




■ ■ ■ SA Eagle 2006 annual report ■ ■ ■



A member of the  Zurich Financial Services Group

The Company conducts all classes of short term insurance business in the Republic of South Africa.

An investment in knowledge
always pays the best interest.

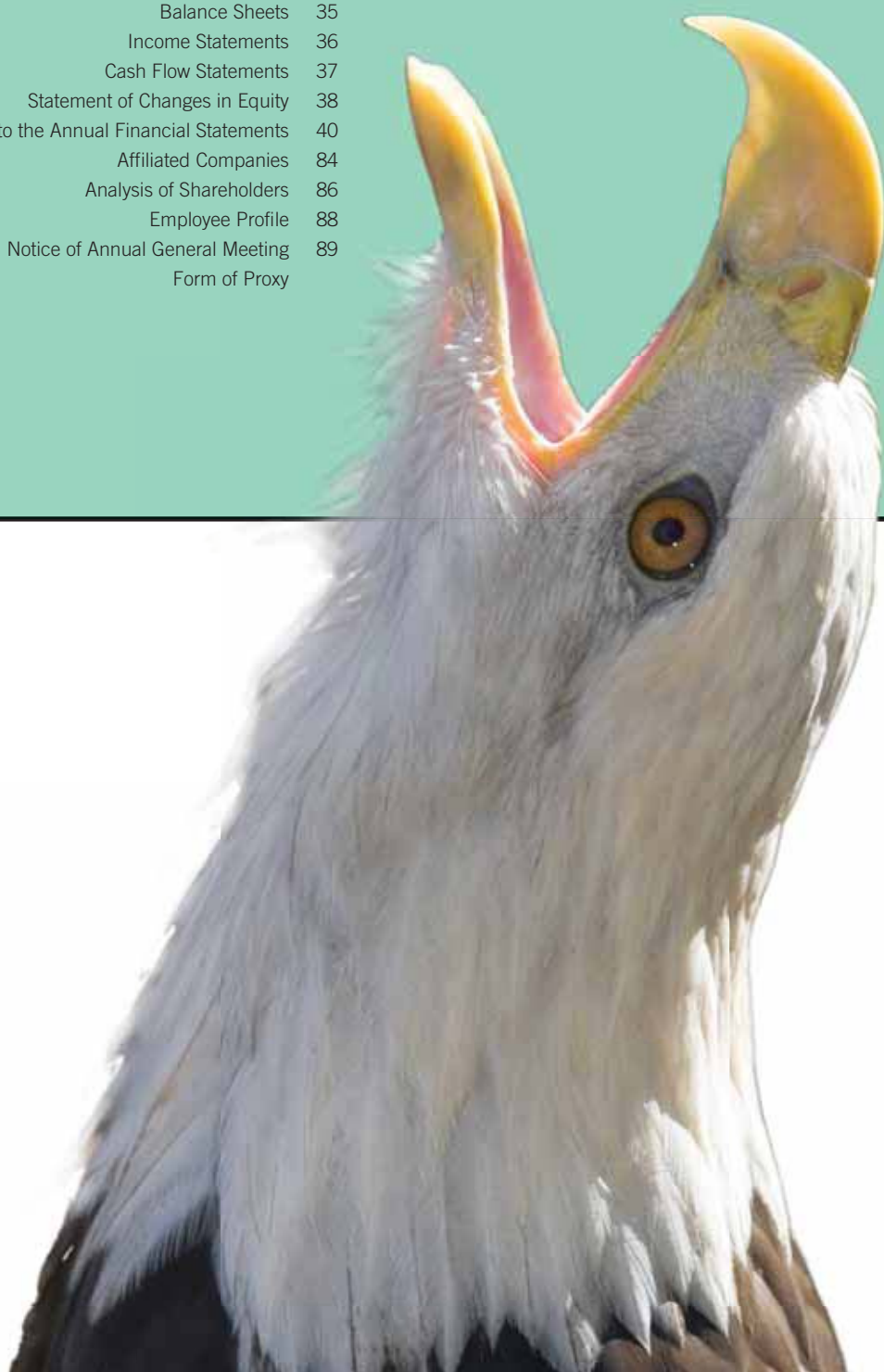
Benjamin Franklin (1706 - 1790)



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Financial Highlights

for the year ended 31 December 2006



	2006	2005	% Increase/ (Decrease)
Gross insurance premium revenue (Rm)	3,910.6	3,509.7	11%
Net income attributable to members of the Company (Rm)	320.6	389.1	(18%)
Headline earnings per share (cents)	2,151.5	1,933.4	11%
Earnings per share (cents)	2,632.1	3,195.0	(18%)
Dividends per share (cents)	650	800	(19%)
Solvency margin (%)	55.8	52.9	5%
Total assets (Rm)	4,605.9	3,857.2	19%
Net asset value per share (cents)	14,441.8	12,413.9	16%



The best investment on earth
is earth.

Louis J Glickman, Real Estate Owner



Seven-Year Review



Income Statements

	2006	2005	2004	2003	2002	2001	2000
Gross insurance premium revenue (Rm)	3,910.6	3,509.7	3,191.1	3,189.1	2,928.0	2,379.0	1,867.3
Net insurance premium revenue (Rm)	3,175.1	2,863.4	2,621.1	2,661.0	2,379.1	1,983.4	1,591.2
Net income attributable to members of the Company (Rm)	320.6	389.1	313.4	223.9	115.1	142.3	186.7
Headline earnings per share (cents)	2,151.5	1,933.4	2,037.4	1,475.5	627.6	292.2	(71.4)
Normal dividends per share, declared (cents)	650	800	650	450	400	700	700
Special dividends per share, declared (cents)	–	–	2,300	–	–	–	4,900

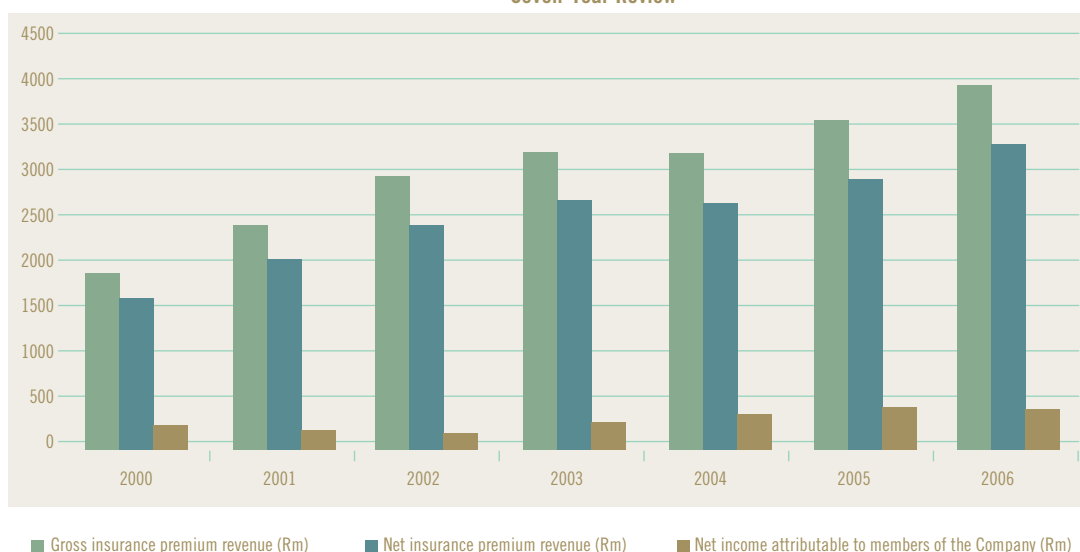
Balance Sheets

Investments							
– Investment property (Rm)	9.6	10.9	19.5	27.2	29.9	57.4	52.7
– Government and other approved securities (Rm)	383.0	433.0	328.4	257.3	190.8	178.8	192.5
– Shares (Rm)	678.7	557.2	538.2	491.2	489.5	667.2	715.5
Total (Rm)	1,071.3	1,001.1	886.1	775.7	710.2	903.4	960.7
Cash and cash equivalents (Rm)	1,482.3	1,017.5	1,148.2	889.1	683.0	598.6	453.1
Total assets (Rm)	4,605.9	3,857.2	3,566.4	2,936.8	2,667.4	2,573.1	1,991.9
Net asset value per share (cents)	14,442	12,414	12,252	9,835	8,002	8,321	7,987
Share price (cents)	15,650	18,500	14,800	8,200	8,500	10,000	8,000
Solvency margin (%)	55.8	52.9	57.0	47.1	43.3	53.9	60.3

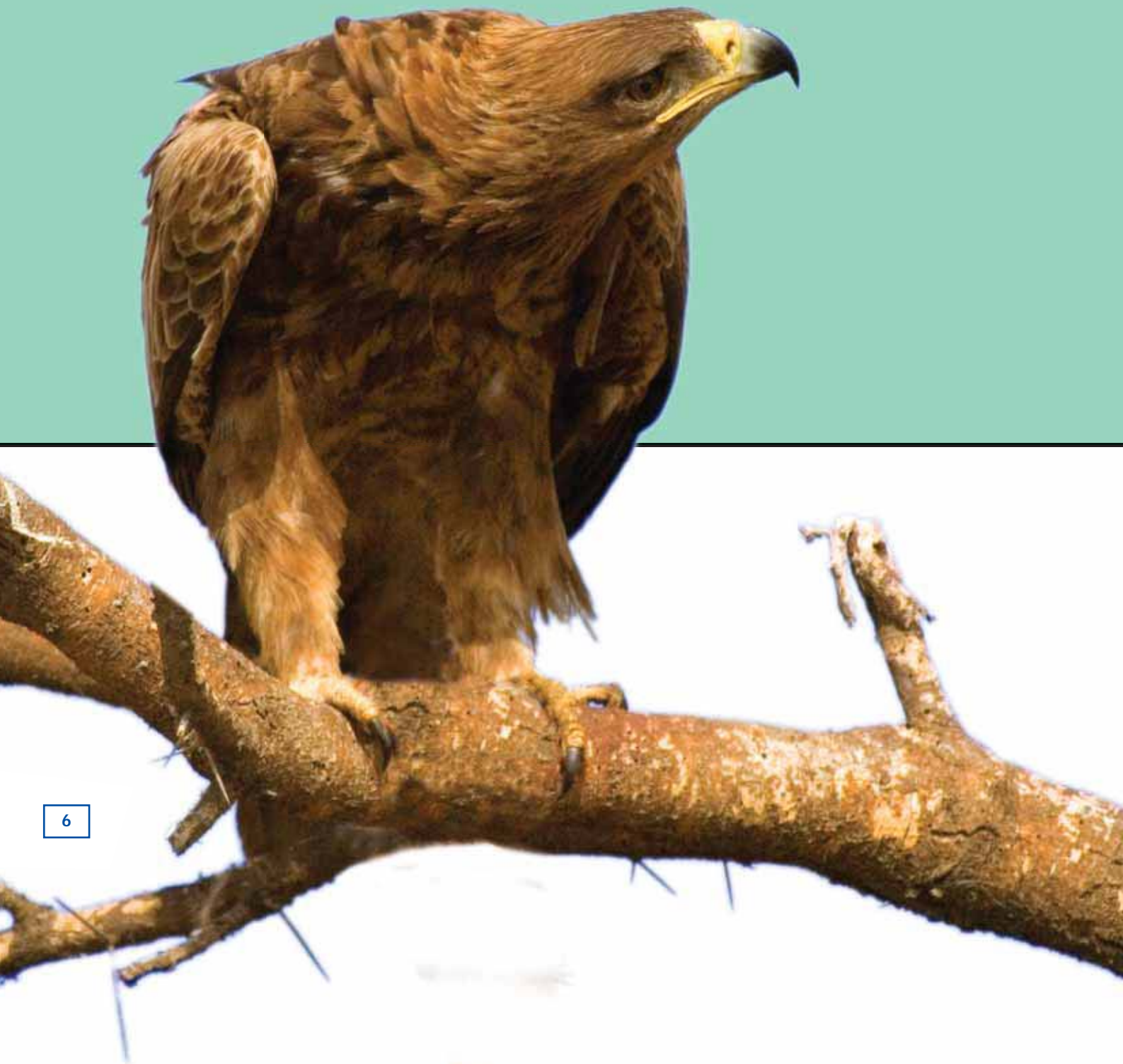
Note

Comparative figures for 2004 have been restated to reflect changes resulting from the adoption of International Financial Reporting Standards and changes in accounting policies. Years prior to 2004 have not been restated to reflect these changes.

Seven-Year Review



Executive Management and Non-Executive Directors



Executive Management Committee

Executive Directors



NV Beyers ACII AMP (Harvard) (59)

Managing Director

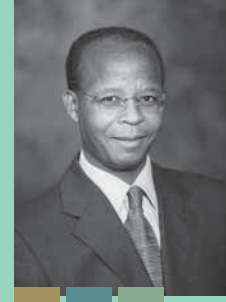
Joined in 1971. Appointed Managing Director in 1998. Responsible for the development of the long-term strategy and vision for the Company, including the recommendation of an annual business plan and budget in support of Company strategy. Focuses on the achievement of the Company's financial and operating goals and objectives. Ensures that the day-to-day business affairs of the Company are appropriately monitored and managed. Oversees the effectiveness of the management team and actively participates in management development and succession planning. Responsible for formulating and administering the implementation of major corporate policies. Oversees the actuarial department, legal & compliance department, marketing department, group audit department and the operations of subsidiary companies – SA Eagle Risk Financing, SA Eagle Life, Eagle Insurance Company (Zimbabwe) and Botswana Eagle Insurance Company.



DM Burton ACII (58)

Executive Director – Sales & Marketing

Joined in 1986. Appointed Executive Director in 2005. Responsible for the underwriting results of the sales areas in South Africa, 11 in total, as well as those for Botswana Eagle Insurance Company.



CN Zungu BCom (50)

Executive Director – People Management

Joined in 2000. Appointed Executive Director in 2005. Links people resources to the organisation's strategy by utilising key competencies that include: people management strategy, staff selection and development, performance management, compensation and employee relations. People Management aims to provide an integrated framework for optimising the Company's people resources, their work and the organisation.

Goodness is the only investment
that never fails.

Henry David Thoreau (1817 – 1862)

Executive Management



HC Ehlers FCII (54)

General Manager – Operations Support
 Joined in 1986. Appointed General Manager in 2000. Controls the central processing units based in Johannesburg, Cape Town and Durban as well as specialist claims, technical services, office support, group procurement, printing department and the customer service centre which deals with non-scheme domestic monthly business.



T Laupsa FCCA, MBA (44)

Chief Financial Officer
 Joined in 2006. Responsible for the management of all financial functions of the Company and its subsidiaries. Ensures that effective support is provided to business partners through creative business solutions and business focus reporting. Development of the finance strategy, supported by operational initiatives, and consistent with the business strategy. Also responsible for the functioning of the reinsurance, group risk management and investment departments and the operation of Eagle Scape.



MT Neille MBA (45)

General Manager – Information Technology
 Joined in 1995. Appointed General Manager in 2001. Responsible for the promotion, development, implementation and ongoing support of all technological systems and services throughout the SA Eagle Group and has expanded its services to support an offshore operation with local IT development and hosting and support services for business units in the UK.

Non-Executive Directors



MC South (42)

Chairman
 Appointed to the Board in 2004. (Resigned on 31 December 2006)



JPG de Rauville CA (SA) (65)

Director
 Appointed to the Board in 1983. (Acting Chairman)



PT Martin CA (SA) (72)

Director
 Appointed to the Board in 1986, held the position of Managing Director from 1988 to 1998. (Resigned on 28 February 2007)



SG Morris BCom, CA (SA) (61)

Director
 Appointed to the Board in 2005.



A Paas MBA (41)

Director
 Appointed to the Board in 2005.



DS Phiri BJuris, LLB, HDip (Corp. Law), LLM (50)

Director
 Appointed to the Board in 2005.

Art is the beautiful way of doing things. Science is the effective way of doing things. Business is the economic way of doing things.

Elbert Hubbard (1856 - 1915)



Chairman's and Managing Director's Report

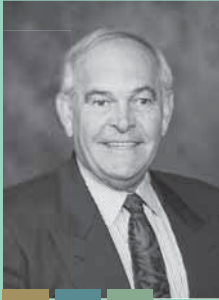
Insurance Market Overview

The past year has seen the short term market starting to return to normality. This comes on the back of a profitable period. However, in overall terms, 2006 was not an easy year for insurers. This was due to an increase in claims as a result of fire and adverse weather conditions such as hailstorms in KwaZulu-Natal, heavy rains in Gauteng and a series of powerful storms in the Eastern and Western Cape.

Apart from the above-mentioned regional weather aberrations, South Africa in general experienced benign weather conditions with associated minimal losses in recent times. Internationally, memories of Hurricane Katrina and the Tsunami still remain top-of-mind factors, the ramifications of which must be taken into consideration. Global climate change remains a significant factor in the risk industry due to increasing concern about rapidly changing climatic patterns and increased risks of natural disasters.

The reinsurance industry continues to be confronted with increased volatility, more complex risks and increased demand for capacity. Risk factors include environmental, technological and socio-political trends. Despite the absence of large catastrophe events locally, the loss burden of huge catastrophes on reinsurers worldwide has meant that the local market has not escaped rate increases. While local insurers have increased retention levels in the last few years resulting in a shrinking of the local reinsurance market, reinsurers have committed themselves to maintaining a technical underwriting approach in the search for premium growth.





JPG de Rauville
Acting Chairman

The higher claims costs experienced by insurers have been exacerbated by an increase in the number of motor vehicle accidents caused by deteriorating roads and an increase in the volume of vehicles on these roads. Currency fluctuations, rate hikes and increases in the oil price contributed to market volatility impacting the motor book in particular. A deteriorating Rand has meant an increase in repair costs, particularly in relation to purchasing imported parts for the increasing number of imported vehicles on South African roads.

2007 will be a challenging year. While the industry is expected to benefit from general economic growth, underwriting discipline and appropriate pricing models will be key to remaining competitive in a difficult market.

Group Results



NV Beyers
Managing Director

The financial results declined in line with market expectations, mainly as a result of weakened underwriting performance. Earnings per share decreased by 17.6% based on the attributable profit to the shareholders of R320.6 million (2005: R389.1 million). Headline earnings per share is calculated after the adjustment of R58.5 million (2005: R153.6 million) for realised gains on investments and property and equipment resulting in an 11.3% increase from R235.5 million in 2005 to R262.0 million. The headline earnings per share includes the income on the net pension fund surplus of R98 million and the tax effect thereon of R28 million. If these amounts were excluded the headline earnings per share would decrease by 18.3%.

The underwriting result has been significantly influenced by an increase in the number of claims and the escalation

in the claims value across all classes of business. The result has been further influenced by adverse weather conditions, especially in the Eastern and Western Cape.

The motor account, in particular, has been negatively impacted by an increase in the incidence of vehicle accidents and hijackings. Motor repair costs continue to escalate largely as a result of the increasing number of imported vehicles. Continuous corrective action is being taken to address the profitability of this account, including the implementation of a new rating formula resulting in better risk selection and more appropriate pricing.

Insurance premium revenue grew by 11.4% despite a competitive market. The Group continues to focus on selective growth whilst managing overall profitability.

Investment returns for the year were highly satisfactory. Dividend income increased as a result of special dividends from listed equities. Investment income also increased in line with higher interest rates and improved cash flow.

The solvency margin improved to 55.8%, which is above the Group's target range of between 40% and 50%.

The net asset value per share increased by 16.3% to 14,441.8 cents per share.

The Directors have declared a final dividend of 430 cents per share bringing the total normal dividend for the year to 650 cents per share.

Given the current difficult underwriting climate, the Group will continue to implement corrective actions such as strict underwriting principles and strong claims management in order to deliver a satisfactory result going forward.

It is the interest of the
commercial world that wealth
should be found everywhere.

Edmund Burke (1729 – 1797)

Regulatory Developments

The Financial Advisory and Intermediary Services (FAIS) Act continues to significantly influence the industry environment with the FAIS ombud ensuring that compliance remains a priority for financial services providers. Intermediaries are focusing on the recruitment of qualified and accredited staff and planning for the second stage of the accreditation programme. The cost of compliance continues to be a challenge that will influence consolidation in the broker market.

Requirements under the Financial Sector Charter continue to be a key area of focus for short term insurers. The challenge of sourcing BEE accredited suppliers will continue to be addressed as part of procurement strategies going forward. Insurers have also been actively developing low cost insurance products in response to the need to create access to financial services for historically disadvantaged groups in the LSM 1–5 category. Insurers also contribute to industry-wide consumer education initiatives that are being co-ordinated by the South African Insurance Association to increase the financial literacy and awareness of consumers.

Looking Forward – The Year Ahead

2007 will see the business continuing its drive for profitable growth, as we build on our core strengths to achieve our strategic objectives. Market activities will focus on leveraging product offerings and the technological platforms that we have developed. As an emerging market we will be looking to innovate in terms of product development for personal as well as commercial lines.

In response to the Financial Sector Charter and the onus on financial services providers to provide access to a low cost insurance product, we are expecting to roll out such a product by the second half of the year. The product will be piloted in the Bafokeng community of our BEE partner Royal Bafokeng Holdings.

As part of our refocus on personal lines business we will concentrate on product development and pricing as well as investigating additional white-labelling opportunities. We will also continue to grow our global corporate business by optimising the global corporate and International Businesses (IB) joint marketing development strategy. This will include supporting corporate customers using the global corporate value proposition.

In addition, we plan to develop our life business as one of our key growth initiatives. This will involve identifying capabilities and resourcing gaps, creating the appropriate organisational structure and initially developing simple risk products aimed at the lower income market.

As part of our commitment to operational excellence we are continually assessing and improving our core processes and service levels. The upgrade of our workflow capabilities continues to ensure that our technology remains a key competitive edge. In this regard the construction component of the Claims and Recovery & Salvage applications has been successfully completed.

The SAP Finance System has also been successfully launched and has strategically positioned our finance division to deliver on current and future business expectations by meeting both local financial reporting standards as well as Zurich's reporting requirements.

People Management continues to focus on an integration of its key activities and closer alignment with HR initiatives emanating from Zurich Financial Services. Leadership assessments were completed in 2006 with a view to creating succession plans. Comprehensive job profiling was also conducted. The Zurich Global Performance Management System has been launched and the local performance management process will now be aligned with global best practice.

South Africa is also hosting the Global Associate Programme (GAP) for the International Businesses of Zurich. Ten associates from the four technical areas of Claims, Finance, Risk Engineering and Underwriting joined the first programme, which was launched in Johannesburg in September 2006. Associates from Australia, Taiwan, China, Hong Kong, Latin America and South Africa are participating.

Operational excellence and underwriting discipline continue to be fundamental strengths, which need to be leveraged to achieve our growth targets in a challenging market. Combined with our focus areas of customer excellence, product and distribution we are well positioned to move from strength to strength in the year ahead.

Renaming and Rebranding

As part of the one Zurich global brand programme, a proposal is being put to shareholders, which will result in SA Eagle being renamed Zurich Insurance Company South Africa Limited. This will indicate to the market the financial strength and international capability behind the South African operation.

Acknowledgements

We express our appreciation to our employees for their dedicated effort and hard work towards achieving our goals. Thank you also to our customers and business partners for their continued support and our Board for their guidance.

Martin South, Chairman of the Board, resigned in December and we would like to thank him for his support and guidance.

We bid a fond farewell to Non-Executive Director Peter Martin who retired from the Board. Peter has had a long and illustrious association with SA Eagle commencing employment with the Company in 1973. During his tenure he served as Chief Accountant, Company Secretary and Investment Manager, General Manager – Finance & Administration before taking on the role of Managing Director. After his retirement Peter continued serving the Company as a Director. We would like to extend to Peter our sincere thank you for his unstinting and dedicated service to the Company and the valuable contribution that he has made during his time with us.

Gerard de Rauville

Acting Chairman

Nick Beyers

Managing Director

23 March 2007

Corporate Governance

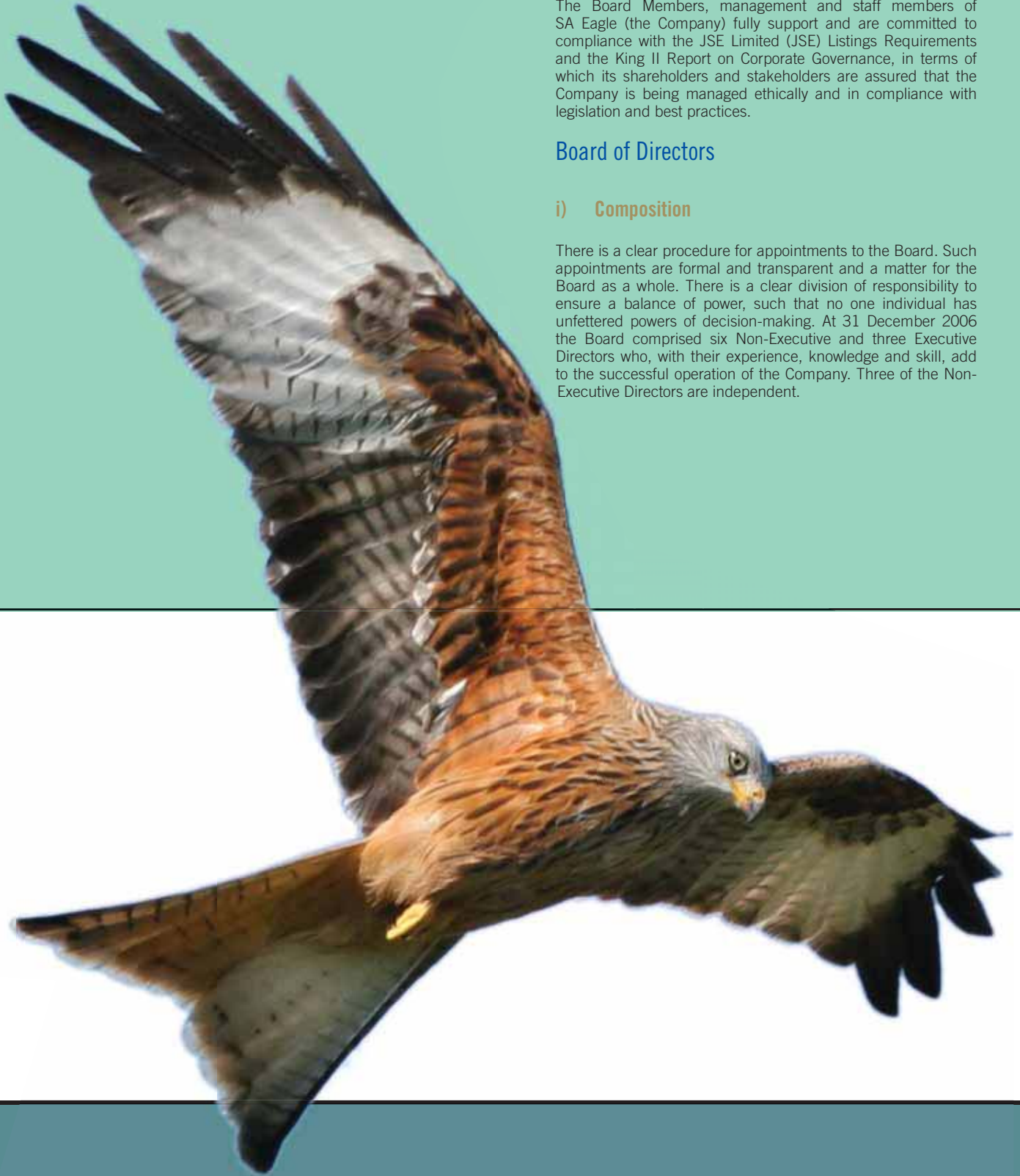
Corporate Governance Statement

The Board Members, management and staff members of SA Eagle (the Company) fully support and are committed to compliance with the JSE Limited (JSE) Listings Requirements and the King II Report on Corporate Governance, in terms of which its shareholders and stakeholders are assured that the Company is being managed ethically and in compliance with legislation and best practices.

Board of Directors

i) Composition

There is a clear procedure for appointments to the Board. Such appointments are formal and transparent and a matter for the Board as a whole. There is a clear division of responsibility to ensure a balance of power, such that no one individual has unfettered powers of decision-making. At 31 December 2006 the Board comprised six Non-Executive and three Executive Directors who, with their experience, knowledge and skill, add to the successful operation of the Company. Three of the Non-Executive Directors are independent.



ii) Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are separate.

Managing the Executive Committee is the responsibility of the Managing Director, NV Beyers.

iii) Shareholder Representation

Zurich Financial Services (73.6% Controlling Shareholder)

Board: MC South and A Paas;

Audit Committee: KR Allen, *as an attendee*;

Investment Committee: R Bollag, *although he is not a Board Member*;

Remuneration Committee: D Arkell, *although he is not a Board Member*.

Royal Bafokeng Finance (Pty) Limited (10% BEE Partner)

Board: DS Phiri;

Investment Committee: N Carroll *is an observer on the Board and Audit Committee as well as a member of the Investment Committee (Resigned on 8 May 2006)*;

Transformation Committee: DS Phiri.

iv) Functions

As the Board is ultimately accountable and responsible for the performance and affairs of the Company, it is the Board's responsibility to adopt strategic plans, monitor operational performance and management, ensure an effective risk management strategy is in place and ensure compliance with applicable legislation by the Company.

The role and responsibility of the Board is recorded in the Board Charter.

v) Meetings

The Board of Directors meets quarterly. Prior to the meetings, all Board Members timeously receive a comprehensive Board pack with all the relevant documents for Board Members to study in order to make informed decisions at the meetings.

Attendance Register 2006

	22 February	10 May	29 August	31 October
NV Beyers	Present	Present	Present	Present
DM Burton	Present	Present	Present	Present
JPG de Rauville	Present	Present	Absent	Present
PT Martin	Present	Present	Present	Present
SG Morris	Present	Present	Present	Present
A Paas	Present	Absent	Absent	Present
DS Phiri	Present	Present	Present	Present
MC South	Present	Absent	Present	Present
CN Zungu	Present	Present	Present	Present

Executive Management Committee

The Executive Management Committee assists the Managing Director, to whom the daily running has been delegated by the Board, to efficiently and effectively manage the SA Eagle Group of Companies (the Group) and to enforce the strategic plans as approved by the Board.

The Committee consists of the three Executive Directors as well as three General Managers who represent the main business and operational units in the Company.

The main objective of the Committee is to assist the Managing Director to guide and control the overall direction of the business of the Group and to act as a medium of communication and co-ordination between the various business units. As the Committee members attend the Board Meetings, direct reporting and feedback is given to the Board of Directors.

Executive Committee meetings are held weekly.

Board Committees

Audit Committee

i) Composition

SG Morris (*Chairman, Independent Non-Executive Director*)

JPG de Rauville (*Independent Non-Executive Director*)

PT Martin (*Independent Non-Executive Director*)

Two of the Executive Directors as well as management representation attend the Audit Committee meetings.

ii) Functions

The objective of the Audit Committee is to assist the Board in discharging its duties relating to the safeguarding of assets, operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

The responsibilities include *inter alia* the review of the full year's financial statements prior to the submission to the Board. The Audit Committee ensures that the Annual Financial Statements of SA Eagle and the subsidiary companies are a true and fair presentation of the financial position at year-end. The reporting on the results of the operations, changes in equity and cash flows for the year-end are all prepared in accordance with the International Financial Reporting Standards (IFRS).

The functions of the Committee include *inter alia* the following:

- Monitor corporate risk assessment processes;
- Review internal control systems;
- Oversee the performance of the internal audit function;
- Review internal and external audit reports to ensure that, where major deficiencies or breakdown in controls and procedures have been identified, appropriate and prompt remedial action is instituted;
- Review the nomination, appointment, independence, performance and remuneration of the external auditor;
- Review theft and fraud, and monitor procedures designed to ensure that the Company's fraud control plans are being implemented; and

- Review compliance with taxation responsibilities, legal, regulatory and industry code responsibilities.

iii) Meetings

The Audit Committee meets quarterly with the internal and external auditors and management to review the effectiveness of internal controls. All the members are financially literate and no relationships exist that could interfere with the members independence from management.

Attendance Register 2006

	20 February	8 May	7 August	30 October
JPG de Rauville	Present	Present	Present	Present
PT Martin	Present	Present	Present	Present
SG Morris	Present	Present	Present	Present

Remuneration Committee

i) Composition

SG Morris (Chairman, Independent Non-Executive Director)
PT Martin (Independent Non-Executive Director)
D Arkell (Zurich Financial Services Representative)

ii) Functions

The Remuneration Committee is there to establish a transparent procedure to determine the policy and approach the Company should follow with regard to remuneration and the determination of the remuneration packages for the Directors and Senior Executives, taking cognisance of market related packages, skill, experience and to avoid potential conflicts of interest.

The financial statements include the details of Executive and Non-Executive Directors' earnings and other benefits in accordance with the requirements of the Companies Act 1973 and the JSE Listings Requirements. For details of Directors' emoluments, refer to page 80 of this report.

iii) Meetings

The Committee meets when necessary, and such meetings normally coincide with the Board Meetings.

Investment Committee

i) Composition

PT Martin (Chairman, Independent Non-Executive Director)
NV Beyers (Executive Director)
R Bollag (Zurich Financial Services Representative)

ii) Functions

The objective of the Investment Committee is to ensure that appropriate and timely decisions are taken with regard to the investment of Company funds. The Committee sets the guidelines and principles for the Company to follow and takes advice where appropriate from outside investment professionals.

iii) Meetings

The Committee meets quarterly, with a direct reporting function to the Board.

Transformation Committee

i) Composition

DS Phiri (Chairman, Non-Executive Director)
N Carroll (Royal Bafokeng Finance Representative)
G Kettaneh (Royal Bafokeng Finance Representative)
M Merkofer-Naidoo (SA Eagle Marketing Manager)
MT Neille (SA Eagle Executive Committee Member)
CN Zungu (SA Eagle Executive Director)

ii) Functions

The purpose of the Committee is to:

- Define the Company's social responsibility strategy in accordance with the Financial Sector Charter and Codes of Good Practice on Broad Based Black Economic Empowerment;
- Define the Company's transformation strategy to align the Company with the Financial Sector Charter and Codes of Good Practice on Broad Based Black Economic Empowerment;
- Help set or review the annual action plans and other steps for advancing these strategies, which includes defining proposals and project plans;
- Monitor and measure progress in executing on the strategy and each year's action plan;
- Accounting for the spend of moneys from the Company on projects as approved by the Board of the Company;
- Serve as a regular platform for discussing, co-ordinating and advancing the work in areas of each of the various functions represented on the Committee; and
- Serve as a sounding or consultative board for specific corporate responsibility issues.

iii) Meetings

The Committee meets quarterly, with a direct reporting function to the Board.



Nominations Committee

i) Composition

SG Morris (Chairman, Independent Non-Executive Director)

DS Phiri (Non-Executive Director)

NV Beyers (Executive Director)

ii) Functions

The Company has established a Nominations Committee, which makes recommendations to the Board on all new Board appointments. This Committee reviews the balance and effectiveness of the Board. In addition, it identifies the skills needed and individuals who might best be able to provide such skills. The Nominations Committee is a mechanism for ensuring that the Board remains effective and focused.

iii) Meetings

The Nominations Committee consists of not less than three Directors appointed by the Board, the majority of whom are Non-Executive Directors. Meetings are held when deemed appropriate, with the Committee meeting at least once a year.

Business Risk Management Committee

The Committee comprises members of Executive Management, Group Audit, Risk Management and Legal & Compliance. The Committee meets quarterly and reports to the Board.

The Business Risk Committee has the duty of identifying corporate accountability and associated risks in terms of management and reporting. The Committee enforces risk control policies and strategies and has an accompanying evaluation function.

The Committee monitors external developments relating to its functions, identifies if any emerging or prospective impacts exist and deals with them appropriately.

Accounting and Auditing

External Audit

The external auditors, PricewaterhouseCoopers, are responsible for reporting on whether the financial statements are fairly presented in conformity with International Financial Reporting Standards. The external auditors offer reasonable, but not absolute assurance on the accuracy of financial disclosures. The preparation of the financial statements is the responsibility of management.

Consultation occurs between external and internal auditors to effect an efficient audit process. The Audit Committee sets the principles for recommending the use of the external auditors for non-audit services.

The following non-auditing services were provided by other external audit firms:

- IFRS Training and Advice;
- Review of current accounting policies in light of IFRS;
- Income Tax and VAT Consulting;
- Internal Control Review; and
- Implementation of SAP.

Internal Audit

The function of the Group Audit Department is to provide independent, objective assurance and consulting services designed to add value and improve SA Eagle's operations. It helps SA Eagle to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Group Audit is independent from management and is staffed by qualified and experienced individuals, with the head of the department reporting directly to the Managing Director and the Audit Committee. Group Audit submits reports to and attends the Audit Committee meetings.

The scope of work of the Group Audit Department is to determine whether the organisation's network of risk management, control and governance processes, as designed and represented by management, is adequate and functions effectively.

Group Audit liaises closely with the external auditors in the planning, execution and communication of the results of their work.

Directors' Responsibility

The Directors acknowledge their responsibility for the preparation of the Annual Financial Statements, adherence to applicable accounting policies and standards and the presentation of related information that fairly presents the state of affairs and the results of the Company, as well as for the effectiveness of risk management and the internal control environment.

Going Concern

Based on the Annual Financial Statements as set out on pages 32 to 85, the Directors have every reason to believe that the Company has adequate

resources in place to continue operations for the foreseeable future.

Code of Business Conduct

The Company has a formal Code of Business Conduct, which incorporates a Code of Ethics. The Code applies throughout the Group and ensures that best business practices are applied on a constant basis. The code is distributed to all employees of the Company and its subsidiaries and prescribes the ethical standards required of employees in their interaction with one another and all stakeholders.

The Company also subscribes to the Industry Code of Conduct and Ethics, which was published by the South African Insurance Association during 2002.

Communication

Communication to the public and to shareholders embodies the principles of balanced reporting, clarity and openness. Positive and negative aspects of both financial and non-financial information are provided.

The Board encourages shareholders to attend its forthcoming Annual General Meeting, the notice of which is contained in this Annual Report. This provides opportunities for shareholders to ask questions of the Board.

Disclosure

The Annual Report deals adequately with disclosures pertaining to financial statements, auditors' responsibility, accounting records, internal control, risk management, accounting policies, adherence to accounting standards, going concern issues and adherence to codes of governance as well as the JSE Listings Requirements.



Small communities grow great
through harmony, great ones fall
to pieces through discord.

Sallust (86 BC - 34 BC)



Corporate Social Investment

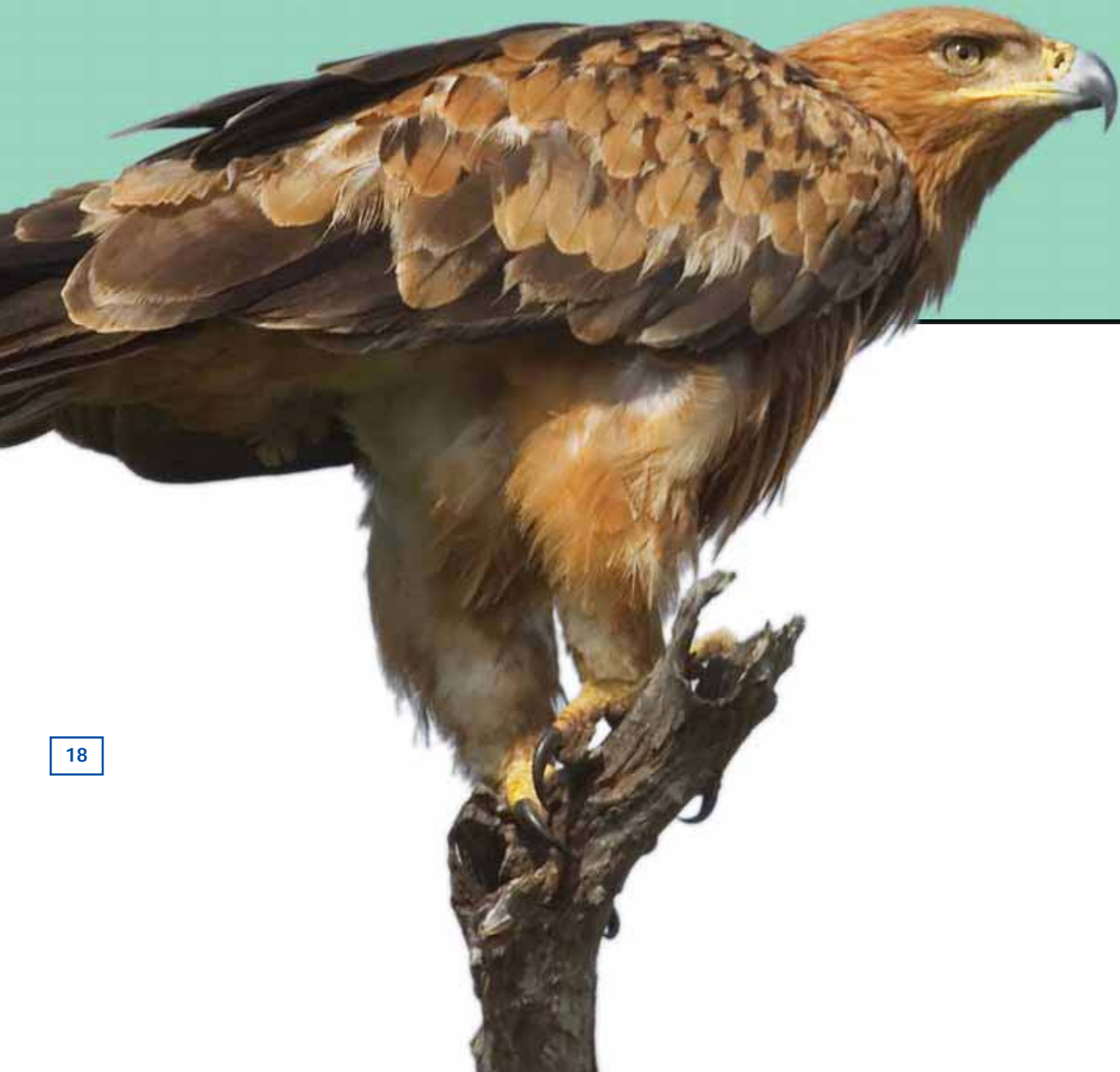
Educational Support

SA Eagle Bursary Fund

Since its inception in 2002, the SA Eagle Bursary Fund has continued to support students studying towards the BTech (Education). Progress reports provided by the South African Institute of Race Relations, who administer the fund on behalf of the Company, report that the students are showing satisfactory results. The students, as in previous years, are counselled biannually. Their progress is monitored and support and guidance is provided.

University Donations

Continuing our support of tertiary institutions, SA Eagle again provided financial support to three universities operating in the major centers where SA Eagle has a presence. An amount of R100 000 was split between these institutions.



Donations Pool

Ad-hoc donation requests were, as usual, acknowledged by way of small monetary donations. During the course of the year a number of charitable organisations were supported in this manner.

BEE Corporate Social Investment (CSI)

As a result of the BEE transaction entered into between SA Eagle and Royal Bafokeng Finance, a Transformation Committee was set up to oversee alignment of the Company with the Financial Sector Charter and Codes of Good Practice on Broad Based BEE. CSI forms a part of the Committee's mandate.

During 2006, the Committee together with Royal Bafokeng Finance identified and supported a high priority CSI project, in the form of the Tapologo Aids Hospice. Funding to the tune of over R1.4 million was provided to further the work that they do.

Tapologo is a community-focused holistic intervention programme that seeks to improve the quality of life of everyone who is affected by the scourge of HIV/Aids.

Tapologo's mission includes establishing clinics near the mines and informal settlements, creating outreach programmes providing home care and education using volunteers, caring for Aids patients in the terminal stages of the disease and developing a concept known as the Orphaned and Vulnerable Children's Care and Support Programme targeted at Aids orphans and HIV-infected children. In addition to the above, an Anti-Retroviral Treatment Programme has been implemented to provide AR Therapy to the poorest of the poor.

Conservation Initiatives

SA Eagle Trust Fund

The SA Eagle Trust Fund, set up to sponsor eagle conservation activities, comprises representatives from SA Eagle and the Birds of Prey Working Group (BoPWG) of the Endangered Wildlife Trust. The main purpose of the fund is to evaluate and decide on funding for suitable projects. During 2006, support from the SA Eagle Trust Fund was provided as follows:

Kalahari Raptor Project

SA Eagle's support of the Kalahari Raptor Project continued last year. The project's overall objective is to change the attitude especially of stock farmers, to accommodate eagles and other species of birds of prey on their farmland.

The project had a successful year in 2006, expanding on many of the project's activities and developing strong relationships with the local community, farmers and landowners. Abrie Maritz, the co-ordinator of the project, continued to promote raptor conservation in the region through innovative reward programmes and incentive schemes.

Despite the obstacles that Abrie faces with regard to raptor conservation, he remains extremely positive and passionate about changing attitudes towards achieving an ecologically stable environment for raptor species to survive.

Reports are submitted to the Working Group's management team regularly, which allows for the reassessment of the project where necessary.

SA Eagle National Eagle Day

SA Eagle National Eagle Day, celebrated on the first Friday in October, is dedicated to educating various sectors within the broader public about the importance of raptors.

In 2006, there was a dual focus, fund raising and staff members were asked to spread the conservation message to members of the public. As is usual, our employees embraced the challenge to further our conservation effort.

SA Eagle Information Help Line

The SA Eagle Information Help Line, puts farmers and the general public in contact with the field co-ordinators, as well as providing information for school children's projects. Literature, which explains the role of the BoPWG as well as educating the general public (especially farmers) about raptors, was also circulated to callers via the BoPWG office.

SA Eagle Cross Country 4x4 Club

All Terrain Insurance Policyholders are involved in the projects supported by the SA Eagle Trust Fund by means of a pledge, made by SA Eagle and Cross Country Insurance Consultants, of R2 per policy. The income generated during the year was used to support the various conservation projects mentioned above as well as to produce a newsletter keeping Club Members updated on the projects and activities in which they can become involved.



People Management

At SA Eagle we realise that the role of People Management is a strategic necessity and therefore have to align our People Management policies and practices with the overall business strategy. Below are some of the strategies we embarked on over the past year.

Organisational Development

Diversity

During 2006 we identified the need for an intervention aimed at diversity. We requested submissions from potential suppliers, reviewed the proposals and have identified and contracted with a selected supplier. This project will supplement initiatives being implemented under the transformation programmes.



Live up to your
potential instead of imitating
someone else's.

We have agreed on the project plan and work on the assessment tool has almost been finalised. Employee workshops are due to commence in May 2007.

At SA Eagle we continually strive to ensure that our employee profile is reflective of the South African environment and that all employees embrace the advantages of diversity.

Employment Equity

Our strategy aimed at striking a balance between developing internal resources and supplementing limited skills by recruiting from the market is starting to produce good results. The overall representation of people from the designated Group at the end of the reporting period was 83.6%, which portrays quite a positive picture. Our emphasis in 2007 and 2008 will be on programmes aimed at improving the demographic representation at all managerial levels.

Global Associate Programme

The Global Associate Programme (GAP) was launched in September 2006. Talented graduates from

around the globe joined to form a pool of 60 associates committed to the development of technical expertise and leadership within the Group.

South Africa was identified as the host country for the International Businesses (IB) programme and the IB Programme Manager was recruited from within SA Eagle.

GAP requires international mobility from its Associates and is a long-term commitment to developing global talent. This innovative and proactive initiative supports the Group's strategic imperative and serves as a living example of Zurich's commitment to engaging and valuing diversity.

Learnerships

The first cycle of the Learnership Programme was launched in 2004 with 10 learners participating in the programme. The second comprised 11 learners and the third and last cycle, according to the Financial Sector Charter (FSC) obligations, has seen the Company recruit 23 learners. Of the recruits, 11 are based in Johannesburg; five in Durban; five in Cape Town and two are based in Bloemfontein. This time round, the programme has been divided

into two categories – Sales and Central Processing Units. The qualifications to be gained by candidates include the National Certificate in Financial Services (NQF Level 3); and the National Certificate in Risk Management (NQF Level 4).

Since inception, the Company has gainfully employed nine learners and, once the last Group completes the programme in 2008, we hope to increase this number even further.

Talent Management

During the period under review we actively participated in Zurich's Global Talent Identification Programme where high potential management and staff were nominated to the Group's talent pool. Twelve of our nominated candidates made it to the final global talent pool and will be assessed during 2007 to identify their developmental needs and thereafter, relevant developmental programmes. Two of our senior employees have been granted short-term assignments with our sister companies in China and Japan.

As part of our local succession planning programme, 30 managers were assessed during the last quarter of the year for the local talent pool. Competency gaps were



identified and Individual Development Plans were agreed. During 2007, these developmental interventions will be addressed.

We also identified high potential individuals from the designated groups for fast tracking into our talent pool. Line managers, with support from People Management, identified 25 staff members who will undergo similar assessments to establish their leadership potential at the different managerial levels.

Employee Wellbeing Programme (EWP)

The Employee Wellbeing Programme has been in existence since April 2001 and aims to:

- Demonstrate that we value our employees and their well-being;
- Increase productivity, heighten morale and strengthen the relationships between management and employees; and
- Provide our employees with a practical alternative and professional support to address their personal problems.

HIV/Aids Education and Awareness, under the auspices of the EWP, remained at the core of our activities in 2006. Our second, and very successful, voluntary counselling and testing campaign was well supported by employees at all levels in the organisation. We can positively conclude that there has been a substantial improvement in the level of awareness of HIV/Aids. Support for employees either affected or infected is available through our Employee Wellbeing Programme. Treatment for HIV is provided via a disease management programme managed by medical professionals experienced in HIV treatment. The programme also benefits from the expertise of leading HIV specialists.

Performance Management

In order to function optimally in a global performance driven culture, the Company identified the necessity and urgency to streamline its Performance Management system to enable the business to achieve its strategic objectives.

Over the past year Performance Management training was rolled out nationally and focused on reiterating the principles of planning, managing and reviewing performance. The main objectives were to:

- Empower employees with the tools to manage their own performance and careers; and
- Ensure managers confidently differentiate between exceptional and poor performers, with emphasis on corrective action.

Going forward SA Eagle employees will participate in Zurich's Global Performance Management System that will be rolled out during 2007.

Remuneration strategy

SA Eagle, as one of the stalwarts of the insurance industry, abounds in tradition and the way we manage aspects of employee remuneration and benefits are evident of those traditions.

Although we currently offer the salary plus benefits remuneration option, the requirement to allow the new generation of employee the opportunity to manage their lifestyles and their own needs, is extremely important. Just as we customise a basic insurance

product to suite an individual's requirements, we have to extend the same courtesy to our staff in the way we remunerate them. We are doing that by looking at employee flexible cost of employment scenarios.

Thus far, we have received approval from the Board to explore the option of cost of employment. Implementation will take a phased approach, which would be integrated over a three-year period. The intention is to extend the offer to all new employees with effect from the second quarter of 2007.

Existing employees will benefit during the first phase. Our current Defined Benefit Retirement Fund will be converted to a Defined Contribution Benefit Fund for those who wish to take advantage of this offering. This component, which commenced towards the end of 2006, was dependant on the approval of the Surplus Apportionment Scheme. With this behind us it is full steam ahead with the conversion. We will complete offers and communication towards the end of April 2007 and employees who opt for the change will do so with effect from 1 May 2007.

Surplus Apportionment Scheme

In terms of legislation promulgated in December 2001 all retirement funds were required to distribute accumulated surpluses to all stakeholders who had previously been denied access to this benefit. These stakeholders comprise, former members, pensioners, employees and the employer.

Member Communication

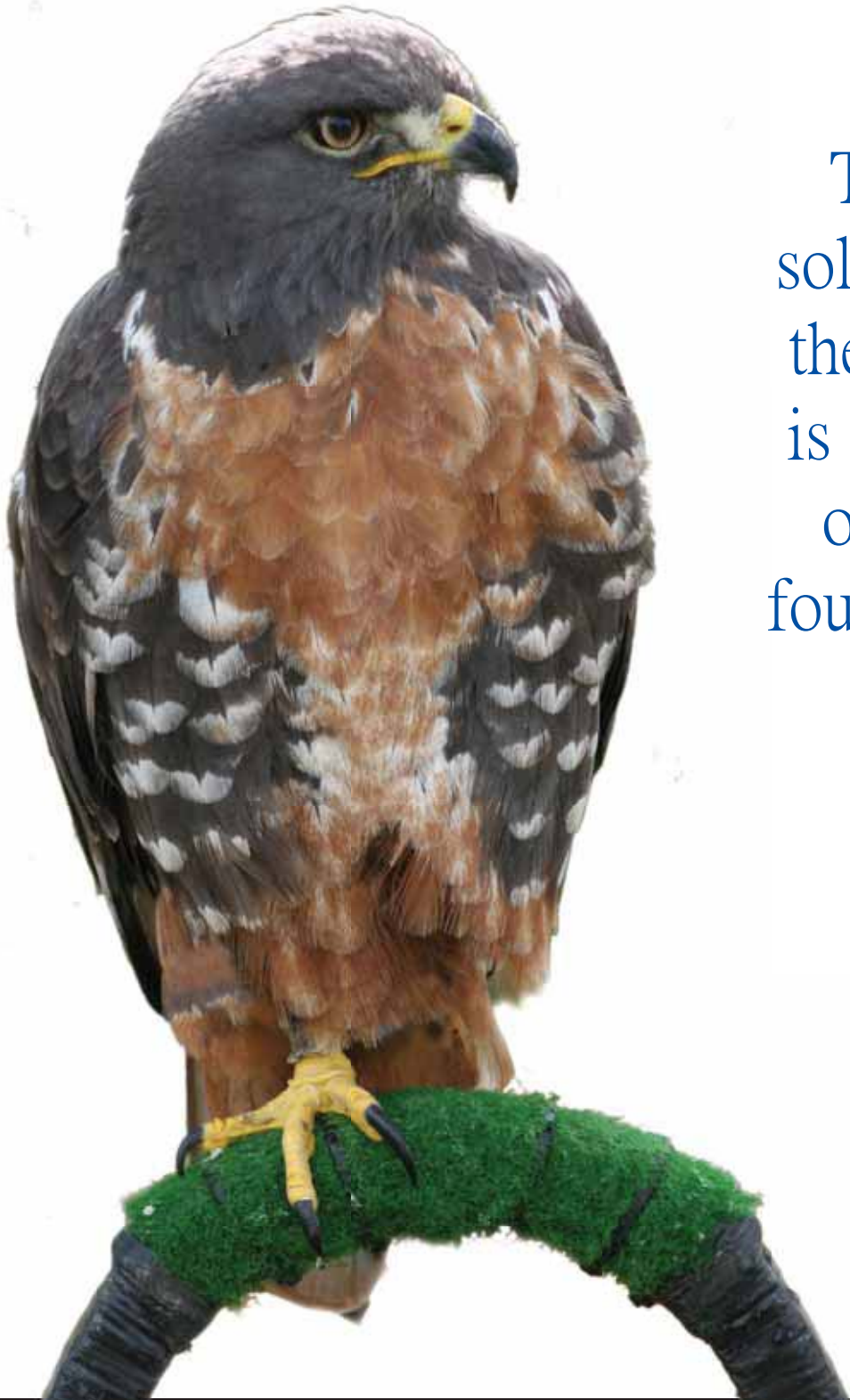
Various communications have been sent to all stakeholders. Important letters advising what information was on record and what additional information was required, were distributed and, based on the responses received, a "final" list of eligible former employees was established.

Submission to the Financial Services Board

After endurance and commitment from the team involved, SA Eagle's Pension Fund Actuary submitted the Surplus Apportionment Scheme, with only five formal objections, to the Financial Services Board for approval.

Approval

The scheme was approved and we hope to commence the distribution in April 2007.



The most
solid stone in
the structure
is the lowest
one in the
foundation.”

Kahlil Gibran



Directors, Executive Management and Administration

Directors

Current Non-Executive Directors

MC South (42)

Director. Appointed to the Board in 2004. Resigned on 31 December 2006.
c/o SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston, 2021.

A Paas MBA (41)

Director. Appointed to the Board in November 2005, but with effect from 1 January 2006.
Mythenquai 2, 8022 Zurich, Switzerland.

DS Phiri BJuris, LLB, HDip (Corp. Law), LLM (50)

Director. Appointed to the Board in 2005.
First Floor, Block B, 68 Wierda Road East, Wierda Valley, 2196.

Current Independent Non-Executive Directors

JPG de Rauville CA (SA) (65)

Director. Appointed to the Board in 1983.
2 Morningside Road, Morningside, Durban, 4001.

PT Martin CA (SA) (72)

Director. Appointed to the Board in 1986. Resigned on 28 February 2007.
c/o SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston, 2021.

SG Morris BCom, CA (SA) (61)

Director. Appointed to the Board in 2005.
6 Somerset Estate, 100 East Avenue, Atholl, Sandton, 2196.

Executive Directors

NV Beyers ACII AMP (Harvard) (59) *

Managing Director. Joined in 1971. Appointed Managing Director in 1998.
SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston, 2021.

DM Burton ACII (58) *

Director – Sales & Marketing. Joined in 1986. Appointed Director in 2005.
SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston, 2021.

CN Zungu BCom (50) *

Director – People Management. Joined in 2000. Appointed Director in 2005.
SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston, 2021.

Audit Committee

SG Morris (Chairman)
JPG de Rauville
PT Martin

Investment Committee

PT Martin (Chairman)
NV Beyers
R Bollag

Nominations Committee

SG Morris (Chairman)
NV Beyers
DS Phiri

Remuneration Committee

SG Morris (Chairman)
D Arkell
PT Martin

Executive Management

HC Ehlers FCII (54) *

General Manager – Operations Support. Joined in 1986. Appointed General Manager in 2000.
SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston, 2021.

T Laupsa FCCA, MBA (44) *

Chief Financial Officer. Joined in 2006.
SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston 2021.

JF Martins BCom, CIA (43)

Group Audit Manager. Joined in 1997. Appointed Group Audit Manager in 1999.
SA Eagle House, 70 Fox Street, Johannesburg, 2001.

Ms M Merkofer-Naidoo BA LLB, MAP (38)

Marketing Manager. Joined in 1996. Appointed Marketing Manager in 2001.
SA Eagle House, 70 Fox Street, Johannesburg, 2001.

MT Neille MBA (45) *

General Manager – Information Technology. Joined in 1995. Appointed General Manager in 2001.
SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston, 2021.

Ms TA Pitman BA LLB, Post Grad. Dip. Management (36)

Head – Legal & Compliance and Group Company Secretary. Joined in 2006.
SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston, 2021.

GG Rothmann MBA (44)

Eagle Scape – Manager. Joined and appointed to current position in 2003.
Eagle View, 271 Surrey Avenue, Ferndale, Randburg, 2194.

C Schmidt BCom (Hons – Actuarial Science), FIA (36)

Chief Actuary. Joined in 2003. Appointed to current position in 2006.
SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston 2021.

P-J Stols BCompt (46)

SA Eagle Risk Financing & SA Eagle Life – Executive Director. Joined in 2001. Appointed to current position in 2006.
SA Eagle House, 70 Fox Street, Johannesburg, 2001.

MAR Vazeer BCom, BCompt, CA (SA) (36) *

Chief Financial Officer. Joined in 2005 and left in 2006.
c/o SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston 2021.

* Executive Management Committee Member

Administration

Auditors

PricewaterhouseCoopers Inc.
Chartered Accountants (SA)
2 Eglin Road, Sunninghill, 2157

Sponsor

RAND MERCHANT BANK,
(A division of FirstRand Bank Limited)
1 Merchant Place, Cnr Fredman Drive and
Rivonia Road, Sandton, 2196
(PO Box 786273, Sandton, 2146)

Group Company Secretary

Ms TA Pitman (E-mail tracy.pitman@saeagle.co.za)

Transfer Secretaries

Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street, Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)

Registered Office

South African Eagle Insurance Company Limited
(Registration number 1965/006764/06)
(Share code SAE) (ISIN ZAE000006243)
SA Eagle House, The Braes, Block D,
193 Bryanston Drive, Bryanston, 2021
(PO Box 61489, Marshalltown, 2107)

Authorised Financial Services Provider number 17703

Website www.saeagle.co.za

Company Organisation

Nick Beyers
Managing Director

Dennis Burton
Executive Director
Sales & Marketing

Clifford Zungu
Executive Director
People Management

Henry Ehlers
General Manager
Operations Support

Mark Neille
General Manager
Information Technology

Tommy Laupsa
Chief Financial Officer

Actuarial

Group Audit

Claims Performance
Development

Forensic Risk Management
Services

**Legal & Compliance and
Company Secretarial**

Marketing

Advertising and Brand Identity

Corporate Communications

Corporate Events and
Promotions

Corporate Social Investment

SA Eagle Risk Financing

SA Eagle Life

Dennis Burton
Executive Director
Sales & Marketing

eCommerce

Eastern Cape Sales Area

Free State Sales Area

Gauteng Central Sales Area

Gauteng East Sales Area

Gauteng North Sales Area

Gauteng West Sales Area

**KwaZulu-Natal Coastal
Sales Area**

**KwaZulu-Natal Inland
Sales Area**

Mpumalanga Sales Area

**Western Cape Coastal
Sales Area**

**Western Cape Inland
Sales Area**

Clifford Zungu
Executive Director
People Management

Organisational Development

**People Management
Consultants**

Specialist

Recruitment & Selection

Employment Equity

Employee Wellbeing
Programme

Industrial Relations
Policies

Specialist

Remuneration & Benefits

Service Centre

Benefits & Payroll
Administration

Henry Ehlers
General Manager
Operations Support

Central Processing Units

Cape Town
Durban
Johannesburg

Customer Service Centre

Group Claims

National Motor Assessing
Contracts
Specialist Claims

Technical Services

Engineering
Fire & Accident
Marine
Motor
Risk Control

Group Procurement

Printing

Mark Neille
General Manager
Information Technology

Applications Support

AS400 Applications Support
Server Applications Support

Infrastructure Services

IT Infrastructure
IT Security

IT Solutions

Projects Applications
Projects Architecture

Tommy Laupsa
Chief Financial Officer

Finance

Financial & Systems
Accounting
Management & Tax
Accounting
Project Accounting

Investments

Reinsurance

Group Risk Management

Eagle Scape

Financial Statements

South African Eagle Insurance Company Limited and its subsidiaries
Group Annual Financial Statements for the year ended 31 December 2006.



Independent Auditors' Report

To the members of South African Eagle Insurance Company Limited

We have audited the Annual Financial Statements and Group Annual Financial Statements of South African Eagle Insurance Company Limited, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2006, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 32 to 85.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and of the Group as of 31 December 2006, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

*Director: S Masuku
Registered Auditor
Johannesburg
5 April 2007*



Directors' Responsibility and Approval of Annual Financial Statements

To the members of South African Eagle Insurance Company Limited

It is the Directors' responsibility to ensure that the financial statements fairly present the state of affairs of the Company and the Group. The external auditors are responsible for independently reviewing and reporting on the financial statements.

The financial statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act in South Africa. They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates.

The Company's and the Group's internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of its assets. Such controls are based on established written policies and procedures which are monitored through the Company and the Group and all employees are required to maintain the highest ethical standards in ensuring that the Company's and the Group's business practices are conducted in a manner which in all reasonable circumstances is above reproach.

The Audit Committee, which has been operating for a number of years and comprises Non-Executive Directors, meets periodically with management and both the internal and external auditors to review the financial statements, accounting policies and the systems and procedures in respect of the production of management information, business risk management and internal controls. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, systems and procedures has occurred during the year under review.

In the light of the current financial position, the Directors are satisfied that SA Eagle is a going concern and have continued to adopt the going concern basis in preparing the financial statements. The Group's external auditors, PricewaterhouseCoopers Inc., have audited the financial statements and their unqualified report appears on page 29. This statement concurs with the Directors' statements on internal financial controls and going concern.

The Company and Group Annual Financial Statements which are set out on page 32 to 85 were, in accordance with their responsibilities, approved by the Board of Directors on 23 March 2007 and are signed on its behalf by:

JPG de Rauville
Acting Chairman

NV Beyers
Managing Director

Bryanston, 23 March 2007

Certificate by Group Company Secretary

I hereby confirm as Group Company Secretary that, to the best of my knowledge and belief, for the year ended 31 December 2006, the Company has lodged with the Registrar of Companies all such returns as are required of a public Company in terms of the Companies Act, 1973, and that all such returns are true, correct and up to date.

Ms TA Pitman
Group Company Secretary

Bryanston
23 March 2007



Directors' Report

1 Nature of Business

The Company conducts all classes of short term insurance business in the Republic of South Africa. Details of investments in subsidiaries and associated companies are set out on pages 84 and 85.

2 Operations in 2006

The results for the year are set out in the financial statements.

The financial results declined in line with market expectations, mainly as a result of weakened underwriting performance. Earnings per share decreased by 17.6% based on the attributable profit to the shareholders of R320.6 million (2005: R389.1 million). Headline earnings per share is calculated after the adjustment of R58.5 million (2005: R153.6 million) for realised gains on investments and property and equipment resulting in an 11.3% increase from R235.5 million in 2005 to R262.0 million. The headline earnings per share includes the income on the net pension fund surplus of R98 million and the tax effect thereon of R28 million. If these amounts were excluded the headline earnings per share would decrease by 18.3%.

The underwriting result which decreased to R85 million from R160 million in 2005, has been significantly influenced by an increase in the number of claims and the escalation in the claims value across all classes of business. The result has been further influenced by adverse weather conditions, especially in the Eastern and Western Cape.

The motor account, in particular, has been negatively impacted by an increase in the incidence of vehicle accidents and hijackings. Motor repair costs continue to escalate largely as a result of the increasing number of imported vehicles. Continuous corrective action is being taken to address the profitability of this account, including the implementation of a new rating formula resulting in better risk selection and more appropriate pricing.

Insurance premium revenue grew by 11.4% despite a competitive market. The Company continues to focus on selective growth whilst managing overall profitability.

Investment returns for the year were highly satisfactory. Dividend income increased as a result of special dividends from listed equities. Investment income also increased in line with higher interest rates and improved cash flow.

The solvency margin improved to 55.8% (2005: 52.9%), which is above the stated policy of between 40% and 50%.

The net asset value per share increased by 16.3% to 14,441.8 cents per share (2005: 12,413.9 cents per share).

3 Dividend

The Directors have declared a final dividend of 430 cents per share (2005: 600 cents per share) making a total of 650 cents per share for the year (2005: 800 cents per share).

4 Directors and Management

There were no new appointments for the period. The Directors for the period under review were: NV Beyers; DM Burton; JPG de Rauville; PT Martin; SG Morris; A Paas; DS Phiri; MC South; and CN Zungu. Effective 31 December 2006, MC South resigned and subsequent to the year-end, on 28 February 2007, PT Martin resigned. Full details of the Directors and Executive Management are set out on pages 24 and 25.

5 Directors' Shareholding

The aggregate shareholding of Directors of the Company is as follows:

Fully paid shares	2006	2005
Indirect Beneficial	–	–
Indirect Non-Beneficial	1,000	1,000
Breakdown Indirect Non-Beneficial		
Shareholder	2006	2005
NV Beyers	200	200
DM Burton	100	100
JPG de Rauville	100	100
PT Martin	100	100
SG Morris	100	100
A Paas	100	–
DS Phiri	100	100
MC South	100	200
CN Zungu	100	100

6 Group Company Secretary

The Group Company Secretary is Ms TA Pitman. Her business and postal addresses are:

SA Eagle House
The Braes
193 Bryanston Drive
Bryanston
2021

PO Box 61489
Marshalltown
2107

7 Holding and Ultimate Holding Company

The immediate holding company is SA Fire House Limited, incorporated in South Africa, which directly and indirectly owns 73.6% (2005: 73.6%) of the issued and fully paid share capital. The ultimate holding company is Zurich Financial Services, incorporated in Switzerland.

8 Code of Corporate Practices and Conduct

The Board considers that the Company complies with the recommendations of the code of corporate practices and conduct included in the King Committee's Report on Corporate Governance.



Balance Sheets

as at 31 December 2006

	Note	Group		Company	
		2006 R000	2005 R000	2006 R000	2005 R000
Assets					
Property and equipment	5	68,476	55,104	63,181	53,576
Investment property	6.1	9,641	10,946	–	–
Investment in subsidiaries	6.2	–	–	75,138	77,107
Investment in associates	6.3	3,295	3,317	–	–
Financial assets					
– Available-for-sale	6.4	678,650	557,215	628,830	546,837
– At fair value through income	6.5	379,761	429,658	379,705	429,658
– Loans and receivables	7	117,814	216,983	88,789	187,278
Retirement benefit fund surplus	8.1	230,764	–	230,764	–
Assets arising from reinsurance contracts	11	605,614	529,013	543,145	401,420
Intangible insurance assets – deferred acquisition costs	12	98,736	134,200	98,736	93,600
Taxation asset		34,811	31,677	31,645	30,303
Agents and other insurance receivables		896,053	871,560	807,837	828,891
Cash and cash equivalents	13	1,482,314	1,017,528	709,198	387,886
Total assets		4,605,929	3,857,201	3,656,968	3,036,556
Equity					
Share capital	14	3,045	3,045	3,045	3,045
Share premium	15	1,605	1,605	1,605	1,605
Non-distributable reserve		434,474	369,716	420,880	374,780
Translation reserve		(84,336)	(45,855)	–	–
Statutory contingency reserve		313,643	269,372	292,302	261,019
Retained profit		1,090,502	914,066	886,096	729,602
Shareholders' equity		1,758,933	1,511,949	1,603,928	1,370,051
Minority shareholders' interest in subsidiaries		13,043	3,147	–	–
Total equity		1,771,976	1,515,096	1,603,928	1,370,051
Liabilities					
Employee benefits	8.2	47,403	43,069	47,403	43,069
Retirement benefit fund change provision	8.1	132,521	–	132,521	–
Deferred tax liabilities	16	99,451	12,963	66,328	11,136
Liabilities arising from insurance contracts	11	1,920,676	1,743,929	1,604,568	1,388,179
Reinsurance commission		34,270	46,738	34,270	29,917
Financial liabilities – amounts due to cell shareholders		211,114	150,988	–	–
Agents and other insurance payables		121,187	116,853	99,798	110,403
Taxation liability		15,030	3,312	–	–
Trade and other payables	17	252,301	224,253	68,152	83,801
Total liabilities		2,833,953	2,342,105	2,053,040	1,666,505
Total equity and liabilities		4,605,929	3,857,201	3,656,968	3,036,556

Income Statements

for the year ended 31 December 2006

	Note	Group		Company	
		2006 R000	2005 R000	2006 R000	2005 R000
Insurance premium revenue		3,910,639	3,509,671	3,431,870	3,049,769
Insurance premium ceded to reinsurers		735,513	646,274	508,863	439,584
Net insurance premium		3,175,126	2,863,397	2,923,007	2,610,185
Change in provision for unearned premium		(114,622)	(126,187)	(37,838)	(22,677)
Reinsurers' share of change in provision for unearned premium		55,043	74,902	23,776	17,927
Net insurance premium revenue	11	3,115,547	2,812,112	2,908,945	2,605,435
Reinsurance commission earned		138,032	116,617	93,964	75,750
Other income – fee income		10,602	4,224	–	–
Pension fund surplus	8.1	230,764	–	230,764	–
Investment income	18	202,224	136,033	163,822	111,554
Net fair value (loss)/gain on assets held at fair value through income	19	(18,962)	53,297	(18,962)	51,841
Net realised gains on financial assets – available-for-sale	20	71,334	164,152	71,250	161,527
Net income		3,749,541	3,286,435	3,449,783	3,006,107
Insurance claims					
Gross insurance claims paid	21	2,513,901	2,178,084	2,288,209	1,957,248
Reinsurers' share of claims paid		(323,881)	(338,875)	(236,331)	(257,313)
Change in gross provision for outstanding claims		160,905	86,058	150,958	63,053
Reinsurers' portion of change in provision for outstanding claims		(94,083)	(22,897)	(90,369)	(6,407)
Net insurance claims		2,256,842	1,902,370	2,112,467	1,756,581
Expenses					
Gross acquisition costs		609,307	542,299	532,720	480,839
Administrative and other operating expenses		447,250	327,786	423,022	294,695
Investment expenses		3,594	5,368	3,594	5,368
Expenses		1,060,151	875,453	959,336	780,902
Profit before tax	22	432,548	508,612	377,980	468,624
Income tax expense	23	105,666	118,388	90,330	102,270
Profit after tax		326,882	390,224	287,650	366,354
Net income attributable to					
– Members of the Company		320,580	389,130	287,650	366,354
– Minority interest		6,302	1,094	–	–
Earnings per share (cents)	4	2,632.1	3,195.0	–	–

Cash Flow Statements

for the year ended 31 December 2006

	Note	Group		Company	
		2006 R000	2005 R000	2006 R000	2005 R000
Cash flows from/(utilised by) operating activities					
Cash generated from operations	24	220,955	272,078	160,315	263,804
Interest received		164,779	103,803	128,948	72,616
Dividends received		37,445	28,634	34,874	38,938
Post retirement medical aid payments		(909)	(52,509)	(909)	(52,509)
Net movement in working capital	25	146,711	(71,658)	93,289	(207,138)
Cash generated from operating activities		568,981	280,348	416,517	115,711
Taxation paid	26	(70,706)	(137,036)	(65,296)	(127,176)
Dividends paid		(99,873)	(361,732)	(99,873)	(361,732)
Net cash flows from operating activities		398,402	(218,420)	251,348	(373,197)
Cash flows from/(utilised by) investing activities					
Acquisitions		(435,479)	(903,386)	(429,858)	(876,186)
Investment property		(426)	–	–	–
Government and other approved securities		(369,128)	(831,041)	(369,128)	(804,285)
Ordinary shares		(24,975)	–	(23,272)	–
Preference shares		(10,000)	(50,000)	(10,000)	(50,000)
Property and equipment		(30,950)	(22,345)	(27,458)	(21,901)
Proceeds on disposal		500,451	989,822	497,853	951,583
Investment property		–	38,147	–	–
Government and other approved securities		400,140	741,637	400,140	741,637
Ordinary shares		95,391	204,942	92,819	204,942
Property and equipment		4,920	5,096	4,894	5,004
Repayment of mortgages and loans advanced		1,412	1,300	1,969	1,241
Net cash flows from investing activities		66,384	87,736	69,964	76,638
Net increase/(decrease) in cash and cash equivalents		464,786	(130,684)	321,312	(296,559)
Cash and cash equivalents at beginning of year		1,017,528	1,148,212	387,886	684,445
Cash and cash equivalents at end of year	13	1,482,314	1,017,528	709,198	387,886

Statement of Changes in Equity

for the year ended 31 December 2006

	Group								
	Share capital	Share premium	Non-distributable reserve	Translation reserve	Statutory contingency reserve	Retained profit	Total attributable to equity holders of the Company	Minority interest in subsidiaries	Total
	R000	R000	R000	R000	R000	R000	R000	R000	R000
Balance at 31 December 2004	3,045	1,605	361,050	(29,463)	247,482	908,558	1,492,277	2,226	1,494,503
Net gains in available-for-sale financial assets transferred to income on disposal			(179,711)				(179,711)		(179,711)
Share of losses in associates recognised in equity			(6,683)				(6,683)		(6,683)
Revaluation of available-for-sale financial assets			200,445				200,445		200,445
Deferred tax adjustment resulting from revaluations			(5,385)				(5,385)		(5,385)
Translation of foreign subsidiaries				(16,392)			(16,392)	(173)	(16,565)
Transfer to/(from) statutory contingency reserve					21,890	(21,890)	–		–
Net profit for the year						389,130	389,130	1,094	390,224
Dividends paid						(361,732)	(361,732)		(361,732)
Balance at 31 December 2005	3,045	1,605	369,716	(45,855)	269,372	914,066	1,511,949	3,147	1,515,096
Net gains in available-for-sale financial assets transferred to income on disposal			(66,473)				(66,473)		(66,473)
Share of losses in associates recognised in equity			(22)				(22)		(22)
Revaluation of available-for-sale financial assets			191,364				191,364		191,364
Deferred tax adjustment resulting from revaluations			(60,111)				(60,111)		(60,111)
Translation of foreign subsidiaries				(38,481)			(38,481)	3,594	(34,887)
Transfer to/(from) statutory contingency reserve					44,271	(44,271)	–		–
Net profit for the year						320,580	320,580	6,302	326,882
Dividends paid						(99,873)	(99,873)		(99,873)
Balance at 31 December 2006	3,045	1,605	434,474	(84,336)	313,643	1,090,502	1,758,933	13,043	1,771,976

Company

	Share capital	Share premium	Non-distributable reserve	Statutory contingency reserve	Retained profit	Total
	R000	R000	R000	R000	R000	R000
Balance at 31 December 2004	3,045	1,605	359,492	240,819	745,180	1,350,141
Net gains in available-for-sale financial assets transferred to income on disposal			(178,374)			(178,374)
Revaluation of available-for-sale financial assets			199,047			199,047
Deferred tax adjustment resulting from revaluations			(5,385)			(5,385)
Transfer to/(from) statutory contingency reserve				20,200	(20,200)	–
Net profit for the year					366,354	366,354
Dividends paid					(361,732)	(361,732)
Balance at 31 December 2005	3,045	1,605	374,780	261,019	729,602	1,370,051
Net gains in available-for-sale financial assets transferred to income on disposal			(61,868)			(61,868)
Revaluation of available-for-sale financial assets			136,783			136,783
Deferred tax adjustment resulting from revaluations			(28,815)			(28,815)
Transfer to/(from) statutory contingency reserve				31,283	(31,283)	–
Net profit for the year					287,650	287,650
Dividends paid					(99,873)	(99,873)
Balance at 31 December 2006	3,045	1,605	420,880	292,302	886,096	1,603,928

In addition to the statutory contingency reserve, an additional 15% of reserves, being R216,800,000 (2005: R186,400,000), may not be distributed in order to achieve the 25% regulatory capital requirement of the Short-Term Insurance Act and the Financial Services Board.

Notes to the Annual Financial Statements

for the year ended 31 December 2006

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 2006.

1.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties, financial assets and financial liabilities at fair value through income and available-for-sale financial assets. Some employee benefits have been calculated using the projected unit credit method.

The Group has adopted the following mandatory amendments to International Financial Reporting Standards, which are effective for accounting periods beginning on or after 1 January 2006:

(a) Amendments to published standards effective in 2006

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2006:

- IAS 19 (Amendment), Employee Benefits. This amendment introduces the option of an alternative recognition approach for actuarial gains or losses. It will impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of the disclosure presented in the accounts.
- IAS 39 (Amendment), The Fair Value Option. This amendment restricts the possibility for the Group to designate financial instruments at fair value through income that are not held for trading or derivatives. The designation of an instrument to be measured at fair value is now possible when it removes or significantly reduces accounting mismatches in measurement or presentation, or where financial instruments are managed and their performance is evaluated on a fair value basis. The Group was able to continue to measure at fair value through income all financial instruments that it had previously designated at fair value through income because it met the conditions for designation. The Group's designation basis are explained in Note 1.8.

(b) Amendments to standards effective in 2006 but not relevant to the Group's operations

The following standards, amendments and interpretations to published standards are mandatory for the accounting periods beginning on or after 1 January 2006, but they are not relevant to the Group's operations:

- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards;
- IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

(c) New standards and interpretations to published standards that are not yet effective and have not been early adopted by the Group

The following new interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but that the Group has not early adopted:

- IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. It does not have any impact on the classification and valuation of the Group's financial instruments.
- IFRS 8, Operating Segments. This standard should be applied to all annual periods commencing on or after 1 January 2009. The standard requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments based on information provided to key management. The statement will therefore not impact the results of the Group but may impact the identification and measurement of segment results.

1.1 Basis of preparation (continued)

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. The impact of the adoption of this statement is not expected to be significant to the Group's financial statements.
- IFRIC 8, Scope of IFRS 2 (effective from annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, the impact of this adoption is discussed in note 32.
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007 but is not expected to have any impact on the Group's financial statements.
- IFRIC 11, IFRS 2, Group and Treasury Share Transactions. This interpretation should be applied to annual periods commencing on or after 1 March 2007. IFRIC 11 provides guidance on applying IFRS 2 in three circumstances:
 - * Share-based payments involving an entity's own equity instruments in which the entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligation should always be accounted for as equity-settled share-based transactions under IFRS 2.
 - * If a parent grants rights to its equity instruments to employees of its subsidiary and assuming the transaction is accounted for as equity-settled in the consolidated financial statements, the subsidiary must measure the services received using the requirements for equity-settled transactions in IFRS 2, and must recognise a corresponding increase in equity as a contribution from the parent.
 - * If a subsidiary grants rights to equity instruments of its parent to its employees, the subsidiary accounts for the transaction as a cash-based payment transaction.

(d) Interpretations to published standards that are not yet effective and not relevant to the Group's operations

- IFRIC 9, Reassessment of Embedded Derivatives (effective from annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. Where the Group has embedded derivatives these are contained within insurance contract liabilities which are measured in terms of IFRS 4 and are unaffected by this interpretation.
- IFRIC 12, Service Concession Arrangements. This interpretation should be applied to all annual periods commencing on or after 1 January 2008. Service concession arrangements are those arrangements whereby a government or other body grants contracts for the supply of public services such as roads, energy distribution, prisons or hospitals to private operators. The objective of this IFRIC is to clarify how certain aspects of existing IASB literature are to be applied to service concession arrangements. This statement is not applicable to the business of the Group.

Estimates and assumptions

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 accounting policies set out below have been applied consistently.

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.

Notes to the Annual Financial Statements

for the year ended 31 December 2006

1.2 Basis of consolidation (continued)

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the costs of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The results of the subsidiaries are included from the date on which control is transferred to the Group (effective date of acquisition) and are no longer included from the date that control ceases (effective date of disposal). Investments in subsidiaries are measured at cost in the Company's financial statements.

Foreign subsidiaries in hyperinflationary economies

Foreign subsidiaries which operate in a hyperinflationary economy are adjusted for hyperinflation using a general purchasing power of the local currency in which the accounts are prepared as required by IAS 29. This is in particular applicable to the Group's investment in the Zimbabwean subsidiary. The restatement is based on the conversion factors derived from the Zimbabwe Consumer Price Index compiled by the Zimbabwe Central Statistical Office. The following indices and factors were applied:

Date	Indices	Conversion factor
31 December 2006	665,790.3	1.0000
31 December 2005	48,205.6	13.8115
31 December 2004	7,028.7	94.7245

Transactions and minority interests

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

Associated companies

Associated companies are those entities in which the Group has significant influence, but not control, over the financial and operating policies. This is generally indicated by a voting right in the Company of between 20 and 50%. The consolidated financial statements include the Group's share of the associate using an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Investments in associates are initially measured at cost in the Company level financial statements.

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.

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 (functional currency). The consolidated financial statements are presented in thousands of Rands, which is the Group's presentation currency.

1.3 Foreign currencies (continued)

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 entities, 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 entity are translated to Rand at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising as a result of the aforementioned are recognised directly in a separate component of equity. On disposal the exchange gain or loss will be recognised in the disposal result in the income statement.

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

Policies written under third party cells transfer insurance risk in terms of IFRS 4, Insurance Contracts and are accounted for in terms of the policy for the recognition of insurance contracts below. 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.

Policies written under first party cells which do not transfer sufficient insurance risk are accounted for in terms of the investment contracts accounting policy below.

Primary risk policies

Primary risk policies where the net positive result of the policy becomes available to the policyholder on termination of the policy are treated as insurance contracts, if they transfer significant insurance risk, 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 1.4.

Insurance premium revenue

Insurance premium revenue comprises 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. Insurance premium revenue written include adjustments to premiums written in prior accounting periods and estimates for 'pipeline insurance premium revenue'.

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 a basis that best represents the unearned risk profile for the underlying business.

Notes to the Annual Financial Statements

for the year ended 31 December 2006

1.5 Recognition and measurement of insurance contracts (continued)

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.

Claims

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

The provision for outstanding claims comprises 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.

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. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses including an implicit risk margin to allow for the ultimate cost of claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court rulings.

Claims paid and the movement in the provision for outstanding claims under third party cell captive business are included in the income statement. These claims are reinsured to insurance cells and are reflected as such in the income statement.

Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (i.e. salvage). The Group might also have the right to pursue third parties for the payment of some or all costs (i.e. subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation recoveries are considered as an allowance in the measurement of the insurance liability for claims and are only recognised when the claim is completed. The allowance is the amount that can be recovered from the action against the liable third party.

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.

Liability adequacy test

The unexpired risk provision meets the criteria of the liability adequacy test required by IFRS 4 and therefore no additional test is performed.

Reinsurance

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

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.

1.5 Recognition and measurement of insurance contracts (continued)

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.

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

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.

Insurance receivables and payables

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets at amortised cost. The impairment loss is also calculated under the same method used for these financial assets.

Deferred acquisition costs

The costs of acquiring new and renewal insurance business are capitalised as an intangible asset. Deferred acquisition costs are amortised on a pro rata basis over the contract term as premium is earned.

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 and equipment

Motor vehicles, furniture, office equipment, computer equipment and systems are stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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.

Repairs and maintenance costs are charged to the income statement as incurred. Subsequent costs are included in the carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be reliably measured.

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.



Notes to the Annual Financial Statements

for the year ended 31 December 2006

1.8 Investments

Classification

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

Financial assets at fair value through income

Financial assets at fair value through income are financial assets, 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. This classification is irrevocable until such time as the financial asset is realised.

Financial assets designated as at fair value through income at inception are those that are:

- Held in internal funds to match insurance and investment contract liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through income eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them, on different bases.
- Managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Group's key management personnel. The Group's investment strategy is to invest in equity and debt securities and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through income.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or are not classified in any other category and are 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 other than those that the Group intends to sell in the short-term or that it may have designated as held at fair value through income or available-for-sale. Interest-bearing staff housing loans and other loans are included in this category. Receivables arising from insurance contracts are also classified 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

Financial assets 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. In the case of financial assets through income transaction costs are expensed in the income statement.

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 listed investments is their quoted bid prices at the balance sheet date. For unlisted 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 making maximum use of market inputs. If the fair value of equity instruments cannot be reliably measured, they are measured at cost.

Loans and receivables are measured at amortised cost using the effective interest method.

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.

1.8 Investments (continued)

Changes in fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in income. Translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

1.9 Impairment

Financial assets at amortised cost

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:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- 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 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 loans 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 amount of any loss is included in the income statement.

An impairment loss in respect of a 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.

Financial assets at fair value

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.

Non-financial assets

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.

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.

Notes to the Annual Financial Statements

for the year ended 31 December 2006

1.9 Impairment (continued)

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.

1.10 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.

1.11 Financial liabilities

The amount due to cell shareholders represents the cell shareholders' funds in respect of the insurance business conducted in the cell structures. The fair value of amounts due to cell shareholders is the consideration received for the "A" ordinary shares plus the accumulated funds in respect of business conducted in the cells.

1.12 Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both and which are not occupied by companies in the Group. Investment properties are measured initially at fair value, including transaction fair value. 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.

If an investment property becomes owner occupied it is reclassified as property and equipment and its fair value at that date becomes its cost for subsequent accounting measurement.

1.13 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.

1.14 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction to the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

Where any Group company purchases the Company's equity share capital (treasury shares) the consideration paid including any directly attributable incremental costs (net of tax) is deducted from equity attributable to the shareholders of the Company. Where such shares are subsequently sold, reissued or otherwise disposed any consideration received is included in equity attributable to the Company's shareholders net of any directly attributable incremental transaction costs and the related income tax effects.

1.15 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. The statutory contingency reserve is calculated as 10% on net written premium in terms of the Short-Term Insurance Act.

1.16 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.

1.17 Revenue

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

Interest and dividends

Interest on interest bearing financial instruments not at fair value through income is accounted for using the effective interest method. Dividends on available-for-sale financial instruments are recognised at the last day for registration in respect of quoted shares and when declared in respect of unquoted shares and are recognised in the income statement.

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

Revenue arising from management and other related services offered by the Group for cell captive business and primary risk policies is recognised in the period in which the service is rendered.

Reinsurance commission revenue

Reinsurance commission on reinsurance contracts placed is recognised in the income statement on a straight-line basis over the term of the contract.

1.18 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 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 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. However if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction effects neither accounting nor tax profit or loss, it is not accounted for. 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.

In respect of temporary differences arising on fair value adjustments on investment properties, deferred taxation is provided at the use rate if the property is considered to be a long-term strategic investment or at the capital gains tax effective rate if recovery is anticipated to be through disposal.

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

Secondary Tax on Companies that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend. Where there is an unutilised secondary tax credit these are carried forward and applied to the secondary tax liability when this arises.

1.19 Employee benefits

Group companies operate various pension schemes and has 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.

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for the year ended 31 December 2006

1.19 Employee benefits (continued)

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 annually 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

Contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement as they become due. The Group has no further obligation for benefits once the payment has been made.

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. The cost of the shares is charged to the Group by Zurich Financial Services and expensed as paid.

Profit sharing, bonus plans and leave pay

The Group recognises a liability, under other payables, and an expense for profit shares, bonus plans and leave pay based on the applicable bases. The Group recognises the liability where contractually obliged or where through past practice a constructive liability has been created.

1.20 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.

1.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividend is approved by the shareholders.

1.22 Offsetting financial offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2 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 expanded from the previous year to the segments set out below. The comparative amounts have also been restated to reflect these segments. In total there is no change.

The following is the broad definition of the business segments:

The policy means a contract in terms of which a policyholder, in return for a premium, receives policy benefits and includes any reinsurance policy in respect of such a policy in the following segments:

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.

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 Accident Fund.

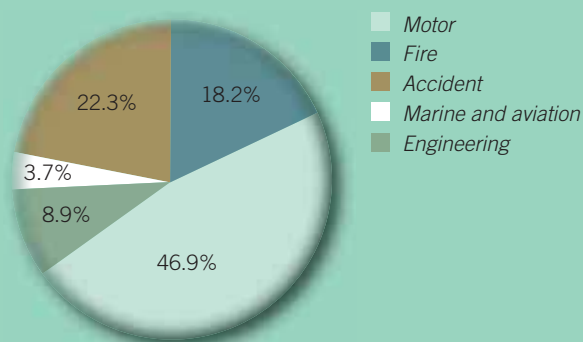
Engineering – provides indemnity for losses sustained through the use of machinery and equipment or the erection of buildings or structures. The risks covered by this type of contract include machinery breakdown, business interruption and loss or damage to plant and equipment.

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.

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.

The results of the cell captive business have been included in the appropriate business segments described above.

Gross written premium by business segment



Notes to the Annual Financial Statements

for the year ended 31 December 2006

2 Segmental Analysis (continued)

Business segments

The segment results for the year ended 31 December 2006 are as follows:

	Fire R000	Motor R000	Engineering R000	Marine and aviation R000	Accident R000	Other R000	Total R000
2006							
Insurance premium revenue	711,392	1,835,352	349,214	143,715	870,966	–	3,910,639
Insurance premium ceded to reinsurers	(399,066)	(94,051)	(71,226)	(60,131)	(111,039)	–	(735,513)
Change in provision for unearned premium	(4,477)	(26,606)	(10,006)	(373)	(18,117)	–	(59,579)
Net insurance premium revenue	307,849	1,714,695	267,982	83,211	741,810	–	3,115,547
Reinsurance commission earned	70,178	14,877	22,304	9,334	21,339	–	138,032
Other income	1,951	3,891	3,795	965	–	230,764	241,366
Investment income	–	–	–	–	–	202,224	202,224
Net fair value loss on assets held at fair value through income	–	–	–	–	–	(18,962)	(18,962)
Net realised gains on financial assets – available-for-sale	–	–	–	–	–	71,334	71,334
Segmental income	379,978	1,733,463	294,081	93,510	763,149	485,360	3,749,541
Net insurance claims	221,944	1,398,781	147,239	40,369	448,509	–	2,256,842
Gross acquisition costs	127,316	230,692	63,367	24,893	163,039	–	609,307
Administrative and other operating expenses	53,062	154,731	31,843	9,767	63,830	134,017	447,250
Investment expenses	–	–	–	–	–	3,594	3,594
Segmental expenses	402,322	1,784,204	242,449	75,029	675,378	137,611	3,316,993
Segmental results from operating activities	(22,344)	(50,741)	51,632	18,481	87,771	347,749	432,548
Income tax expense	–	–	–	–	–	105,666	105,666
Segmental results after tax	(22,344)	(50,741)	51,632	18,481	87,771	242,083	326,882

2 Segmental Analysis (continued)

	Fire R000	Motor R000	Engineering R000	Marine and aviation R000	Accident R000	Other R000	Total R000
2005							
Insurance premium revenue	643,310	1,645,041	290,619	123,628	807,073	–	3,509,671
Insurance premium ceded to reinsurers	(350,619)	(87,152)	(51,009)	(46,746)	(110,748)	–	(646,274)
Change in provision for unearned premium	(7,568)	(18,652)	(2,118)	(4,747)	(18,200)	–	(51,285)
Net insurance premium revenue	285,123	1,539,237	237,492	72,135	678,125	–	2,812,112
Reinsurance commission earned	61,075	11,825	11,937	7,537	24,242	–	116,616
Other income	798	1,601	1,432	393	–	–	4,224
Investment income	–	–	–	–	–	136,033	136,033
Net fair value gains on assets at fair value through income	–	–	–	–	–	53,297	53,297
Net realised gains on disposal of assets – available-for-sale	–	–	–	–	–	164,152	164,152
Segmental income	346,996	1,552,663	250,861	80,065	702,367	353,482	3,286,434
Net insurance claims	209,200	1,167,472	109,789	33,676	382,232	–	1,902,369
Gross acquisition costs	115,886	205,171	52,841	19,878	148,523	–	542,299
Administrative and other operating expenses	56,423	161,178	29,825	9,281	71,079	–	327,786
Investment expenses	–	–	–	–	–	5,368	5,368
Segmental expenses	381,509	1,533,821	192,455	62,835	601,834	5,368	2,777,822
Segmental results from operating activities	(34,513)	18,842	58,406	17,230	100,533	348,114	508,612
Income tax expense	–	–	–	–	–	118,388	118,388
Segmental results after tax	(34,513)	18,842	58,406	17,230	100,533	229,726	390,224
The segment assets, equity and liabilities at 31 December 2006 are as follows:							
Segmental assets							
Assets arising from reinsurance contracts	437,877	33,132	65,511	22,206	46,888	–	605,614
Intangible insurance assets – deferred acquisition costs	17,961	46,339	8,817	3,629	21,990	–	98,736
Current assets	163,003	420,538	80,016	32,930	199,566	152,625	1,048,678
Non current assets	–	–	–	–	–	299,240	299,240
Investments	–	–	–	–	–	1,071,347	1,071,347
Cash and cash equivalents	–	–	–	–	–	1,482,314	1,482,314
Total segmental assets	618,841	500,009	154,344	58,765	268,444	3,005,526	4,605,929

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for the year ended 31 December 2006

2 Segmental Analysis (continued)

	Fire R000	Motor R000	Engineering R000	Marine and aviation R000	Accident R000	Other R000	Total R000
Segmental equity and liabilities							
Shareholders' equity	–	–	–	–	–	1,758,933	1,758,933
Minority shareholders' interest in subsidiaries	–	–	–	–	–	13,043	13,043
Liabilities arising from insurance contracts	581,977	674,029	188,861	94,118	381,691	–	1,920,676
Reinsurance commission	18,594	4,382	3,319	2,802	5,173	–	34,270
Other liabilities	17,144	54,977	9,889	4,071	24,564	488,987	599,632
Non current liabilities	–	–	–	–	–	279,375	279,375
Total segmental equity and liabilities	617,715	733,388	202,069	100,991	411,428	2,540,338	4,605,929
The segment assets, equity and liabilities at 31 December 2005 are as follows:							
Segmental assets							
Assets arising from reinsurance contracts	398,152	28,863	43,134	16,365	42,499	–	529,013
Intangible insurance assets – deferred acquisition costs	24,598	62,902	11,112	4,727	30,860	–	134,199
Current assets	159,754	408,515	72,170	30,701	200,422	248,659	1,120,221
Non current assets	–	–	–	–	–	55,104	55,104
Investments	–	–	–	–	–	1,001,136	1,001,136
Cash and cash equivalents	–	–	–	–	–	1,017,528	1,017,528
Total segmental assets	582,504	500,280	126,416	51,793	273,781	2,322,427	3,857,201
Segmental equity and liabilities							
Shareholders' equity	–	–	–	–	–	1,511,949	1,511,949
Minority shareholders' interest in subsidiaries	–	–	–	–	–	3,147	3,147
Liabilities arising from insurance contracts	494,572	646,274	164,334	82,878	355,871	–	1,743,929
Reinsurance commission	25,356	6,303	3,689	3,381	8,009	–	46,738
Agents and other insurance companies payables	17,919	45,820	8,095	3,443	22,479	397,650	495,406
Non current liabilities	–	–	–	–	–	56,032	56,032
Total segmental equity and liabilities	537,847	698,397	176,118	89,702	386,359	1,968,778	3,857,201

2 Segmental Analysis (continued)

Geographical segments

The foreign subsidiaries relate to the operations in Botswana and Zimbabwe.

	South Africa R000	Foreign subsidiaries R000	Total R000
2006			
Gross segmental insurance premium revenue	3,701,583	209,056	3,910,639
Total segmental assets	4,296,070	309,859	4,605,929
Total segmental liabilities	2,653,636	180,317	2,833,953
Total segmental capital expenditure	29,785	1,165	30,950
Total segmental depreciation	15,535	631	16,166
Segmental profit before tax	389,253	44,791	434,044
2005			
Gross segmental insurance premium revenue	3,293,113	216,558	3,509,671
Total segmental assets	3,695,791	161,410	3,857,201
Total segmental liabilities	2,263,465	78,640	2,342,105
Total segmental capital expenditure	21,901	444	22,345
Total segmental depreciation	14,116	186	14,302
Segmental profit before tax	477,302	31,310	508,612

3 Insurance Risk Management

3.1 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, that is 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.

The cell activity of the Group relates to the assumption of the risk of loss from events involving persons or organisations on behalf of its cells. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The principle risk that the cell shareholder and ultimately the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amounts of the insurance liabilities. This could occur because the frequency or severity of claims are greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from estimate determined using statistical techniques.

Experience has shown that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. As each of our cell shareholders operates independently from the other, the Company's total insurance risk profile is well diversified.

The Group participates with several of the cell shareholders in the underwriting risks of their business. The Group carefully evaluates all retention of risks in terms of statistical and underwriting disciplines, as well as specific and limited Board mandates for each insurance programme.

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3.1 Exposure to insurance risk (continued)

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 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. These cell captives are special purpose vehicles through which the cell owners provide insurance to third parties.

3.2 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.

3.2.1 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:

	2006 %	2005 %
Accident	22.3	23.0
Engineering	8.9	8.3
Fire	18.2	18.3
Marine and aviation	3.7	3.5
Motor	46.9	46.9
	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:		
Personal	23.8	23.5
Commercial/corporate	76.2	76.5
	100.0	100.0

3.2 Limiting exposure to insurance risk (continued)

3.2.1 Underwriting strategy and limits and policies for mitigating insurance risk (continued)

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.

3.2.2 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; and
- Possible exclusions that may be applied to the policy or risks insured.

3.2.3 Reinsurance strategy

On an annual basis, as is the norm in the industry, the Executive of the Group determines the reinsurance parameters for the Group for the ensuing year. The parameters are set taking into account business information available to the Group, including input from the international group and in consultation with reinsurance brokers.

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.

3.2.4 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.



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3.2 Limiting exposure to insurance risk (continued)

3.2.4 Concentration of insurance risks (continued)

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 Group underwrites a significant number of group or scheme business which has the effect of concentrating the risk underwritten. These group or schemes are monitored on an ongoing basis and where necessary remedial action is taken.

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.

	2006 %	2005 %
Foreign		
Botswana	3.6	4.3
Zimbabwe	1.8	1.9
Domestic		
Western Cape	8.0	8.5
Eastern Cape	6.5	6.8
Gauteng	57.9	57.1
KwaZulu-Natal	13.1	13.2
Other	9.1	8.2
	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 R2 billion and net of reinsurance is R15 million.

3.3 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 2006 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 2006 the security held in this way amounted to R105.7 million (2005: R181.0 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 2006

Reinsurer	Standard & Poor's rating	Security held for the specific reinsurer R million
Africa Re	BBB+	–
Everest Re (USA)	A-	4.9
Mitsui Sumitomo	AA-	4.9
Munich Re of Africa	A-	–
Partner Re (Europe)	BBB+	49.0

3.3 Reinsurance risk (continued)

At 31 December 2005

Reinsurer	Standard & Poor's rating	Security held for the specific reinsurer R million
Africa Re	BBB+	–
Caisse Centrale de Reassurance (France)	AAA	15.0
Everest Re (USA)	A+	18.0
Munich Re of Africa	A+	–
Partner Re (Europe)	AA-	39.0

3.4 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.

4 Earnings Per Share

4.1 Earnings per share

The calculation of earnings per share is based on 12,179,500 (2005: 12,179,500) fully paid shares in issue. Group net income after taxation attributable to members of the Company

	Group	
	2006 R000	2005 R000
Group net income after taxation attributable to members of the Company	320,580	389,130
Earnings per share (cents)	2,632.1	3,195.0

5 Property and Equipment

	Group				
	Motor vehicles R000	Furniture R000	Office equipment R000	Computer equipment and systems R000	Total R000
Cost					
At 31 December 2004	44,764	29,465	14,758	106,394	195,381
Additions	9,492	1,013	83	11,757	22,345
Disposals	(8,029)	(8,297)	(9,677)	(32,126)	(58,129)
Exchange rate movement	(2,012)	(90)	(25)	(1,288)	(3,415)
At 31 December 2005	44,215	22,091	5,139	84,737	156,182
Additions	19,858	287	72	10,733	30,950
Disposals	(9,303)	(30)	(98)	(1,855)	(11,286)
Exchange rate movement	1,210	14	13	(250)	987
At 31 December 2006	55,980	22,362	5,126	93,365	176,833

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5 Property and Equipment (continued)

	Group				
	Motor vehicles R000	Furniture R000	Office equipment R000	Computer equipment and systems R000	Total R000
Accumulated depreciation					
At 31 December 2004	9,353	21,778	13,132	95,796	140,059
Depreciation charge for the year	4,075	1,336	557	8,334	14,302
Exchange rate movement	(481)	(73)	30	(280)	(804)
Accumulated depreciation on disposals	(2,996)	(8,008)	(9,654)	(31,821)	(52,479)
At 31 December 2005	9,951	15,033	4,065	72,029	101,078
Depreciation charge for the year	6,126	1,265	443	8,332	16,166
Exchange rate movement	(71)	9	7	(62)	(117)
Accumulated depreciation on disposals	(6,603)	(1)	(63)	(2,103)	(8,770)
At 31 December 2006	9,403	16,306	4,452	78,196	108,357
Carrying amount					
At 31 December 2005	34,264	7,058	1,074	12,708	55,104
At 31 December 2006	46,577	6,056	674	15,169	68,476

	Company				
	Motor vehicles R000	Furniture R000	Office equipment R000	Computer equipment and systems R000	Total R000
Cost					
At 31 December 2004	41,610	28,914	14,099	99,366	183,989
Additions	9,390	877	74	11,560	21,901
Disposals	(7,952)	(8,282)	(9,677)	(32,126)	(58,037)
At 31 December 2005	43,048	21,509	4,496	78,800	147,853
Additions	19,046	178	98	8,136	27,458
Disposals	(9,301)	(30)	(73)	(1,856)	(11,260)
At 31 December 2006	52,793	21,657	4,521	85,080	164,051
Accumulated depreciation					
At 31 December 2004	8,430	21,332	12,919	90,121	132,802
Depreciation charge for the year	4,086	1,320	413	8,053	13,872
Accumulated depreciation on disposals	(2,918)	(7,993)	(9,654)	(31,832)	(52,397)
At 31 December 2005	9,598	14,659	3,678	66,342	94,277
Depreciation charge for the year	5,771	1,165	368	7,825	15,129
Accumulated depreciation on disposals	(6,603)	(1)	(41)	(1,891)	(8,536)
At 31 December 2006	8,766	15,823	4,005	72,276	100,870
Carrying amount					
At 31 December 2005	33,450	6,850	818	12,458	53,576
At 31 December 2006	44,027	5,834	516	12,804	63,181

Furniture, office equipment and systems with a cost of R77,037,000 are fully depreciated. There are no significant assets retired from service included in the assets.

6 Investments

6.1 Investment property

	Group	
	2006 R000	2005 R000
Opening carrying value as previously stated	10,946	19,491
Additions	426	–
Revaluation surplus	–	3,586
Revaluation deficit	(1,731)	–
Disposal	–	(10,792)
Exchange rate movement	–	(1,339)
Closing carrying value	9,641	10,946
Cost	2,587	2,161
Revaluation	7,054	8,785
Closing carrying value	9,641	10,946

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 2006 by an independent valuer, on the basis of determining the open market value of the investment property. The investment properties are primarily located in Johannesburg, Gaborone and Harare and are not encumbered.

6.2 Investment in subsidiaries

	Company			
	Unquoted shares at cost R000	Unsecured loans R000	Current accounts R000	Total R000
At 1 January 2005	71,826	16,750	1,958	90,534
Advances to subsidiaries	–	8,161	49,535	57,696
Repayments from subsidiaries	–	(20,824)	(50,299)	(71,123)
At 31 December 2005	71,826	4,087	1,194	77,107
Advances to subsidiaries	–	7,271	31,597	38,868
Repayments from subsidiaries	–	(9,090)	(31,747)	(40,837)
At 31 December 2006	71,826	2,268	1,044	75,138

6.3 Investment in associates

	Group
	Unquoted R000
At 1 January 2005	10,000
Dividends received	(6,683)
At 31 December 2005	3,317
Equity accounted income	(22)
At 31 December 2006	3,295
Directors' valuation	3,295

The unquoted investment is a 50% share in Natal Lands Limited, held through British African Properties Limited. The company is now dormant and therefore the carrying value of the investment represents the Directors' valuation.

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6.4 Financial assets – available-for-sale

	Group						
	Ordinary shares		Preference shares		Government and other approved securities	Municipal annuities and other fixed interest securities	Total R000
	Quoted R000	Unquoted R000	Quoted R000	Unquoted R000			
At 1 January 2005	488,581	36,534	1,165	1,925	5,445	36	533,686
Purchases	–	–	–	50,000	–	–	50,000
Disposals	(40,614)	–	–	–	–	–	(40,614)
Revaluation	16,385	(366)	639	(48)	(2,431)	(36)	14,143
At 31 December 2005	464,352	36,168	1,804	51,877	3,014	–	557,215
Purchases	24,674	301	–	10,000	–	–	34,975
Capital reductions	–	(5,343)	–	–	–	–	(5,343)
Disposals	(14,986)	(1,260)	–	–	(3,014)	(28)	(19,288)
Revaluation relating to disposals	(59,588)	(6,885)	–	–	–	–	(66,473)
Revaluation	176,158	–	1,215	154	–	37	177,564
At 31 December 2006	590,610	22,981	3,019	62,031	–	9	678,650
2005							
At cost	73,921	22,827	1,013	51,804	5,445	36	155,046
Revaluations	390,431	13,341	791	73	(2,431)	(36)	402,169
Closing carrying value	464,352	36,168	1,804	51,877	3,014	–	557,215
2006							
At cost	83,609	16,525	1,013	61,804	–	36	162,987
Revaluations	507,001	6,456	2,006	227	–	(27)	515,663
Closing carrying value	590,610	22,981	3,019	62,031	–	9	678,650

	Company					
	Ordinary shares		Preference shares		Municipal annuities and other fixed interest securities	Total R000
	Quoted R000	Unquoted R000	Quoted R000	Unquoted R000		
At 1 January 2005	485,857	36,464	1,165	–	36	523,522
Purchases	–	–	–	50,000	–	50,000
Disposals	(40,614)	–	–	–	–	(40,614)
Revaluation relating to disposals	(185,118)	–	–	–	–	(185,118)
Revaluation	198,740	(296)	639	–	(36)	199,047
At 31 December 2005	458,865	36,168	1,804	50,000	–	546,837
Purchases	22,971	301	–	10,000	–	33,272
Capital reductions	–	(5,343)	–	–	–	(5,343)
Disposals	(14,986)	(1,260)	–	–	–	(16,246)
Revaluation relating to disposals	(59,588)	(6,885)	–	–	–	(66,473)
Revaluation	135,568	–	1,215	–	–	136,783
At 31 December 2006	542,830	22,981	3,019	60,000	–	628,830
2005						
At cost	73,727	22,827	1,013	50,000	–	147,567
Revaluations	385,138	13,341	791	–	–	399,270
Closing carrying value	458,865	36,168	1,804	50,000	–	546,837
2006						
At cost	81,712	16,525	1,013	60,000	–	159,250
Revaluations	461,118	6,456	2,006	–	–	469,580
Closing carrying value	542,830	22,981	3,019	60,000	–	628,830

6.5 Financial assets at fair value through income

	Group–Company	
	Government and other approved securities	Government and other approved securities
At 1 January 2005	322,910	322,910
Revaluation	106,748	106,748
At 31 December 2005	429,658	429,658
Purchases	369,128	369,128
Disposals	(408,756)	(408,812)
Revaluation	(10,269)	(10,269)
At 31 December 2006	379,761	379,705
2005		
At cost	410,039	410,039
Revaluations	19,619	19,619
Closing carrying value	429,658	429,658
2006		
At cost	370,413	370,357
Revaluations	9,348	9,348
Closing carrying value	379,761	379,705

The Group's most significant listed equity and government securities investments are set out below and comprise, in aggregate, 20% (2005: 21%) of total assets.

	2006		2005	
	% of government stock portfolio %	Market value R000	% of government stock portfolio %	Market value R000
Government and other securities				
RSA stock				
Maturing within five years of balance sheet date	28.10	106,695	49.72	213,607
Maturing in more than five years and less than ten years from balance sheet date	43.39	164,788	45.53	195,623
Maturing in ten years or more from balance sheet date	28.51	108,278	4.75	20,428
	100.00	379,761	100.00	429,658

The majority of the portfolio consists of RSA stock with terms of maturity ranging from 1 to 20 years and coupon rates between 7.25% and 13.5%. The effective interest rate achieved was 5.97% (2005: 10.38%).

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6.5 Financial assets at fair value through income (continued)

Quoted ordinary shares

	2006		2005	
	% of equity portfolio %	Market value R000	% of equity portfolio %	Market value R000
Absa Group Limited	2.30	15,637	5.49	30,600
AECI Limited	0.50	3,412	2.67	14,897
African Oxygen Limited	0.36	2,416	1.75	9,754
African Rainbow Minerals Limited	–	–	1.22	6,800
Anglo American Corporation Limited	10.08	68,400	5.14	28,644
Anglo American Platinum Corporation Limited	3.78	25,680	2.32	12,925
Aveng Limited	2.23	15,120	1.33	7,400
Anglovaal Industries Limited	0.92	6,218	2.92	16,290
Barloworld Limited	2.42	16,400	2.39	13,330
Bidvest Group Limited	1.18	8,028	1.96	10,923
Consol Limited	0.56	3,790	–	–
Edgars Stores Limited	–	–	1.00	5,581
FirstRand Limited	2.78	18,870	2.29	12,738
Grinrod Limited	0.23	1,560	–	–
Group Five Limited	0.50	3,412	–	–
Hudaco Industries Limited	2.43	16,470	3.48	19,411
Impala Platinum Holdings Limited	3.47	23,552	2.71	15,111
Investec Limited	1.29	8,774	0.69	3,841
Investec Plc	1.98	13,444	1.18	6,565
Liberty Holdings Limited	1.55	10,500	2.38	13,246
Mauritian Eagle Insurance Company Limited	2.12	14,382	3.09	17,243
MTN Group Limited	3.98	26,995	1.62	9,019
Mutual and Federal Insurance Company Limited	2.14	14,500	1.91	10,625
Nampak Limited	0.32	2,174	1.76	9,802
Nedbank Group Limited	2.46	16,687	2.83	15,779
Net 1 UEPS Technology Incorporated	4.79	32,513	3.33	18,530
Rembrandt Group Limited	1.84	12,460	1.66	9,250
Reunert Limited	3.31	22,481	1.74	9,720
Richemont Securities Limited	–	–	1.75	9,726
SABMiller Plc	6.50	44,121	4.39	24,485
Sanlam Limited	1.15	7,777	1.68	9,361
Sasol Limited	4.77	32,348	2.59	14,415
Spar Group Limited	1.27	8,640	–	–
Standard Bank Group Limited	3.62	24,570	3.86	21,500
Telkom Limited	1.56	10,611	–	–
Tiger Brands Limited	1.51	10,260	3.16	17,600
	79.90	542,202	76.29	425,111

7 Loans and Receivables

	Group		Company	
	2006 R000	2005 R000	2006 R000	2005 R000
Staff loans receivable	4,171	4,930	4,166	4,868
Other sundry loans	1,504	2,157	1,491	2,157
Value Added Tax	69,884	160,125	69,884	160,125
Other receivables	37,198	48,195	7,192	18,552
Holding company receivables	5,057	1,576	6,056	1,576
	117,814	216,983	88,789	187,278

The majority of the balances are receivable within 12 months and are interest free, except for staff loans which extend beyond 12 months. Fair value approximates carrying value.

The staff loans were issued for a period of 25 years with the last loan being issued in October 2002. The loans bear interest at 5.3% per annum and are secured by mortgage bonds registered over the properties.

The holding company receivable is interest free and repayable on demand.

The receivables are wide spread with relatively insignificant amounts owing by each debtor.

8 Employee Benefits Costs

8.1 Pension fund

SA Eagle Pension Fund

The Company operates a defined benefit pension plan ("Fund"). The Fund is governed by the Pension Fund Act, 1965.

The latest actuarial valuation was carried out as at 31 December 2006. A valuation was also carried out in terms of IAS 19 as at 31 December 2006. The next actuarial valuation will take place for the year ending 31 December 2007.

The following principal actuarial assumptions were used:

	2006 %	2005 %
Discount rate	8.0	8.5
Expected return on plan assets – members	8.4	8.8
Expected return on plan assets – pensioners	8.4	9.3
Future salary increases	5.5	5.5
Future pension increases	3.5	4.5

The Fund's 31 December 2003 surplus apportionment exercise has been approved, although payments in terms of this exercise still need to be made. As a result of this approval the Company has accounted for the amount allocated to the Employer Surplus Account in terms of this apportionment exercise and following approval by the Trustees of the Fund. This amount has been reflected as other income and the asset included in the balance sheet as a financial asset.

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8.1 Pension fund (continued)

The actuarial surplus was not accounted for in the accounts in previous years 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. The paragraph 58 limit is the sum any cumulative unrecognised net actuarial losses and past service costs 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 has undergone a surplus apportionment exercise as required by legislation. The estimated surplus at 31 December 2005 was R204,779,000.

In addition to the above the Fund's Trustees and the Company have agreed to give existing defined benefit members the option to convert to the defined contribution structure with effect from 1 April 2007. Enhancements will be offered to these members if they elect to convert. The enhancements can amount to up to 105% of the member's actuarial reserve value. The value of these enhancements is estimated to be R132,521,000 at 31 December 2006. A constructive obligation has been raised in respect of this obligation, as the number of employees who will elect the enhancement is not known.

From 1 April 2006 all new members of the Fund join the Fund's defined contribution plan.

The actuarial surplus has been determined as follows:

	2006 R000
Present value of funded obligations	
Actuarial value 1 January 2006	588,414
Current service cost	18,029
Employee contributions	9,300
Benefit payments	(24,617)
Interest cost	50,128
Actuarial loss for the year	189,457
Closing actuarial value 31 December 2006	830,711
Fair value of plan assets	
Actuarial value 1 January 2006	(793,193)
Expected investment return	(71,352)
Employee contributions	(9,300)
Benefit payments	(18,600)
Interest cost	24,617
Actuarial gain on assets for the year	(193,647)
Actuarial value 31 December 2006	(1,061,475)
Net surplus	(230,764)

Group and Company	2006 R000	2005 R000
Disclosure in		
Income statement		
Pension fund surplus	230,764	–
Pension fund change provision included with administration expenses	132,521	–
Deferred tax raised in regard to pension fund surplus	28,490	–
Balance sheet		
Asset		
Retirement benefit fund surplus	230,764	–
Liability		
Pension fund change provision	132,521	–

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.

8.2 Post-retirement medical aid benefits

The Company operates a defined benefit plan for qualifying employees, which is administered by Discovery Health Limited. The nature of the benefit is to pay 50% of the medical aid contributions in retirement to members. There are currently 661 members being those staff who joined the medical aid before October 2002.

The latest actuarial valuation was carried out in terms of IAS 19 Employee Benefits as at 31 December 2006.

The next actuarial valuation will take place as at 31 December 2007.

The following principal actuarial assumptions were used:

	2006	2005
Discount rate	9.0%	8.5%
Health care inflation rate	7.8%	7.0%
Average retirement age	63	63

If the differential between the discount rate and the health care inflation rate is 2.5% then the related cost would be approximately R2.5 million.

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

Group and Company	2006 R000	2005 R000	2004 R000	2003 R000
Present value of unfunded obligations	53,418	44,928	83,121	69,321
Unrecognised actuarial (losses)/gains	(6,015)	(1,859)	457	(380)
Liability recognised in the balance sheet	47,403	43,069	83,578	68,941

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

Balance at beginning of year	43,069	83,578	68,941	70,000
Current service cost	2,696	2,584	2,417	1,977
Interest cost	3,874	9,416	6,425	8,182
Employee benefit payments	(909)	–	(3,370)	(4,152)
Actuarial loss	(94)	–	–	–
Change in subsidy policy	–	–	9,165	(7,066)
Effect of curtailment or settlement	(1,233)	(52,509)	–	–
Balance at end of year	47,403	43,069	83,578	68,941

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

Current service cost	2,696	2,584	2,417	2,584
Interest cost	3,874	9,416	6,425	9,416
Employee benefit payments	(909)	–	(3,370)	–
Change in subsidy policy	–	–	9,165	–
Actuarial loss	(94)	–	(94)	–
	5,567	12,000	14,543	12,000

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

There is an offer to members to accept a payment in respect of the future right. It is currently unknown how many members will accept the offer.

Fair value asset held to partly fund the liability and held in cash and cash equivalents are as follows:

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

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

Included in cash and cash equivalents	11,758	11,758	11,758	11,758
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9 Risks Relating to Financial Assets

9.1 Financial risk

The Group is exposed to financial risk through its financial assets, financial liabilities, 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.

9.2 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.

9.3 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. Risk is also managed by diversification and investing in reputable companies and institutions, details of which are described in note 6.

Financial assets not quoted on an open market are valued using varying valuation techniques. These techniques include but are not limited to comparison of returns or earnings expectations on similar listed investments, calculation of net asset values of unlisted investments and comparison to similar quoted investments. In valuing the unquoted investments regard is given to the availability of a market for disposal, general prevailing market conditions, prior history of the investment and the availability of information on the unlisted investment. Changes in any of the above factors will effect the fair value of these assets. A 10% variation in the valuation of unquoted shares will result in R2.5 million change in the valuation.

Investment decisions are delegated by the Board to the Investment Committee which has ultimate responsibility for the investment portfolio's risk profile and the related investment decisions. The Investment Committee monitors asset managers and custodians to mandates provided.

9.4 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. The total assets and liabilities are reflected in the geographic segment report included in note 2 and in cash and cash equivalents in note 13.

9.5 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;
- Amounts due from insurance intermediaries;
- Financial assets and cash and cash equivalents; and
- Cell shareholders obligation to restore solvency of cells when required to do so.

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 in possession of the necessary guarantees for protection against the Group's credit risk.

A significant amount of the insurance business is written through intermediaries. These intermediaries are closely monitored through the loss ratios on the business they write. If the loss ratio is unsatisfactory appropriate remedial action is taken. There are currently around 1,500 intermediaries so the risk is widely spread. In addition these intermediaries are members of the Intermediate Guarantee Facility, which protects the Group and the insured. The policy is cancelled if there are two consecutive months of non-payment with all the effected accounts been rectified.

9.5 Credit risk (continued)

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 3 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.

Financial assets cash and cash equivalents and investments are placed with high credit rated financial institutions and are managed by investment managers. The Group has policies that limit the credit exposure to any one financial institution. The Investment Committee regularly reviews the investments on the basis of total asset security and minimised risk to the Group.

The relationship with cell shareholders is managed through a shareholder agreement. The agreement determines the obligation to restore any deficit in a cell. The risk is managed by assessments of potential cell shareholders to meet their responsibilities and obligations in terms of the agreement.

9.6 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 to be available to meet such calls to cover claims at unexpected levels of demand. Where the Group is unable to fund current commitments from premium revenue, investments can be liquidated that will match the commitment.

10 Insurance Contract Provisions

10.1 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.

10.1.1 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. Whilst the Executive 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.

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 link ratio and the Bornheutter-Ferguson methods are used to calculate a best estimate outstanding claims liability per class of business and geographic region. This best estimate of the liability is then expressed as a percentage of the net written premium.

Claims development data from 1999 onwards are used in the link ratio method while the Bornheutter-Ferguson method uses the latest actual loss ratios as a prior estimate. Where appropriate, adjustments are made for large claims and catastrophes to avoid the underlying patterns being distorted by such events. Implicit allowance for claims inflation is made in the link ratio method used.

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10.1 Process used to determine significant assumptions (continued)

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 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, in 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.

10.1.2 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.

10.2 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 time required to learn of and settle claims is an important consideration in establishing the IBNR reserves. Short-tail claims such as motor and property damage, are normally reported soon after the incident and are generally settled within months following the reported incident. Long-tail claims such as liability claims take longer to develop and additional time to settle. To reflect this the longer the expected period between the date of loss and the claims reporting date and the higher the severity of the estimated claims the larger the IBNR percentage applied. The table below sets out the IBNR percentages used in the past two financial years and reflects the short-tail nature of the Group's insurance business:

	Group		Company	
	2006 %	2005 %	2006 %	2005 %
Conventional South Africa	5 – 6	5 – 6	5 – 6	5 – 6
Risk Financing	6 – 7	6 – 7	–	–
Zimbabwe	5	5	–	–
Botswana	7	7	–	–

The actuarial review relies upon historical claims development information and statistical methods, based upon product line, reported claims trends, claims severities and exposure growth to estimate the IBNR. The projection methods assume that the historical development patterns of claims paid and incurred will continue into the future while the link ratio method makes implicit allowance for claims inflation.

No explicit reserves for catastrophes are set up in advance of the occurrence of these events.

10.3 Changes in assumptions and sensitivities

There were no significant changes in the IBNR assumptions used during the 2005 and 2006 financial years.

A change in the mix of business could result in a change in the IBNR percentage used. Should the percentage change to reflect a portfolio shift to longer or shorter tail classes of business a change in the IBNR percentage of 1% for South Africa would change the reserves by R31 million (2005: R28 million).

Due to the short-tail nature of our business and the current inflation target fiscal policy adopted by the South African Reserve Bank the implicit inflation allowance made by the projection methods are considered adequate. This assumption will be reviewed as additional information becomes available and as claims are settled. The inflation rate used in the projection outlook reflects current quoted inflation rates.

In terms of the insurance contracts written monthly, premium may be rerated on a monthly basis whereas annual premiums are fixed for a year.

11 Insurance Liabilities and Reinsurance Assets

	Group		Company	
	2006 R000	2005 R000	2006 R000	2005 R000
Technical provisions				
Gross liabilities arising from insurance contracts				
Outstanding claims	840,709	609,291	767,870	560,552
Claims incurred but not reported	193,434	245,677	188,753	213,484
Outstanding claims, including claims incurred but not reported	1,034,143	854,968	956,623	774,036
Unearned premiums	876,091	869,864	647,945	614,143
Amounts due to primary policyholders	10,442	19,097	–	–
Liabilities arising from insurance contracts	1,920,676	1,743,929	1,604,568	1,388,179
Technical assets				
Amounts recoverable from reinsurers				
Outstanding claims	342,077	190,019	324,434	161,135
Claims incurred but not reported	46,219	89,137	32,441	73,755
Outstanding claims, including claims incurred but not reported	388,296	279,156	356,875	234,890
Unearned premiums	217,318	249,857	186,270	166,530
Assets arising from insurance contracts	605,614	529,013	543,145	401,420
Net liabilities				
Outstanding claims	498,632	419,272	443,436	399,417
Claims incurred but not reported	147,215	156,540	156,312	139,729
Outstanding claims, including claims incurred but not reported	645,847	575,812	599,748	539,146
Unearned premiums	658,772	620,007	461,675	447,613
Amounts due to primary policyholders	10,442	19,097	–	–
Liabilities arising from insurance contracts	1,315,061	1,214,916	1,061,423	986,759

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 2005						
Balance at beginning of year	782,163	(249,046)	533,117	710,252	(227,674)	482,578
Net insurance claims expensed during the year	2,264,142	(361,772)	1,902,370	2,020,301	(263,720)	1,756,581
Less – claims paid 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)	–	–	–
Other movements	731	(14,471)	(13,740)	731	(809)	(78)
Balance at end of year	854,968	(279,156)	575,812	774,036	(234,890)	539,146
Year ended 31 December 2006						
Balance at beginning of year	854,968	(279,156)	575,812	774,036	(234,890)	539,146
Net insurance claims expensed during the year	2,674,806	(417,964)	2,256,842	2,439,155	(326,688)	2,112,467
Less – claims paid during the year	(2,513,901)	323,881	(2,190,020)	(2,288,196)	236,331	(2,051,865)
Less – exchange rate movement	(918)	–	(918)	–	–	–
Other movements	19,188	(15,057)	4,131	–	–	–
Balance at end of year	1,034,143	(388,296)	645,847	924,995	(325,247)	599,748

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11 Insurance Liabilities and Reinsurance Assets (continued)

	Group			Company		
	Gross R000	Reinsurance R000	Net R000	Gross R000	Reinsurance R000	Net R000
Unearned premium						
Year ended 31 December 2005						
Balance at beginning of 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	(439,584)	2,610,185
Less – premiums earned during the year	(3,383,484)	571,372	(2,812,112)	(3,027,092)	421,657	(2,605,435)
Balance at end of year	869,864	(249,857)	620,007	614,143	(166,530)	447,613
Year ended 31 December 2006						
Balance at beginning of year	869,864	(249,857)	620,007	614,143	(166,530)	447,613
Premiums written during the year	3,910,639	(735,513)	3,175,126	3,431,870	(508,863)	2,923,007
Less – premiums earned during the year	(3,796,014)	680,468	(3,115,546)	(3,394,032)	485,087	(2,908,945)
Less – exchange rate movement	(4,693)	–	(4,693)	–	–	–
Less – other movements	(103,705)	87,583	(16,122)	(4,036)	4,036	–
Balance at end of year	876,091	(217,319)	658,772	647,945	(186,270)	461,675

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

12 Intangible Insurance Assets

Deferred acquisition costs

	Group – Company	
	Gross R000	Gross R000
Year ended 31 December 2005		
Balance at beginning of year	123,220	98,485
Commission raised during the year	553,279	475,954
Less – commission incurred during the year	542,299	480,839
Balance at end of year	134,200	93,600
Year ended 31 December 2006		
Balance at beginning of year	134,200	93,600
Commission raised during the year	573,843	537,856
Less – commission incurred during the year	609,307	532,720
Balance at end of year	98,736	98,736

All deferred acquisition costs are current.

13 Cash and Cash Equivalents

Cash and cash equivalents consist of short-term bank deposits with a maturity 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 5.5% and 7.25% per annum (2005: 6.75% and 7.0%). The effective interest rate on current accounts at the balance sheet date was between 6.9% and 7.7% per annum (2005: 4.25% and 5.5%).

	Group		Company	
	2006 R000	2005 R000	2006 R000	2005 R000
Insurance policy	11,758	11,758	11,758	11,758
Foreign deposits	152,884	108,421	8,664	7,927
Cash on deposit	426,694	355,759	426,672	227,481
Cash on call	857,517	475,469	235,013	120,013
Cash at bank	33,391	66,051	27,021	20,637
Cash on hand	70	70	70	70
	1,482,314	1,017,528	709,198	387,886

13 Cash and Cash Equivalents (continued)

Included in the cash and cash equivalents is an amount of R20,634,000 (2005: R4,618,000) held in Zimbabwe. Due to foreign exchange regulations in Zimbabwe these funds are not freely transferable.

14 Share Capital

	Group		Company	
	2006 R000	2005 R000	2006 R000	2005 R000
Authorised				
13,207,360 (2005: 13,207,360) ordinary shares of 25 cents each	3,302	3,302	3,302	3,302
Issued				
12,179,500 (2005: 12,179,500) ordinary shares of 25 cents each fully paid	3,045	3,045	3,045	3,045

The 1,027,860 (2005: 1,027,860) unissued ordinary shares are under the control of the Directors until the next Annual General Meeting.

15 Share Premium

Balance at beginning and end of year	1,605	1,605	1,605	1,605
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16 Deferred Taxation

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

Deferred income tax assets				
– Deferred income tax to be recovered after more than 12 months	(17,080)	(10,440)	(17,080)	(10,440)
– Deferred income tax to be recovered within 12 months	(38,431)	(6,207)	(38,431)	(6,858)
Balance at end of year	(55,511)	(16,647)	(55,511)	(17,298)
Deferred income tax liabilities				
– Deferred income tax to be recovered after more than 12 months	141,578	22,737	108,455	22,737
– Deferred income tax to be recovered within 12 months	13,384	6,873	13,384	5,697
Balance at end of year	154,962	29,610	121,839	28,434
Net deferred income tax liabilities	99,451	12,963	66,328	11,136
The gross movement in the deferred income tax account is as follows:				
Balance at beginning of year	12,963	(10,131)	11,136	(11,374)
Change in the rate of taxation	–	338	–	379
Movement during the year attributable to temporary timing differences	86,488	22,756	55,192	22,131
Charged to income statement	26,377	17,371	26,377	16,787
Charged to equity on unrealised investment revaluations	60,111	5,385	28,815	5,344
Balance at end of year	99,451	12,963	66,328	11,136

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16 Deferred Taxation (continued)

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 tax asset	Group			
	Provision for leave pay and other accruals R000	Post retirement medical aid cost R000	Operating lease liability R000	Total R000
Balance at beginning of 2005	(8,896)	(22,103)	(1,742)	(32,741)
Credited to the income statement	2,918	12,286	(201)	15,003
Change in rate of taxation	297	737	58	1,092
Balance at end of 2005	(5,681)	(9,080)	(1,885)	(16,646)
Charged/(credited) to the income statement	827	(39,692)	-	(38,865)
Balance at end of 2006	(4,854)	(48,772)	(1,885)	(55,511)

Deferred tax asset	Company				
	Capital allowances R000	Provision for leave pay and other accruals R000	Post retirement medical aid cost R000	Operating lease liability R000	Total R000
Balance at beginning of 2005	-	(8,896)	(22,103)	(1,742)	(32,741)
Change in rate of taxation	-	297	737	58	1,092
(Credited)/charged 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)
Charged/(credited) to the income statement	652	827	(39,692)	-	(38,213)
Balance at end of 2006	-	(4,854)	(48,772)	(1,885)	(55,511)

Deferred tax liabilities	Group				
	Post retirement medical aid cost R000	Capital and other allowances R000	Unrealised appreciation of available-for-sale financial assets R000	Unrealised gain on assets at fair value through income R000	Total R000
Balance at beginning of 2005	-	1,243	17,014	4,353	22,610
(Credited)/charged to the income statement	-	(68)	-	1,344	1,276
Charged to equity	-	-	5,723	-	5,723
Balance at end of 2005	-	1,175	22,737	5,697	29,609
Credited to equity	-	-	60,111	-	60,111
Charged/(credited) to the income statement	66,921	1,304	-	(2,983)	65,242
Balance at end of 2006	66,921	2,479	82,848	2,714	154,962

16 Deferred Taxation (continued)

Deferred tax liabilities

	Company				Total R000
	Post retirement medical aid cost R000	Capital and other allowances R000	Unrealised appreciation of available-for-sale financial assets R000	Unrealised gain on assets at fair value through income R000	
Balance at beginning of 2005	–	–	17,014	4,353	21,367
(Credited)/charged to the income statement	–	–	–	1,344	1,344
Charged to equity	–	–	5,723	–	5,723
Balance at end of 2005	–	–	22,737	5,697	28,434
Credited to equity on disposal	–	–	28,815	–	28,815
Charged/(credited) to the income statement	66,921	652	–	(2,983)	64,590
Balance at end of 2006	66,921	652	51,552	2,714	121,839

17 Trade and Other Payables

	Group		Company	
	2006 R000	2005 R000	2006 R000	2005 R000
Trade payables and accrued expenses	24,302	26,620	20,691	22,091
Other payables	227,999	197,633	47,461	61,710
	252,301	224,253	68,152	83,801

All of the above liabilities are current. Included in other payables is an amount payable by a subsidiary in respect of premiums collected on behalf of third parties.

18 Investment Income

Investment income

Interest	164,779	103,803	128,948	72,616
Interest on call and term deposits	80,290	57,812	46,818	27,724
Interest on secured loans	41,147	39,039	41,147	39,058
Interest on staff loans	308	381	289	381
Interest on deposits for subsidiaries	–	–	690	2,299
Interest on managed funds including bonds	40,226	4,713	39,997	1,296
Sundry interest income	2,808	1,858	7	1,858
Investment income from investment properties				
Net rental income	–	3,596	–	–
Investment income from available-for-sale financial assets	37,445	28,634	34,874	28,363
Ordinary shares – dividends received				
– Quoted shares	24,916	16,476	22,538	16,399
– Unquoted shares	8,787	11,504	8,787	11,504
Preference shares – dividends received				
– Quoted shares	64	–	65	460
– Unquoted shares	3,678	654	3,484	–
Investment income from subsidiaries				
Dividends from subsidiaries	–	–	–	10,575
	202,224	136,033	163,822	111,554

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19 Net Fair Value (Losses)/Gains on Assets Held at Fair Value through Income

	Group		Company	
	2006 R000	2005 R000	2006 R000	2005 R000
Government and other approved securities				
Unrealised net fair value (losses)/gains	(10,290)	6,594	(10,290)	5,138
Realised (losses)/gains on disposal	(8,672)	46,703	(8,672)	46,703
	(18,962)	53,297	(18,962)	51,841

20 Net Realised Gains

Realised gains on disposal on financial assets – available-for-sale	71,334	162,862	71,250	161,527
Investment properties	–	1,290	–	–
	71,334	164,152	71,250	161,527

21 Claims Handling Expenses Included in Net Claims

Net insurance benefits and claims include claims handling expenses and loss adjustment expenses amounting to	77,724	68,903	77,724	68,903
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22 Profit Before Tax

After charging/(crediting):				
Auditors' remuneration				
– Fees for audit	2,298	1,671	1,315	1,226
– Other services	40	16	–	–
	2,338	1,687	1,315	1,226
Depreciation				
– Motor vehicles	6,126	4,075	5,771	4,086
– Furniture	1,265	1,336	1,165	1,320
– Office equipment	443	557	368	413
– Computer equipment and systems	8,332	8,334	7,825	8,053
	16,166	14,302	15,129	13,872
JSE Limited				
– Listing fees	128	139	128	139
Surplus/(loss) on disposal of fixed assets	2,170	(636)	2,170	(636)
Staff cost				
– Salaries and wages	167,760	170,725	157,077	164,273
– Medical aid	21,126	23,454	20,171	23,170
	188,886	194,179	177,248	187,443
Pension fund expenses	27,557	16,247	26,547	15,879
Provident fund expenses	445	360	426	346
Pension fund surplus	(230,764)	–	(230,764)	–
Constructive liabilities in respect of conversion from a defined benefit pension plan to a defined contribution pension plan	133,621	–	133,621	–
Operating lease rentals – property	17,376	17,119	17,034	17,119
Directors' fees	1,184	808	1,184	808
Directors' emoluments	4,730	5,371	4,730	5,371
Penalty and interest on taxation	1,496	–	1,496	–

22 Profit Before Tax (continued)

	Group		Company	
	2006 R000	2005 R000	2006 R000	2005 R000
Expenses by nature (including expenses shown under claims)				
Commission	609,307	542,299	532,720	480,839
Employee costs	350,509	210,786	337,842	203,668
Information technology costs	86,966	70,263	86,966	70,263
Marketing costs	13,340	11,253	13,159	11,075
Depreciation costs	16,166	14,302	15,129	13,872
Administration costs	57,993	90,085	47,650	64,720
Investment expenses	3,594	5,368	3,594	5,368
Total expenses	1,137,875	944,356	1,037,060	849,805

23 Income Tax Expense

South African and foreign				
Current taxation				
– Current year normal tax	73,670	94,484	59,623	78,950
– Prior year (over)/under provision	(4,564)	239	(4,564)	239
	69,106	94,723	55,059	79,189
Deferred taxation				
– Current year	27,365	17,371	27,365	16,787
– Prior year	(988)	–	(988)	–
Secondary tax on companies	10,183	6,294	8,894	6,294
	105,666	118,388	90,330	102,270
Reconciliation of taxation:				
South African normal taxation at statutory tax rate of 29%	125,873	146,662	110,048	135,901
Adjusted for				
– Change in rate of taxation	–	338	–	379
– Prior year (over)/under provision	(5,552)	(1,100)	(5,552)	238
– Exempt income	(29,785)	(60,994)	(28,007)	(59,612)
– Capital gains tax	4,561	19,581	4,561	18,827
– Disallowed expenses	385	9,565	385	243
– Secondary tax on companies	10,184	6,294	8,895	6,294
– Withholding tax in foreign subsidiary	–	(1,958)	–	–
Taxation charge in income statement	105,666	118,388	90,330	102,270

Notes to the Annual Financial Statements

for the year ended 31 December 2006

24 Cash Generated from Operations

	Group		Company	
	2006 R000	2005 R000	2006 R000	2005 R000
Operating income before taxation	432,548	508,612	377,980	468,624
Adjustment for				
Depreciation	16,166	14,302	15,129	13,872
Provision increase – post retirement medical aid	5,243	12,000	5,243	12,000
Pension fund valuation adjustment	(98,243)	(10,000)	(98,243)	(10,000)
Foreign exchange adjustment	(9,789)	–	–	–
(Profit)/loss on disposal of property and equipment	(2,170)	636	(2,170)	636
Profit on disposal of property	–	(5,043)	–	–
Net increase in claims outstanding	70,035	42,695	60,602	56,568
Investment income before investment expenses	(254,596)	(321,182)	(216,110)	(297,673)
Net increase in unearned premiums	61,761	30,058	17,884	19,777
	220,955	272,078	160,315	263,804

25 Net Increase/(Decrease) in Working Capital

Due from agents and other insurance companies	(24,493)	(167,003)	21,054	(179,259)
Other receivables	90,832	(28,215)	102,969	(60,815)
Due to agents and other insurance companies	4,334	22,892	(10,605)	25,488
Amounts due to primary policyholders	(8,655)	3,754	–	–
Amounts due to cell shareholders	60,126	61,116	–	–
Due from holding company	(3,481)	(900)	(4,480)	(900)
Other payables	28,048	36,698	(15,649)	8,348
	146,711	(71,658)	93,289	(207,138)

26 Taxation Paid

Balance owing at beginning of year	28,365	(7,654)	30,303	(11,390)
Current taxation and secondary tax on companies charged to the income statement	(79,290)	(101,017)	(63,954)	(85,483)
Balance at end of year	(19,781)	(28,365)	(31,645)	(30,303)
	(70,706)	(137,036)	(65,296)	(127,176)

27 Solvency Margin

Shareholders' funds	1,771,976	1,515,096	1,603,928	1,370,051
Net premiums	3,175,126	2,863,397	2,923,007	2,610,185
The Group's solvency margin represents shareholders' funds expressed as a percentage of net premiums	55.8%	52.9%	54.9%	52.5%

28 Related Party Transactions

The Company is controlled by SA Fire House Limited (incorporated in South Africa), which directly and indirectly owns 73.6% (2005: 73.6%) of the Company's shares. The ultimate holding company is Zurich Financial Services (incorporated in Switzerland). A list of affiliated companies is set out on page 84.

The following transactions were carried out with related parties:

IT services provided to Zurich Group

As part of the intergroup reinsurance arrangements, the following reinsurance premiums and claims were paid and recovered during the year from Zurich Insurance Company under normal market conditions:

Reinsurance

- Premiums paid
- Claims recovered
- Commission earned

Amounts owing by the Zurich Group are as follows:

Current accounts

The current account bears no interest and is repayable on demand.

Amounts owing by subsidiaries to the Company are as follows:

Unsecured loans
Current accounts

Balance at beginning of 2005

Net movements

Balance at end of 2005

Net movements

Balance at end of 2006

The loans and current accounts bear no interest and are repayable on demand.

Insurance policy exposure

The Directors held insurance with the Group, paying premiums of R75,000 and received claim reimbursements of R48,000. The aggregate cover is R22.3 million (2005: R23.5 million).

Executive management* compensation

Salaries, bonuses and other short-term employee benefits
Payments by the Company for shares under the LTPSP**

There are no existing/outstanding loans.

* Executive management – 3 Executive Committee Members excluding Executive Directors

** Long Term Performance Share Plan (LTPSP)

Group		Company	
2006	2005	2006	2005
R000	R000	R000	R000

18,750	13,271	18,750	13,271
62,761	61,001	62,761	61,001
9,213	40,384	9,213	40,384
2,002	4,356	2,002	4,356
5,660	887	5,660	887
		2,268	4,087
		1,044	1,194
		Unsecured loans	Current accounts
		16,750	1,958
		(12,663)	(764)
		4,087	1,194
		(1,819)	(150)
		2,268	1,044

2006	2005
R000	R000
3,400	2,652
320	661

Notes to the Annual Financial Statements

for the year ended 31 December 2006

28 Related Party Transactions (continued)

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 the 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 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 36 month 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	297	304.00	1ZAR:0.2120CHF	426
30 June	23	271.00	1ZAR:0.1710CHF	36
Total	320			462

29 Directors' Emoluments

	2006 R000	2005 R000
Executive Directors		
NV Beyers		
Basic salary	1,399	1,357
Bonus	117	114
Other material benefits*	247	221
Pension scheme contributions	174	168
Profit sharing	533	480
Total	2,470	2,340
DM Burton		
Basic salary	645	595
Bonus	55	51
Other material benefits*	209	198
Pension scheme contributions	80	74
Profit sharing	162	147
Total	1,151	1,065
CN Zungu		
Basic salary	612	562
Bonus	52	48
Other material benefits*	211	203
Pension scheme contributions	76	70
Profit sharing	153	134
Total	1,104	1,017

29 Directors' Emoluments (continued)

	2006 R000	2005 R000
JM Carter		
Basic salary	–	488
Bonus	–	–
Other material benefits*	–	150
Pension scheme contributions	–	61
Profit sharing	–	250
Total	–	949
Total Executive Directors	4,725	5,371
*Company car, medical aid, housing allowance and club subscriptions		
Non-Executive Directors		
Directors fees paid to the following Non-Executive Directors:		
JPG de Rauville	249	140
PT Martin	261	220
SG Morris	257	100
A Paas	67	–
JL Pamensky	–	100
DS Phiri	191	40
GM Riddell	–	100
MC South	159	108
Total Non-Executive Directors	1,184	808
Total	5,909	6,179

The above emoluments have been paid by South African Eagle Insurance Company Limited. Details of the Directors shareholding are set out in the Directors' Report.

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
	371	CHF213.25	371	2 April 2011
	407	CHF120.50	407	2 April 2010
Vested during 2006	109	CHF120.50	109	2 April 2010
	79	CHF213.25	79	2 April 2011
	81	CHF206.40	81	2 April 2012
Exercised during 2006	–	–	–	–
Closing balance of options as at 31 December 2006	2,884	–	2,481	–

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

Notes to the Annual Financial Statements

for the year ended 31 December 2006

29 Directors' Emoluments (continued)

Share awards made in 2006 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)			742	403
Awarded during 2006	3 April 2006	3 April 2006	64	64
Closing balance of shares awarded as at 31 December 2006			806	467
DM Burton	Vesting date	Restriction/lapse date	Number of shares	Current actionable quantity
Opening balance (previously awarded)			492	259
Awarded during 2006	3 April 2006	3 April 2006	60	60
	3 April 2006	3 April 2006	42	42
	3 April 2006	3 April 2006	47	47
	3 April 2006	3 April 2009	59	–
	3 April 2006	3 April 2009	42	–
	3 April 2006	3 April 2009	46	–
Closing balance of shares awarded as at 31 December 2006			788	408
CN Zungu	Vesting date	Restriction/lapse date	Number of shares	Current actionable quantity
Opening balance (previously awarded)			343	247
Awarded during 2006	3 April 2006	3 April 2006	41	41
	3 April 2006	3 April 2006	44	44
	3 April 2006	3 April 2006	57	57
Closing balance of shares awarded as at 31 December 2006			485	389

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 79.

30 Capital Commitments

	Group		Company	
	2006 R000	2005 R000	2006 R000	2005 R000
Authorised	18,500	17,036	18,500	14,457

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

31 Operating Lease Commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

Not later than one year	17,034	17,153	17,034	17,153
Later than one year but not later than five years	54,059	34,362	54,059	34,362
Later than five years	31,325	345	31,325	345
	102,418	51,860	102,418	51,860

32 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 has not been calculated.

33 Post Balance Sheet Events

On 23 February 2007 the Directors declared a final dividend of 430 cents per share (2005: 600 cents per share). The dividend is payable to shareholders registered on 29 March 2007 and will be paid on 10 April 2007. The total cash payment in respect of the dividend declared will be R52,371,850 (2005: R73,077,000). Secondary Tax on Companies (STC) on the dividend is expected to amount to R5,301,000 (2005: R7,318,729) after taking into account the STC credits on dividends received.

Affiliated Companies

for the year ended 31 December 2006

	Issued ordinary share capital		Proportion held by holding company		Shares at cost		Amounts due to/(by) holding company	
	2006 R000	2005 R000	2006 %	2005 %	2006 R000	2005 R000	2006 R000	2005 R000
(A) Subsidiaries directly held								
Short term insurance companies								
SA Eagle Risk Financing Limited	10,000	10,000	100	100	25,000	25,000	433	433
Botswana Eagle Insurance Company Limited (incorporated in Botswana)	14,425	14,425	100	100	14,359	14,359	224	224
Eagle Insurance Company Limited (incorporated in Zimbabwe)	711	711	49	49	1,151	1,151	969	969
African General Insurance Company Limited	1	1	99	99	6,967	6,967	485	485
General investment company								
African Guarantee & Indemnity Company Limited	1	1	100	100	1	1	(617)	(617)
Property companies								
British African Properties Limited	1,200	1,200	100	100	6,142	6,142	668	668
Eagle Properties (Krugersdorp) (Proprietary) Limited ^	1	1	100	100	12	12	5,261	5,261
Eagle Star House (Johannesburg) Limited ^	120	120	100	100	136	136	(358)	(358)
Surrey View (Proprietary) Limited ^	1	1	100	100	1	1	(295)	(295)
Waverley Properties (Proprietary) Limited ^	90	90	100	100	7	7	(2,151)	(2,151)
Other								
Eagle Scape (Proprietary) Limited	1,000	1,000	100	100	1,000	1,000	-	-
SA Eagle Legal Expenses Underwriting Managers (Proprietary) Limited	1	1	89	89	4,450	4,450	-	-
Compuline Cables (Proprietary) Limited	4	4	100	100	2,600	2,600	1,500	1,500
SA Eagle Life Limited	-	-	100	100	10,000	10,000	-	-

^ Company is in the process of being deregistered.

	Issued ordinary share capital		Proportion held by holding company		Shares at cost		Amounts due to/(by) holding company	
	2006	2005	2006	2005	2006	2005	2006	2005
	R000	R000	%	%	R000	R000	R000	R000
(B) Subsidiaries indirectly held								
Eagle Properties (Benoni) (Proprietary) Limited	-	-	100	100	-	-	-	-
Eagle Properties (East London) (Proprietary) Limited ^	2	2	100	100	-	-	-	-
Tarazed (Proprietary) Limited ^	-	-	100	100	-	-	-	-
Threadneedle Properties (SA) Limited ^	630	630	100	100	-	-	-	-
Goldrush Investments (Proprietary) Limited #	-	-	100	100	-	-	585	585
(C) Other								
SA Eagle Aviation Underwriting Managers (Proprietary) Limited	1	1	50	50	-	-	-	-
IDI Technology Solutions (Proprietary) Limited	10	10	31	31	-	-	-	-
Flexilink Systems (Proprietary) Limited	4	4	33	33	-	-	-	-
BnB Sure (Proprietary) Limited	1	1	20	20	-	-	-	-
Natal Lands Limited *	240	240	50	50	3,295	3,295	-	-

The aggregate taxed results of subsidiaries were as follows:

	2006	2005
	R000	R000
Profits	41,451	67,033
Losses	2,219	1,189

* Shares held by British African Properties Limited

Shares held by Compuline Cables (Proprietary) Limited

^ Company is in the process of being deregistered

Analysis of Shareholders

Register date: 29 December 2006

Issued Share Capital: 12,179,500 shares

Shareholder Spread	No. of shareholders	%	No. of shares	%
1 – 1,000 shares	574	91.84	109,979	0.90
1,001 – 10,000 shares	40	6.40	117,731	0.97
10,001 – 100,000 shares	7	1.12	153,414	1.26
100,001 – 1,000,000 shares	1	0.16	240,000	1.97
1,000,001 shares and over	3	0.48	11,558,376	94.90
	625	100.00	12,179,500	100.00

Distribution of Shareholders

Banks	2	0.32	120	–
Close Corporations	9	1.44	11,153	0.09
Empowerment	1	0.16	1,217,950	10.0
Individuals	493	78.88	195,096	1.60
Insurance Companies	3	0.48	10,340,626	84.90
Mutual Funds	6	0.96	264,957	2.18
Nominees and Trusts	65	10.40	48,875	0.40
Other Corporations	4	0.64	1,488	0.01
Pension Funds	2	0.32	54,593	0.45
Private Companies	36	5.76	41,241	0.34
Public Companies	4	0.64	3,401	0.03
	625	100.00	12,179,500	100.00

Public/Non-Public Shareholders

Non-Public Shareholders	11	1.76	11,613,069	95.35
Directors and Associates of the Company Holdings	7	1.12	800	0.01
Holding Company	1	0.16	8,965,042	73.61
Strategic Holdings (more than 10%)	1	0.16	1,375,384	11.29
Empowerment	1	0.16	1,217,950	10.00
Own Pension Fund	1	0.16	53,893	0.44
Public Shareholders	614	98.24	566,431	4.65
	625	100.00	12,179,500	100.00

Beneficial Shareholders (holding of 3% or more)

SA Fire House Limited (SA Eagle)	8,965,042	73.61
Mutual & Federal Insurance Company Limited	1,375,384	11.29
Royal Bafokeng Finance (Proprietary) Limited	1,217,950	10.00

Analysis of Non-Public Holdings

	No. of shares	% of shares
Directors		
NV Beyers	200	0
DM Burton	100	0
JPG de Rauville	100	0
PT Martin	100	0
SG Morris	100	0
A Paas	100	0
DS Phiri	100	0
MC South	100	0
CN Zungu	100	0
Total	1,000	0.01

Holding Company

SA Fire House Limited (SA Eagle)	8,965,042	73.61
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Strategic Holdings (more than 10%)

Mutual & Federal Insurance Company Limited	1,375,384	11.29
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Empowerment

Royal Bafokeng Nation	1,217,950	10.00
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Own Pension Fund

SA Eagle Pension Fund	53,893	0.44
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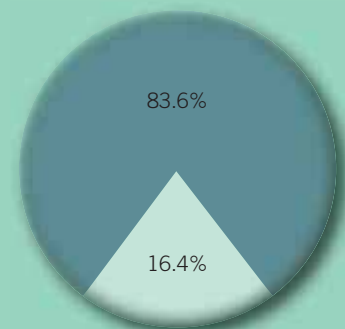
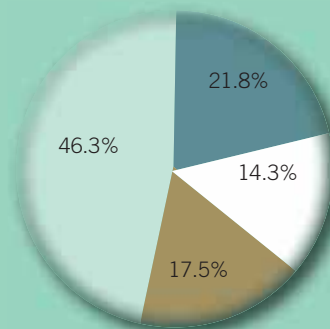
Employee profile

for the year ended 31 December 2006

Occupational Level	African						Coloured					
	M		F		Total		M		F		Total	
	N	%	N	%	N	%	N	%	N	%	N	%
Top Management Managing Director	-	-	-	-	-	-	-	-	-	-	-	-
Senior Management Heads of Major Functions	1	14.3	-	-	1	14.3	-	-	-	-	-	-
Experienced Specialists & Middle Management	12	7.0	4	2.3	16	9.3	4	2.3	3	1.7	7	4.0
Skilled Technical & Foreman	84	12.4	65	9.7	149	22.1	53	7.9	56	8.3	109	16.2
Automatic Decision	17	20.2	15	17.9	32	38.1	6	7.1	12	14.3	18	21.4
Defined Decision	3	42.9	4	57.1	7	100.0	-	-	-	-	-	-
Total Permanent	117	12.5	88	9.4	205	21.8	63	6.7	71	7.6	134	14.3

Occupational Level	Indian						White					
	M		F		Total		M		F		Total	
	N	%	N	%	N	%	N	%	N	%	N	%
Top Management Managing Director	-	-	-	-	-	-	1	100.0	-	-	1	100.0
Senior Management Heads of Major Functions	-	-	-	-	-	-	5	71.4	1	14.3	6	85.7
Experienced Specialists & Middle Management	21	12.2	9	5.2	30	17.4	75	44.4	42	24.6	117	68.8
Skilled Technical & Foreman	62	9.2	62	9.2	124	18.4	70	10.4	217	32.4	287	43.0
Automatic Decision	3	3.6	7	8.3	10	11.9	3	3.6	21	25.0	24	28.6
Defined Decision	-	-	-	-	-	-	-	-	-	-	-	-
Total Permanent	86	9.2	78	8.3	164	17.4	154	16.4	281	30.0	435	46.3

Occupational Level	Grade	Total No.
Top Management Managing Director	1	1
Senior Management Heads of Major Functions	2, 3, 4	7
Experienced Specialists & Middle Management	5, 6, 7	170
Skilled Technical & Foreman	8, 9, 10, 11	670
Automatic Decision	12, 13, 14, 15	84
Defined Decision	16	7
Total Permanent		939



Totals Per Race

■ African
■ Coloured
■ Indian
■ White

Designated Groups

■ Designated Groups
■ Other

Notice of Annual General Meeting

South African Eagle Insurance Company Limited

(Incorporated in the Republic of South Africa)

(Registration Number 1965/006764/06)

Share Code: SAE

ISIN: ZAE000006243

("SA Eagle" or "the Company")

Notice is hereby given that the forty-second Annual General Meeting of shareholders of SA Eagle will be held at 12:00 on Wednesday 9 May 2007, at SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston, for the following purposes:

Ordinary Business

1. Approval of Annual Financial Statements

To consider and approve the audited Annual Financial Statements of the Company and the Group for the year ended 31 December 2006, together with the report of the auditors thereon.

2. Election of Directors

2.1 To elect an Executive Director in place of Mr NV Beyers who retires in terms of the Company's Articles of Association ("Articles") and being eligible and available has offered himself for re-election as Executive Director.

Details of an Executive Director up for re-election:

Mr NV Beyers ACII AMP (Harvard) (59)

1971 – 1974	SA Eagle	Claims Superintendent
1974 – 1978		District Manager
1978 – 1980		Assistant Branch Manager
1980 – 1986		Regional Development Manager
1986 – 1992		Branch Manager
1992 – 1995		Assistant General Manager, Durban
1995 – 1998		General Manager, Operations
1998 – to date		Managing Director

2.2 To elect a Non-Executive Director in place of Mr JPG de Rauville who retires in terms of the Company's Articles and being eligible and available has offered himself for re-election as Non-Executive Director.

Details of a Non-Executive Director up for re-election:

Mr JPG de Rauville CA (SA) (65)

1964 – 1984	Practiced as a Chartered Accountant
1979 – 1990	Joint Managing Director of the Marshalls Group
1983 – to date	Appointed a Director of South African Eagle Insurance Company Limited
1984 – 1994	Managing Director of Grovewalk Holdings
1983 – 1990	Served on the Durban Board of the South African Permanent Building Society
1985 – 1990	Deputy Chairman of the JH Isaacs Group
1995 – 2000	Managing Director of Grove Property Fund
2000 – 2003	Executive of the Pangbourne Properties Group
2005 – to date	Director of SA Eagle Life Limited

3. Approval of Directors' remuneration

To approve the remuneration of the Directors as reflected on page 80 of this Annual Report, to which this notice forms part.

4. Approval of reappointment of auditors

To reappoint PricewaterhouseCoopers Inc. as auditors of the Company until the next Annual General Meeting.

5. Approval of auditors' remuneration

To authorise the Directors to fix and pay the auditors' remuneration for the year ended 31 December 2006.

Special Business

Shareholders will be requested to consider, and if deemed fit, to pass the following resolutions with or without amendments.

Ordinary Resolution Number 1**Place authorised but unissued shares under the control of the Directors**

"Resolved that the authorised but unissued ordinary shares in the Company be and are hereby placed under the control of the Directors until the forthcoming Annual General Meeting and that they be and are hereby authorised and empowered to allot, issue and otherwise dispose of such shares as they may deem fit subject to the Companies Act (Act 61 of 1973), as amended, ("the Act"), the Company's Articles and the JSE Limited ("JSE") Listings Requirements, when applicable."

Ordinary Resolution Number 2**General issue of shares for cash**

"Resolved that the Company's Directors be hereby authorised by way of a general authority to issue unissued shares in the Company for cash, as and when they in their discretion deem fit, subject to the Act, the Company's Articles and the JSE Listings Requirements, when applicable, and the following limitations, namely: 5.50

- that this authority shall not extend beyond 15 (fifteen) months from the date of this meeting or the date of the next Annual General Meeting, whichever is the earlier date; (a)
- that the issue shall be to public shareholders, as defined in paragraph 4.25 – 4.27 of the JSE Listings Requirements and not to related parties; 5.52 (b)
- that a paid press release, giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one year, 5% (five percent) or more of the number of ordinary shares issued prior to the issue;
- that issues in the aggregate in any financial year shall not exceed 8% (eight percent) of the number of ordinary shares of the Company's issued share capital, including instruments which are convertible into ordinary shares; 11.22 5.52 (c)
- that, in determining the price at which an issue for shares will be made in terms of this 5.52 (d) authority, the maximum discount permitted be 10% (ten percent) of the weighted average traded price of the shares in question over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed to by the Company's Directors; and
- that the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case must be limited to such securities or rights that are convertible into a class already in issue. 5.52 (a)

The approval of 75% (seventy-five percent) of the votes cast by shareholders present or represented by proxy at this meeting is required for this ordinary resolution to become effective. 5.52 (e)

Special Resolution Number 1**General authority to repurchase shares**

"Resolved that, as authorised by the Company's Articles, the Company's Directors be hereby authorised, by way of a general authority, to repurchase issued shares in the Company, to purchase shares in the Company's holding company, or to permit a subsidiary of the

Company to purchase shares in the Company, as and when deemed appropriate ("general repurchase"), subject to the following limitations:

- that this general authority shall not extend beyond 15 (fifteen) months from the date of this meeting or the date of the next Annual General Meeting, whichever is the earlier date; 5.67 (a)
- that any general repurchase be implemented through the order book operated by the JSE trading system and done without prior understanding or arrangement between the Company and the counter party;
- that a paid press release giving such details as may be required in terms of the Listings Requirements of the JSE be published when the Company or its subsidiaries have cumulatively repurchased 3% (three percent) of the initial number of shares in issue and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter; 5.79
- that the general repurchase may not in the aggregate in any one financial year exceed 20% (twenty percent) of the number of shares in the Company's issued share capital at the time this authority is given provided that the acquisition of shares by a subsidiary of the Company may not exceed 10% (ten percent) of the number of issued shares of the Company if such shares are to be held as treasury stock; 5.68
- that, in determining the price at which shares may be repurchased in terms of this general authority, the maximum premium permitted be 10% (ten percent) above the weighted average traded price of the shares as determined over the 5 (five) business days immediately preceding the date of the repurchase of such ordinary shares by the Company; 5.72 (d)
- that the Company or its subsidiary are not repurchasing securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements; (g)
- the Company only appoints one agent to effect any general repurchase(s) on its behalf; (e)
- the sponsor to the Company provides a letter on the adequacy of working capital in terms of Section 2.12 of the JSE Listings Requirements prior to a general repurchase being implemented on the open market of the JSE;
- that the Company may only undertake a general repurchase of securities if, after such repurchase, it complies with paragraphs 3.37 to 3.41 concerning shareholder spread requirements; and
- that the general repurchase shall be subject to the Act and the applicable provisions of the Listings Requirements of the JSE." (f)

The Directors undertake that, for a period of 12 (twelve) months following the date of the Annual General Meeting or for the period of the general authority, whichever is the longer, they will not undertake any general repurchases unless: 11.26 (d)

- the Company and the Group will, after the general repurchase, be able to repay its debts in the ordinary course of business; (i)
- the Company's and the Group's assets, fairly valued according to International Financial Reporting Standards and on a basis consistent with the last financial year of the Company will, after the general repurchase, exceed their liabilities; (ii)
- the Company's and the Group's share capital and reserves will, after the general repurchase, be adequate for ordinary business purposes; and
- the Company and the Group will, after the general repurchase, have sufficient working capital to continue its operations in the following year.

Reason and effect

The reason for and the effect of Special Resolution number 1 is to grant the Directors a general authority, up to and including the date of the following Annual General Meeting of the Company, to approve the Company's general repurchase of shares in itself, or of shares in its holding company, or to permit a subsidiary of the Company to purchase shares in the Company.

Intention

The Board has no immediate intention to use this authority to repurchase Company shares. However, the Board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

The JSE Listings Requirements require the following disclosures, some of which are elsewhere in the Annual Report of which this notice forms part as set out below:

- Directors and management – page 24 and 25;
- Major shareholders of SA Eagle – page 84;
- Directors' interests in securities – page 33; and
- Share capital of the Company – page 73.



Litigation statement

The Directors are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the Group's financial position.

Directors' responsibility statement

The Directors collectively and individually accept full responsibility for the accuracy of the information pertaining to this resolution and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by law and the JSE Listings Requirements.

Material change

Other than the facts and developments reported on in the Annual Report, there have been no material changes in the affairs or financial position of SA Eagle and its subsidiaries since the date of signature of the audit report and the date of this notice.

Voting and Proxies

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms must be forwarded to reach the Company's Transfer Secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 South Africa or posted to the Transfer Secretaries at PO Box 61051, Marshalltown, 2107 to be received by no later than 12:00 on Monday 7 May 2007. Proxy forms should only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

On a show of hands, every member of the Company present in person or represented by proxy shall have one vote only. On a poll, every member of the Company shall have one vote for every share held in the Company by such member.

Shareholders who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their Central Securities Depository Participant or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

By order of the Board

Ms TA Pitman

Group Company Secretary

16 April 2007

Registered office

SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston

Transfer secretaries

Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street, Johannesburg 2001, South Africa
PO Box 61051, Marshalltown, 2107

Form of Proxy



A member of the  Zurich Financial Services Group

South African Eagle Insurance Company Limited

(Incorporated in the Republic of South Africa)

(Registration number 1965/006764/06)

Share code: SAE

ISIN: ZAE000006243

("SA Eagle" or "the Company")

This form is only to be completed by certificated and "own name" registered dematerialised shareholders.

Holders of dematerialised ordinary shares, other than "own name" registration, must inform their Central Securities Depository Participant (CSDP) or broker of their intention to attend the Annual General Meeting and request their CSDP or broker to issue them with the necessary authorisation to attend the Annual General Meeting in person or provide their CSDP or broker with their voting instructions should they not wish to attend the Annual General Meeting in person.

I/We

[Name in block letters]

of

[Address in block letters]

being a shareholder(s) of SA Eagle and entitled to

votes

do hereby appoint

of

or failing him,

of

or failing him, the Chairman of the Annual General Meeting, as my/our proxy(ies) to attend, speak and vote on my/our behalf at the forty-second Annual General Meeting of the shareholders to be held at SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston, 2021 on Wednesday 9 May 2007 at 12:00 and at any adjournment thereof, and to vote or abstain from voting as follows:

	For	Against	Abstain
Approval of the Annual Financial Statements			
To re-elect Mr NV Beyers as an Executive Director			
To re-elect Mr JPG de Rauville as a Non-Executive Director			
Approval of Directors' remuneration			
Approval of reappointment of auditors			
Approval of auditors remuneration			
Ordinary Resolution 1: Place authorised but unissued shares under the control of the Directors			
Ordinary Resolution 2: General issue of shares for cash			
Special Resolution 1: General authority to repurchase shares			

Signed at

on

2007

Shareholder signature

Please indicate with an 'X' in the appropriate space overleaf how you wish your vote(s) to be cast. If you return this form, duly signed without any specific directions, the proxy will vote or abstain from voting as he/she deems fit.

A Shareholder entitled to attend and vote at the abovementioned meeting is entitled to appoint a proxy (who need not be a shareholder of the Company) to attend, speak and, on a poll, to vote in his/her stead.




Instructions on signing and lodging the Form of Proxy

- 1 A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided overleaf, with or without deleting "the Chairman of the Annual General Meeting", but any such deletion must be initialled by the shareholder. Should this space be left blank, the proxy will be exercised by the Chairman of the Annual General Meeting. The person whose name appears first on the Form of Proxy and who is present at the Annual General Meeting will be entitled to act as proxy to the exclusion of those whose names follow.
- 2 A shareholder's voting instructions to the proxy must be indicated by the insertion of an 'X', or the number of votes exercisable by that shareholder, in the appropriate spaces provided overleaf. Failure to do so will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting, as he/she thinks fit in respect of all the shareholder's exercisable votes. A shareholder or his/her proxy is not obliged to use all the votes exercisable by him/her or by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the shareholder or by his/her proxy.
- 3 A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Transfer Secretaries.
- 4 To be valid, the completed Forms of Proxy must be lodged with the Transfer Secretaries of the Company, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001, South Africa (PO Box 61051, Marshalltown, 2107) to reach the Company at least 48 hours before the meeting (excluding Saturdays, Sundays and Public Holidays).
- 5 Documentary evidence establishing the authority of a person signing this Form of Proxy in a representative capacity must be attached to this Form of Proxy unless previously recorded by the Transfer Secretaries or waived by the Chairman of the Annual General Meeting.
- 6 The completion and lodging of this Form of Proxy will not preclude the relevant shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
- 7 The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this Form of Proxy must be initialled by the signatory(ies).
- 8 The Chairman of the Annual General Meeting shall be entitled to decline or accept the authority of a person signing the proxy form:
 - (a) under a power of attorney; or
 - (b) on behalf of a companyunless his power of attorney or authority is deposited at the offices of the Company or that of the Transfer Secretaries not later than 48 hours before the meeting (excluding Saturdays, Sundays and Public Holidays).



www.saeagle.co.za



A member of the  Zurich Financial Services Group

*South African Eagle Insurance Company Limited
SA Eagle House, The Braes, 193 Bryanston Drive, Bryanston 2021*