

Notes to the Annual Financial Statements

For the year ended 31 December 2005

1. Accounting Policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB) that are effective at 31 December 2005. An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Group is provided in note 2.

1.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of investments and investment properties.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. IFRS 1: First-time Adoption of International Financial Reporting Standards has been applied. Comparative information for 2004 has been restated.

The Group has adopted the following International Financial Reporting Standards, which are relevant to its operations and which have necessitated a change in recognition, measurement or presentation in these financial statements:

- IAS 1: Presentation of Financial Statements
- IAS 16: Property, Plant and Equipment
- IAS 17: Leases
- IAS 24: Related Party Disclosures
- IAS 27: Consolidated and Separate Financial Statements
- IAS 33: Earnings per Share
- IFRS 4: Insurance Contracts

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions in the valuation of certain assets and liabilities. This is specifically true for the valuation of liabilities from insurance contracts. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be relevant under the circumstances. Actual results may, however, differ from these estimates. Revisions to accounting estimates and assumptions are recognised in the year in which the estimate is revised.

The Company has changed its accounting policy for investments in subsidiaries. Investments in subsidiaries were previously shown at net asset value, but are now shown at cost in accordance with IAS 27: Consolidated and Separate Financial Statements.

The adoption of IFRS 4: Insurance Contracts had an impact on the presentation and accounting of assets and liabilities in respect of insurance contracts at 31 December 2005. The Group has re-evaluated its presentation for insurance cells following the implementation of IFRS 4: Insurance Contracts. The results of insurance contracts underwritten in cells where the risks and rewards accrue to the cell owner are no longer included in Group profit.

Property and equipment have been accounted for in accordance with IAS 16: Property, Plant and Equipment. The depreciable amount of property and equipment is now cost less residual value. In addition, the useful lives of assets and residual value have been reviewed at the balance sheet date.

Operating lease expenses are now spread evenly over the lease period in accordance with IAS 17: Leases and are no longer expensed as paid.

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

1.2 Basis of consolidation

Subsidiaries

The consolidated financial statements include the Company and its subsidiaries. The results of the subsidiaries are included from the effective dates of control up to the effective dates that control ceases. Subsidiaries are those entities for which the Company, directly or indirectly, has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Associated companies

Associated companies are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Transactions eliminated on consolidation

The accounting policies have been applied consistently by Group entities. All inter-company transactions, balances and unrealised gains and losses on transactions between Group entities have been eliminated. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Segment information

The primary basis for identifying business segments of the Group is to group together related products and services with similar business risks and returns while the secondary basis reflects geographic regions.

1.3 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in thousands of Rands, which is the Group's presentation currency.

Transactions and balances

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 South African Rand at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Rand at foreign exchange rates ruling at the dates the fair value was determined and are reported as part of the fair value gain or loss.

Group companies

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Rand at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Rand at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

1.4 Classification of insurance and investment contracts

The Group issues contracts that transfer insurance risk or financial risk or both. Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder 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.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

Cell captive business

Premiums received under third party cell captive business are included in gross premium revenue in the income statement. These premiums are subsequently ceded to insurance cells and are reflected as such in the income statement. A liability in the balance sheet represents the amounts payable to cell shareholders and includes the cash component of assets due to the cell shareholders, which is included in cash and cash equivalents on the balance sheet.

Primary risk policies

Primary risk policies are treated as insurance contracts with amounts due to policyholders from underwriting and investment income reflected as an expense in the income statement and as a liability in the balance sheet where these amounts have not been paid to the policyholder.

1.5 Recognition and measurement of insurance contracts

The insurance contracts that the Group underwrites are classified and described in note 4.

Premiums

Written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period and are disclosed gross of commission payable to intermediaries. Premiums written include adjustments to premiums written in prior accounting periods and estimates for 'pipeline premiums' (premiums written relating to current accounting period but not reported by the balance sheet date).

Premiums are earned from the date the risk attaches, over the indemnity period, based on the pattern of the risk underwritten. Unearned premiums, which represent the proportion of premiums written in the current year which relate to risks that have not expired by the end of the financial year, are calculated on the 365th basis for even risk business and other bases that best represent the unearned risk profile for uneven risk business.

Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received.

Claims incurred

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims.

The provision for outstanding claims comprise the Group's estimate of the undiscounted ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not and related internal and external claims handling expenses. Related anticipated reinsurance recoveries are disclosed separately as assets. These estimated reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding.

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

Unexpired risk provision

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

Liabilities and related assets under liability adequacy test

Insurance contracts are tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liabilities net of deferred acquisition costs and any related assets or investment income from those assets. Where a shortfall is identified, an additional provision is made and the Group recognises the deficiency in income for the year.

Reinsurance

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

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. Such

assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that there is a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses are recognised in the income statement.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance) are accounted for as financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Deferred acquisition costs

The costs of acquiring new and renewal insurance business that is primarily related to the production of that business are deferred and recognised as an intangible asset. Deferred acquisition costs are amortised on a pro rata basis over the contract term. Similarly, any reinsurance commissions received are deferred and recognised as income over the term of the reinsurance contract.

1.6 Investment contracts

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

1.7 Property, equipment and depreciation

Motor vehicles, furniture, office equipment, computer equipment and systems are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis at rates required to write off the costs of fixed assets over their estimated useful lives to their estimated residual values. Computer equipment and systems are depreciated over three years, motor vehicles and office equipment over five years and furniture over ten years.

Certain items of property and equipment that had been revalued to fair value on or prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of

deemed cost, being the revalued amount at the date of that revaluation.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

Gains and losses on disposals, which are included in operating profit, are determined by comparing the proceeds with the carrying amounts.

1.8 Investments Classification

The financial assets are classified into four categories, depending on the purpose for which the assets were acquired. The categories are financial assets at fair value through income, held-to-maturity, available-for-sale as well as loans and receivables.

Financial assets at fair value through income

Financial assets at fair value through income are financial assets held for trading, which on initial recognition, are designated by the Group as being at fair value through income. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that are held with the positive intent and ability to hold to maturity.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity, changes in interest rates or market conditions.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Interest-bearing staff housing loans and other loans are included in this category.

Recognition

Purchases of investments are recognised on the trade date, which is the date of commitment to purchase the asset. Investments 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.

Measurement

Investments are initially measured at fair values plus, in the case of all financial assets not at fair value through income, transaction costs that are directly attributable to their acquisition.

After initial recognition, the Group measures investments at fair value through income and available-for-sale financial assets at fair value, without any deduction for transaction costs it may incur on disposal. The fair value of quoted investments is their quoted bid prices at the balance sheet date. For unquoted investments the Group establishes fair values by using valuation techniques. These include the use of recent arm's length market transactions, references to another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If the fair value of equity instruments cannot be reliably measured, they are measured at cost.

Held-to-maturity investments are measured at amortised cost using the effective interest method. Loans and receivables are also measured at amortised cost using the effective interest method.

Investments in subsidiaries are measured at cost in the Company's financial statements.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through income, are included in the profit or loss in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity except for impairment losses. When available-for-sale financial assets are sold or impaired, the cumulative gains or losses previously recognised in equity are recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

1.9 Agents and other insurance balances

Receivables are stated at cost less impairment losses. Payables are stated at cost.

1.10 Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the income statement.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- (i) significant financial difficulty of the issuer or debtor;
- (ii) a breach of contract, such as a default or delinquency in payments;
- (iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- (iv) the disappearance of an active market for that financial asset because of financial difficulties; or
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of issuers or debtors in the Group; or
 - national or local economic conditions that correlate with defaults on the assets in the Group.

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

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed. The impairment loss is reversed through the income statement, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The reversal is recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.11 Provisions

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

1.12 Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both. Investment properties are measured initially at cost, including transaction costs. After initial recognition investment properties are measured at fair value. An external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the properties annually. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement.

1.13 Leases

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

1.14 Revenue

The accounting policy in relation to revenue from insurance contracts is disclosed in note 1.5.

Interest and dividends

Interest on investments is accounted for on the accrual basis using the effective interest method. Dividends are recognised at the last day for registration in respect of quoted shares and when declared in respect of unquoted shares.

Rental income

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

Fee income

Fee income arising on Risk Financing business is recognised in the income statement as earned.

1.15 Taxation

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

Current tax

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

Secondary Tax on Companies that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

1.16 Employee benefits

Group companies operate various pension schemes and have both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current and prior periods.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of any plan assets, together with adjustments for unrecognised actuarial gains or losses and past service cost. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows of the benefits that will be paid to employees and using interest rates of government bonds that have terms to maturity approximating the terms of the related pension obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the average remaining service lives of the related employees except in the case of retired employees, where such amounts are recognised immediately.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period), in which case the past-service costs are amortised on a straight-line basis over the vesting period.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Long-term service benefits

The Group provides post-retirement healthcare benefits to current and future pensioners, except in the case of employees who joined the Group after 30 September 2002 from which date these employees are no longer entitled to this benefit. The entitlement to the post-retirement healthcare benefits is conditional on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment using the projected unit credit method. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the expected average remaining working lives of the related employees. Independent qualified actuaries value these obligations annually.

Long Term Performance Share Plan

Where key business performance targets are met, certain Directors and senior executives of the Group receive Zurich Financial Services shares. Based on a three-year plan cycle, performance is measured against agreed criteria. Target shares allocated to executive members, are a notified percentage value of the base salary as at 1 April (excluding bonuses, incentives and expense allowances). The share price for allocation is the closing price of Zurich Financial Services shares as at allocation date. The exchange rate used to convert a salary to Swiss Franc is the closing Bloomberg exchange rate as at allocation date. The target share allocation is not an award, but a translation of the Long Term Performance Share Plan (LTPSP) incentive salary at target into a number of shares at target.

One third of the target shares allocated will be assessed for vesting on each of three anniversary dates following the grant date. One half of the shares awarded under the Plan cannot be sold for a period of three years after vesting. A proportion of the allocated target shares will be transferred to executives in April following each performance period and these shares will be payable on the vesting date. The cost of the shares is charged to the Group by Zurich Financial Services and expensed as paid.

1.17 Statutory contingency reserve

The annual adjustment to the statutory contingency reserve stems from premium increases or decreases during the year and is reflected as an appropriation to or from retained earnings.

1.18 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and investment contracts of short duration.

2. Adoption of International Financial Reporting Standards and changes in accounting policy

Adoption of International Financial Reporting Standards

The Group has adopted International Financial Reporting Standards for the first time. IFRS 1: First-time Adoption of International Financial Reporting Standards has been applied. Comparative figures have been restated. The effects of the adoption of IFRS on equity have been reconciled below:

Reconciliation of Equity At 1 January 2004

<i>Group</i>	Note	Share capital R000	Share premium R000	Non-distributable reserve R000	Translation reserve R000	Contingency reserve R000	Retained earnings R000	Total attributable to equity holders of the Company R000	Minority interest in subsidiaries R000	Cell shareholders interest R000	Total R000
Balance at 1 January 2004 as previously stated		3,045	1,605	291,744	(6,016)	251,800	655,694	1,197,872	2,958	51,822	1,252,652
Adoption of International Financial Reporting Standards (IFRS)											
– Change in basis of accounting for cells per IFRS 4	2.1	–	–	–	–	(6,769)	11,760	4,991	–	(51,822)	(46,831)
– Change in depreciation policy for property and equipment	2.2	–	–	–	–	–	(7,801)	(7,801)	–	–	(7,801)
Restatement in respect of IAS 17: Leases	2.3	–	–	–	–	–	(3,595)	(3,595)	–	–	(3,595)
Balance at 1 January 2004 as restated		3,045	1,605	291,744	(6,016)	245,031	656,058	1,191,467	2,958	–	1,194,425

Notes to the Annual Financial Statements (Continued)

Company

	Note	Share capital R000	Share premium R000	Non- distributable reserve R000	Contingency reserve R000	Retained earnings R000	Total R000
Balance at 1 January 2004 as previously stated		3,045	1,605	420,756	227,794	529,102	1,182,302
Adoption of International Financial Reporting Standards (IFRS)							
– Change in depreciation policy for property and equipment	2.2	–	–	–	–	(7,801)	(7,801)
Restatement in respect of IAS 17: Leases	2.3	–	–	–	–	(3,595)	(3,595)
Change in accounting policy for investment in subsidiaries	2.4	–	–	(125,309)	–	–	(125,309)
Balance at 1 January 2004 as restated		3,045	1,605	295,447	227,794	517,706	1,045,597

Notes to the reconciliation of equity at 1 January 2004

2.1 Change in basis of accounting for cells

The adoption of IFRS 4: Insurance Contracts led to a change in the basis of presentation and accounting for cells. The results of insurance contracts underwritten in cells where the risks and rewards accrue to cell owners are no longer included in the Group's net income. Comparative figures have been restated to reflect this change. The effect of the change is as follows:

	Gross R000	Tax R000	Net R000
Group			
Income statement			
2004: (Decrease)/increase in net income due to results from cells no longer being included in net income	(15,311)	3,395	(11,916)
Balance sheet			
(Decrease)/increase at:			
31 December 2003	11,760	(6,769)	(56,813)
31 December 2004	(156)	(7,833)	(39,790)

2.2 Change in depreciation policy for property and equipment

The Group has changed its depreciation policy for property and equipment to comply with the provisions of IAS 16: Property, Plant and Equipment. Property and equipment are now depreciated to their residual value and not to zero. In addition, the useful lives and residual values of property and equipment are re-assessed at each balance sheet date. Comparative figures have been restated to reflect this change. The effect of the change is as follows:

Group and Company

Income statement

2004: Net decrease in depreciation charge for the year	2,355	–	2,355
2004: Net decrease in profit on disposal of property and equipment	(2,750)	–	(2,750)

Gross R000	Tax R000	Net R000
2,355	–	2,355
(2,750)	–	(2,750)

Balance sheet

(Decrease)/increase at:

31 December 2003	(7,801)	–	7,801
31 December 2004	(8,196)	–	8,196

Retained earnings R000	Deferred taxation R000	Accumulated depreciation on property and equipment R000
(7,801)	–	7,801
(8,196)	–	8,196

2.3 Restatement in respect of IAS 17: Leases

On 2 August 2005 SAICA issued circular 7/2005 clarifying the interpretation of IAS 17: Leases. The Group has conformed with this interpretation of the accounting for operating leases and now accounts for the expense on a straight-line basis over the period of the lease. Comparative figures have been restated to reflect this change. The effect of the change is as follows:

Group and Company

Income statement

2004: (Decrease) in net income	(2,210)	–	(2,210)
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Gross R000	Tax R000	Net R000
(2,210)	–	(2,210)

Balance sheet

(Decrease)/increase at:

31 December 2003	(3,595)	–	3,595
31 December 2004	(5,805)	–	5,805

Retained earnings R000	Deferred taxation R000	Operating lease liability R000
(3,595)	–	3,595
(5,805)	–	5,805

2.4 Change in accounting policy

The Company has changed its policy of accounting for investment in subsidiaries. Investment in subsidiaries was previously shown at net asset value, but is now shown at cost. Comparative figures have been restated. The effect of the change in accounting policy is as follows:

Company

(Decrease) in non-distributable reserves at 31 December 2003	(125,309)	–	(125,309)
2004: (Decrease) in transfer to non-distributable reserves	(16,409)	–	(16,409)
(Decrease) in non-distributable reserves at 31 December 2004	(141,718)	–	(141,718)

Gross R000	Tax R000	Net R000
(125,309)	–	(125,309)
(16,409)	–	(16,409)
(141,718)	–	(141,718)

There was no effect on the Group's non-distributable reserves due to the above change as investment in subsidiaries had been eliminated upon consolidation.

Notes to the Annual Financial Statements (Continued)

3. Segmental analysis

The primary basis for identifying business segments of the Group is to group together related products and services with similar business risks and returns while the secondary basis reflects geographical regions.

The segmental analysis has been changed from prior year disclosure to include commercial and personal segments.

Business segments

The segment results for the year ended 31 December 2005 are as follows:

	Commercial R000	Risk Financing R000	Personal R000	Other R000	Total R000
2005					
Gross insurance premium revenue	2,433,181	230,596	845,894	–	3,509,671
Insurance premium ceded to reinsurers	481,923	144,320	20,031	–	646,274
Change in provision for unearned premium	(34,709)	(16,971)	395	–	(51,285)
Net insurance premium revenue	1,916,549	69,305	826,258	–	2,812,112
Reinsurers' share of acquisition costs	64,780	364	41,226	–	106,370
Reinsurers' share of change in provision for deferred acquisition costs	7,114	27	3,106	–	10,247
Investment income	–	6,087	–	169,325	175,412
Net fair value gains on assets at fair value through income	–	–	–	5,138	5,138
Net realised gains on disposal of investments	–	–	–	172,932	172,932
Net income	1,988,443	75,783	870,590	347,395	3,282,211
Gross insurance claims	1,522,193	118,993	622,956	–	2,264,142
Reinsurers' portion of claims	(278,190)	(62,693)	(20,889)	–	(361,772)
Net insurance claims	1,244,003	56,300	602,067	–	1,902,370
Gross acquisition costs	375,028	1,561	176,690	–	553,279
Change in provision for deferred acquisition costs	(7,622)	(30)	(3,328)	–	(10,980)
Administrative and other operating expenses, including depreciation	257,245	2,491	58,539	–	318,275
Investment expenses	–	–	–	5,368	5,368
Primary policyholders' interest	–	5,287	–	–	5,287
Expenses	624,651	9,309	231,901	5,368	871,229
Income before tax	119,789	10,174	36,622	342,027	508,612

2004

	Commercial R000 Restated	Risk Financing R000 Restated	Personal R000 Restated	Other R000 Restated	Total R000 Restated
Gross insurance premium revenue	2,280,254	149,366	761,523	–	3,191,143
Insurance premium ceded to reinsurers	469,711	85,994	14,325	–	570,030
Change in provision for unearned premium	(51,996)	1,633	1,159	–	(49,204)
Net insurance premium revenue	1,758,547	65,005	748,357	–	2,571,909
Reinsurers' share of acquisition costs	68,338	2,153	30,958	–	101,449
Reinsurers' share of change in provision for deferred acquisition costs	14,529	472	6,791	–	21,792
Investment income	–	5,178	–	152,173	157,351
Net fair value gains on assets at fair value through income	–	–	–	11,682	11,682
Net realised gains on disposal of investments	–	–	–	70,105	70,105
Net income	1,841,414	72,808	786,106	233,960	2,934,288
Gross insurance claims	1,406,838	93,550	519,913	–	2,020,301
Reinsurers' portion of claims	(281,913)	(56,527)	(6,218)	–	(344,658)
Net insurance claims	1,124,925	37,023	513,695	–	1,675,643
Gross acquisition costs	331,324	10,702	153,869	–	495,895
Change in provision for deferred acquisition costs	1,216	40	568	–	1,824
Administrative and other operating expenses, including depreciation	264,960	6,367	52,385	–	323,712
Investment expenses	–	–	–	3,396	3,396
Primary policyholders' interest	–	12,268	–	–	12,268
Expenses	597,500	29,377	206,822	3,396	837,095
Income before tax	118,989	6,408	65,589	230,564	421,550

Notes to the Annual Financial Statements (Continued)

The segment assets and liabilities at 31 December 2005 are as follows:

	Commercial R000	Risk Financing R000	Personal R000	Other R000	Total R000
Assets arising from reinsurance contracts	329,684	124,345	74,984	–	529,013
– Reinsurers' share of provision for outstanding claims	189,758	45,080	44,318	–	279,156
– Reinsurers' share of provision for unearned premium	139,926	79,265	30,666	–	249,857
Intangible assets including intangible insurance assets	85,676	28,427	20,097	–	134,200
Non-current assets	–	–	–	633,669	633,669
Current assets, including cash and cash equivalents	–	210,496	–	2,349,823	2,560,319
Total assets	415,360	363,268	95,081	2,983,492	3,857,201
Liabilities arising from insurance contracts	1,223,992	237,162	263,678	–	1,724,832
Provision for outstanding claims	644,824	61,588	148,556	–	854,968
Provision for unearned premium	579,168	175,574	115,122	–	869,864
Reinsurers' share of deferred acquisition cost	25,932	14,723	6,083	–	46,738
Non-current liabilities	–	–	–	56,032	56,032
Current liabilities	–	5,535	–	508,968	514,503
Total liabilities	1,249,924	257,420	269,761	565,000	2,342,105

The segment assets and liabilities at 31 December 2004 are as follows:

	Commercial R000 Restated	Risk Financing R000 Restated	Personal R000 Restated	Other R000 Restated	Total R000 Restated
Assets arising from reinsurance contracts	297,016	66,365	60,620	–	424,001
– Reinsurers' share of provision for outstanding claims	179,988	32,193	36,865	–	249,046
– Reinsurers' share of provision for unearned premium	117,028	34,172	23,755	–	174,955
Intangible assets including intangible insurance assets	88,512	16,579	18,129	–	123,220
Non-current assets	–	–	–	637,017	637,017
Current assets, including cash and cash equivalents	–	157,693	–	2,224,452	2,382,145
Total assets	385,528	240,637	78,749	2,861,469	3,566,383
Liabilities arising from insurance contracts	1,132,862	159,166	233,812	–	1,525,840
Provision for outstanding claims	611,301	45,656	125,206	–	782,163
Provision for unearned premium	521,561	113,510	108,606	–	743,677
Reinsurers' share of deferred acquisition cost	41,622	6,838	8,525	–	56,985
Non-current liabilities	–	–	–	93,578	93,578
Current liabilities	–	6,795	–	388,682	395,477
Total liabilities	1,174,484	172,799	242,337	482,260	2,071,880

Geographical segments

	South Africa R000	Foreign subsidiaries R000	Total R000
2005			
Gross insurance premium revenue	3,293,113	216,558	3,509,671
Total assets	3,695,791	161,410	3,857,201
Total liabilities	2,263,465	78,640	2,342,105
Total capital expenditure	21,901	444	22,345
Income before tax	477,302	31,310	508,612

	South Africa R000 Restated	Foreign subsidiaries R000 Restated	Total R000 Restated
2004			
Gross insurance premium revenue	2,989,601	201,542	3,191,143
Total assets	3,374,230	192,153	3,566,383
Total liabilities	1,965,362	106,518	2,071,880
Total capital expenditure	16,371	3,326	19,697
Income before tax	388,658	32,892	421,550

4. Insurance risk management

4.1 Exposure to insurance risk

The Group underwrites risks that natural persons, corporates or other entities wish to transfer to an insurer. Such risks include the perils around fire, motor, accident, engineering, marine and aviation that may give rise to an insurable event. As such the Group is exposed to uncertainty surrounding the timing and severity of claims under insurance contracts. The principal risk is that the frequency and/or severity of claims are greater than expected. Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated and experienced in prior periods.

The Group underwrites primarily short-tail risks i.e. insurance under which claims are typically settled within one year of the occurrence of the events giving rise to the claims, and risks that are long-tail in nature represent an insignificant portion of the Group's insurance portfolio. Consequently, whilst the Group may experience variations in its claims patterns from one year to the next, the Group's exposure at any time to insurance contracts issued more than one year before is limited.

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

Accident – provides indemnity for losses sustained through theft or other similar acts as well as compensation for personal injuries. The risks covered by this type of contract include theft, public liability, death or disability, fraud, guarantees and accidental damage.

Engineering – provides indemnity for losses sustained through the use of machinery and equipment or the erection of buildings or structures. The risks covered by this type of contract include machinery breakdown, business interruption and loss or damage to plant and equipment.

Fire – provides indemnity for losses to immovable property sustained through fire, storm, wind, water or earthquakes, including mining tremors. The properties insured are residential (for personal use) and commercial.

Marine and aviation – provides indemnity for losses in relation to ships, small aircraft and related activities. The risks covered by this type of contract include accidental loss or damage to the aircraft or ship, cargo and legal liabilities to third parties and passengers.

Motor – provides indemnity for losses in relation to all types of motor vehicles. The risks covered by this type of contract include fire, theft, impact and third party liability cover, excluding liability that is covered in terms of the Road Traffic Act.

As part of its product offering the Group underwrites group schemes, which are intermediary branded products available to groups of individuals. Often a third party has been provided with a mandate to underwrite group scheme risks on behalf of the Group. The underwriting mandates are clearly defined.

Through a dedicated subsidiary the Group underwrites primary risk policies and cell captive business. The results of these policies comprise the Risk Financing segment reported on in note 3. The primary risk policies expose the Group to limited risk only and include profit participation measures to promote good risk management amongst the insureds. The cell captives are created through shareholders' agreements and a cell owner is allocated the positive return from the underwriting and investment activities in its cell. Similarly the cell owner is accountable for any losses that arise in its cell. The Group is consequently exposed to credit risk if a deficit arises in a cell and the cell owner does not refund the deficit in its cell and as such the Group, on a monthly basis, monitors each cell's performance. The majority of these cell captives are entities through which the cell owners provide insurance to third parties.

4.2 Limiting exposure to insurance risk

The Group limits its exposure to insurance risk through setting a clearly defined underwriting strategy and limits, adopting appropriate risk assessment techniques and the reinsurance of risks that exceed its risk appetite. Each of these risk management aspects is dealt with below in more detail.

4.2.1 Underwriting strategy and limits and policies for mitigating insurance risk

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio of insurance risks. The strategy also aims to establish a sufficiently large portfolio of risks to reduce the variability of the outcome. To this end the Group underwrites a wide variety of risks spread across personal and commercial policyholders, which includes the underwriting of risks in niche markets with favourable claims expectations. Using gross written premium as an indicator the table below illustrates the Group's distribution of risks underwritten:

	2005	2004
	%	%
Accident	23.0	23.1
Engineering	8.3	8.2
Fire	18.3	18.9
Marine and aviation	3.5	3.3
Motor	46.9	46.5
	100.0	100.0

Also using gross written premium as an indicator the Group's insurance portfolio is divided between personal and commercial (all insureds other than natural persons) risks as follows:

	2005	2004
	%	%
Personal	23.5	23.9
Commercial/ corporate	76.5	76.1
	100.0	100.0

On an annual basis the Group prepares an underwriting budget that is based on the underwriting strategy to be followed in the next three years. The underwriting strategy is updated for changes in the underwriting results of the Group and the industry, the Group's available risk capital and available reinsurance capacity as well as existing concentrations of insurance risk.

The underwriting strategy is cascaded down to individual underwriters through underwriting authorities that set out the limits that any one underwriter can write by line size, class of business and territory in order to enforce appropriate risk selection within the Group's portfolio. Underwriters are also provided with clear pricing guidelines. Through management review and periodic internal audits it is ensured that the underwriters operate within the set limits.

The ability to adjust premiums, either on a monthly or an annual basis, also allows the Group to mitigate the risk of underwriting losses by the timely addressing of adverse loss ratios, both in terms of different classes of business and in terms of different portfolios or clients. The incidence of fraud is reduced by robust claims handling processes and regular review of these processes and the related claims payments.

On a monthly basis the underwriting results for group schemes are monitored against pre-determined budgets. In the event that a group scheme does not deliver underwriting results within accepted parameters corrective measures are implemented, including the possible cancellation of arrangements going forward.

The Group mitigates the insurance and credit risk brought about by the cell captive business through carefully selecting all new cell owners, calling for risk capital from the cell owners when needed and by actively participating in the risk management structures of each cell.

4.2.2 Risk assessment

The Group adopts a rigorous process before accepting any proposed insurance risk. Some of the factors considered during the underwriting stage include:

- past loss experience associated with the proposed risk;
- insurable interest;
- probability of ruin;
- level of loss mitigation procedures adopted by the proposed insured;
- location of the proposed risk;
- past and proposed rating terms of the risk;
- scope and terms of cover considered;
- results of surveys completed, where applicable;
- possible exclusions that may be applied to the policy or risks insured.

4.2.3 Reinsurance strategy

The Group has an extensive proportional and non-proportional reinsurance programme that is aimed at reducing the volatility of the Group's underwriting results and protecting its capital. The reinsurance programme through a combination of treaty and facultative contracts reduces the Group's exposure in each of its classes of business to levels that are acceptable to management in terms of the Group's insurance risk appetite.

In addition, the Group purchases catastrophe reinsurance to protect itself from accumulation losses. The level of catastrophe reinsurance purchased is based on the Group's estimation of its expected losses from low frequency high severity loss events.

4.3 Concentration of insurance risks

The Group's largest portfolio of insurance risks consists of the motor risks that it underwrites as can be seen by the distribution of premium income. The concentration of motor risks is managed by different levels of diversification mainly through the types of vehicles that are underwritten and the geographical areas in which the risks are situated, with single risks spread across all areas of the country. It is however not unusual for South African insurers to insure a large proportion of motor risks and even though the Group's exposure might be slightly higher it remains largely in line with its peers.

Motor risks are accepted and rated based on a number of different rating factors. Different premium levels for different geographical areas enhance diversification and the loss experience in different areas is closely monitored with rating appropriately adjusted as and when required. Whilst exposure is higher in certain areas the Group is satisfied that these exposures are managed in the context of the entire portfolio and the exposure risks associated with single events, such as hailstorms, in specific areas is thereby mitigated. Where the Group is at risk in case of the occurrence of an event that could threaten its solvency, catastrophe reinsurance is in place to reduce the threat associated with such an event.

Perils such as storms, floods, earthquakes, fires, explosions, and rising crime levels will occur on a regional basis, meaning that the Group has to manage its geographical risk dispersion carefully. The Group determines an aggregate exposure that

it is prepared to accept in each region. The actual aggregate exposure per region is compared periodically to the limit and the underwriting strategy is amended where required.

The table below illustrates the geographic diversification of the Group's portfolio by gross written premium. The diversification after considering reinsurance is not significantly different.

	2005 %	2004 %
Foreign		
Botswana	4.3	4.5
Zimbabwe	1.9	1.8
Domestic		
Western Cape	8.5	9.1
Eastern Cape	6.7	6.6
Gauteng	57.1	55.7
KwaZulu-Natal	13.3	13.5
Other	8.2	8.8
	100.0	100.0

The Group adheres to underwriting principles that limit its exposure to any one insured to levels not exceeding R500 million gross of reinsurance. Reinsurance protection is acquired on all classes of business limiting aggregate exposure to R18.25 million net of reinsurance per any one insured. The Group's most significant aggregate exposure will arise from an earthquake or from weather related events such as hailstorms or floods. It is difficult to reliably model the Group's earthquake exposure due to data limitations and scarcity of information. However, within these constraints, the Group's estimate of its gross exposure to an earthquake or severe weather related event is R1.9 billion and net of reinsurance is R80 million.

4.4 Reinsurance risk

The Group enters into reinsurance agreements to spread the insurance risk and minimise the effect of underwriting losses, which agreements are entered into only with approved reinsurers as listed by Zurich Financial Services. The reinsurers agree to reimburse the Group when a claim is paid under a risk that is reinsured. The Group, however, remains liable to its policyholders regardless of whether the reinsurers honour their obligations in terms of the reinsurance agreements.

The credit risk that originates from the reinsurance transactions is managed as follows:

- the independent credit ratings of all existing or new reinsurers are monitored prior to entering into reinsurance transactions. For the 2005 reinsurance programme the

- Group's cession to reinsurers with a Standard & Poor's rating of BBB+ or below or where the reinsurers are not rated is less than 10% of the total programme; and
- cash deposits are retained or bank guarantees are obtained for reinsurers not registered in South Africa. As at 31 December 2005 the security held in this way amounted to R181.0 million (2004: R224.5 million).

The table below shows the five largest treaty reinsurers with their credit ratings and security held by the Group. As noted above the security is held in the form of deposits or irrevocable bank guarantees.

At 31 December 2005

Reinsurer	Standard & Poor's rating	Security held for the specific reinsurer
Munich Re of Africa	A+	–
Everest Re (USA)	A+	R18 million
Caisse Centrale de Reassurance (France)	AAA	R15 million
Partner Re (Europe)	AA-	R39 million
Africa Re	BBB+	–

At 31 December 2004

Reinsurer	Standard & Poor's rating	Security held for the specific reinsurer
Munich Re of Africa	A+	–
Everest Re (USA)	A+	R19 million
Caisse Centrale de Reassurance (France)	AAA	R13 million
Partner Re (Europe)	AA-	R41 million
Africa Re	BBB+	–

4.5 Claims development

The development of claims liabilities provides a measure of the ability to estimate the ultimate value of claims. The Group underwrites only a small proportion of long-tail risks and consequently the uncertainty about the amount and timing of claim payments a year after the loss event is limited. Regular estimates of claims run-off savings are performed in reviewing the adequacy of the claims provisions and corrective action is taken where necessary. The Group's experience is that run-off savings are positive but not significant in terms of the Group's results. Claims development tables are reviewed by management on a regular basis and the sufficiency of the claims provisions are ratified by an external actuarial firm annually.

5. Earnings per share

5.1 Headline earnings per share

Headline earnings per share is calculated on the basis of Group net income after taxation attributable to members of the Company after adjusting for the net realised surplus on disposal of investments and fixed assets and taxation thereon.

	2005 R000	2004 R000 Restated
Net income attributable to members	389,130	313,413
After-tax adjustment for:		
– Net realised surplus on disposal of investments and fixed assets	(153,654)	(65,266)
Headline earnings	235,476	248,147
Headline earnings per share (cents)	1,933.4	2,037.4

5.2 Earnings per share

The calculation of earnings per share is based on Group net income after taxation attributable to members of the Company of R389,130,000 (2004 Restated: R313,413,000) and 12,179,500 (2004: 12,179,500) fully paid shares in issue.

6. Property and equipment

<i>Group</i>	Motor vehicles R000	Furniture, office equipment, computer equipment and systems R000	Total R000
Cost			
At 31 December 2003	39,093	147,101	186,194
Additions	13,362	6,335	19,697
Disposals	(7,249)	(2,542)	(9,791)
Exchange rate movement	(442)	(277)	(719)
At 31 December 2004	44,764	150,617	195,381
Additions	9,492	12,853	22,345
Disposals	(8,029)	(50,100)	(58,129)
Exchange rate movement	(2,012)	(1,403)	(3,415)
At 31 December 2005	44,215	111,967	156,182

Notes to the Annual Financial Statements (Continued)

(Group continued)

	Motor vehicles R000	Furniture, office equipment, computer equipment and systems R000	Total R000
Accumulated depreciation			
At 31 December 2003 as previously stated	14,919	99,940	114,859
Adoption of International Financial Reporting Standards (note 2)	(7,308)	15,109	7,801
At 31 December 2003 – restated	7,611	115,049	122,660
Depreciation charge for the year	3,377	15,934	19,311
Exchange rate movement	(46)	(141)	(187)
Accumulated depreciation on disposals	(1,589)	(136)	(1,725)
At 31 December 2004	9,353	130,706	140,059
Depreciation charge for the year	4,075	10,227	14,302
Exchange rate movement	(481)	(323)	(804)
Accumulated depreciation on disposals	(2,996)	(49,483)	(52,479)
At 31 December 2005	9,951	91,127	101,078
Carrying amount			
At 31 December 2004	35,411	19,911	55,322
At 31 December 2005	34,264	20,840	55,104

Company

	Motor vehicles R000	Furniture, office equipment, computer equipment and systems R000	Total R000
Cost			
At 31 December 2003	36,970	138,179	175,149
Additions	11,888	4,739	16,627
Disposals	(7,248)	(539)	(7,787)
At 31 December 2004	41,610	142,379	183,989
Additions	9,390	12,511	21,901
Disposals	(7,952)	(50,085)	(58,037)
At 31 December 2005	43,048	104,805	147,853

(Company continued)

	Motor vehicles R000	Furniture, office equipment, computer equipment and systems R000	Total R000
Accumulated depreciation			
At 31 December 2003 as previously stated	14,615	93,996	108,611
Adoption of International Financial Reporting Standards (note 2)	(7,308)	15,109	7,801
At 31 December 2003 – restated	7,307	109,105	116,412
Depreciation charge for the year	3,377	15,268	18,645
Accumulated depreciation on disposals	(2,254)	(1)	(2,255)
At 31 December 2004	8,430	124,372	132,802
Depreciation charge for the year	4,086	9,786	13,872
Accumulated depreciation on disposals	(2,918)	(49,479)	(52,397)
At 31 December 2005	9,598	84,679	94,277
Carrying amount			
At 31 December 2004	33,180	18,007	51,187
At 31 December 2005	33,450	20,126	53,576

7. Investments

Group		Company	
2005 R000	2004 R000 Restated	2005 R000	2004 R000 Restated

7.1 Investment property

Opening carrying amount as previously stated	19,491	27,156	–	1,500
Revaluation surplus	3,586	2,211	–	–
Revaluation deficit	–	(2,876)	–	–
Disposals	(10,792)	(7,000)	–	(1,500)
Exchange rate movement	(1,339)	–	–	–
	10,946	19,491	–	–

Land and buildings have been bought for investment purposes. Any income arising from investment properties is primarily the fair value gain expected as a result of market appreciation in the value of properties. The latest valuation was conducted at 31 December 2005. The majority of investment properties are located in Johannesburg and Gaborone.

Notes to the Annual Financial Statements (Continued)

7.2 Investment in subsidiaries

	Group		Company	
	2005 R000	2004 R000 Restated	2005 R000	2004 R000 Restated
Unquoted	-	-	71,826	71,826
Unsecured loans	-	-	4,087	16,750
Current accounts	-	-	1,194	1,958
	-	-	77,107	90,534

7.3 Investment in associates

Unquoted	3,317	10,000	-	-
Directors' valuation	3,317	10,000	-	-

The unquoted investment is a 50% share in Natal Lands Limited, held through British African Properties Limited. The property owned by this company was sold during the year and a cash dividend paid from the proceeds resulting in the reduction in the Directors' valuation. The carrying value of the investment represents the Directors' valuation.

7.4 Available-for-sale financial assets

Ordinary shares

Quoted	464,352	488,581	458,865	485,857
Unquoted	36,168	36,534	36,168	36,464
	500,520	525,115	495,033	522,321

Preference shares

Quoted	1,804	1,165	51,804	1,165
Unquoted	51,877	1,925	-	-
	53,681	3,090	51,804	1,165

Government and other approved securities

Municipal annuities and other fixed interest securities

Government and other approved securities	3,014	5,445	-	-
Municipal annuities and other fixed interest securities	-	36	-	36
	557,215	533,686	546,837	523,522

7.5 Financial assets at fair value through income

Government and other approved securities

Government and other approved securities	429,658	322,910	429,658	322,910
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7.6 Major investments

2005

The Group's most significant quoted equity investments and Government and other approved securities as at 31 December 2005 are set out below and comprise, in aggregate, 21% of total assets.

Government and other approved securities

	%	Market Value R000
Maturing within five years of balance sheet date	50.07	216,621
Maturing in more than five years and less than ten years from balance sheet date	45.21	195,623
Maturing in ten years or more from balance sheet date	4.72	20,428
	100.00	432,672

The majority of the portfolio consists of RSA stock with terms to maturity ranging from one to 20 years and coupon rates of between 7.25% and 13.5%.

Quoted ordinary shares

	% of Equity Portfolio	Market Value R000
Absa Group Limited	5.49	30,600
AECI Limited	2.67	14,897
African Oxygen Limited	1.75	9,754
African Rainbow Minerals Limited	1.22	6,800
Anglo American Corporation Limited	5.14	28,644
Anglo American Platinum Corporation Limited	2.32	12,925
Anglovaal Industries Limited	2.92	16,290
Aveng Limited	1.33	7,400
Barloworld Limited	2.39	13,330
Bidvest Group Limited	1.96	10,923
Edgars Stores Limited	1.00	5,581
FirstRand Limited	2.29	12,738
Hudaco Industries Limited	3.48	19,411
Impala Platinum Holdings Limited	2.71	15,111
Investec Limited	0.69	3,841
Investec Plc	1.18	6,565
Liberty Holdings Limited	2.38	13,246
MTN Group Limited	1.62	9,019
Mutual and Federal Insurance Company Limited	1.91	10,625
Nampak Limited	1.76	9,802
Nedbank Group Limited	2.83	15,779
Net 1 UEPS Technology Incorporated	3.33	18,530
Rembrandt Group Limited	1.66	9,250
Reunert Limited	1.74	9,720
Richemont Securities Limited	1.75	9,726
SAB Miller Plc	4.56	24,485
Sanlam Limited	1.68	9,361
Sasol Limited	2.59	14,415
Standard Bank Group Limited	3.86	21,500
Tiger Brands Limited	3.16	17,600
	73.37	407,868

2004

The Group's most significant quoted equity investments and Government and other approved securities as at 31 December 2004 are set out below and comprise, in aggregate, 22% of total assets.

Government and other approved securities

	%	Market Value R000
Maturing within five years of balance sheet date	28.51	93,628
Maturing in more than five years and less than ten years from balance sheet date	69.96	229,715
Maturing in ten years or more from balance sheet date	1.53	5,012
	100.00	328,355

The majority of the portfolio consists of RSA stock with terms to maturity ranging from one to 20 years and coupon rates of between 8.00% and 13.5%.

Quoted ordinary shares

	% of Equity Portfolio	Market Value R000
Absa Group Limited	5.86	30,396
AECI Limited	2.48	12,870
African Oxygen Limited	1.69	8,768
African Rainbow Minerals Limited	1.02	5,300
Anglo American Plc	5.15	26,700
Anglo American Platinum Corporation Limited	2.20	11,385
Anglovaal Industries Limited	3.99	20,700
Aveng Limited	2.31	12,000
Barloworld Limited	4.10	21,260
Bidvest Group Limited	2.84	14,724
Edgars Stores Limited	2.20	11,397
FirstRand Limited	3.22	16,688
Hudaco Industries Limited	3.15	16,350
Impala Platinum Holdings Limited	2.96	15,367
Investec Limited	1.05	5,430
Investec Plc	1.57	8,163
Liberty Holdings Limited	3.37	17,483
MTN Group Limited	2.66	13,767
Mutual and Federal Insurance Company Limited	2.36	12,250
Nampak Limited	2.03	10,543
Nedcor Limited	3.84	19,896
Net 1 UEPS Technology Incorporated	4.28	22,178
Rembrandt Group Limited	2.27	11,795
Reunert Limited	2.60	13,500
SABMiller Plc	5.64	29,250
Sanlam Limited	2.67	13,828
Sasol Limited	3.50	18,150
Standard Bank Group Limited	5.86	30,404
Tiger Brands Limited	3.74	19,380
	90.61	469,922

8. Risks relating to financial assets

8.1 Financial risk

The Group is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, market price risk, currency risk, credit risk and liquidity risk.

These risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Group primarily faces due to the nature of its investments and liabilities is interest rate risk.

8.2 Interest rate risk

The Group does not have any borrowings. Exposure to interest rate risk is therefore limited to the Group's investments in floating rate instruments such as Government and other interest bearing securities as well as cash on deposit. The risk is furthermore limited by regular trading of the portfolio, providing diversification in terms of yield profiles and liability matching.

8.3 Market price risk

Market price risk is the risk that the value of a financial asset will fluctuate as a result of changes in market prices or changes in market interest rates. Investments in marketable securities are valued at fair value and are therefore susceptible to market fluctuations. The fair value of all financial assets approximate the carrying value in the balance sheet. Risk is also managed by diversification and investing in reputable companies and institutions, details of which are described in note 7.

Investment decisions are delegated by the Board to an Investment Committee which has ultimate responsibility for the investment portfolio's risk profile and the related investment decisions.

8.4 Currency risk

The Group is exposed to currency risk on its investments in foreign subsidiaries and foreign bank accounts. Hedging of the currency risk in terms of meeting insurance liabilities is achieved by the foreign subsidiaries investing in local assets that meet their requirements in terms of liquidity and maturity profiles. Foreign bank accounts are maintained in order to achieve an effective hedge against adverse currency movement but are not material.

8.5 Credit risk

The Group has exposure to credit risk, which is the risk that a

counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

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

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

Individual operating units maintain records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where this exists and where counterparties of the Group are liable for both receivables and payables. Intermediaries with whom the Group has a business relationship are expected to be in possession of the necessary guarantees for protection against the Group's credit risk.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis. Refer to note 4 for additional comments on risks related to reinsurance agreements.

Credit risk in terms of direct insurance clients is mitigated by the fact that where premiums are not paid to the Group, the Group is not obliged to act in terms of the policy.

8.6 Liquidity risk

The Group is exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover maturities, claims and surrenders at unexpected levels of demand.

9. Insurance contract provisions

9.1 Process used to determine significant assumptions

Underwriting insurance risks incorporate unpredictability and the Group recognises that it is impossible to predict future claims payable under existing insurance contracts with absolute certainty. To this end, the Group has over time, developed a methodology that is aimed at establishing insurance provisions that have a reasonable likelihood of being adequate to settle all its insurance obligations.

9.1.1 Claim provisions

The Group's outstanding claims provisions include notified claims as well as incurred but not yet reported claims and due to the short-tail nature of the business it is not considered necessary to discount any of the claims provisions.

Notified claims

Each notified claim is assessed on a separate, case by case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar claims. The Group employs staff experienced in claims handling and rigorously applies standardised policies and procedures around claims assessment. The provision for each notified claim includes an estimate of the associated claims handling costs but excludes Value Added Tax.

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

Claims incurred but not yet reported (IBNR)

The Group's IBNR is calculated as a percentage of premiums written. Different percentages are applied by class of business and geographic region. The IBNR percentage includes a best estimate reserve and implicit risk margins, which represents the expected value of the unreported claims liabilities. Implicit risk margins are added to the best estimate to reflect the uncertainty in the ultimate cost of claims. The risk margins are not determined statistically but represent an allowance based on judgement for instances where the actual claims development could be more severe than the best estimate liability. Different risk margins are applicable for different classes of business and their appropriateness is assessed against the Group's past claims experience. The risk margin for each class is never estimated to represent more than 20% of the best estimate liability for that class. The appropriateness of the IBNR methodology per class of business is assessed quarterly and adjusted if the recent claims experience shows that the methodology is no longer appropriate.

The Company appointed an independent actuarial firm to review its claims provisions at year-end. The review included conventional insurance risks in South Africa and Botswana. The actuarial firm used the link ratio and the Bornheutter-Ferguson methods to calculate a best estimate outstanding claims liability. The liability calculated by the actuarial firm was then compared to the outstanding claims provisions raised by the operations. The actuarial firm's report did not highlight any areas of inadequate provisioning.

The provision for the notified claims and IBNR are initially estimated at a gross level. A separate calculation is then carried out to determine the estimated reinsurance recoveries.

The calculation of the reinsurance recoveries considers the type of the risk underwritten, which year the gross claim occurred and therefore under which reinsurance programme the recovery will be made, the size of the claim and whether or not the claim was an isolated incident or forms part of a catastrophe reinsurance claim.

9.1.2 Premium provisions

The Group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts. An unearned premium provision is created at the commencement of each insurance contract and is then released as the risk under the contract expires. The majority of the Group's insurance contracts have an even risk profile and therefore the unearned premium provisions are released evenly over the period of insurance. For the remainder of the insurance portfolio, which includes engineering and marine risks, the unearned premium is released on a basis consistent with the increasing, decreasing or uneven risk profiles of the contracts. The provisions for unearned premiums are first determined on a gross level and thereafter the reinsurance impact is recognised. Deferred acquisition costs and reinsurance commission revenue is recognised on a basis consistent with the related provisions for unearned premiums.

9.2 Assumptions

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the IBNR percentages. The percentages are applied to premiums written. The larger the IBNR percentages applied the longer the expected period between the date of loss and the claims reporting date and/or severe the estimated claims. The table below sets out the IBNR percentages used in the past two financial years:

	Group		Company	
	2005 %	2004 %	2005 %	2004 %
Conventional South Africa	5 - 6	5 - 6	5 - 6	5 - 6
Risk Financing	6 - 7	6 - 7	-	-
Zimbabwe	5	5	-	-
Botswana	7	7	-	-

9.3 Changes in assumptions

There were no significant changes in the IBNR assumptions used during the 2004 and 2005 financial years.

As part of the provisioning process the Group prepares an analysis of sensitivity around various scenarios. The analysis provides an indication of the adequacy of the Group's claims

Notes to the Annual Financial Statements (Continued)

estimation process. The table below outlines the results of this analysis. It should be noted that this is a deterministic approach in that it is a distribution free analysis with no correlations between key variables.

Impact on reported operating profit before tax to changes in key variables:

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
20% devaluation in the Rand against other major world currencies	(47,000)	(41,000)	(43,000)	(40,000)
1% reduction in interest rates	(19,000)	(18,500)	(14,000)	(13,500)
20% increase in the level of crime	(56,650)	(53,200)	(55,825)	(52,650)
20% increase in the incidence of motor vehicle theft and hijacking	(27,400)	(27,500)	(27,000)	(27,250)
1% increase in IBNR provision	(29,000)	(26,000)	(26,000)	(24,000)

10. Insurance liabilities and reinsurance assets

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
Gross				
Outstanding claims	609,291	558,783	560,552	511,435
Claims incurred but not reported	245,677	223,380	213,484	198,817
Outstanding claims, including claims incurred but not reported	854,968	782,163	774,036	710,252
Unearned premiums	869,864	743,677	614,143	591,466
	1,724,832	1,525,840	1,388,179	1,301,718
Recoverable from reinsurers				
Outstanding claims	190,019	169,710	161,135	157,969
Claims incurred but not reported	89,137	79,336	73,755	69,705
Outstanding claims, including claims incurred but not reported	279,156	249,046	234,890	227,674
Unearned premiums	249,857	174,955	166,530	148,603
	529,013	424,001	401,420	376,277
Net				
Outstanding claims	419,272	389,073	399,417	353,466
Claims incurred but not reported	156,540	144,044	139,729	129,112
Outstanding claims, including claims incurred but not reported	575,812	533,117	539,146	482,578
Unearned premiums	620,007	568,722	447,613	442,863
	1,195,819	1,101,839	986,759	925,441

All of the above balances are current.

The movements for the year are summarised below:

	Group			Company		
	Gross R000	Reinsurance R000	Net R000	Gross R000	Reinsurance R000	Net R000
Outstanding claims, including claims incurred but not reported						
Year ended 31 December 2004						
Balance at beginning of the year	644,901	189,018	455,883	587,348	181,113	406,235
Claims expensed during the year	1,947,122	271,479	1,675,643	1,723,573	172,063	1,551,510
Less: claims paid/recovered during the year	1,808,332	197,301	1,611,031	1,600,669	125,502	1,475,167
Less: exchange rate movement	1,528	488	1,040	–	–	–
Less: other movements	–	13,662	(13,662)	–	–	–
Balance at end of the year	782,163	249,046	533,117	710,252	227,674	482,578
Year ended 31 December 2005						
Balance at beginning of the year	782,163	249,046	533,117	710,252	227,674	482,578
Claims expensed during the year	2,264,142	361,772	1,902,370	2,020,301	263,720	1,756,581
Less: claims paid/recovered during the year	2,178,084	338,875	1,839,209	1,957,248	257,313	1,699,935
Less: exchange rate movement	13,984	7,258	6,726	–	–	–
Less: other movements	(731)	(14,471)	13,740	(731)	(809)	78
Balance at end of the year	854,968	279,156	575,812	774,036	234,890	539,146
Unearned premium						
Year ended 31 December 2004						
Balance at beginning of the year	684,932	165,414	519,518	566,055	156,444	409,611
Premiums written during the year	3,191,143	570,030	2,621,113	2,840,241	432,049	2,408,192
Less: premiums earned during the year	3,132,398	560,489	2,571,909	2,814,830	439,890	2,374,940
Balance at end of the year	743,677	174,955	568,722	591,466	148,603	442,863
Year ended 31 December 2005						
Balance at beginning of the year	743,677	174,955	568,722	591,466	148,603	442,863
Premiums written during the year	3,509,671	646,274	2,863,397	3,049,769	439,585	2,610,184
Less: premiums earned during the year	3,383,484	571,372	2,812,112	3,027,092	421,658	2,605,434
Balance at end of the year	869,864	249,857	620,007	614,143	166,530	447,613

These provisions represent the liability for short term insurance contracts for which the Group's obligations are not expired at year-end.

Notes to the Annual Financial Statements (Continued)

11. Intangible assets

Deferred acquisition costs

	Group			Company		
	Gross R000	Reinsurance R000	Net R000	Gross R000	Reinsurance R000	Net R000
Year ended 31 December 2004						
Balance at beginning of the year	125,044	78,777	46,267	92,986	22,381	70,605
Commission paid/received during the year	495,895	101,449	394,446	449,609	92,947	356,662
Less: commission incurred during the year	497,719	123,241	374,478	444,110	95,553	348,557
Balance at end of the year	123,220	56,985	66,235	98,485	19,775	78,710
Year ended 31 December 2005						
Balance at beginning of the year	123,220	56,985	66,235	98,485	19,775	78,710
Commission paid/received during the year	553,279	106,370	446,909	475,954	85,892	390,062
Less: commission incurred during the year	542,299	116,617	425,682	480,839	75,750	405,089
Balance at end of the year	134,200	46,738	87,462	93,600	29,917	63,683

12. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts are as follows:

	Group		Company	
	2005 R000	2004 R000 Restated	2005 R000	2004 R000 Restated
Deferred income tax assets				
– Deferred income tax to be recovered after more than 12 months	(10,440)	(23,513)	(10,440)	(23,513)
– Deferred income tax to be recovered within 12 months	(6,207)	(9,228)	(6,858)	(9,228)
	(16,647)	(32,741)	(17,298)	(32,741)
Deferred income tax liabilities				
– Deferred income tax to be recovered after more than 12 months	22,737	17,014	22,737	17,014
– Deferred income tax to be recovered within 12 months	6,873	5,596	5,697	4,353
	29,610	22,610	28,434	21,367
Net deferred income tax liabilities	12,963	(10,131)	11,136	(11,374)

The gross movement in the deferred income tax account is as follows:

	Group		Company	
	2005 R000	2004 R000 Restated	2005 R000	2004 R000 Restated
Balance at beginning of the year	(10,131)	(8,293)	(11,374)	(9,742)
Change in rate of taxation	338	–	379	–
Movement during the year attributable to temporary differences	22,756	(1,838)	22,131	(1,632)
Balance at end of the year	12,963	(10,131)	11,136	(11,374)

The movement in deferred tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

Deferred income tax assets

Group

	Provision for leave pay and other accruals	Post retirement medical aid cost	Operating lease liability	Total
Balance at beginning of 2004	(1,783)	(17,826)	–	(19,609)
Credited to the income statement	(7,113)	(4,277)	(1,742)	(13,132)
Balance at end of 2004	(8,896)	(22,103)	(1,742)	(32,741)
Change in rate of taxation	297	736	58	1,091
Charged/(credited) to the income statement	2,918	12,286	(201)	15,003
Balance at end of 2005	(5,681)	(9,081)	(1,885)	(16,647)

Company

	Capital allowances	Provision for leave pay and other accruals	Post retirement medical aid cost	Operating lease liability	Total
Balance at beginning of 2004	–	(1,783)	(17,826)	–	(19,609)
Credited to the income statement	–	(7,113)	(4,277)	(1,742)	(13,132)
Balance at end of 2004	–	(8,896)	(22,103)	(1,742)	(32,741)
Change in rate of taxation	–	297	737	58	1,092
Charged/(credited) to the income statement	(652)	2,918	12,286	(201)	14,351
Balance at end of 2005	(652)	(5,681)	(9,080)	(1,885)	(17,298)

Notes to the Annual Financial Statements (Continued)

Deferred income tax liabilities

Group

	Capital and other allowances	Unrealised appreciation of available-for-sale financial assets	Unrealised gain on assets at fair value through income	Total
Balance at beginning of 2004	1,449	9,867	–	11,316
(Credited)/charged to the income statement	(206)	–	4,353	4,147
Credited to equity on disposal	–	(4,700)	–	(4,700)
Charged to equity	–	11,847	–	11,847
Balance at end of 2004	1,243	17,014	4,353	22,610
Change in rate of taxation	–	–	–	–
– Credited to the income statement	(41)	–	(145)	(186)
– Credited to equity	–	(567)	–	(567)
(Credited)/charged to the income statement	(26)	–	1,489	1,463
Credited to equity on disposal	–	(16,281)	–	(16,281)
Charged to equity	–	22,571	–	22,571
Balance at end of 2005	1,176	22,737	5,697	29,610

Company

	Unrealised appreciation of available-for-sale financial assets	Unrealised gain on assets at fair value through income	Total
Balance at beginning of 2004	9,867	–	9,867
Charged to the income statement	–	4,353	4,353
Credited to equity on disposal	(4,700)	–	(4,700)
Charged to equity	11,847	–	11,847
Balance at end of 2004	17,014	4,353	21,367
Change in rate of taxation	–	–	–
– Credited to the income statement	–	(145)	(145)
– Credited to equity	(567)	–	(567)
Charged/(credited) to the income statement	–	1,489	1,489
Credited to equity on disposal	(16,281)	–	(16,281)
Charged to equity	22,571	–	22,571
Balance at end of 2005	22,737	5,697	28,434

13. Loans and receivables

	Group		Company	
	2005 R000	2004 R000 Restated	2005 R000	2004 R000 Restated
Staff loans receivable	7,087	8,387	7,025	8,266
Other receivables	208,320	180,105	178,677	117,862
Taxation overpaid	31,677	1,092	30,303	–
Holding company receivables	1,576	2,476	1,576	2,476
	248,660	192,060	217,581	128,604

The majority of balances are receivable within 12 months except in the case of staff loans which could be longer than 12 months. Fair values largely approximate carrying values.

14. Property for sale

Properties held as security that were taken over by Eagle Properties (Benoni) (Proprietary) Limited during 2003 had all been sold by the end of 2005.

15. Cash and cash equivalents

Cash and cash equivalents consist of short-term bank deposits with a duration of less than three months, current accounts and cash on hand. The effective interest rate on short-term bank deposits with a duration of less than three months is between 6.75% and 7.0% (2004: 7.0% and 7.45%). The effective interest rate on current accounts at the balance sheet date was between 4.25% and 5.5% (2004: 4.75% and 6.5%).

16. Share capital

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
Authorised				
13,207,360 (2004: 13,207,360) ordinary shares of 25 cents each	3,302	3,302	3,302	3,302
Issued				
12,179,500 (2004: 12,179,500) ordinary shares of 25 cents each fully paid	3,045	3,045	3,045	3,045

The 1,027,860 (2004: 1,027,860) unissued ordinary shares are under the control of the Directors until the next Annual General Meeting.

Notes to the Annual Financial Statements (Continued)

17. Share premium

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
Balance at beginning and end of the year	1,605	1,605	1,605	1,605

18. Retirement benefit information

Post-retirement medical aid benefits

The Company operates a defined benefit plan for qualifying employees, which is administered by Discovery Health Limited.

An actuarial valuation was carried out in terms of IAS 19: Employee Benefits as at 31 December 2005.

The next actuarial valuation will take place as at 31 December 2006.

The following principal actuarial assumptions were used:

	2005	2004
Discount rate	8.5%	9.5%
Health care inflation rate	7.0%	7.5%
Average retirement age	63	63

The amount recognised in the balance sheet in respect of the defined benefit post-retirement medical aid plan is as follows:

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
Present value of unfunded obligations	44,928	83,121	44,928	83,121
Unrecognised actuarial (losses)/gains	(1,859)	457	(1,859)	457
Liability recognised in the balance sheet	43,069	83,578	43,069	83,578
Fair value of plan assets (included in cash and cash equivalents)	(11,758)	(9,900)	(11,758)	(9,900)
Net liability	31,311	73,678	31,311	73,678

The movement in the liability recognised in the balance sheet is as follows:

Balance at beginning of the year	83,578	68,941	83,578	68,941
Current service cost	2,584	2,417	2,584	2,417
Interest cost	9,416	6,425	9,416	6,425
Change in subsidy policy valued	-	9,165	-	9,165
Employee benefit payments	-	(3,370)	-	(3,370)
Effect of curtailment or settlement	(52,509)	-	(52,509)	-
Balance at end of the year	43,069	83,578	43,069	83,578

Amounts recognised in the income statement in respect of the defined benefit plan are as follows:

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
Current service cost	2,584	2,417	2,584	2,417
Interest cost	9,416	6,425	9,416	6,425
Employee benefit payments	–	(3,370)	–	(3,370)
Change in subsidy policy revalued	–	9,165	–	9,165
	12,000	14,637	12,000	14,637

The charge for the year is included in “administrative and other operating expenses” in the income statement.

Changes in the fair value of plan assets are as follows:

Balance at beginning of the year	9,900	9,900	9,900	9,900
Investment gains on plan assets	1,858	–	1,858	–
Balance at end of the year	11,758	9,900	11,758	9,900

The fair value of plan assets at the balance sheet date is analysed as follows:

Included in cash and cash equivalents	11,758	9,900	11,758	9,900
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Pension Fund SA Eagle Pension fund

The Company operates a defined benefit plan. The fund is governed by the Pension Fund Act, 1965.

An actuarial valuation was also carried out in terms of IAS 19: Employee Benefits as at 31 December 2005.

The next actuarial valuation will take place as at 31 December 2006.

The following principal actuarial assumptions were used:

	2005	2004
Discount rate	8.5%	8.5%
Expected return on plan assets – members	8.8%	8.8%
Expected return on plan assets – pensioners	9.3%	9.3%
Future salary increases	5.5%	5.5%
Future pension increases	4.5%	4.5%

The actuarial surplus was not accounted for in the accounts for the current year due to the promulgation in December 2001 of the Pension Funds Second Amendment Act, which requires any surplus arising to be apportioned amongst the employer, past and present employees and continuation members. The asset recognised on the Company's balance sheet is subject to the limit set out in paragraph 58 of IAS 19: Employee Benefits. The paragraph 58 limit is the sum of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefit available in the form of refunds from the Fund or reduction in future contributions to the Fund. The Fund is undergoing a Surplus Apportionment Exercise as required by legislation. It is not known at this stage if any of the surplus will be available for allocation to the Company and hence the Paragraph 58 limit has been set at zero.

Notes to the Annual Financial Statements (Continued)

The actuarial surplus has been determined as follows:

	2005 R000	2004 R000
Present value of funded obligations	588,414	465,090
Fair value of plan assets	(793,193)	(659,165)
Net surplus	(204,779)	(194,075)

Pension funds of foreign subsidiaries

Foreign subsidiaries have defined contribution plans under which fixed contributions are paid into a separate entity, and will have no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employee benefits relating to employee service in current or prior periods. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

Pension fund valuation adjustment

During 2004, the Company provided for R10,000,000 in respect of a pension fund valuation adjustment after taking into account the estimated portion of the surplus that the Company would be entitled to. Based on the latest actuarial valuation, no additional contribution appears to be necessary and the provision of R10,000,000 has therefore been reversed.

Retirement benefit obligations

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
Provision for post-retirement medical aid benefits	43,069	83,578	43,069	83,578
Provision for pension fund valuation adjustment	–	10,000	–	10,000
	43,069	93,578	43,069	93,578

19. Trade and other payables

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
Trade payables and accrued expenses	26,620	19,393	22,091	16,930
Tax payable	3,312	8,746	–	11,390
Other payables	197,633	168,162	61,710	58,523
	227,565	196,301	83,801	86,843

20. Solvency margin

The Group's solvency margin of 52.9% (2004: 57.0%) represents shareholders' funds expressed as a percentage of net premiums.

21. Claims handling expenses included in net claims

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
Net insurance benefits and claims include claims handling expenses and loss adjustment expenses amounting to	68,903	65,743	68,903	65,743

22. Investment income

	Group		Company	
	2005 R000	2004 R000 Restated	2005 R000	2004 R000 Restated
Investment income on cash and cash equivalents				
Interest	103,803	107,245	72,616	77,625
Investment income from investment properties				
– Rental income	10,369	3,061	–	–
– Direct operating expenses	(6,773)	(5,151)	–	–
– Realised gains/(losses) on disposals	1,290	(325)	–	(125)
	4,886	(2,415)	–	(125)
Investment income from available-for-sale financial assets				
Ordinary dividends				
– Quoted shares	16,476	18,266	16,399	18,254
– Unquoted shares	1,086	1,212	1,086	1,212
	17,562	19,478	17,485	19,466
Preference dividends				
– Quoted shares	654	33	460	33
Government and other approved securities				
– Interest and fair value gains	1,456	2,922	–	–
Realised gains on disposal				
– Quoted shares	162,862	68,800	161,527	68,756
	182,534	91,233	179,472	88,255
Investment income from subsidiaries and associated companies				
Dividends from subsidiaries	–	–	10,575	9,464
Dividends from associated companies	10,418	670	10,418	670
	10,418	670	20,993	10,134
Investment income on financial assets held at fair value through income				
Unrealised net fair value gains	5,138	11,682	5,138	11,682
Realised net fair value gains	37,923	29,093	37,923	29,093
Realised gains on disposal	8,780	1,630	8,780	1,630
	51,841	42,405	51,841	42,405
Total investment income	353,482	239,138	324,922	218,294

Notes to the Annual Financial Statements (Continued)

23. Income before tax

	Group		Company	
	2005 R000	2004 R000 Restated	2005 R000	2004 R000 Restated
After charging:				
Auditors' remuneration				
– Fees for audit	1,671	1,155	1,226	939
– Other services	16	55	–	55
	1,687	1,210	1,226	994
Depreciation				
– Motor vehicles	4,075	3,377	4,086	3,377
– Furniture, office equipment, computer equipment and systems	10,227	15,934	9,786	15,268
	14,302	19,311	13,872	18,645
Loss on disposal of fixed assets	636	170	636	170
JSE Limited				
– Listing fees	139	133	139	133
Staff cost				
– Salaries and wages	170,725	171,872	164,273	164,445
– Medical aid	23,454	15,385	23,170	14,930
	194,179	187,257	187,443	179,375
Pension fund expenses	16,247	11,890	15,879	11,546
Provident fund expenses	360	370	346	352
Foreign exchange loss	–	5,000	–	5,000
Operating lease rentals – property	17,119	16,584	17,119	16,584

24. Income tax expense

	Group		Company	
	2005 R000	2004 R000 Restated	2005 R000	2004 R000 Restated
South African and foreign				
Current taxation				
– Current year normal tax	94,484	116,139	78,950	103,365
– Prior year underprovision	239	–	239	–
	94,723	116,139	79,189	103,365
Deferred taxation				
– Current year	17,371	(10,320)	16,787	(10,115)
Secondary tax on companies	6,294	–	6,294	–
	118,388	105,819	102,270	93,250
Reconciliation of taxation:				
South African normal taxation at statutory tax rate of 29% (2004: 30%)	146,662	126,465	135,901	117,663
Adjusted for:				
– Change in rate of taxation	338	–	379	–
– Prior year (over)/underprovision	(1,100)	–	239	–
– Exempt income	(60,994)	(28,654)	(59,612)	(30,236)
– Capital gains tax	19,581	4,720	18,827	4,720
– Disallowed expenses	9,565	3,288	243	1,103
– Secondary tax on companies	6,294	–	6,294	–
– Withholding tax in foreign subsidiary	(1,958)	–	–	–
Taxation charge in income statement	118,388	105,819	102,270	93,250

Notes to the Annual Financial Statements (Continued)

25. Related party transactions

The Company is controlled by SA Fire House Limited (incorporated in South Africa), which owns 73.6% (2004: 83.6%) of the Company's shares. The ultimate holding company is Zurich Insurance Company (incorporated in Switzerland).

Group		Company	
2005 R000	2004 R000	2005 R000	2004 R000

The following transactions were carried out with related parties:

IT services provided to Zurich Group	13,271	10,763	13,271	10,763
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As part of the intergroup reinsurance arrangements, the following reinsurance premiums and claims were paid and recovered during the year from Zurich Insurance Company:

Facultative reinsurance

– Premiums paid	59,679	60,393	59,679	60,393
– Claims recovered	34,523	17,747	34,523	17,747
– Commission earned	4,393	9,058	4,393	9,058

Treaty reinsurance

– Premiums paid	1,322	57,754	1,322	57,754
– Claims recovered	5,861	19,559	5,861	19,559
– Commission earned	(37)	13,025	(37)	13,025

Amounts owing by subsidiaries to the Company are as follows:

Unsecured loans	–	–	4,087	16,750
Current accounts	–	–	1,194	1,958

Amounts owing by the Zurich Group are as follows:

Current accounts	887	355	887	355
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	Unsecured loans	Current accounts
Balance at beginning of 2004	23,701	4,558
Repayments received	(6,951)	(2,600)
Balance at end of 2004	16,750	1,958
Repayments received	(12,663)	(764)
Balance at the end of 2005	4,087	1,194

Insurance policy exposure

Members of the executive committee including Executive Directors have insurance policies with the Company with an aggregate sum insured of R23.5 million at 31 December 2005.

Key management* compensation:

	2005 R000	2004 R000
Salaries, bonuses and other short term employee benefits	2,652	1,720
Payments by Company for shares under the LTPSP**	661	–

There are no existing/outstanding loans.

* Key management

3 Executive Committee Members excluding Executive Directors.

The Chief Financial Officer commenced service during 2005.

** Long Term Performance Share Plan (LTPSP)

If key business performance targets are delivered, certain senior executives receive Zurich Financial Services shares. Based on a three-year plan cycle, performance will be measured each year against the agreed criteria. Target shares allocated to executive members are a notified percentage value of the base salary as at 1 April (excluding bonuses, incentives and expense allowances). The share price for allocation is the closing price of Zurich Financial Services shares as it was on allocation date. The exchange rate used to convert a salary to Swiss Franc is the closing Bloomberg exchange rate as it was on allocation date. The target share allocation is not an award, but a translation of the LTPSP incentive salary at target into a number of shares at target.

One third of the target shares allocated will be assessed for vesting on each of three anniversary dates following the grant date. One half of the shares awarded under the Plan cannot be sold for three years after vesting. A proportion of the allocated target shares will be transferred to executives in April following each performance period, based on the performance of the Company. Target performance of the Company is measured on a calendar year basis.

Eligible participants employed on or before 1 July, will be eligible to participate in the LTPSP on a pro rata basis. The pro rata number of shares will be calculated on the basis of a total of 36 months participation.

These shares are payable on the vesting date.

The following shares vested during 2005:

	No of shares vested	Share price (CHF)	Exchange rate	Value R000
3 April	402	210.50	1ZAR: 0.1934CHF	438
30 June	194	220.80	1ZAR: 0.1919CHF	223
Total	596			661

Notes to the Annual Financial Statements (Continued)

26. Directors' emoluments

	2005 R000	2004 R000
Executive Directors		
Basic salary	1,357	1,327
Bonus	114	111
Other material benefits *	221	207
Pension scheme contributions	168	111
Profit sharing	480	256
Total	2,340	2,012
Non-Executive Directors		
Basic salary	595	-
Bonus	51	-
Other material benefits *	198	-
Pension scheme contributions	74	-
Profit sharing	147	-
Total	1,065	-
Independent Non-Executive Directors		
Basic salary	562	-
Bonus	48	-
Other material benefits *	203	-
Pension scheme contributions	70	-
Profit sharing	134	-
Total	1,017	-
Executive and Non-Executive Directors		
Basic salary	488	976
Bonus	-	81
Other material benefits *	150	226
Pension scheme contributions	61	95
Profit sharing	250	151
Total	949	1,529

*(Company car, medical aid, housing allowance and club subscriptions)

Non-Executive Directors

Directors fees paid to the following Non-Executive Directors:

	2005 R000	2004 R000
GM Riddell	100	126
JPG de Rauville	140	72
PT Martin	220	115
JL Pamensky	100	90
MC South	108	27
SG Morris	100	–
DS Phiri	40	–
	808	430
Total	6,179	3,971

Resignations from the Board:

1. JM Carter (British)	9 May 2005
2. JL Pamensky	9 May 2005
3. GM Riddell (British)	10 May 2005

Appointments to the Board:

1. DM Burton	10 May 2005
2. SG Morris	1 July 2005
3. DS Phiri	10 May 2005
4. CN Zungu	10 May 2005
5. A Paas (Finnish)	1 January 2006

Appointment of new Chairman:

1. MC South (British)	10 May 2005
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Share option grants and performance share allocations under the Long Term Compensation Programmes

The number of option grants awarded over Zurich Financial Services shares under the Global Share Option Plan was as follows:

Zurich Financial Services Share Options

NV Beyers	Number of shares	Strike price	Current actionable quantity	Expiration date
Vested previously	122	GBP232.03	122	31 January 2007
	175	CHF689.95	175	31 January 2007
	80	GBP339.83	80	31 January 2006
	114	CHF885.85	114	31 January 2006
	470	CHF492.55	470	30 April 2008
	403	CHF331.10	–	30 April 2009
	473	CHF120.50	473	2 April 2010
Vested during 2005	371	CHF213.25	371	2 April 2011
	407	CHF120.50	407	2 April 2010
Exercised during 2005	–	–	–	–
Closing balance of options as at 31 December 2005	2,615	–	2,212	–

Note: Share Options with a higher strike price than the market price cannot be exercised.

Notes to the Annual Financial Statements (Continued)

Share awards made in 2005 over Zurich Financial Services shares under the Long Term Performance Share Plan (LTPSP):
Zurich Financial Services Share Awards

NV Beyers	Vesting date	Restriction/lapse date	Number of shares	Current actionable quantity
Opening balance (previously awarded)			248	155
Awarded during 2005	3 April 2005	3 April 2005	81	81
	3 April 2005	3 April 2008	80	–
	30 June 2005	30 June 2005	109	109
	30 June 2005	30 June 2008	109	–
	3 April 2005	3 April 2008	57	–
	3 April 2005	3 April 2005	58	58
Closing balance of shares awarded as at 31 December 2005			742	403

DM Burton	Vesting date	Restriction/lapse date	Number of shares	Current actionable quantity
Opening balance (previously awarded)			192	108
Awarded during 2005	3 April 2005	3 April 2008	59	–
	3 April 2005	3 April 2005	42	42
	3 April 2005	3 April 2008	42	–
	3 April 2005	3 April 2005	60	60
	30 June 2005	30 June 2005	49	49
	30 June 2005	30 June 2008	48	–
Closing balance of shares awarded as at 31 December 2005			492	259

CN Zungu	Vesting date	Restriction/lapse date	Number of shares	Current actionable quantity
Opening balance (previously awarded)			54	54
Awarded during 2005	3 April 2005	3 April 2008	56	–
	3 April 2005	3 April 2005	41	41
	3 April 2005	3 April 2008	40	–
	3 April 2005	3 April 2005	57	57
	30 June 2005	30 June 2005	48	48
	30 June 2005	30 June 2008	47	47
Closing balance of shares awarded as at 31 December 2005			343	247

JM Carter Resigned on 9 May 2005	Number of shares
Previously awarded	272
Awarded during 2005	–
Closing balance of shares awarded as at 31 December 2005	272

Glossary

Strike price:	The price at which an option can be exercised. Also known as the Exercise price and Option price
Current actionable quantity:	The participations that are vested but have yet to be distributed (exercised, transferred or sold), forfeited, expired or cancelled

For a description of the Share Plan, see page 73.

27. Cash generated from operations

	Group		Company	
	2005 R000	2004 R000 Restated	2005 R000	2004 R000 Restated
Operating income before taxation	508,612	421,550	468,624	392,211
Adjustment for:				
Depreciation	14,302	19,311	13,872	18,645
Provision increase – post retirement medical aid	12,000	14,637	12,000	14,637
Pension Fund valuation adjustment	(10,000)	10,000	(10,000)	10,000
Settlement – post retirement medical aid	(52,509)	–	(52,509)	–
Foreign exchange adjustment	–	5,000	–	5,000
Surplus on disposal of fixed assets	636	170	636	170
Surplus on disposal of property	(5,043)	444	–	–
Net increase in claims outstanding	42,695	66,159	56,568	76,343
Investment income before investment expenses	(353,482)	(239,138)	(324,922)	(218,294)
Net increase/(decrease) in unearned premiums	30,058	29,235	19,777	25,148
	187,269	327,368	184,046	323,860

28. Net increase in working capital

	Group		Company	
	2005 R000	2004 R000 Restated	2005 R000	2004 R000 Restated
Due from agents and other insurance companies	(167,003)	(109,787)	(179,259)	(78,734)
Other receivables	(28,215)	(48,205)	(60,815)	(16,860)
Due to agents and other insurance companies	22,892	13,791	25,488	14,036
Amounts due to primary policyholders	3,754	8,873	–	–
Amounts due to cell shareholders	61,116	17,556	–	–
Due to/(from) holding company	(900)	(2,077)	(900)	(2,077)
Other payables	36,698	58,809	8,348	37,136
	(71,658)	(61,040)	(207,138)	(46,499)

Notes to the Annual Financial Statements (Continued)

29. Taxation paid

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
Balance owing at beginning of the year	(7,654)	(16,626)	(11,390)	(10,483)
Current taxation and secondary tax on companies charged to the income statement	(101,017)	(116,139)	(85,483)	(103,365)
Balance at end of the year	(28,365)	7,654	(30,303)	11,390
	(137,036)	(125,111)	(127,176)	(102,458)

30. Capital commitments

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
Authorised	17,036	17,703	14,457	17,165

Capital commitments in terms of vehicles, furniture, office equipment, computer equipment and computer systems will be funded from existing resources.

31. Operating lease commitments

	Group		Company	
	2005 R000	2004 R000	2005 R000	2004 R000
The future minimum lease payments under non-cancellable operating leases are as follows:				
Not later than one year	17,153	13,923	17,153	13,923
Later than one year but not later than five years	34,362	40,925	34,362	40,925
Later than five years	345	–	345	–
	51,860	54,848	51,860	54,848

32. Foreign currency exposure

The Group currently has no material currency exposure relating to the assets and liabilities included in the balance sheet.

33. Impact of application of IFRIC 8

The Group has not yet adopted IFRIC 8: Scope of IFRS 2. This interpretation is applicable to the Group for the year ending 31 December 2007 and has the effect of making the BEE transaction discussed on page 12 subject to IFRS 2. The effect of this is to push down the accounting for the transaction in the Company's holding company to the Group. This will result in a BEE cost of R94,500,000 being accounted for in the financial statements for the year ending 31 December 2007. The transaction will result in a charge against retained income and a credit to equity. As a result, reported income and net asset value will be unaffected. The Company's holding company has also granted an option to the BEE partners to acquire a further 14.9% on favourable terms. This option is exercisable by the BEE partner between 27 April 2008 and 27 October 2008. The financial effect of this transaction cannot be estimated as a valuation of the option has not been conducted.

34. Post balance sheet events

On 23 February 2005 the Directors declared a final dividend of 600 cents per share (2004: 470 cents per share). The dividend is payable to shareholders registered on 31 March 2006 and will be paid on 10 April 2006. The total cash payment in respect of the dividend declared will be R73,077,000 (2004: R57,243,650). Secondary tax on companies (STC) on the dividend is expected to amount to R7,318,729 (2004: R5,496,465) after taking into account the STC credits on dividends received.