts**		
	Non-life		
	Amount due to ceding companies	**12 892**	-
	Amount due to retrocessionaire	**-**	100 832
		12 892	100 832
	Life		
	Amount due to ceding companies	**-**	815
	Amount due to retrocessionaire	**-**	2 496
		-	3 311
	Total	**12 892**	104 143
17.	**Deposits due to retrocessionaire**		
	At the beginning of year	**293 052**	231 255
	New deposits retained	**340 347**	293 052
	Deposits released	**(293 052)**	(231 255)
	At the end of the year	**340 347**	293 052
	Deposits due to retrocssionaire are allocated as follows:		
	- non life insurance contracts	**340 177**	287 070
	- life insurance contracts	**170**	5 982
		340 347	293 052

Notes to the financial statements

for the year ended 31 December 2006 (continued)

		2006 R'000	2005 R'000
18.	**Other provisions and accruals**		
	Creditors and accruals		
	VAT payable	**1 035**	2 427
	Other creditors and accruals	**702**	689
		1 737	3 116
	Provisions		
	Opening balance	**122**	-
	Accrued leave	**122**	-
	Lease commitments	**-**	-
	Provision utilised	**(122)**	-
	Accrued leave	**(122)**	-
	Lease commitments	**-**	-
	Provision created	**264**	122
	Accrued leave	**232**	122
	Lease commitment	**32**	-
	Closing balance	**264**	122
	Accrued leave	**232**	122
	Lease commitments	**32**	-
	Total other provisions and accruals at end of year	**2 001**	3 238

Accrued leave provision is calculated based on the number of days leave due to employees multiplied by their cost to company. The maturity profile of the provision is dependent on the utilisation of leave days by the employees.

		2006 R'000	2005 R'000
19.	**Deferred tax liability**		
	Opening balance	**4 654**	427
	Prior year adjustment	**-**	401
	Current year	**355**	3 826
	Closing balance	**5 009**	4 654
	The net deferred tax liability balance at the end of the period comprises:		
	– capital allowance	**(56)**	(49)
	– unrealised gains on revaluation of investments	**5 065**	4 703
		5 009	4 654

Notes to the financial statements

for the year ended 31 December 2006 (continued)

20. Current income tax liability

The current income tax liability of R6.0 million (2005: R7.6 million) represents the amount of income taxes payable in the current year less adjustments in respect of prior years.

21. Revenue account for non-life insurance contracts

	2006 R'000	2005 R'000
Income		
Gross written premiums	**746 288**	709 354
Retroceded premiums	**(567 179)**	(539 254)
Net written premiums	**179 109**	170 100
Provision for unearned premiums	**(10 166)**	(7 103)
Gross amounts	**(40 664)**	(28 413)
Retrocessionaire's share	**30 498**	21 310
Earned premium net of retrocession	**168 943**	162 997
Outgo		
Gross claims paid	**(393 658)**	(332 301)
Retroceded claims received	**295 244**	249 226
Net claims paid	**(98 414)**	(83 075)
Provision for outstanding claims	**(19 464)**	(28 228)
Gross amounts	**(77 856)**	(112 915)
Retrocessionaire's share	**58 392**	84 687
Claims incurred net of retrocession	**(117 878)**	(111 303)
Net commission incurred	**(34 725)**	(26 054)
Management expenses	**(15 676)**	(16 121)
Underwriting profit	**664**	9 519

Notes to the financial statements

for the year ended 31 December 2006 (continued)

22. Revenue account for life insurance contracts

	2006 R'000	2005 R'000
Income		
Gross written premiums	**1 157**	15 651
Retroceded premiums	**(879)**	(11 892)
Net written premiums	**278**	3 759
Outgo		
Gross claims paid	**(1 135)**	(12 773)
Retroceded claims received	**851**	9 580
Net claims paid	**(284)**	(3 193)
Provision for outstanding claims	**-**	86
Gross amounts	**-**	344
Retrocessionaire's share	**-**	(258)
Claims incurred net of retrocession	**(284)**	(3 107)
Net commission incurred	**(47)**	(497)
Management expenses	**(256)**	(552)
Transfer from policyholders liability	**59**	302
Gross amounts	**233**	1 213
Retrocessionaire's share	**(174)**	(911)
Underwriting loss	**(250)**	(95)

Notes to the financial statements

for the year ended 31 December 2006 (continued)

		2006 R'000	2005 R'000
23.	**Commission paid and received**		
	Non Life		
	Gross commission and brokerage paid	**203 578**	191 123
	Gross deferred acquisition costs	**(6 455)**	(12 950)
	Commission incurred	**197 123**	178 173
	Commission earned	**(162 398)**	(152 119)
	Retrocession commission and brokerage received	**(152 684)**	(143 342)
	Overriding commission received	**(14 822)**	(18 203)
	Retroceded deferred commission revenue	**4 842**	9 712
	Deferred overriding commission revenue	**266**	(286)
	Net commission incurred	**34 725**	26 054
	Life		
	Gross commission and brokerage incurred	**277**	4 318
	Commission earned	**(230)**	(3 821)
	Retrocession commission and brokerage earned	**(207)**	(3 239)
	Overriding commission revenue	**(23)**	(582)
	Net commission incurred	**47**	497
	Total commission and brokerage incurred	**197 400**	182 491
	Total commission and brokerage earned	**162 628**	155 940
24.	**Finance income and expenses**		
	Interest received	**43 591**	26 951
	Investment management fees	**(687)**	(525)
		42 904	26 426
	Dividend income received	**2 069**	1 783
	Unrealised gains on revaluation of investments	**1 249**	13 349
	Realised profit on disposal of investments	**9 934**	2 266
	Total finance income	**56 156**	43 824
	Finance expenses	**(16 301)**	(12 912)
	Net finance income	**39 855**	30 912
	Net investment income is allocated as follows:		
	– non-life insurance contracts	**38 798**	30 271
	– life insurance contracts	**1 057**	641
		39 855	30 912

Notes to the financial statements

for the year ended 31 December 2006 (continued)

	2006 R'000	2005 R'000
25. Profit before taxation		
Profit before taxation is arrived at after charging the following items:		
Actuarial fees	**138**	114
Auditors remuneration:		
– for audit services	**619**	486
Consultancy fees	**258**	411
Depreciation	**169**	266
Amortisation	**33**	23
Directors remuneration	**1 595**	1 214
Executive – for services rendered	**1 351**	960
Non executive – for services as directors	**244**	254
Legal fees	**-**	5
Leases	**468**	297
Secretarial fees	**44**	28
Staff costs including contribution to pension fund, UIF, SDL and allowances	**4 341**	2 503
Number of staff	**15**	12

Notes to the financial statements

for the year ended 31 December 2006 (continued)

26. Taxation

	2006 R'000	2005 R'000
South African normal taxation		
- Current tax – current year	**10 746**	7 359
- Prior year under / (overprovision) of current tax	**116**	(149)
- Deferred tax – current year	**355**	3 826
- Prior year underprovision of deferred tax	**-**	401
	11 217	11 437

Tax rate reconciliation	**%**	%
Effective tax rate	**27.8**	28.3
Under provision in prior year	**(0.3)**	(0.6)
Exempt income	**1.5**	1.3
South African standard corporate tax rate	**29.0**	29.0

27. Related party transactions

Holding company

The company conducts reinsurance business with its holding company. The holding company also charges management fees for services provided by the group and license fees 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.

Key management

The managing director is considered the only member of key management. Details of his remuneration is disclosed under note 25.

Details of the balances and transactions with the holding company included in the annual financial statements are as follows:

Balance Sheet	**2006 R'000**	2005 R'000
Assets		
Technical assets under insurance contracts	**392 262**	303 546
Amounts due from companies on reinsurance accounts	**20 115**	-
	412 377	303 546
Liabilities		
Deferred retrocession commission revenue	**(34 577)**	(29 470)
Deposits due to retrocessionaire	**(340 347)**	(293 052)
Amounts due to companies on reinsurance accounts	**-**	(104 143)
Amount due to holding company	**(6 318)**	(14 749)
Net assets / (liabilities)	**31 135**	(137 868)

Notes to the financial statements

for the year ended 31 December 2006 (continued)

27. Related party transactions *(continued)*

	2006 R'000	2005 R'000
Revenue account for non-life insurance contracts		
Retroceded premiums	**(567 179)**	(539 254)
Retrocessionaire's share of provision for unearned premiums	**30 498**	21 310
Retroceded claims received	**295 244**	249 226
Retrocessionaire's share of provision for outstanding claims	**58 392**	84 687
Retrocessionaire's share of net commission incurred	**162 398**	152 119
Management expenses	**(5 187)**	(9 397)
Revenue account for life insurance contracts		
Retroceded premiums	**879**	11 892
Retroceded claims recovered	**851**	9 580
Retrocessionaire's share of outstanding claims	**-**	(258)
Retrocessionaire's share of net commission incurred	**(47)**	3 821
Retrocessionaire's share of policy holders liability	**(175)**	(911)

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

28. 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 R252 658 (2005: R164 298).

29. Operating lease commitments

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

	2006 R'000	2005 R'000
– less than one year	**398**	351
– between one and five years	**415**	768
	813	1 119

30. Fair value

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

Notes to the financial statements

for the year ended 31 December 2006 (continued)

31. Discontinuing operation

In March 2005 the directors of the company accepted and approved a formal plan for the discontinuance of the company's life insurance business operations to concentrate on non-life business.

A summary of the financial results of the discontinuing operation is as follows:

	2006	2005
	R'000	R'000
Underwriting loss	**(250)**	(95)
Finance income	**1 057**	641
Profit before taxation	**807**	546
Taxation	**(341)**	(42)
Profit for the year	**466**	504

32. Notes to the cash flow statement

32.1 Reconciliation of cash (utilised)/generated by operations

	2006	2005
Profit before taxation	**40 269**	40 336
Adjusted for :		
- depreciation and amortisation	**202**	289
- finance income	**(56 156)**	(43 824)
- finance expenses	**16 301**	12 912
- net unearned premium reserve net of deferred acquisition costs	**8 819**	3 579
Cash (utilised)/generated by changes in working capital	**(40 751**	276 028
Amounts due from companies on reinsurance accounts	**(92 991)**	148 922
Deposits retained by ceding companies	**(4 972)**	26 537
Accounts receivable	**181**	784
Amount due from holding company	**(8 431)**	15 547
Other provision and accruals	**(1 237)**	(5 399)
Deposits due to retrocessionaire	**47 295**	61 797
Net outstanding claims reserve	**19 463**	28 142
Net life policyholders' liability	**(59)**	(302)
	(31 316)	289 320

32.2 Reconciliation of taxation paid

	2006	2005
Balance payable at the beginning of the period	**(7 649)**	(1 547)
Current tax charged in the income statement	**(10 862)**	(7 210)
Balance payable at the end of the period	**6 020**	7 649
Taxation paid	**(12 491)**	(1 108)

NOTES