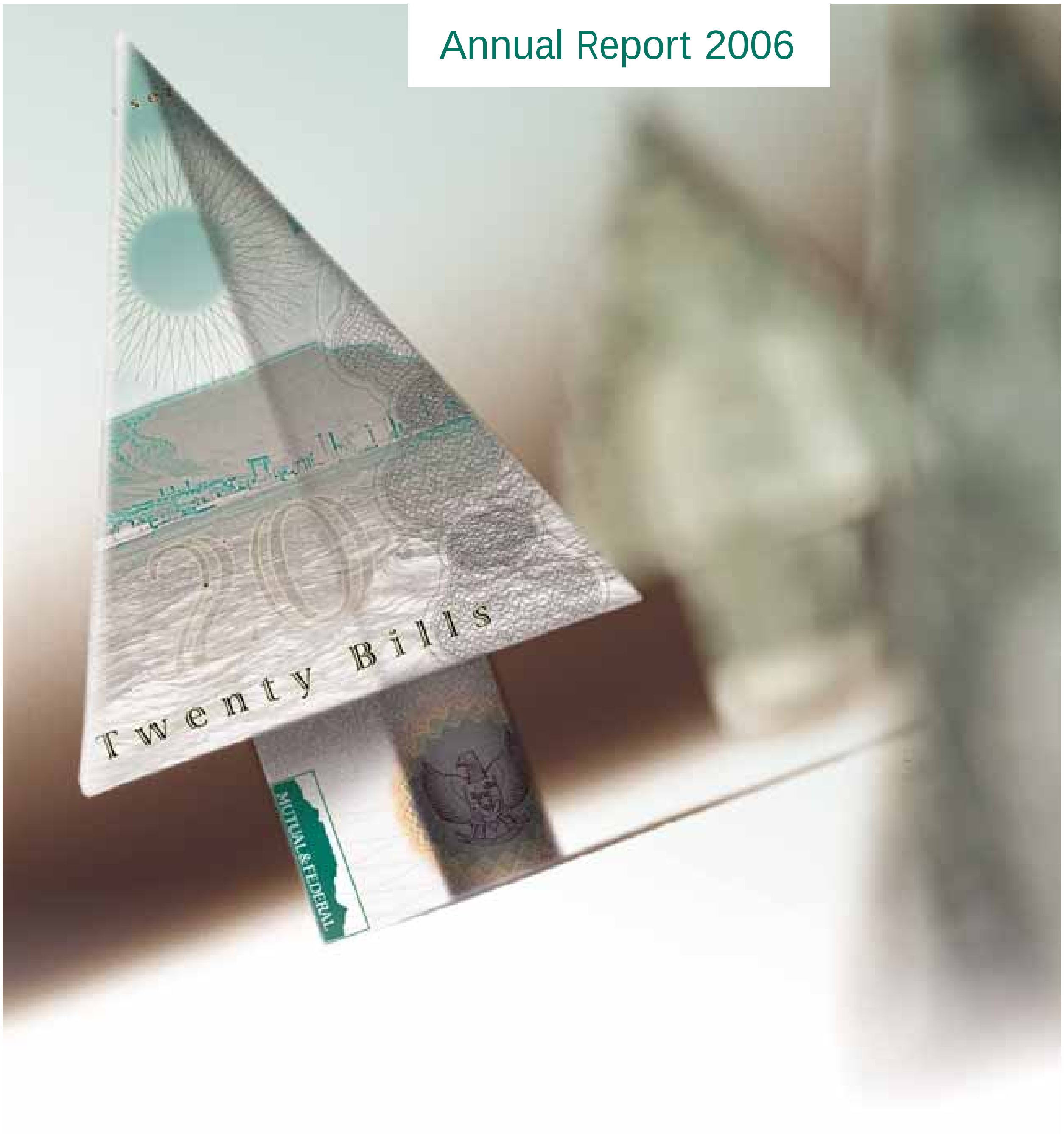
MUTUAL&FEDERAL

Annual Report 2006



MUTUAL&FEDERAL

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Authorided Financial Services Provider.

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www.mf.co.za

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Annual Report 2006



Vision
To be the strongest and most successful short-term insurer in our chosen markets.

Corporate mission
Delivery of innovative insurance products and outstanding service that result in real benefit to customers, suppliers, employees and shareholders whilst ensuring commitment to good corporate citizenship and upholding the highest values.

Values
Accountability
Being prepared to make commitments and be judged against these. Delivering on commitments. Taking ownership for actions and problems and being responsible for actions.

Respect
Treating others as you would have them treat you. Leveraging the strengths of diversity. Actively listening to others and treating people with dignity.

Pushing beyond boundaries
Playing to the maximum as individuals, teams and as an organisation, across boundaries. Always striving to break new ground with innovation and creativity. Being passionate and committed and always striving for improvement.

Integrity
Being honest, trustworthy, consistent and open. Acting in accordance with the highest ethical standards.

Passion
Giving the best and being dependable in exceeding goals successfully. Having confidence and willingness to take action in order to achieve a recognised benefit. Having a sense of optimism and enthusiasm to spend energy voluntarily.

MUTUAL & FEDERAL

In pursuit of the vision **to be the strongest and most successful short-term insurer,** certain strategic key initiatives will differentiate our business

- Profitability
- Growth
- Strategic future profit streams
- Human capital and excellent client service
- Good corporate citizenship

	2006	2005	% Change
Financial results (Rm)			
Net premiums	**7 427**	6 874	8,0
Underwriting surplus	**455**	577	(21,1)
General insurance result	**744**	832	(10,6)
Key ratios (%)			
Management expense ratio	**9,7**	8,8	(10,2)
Operating ratio	**93,9**	91,6	(2,5)

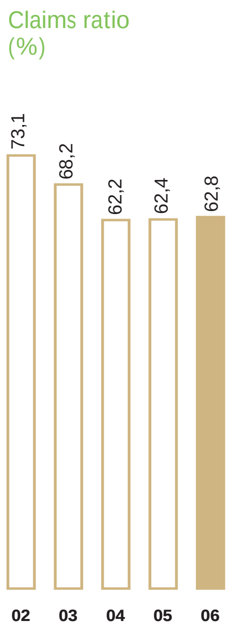
	Target %	**2006 %**	2005 %	2004 %
Performance objectives				
Underwriting result as a percentage of earned premium	4,0	**6,1**	8,4	9,4
General insurance result as a percentage of earned premium	7,0	**10,0**	12,1	12,6
Return on shareholders' funds*	>20,0	**18,3**	20,2	23,7

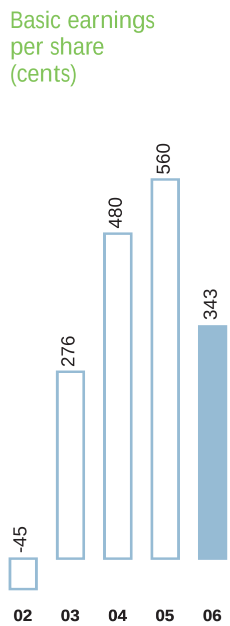
**Calculated using the long-term rate of return.*

Profitability

Enhance and sustain underwriting profitability and investment returns:

- take corrective action in underperforming areas
- correctly price for risk
- maintain strict control over expenses



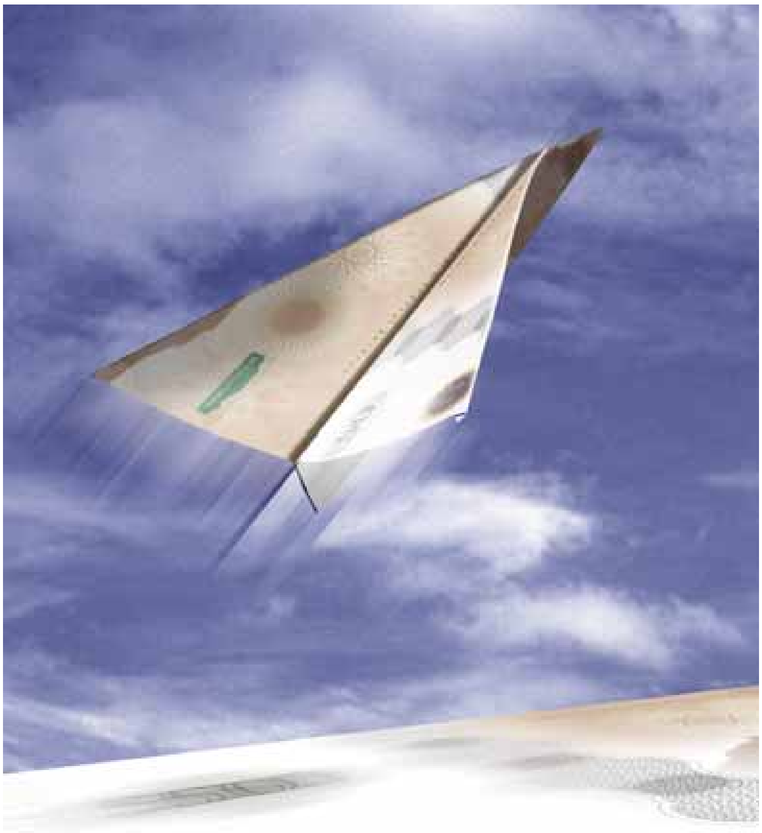


Growth

Growth from existing markets, new products, markets and channels:

- develop new products for the emerged and emerging markets
- utilise relationships with existing and new brokers
- explore synergies with Old Mutual Group

Growth in gross premiums (Rm)



Future profit streams

Achieve and retain strategic superiority:

- use technology to improve the speed of delivery
- improve efficiencies and reduce cost

Combined group strength

Human capital and client service

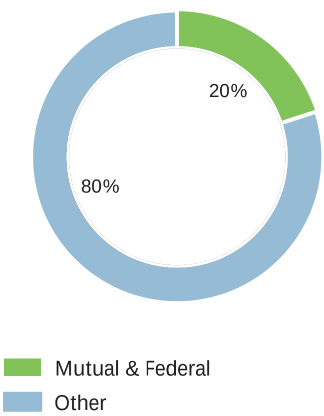
Become a great company to work for:

- further improve remuneration programmes

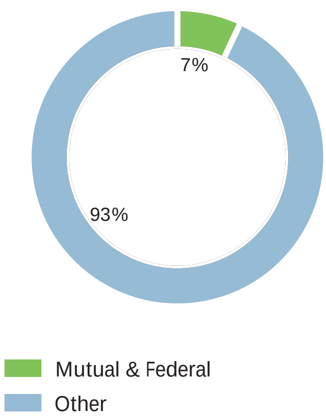
Improve client service:

- implement new systems

Short-term insurance market



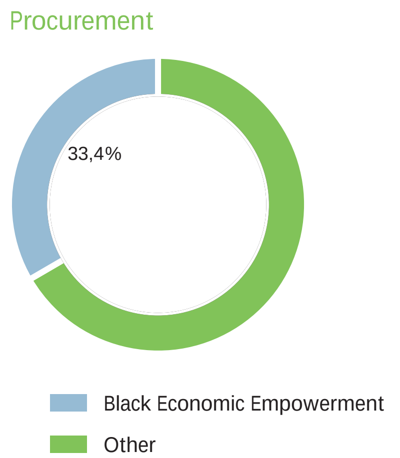
% of complaints in the short-term insurance industry to the Ombudsman

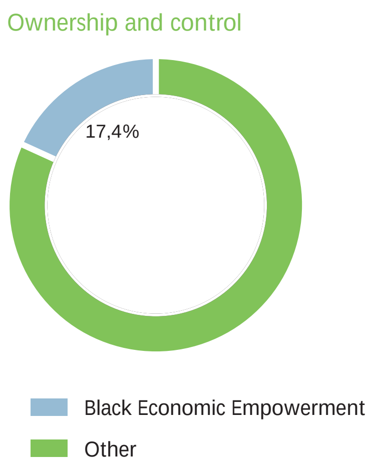


Good corporate citizenship

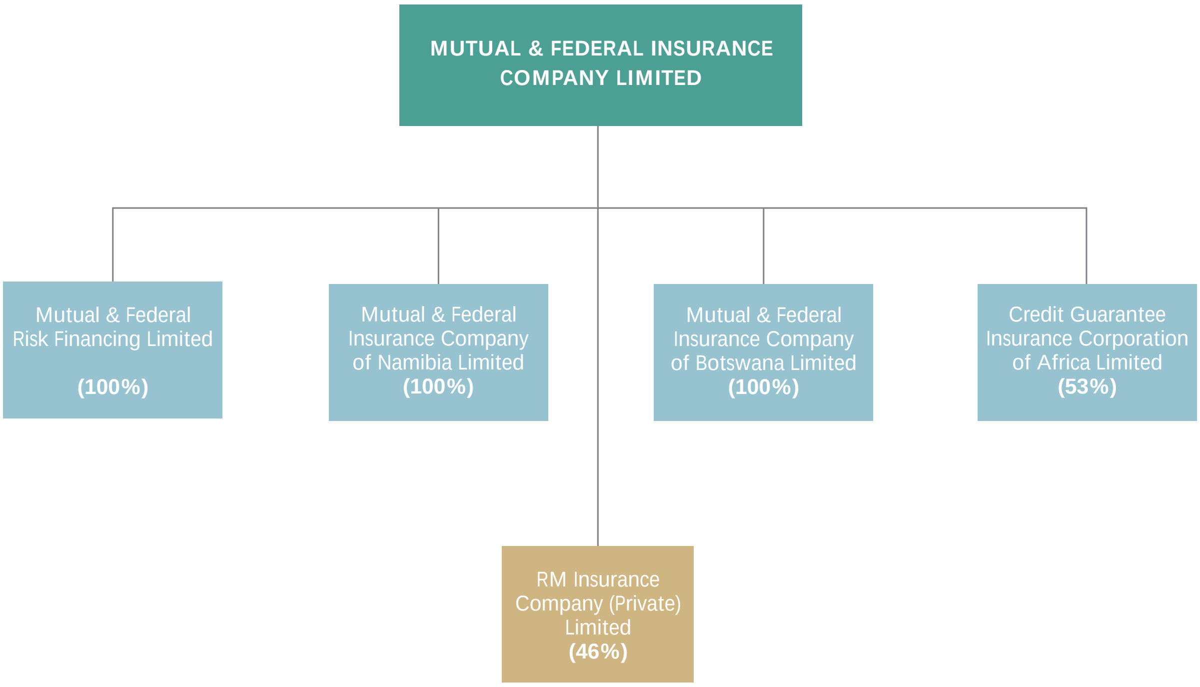
Achieve transformation in the business:

- promote a non-racial, non-sexist environment and enhance cultural diversity



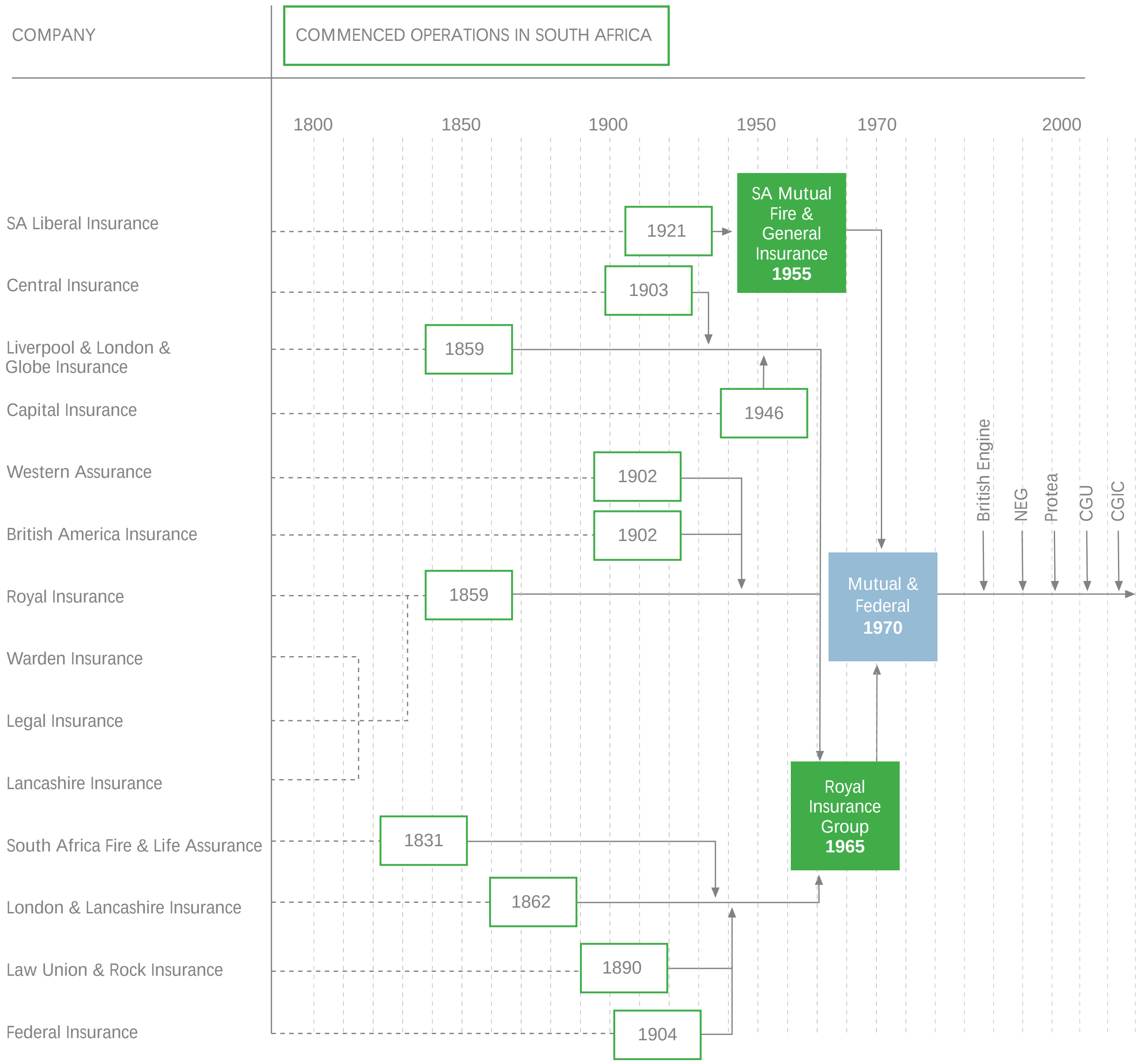


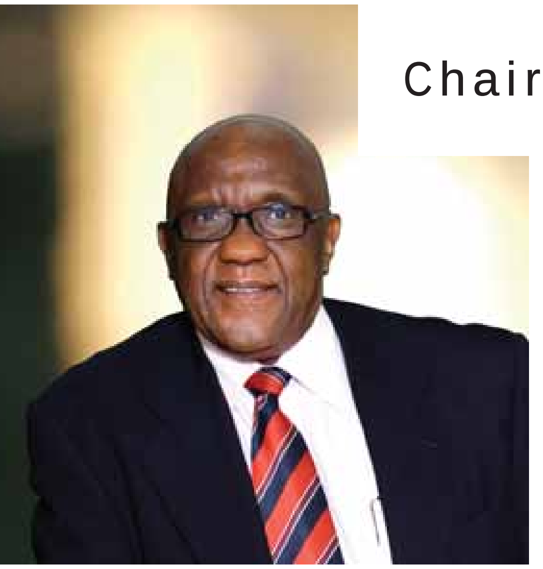
Group structure



The above represents operating entities within the group.

Group ancestry





Chairman's review

The continued success of the group follows the ongoing pursuit of the strategic vision

J B MAGWAZA
CHAIRMAN

It gives me pleasure to present an overview of the group activities for the year ended 31 December 2006. Although the underwriting surplus for the period declined from R577 million to R455 million this was nevertheless a credible performance following a substantial deterioration in trading conditions during the period.

The continued success of the group follows the ongoing pursuit of the strategic vision, which is to be the strongest and most successful insurer in our chosen market. To achieve this, during the period, management focused on a number of specific objectives. These included the delivery of sustained underwriting profitability, business growth and the achievement of strategic superiority. In addition management sought to improve employee satisfaction and to realise significant transformation in the workplace.

These endeavours were accompanied by sustained IT development which was aimed at improving efficiency, raising customer service levels and increasing client retention.

Economic overview

The South African economy continued to move positively during 2006 and the country enjoyed a growth rate of approximately 5%. Inflation remained well controlled within the Reserve Bank target range although interest rates did begin to increase during the period. The consumer- and housing boom maintained momentum and there were clear signs that the development of a large middle class was continuing. It is furthermore likely that the high levels of planned government infrastructural spending will promote further growth and this economic activity should lead to a reduction in unemployment and crime. These circumstances augur well for 2007, despite indications that international growth will begin to decline.

Group performance

Gross premium income increased by 7% to R8,5 billion during the year whilst premiums paid to reinsurers remained unchanged at R1,1 billion. Net premium income accordingly increased by 8% to R7,4 billion.

Claims incurred increased by 9% to R4,7 billion and the claims ratio for the year was 63% of net earned premiums, and this reflects an increase in average claims cost and an escalation in the overall incidence of claims.

The total final underwriting ratio was accordingly 6,1% which was somewhat lower than the 8,4% achieved during 2005. There was a corresponding 11% decrease in the General Insurance Result to R744 million.

Despite strong investment growth in 2006 the surpluses on the investment portfolio decreased by 25% following the disposal of R1,6 billion in equities to finance the payment of a special dividend.

Dividends and financial position

As a result of the strong capital position of the group a special dividend of 800 cents per share was paid in September 2006. This resulted in approximately R2 billion being returned to shareholders and had the effect of reducing the solvency margin (being the ratio of net assets to net premiums) to approximately 40%. This return of funds does not negatively impact the ability of the group to operate effectively but enhances the group's return on capital. As a result of the special dividend the net asset value per share declined from R19,43 at 31 December 2005 to R13,42 per share at 31 December 2006. The solvency margin at that date was 48,5% which is in accordance with the group's capital requirements. The sound financial position was furthermore confirmed by the "AAA" credit rating assigned to it by the Global Credit Rating Company during the year.

Market environment

The overall underwriting return within the short-term insurance industry declined during 2006 from the record levels achieved during 2004 and 2005. This decline resulted from an increase in the severity and frequency of claims which was particularly noticeable in the motor environment. The group was nevertheless successful in maintaining underwriting standards and this resulted in the delivery of satisfactory profits. Urgent attention has already been given to underperforming portfolios and the motor account in particular where rates have been increased in both the commercial and personal divisions.

Empowerment transaction

Mutual & Federal is committed to transformation as outlined in the Financial Sector Charter.

Following the highly successful empowerment transaction in South Africa during 2005, the group was successful in concluding an empowerment transaction in Namibia during 2006 to the value of 10% of the local operation. Mutual & Federal shares were allocated to Namibian staff, business partners, and the community. In selecting business partners consideration was given to ensuring that these partners represented a broad base of beneficiaries and that the management comprised predominantly black people. The credentials of black business partners were carefully assessed and consideration was given to ensuring that partners would assist with business development and retention. I am accordingly delighted to welcome the members of the Central Investment, Manmar and Northern Empowerment Investment consortia as business partners to Mutual & Federal Namibia.

Future prospects

There are early indications of a hardening of rates following the decline during 2006 and this should assist the group in achieving its long-term underwriting target of 4% of net earned premiums. Management will continue to apply responsible underwriting standards in setting rates commensurate with insurance risks and will endeavour to manage the underwriting cycle by applying strict discipline in settling claims and managing expenses. Management will also continue to seek improvements in efficiency in the administration of claims and in the administration of the business operations.

Chairman's review continued

The group remains committed to growth through continued development of the intermediary channel and the further development of relationships with brokers and clients.

There are indications of an upward trend in inflation levels and this could adversely affect the replacement costs of motor vehicle parts and non-motor assets. Management will accordingly be most vigilant in monitoring these developments and take appropriate steps to ensure that this does not adversely impact profitability.

The strong growth in global financial markets during 2006 is unlikely to be repeated during 2007 and some consolidation must be expected. We nevertheless expect share prices to show modest gain during 2007 aided by a buoyant domestic economy.

Appreciation

In conclusion I would like to thank the Board of Directors for their tireless efforts during 2006. During the year Mr Julian Roberts resigned from the Board following his appointment as chief executive of Skandia and the group will miss his wise counsel and warm personality.

I would like to welcome Mr Chris Ball, Mr Tom Boardman, Ms Almorie Maule and Ms Phuti Tsukudu who joined the board in October 2006. These individuals bring with them a wealth of experience and valuable insight and we are most fortunate to benefit from their presence.

In conclusion I would like to express my appreciation to the management and staff of the group for their continued commitment and the positive results achieved and I would like to thank our clients and intermediaries for their ongoing support during the year.

J B Magwaza
Chairman
7 February 2007

Strategic vision includes the delivery of sustained underwriting profits, business growth and the achievement of strategic superiority

Chief executive's review

The group refocused on strategic priorities in pursuit of growth and profitability

B CAMPBELL
MANAGING DIRECTOR

I take pleasure in reporting that the group produced a satisfactory financial result during 2006. The record levels of underwriting profitability achieved during 2004 and 2005 were not likely to be sustainable and a return to more normal claims patterns was inevitable. The general decline in underwriting fortunes was anticipated in line with the underwriting cycle which appeared to have peaked over 2004/2005.

Nevertheless the successful result has been achieved through the continued commitment of the organisation to the group's mission and core values. Once again staff have displayed a high level of passion in pushing beyond boundaries to achieve group and individual goals. Our employees have continued to exhibit absolute respect and integrity in their dealings with one another and with clients.

During the year the group refocused on strategic priorities and the implementation of those priorities in pursuit of growth and profitability objectives identified by management.

Financial results

The general insurance result for the year was R744 million which represents a decrease of 11% on the R832 million reported for 2005. The underwriting surplus of R455 million was 21% lower than the R577 million achieved in 2005 but nevertheless represents a ratio of 6,1% to net earned premiums.

The decline in underwriting profitability was particularly noticeable in the Personal Business Division where intense competition hampered efforts to implement the required rate increases. The motor account was severely impacted by an increase in the incidence of motor accidents and the continuing escalation in repair costs. In addition substantial weather related claims were experienced as a result of hail storms during the year. In February 2006 Namibia and Gauteng experienced particularly severe rain and hail and this was followed by significant storm damage in KwaZulu Natal during June, widespread flooding in the Eastern Cape in August and further storms during November in the summer rainfall areas.

The Commercial Business Division experienced a satisfactory year and despite a return to more normal claims patterns, the business was favourably impacted by a relatively low incidence of large commercial and industrial claims.

Competition remained high and underwriters within the division continued to decline some new business opportunities to ensure continued pricing disciplines.

CGIC experienced another excellent year with underwriting results remaining at historically high levels as management continued to exercise diligent control over underwriting and expenses.

Total gross premiums for the group increased by 7% from R8,0 billion to R8,5 billion. The high levels of competition within the market made growth difficult to achieve and in terms of the group's long-term objective, the group did not pursue growth indiscriminately at the expense of profitability.

Investment income for the year was R1 306 million and despite this representing a decline of 17% this was most satisfactory and is attributable to the strong performance of listed equities during the period. Notwithstanding the payment of a special dividend amounting to R2,1 billion, the group retained a strong solvency position whilst the payment resulted in an improved return on capital.

The net profit for the year accordingly declined by 38% from R1 395 million to R866 million.

Performance objectives

Management has identified a number of financial objectives for the group in pursuit of the corporate mission. The following were achieved during the year:

- The group achieved an underwriting surplus of 6,1% which was in excess of the long-term objective of 4%. The underwriting result was improved by certain reserve adjustments totalling R215 million, which are referred to on page 17 of the CFO's report.
- General expenses increased by 8,8%, but core expenses were broadly within inflation levels and in accordance with the corporate objective.
- The group was successful in achieving a return on capital in excess of 20%.
- Following the payment of the special dividend, a solvency margin of 40% was achieved whilst the group maintained a level of 80% of shareholders' funds invested in listed equities.

The premium growth target of inflation plus GDP plus 2% was not achieved in view of the highly competitive market which made the pursuit of business inadvisable where this would lead to a deterioration in profitability.

Strategic goals

During the period the group refocused its strategic direction and redefined the vision. The revised vision is "to be the strongest and most successful short-term insurer in our chosen market" and in pursuit of this, five key strategic initiatives were embraced.

- The primary strategic objective is the achievement of profitability and in this regard the group seeks to achieve and sustain underwriting profitability in all segments of the business. In addition, the group seeks to maximise returns on investments in respect of both shareholders and insurance funds. Management has set the goals of a return on capital greater than 20%, a long-term underwriting ratio in excess of 4% over a period of time, expense growth of less than CPI and a solvency margin of 40%.

- The second strategic objective involves the achievement of growth from existing markets, new products, new markets and new channels. The long-term growth objective over a period of time is measured against the objective of CPI + GDP + 2%. In terms of intentions to expand further into Africa, the group has also set an objective of achieving non-South African revenue equal to 7% of total revenue by 2010.

- The group furthermore seeks to achieve and retain strategic superiority and aims to grow market share by 30 basis points per annum on average. To achieve expense control objectives, management have set an objective of reducing the ratio of management expenses to premiums, progressively each year.

- Management recognises the value of human capital and aspires to "make Mutual & Federal a great place for which to work". To achieve this, the adherence to group values is seen as key and regular climate surveys are conducted to measure progress. Success is measured by reference to the staff turnover ratio which the group aims to reduce by 10% per annum.

The group is recognised as an industry leader in the development of both technical and managerial expertise for staff. To this end, substantial resources are deployed for staff training and our employees consistently achieve exceptional results in industry examinations.

At the same time the organisation is committed to achieving diversity and cultural transformation in the workplace. Workshops for all staff have been conducted throughout the country and with the assistance of external consultants strategic leadership initiatives have been implemented to enhance the sustained success of the group.

The group also intends to exploit the effective use of technology to promote excellent client service and therefore improve client retention. The retention is measured by reference to client churn which is expected to decline by 50 basis points per annum. At the same time the group's proportion of complaints referred to the Ombudsman for short-term insurance will be targeted to be less than 6% of the whole industry total.

There are indications of an improvement in the underwriting cycle

- The group endeavours to achieve further meaningful transformation in the workplace and to be a good corporate citizen. In this regard the group has set the objective of being an "A" rated company in terms of the Financial Sector Charter by the end of 2008.

Empowerment and transformation

Following the completion of the Black Economic Empowerment transaction in South Africa during 2005 Mutual & Federal issued shares to the value of 10% of the Mutual & Federal Namibian operations passed into the hands of black staff, business partners and community organisations within Namibia.

Within South Africa the Black Economic Empowerment transaction continued to deliver substantial benefits to the group. Our black business partners Wiphold and the Mtha consortium showed outstanding commitment and determination in delivering far reaching transformation within the business. They were also active and positive participants in the group's activities with the community.

Success was achieved in the improvement of employment equity particularly at management level, whilst client acquisition particularly in the underserved markets showed meaningful progress. There was further progress with regard to the development of black brokers and a number of exciting initiatives have been developed in conjunction with Old Mutual.

The transformation strategy adopted by the group is thus progressing well and is regularly monitored by a board committee which has been established with the business partners to ensure that the necessary transformation objectives and value creation are delivered.

Prospects for 2007

There are indications of an improvement in the underwriting cycle following the sharp decline over 2006. The group continues to enjoy exceptionally good relationships with intermediaries who conduct the overwhelming majority of short-term insurance business within the short-term insurance sector. Management is accordingly confident of maintaining market share despite intense levels of competition.

Conclusion

I would like to express my sincere thanks to our management and staff who have contributed so energetically to the performance of the group during 2006. I am also indebted to our many loyal clients for their ongoing support and assure them of our continued commitment to outstanding service. Finally I would like to extend my appreciation to the many intermediaries who continue to promote Mutual & Federal and who add significant value as our partners in the delivery of insurance products through the intermediary channel.

B Campbell
Managing Director
7 February 2007

Chief financial officer's report

During the year the company returned R2,1 billion to shareholders through the payment of the special dividend

P BEZUIDENHOUT
CHIEF FINANCIAL OFFICER

I take pleasure in presenting the financial report for 2006. The year was characterised by a continuing decline in underwriting returns in the industry and a substantial return of capital to shareholders by Mutual & Federal. At the same time regulatory and reporting requirements continued to evolve, providing greater transparency but placing increased demands on the organisational infrastructure.

To assist with providing an insight into a number of components of the operations and results, I would like to elaborate on a number of issues.

Basis of reporting

Following the adoption of IFRSs for the first time in 2005, the statutory financial statements have been prepared on this basis in 2006 and there have been no changes in accounting policy during the period. The financial statements provided in terms of IFRSs provide comprehensive information regarding the assets, liabilities, income and expenditure of the group. In addition, detailed background is provided with regard to the recognition and measurement of insurance contracts as well as insurance and financial risk. Due to the specialised nature of the business, further quantitative information is provided with regard to insurance contract provisions as well as a detailed analysis of the processes used to determine significant assumptions.

Financial results

Headline earnings for the period declined as a result of decreased underwriting profits, reduced returns on listed equities and reduced investment funds and increased secondary tax on companies ("STC") following the payment of a large special dividend. The results were however favourably impacted by R215 million, following a refinement of the estimation methods used for technical reserves in light of current business and accounting practices. In particular the provision for claims incurred but not reported ("IBNR") was reduced from 7% to 5,5% of net written premium and during the period the group changed the basis used in determining the provision for earned premiums from the 24th basis to the 365ths basis.

Supplementary income statement

In terms of IFRSs all realised and unrealised gains and losses on financial assets at fair value through profit or loss, are brought to account through the income statement. This inevitably leads to volatility and therefore a supplementary income statement is presented. This supplementary income statement separates the insurance and investment activities for ease of explanation and suitable benchmarking and comparison. The statement removes volatility from the results and presents a longer-term view of the investment activities by separating the long-term investment return ("LTIR") from short-term investment fluctuations. The LTIR is calculated at the rate of 11,1% and is applied to both insurance and shareholders' funds and is calculated on a smoothed basis over a three year period.

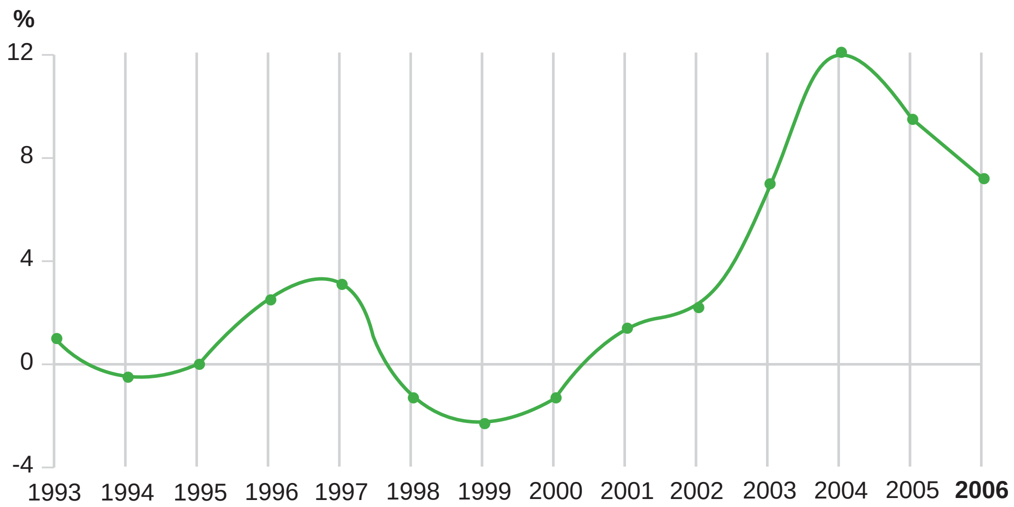
To assess the reasonableness of the LTIR the actual investment performance is compared to this return over a period of time. This comparison is reflected at the foot of the supplementary income statement and indicates that the LTIR has been a conservative indicator since inception.

The supplementary income statement is shown on page 43 together with a full explanation of the construction and layout on page 44 and 45.

Underwriting result

The underwriting result is inherently cyclical as shown in the graph below and the decline in 2006 from the records achieved in 2004 and 2005 is immediately apparent.

Underwriting results of the "typical" short-term insurers



The group objective remains to achieve a 4% underwriting surplus over a period of time and the 6,1% achieved in 2006 meets this target.

General Insurance Result ("GIR")

In addition to generating an underwriting surplus the underwriting activities of the group also yield investment income. This arises from the timing difference between the receipt of premiums, The 3,9% generated on the insurance funds also positively reflects the diligent cash flow management by the group

the actual loss event and ultimate payment of the claim. The "insurance funds" which arise as a result, accordingly generate an investment return which is added onto the underwriting result to produce a General Insurance Result. The 3,9% generated on the insurance funds also positively reflects the diligent cash flow management by the group. For 2006 the GIR was 10% of net earned premiums compared to 12,1% in 2005.

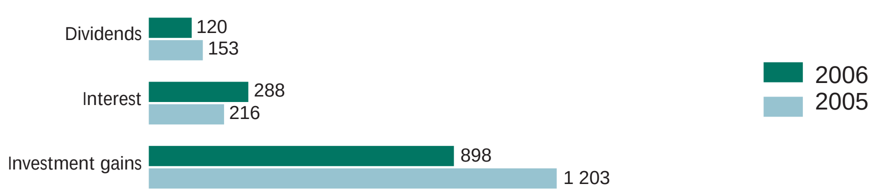
Operating income based on long-term investment return

The LTIR is also applied to shareholders' funds and this amount is then added to the GIR to determine the operating income. This amount accordingly represents the less volatile and more predictable component of the total income produced by the group and this is used to calculate the operating earnings per share. During the year the operating earnings per share reduced from 345 cents to 301 cents primarily as a result of the decline in underwriting profitability and reduced shareholders' funds following payment of the special dividend.

Investment income

Investment income is accumulated within the non-technical section of the supplementary income statement and comprises dividends, interest and investment gains and losses. Investment income declined during the period following reduced returns on listed equities and the payment of the special dividend. Investment income is benchmarked against the SWIX and IBA indices. The group outperformed the IBA but returned 31,7% on the equity portfolio which was below the SWIX return of 39,3% as a result of an underweight position in commodities. The investment returns of R1 306 million were nevertheless satisfactory resulting in a short-term investment fluctuation of R688 million in excess of the LTIR for the period.

Investment income (Rm)



Chief financial officer's report continued

Dividends

During the year the company returned R2,1 billion to shareholders through the payment of the special dividend of 800 cents per share. This capital reduction followed an ongoing review and detailed stochastic modelling to assess solvency requirements of the group. The special dividend had the effect of reducing the solvency margin to 40% which is considered adequate for the ongoing operations and development of the business. In addition to the special dividend an interim dividend of 40 cents (2005: 40 cents) and a final dividend of 135 cents (2005: 115 cents) were paid during the period. This effective increase in dividends reflects the ongoing commitment to maintaining capital at this reduced level.

Capital position

At the year-end the solvency margin (being the ratio of net assets to net premiums) had increased to 48,5% and the net asset value per share was R13,42. The group continues to monitor developments with regard to Financial Condition Reporting which is due to be implemented by the Registrar of Short-term Insurance in 2009. Based on the provisional information provided by the Registrar we believe that the group will adopt the internal model approach to Financial Condition Reporting and it is expected that capital requirements under this approach will not be significantly different from the present situation.

Other income and expenses

Goodwill

The goodwill in the balance sheet arises from the acquisition of subsidiaries in previous years. The group continues to impair the goodwill in recognition of the churn of the business acquired.

Non-operational items

During 2006 the group entered into a Black Economic Empowerment transaction in Namibia which gave rise to a cost of R7 million. In addition the share-based payment cost in respect of the 2005 South African empowerment transaction of R16 million is also included.

Taxation

The effective tax rate for 2006 was 42,6% and this was somewhat higher than the 22,1% in 2005 due to the secondary tax on companies incurred following the payment of the special dividend. In addition, the tax rate applicable to unrealised gains on equities increased as these shares were actively traded and therefore attracted income tax instead of capital gains tax.

P Bezuidenhout
Chief Financial Officer
7 February 2007

Operational report

In 2007 the commercial division will continue to focus on the delivery of growth

The company operates two distinct activities, namely insurance operations and investment activities

Insurance operations

The group manages the insurance operations by division which reflect the markets within which clients are serviced.

The **Commercial Division** services the needs of business undertakings which range in size from small operations to large corporates and conglomerates including mining and heavy industrial companies. The division also provides specialist insurance expertise such as engineering, marine and agricultural, where clients require these. Credit insurance is provided by subsidiary company CGIC.

The division experienced reasonable growth during the year with premiums increasing from R3,8 billion to R4,0 billion. Although profit margins reduced from those achieved during 2005 the result was nevertheless highly satisfactory.

These results were achieved despite continuing high levels of competition. Within the corporate sector significant volumes of premiums continued to leave the country to be placed with foreign insurers. Although there were a number of new entrants into the South African market during the year these had limited impact and it is clear that the group continues to enjoy high levels of intermediary support in this sector.

The corporate portfolio stabilised during 2006 and there are signs of responsible underwriting in this sector of the market with better pricing of risks and more scientific risk selection. The sector has also been fortunate as there was a relatively low level of large claims. By contrast the marine portfolio performed poorly during the period and was adversely impacted by a number of large claims. This sector is currently overtraded on a worldwide basis and is furthermore being negatively impacted by an ageing fleet of vessels.

The division was adversely effected during the period by a deterioration in the motor portfolio. In addition to an increase in the incidence of vehicle accidents, the increasing cost of imported parts and replacement of vehicles also negatively impacted profitability. Increased attention is accordingly being given to premium rates in the portfolio with greater attention being given to the impact of inflation on repair costs.

Operational report continued

The engineering portfolio experienced another profitable year due to a sustained low level of claims.

In the small to medium sized commercial environment there is evidence of a general increase in rates and management are optimistic of a return to better underwriting standards. It is also clear that the intermediary market continues to be actively involved within the commercial insurance environment and provides high levels of service and advice to a broad range of clients.

The agricultural sector of the market continued to be negatively impacted by depressed conditions within the farming industry. The group is active within that sector and has forged exceptional relationships which should assist in the future development of the business. The portfolio requires strong corrective action however with regard to both premium rates, risk selection and the application of more specific underwriting practices to recognise the risks insured.

CGIC once again experienced a highly successful year as a result of the relatively low levels of claims following generally low interest rates.

In the year ahead the commercial division will continue to focus on corrective action in the motor portfolio. There is also increased focus on improved expense efficiencies within the division and the group is currently developing sophisticated IT systems to assist in this regard.

The **Personal Division** services a wide range of domestic clients by providing intermediary-branded and in-house products. Conditions were highly competitive during the year and the division experienced an underwriting loss as premium increases proved difficult to achieve and claims continued to escalate in excess of normal inflation rates.

This was particularly noticeable in the intermediary-branded insurance motor portfolio, despite the cancellation of a number of underperforming schemes which caused these premiums to fall by 2% during the period.

Although growth of 9,9% was achieved in respect of the main in-house branded product Allsure, the final underwriting surplus achieved was less than 2% which is significantly lower than the group's long-term objective of 4% of net earned premiums.

In 2007 the division will continue to focus on the delivery of growth and continued corrective action in respect of various portfolios in the face of the deteriorating motor results and the continued high levels of competition.

In addition management will purposefully examine alternative distribution channels and will expand the product range. It is believed that this will assist in building critical mass in certain portfolios which are currently undersized. There will also be delivery of new IT systems during 2007 which will improve the delivery and functionality to clients and brokers. It is accordingly believed that significant improvements in both growth and profitability will be achieved during 2007.

The **Risk Finance Division** offers facilities to clients on a "rent-a-captive" basis as well as through independent cells owned by third parties. The underwriting results of the latter are not included with those of the group and only the fees earned are reflected in profit. The "rent-a-captive" business is however consolidated and continued to be highly profitable for the group during the year.

Despite a number of complex legal and accounting challenges which impacted risk finance insurance products, the division achieved growth of 12%. The implementation of the national credit legislation will ultimately lead to a reduction in gross premium levels during 2007 when it is envisaged that the Act will be implemented. Other proposed changes in regulation will inevitably place additional pressures on risk financing insurers with regard to the provision of adequate capital.

The division continues to enjoy a highly positive profile within the industry in which it operates and is one of the largest suppliers of risk financing solutions in South Africa. Despite the various challenges in this segment the division remains optimistic with regard to future growth and profitability due to the high levels of skills and systems available within the group.

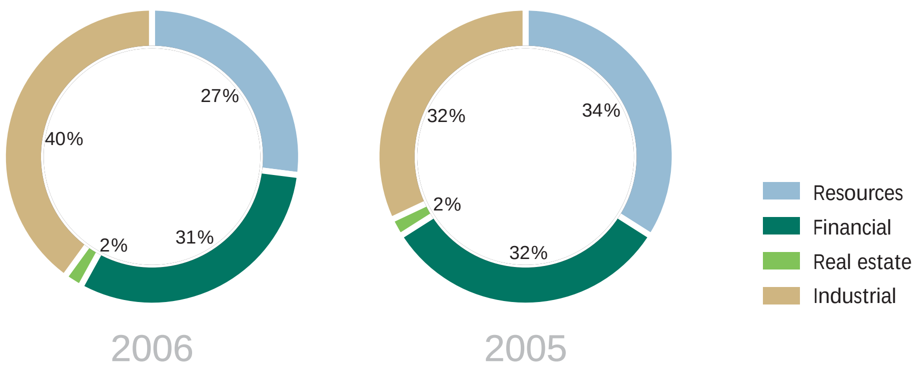
Investment activities

It is important to the group that an optimal level of investment returns is achieved on permanent capital as well as funds generated through insurance operations. The group therefore utilises the service of Old Mutual Investment Group South Africa ("OMIGSA") to provide professional guidance and moderate risk in managing the portfolio. Investment returns for the period were, in aggregate, lower than those achieved in 2005 but were nevertheless most satisfactory.

The group continues to invest 80% of the shareholders' funds into equity shares and the asset managers are mandated to match or exceed returns offered by the SWIX index.

The structure of the portfolio at the end of the year is shown below. The asset managers were not successful in achieving the SWIX benchmark on the equity portfolio primarily due to the need to restructure the portfolio at the time of its transfer at the beginning of 2006.

Listed ordinary shares (Rm)
Portfolio composition



The balance of the investments which comprise cash and near cash are also managed by OMIGSA and are invested in a range of instruments including preference shares, bonds, cash and short-term interest bearing investments. The investment horizon in respect of these investments is closely matched to the liability profile of the insurance operations to ensure that sufficient resources are available to meet liabilities at all times.

The investment of funds also recognises the requirement of the Short-term Insurance Act to ensure that "prudential" requirements of this Act are met at all times.

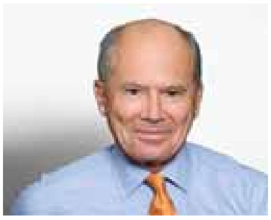
Directorate

J B Magwaza (64) (Chairman)[4]

Is a non-executive director of Nedbank Group Limited, Dorbyl Limited, Tongaat-Hulett Group Limited, Rainbow Chickens Limited, Kap International and Ithala Development Finance Corporation.

B Campbell (56)[3#] (Managing Director)

B.A., M.B.L., F.C.I.I., joined the short-term insurance industry through Royal Insurance Company in 1972 shortly before it merged with Mutual & Federal. He was appointed Managing Director of Mutual & Federal on 1 July 1998. He serves as a director on the Board of the South African Insurance Association.



C J W Ball (68)[2,4]

Dip. Juris, joined the company as a non-executive director in October 2006. He is a non-executive director of Nedbank Group Limited and Imperial Bank Limited and was previously chief executive officer of the FNB Group and the Cape Town Olympic Bid Committee.

T A Boardman (57)[2]

B.Com., C.A.(S.A.) joined the company as a non-executive director in October 2006. He is chief executive officer of the Nedbank Group Limited and was previously chief executive of BOE International Holdings Limited, Boardmans Limited and Sam Newman Limited.

R M Head (48)[*,1,2,3]

M.A.(Oxon.), A.C.A., A.C.I.I., F.I.C.B., joined the company as a non-executive director in October 2004. He is on the board of Old Mutual plc and is responsible for all African operations. He is also a non-executive director of Nedbank Group Limited.

P D Jones Vilakazi (Ms) (57)[**,4]

B.A., M.Ed., was appointed as a non-executive director in 2003. She is presently General Manager of Exegesis Consulting. She was President and Executive Director of Madison Park Development Corporation in Boston and was appointed Director of Public Affairs for the Greater Boston Chamber of Commerce.

D Konar (53)[2,4]

B.Com., H.Dip. Acc., MAS Cert. Tax Law, D.Com., C.A.(S.A.), was appointed as a non-executive director in 2003. He is Patron of the Institute of Internal Auditors South Africa, and a member of the King Committee on Corporate Governance, the Securities Regulation Panel, the Corporate Governance Forum and the Institute of Directors. He is a non-executive director of Old Mutual SA, the SA Reserve Bank, JD Group, SAPPI, Kumba Resources and Steinhoff International Holdings.

A A Maule (60)[4]

BSc, M.Sc. joined the company as a non-executive director in October 2006. She is a non-executive director of Old Mutual SA and was previously Chief Executive Officer of Engen Petroleum Limited.

R P Menell (51)[1,4]

B.A. (Hons.), M.A., M.Sc., joined the company in 1996 as a non-executive director. He is currently Chief Executive Officer of Teal Mining and Exploration Limited having previously been Chairman of Anglovaal Mining Limited and Avgold Limited and Deputy Chairman of Assmang Limited. He is also a director of Standard Bank Group, Telkom SA Limited and the National Business Forum.

M L Ndlovu (55)[3]

Dip. L.R., M.A.P., E.D.P., A.M.P. (Harvard), D. Tech (h.c.), joined the company as a non-executive director in 2004. He is a director of Nedbank Group Limited and formerly Chief Executive Officer of Peoples Bank Limited. He is a non-executive Chairman of Lafarge South Africa (Proprietary) Limited, the Community Growth Management Company Limited and the Environmental & Infrastructure Development Trust. He is a non-executive director of Nampak Limited and the South African National Roads Agency.

B T Ngcuka (52)[2,3]

B. Proc., LL.B., M.A., joined as a non-executive director of the company on 24 August 2005. He is Chairman of Amabubesi Investments, director of STRB Attorneys and a director of Transnet.

G T Serobe (47)

B.Com., M.B.A., joined as a non-executive director of the company in February 2007. She is Group Chief Executive Officer of Wipcapital and serves on several boards including Old Mutual SA and Nedbank Limited.

P R E Tsukudu (54)[1,4]

B.A., M.Ed., joined as a non-executive director of the company in October 2006. She is Managing Director of Tsukudu Associates and is chairman of The SA Post Office Limited.

* British
** American
1 Member of the Remuneration and Nomination Committee
2 Member of the Audit, Risk and Compliance Committee
3 Member of the Transformation Committee
4 Independent director
\# Executive

Executive team

Managing Director

B Campbell (56)

B.A., M.B.L., F.C.I.I., joined the short-term insurance industry through Royal Insurance Company in 1972 shortly before it merged with Mutual & Federal. He was appointed Managing Director of Mutual & Federal on 1 July 1998. He serves as director on the Board of the South African Insurance Association.

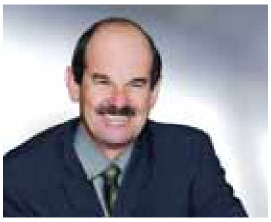
Executive General Managers

P Bezuidenhout (46)

H.C.I.L., C.I.S.A., B.Compt. (Hons.) C.A.(S.A.), joined Mutual & Federal in October 1999. As Executive General Manager: Services, he assumes responsibility for Financial Services, Secretarial Services, Compliance and Risk Finance.

C G Grieve (46)

joined Mutual & Federal in 1980 and moved into General Management in 2000 having worked in all business disciplines across the group. Promoted in 2006 to Executive General Manager Business: responsible for all Commercial Business. He served as Board director of The Fire Protection Association of Southern Africa for the last four years.



I Jurgensen (57)

F.C.I.I., was appointed to General Management in 1997. He has been with the company since 1968 when he joined London and Lancashire. He was appointed Executive General Manager in March 2005 and is responsible for the Business Support area. He is currently Chairman of the SAIA Insurance Data Sharing committee and sits on the South African Insurance Institute Membership committee.

K N Kennedy (55)

F.C.I.S., F.C.M.A., A.C.I.I., joined Mutual & Federal in June 2000 to head up the Commercial Business Division. In 2002 he was appointed Executive General Manager: Claims. He has more than 20 years' experience in the short-term insurance industry and serves on the Board of Nedinsurance Company Limted.

M W Oeschger (41)

appointed Executive General Manager: Personal in 2006. He previously held the position of Executive General Manager: Commercial since 2002. He serves as Chairman on the Board of Mutual & Federal Insurance Company of Botswana Limited and Credit Guarantee Insurance Corporation of Africa Limited.

General Managers

G M Benton (55)

B.A. (Hons.), C.A. (S.A.), F.C.A. (U.K.), joined Mutual & Federal in November 2000 as Group Secretary. He has responsibility for all secretarial, administration and governance functions within the group.

H T Cohen (55)

B.A., LL.B., became General Manager: Claims in 1998. He joined Mutual & Federal in the legal department in 1980 having previously worked for the Department of Justice.

J A Golding (56)

M.C.S.S.A., was appointed Chief Information Officer ("CIO") in December 2004. He joined Old Mutual's IT department in 1969 and transferred to Mutual & Federal in 1990 as IT Manager. He was appointed to the Executive in 1997 and spent two years as General Manager: Personal Business, immediately prior to being appointed CIO.

M Hendriks (Ms) (48)

B.A., M.B.L., A.C.I.I., was appointed General Manager: Claims in 2000. She joined Mutual & Federal in 1983.

M S Isaacs (48)

A.C.I.I., A.I.I.S.A., joined Mutual & Federal in 1984. He was appointed General Manager Personal Business 1 July 2006 and is responsible for the Allsure portfolio. He was previously Group Manager Old Mutual Liaison.

B D Johnson (47)

F.I.I.S.A., appointed General Manager: Personal Business in March 2005 and is responsible for Personal Group Schemes. He joined Mutual & Federal in 1983 and has served as a Regional Manager since 1997 in various operations in South Africa.

C P Kemp (54)

B.Com., C.A. (S.A.), F.I.R.M.S.A., A.I.I.S.A., joined the company as a General Manager in January 1998. He is responsible for risk financing and internal audit. He is the Chairperson of the Insurance Sectoral Training Authority and The Intermediaries Guarantee Facility Limited. He has specialised in insurance industry accounting and risk financing insurance since 1979, firstly as an auditor and subsequently in the industry itself.

Executive team continued

General Managers (continued)

B J Kuhn (45)

was appointed to the position of General Manager: Commercial in 2002 and was appointed General Manager: Business Support in March 2005. He started his insurance career with Commercial Union Insurance in 1983 and joined Mutual & Federal at the merger of CGU and Mutual & Federal in 2000.

B R Laird-Smith (53)

B.Com., C.A. (S.A.), has been General Manager: Finance since 1995 having previously held the role of Group Financial Manager from 1989. Prior to joining Mutual & Federal he spent 13 years with KPMG and presently sits on the board of City Deep Salvage Company.

G Lekola (29)

has been appointed to the position of General Manager: Personal business with effect from 2006. Prior to joining Mutual & Federal, he held the position of Programme manager: Strategy and Business Planning at MTN Limited.

S Legge (51)

F.I.I.S.A., F.C.I.I., was appointed General Manager: Commercial Business, Independent Brokers in March 2005. He joined Royal Insurance U.K. in 1973 and was seconded to Mutual & Federal South Africa from 1984 to 1988 and joined the permanent staff of Mutual & Federal in 1989.

S le Hane (52)

B.A., has been appointed to the position of General Manager: Claims, with effect from 19 February 2007. Prior to joining Mutual & Federal, she held the position of Chief Operating Officer/Acting Director for the Revenue Department with the City of Johannesburg.

R C Meer (57)

Was appointed General Manager: Commercial Business: National Brokers in July 2006. He joined the group in London with British Engine Insurance Company in August 1967 before being transferred to South Africa in 1972.

J Modise (44)

B.Com., MDP (Unisa), SEP (Wits & Harvard), joined Mutual & Federal in June 2006. Previous employment includes Deputy Director General: Human Resource Management & Development – Department of Public Service Administration; Head of HR – Hewlett Packard SA, General Manager: HR – Land Bank and most recently HR Director – SAP Africa.

Corporate governance

The group is fully committed to the principles of the Code of Corporate Practices and Conduct

Mutual & Federal is committed to a high standard of corporate governance and internal control as well as to fair dealing, integrity, openness and being accountable to all stakeholders. Directors and employees are expected to conduct themselves and the business in a manner that reflects this long-term commitment to ethical behaviour.

The group is fully committed to the principles of the Code of Corporate Practices and Conduct ("the Code") set out in the King Report on Corporate Governance ("King II"). The group complies in all material respects with the provisions of the Code. The areas of non-compliance have been specifically identified and reported to the Audit, Risk and Compliance Committee and Board. The directors, having regarded the circumstances and the relevance of the compliance, are of the opinion that the areas of non-compliance do not in any way compromise the high standard of corporate governance of the group.

Board of Directors and board committees

The company has a unitary board structure, which comprises one executive director, five connected non-executive directors and seven independent non-executive directors. The positions of Chairman and Chief Executive are separate. The Chairman of the Board is an independent non-executive director. The non-executive directors complement the skills and experience of the executive director contributing to the formulation of policy and decision making through their knowledge and experience.

Details of the directors are reflected on pages 24 to 25.

The Board as a whole, within its powers, selects and appoints directors on the recommendation of the Remuneration and Nomination Committee. Prior to appointment, potential board appointees are subject to a 'fit and proper' test as required by the JSE Securities Exchange South Africa and as prescribed by the Short-term Insurance Act. An induction process for newly appointed directors is in place to apprise them, where required, of their fiduciary duties and to acquaint them with the operations of the group.

All directors compulsorily retire every three years. Details of directors who are available for re-election to the Board at the next annual general meeting are included on page 53.

The Board has adopted formal written terms of reference, which determine the responsibilities and authority of the Board and its committees. These terms of reference have been drafted in compliance with best practice and the Code.

The Board meets four times per annum plus additionally as required to deal with any specific matters requiring their attention. It is responsible for the strategic direction of the group, the monitoring of operational performance and decision making on major issues.

More specifically, the main functions of the Board are to:

- determine the overall strategy and objectives for the group;
- formulate group policies;
- monitor and evaluate the performance of the group;
- approve dividend declarations as well as the interim and annual financial statements;
- rate the performance of directors and executive management of the group;
- establish and ensure that the group complies with appropriate corporate governance principles;
- assess and monitor the risk profile of the group; and
- perform succession planning.

A risk management profile has been developed for the group and specific responsibility for the management of these risks has been assigned to executive management

Full and timely information is supplied by management to enable them to discharge their duties. A Company Secretary is in place to provide information, services and advice to all members of the Board. They may also seek independent professional advice on the affairs of the group, should this be considered appropriate.

Directors are required to comply with the requirements of the JSE regarding inside information, transactions and disclosure of transactions.

The Board has established a number of standing committees. Although the Board delegates certain functions to these committees, it retains ultimate responsibility for the activities. At each board meeting, the chairperson of each of the committees reports on the issues discussed at the committee meetings. Each committee has a charter with defined terms of reference setting out the duties, roles and responsibilities of the committee.

Transformation Committee

The Transformation Committee comprises three non-executive directors and the managing director and is chaired by Mr Ngcuka. The mandate of the committee is to direct the implementation of the company's black empowerment transformation strategy and to ensure adherence to the Financial Sector Charter and DTI Code targets. The committee met four times during 2006.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises four non-executive directors, three of whom are independent non-executive directors and is chaired by Mr Menell. The committee determines the terms of employment and remuneration of group executives and approves overall remuneration levels for other grades of staff. It is also responsible for making recommendations to the Board on the appointment of directors and the structure of the Board. This process involves an evaluation of the skills, knowledge and experience required to implement the strategy and business plans as well as the board transformation process to meet the requirements of the Financial Sector Charter. The committee met four times during 2006.

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee comprises five non-executive directors, three of whom are independent non-executive directors and is chaired by Dr Konar. The role of the Audit, Risk and Compliance Committee is to assist the Board by performing an objective and independent review of the functioning of the finance, risk management and compliance mechanisms. This is achieved through close co-operation and communication with management and the internal and external auditors, who have unrestricted access to members of this committee.

One of the functions of this committee is to consider external auditor independence. For this purpose, a framework for the approval of all non-audit work has been put in place.

The committee meets four times per year. At every meeting, time is reserved for separate closed discussions with the committee together with external and internal audit, with management excluded, to provide an opportunity for private and candid communication.

A group Risk Management Sub-Committee has been established comprising three members of executive management. It reports to the Audit, Risk and Compliance Committee and reviews risk management and compliance procedures throughout the group to ensure that appropriate controls are in place to address those risks.

Risk management

Risk management is a Board responsibility and the objective is to identify, assess, manage and monitor the risks to which the business is exposed. A risk management profile has been developed for the group and specific responsibility for the management of these risks have been assigned to executive management. The group's approach to its insurance and financial risk management is dealt with in notes 5 and 6 of the financial statements.

Accountability and audit

Internal control environment

The Board has overall responsibility for the system of internal control of the group and for reviewing its effectiveness. The role of executive management is to implement Board policies on risk and control.

Corporate governance continued

The internal control structures of the group are designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the annual financial statements so that assets are adequately safeguarded against material loss and transactions are properly authorised and recorded. Such controls are based on established written policies and procedures which are monitored and applied by skilled personnel with an appropriate segregation of duties through clearly defined lines of accountability and delegation of authority. Nothing has come to the attention of the directors to indicate that any material breakdown in the key internal controls and systems occurred during the period under review.

Internal audit

The group's internal audit department carries out regular risk focused reviews of the system of internal control. It operates independently of executive management, reporting to the General Manager responsible for internal audit on a functional basis. Internal audit has unrestricted access to the Audit, Risk and Compliance Committee and the Board of Directors. An internal audit charter, reviewed and approved by the Audit, Risk and Compliance Committee, governs internal audit activity within the group and this activity is conducted in accordance with an annual audit plan. Progress against the audit plan is reported to the Audit, Risk and Compliance Committee.

Code of ethics

The group has a formal code of ethics that has been approved and adopted by the Board of Directors. Employees of the group are issued a copy of the code and are required to signify their acceptance of the code provisions. The code is consistent with the principles of integrity, honesty, ethical behaviour and compliance with all laws and regulations. All employees are also required to adhere to the provisions of the group internet, intranet and electronic mail policies.

A summary of the group's code of ethics is presented on page 39 of this report.

Going concern

The directors have no reason to believe that the operations of the group will not continue as a going concern in the year ahead.

Closed period of trading

During periods of corporate action, which could result in the availability of information of a price sensitive nature, the group imposes a closed period of trading in its shares on management and directors. This also applies for an appropriate period in advance of the publication of the interim and final results.

The closed period extends from the close of the financial period to the date of publication of the results.

Sustainability report

The strategy supports developments beyond mere compliance with FSC targets, and in implementing its strategy the group will integrate transformation with its business objectives

This sustainability report has been introduced to develop the reporting by Mutual & Federal on transformation and sustainability issues.

Black economic empowerment and transformation

Transformation is regarded as a critical component to the sustainability of Mutual & Federal and during 2006 the group continued to achieve substantial progress in this regard.

Empowerment transaction

The black economic empowerment transaction was concluded during August 2005 and resulted in the transfer of 11% of Mutual & Federal shares to black staff, business partners, intermediaries and the community. The shareholdings of black business partners under the scheme at 31 December 2006 is set out in the table below:

Staff			Black Business Partners		Intermediaries and Community	
Senior Black Management Scheme	**Black Management through the Management Scheme**	**Broad-based Scheme**	**WIPHOLD Consortium**	**Mtha Consortium**	**Black Broker Trust**	**Community Trust**
1,1%	5,0%	0,1%	4,4%	0,6%	0,5%	0,5%

A set of well defined principles were developed at the commencement of the empowerment process. These formed the framework for the transaction structure and the processes for its implementation. These principles recognised that:

- the group has an obligation to maximise shareholder value and be a responsible corporate citizen;
- equity ownership is only one element of the transformation objective of the group;
- an empowerment transaction should make commercial sense such that the value derived exceeds the cost, and the cost should be in line with market precedent;

- staff and management play an important role in creating value in the businesses;
- the Black Business Partners should be appropriately compensated for the value that they can add to the group's businesses. They should be incentivised to maximise value creation and should have a substantially broad-based ownership structure.

Performance contracts were signed by both of the South African Black Business Partner consortia for 2006 and workgroups established to implement the requirements of those performance contracts. The performance contracts detail the input of the Black Business Partners and the basis upon which they are to be remunerated. The level of remuneration is directly related to the performance delivered. The performance contracts for 2006 were assessed in the final quarter of the year and the performance fee for 2006 calculated accordingly. New contracts for 2007 have been developed.

Transformation strategy

Mutual & Federal is committed to being a fully transformed group catering for the short-term insurance needs of the broad South African economy and has developed a comprehensive transformation strategy.

This strategy supports the principles outlined in the Financial Sector Charter ("FSC") on Black Economic Empowerment ("BEE") as well as the belief that transformation is necessary for sustained business growth and is in the interest of all stakeholders.

The strategy supports developments beyond mere compliance with FSC targets, and in implementing its strategy the group will seek to integrate transformation with its business objectives.

The strategy is designed to ensure that the group plays a leadership role in broad-based BEE in two ways. Firstly through the implementation of a comprehensive transformation programme within Mutual & Federal and secondly through its role in facilitating and supporting BEE activities in the broader economy.

A review of the transformation strategy is being conducted to ensure alignment with the principles and objectives of the DTI Code of BEE Conduct which was gazetted in February 2007.

The transformation strategy is broadly based on the following principles:

Human resource development	The group wishes to continue to employ, empower and develop competent people in order to utilise their potential and to expand their careers. Mutual & Federal is committed to having a staff profile that adequately represents the demographics of the country in accordance with its employment equity plan at all levels within the group.

Business development	The strategy addresses the important issue of access to financial services for the LSM1-5 economic groupings (as set out in the FSC) but also has as its focus the broader objective of developing business strategies, products and services that cater for all income segments of the population.
Procurement	The group is committed to the implementation of a targeted procurement strategy to enhance BEE. Specific procurement objectives include encouraging, and where feasible facilitating, the transformation of existing trade agreements and service providers as well as increasing the source of potential BEE service providers and suppliers.
Enterprise development	The transformation strategy aims to foster new, and develop existing BEE accredited companies. A key instrument in this strategy will be the Mutual & Federal Black Broker Trust established as part of the empowerment transaction. The objective of the trust is to provide or secure finance for black people wishing to develop broker businesses to service the short-term insurance market in South Africa.
Empowerment financing	In terms of the strategy the group will direct a certain portion of its investable funds into projects for the utilisation of the broader South African community and in particular those members who were previously in a disadvantaged situation.

Responsibilities for the implementation of the transformation strategy have been assigned to executive management. The ongoing refinement of the transformation strategy as well as the monitoring of its implementation is dealt with by a Transformation Committee, comprising four non-executive directors and the managing director. Strategy co-ordinators from Mutual & Federal and the Black Business Partners have been co-opted onto the committee.

Financial Sector Charter on Black Economic Empowerment

Mutual & Federal is a signatory to the FSC on BEE.

The Charter covers every aspect of the business and subjects participating companies to an annual audit by the Charter Council, which is representative of a broad range of stakeholders including Government and the Congress of South African Trade Unions.

The charter requirements have been incorporated into the transformation strategy and the group is pleased to report that satisfactory improvement, in line with expectations, has been achieved in comparison to the previous year.

The group's overall point score on the FSC scorecard is as follows:

	December 2006	December 2005	Maximum per Scorecard
Human resources development	**5**	5	20
Procurement and enterprise development	**10**	6	15
Access to financial services	**1**	2	6
Empowerment financing	**3**	0	22
Ownership	**13**	14	14
Control	**4**	4	8
Corporate social investment	**1**	1	3
Total	**37**	32	88

The main areas of progress during 2006 were:

- Procurement and enterprise development

  During the year the group continued to make significant progress in terms of utilising BEE suppliers for MRO and claims spend.

- Human resource development

  Initiatives introduced to address the employee profile at management level have started to show results. Expenditure on the training of black staff and learnerships continues to be well in excess of the charter requirements.

- Empowerment financing

  Investment in BEE financing structures were concluded during 2006. Suitable projects in the area of Targeted Investments are currently under investigation.

The main areas of focus for 2007 will be human resource development, employment equity, access to financial services and empowerment financing.

The short-term insurance industry has made a concerted effort to address the requirements regarding access to financial services as an industry. Mutual & Federal has actively participated in the industry initiatives and expects to make significant progress in this regard during 2007.

Employment Equity Statistics*

	Other staff			**Junior management**			**Middle management**			**Senior management**			**Executive**			**Totals**		
Category	**2005**	**2006**	**Target 2008**	**2005**	**2006**	**Target 2008**	**2005**	**2006**	**Target 2008**	**2005**	**2006**	**Target 2008**	**2005**	**2006**	**Target 2008**	**2005**	**2006**	**Target 2008**
Asian females	155	**160**	135	14	**15**	14	5	**7**	7	–	**0**	–	–	**–**	–	174	**182**	156
Black females	243	**259**	380	12	**11**	37	2	**3**	20	1	**1**	4	–	**1**	1	258	**275**	442
Coloured females	264	**271**	218	14	**15**	16	3	**4**	5	–	**0**	1	–	**–**	–	281	**290**	240
White females	767	**708**	606	145	**150**	114	69	**66**	54	10	**12**	12	1	**1**	1	992	**937**	787
Asian males	81	**80**	87	22	**22**	22	5	**5**	7	1	**2**	2	–	**–**	–	109	**109**	118
Black males	244	**239**	417	17	**20**	51	5	**8**	24	2	**3**	6	–	**1**	4	268	**271**	502
Coloured males	151	**166**	163	6	**8**	15	9	**10**	6	3	**2**	2	1	**1**	–	170	**187**	186
White males	208	**181**	117	128	**117**	75	98	**94**	64	46	**48**	35	16	**15**	12	496	**455**	303
Total	2 113	**2 064**	2 123	358	**358**	344	196	**197**	187	63	**68**	62	18	**19**	18	2 748	**2 706**	2 734

** South Africa only*

Stakeholders

Shareholders

The group is committed to a process of continuing and meaningful communication with shareholders, and makes appropriate contact with investors following results declarations and major corporate actions. Presentations, followed by question and answer sessions, are held for the investment community following the release of the year-end and interim financial results.

Clients

The majority of the group's premium income is channelled through intermediaries. Strong long-term relationships with these intermediaries are a key success factor of the business.

The organisation places emphasis on professional, ethical and fair dealings. Intermediary satisfaction surveys are regularly conducted and open and honest communication is encouraged.

Relationships with policyholders are equally important and the group takes pride in being fair and professional in the settlement of claims. This was again clearly evidenced in recent statistics of complaints lodged with the Ombudsman for the Short-term Insurance Industry. In 2006, Mutual & Federal was the subject of 7% of all complaints. This percentage is low compared to the group's market share of approximately 20%.

Employees

People are the most important asset of the group and employees play a vital role in the creation of sustainable value for shareholders and benefits to all stakeholders.

The group employs, empowers and develops competent people in order to utilise their potential and expand their careers. The cornerstones of this vision are appropriate training programmes, effective performance management and rigorous motivation and remuneration programmes.

Leadership development has been a key focus area for the training department during 2006 and this focus will continue into 2007. A programme focusing on diversity management has recently been completed as part of the transformation strategy of the group.

The enhancement of performance management programmes has continued with the aim of introducing successful talent management and greater transparency which are designed to promote improved staff motivation and retention levels.

A number of meaningful changes have also been implemented to the remuneration programmes which have seen a wider spectrum of management being eligible for share options and incentive bonuses. Further improvements are foreseen as the group seeks to align itself with the adoption of best practice in their remuneration structures.

The transformation of the human resources profile to one which complies with the FSC and the DTI codes, underlies many of the current human resource initiatives. As such, the group aims to:

- promote a non-racial, non-sexist environment and to enhance cultural diversity and gender sensitivity;
- invest in human resource development across the full spectrum of skills, with special emphasis on increasing the participation of black people in skilled, strategic and operational leadership;
- invest in and equip current and future leadership incumbents with the appropriate knowledge and capacity to enable them to play a central role in driving the transformation programme;
- implement programmes relating to career development, mentoring, targeted recruitment and cultural diversity.

The FSC requires financial institutions to spend 1,5% of basic payroll per annum on the training of black employees. Mutual & Federal currently spends 1,6% of basic payroll per annum on the training of black employees and is committed to maintaining this level of expenditure.

Community

During 2006, Mutual & Federal contributed financially to 27 different organisations benefiting many people in need of education, health, welfare and participating in projects concerned with road traffic safety, crime prevention and conservation.

The main objective of the company's CSI programme is to contribute to the creation of a stable and prosperous community. The needs of the South African community are widespread and our CSI programme is designed to reach across all sectors supporting credible non-profit organisations without discriminating against race, gender, religion or sexual orientation. We aim to make a difference in the lives of as many people as possible and support projects which promote development in our communities.

Crime prevention and road traffic safety remain key focus areas in our programme, not only because of the impact on our line of business directly, but also because of the detrimental impact on our country and economy as a whle. Conservation of our natural heritage is equally important to ensure sustainability of these resources of future generations.

Education is an essential part of our country's current development and as a responsible corporate citizen we realise that participation in this area is pivotal to ensuring a prosperous future. Health and welfare are areas of great need, in particular with the enormous impact of the AIDS pandemic on the population of this country. There is a growing need for support of organisations working in this field today.

As a large corporate in a developing economy, we understand our responsibility towards the community we serve and aim to participate in the process of upliftment which in the long run will benefit all South Africans.

Our sport sponsorship is limited to cricket and rowing. Through the sponsorship of the South African Cricket Annual as well as the Annual Cricket Awards, we have built a strong relationship with the cricketing authorities in South Africa.

Through the Mutual & Federal Community Trust we support organisations or initiatives that fall into the following categories – AIDS Orphans, Vulnerable Children and Child-headed families; and Youth Empowerment. During 2006 we initiated the selection of suitable projects and have made the first payments to four organisations, amounting to R1 million: the Ithuba Trust, SOS Children's Villages, Ma Afrika Tikkun and City Year South Africa.

Managing HIV/AIDS

The group recognises the potential impact of HIV/AIDS on its staff as well as external stakeholders. It has addressed its potential impact on the welfare of staff through an awareness and prevention programme, with counselling for those affected.

Our corporate social investment programme places strong emphasis on supporting those affected by the pandemic. The group also intends to increase support to AIDS orphans in the forthcoming year.

Code of ethics

Preamble

The group maintains the highest ethical standards in carrying out its business activities. The group's reputation is one of its most important assets.

Maintaining the trust and confidence of all those whom the group deals with is accordingly one of its most vital responsibilities. In all of the group's operations its set of core values must be used to guide and direct the way the group does business.

The Mutual & Federal group recognises its obligation to those with whom it has dealings and applies the following principles and guidelines:

Customers, suppliers and intermediaries:

- integrity in all dealings;
- avoidance of untruths, concealment or overstatement in all publications and advertising; and
- absolute confidentiality of information received.

Shareholders:

- protection of the interests of all shareholders;
- accounting statements true and timely;
- aim to generate an attractive long-term return to for shareholders; and
- communicate business policies, achievements and prospects honestly.

Employees:

- respect for the dignity of the individual;
- recruit and promote employees on the basis of their suitability for the job with no discrimination;
- provision of a healthy and safe work environment;
- recognition of the efforts of an individual;
- encouragement and assistance for employees to develop relevant skills and competencies; and
- effective communication with all employees.

Government and the local community:

- serving the community by providing services efficiently and profitably and by providing good employment opportunities and conditions;
- supporting the communities in which the group operates, with charitable donations and educational and cultural contributions;
- conservation of the environment and responsible use of finite resources; and
- meeting tax obligations.

Competitors:

- not unfairly damaging to the reputation of competitors;
- not attempting to acquire information regarding a competitor's business by disreputable means; and
- not engaging in restrictive trade practices or abusing of any positions of market dominance.

Scope

The strict adherence to the provisions of this code is a condition of employment within the group. The Company Secretary is responsible for initiating and supervising the investigation of all reports of breaches of this code and ensuring that appropriate disciplinary action is taken when required.

The group aims to create the climate and opportunity for its employees to voice concerns about behaviours or decisions that they perceive to be unethical.

Seven year review

Group	2006 Rm	2005 Rm	2004 Rm	2003* Rm	2002* Rm	2001* Rm	2000* Rm
BALANCE SHEETS							
Assets							
Property and equipment	**226**	202	166	159	157	153	138
Interest in associated companies	**4**	–	220	190	96	101	125
Goodwill	**46**	82	140	142	163	179	143
Intangible assets	**132**	107	94	37	–	–	–
Investment properties	**–**	7	7	6	8	2	–
Investments at fair value	**5 051**	5 742	4 103	3 813	2 409	3 513	4 045
Reinsurers' share of insurance contract provisions	**781**	798	813	855	733	500	473
Subrogation recoveries receivable	**107**	34	–	–	–	–	–
Deferred acquisition costs	**174**	150	149	151	151	127	107
Deferred taxation	**10**	18	6	–	5	–	–
Trade and other receivables	**853**	790	572	654	865	856	631
Cash	**1 159**	1 974	1 428	1 196	2 070	1 203	966
Total assets	**8 543**	9 904	7 698	7 203	6 657	6 634	6 628
Equity and liabilities							
Total shareholders' equity	**3 417**	4 878	3 616	3 458	2 944	3 180	3 489
Interest of outside shareholders in subsidiaries	**188**	197	–	2	2	3	128
Preference shareholders' interest	**–**	–	–	36	–	–	–
Interest bearing loan	**5**	10	2	27	100	150	–
Non-current provisions	**147**	131	100	97	93	101	117
Deferred taxation	**132**	262	135	58	40	162	45
Technical provisions	**3 730**	3 673	3 304	3 169	2 898	2 557	2 480
Current liabilities	**924**	753	541	356	580	481	369
Total equity and liabilities	**8 543**	9 904	7 698	7 203	6 657	6 634	6 628
INCOME STATEMENTS							
Gross premiums	**8 549**	8 005	7 360	6 486	5 603	4 820	3 468
Net premiums	**7 427**	6 874	6 417	5 608	4 886	4 306	3 152
Underwriting surplus/(loss)	**455**	577	607	392	116	85	(2)
Investment return on insurance funds	***289***	*255*	*201*	*210*	*195*	*161*	*144*
General insurance result	**744**	832	808	602	311	246	142
Long-term investment return on shareholders' funds	***329***	*368*	*348*	*395*	*387*	*393*	*381*
Operating income based on long-term investment return	**1 073**	1 200	1 156	997	698	639	523
Short-term investment fluctuations	**688**	949	469	(50)	(700)	299	2
Impairment of goodwill and amortisation	**(36)**	(58)	(2)	(21)	(21)	(18)	(4)
Non-operational items	**(22)**	(146)	(30)	–	(16)	–	(7)
Profit/(loss) before taxation	**1 703**	1 945	1 593	926	(39)	920	514
Taxation	**(726)**	(430)	(442)	(250)	(60)	(279)	(166)
Profit/(loss) after taxation	**977**	1 515	1 151	676	(99)	641	348
Share of profit/(loss) of associated companies	**4**	3	30	33	(6)	25	11
Income attributable to outside shareholders	**(115)**	(123)	–	(36)	–	1	(1)
Net profit/(loss) for the year	**866**	1 395	1 181	673	(105)	667	358

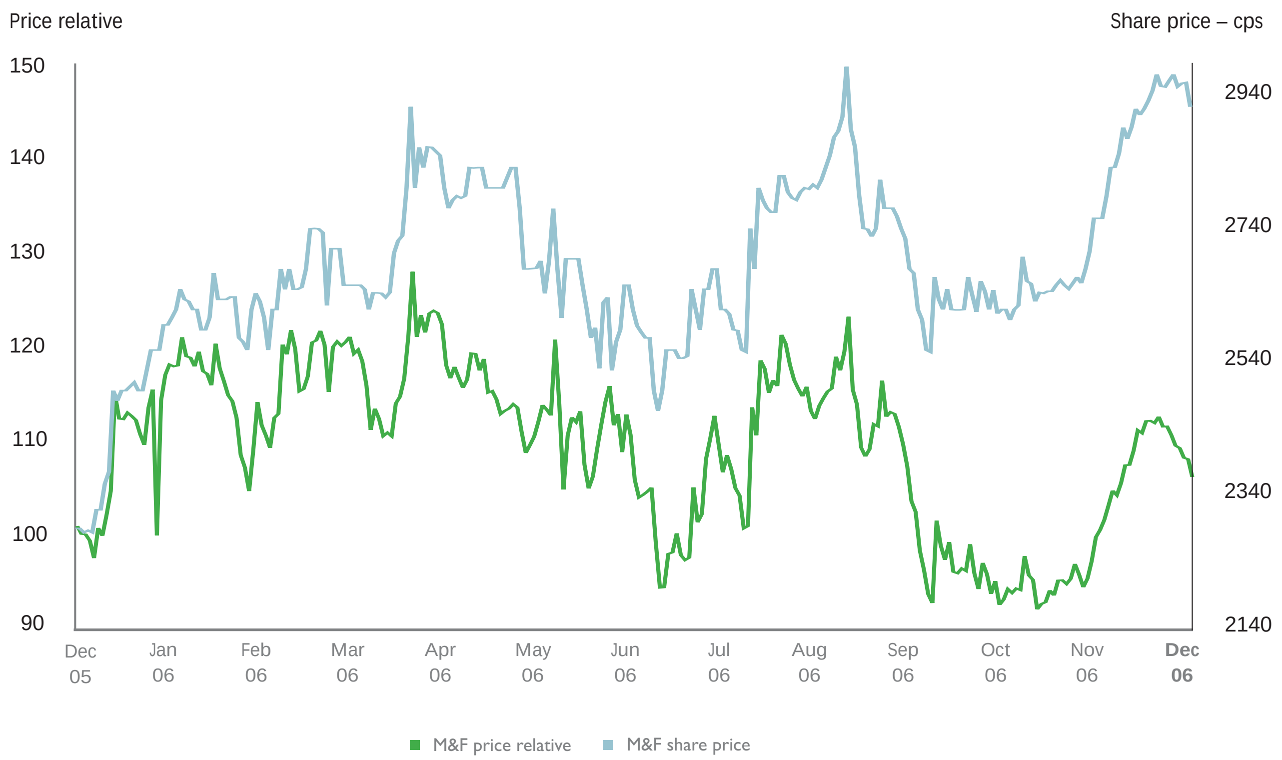
Group	2006 Rm	2005 Rm	2004 Rm	2003* Rm	2002* Rm	2001* Rm	2000* Rm
CASH FLOW STATEMENTS							
Cash generated by operations	**601**	816	990	555	176	220	231
Investment income	**408**	369	321	339	306	341	361
Taxation paid	**(787)**	(391)	(394)	(261)	(105)	(287)	(30)
Cash generated by operating activities	**222**	794	917	633	377	274	562
Cash generated by/(utilised in) investing activities	**1 440**	(18)	342	(1 359)	621	939	(182)
	1 662	776	1 259	(726)	998	1 213	380
Cash utilised in financing activities	**(2 477)**	(401)	(1 027)	(148)	(131)	(976)	(860)
(Decrease)/increase in cash and cash equivalents	**(815)**	375	232	(874)	867	237	(480)
Cash and cash equivalents at beginning of year	**1 974**	1 428	1 196	2 070	1 203	966	1 446
Cash and cash equivalents of subsidiary consolidated	**–**	174	–	–	–	–	–
Effect of exchange rate movements on cash and cash equivalents	**–**	(3)	–	–	–	–	–
Cash and cash equivalents at end of year	**1 159**	1 974	1 428	1 196	2 070	1 203	966
KEY RATIOS (%)							
Claims ratio	**62,7**	62,4	62,2	68,2	73,1	73,5	75,5
Management expense ratio	**9,6**	8,8	8,4	7,8	8,5	9,1	8,8
Operating ratio	**93,9**	91,6	90,6	93,1	97,6	98,0	100,0
Five year compound return on shareholders funds	**20,2**	20,1	15,7	15,3	11,2	10,9	10,7
Return on total assets	**10,1**	14,1	15,3	9,3	(1,6)	10,1	5,4
Solvency margin	**48,5**	73,8	56,4	61,7	60,3	73,9	110,7
PERFORMANCE PER ORDINARY SHARE							
Operating earnings per share (cents)	**301**	345	363	308	227	188	135
Headline earnings per share (cents)	**361**	592	486	284	(37)	283	150
Basic earnings per share (cents)	**343**	560	480	276	(45)	276	149
Dividends per share (cents)							
Ordinary	**175**	155	105	73	64	58	58
Special	**800**	–	350	–	–	350	300
Dividend cover (times)	**2,0**	3,6	4,6	3,8	(0,7)	4,8	2,6
Net asset value per share (cents)	**1 342**	1 943	1 464	1 410	1 207	1 312	1 447
OTHER STATISTICS							
Number of employees at year-end	**2 998**	3 051	3 121	3 277	3 038	3 344	3 653
Gross premium per employee (R000)	**2 852**	2 624	2 358	1 979	1 844	1 441	949

**Comparative figures for the individual years prior to 2004 have not been restated in terms of IFRS as the required information was not always available.*

	2006 Rm	2005 Rm	2004 Rm	2003* Rm	2002* Rm	2001* Rm	2000* Rm
Stock exchange statistics							
Market price per share (cents)							
Closing	**2 900**	3 100	2 450	1 710	1 475	1 590	1 600
Highest	**3 800**	3 100	2 451	1 750	1 840	2 200	2 000
Lowest	**2 287**	2 090	1 469	1 150	1 400	1 575	1 290
Number of shares traded (000)	**20 269**	6 729	15 475	6 569	9 075	13 988	12 716
Value of shares traded (R000)	**619 004**	162 870	271 109	94 348	151 876	266 219	379 866
Number of shares traded as a percentage of total issued shares (%)	**7,0**	2,4	6,3	2,7	3,7	5,8	5,3
Dividend yield at year-end (%)	**26,7***	3,9	3,0	3,9	3,9	3,6	3,6
Earnings yield at year-end (%)	**15,8**	19,2	19,4	16,5	(2,5)	17,8	9,4
Price earnings ratio at year-end (%)	**6,3**	5,2	5,2	6,0	(39,9)	5,6	10,7
Market capitalisation (Rm)	**8 369**	8 711	6 062	4 193	3 589	3 852	3 857

** Includes special dividend.*

Mutual & Federal share price performance relative to JSE ALSI
for the period 01/01/2006 to 31/12/2006



Supplementary income statements

for the year ended 31 December 2006

(Reflecting long-term rate of return adjustment)

	Group		Company	
	2006	2005	**2006**	2005
	Rm	Rm	**Rm**	Rm
Technical account				
Gross premiums	**8 549**	8 005	**7 190**	6 673
Less: Reinsurance premiums	**1 122**	1 131	**426**	440
Net premiums	**7 427**	6 874	**6 764**	6 233
Change in provision for unearned premiums	**32**	8	**6**	(2)
Gross amount	**21**	(17)	**21**	10
Reinsurers' share	**11**	25	**(15)**	(12)
Earned premiums net of reinsurance	**7 459**	6 882	**6 770**	6 231
Claims incurred net of reinsurance	**(4 673)**	(4 291)	**(4 337)**	(3 986)
Acquisition expenses	**(1 612)**	(1 406)	**(1 573)**	(1 347)
Management expenses	**(719)**	(608)	**(625)**	(530)
Underwriting surplus	**455**	577	**235**	368
Investment return on insurance funds	***289***	*255*	***191***	*171*
General insurance result	**744**	832	**426**	539
Long-term investment return on shareholders' funds	***329***	*368*	***341***	*351*
Operating income based on long-term investment return	**1 073**	1 200	**767**	890
Non-technical account				
Short-term investment fluctuations	**688**	949	**599**	968
Dividends, interest and rentals	**408**	369	**633**	516
Realised surplus on investments	**2 132**	581	**1 595**	359
Movement in unrealised net surplus on investments	**(1 234)**	622	**(1 097)**	615
Allocated investment return transferred to technical account	***(618)***	*(623)*	***(532)***	*(522)*
Impairment of goodwill	**(36)**	(58)		
Non-operational items	**(22)**	(146)	**(17)**	(146)
Profit before taxation	**1 703**	1 945	**1 349**	1 712
Taxation	**(726)**	(430)	**(475)**	(235)
Profit after taxation	**977**	1 515	**874**	1 477
Share of profit of associated companies	**4**	3		
Profit for the year	**981**	1 518	**874**	1 477
Attributable to:				
Equity holders of the company	**866**	1 395	**874**	1 477
Minority shareholders	**115**	123		
	981	1 518	**874**	1 477
Operating earnings per share (cents)				
Basic	**301**	345		
Diluted	**287**	333		

Supplementary income statements continued

for the year ended 31 December 2006

(Reflecting long-term rate of return adjustment)

Explanation:

The results for the year, in accordance with IFRS, are shown in the income statement. To illustrate the outturn of the insurance and investment operations, the above supplementary income statements are provided and separated into:

(a) A technical account

The technical account includes a long-term investment return of 11,1% (2005: 11,1%) on both:

(i) funds generated by the insurance activities; and

(ii) shareholders' funds.

(b) A non-technical account

The non-technical account includes all non-insurance related activities including investments, less above mentioned allocated investment returns transferred to the technical account.

The investment return on investments supporting insurance activities is allocated to the technical account in determining the general insurance result. In addition, the long-term investment return on investments supporting shareholders' funds is allocated from the non-technical account to the technical account in determining an operating income based on the long-term investment return. The allocations accordingly negate one another in the determination of profit before taxation.

The long-term investment return on shareholders' funds is an estimate of the long-term trend investment return for the relevant category of investments having regard to past performance, current trends and future expectations.

Operating earnings per share

Operating earnings per share are calculated on profit attributable to ordinary shareholders adjusted for impairment of goodwill, non-operational items, share of associated company's profit, short-term investment fluctuations net of taxation adjusted for outside shareholders' share and secondary tax on companies of R760 million (2005: R858 million). The calculation is based on a weighted average of 252 462 702 (2005: 249 034 665) shares in issue during the period.

	Group	
	2006 Rm	2005 Rm
Reconciliation of operating earnings		
Profit attributable to ordinary shareholders	**866**	1 395
Impairment of goodwill	**36**	58
Non-operational items	**22**	146
Share of associated companies' profit	**(4)**	(3)
Short-term investment fluctuations	**(688)**	(949)
Outsides shareholders' short-term investment fluctuations	**24**	38
Taxation effect of short-term investment fluctuations	**185**	138
Secondary tax on companies	**319**	35
Operating earnings	**760**	858

Diluted operating earnings per share

Diluted operating earnings per share are calculated on profit adjusted for impairment of goodwill, non-operational items, share of associated company's profit, short-term investment fluctuations net of taxation adjusted for outside shareholders' share and secondary tax on companies of R760 million (2005: R858 million). The calculation is based on a diluted weighted average of 264 823 885 (2005: 257 799 356) shares in issue during the period.

Comparison of the aggregate actual return to calculated long-term return

Group	Total Rm	2006 Rm	2005 Rm	2004 Rm	1999-2003* Rm
Actual returns	**8 059**	**1 306**	1 572	1 018	4 163
Long-term returns	**4 688**	**618**	623	549	2 898
Excess aggregate short-term fluctuations	**3 371**	**688**	949	469	1 265

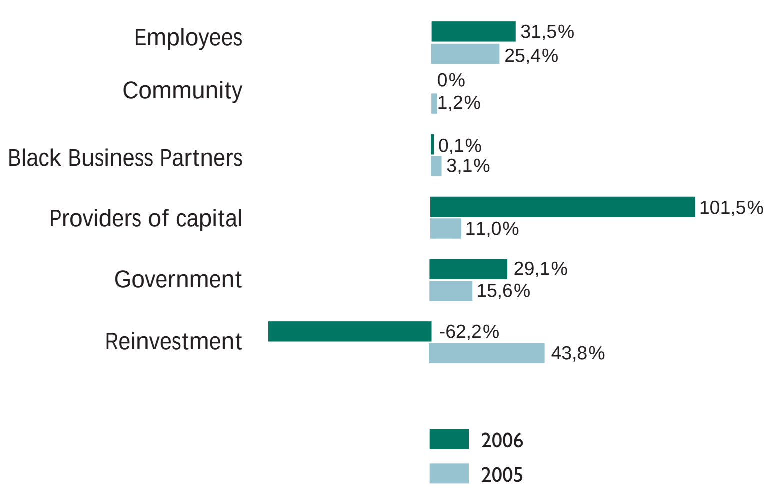
** Since implementation in 1999*

Value added statement

for the year ended 31 December 2006

	Group	
	2006 **Rm**	2005 Rm
Value added is a measure of the wealth the group has been able to create. The following statement shows how this wealth has been created and distributed.		
Value added		
Gross premiums	**8 549**	8 005
Reinsurance premiums	**(1 122)**	(1 131)
Claims paid, reserve movements and cost of other services	**(6 241)**	(5 677)
	1 186	1 197
Investment income (including associates)	**1 310**	1 575
Total value created	**2 496**	2 772
Value distributed		
Employee benefits	**785**	703
Community	**1**	34
Black Business Partners	**2**	85
Government	**727**	432
Direct and deferred taxation on income	**407**	395
Secondary tax on companies	**319**	35
Regional Service Council levies	**1**	2
Shareholders	**2 534**	304
	4 049	1 558
(Reserves and capital utilised in value distribution)/retained for investment and future support of business	**(1 553)**	1 214
Total value distributed	**2 496**	2 772

Value distributed (%)



Gross and reinsurance underwriting results

for the year ended 31 December 2006

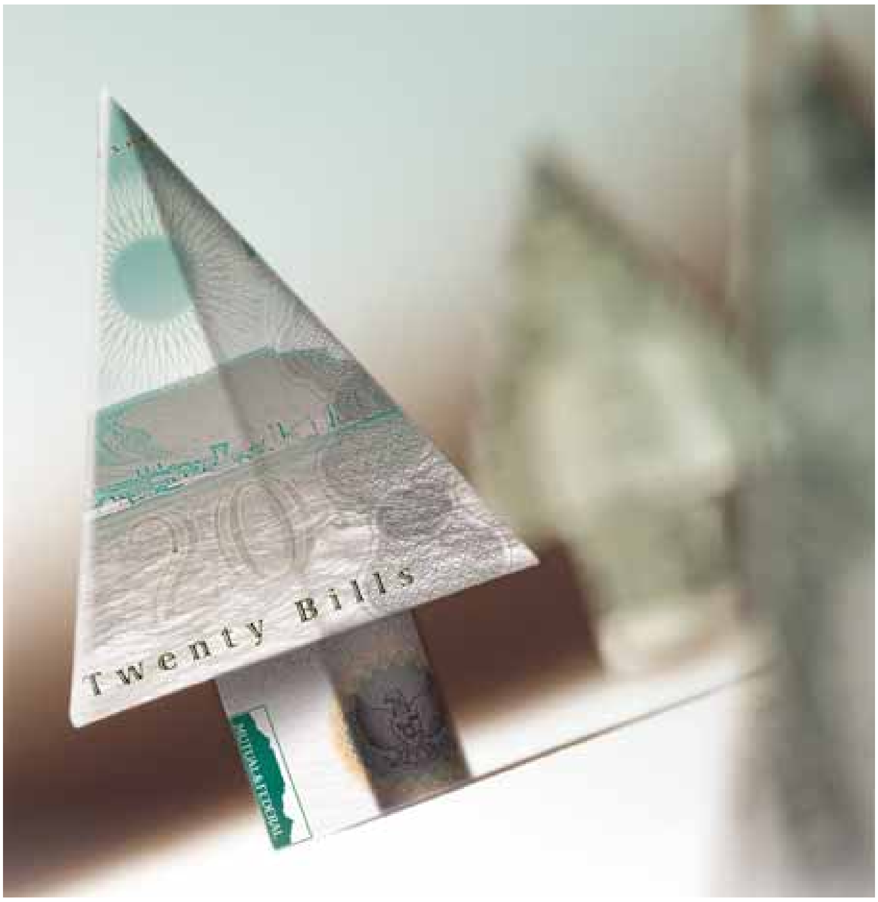
	Group		Company	
	2006	2005	**2006**	2005
	Rm	Rm	**Rm**	Rm
Gross account				
Gross premiums	**8 549**	8 005	**7 190**	6 673
Change in provision for unearned premiums	**21**	(17)	**21**	10
Earned premiums	**8 570**	7 988	**7 211**	6 683
Claims incurred	**(4 893)**	(4 737)	**(4 257)**	(4 111)
Acquisition expenses	**(1 794)**	(1 639)	**(1 644)**	(1 447)
Administration expenses	**(719)**	(608)	**(625)**	(530)
Gross underwriting surplus	**1 164**	1 004	**685**	595
Reinsurance account	**(709)**	(427)	**(450)**	(227)
Premiums paid	**(1 122)**	(1 131)	**(426)**	(440)
Change in provision for unearned premiums	**11**	25	**(15)**	(12)
Earned premiums	**(1 111)**	(1 106)	**(441)**	(452)
Claims recovered	**220**	446	**(80)**	125
Commission received	**182**	233	**71**	100
Net underwriting surplus	**455**	577	**235**	368

Convenience statements

Group 2006 £m	Group 2005 £m		Group 2006 Rm	Group 2005 Rm
		BALANCE SHEETS AT 31 DECEMBER 2006		
		Assets		
17	18	Property and equipment	**226**	202
–	–	Interest in associated companies	**4**	–
3	8	Goodwill	**46**	82
10	10	Intangible assets	**132**	107
–	1	Investment properties	**–**	7
369	527	Investments at fair value through profit and loss	**5 051**	5 742
57	73	Reinsurers' share of insurance contract provisions	**781**	798
8	3	Subrogation recoveries receivable	**107**	34
13	14	Deferred acquisition costs	**174**	150
1	2	Deferred taxation	**10**	18
63	72	Trade and other receivables	**853**	790
85	181	Cash and cash equivalents	**1 159**	1 974
626	909		**8 543**	9 904
		Equity and liabilities		
250	448	Capital and reserves	**3 417**	4 878
14	18	Interest of minority shareholders in subsidiary companies	**188**	197
11	12	Post-retirement medical benefit provision	**147**	131
10	24	Deferred taxation	**132**	262
–	1	Interest bearing loans	**5**	10
273	337	Insurance contract provisions	**3 730**	3 673
68	69	Agents' balances, accounts payable and provisions	**924**	753
626	909		**8 543**	9 904
		INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006		
685	691	Gross premiums	**8 549**	8 005
595	594	Net premiums	**7 427**	6 874
36	50	Underwriting surplus	**455**	577
23	*22*	*Investment return on insurance activities*	***289***	*255*
59	72	General insurance result	**744**	832
26	*32*	*Long-term investment return on shareholders' funds*	***329***	*368*
85	104	Operating income based on long-term investment return	**1 073**	1 200
55	82	Short-term investment fluctuations	**688**	949
(3)	(5)	Impairment of goodwill	**(36)**	(58)
(2)	(13)	Non-operational items	**(22)**	(146)
135	168	Profit before taxation	**1 703**	1 945
(58)	(37)	Taxation	**(726)**	(430)
77	131	Profit after taxation	**977**	1 515
–	–	Share of profit of associated companies	**4**	3
77	131	Profit for the year	**981**	1 518
		Exchange rates used for conversion		
0,08017	0,08635	Average currency translation rate	**1,00000**	1,00000
0,07313	0,09181	Closing currency translation rate	**1,00000**	1,00000

Mutual & Federal

Annual Financial Statements 2006



MUTUAL&FEDERAL

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Authorided Financial Services Provider.

Contents

Statement of responsibility by the Board of Directors

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

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

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

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

The auditor is responsible for reporting on whether the group and company's annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the group and company's annual financial statements

The group and company's annual financial statements of Mutual & Federal Insurance Company Limited, as identified in the first paragraph, were approved by the Board of Directors on 7 February 2007 and signed on its behalf by

JBMagwaza

J B Magwaza
Chairman
7 February 2007

B Campbell
Managing Director

Certificate by Company Secretary

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

G M Benton.

G M Benton
Company Secretary
7 February 2007

Independent auditors' report

To the members of Mutual & Federal Insurance Company Limited

We have audited the group annual financial statements and the annual financial statements of Mutual & Federal Insurance Company Limited, which comprise the balance sheets at 31 December 2006, and the income statements, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 52 to 120.

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.

Auditors' 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Mutual & Federal Insurance Company Limited at 31 December 2006, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered Auditor

Per G Dixon
Chartered Accountant (SA)
Registered Auditor
Director
7 February 2007

KPMG Crescent
85 Empire Road
Parktown
South Africa, 2193

Directors' report

On 7 February 2007, the directors approved the accompanying financial statements set out on pages 56 to 120 and take pleasure in presenting their report.

Nature of business

The Mutual & Federal Insurance group transacts all classes of short-term insurance business.

Share capital

The company's authorised share capital remained unchanged at 350 000 000 shares of 10 cents each. During the year 7 581 602 shares were issued at a premium of R192 million.

Premium income

The group's gross premiums for the year totalled R8 549 million (2005: R8 005 million). After deducting reinsurance premiums of R1 122 million (2005: R1 131 million), net premiums amounted to R7 427 million (2005: R6 874 million).

Underwriting results

The underwriting surplus for the year was R455 million compared to R577 million in the previous year.

Contingency reserve

The current year's financial statements include a transfer of R49 million (2005: R51 million) to the contingency reserve as required by the regulatory authorities in South Africa and Namibia. The group's contingency reserve now stands at R757 million (2005: R708 million) which fully meets these requirements.

Investment income

Dividends, interest and rental income net of expenses amounted to R408 million for the year (2005: R369 million), whilst the realised and unrealised surplus on investments amounted to R898 million (2005: R1 203 million).

Dividends

An interim dividend of 40 cents per share was declared payable in September 2006 (2005: 40 cents). A special dividend of 800 cents per share was declared in September 2006 (2005: nil). A final dividend of 135 cents per share (2005: 115 cents) has been declared payable on or about 12 March 2007. The total ordinary dividend in respect of the 2006 financial year is therefore 175 cents (2005: 155 cents).

Profits and dividends

	Group 2006 Rm	Group 2005 Rm
Profit before taxation	**1 703**	1 945
Taxation	**(726)**	(430)
Current	**(537)**	(293)
Deferred	**130**	(102)
Secondary tax on companies	**(319)**	(35)
Profit after tax	**977**	1 515
Share of associated companies' profit	**4**	3
Profit for the year	**981**	1 518
Minority shareholders' interest	**(115)**	(123)
Retained income from previous year	**3 845**	2 800
	4 711	4 195
Appropriations:		
Transfer to contingency reserve	**49**	51
Transfer directly in equity	**2**	(5)
Dividends paid	**2 534**	304
Retained income at the end of the year	**2 126**	3 845
	4 711	4 195

Directors

The Chairman, Mr K T M Saggers, retired from the Board on 3 May 2006, having reached mandatory retirement age. Mr J B Magwaza was appointed Chairman of the Board on 3 May 2006. Mr A M Hyatt, Mr E P Theron and Mr R A Williams resigned from the Board on 3 May 2006. Mr J V F Roberts resigned from the Board on 1 October 2006. Mr C J W Ball, Mr T A Boardman, Ms A A Maule and Ms P R E Tsukudu were appointed to the Board on 1 October 2006. Mrs G T Serobe was appointed to the Board on 7 February 2007 and Mrs L M Mojela resigned from the Board on the same date. The names of the directors appear on pages 24 and 25 and that of the secretary of the company, together with his business and postal addresses, on page 130.

In terms of the company's articles of association, the following directors retire at the thirty-sixth annual general meeting but, being eligible, offer themselves for re-election:

C J Ball, T N Boardman, D Konar, P D Jones Vilakazi, A A Maule, M L Ndlovu, G T Serobe and P R E Tsukudu.

Notice periods in respect of the executive directors do not exceed one year. Non-executive directors are not bound by service contracts.

Directors' shareholdings

Details of shareholdings of directors are shown below. No material change in these holdings has taken place since 31 December 2006:

Director	Non-beneficial 2006	Non-beneficial 2005	Beneficial[1] 2006	Beneficial[1] 2005
C J W Ball	**500**	–	**–**	–
T M Boardman	**500**	–	**–**	–
B Campbell	**500**	500	**191 600**	166 800
R M Head	**500**	500	**–**	–
A M Hyatt	**–**	500	**–**	–
P D Jones Vilakazi	**500**	500	**–**	–
D Konar	**500**	500	**50 000**	–
A A Maule	**500**	–	**–**	–
J B Magwaza	**500**	–	**–**	–
L M Mojela[2]	**500**	500	**–**	–
R P Menell	**500**	500	**–**	–
M L Ndlovu	**500**	500	**–**	–
B T Ngcuka[3]	**500**	500	**–**	–
J V F Roberts	**–**	500	**–**	–
K T M Saggers	**–**	500	**–**	259 100
E P Theron	**–**	500	**–**	–
P R E Tsukudu	**500**	–	**–**	–
R A Williams	**–**	500	**–**	–
	6 500	6 500	**241 600**	425 900

[1] *Excludes restricted share plan awards as detailed in note 29.3.*

[2] *L M Mojela has a financial interest in the Wiphold consortium which is a black business partner of the group, discussed further in note 37.*

[3] *B T Ngcuka has a financial interest in the Mtha consortium which is a black business partner of the group, discussed further in note 37.*

Board meetings

The Board meets at least four times per annum. Attendance of directors at Board meetings for the year was as follows:

	14 Feb 2006	3 May 2006	1 Aug 2006	7 Nov 2006
Executive director				
B Campbell	√	√	√	√
Non-executive directors				
C J W Ball	*	*	*	√
T M Boardman	*	*	*	√
R M Head	√	√	√	√
A M Hyatt	√	√	*	*
P D Jones Vilakazi	√	√	√	√
D Konar	√	√	√	x
A A Maule	*	*	*	√
J B Magwaza	*	√	√	√
L M Mojela	√	√	√	√
R P Menell	√	√	√	√
M L Ndlovu	√	√	√	√
B T Ngcuka	√	√	√	√
J V F Roberts	x	√	x	*
K T M Saggers	√	√	*	*
E P Theron	√	√	*	*
P R E Tsukudu	*	*	*	x
R A Williams	√	√	*	*

Legend

* *Not applicable* x *Absent with apology* √ *Present*

Holding companies

The immediate holding company is Mutual & Federal Investments Limited and the ultimate controlling shareholder is Old Mutual plc, incorporated in the United Kingdom.

J B Magwaza
Chairman
7 February 2007

B Campbell
Managing Director

Balance sheets

at 31 December 2006

	Notes	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Assets					
Interest in subsidiary companies	7			**1 209**	1 788
Loans and interest in share trusts	8			**346**	456
Property and equipment	9	**226**	202	**186**	169
Interest in associated companies	10	**4**	–	**–**	–
Goodwill	11	**46**	82		
Intangible assets	12	**132**	107	**131**	107
Investment properties	13	**–**	7	**–**	7
Investments at fair value through profit and loss	14	**5 051**	5 742	**4 025**	4 224
Reinsurers' share of insurance contract provisions	20	**781**	798	**561**	575
Subrogation recoveries receivable	15	**107**	34	**76**	6
Deferred acquisition costs	16	**174**	150	**106**	110
Deferred taxation	18	**10**	18	**9**	18
Deposits with reinsurers		**61**	66	**1**	1
Taxation paid in advance		**–**	19	**–**	18
Other receivables		**326**	241	**338**	232
Agents' and reinsurers' balances		**466**	464	**312**	289
Cash and cash equivalents	17	**1 159**	1 974	**240**	1 110
Total assets		**8 543**	9 904	**7 540**	9 110
Liabilities					
Post-retirement medical benefit provision	36.2	**147**	131	**124**	114
Deferred taxation	18	**132**	262	**13**	134
Interest bearing loans	19	**5**	10	**2**	2
Insurance contract provisions	20	**3 656**	3 619	**2 884**	2 828
Cell owners' interest	21	**305**	245		
Deferred reinsurance commission revenue	16	**74**	54	**27**	36
Deposits owing to reinsurers		**119**	97	**94**	62
Other payables		**174**	128	**372**	301
Agents' and reinsurers' balances		**139**	154	**72**	103
Current provisions	22	**127**	111	**109**	97
Taxation payable		**60**	18	**25**	–
Total liabilities		**4 938**	4 829	**3 722**	3 677
Equity					
Share capital and share premium	23	**377**	196	**793**	600
Other reserves					
Contingency reserve		**757**	708	**684**	641
Property revaluation reserve		**19**	15	**15**	16
Foreign currency translation reserve		**(20)**	(18)	**–**	–
Share-based payment reserve		**158**	132	**207**	186
Retained income		**2 126**	3 845	**2 119**	3 990
Total shareholders' equity		**3 417**	4 878	**3 818**	5 433
Interest of minority shareholders in subsidiary companies		**188**	197		
Shareholders' equity and minority shareholders' interests		**3 605**	5 075	**3 818**	5 433
Total liabilities and equity		**8 543**	9 904	**7 540**	9 110

Income statements

for the year ended 31 December 2006

	Notes	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Gross premiums		**8 549**	8 005	**7 190**	6 673
Less: Reinsurance premiums		**1 122**	1 131	**426**	440
Net premiums		**7 427**	6 874	**6 764**	6 233
Change in provision for unearned premiums		**32**	8	**6**	(2)
Gross amount		**21**	(17)	**21**	10
Reinsurers' share		**11**	25	**(15)**	(12)
Earned premiums net of reinsurance		**7 459**	6 882	**6 770**	6 231
Commission income	24	**182**	233	**71**	100
Investment income		**1 306**	1 572	**1 131**	1 490
Dividends, interest and rentals	25.1	**408**	369	**633**	516
Realised net surplus on investments		**2 132**	581	**1 595**	359
Unrealised net (loss)/surplus on investments	25.2	**(1 234)**	622	**(1 097)**	615
Other operating income	26	**8**	10	**3**	7
Net income		**8 955**	8 697	**7 975**	7 828
Net claims incurred	27	**(4 681)**	(4 291)	**(4 337)**	(3 986)
Gross amount		**(4 901)**	(4 737)	**(4 257)**	(4 111)
Reinsurers' share		**220**	446	**(80)**	125
Acquisition costs	28	**(1 794)**	(1 639)	**(1 644)**	(1 447)
Administration expenses	29	**(741)**	(764)	**(645)**	(683)
Impairment of goodwill	11	**(36)**	(58)		
Profit before taxation		**1 703**	1 945	**1 349**	1 712
Taxation	30	**(726)**	(430)	**(475)**	(235)
Profit after taxation		**977**	1 515	**874**	1 477
Share of profit of associated companies		**4**	3		
Profit for the year		**981**	1 518	**874**	1 477
Attributable to:					
Equity holders of the company		**866**	1 395	**874**	1 477
Minority shareholders		**115**	123		
		981	1 518	**874**	1 477
Earnings per share (cents)	31				
– Basic		**343**	560		
– Diluted		**327**	541		
Dividend per share paid in the year (cents)		**155**	120		
Dividend per share declared in respect of the year (cents)		**175**	155		
Special dividend per share (cents)		**800**	–		

Statements of changes in equity

for the year ended 31 December 2006

	Attributable to equity holders								
	Share capital and share premium Rm	Contin-gency reserve Rm	Foreign currency translation reserve Rm	Share-based payment reserve Rm	Property revalu-ation reserve Rm	Retained income Rm	Total ordinary share-holders' equity Rm	Minority share-holders' interest Rm	Total Rm
GROUP									
Balance at 31 December 2004	153	657	(15)	4	17	2 800	3 616	–	3 616
Profit for the year						1 395	1 395	123	1 518
Share-based payment				128			128		128
Arising on consolidation of CGIC								211	211
Share buy-back								(14)	(14)
Transfer to contingency reserve		51				(51)	–		–
Current period movements			(3)		(2)	5	–		–
Dividends paid						(304)	(304)	(123)	(427)
Issue of share capital	43						43		43
Restated balance at 31 December 2005	**196**	**708**	**(18)**	**132**	**15**	**3 845**	**4 878**	**197**	**5 075**
Profit for the year						**866**	**866**	**115**	**981**
Share-based payment				**26**			**26**		**26**
Transfer to contingency reserve		**49**				**(49)**	**–**		**–**
Current period movements			**(2)**		**4**	**(2)**	**–**		**–**
Dividends paid						**(2 534)**	**(2 534)**	**(124)**	**(2 658)**
Issue of share capital	**181**						**181**		**181**
Balance at 31 December 2006	**377**	**757**	**(20)**	**158**	**19**	**2 126**	**3 417**	**188**	**3 605**

Statements of changes in equity continued

for the year ended 31 December 2006

	Share capital and share premium Rm	Contin-gency reserve Rm	Foreign currency translation reserve Rm	Share-based payment reserve Rm	Property revalu-ation reserve Rm	Retained income Rm	Total ordinary share-holders' equity Rm
COMPANY							
Balance at 31 December 2004	153	569	(1)	4	17	2 894	3 636
Profit for the year						1 477	1 477
Share-based payment				182			182
Transfer to contingency reserve		72				(72)	–
Current period movements			1		(1)	1	1
Dividends paid						(310)	(310)
Issue of share capital	447						447
Restated balance at 31 December 2005	**600**	**641**	**–**	**186**	**16**	**3 990**	**5 433**
Profit for the year						**874**	**874**
Share-based payment				**21**			**21**
Transfer to contingency reserve		**43**				**(43)**	**–**
Current period movements			**–**		**(1)**	**1**	**–**
Dividends paid						**(2 703)**	**(2 703)**
Issue of share capital	**193**						**193**
Balance at 31 December 2006	**793**	**684**	**–**	**207**	**15**	**2 119**	**3 818**

Cash flow statements

for the year ended 31 December 2006

	Notes	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Cash generated by operations	32	**601**	816	**290**	556
Investment income		**408**	369	**633**	516
Taxation paid	33	**(787)**	(391)	**(544)**	(235)
Cash generated by operating activities		**222**	794	**379**	837
Cash generated by/(utilised in) investing activities		**1 440**	(18)	**1 261**	(549)
Net acquisitions of property and equipment to maintain operations		**(67)**	(40)	**(63)**	(38)
Net developments and acquisitions of intangible assets		**(87)**	(70)	**(86)**	(70)
Net disposal/(acqusition) of investments		**1 594**	92	**1 410**	(441)
Pre-acquisition dividends received				**546**	2
Amounts due from and to subsidiary companies				**11**	186
Loans to share trusts				**110**	(383)
Interest in associated companies		**–**	43	**–**	–
Acquisition of investments		**(8 093)**	(2 818)	**(8 129)**	(2 901)
Proceeds from disposal of investments		**9 681**	2 867	**8 866**	2 655
Proceeds from disposal of investment property		**6**	–	**6**	–
		1 662	776	**1 640**	288
Cash (utilised in)/generated by financing activities		**(2 477)**	(401)	**(2 510)**	117
Share buy-back by subsidiary company		**–**	(11)	**–**	–
Proceeds from issue of shares		**15**	26	**27**	416
Dividends paid	34	**(2 492)**	(416)	**(2 537)**	(299)
(Decrease)/increase in cash and cash equivalents		**(815)**	375	**(870)**	405
Cash and cash equivalents at the beginning of the year		**1 974**	1 428	**1 110**	705
Cash and cash equivalents of subsidiary consolidated		**–**	174		
Effect of exchange rate movements on cash and cash equivalents		**–**	(3)		
Cash and cash equivalents at the end of the year		**1 159**	1 974	**240**	1 110

Notes to the annual financial statements

for the year ended 31 December 2006

Mutual & Federal Insurance Company Limited ("the company") is domiciled in South Africa. The consolidated financial statements of the company for the year ended 31 December 2006 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates.

The financial statements were authorised for issue by the directors on 7 February 2007.

1. Accounting policies

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

i Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the interpretations issued by the International Accounting Standards Board ("IASB"), and are in compliance with the Listings Requirements of the JSE Limited and the Companies Act.

The group and company early adopted IFRIC 11, Group and Treasury Transactions (IFRS 2). The early adoption had no effect on the group or the company financial statements.

ii Basis of preparation

The financial statements are presented in Rand, which is also the group's functional currency, rounded to the nearest million. The financial statements are prepared on the historical-cost basis, except for the revaluation of properties and financial instruments to fair value and the application of the equity method of accounting for investments in associated companies.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 3.

The accounting policies set out below have been applied consistently to all years presented in these consolidated and separate financial statements.

The accounting policies have been applied consistently by group entities.

iii Consolidated financial statements

The consolidated financial statements include the assets and liabilities of the company and all of its subsidiary companies and associated companies.

Subsidiary companies

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Subsidiary companies include special purpose entities created to accomplish a narrow, well-defined objective, which may take the form of a corporation, trust, partnership or unincorporated entities. The substance of the relationship between the group and the special purpose entity indicates that the entity is controlled by the group.

1. Accounting policies (continued)

iii Consolidated financial statements (continued)

Investments in subsidiary companies in the separate financial statements of the company are classified as fair value through profit and loss financial instruments. The fair value is calculated using a discounted earnings model or shown at net asset value, whichever is appropriate.

Associated companies

An associated company is an enterprise in which the company has significant influence over the financial and operating policies, and which is neither a subsidiary nor a joint venture of the company. Significant influence is determined based primarily on percentage voting rights, together with other factors such as board participation and participation in the policy making process.

Investments in associated companies in the separate financial statements of the company are classified at fair value through profit and loss financial instruments. The fair value is calculated using a discounted cash flow model.

Investments in associated companies in the consolidated financial statements are accounted for under the equity method of accounting. Under this method, the group's share of the post-acquisition profits or losses of associates are recognised in the income statement, and movements in reserves are taken directly to equity. These cumulative post-acquisition movements are adjusted against the carrying value of the investment.

Goodwill arising on acquisition of associates is included in the carrying amount of the associate and is treated in accordance with the group's accounting policy for goodwill.

When the group's share of losses in an associate equals or exceeds its interest in the associate, the group does not recognise further losses, unless the group has incurred obligations, issued guarantees or made payments on behalf of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associated companies are eliminated to the extent of the group's interest in the enterprises. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iv Classification of insurance contracts

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 or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk, transferred from the holder of the contract to the issuer. 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, 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 (refer vi).

The group classifies financial guarantee business as insurance contracts.

v Recognition and measurement of insurance contracts

Premiums

Premiums written comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission to intermediaries and exclude Value Added Tax. Premiums written include adjustments to premiums written in prior accounting periods.

Premiums on reinsurance assumed are included in gross written premiums and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business.

1. Accounting policies (continued)

v Recognition and measurement of insurance contracts (continued)

Premiums (continued)

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or reinsurance business assumed.

The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of indemnity received.

Unearned premium provision

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in subsequent financial years, computed separately for each insurance contract using a time proportionate basis, or another suitable basis for uneven risk contracts.

Claims incurred

Claims incurred consist of claims and claims handling expenses paid during the financial year together with the movement in the provision for outstanding claims. Claims outstanding comprise provisions for the group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and an appropriate risk margin.

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

Unexpired risk provision

Provision is made for unexpired risks arising 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 premium 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 which are managed together, after taking into account relevant investment return.

Reinsurance

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

Premiums ceded, claims reimbursed and commission recovered are presented in the income statements and balance sheets separately from the gross amounts.

Only reinsurance agreements that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Reinsurance agreements that do not transfer significant insurance risk are accounted for as investment contracts.

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 the event has a reliably measurable impact on the amounts that the group will receive from the reinsurer.

Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred which corresponds to the unearned premium provision.

1. Accounting policies (continued)

v Recognition and measurement of insurance contracts (continued)

Liabilities and related assets under liability adequacy test

The net liability recognised for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of deferred acquisition costs. Where a shortfall is identified, an additional provision is made and the group recognises the deficiency in income for the year.

Contingency reserve

A reserve in equity is made for the full amount of the contingency reserve as required by the regulatory authorities in South Africa and Namibia. Transfers to and from this reserve are treated as appropriations of retained income.

Subrogation and salvage recoveries

In certain circumstances the group acquires the right to pursue third parties for losses paid to policyholders under insurance contracts. The group has recognised and disclosed all identifiable and measurable amounts it expects to recover, in future, from past loss events, as a separate asset on the balance sheet.

Salvage recoveries are recognised on receipt.

Accounting for cell owners' interest

Through a specialised risk financing subsidiary the group provides cell captive facilities to clients. The cell captive facilities effectively ring fence the underwriting and declared investment results of insurance contracts introduced to the subsidiary by cell owners. Through participation agreements the cell owners share in the risk and rewards of the insurance contracts. Cells are regarded as special purpose entities controlled by the cell owner and therefore are not consolidated by the group.

In the case of third party cells, the subsidiary is still the principal to the insurance contracts, although the risks are transferred to the cell owner through the participation agreement. Consequently all gross premiums, claims and commissions are still reflected by the group but then shown as equal and opposite reinsurance transactions outwards to reflect the transfer of the risk to the cell owner.

The cell owners' interest is classified as a liability and represents the accumulated funds attributed to cell owners.

vi Recognition and measurement of 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.

vii Foreign currency translation

Foreign currency transactions

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

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Rand at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Rand at the appropriate weighted average rates for the period.

The revenues and expenses of foreign operations in hyperinflationary economies are translated to Rand at the exchange rate at the reporting date. Prior to translating the financial statements of foreign operations in hyperinflationary economies, their financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

1. Accounting policies (continued)

vii Foreign currency translation (continued)

Financial statements of foreign operations (continued)

Foreign exchange differences arising on translation are recognised directly in a separate component of equity and are released into the income statement upon disposal of the foreign operation.

viii Property and equipment

Land and buildings held for use for administrative purposes are stated at revalued amounts, determined from market-based evidence by appraisals undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed at least once every three years such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.
Any revaluation increase arising on the revaluation of such land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained income.

Land is not depreciated. Depreciation on revalued buildings to residual value is charged to profit and loss. Buildings are depreciated over a period of 20 years on a straight-line basis.

Equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on the difference between the cost and residual value of the asset and is charged to the income statement over the estimated useful lives of each significant part of an item of equipment, using the straight-line method.

The current estimated useful lives are as follows:

Furniture and equipment	2 – 7 years
Motor vehicles	5 years
Computer equipment	3 years

The useful lives and depreciation methods are reassessed annually. The residual values, if not insignificant, are also reassessed annually.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assets and are included in profit or loss.

Repairs and maintenance are charged to the income statement during the financial period, as incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that the inflow of future economic benefits of the renovated asset will increase, and the costs can be reliably measured.

ix Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both. Investment properties are measured initially at cost, including transaction costs. After initial recognition investment properties are measured at fair value. An external valuer, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio every three years. In the event of a material change in market conditions between the valuation date and balance sheet date an internal valuation is performed and adjustments made to reflect any material changes in value.

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.

1. Accounting policies (continued)

ix Investment properties (continued)

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy xx.

When an item of property and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained income. Any loss arising in this manner is recognised immediately in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. When the group redevelops an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on the fair value model, and is not reclassified as property and equipment during the redevelopment.

x Intangible assets

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the group, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. The costs are capitalised only if they can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the group intends to and has sufficient resources to complete the development. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Computer software development costs recognised as intangible assets are amortised using the straight-line method over their estimated useful lives, ranging between two and five years.

Expenditure associated with research activities, regarding developing computer software programs, are recognised as an expense when incurred.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other subsequent expenditure is expensed as incurred.

xi Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries and associates. For business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the carrying amount recorded under previous GAAP.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and tested annually for impairment (see accounting policy xii). In respect of associated companies, the carrying amount of goodwill is included in the carrying amount of the investment in the associated companies.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

xii Impairment

Financial assets

The carrying amounts of the group's financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the group about the following events:

1. Accounting policies (continued)

xii Impairment (continued)

Financial assets (continued)

(a) significant financial difficulty of the issuer or debtor;
(b) a breach of contract, such as a default or delinquency in payments;
(c) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
(d) the disappearance of an active market for that financial asset because of financial difficulties; or
(e) 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 of debtors in the group; or
– national or local economic conditions that correlate with defaults on the assets in the group.

If there is any indication that a financial asset is impaired, its recoverable amount is estimated. The recoverable amount is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

The carrying amount of the group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets with an indefinite useful life and intangible assets not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely is independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

xiii Financial instruments

Initial measurement

Financial instruments are initially recognised at fair value plus, for financial instruments not at fair value through profit and loss, any directly attributable transaction costs.

Subsequent measurement

Investments

Listed and unlisted investments are classified as fair value through profit and loss and are carried at fair value. Investments which the group has classified as fair value through profit and loss are managed, evaluated and reported using a fair value basis.

1. Accounting policies (continued)

xiii Financial instruments (continued)

Subsequent measurement (continued)

Investments (continued)

For listed investments, fair value is calculated by reference to stock exchange quoted bid prices at the close of business on the balance sheet date. Unlisted investments are shown at fair value which are calculated on bases that best present the estimated proceeds to be realised from a sale to an informed purchaser under normal market conditions.

Loans advanced

Loans advanced by the group are designated as fair value through profit and loss and are fair valued by reference to expected cash flows and current market interest rates.

Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value, by reference to expected cash flows and current market interest rates.

Trade and other payables

Trade and other payables are stated at amortised cost, using the effective interest rate method.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments are included in net profit or loss in the period in which the change arises.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the group has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

xiv 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 from the proceeds, net of taxation. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of the acquisition.

xv Income taxes

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 comprises tax payable calculated on the basis of the expected taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. 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 substantively enacted at the balance sheet date. Deferred tax is charged to the income statement except to the extent that it relates to a transaction that is recognised directly in equity, or a business combination. The effect on deferred tax of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

1. Accounting policies (continued)

xv Income taxes (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences 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 ("STC") is charged to the income statement when the related dividend is declared. Unused STC credits are recognised as a deferred tax asset, when it is probable that they will be realised.

xvi Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The accrual for employee entitlements to salaries, annual and sick leave represent the amount which the group has a present obligation to pay, as a result of employees' services provided up to the balance sheet date. The accrual has been calculated at undiscounted amounts based on current salary rates.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed either to terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in current provisions when there is no realistic alternative but to settle the liability, and at least one of the following conditions is met:

– there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or
– past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

Share-based payment transactions

The services received in equity-settled share-based payment transactions with employees are measured at the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date.

If the equity instruments granted vest immediately and the employee is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the services received are recognised in full on grant date in the income statement for the period with a corresponding increase in equity.

Where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for those equity instruments, will be received in the future, during the vesting period. These services are accounted for in the income statement as they are rendered during the vesting period, with a corresponding increase in equity. Share-based payment expenses are adjusted for non-market related performance conditions.

1. Accounting policies (continued)

xvi Employee benefits (continued)

Share-based payment transactions (continued)

The fair value on grant date of the equity instruments are credited to share capital (nominal value) and share premium when the equity instruments have vested and the shares are transferred to the employees.

Post-employment benefits

The group operates defined contribution and defined benefit pension plans, the assets of which are held in separate trustee-administered funds. These funds are registered in terms of the Pension Funds Act, 1956 and membership of one of the funds is compulsory for all group full-time employees.

The defined benefit funds are now closed funds and no new employees can join these funds. The obligation in respect of the funds are calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior years. The benefit is discounted to determine the present value of the obligation, and the fair value of any plan assets are deducted. The calculation is performed by a qualified actuary on an annual basis using the projected unit credit method. Any actuarial gains or losses are recognised in the income statement as incurred.

The group contributes a fixed percentage of salary in respect of members of the defined contribution pension plans and this cost is recognised as an expense in the income statement as incurred. The group has no constructive obligation to pay further contributions to the fund.

Post-retirement medical benefits

The group provides post-retirement medical benefits to qualifying employees by way of subsidising medical scheme contributions. Only employees who joined the group prior to 15 March 1999 qualify for post-retirement medical benefits. The expected costs of these benefits are assessed in accordance with advice of qualified actuaries on an annual basis, using the projected unit credit method, and the actuarial gain or loss is charged to the income statement as incurred.

xvii Share-based payment transactions with persons or entities other than employees

The transactions in which equity instruments are issued to historically disadvantaged individuals and organisations in southern Africa are accounted for as share-based payments. Where the group has issued such shares and expects to receive services in return for equity instruments, the share-based payment charge representing the fair value of the equity instruments is spread over the vesting (i.e. service) period of these instruments. In instances where such goods and services could not be identified the fair value of the equity instrument granted has been expensed with immediate effect.

xviii Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

Where the group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

xix Treasury shares

Company shares held by trusts set up for the benefit of employees and distributors that have not yet vested, are classified as treasury shares on consolidation and presented as a deduction from equity. These shares are held at cost.

1. Accounting policies (continued)

xix Treasury shares (continued)

Balance sheet presentation

On purchase, the cost of the shares acquired is deducted from equity. Subsequently, any gain or loss on the sale or cancellation of the company's own equity instruments is recognised directly in equity.

Income statement presentation

Any net income in relation to own shares, both dividends received and unrealised losses on own shares are eliminated before stating group profit for the year.

Dividends paid in respect of these shares are eliminated when determining the group profit for the year.

Earnings per share

In calculating the basic earnings per share, the treasury shares are deducted from the weighted average number of shares in issue.

When calculating the diluted earnings per share, the number of shares at year-end that have a dilutive effect is included in the weighted average number of shares.

xx Revenue recognition

Other than premium revenue, as discussed in accounting policy v, revenue is accounted for as follows:

Rental income

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

Interest income

Interest income is recognised as it accrues, using the effective interest method.

Dividend income

Dividend income is recognised when the right to receive payment is established.

xxi Dividends payable

Dividends payable and the related taxation thereon are recorded in the group's financial statements in the period in which the shareholders' rights to receive payment have been established.

xxii Leases

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Finance leases

Leases of property and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant interest rate on the outstanding balance of the liability.

The corresponding lease obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the income statement over the lease period according to the effective interest method. The equipment acquired under the finance leases is depreciated over the shorter of the useful life of the asset and the lease term, whilst the property is depreciated over its useful life.

1. Accounting policies (continued)

xxiii Reporting by segment

The primary segments of the group have been identified by market composition, being commercial, risk finance and personal lines, and on a secondary basis, by significant geographical region. The basis is representative of the internal structure for management purposes. Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis, whether from external transactions or from transactions with other group segments.

xxiv Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and bank balances, all of which are available for use by the group unless otherwise stated.

xxv Contingencies and commitments

Transactions are classified as contingencies where the group's obligations depend on uncertain future events. Items are classified as commitments where the group commits itself to future transactions with external parties.

xxvi New standards, amendments and interpretations not yet adopted

The new standards, amendments to standards and interpretations that are relevant to the group and company that are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements.

– *IFRS 7 Financial Instruments: Disclosures, the Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures and the Amendments to IFRS 4: Insurance Contracts* requires extensive disclosure about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of financial risks. IFRS 7 and the amended IAS 1 and IFRS 4, which become mandatory for the group's 2007 financial statements, will require additional disclosures with respect to the group's financial instruments and share capital.

– *IFRS 8 Operating Segments* requires an entity to adopt the 'management approach' when reporting on the financial performance of its operating segments. Generally, the segment reporting would be based on the information that management uses internally for evaluating segment performance and when deciding how to allocate resources to operating segments. The application of the IFRS is expected to change the disclosure applied to segment reporting by the group. The Standard has an effective date of 1 January 2009.

– *IFRIC 10 Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and accounts receivable. The adoption of IFRIC 10 is not expected to have a material impact on the group's 2007 financial statements.

2. Maturity profile

Unless otherwise explicitly stated, all amounts receivable or payable as stated in the balance sheet are expected to be received or paid within the next 12 months.

3. Accounting estimates and judgements

Critical accounting estimates and judgements in applying the accounting policies are described below:

Claims incurred

The group's estimates for reported and unreported losses are continually reviewed and updated, and adjustments resulting from this review are reflected in income as and when identified. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. The group's process for determining significant reserving assumptions is outlined in note 20.

Post-retirement medical benefit provision

Assumptions are made regarding the level of subsidy and discount rates in calculating the group's post-retirement medical benefit provision. Details of these assumptions are set out in note 36.2.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Share-based payments

Share-based payment charges arise from the issue of share options and awards to employees and black business partners. These share options and awards are classified as equity-settled share-based payments and as such, the charge is determined on date of grant on an actuarial basis using a number of assumptions. In determining the share-based payment charge, a number of assumptions are used, which include expected volatility, expected dividend yield, the discount rate and the expected forfeit and lapse rate. In accordance with the principles of valuing equity-settled share-based payments, only a change in the actual experience of forfeits compared to the estimated forfeit rate assumption will impact on the charge in the income statement. All other assumptions are determined at grant date and are not amended.

Investment in subsdidiary companies

Determining the carrying values of the investments in the subsidiary companies, in the company's separate financial statements, requires an estimation of the future cash flows from these companies and an appropriate risk based discount rate.

4. Terms and conditions of insurance contracts

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

Types of insurance contracts	Commercial	Personal	Risk finance
Property	*	*	*
Accident	*	*	*
Personal accident	*	*	*
Motor	*	*	*
Engineering	*		
Crop	*		
Marine	*		*
Credit	*		*

The commercial segment underwrites the risks of enterprises from small businesses to large corporates. The personal segment provides insurance to the general public in their personal capacities. The risk finance segment provides facilities to clients allowing them to retain some insurance risk and effectively operate as autonomous insurance entities.

4. Terms and conditions of insurance contracts (continued)

Property – Provide indemnity for loss of or damage to immovable and movable property caused by perils such as fire, lightning, explosion, weather, water, earthquake and malicious damage. The fire classes also include business interruption policies which insure the loss of profits incurred by a business as a result of loss or damage to the insured property by these perils.

Accident – Provide indemnity for loss of or damage to mainly movable property for losses caused by crime, certain accidental damage such as damage to goods in transit or accidental damage to glass. Included under the accident classes are legal liabilities an insured may incur as a result of accidental damage to third party property or accidental death or injury to a third party caused by the insured.

Personal accident – Provide compensation arising out of the death, permanent or temporary total disability of the insured, the family of the insured or possibly the employees of a business. Such death or disability is restricted to certain accidents and does not provide the wider cover available from the life insurance industry.

Motor – Provide indemnity for loss of or damage to the insured motor vehicle. The cover is normally on an all risks basis providing a wide scope of cover following an accident or a theft of the vehicle but the insured can select restricted forms of cover such as cover for fire and theft only. Legal liabilities arising out of the use or ownership of the motor vehicle following an accident for damage to third party property or death or injury to a third party are also covered under this class of business.

Engineering – Provide indemnity for losses sustained through the use of machinery and equipment or the erection of buildings or structures. This type of contract includes contract works, removal of support, project delay, construction plant, machinery breakdown, loss of profits, deterioration of stock, dismantling, transit and erection, works damage and electronic equipment.

Crop – Provide indemnity for crops while still on the field against hail, drought and excessive rainfall. The cover ceases as soon as harvesting has taken place.

Marine – Provide indemnity for both cargo and hull classes of business. Cargo covers physical loss of or damage to cargo, with a project delay option. Hull covers loss or damage to pleasure craft or commercial vessels as a result of accidents and also includes legal liability as a result of the accident.

Credit – Provide indemnity against the risk of the debtor going into liquidation (insolvency), delayed or non-payment (protracted default) and in respect of export risks, the unilateral cancellation of a contract (repudiation) as well as a myriad of political related risks.

The return to shareholders under the above products arises from the total premiums charged to policyholders less the amounts paid to cover claims and the expenses incurred by the group. There is also scope for the group to earn investment income owing to the time delay between the receipt of premiums and the payment of claims.

The group underwrites finite risk policies and cell captive business which comprise the risk finance segment reported on in note 40. The finite risk policies expose the group to limited risk only and include profit participation measures to promote good risk management amongst the insureds and the originators of the business. 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. Conversely the cell owner is accountable for any losses to the extent that the cell has funds available to offset against the losses. Future profits that arise in a cell will also be utilised to offset historic losses.

5. Risk that arises from insurance contracts

Insurance risk and policies for mitigating insurance risk

The primary activity of the group relates to the assumption of the risk of loss from events involving persons or organisations. Such risks may relate to property, accident, personal accident, motor, liability, engineering, crop, marine, credit and other perils that may arise from an insurable event. As such the group is exposed to the uncertainty surrounding the timing and severity of claims under insurance contracts.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected and that the group does not charge premiums appropriate for the risk accepted. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues. These actions are described below:

Underwriting strategy

The group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks spread over a large geographical area. The underwriting strategy is set out in an annual business plan that determines the classes of business to be written, the territories in which business is to be written and the industry sectors to which the group is prepared to accept exposure. This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set the limits for underwriters by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio. The single largest gross risk, based on estimated maximum loss, any one underwriter can commit the group to is less than 10% (2005: 10%) of equity.

Adherence to the underwriting authorities is measured through a series of exception reports that are monitored on a regular basis covering line size, territory, class and industry. In addition, management meets monthly to review underwriting information including premium income and loss ratios by class, territory and industry.

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.

Reinsurance strategy

The group reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The group buys a combination of proportional and non-proportional reinsurance treaties to reduce the net exposure of the group on any one risk to less than 2% (2005: 2%) of equity. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances.

At year-end there were no unamortised gains or losses from purchasing reinsurance.

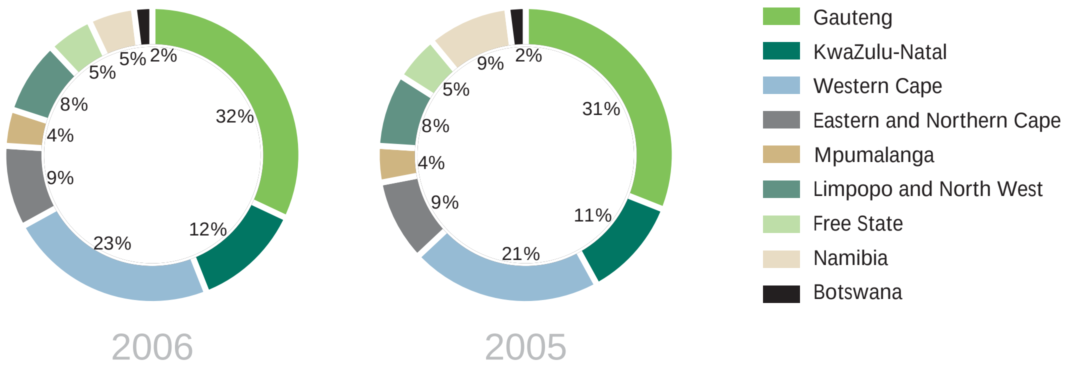
Concentrations of insurance risk and policies mitigating the concentrations

Within the insurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the group's resources. The group monitors the concentration risk by geographical segment and class of business.

5. Risk that arises from insurance contracts (continued)

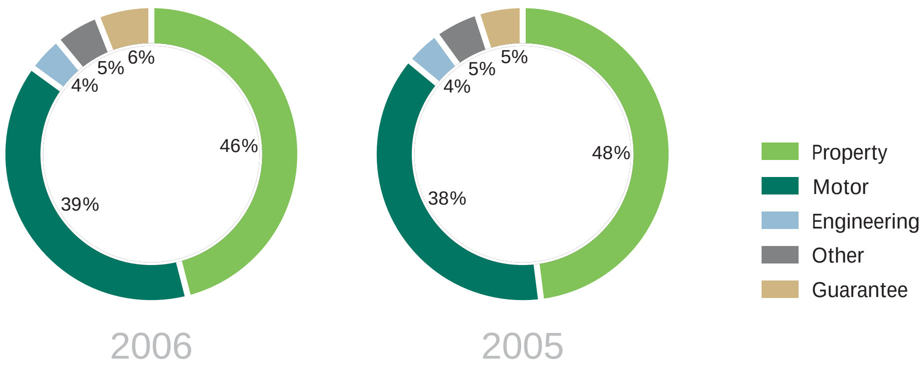
Concentrations of insurance risk and policies mitigating the concentrations (continued)

Sum insured by geographical segment



The group is broadly represented across South Africa, Namibia and Botswana and exposures to risks are representative of the economic activity in the various regions.

Gross premium by class of business



The group has exposure to all major lines of insurance business with very limited exposure to specialised areas of insurance. This exposure is consistent with the market and the group's reinsurance policy limits the losses in any one class of business.

Exposure relating to catastrophe events

The group sets out the total aggregate exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes. The aggregate position is reviewed annually. The group uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes and the net exposure of the group.

The group considers that its most significant exposure would arise in the event of an earthquake in Gauteng. This analysis has been performed through identifying key concentration of risks based on different classes of businesses exposed in the event of such an incident. The group's policies for mitigating catastrophe risk exposure include the use of both proportional and excess-of-loss reinsurance. In the event of a major catastrophe such as an earthquake in Gauteng, the net retained loss will represent less than 2% (2005: 2%) of the group's equity. The group has purchased excess-of-loss reinsurance for catastrophe events that provides indemnity up to R3 billion (2005: R3 billion).

5. Risk that arises from insurance contracts (continued)

Other risks and policies for mitigating these risks

Insurance companies are exposed to the risk of false, invalid and exaggerated claims. Sophisticated software and fraud detection measurements are also in place to improve the group's ability to proactively detect fraudulent claims.

Claims development

The group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term, subject to pre-determined time scales dependent on the nature of the insurance contract. The group is therefore exposed to the risk that claims reserves will not be adequate to fund historic claims (run-off risk). To manage run-off risk the group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and adopts sound reserving practices. Consequently, the group has a history of positive claims development, i.e. the reserves created over time proved to be sufficient to fund the actual claims paid.

The majority of the group's insurance contracts are classified as "short-tailed", meaning that any claim is settled within a year after the loss date. This contrasts with the "long-tailed" classes where the claims cost takes longer to materialise and settle. The group's "long-tailed" business is generally limited to personal accident, third-party motor liability and some engineering classes.

In terms of IFRS 4, an insurer need only disclose claims run-off information where uncertainty exists about the amount and timing of claim payments not resolved within one year. In total the long-tail business comprises less than 4% (2005: 4%) of an average year's claims costs and consequently, detailed claims run-off information is not presented.

6. Financial risk

Transactions in financial instruments result in the group assuming financial risks. These include market risk, foreign currency risk, credit risk and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the group manages these risks.

6.1 Market risk

Market risk can be described as the risk of a change in the fair value of a financial instrument brought about by changes in interest rates and equity prices.

Equity price risk

The portfolio of listed equities which are carried on the balance sheet at fair value, has exposure to price risk, being the potential loss in market value resulting from an adverse change in prices. The group's objective is to earn competitive relative returns by investing in a diverse portfolio of high quality, liquid securities. Portfolio characteristics are analysed regularly and equity price risk is actively managed through a variety of modelling methods. The group holdings are diversified across industries, and concentrations in any one company or industry are limited by parameters established by management and statutory requirements. The group's largest investment in any one company comprises 2,7% of the total assets.

At 31 December 2006, the group's listed equities were recorded at their fair value of R2 825 million. A hypothetical 10% decline in each stock's price would have decreased profit before taxation by R283 million.

Interest rate risk

Fluctuations in interest rates impact on the value of fixed interest investments, giving rise to price risk. The group does not use financial instruments to manage this risk.

The group's fixed interest borrowings are insignificant and therefore do not give rise to significant interest rate risk.

It is estimated that a 1% increase in interest rates would have decreased the group's profit before tax by R7 million (2005: R5 million).

6. Financial risk (continued)

6.1 Market risk (continued)

Interest rate risk (continued)

Market risk is one of the most significant factors considered in determining the group's investment philosophy. This philosophy draws a distinction between funds backing technical liabilities and shareholders' funds and is summarised below:

Technical liabilities

The overall philosophy governing these investments is driven by liquidity considerations and a strong emphasis on capital preservation. The maturity profile of investments approximates the average term of operational liabilities. To this end funds are invested predominately in fixed interest-bearing investments with a duration not exceeding five years.

Shareholders' funds

Shareholders' funds are invested in a broader spread of investments (including equities), reflecting the more stable nature of the fund pool and the need for strong real returns over the long-term. The spread of investments is constructed in such a manner as to guarantee operational capacity (as measured by the solvency margin) at all times. The board has determined that investments in equities will be equal to 80% of shareholders' funds.

6.2 Foreign currency risk

The group is exposed to foreign currency risk for transactions that are denominated in a currency other than Rand. This exposure is limited to the operations of the foreign subsidiaries, credit insurance, transactions with foreign reinsurers and equity investments in foreign companies. The group does not take cover on foreign currency transactions and balances as the net exposure is considered minimal. The table below illustrates the split of assets and liabilities of the group per major currency.

	2006 Assets Rm	**2006 Liabilities Rm**	**2006 Net Rm**	2005 Assets Rm	2005 Liabilities Rm	2005 Net Rm
South African Rand	**7 849**	**4 475**	**3 374**	9 351	4 443	4 908
Euro	**81**	**97**	**(16)**	70	90	(20)
United States Dollar	**64**	**8**	**56**	48	7	41
Namibia Dollar	**364**	**270**	**94**	245	178	67
Botswana Pula	**128**	**84**	**44**	149	107	42
Other	**57**	**4**	**53**	41	4	37
	8 543	**4 938**	**3 605**	9 904	4 829	5 075

The following table represents the exchange rates used for each major currency:

	Group and company			
	2006 Average ZAR 1 =	2005 Average ZAR 1 =	**2006 Closing ZAR 1 =**	2005 Closing ZAR 1 =
Euro	**0,11761**	0,12623	**0,10850**	0,13335
United States Dollar	**0,14773**	0,15711	**0,14310**	0,15779
British Pound	**0,08017**	0,08635	**0,07313**	0,09181
Botswana Pula	**0,85729**	0,79476	**0,86208**	0,86889

6. Financial risk (continued)

6.3 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:

- amounts due from insurance policyholders;
- amounts due from insurance contract intermediaries;
- investments and cash equivalents;
- reinsurers' share of insurance liabilities; and
- amounts due from reinsurers and third parties in respect of claims already paid.

The group limits the levels of credit risk that it accepts by placing limits on its exposure to a single counterparty or groups of counterparties, and to geographical and industry segments. The levels are subject to annual or more frequent reviews. Internal audit also makes regular reviews to assess the degree of compliance with the group's procedures on credit.

Exposures to individual policyholders and groups of policyholders are monitored as part of the credit control process. The group is also protected by guarantees provided by the intermediary guarantee facility for the non-payment of premiums collected by intermediaries.

Reputable financial institutions are used for investing and cash handling purposes. All money market instruments and cash equivalents are placed with institutions that have a national long-term credit rating of at least AA-.

Under the terms of reinsurance agreements, reinsurers agree to reimburse the ceded amount in the event that a gross claim is paid. However, the group remains liable to its policyholders regardless of whether the reinsurer meets the obligations it has assumed. Consequently the group is exposed to credit risk.

The group monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The group has a Reinsurance Security Committee that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance against those criteria.

When selecting a reinsurer the group considers its security. This is assessed from public rating information and from internal investigations. The table below illustrates the credit ratings of the reinsurers that participated in the group's reinsurance programme.

	Group	
(Rated by Standard and Poor's)	**2006 %**	2005 %
AAA	**–**	9
AA	**7**	32
AA-	**69**	20
A+	**1**	10
A	**13**	20
A-	**7**	2
BBB+	**–**	5
Unrated	**3**	2
	100	100

The group held deposits of R119 million (2005: R97 million) as security for reinsurers' share of insurance contract provisions at the balance sheet date.

6. Financial risk (continued)

6.4 Liquidity risk

The group is exposed to daily cash calls mainly from claims arising. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The group sets limits on the minimum proportions of maturing funds available to meet such calls and unexpected levels of demand.

	Company	
	2006 Rm	2005 Rm
7. Interest in subsidiary companies		
Shares at cost less impairment	**674**	1 217
Adjustment to fair value	**535**	571
	1 209	1 788
Amounts due from subsidiaries (included in other receivables)	**84**	40
	1 293	1 828
Amounts due to subsidiaries (included in other payables)	**(283)**	(228)
	1 010	1 600

Refer to page 120 for details of interest in subsidiary companies.

Other than for the amount owing by the Namibian subsidiary, the amounts owing by or to the company are not subject to interest. The interest payable by the Namibian subsidiary is variable and linked to the prime lending rate. The amounts owing are unsecured and do not have fixed repayment terms.

	Company	
	2006 Rm	2005 Rm
8. Loans and interest in share trusts		
Loan to The Mutual & Federal Management Incentive Trust	**234**	349
Loan to The Mutual & Federal Black Broker Trust	**34**	34
Interest in The Mutual & Federal Senior Black Management Trust	**73**	73
Loan to The Mutual & Federal Namibia Management Incentive Trust	**5**	–
	346	456

The loans carry no interest, have no fixed repayment terms and have the underlying Mutual & Federal shares as security.

The interest in The Mutual & Federal Senior Black Management Trust will decrease over time as the RSP share awards granted by the trust vest.

9. Property and equipment

9.1 Group

	Land and buildings Rm	Furniture and equipment Rm	Motor vehicles Rm	Computer equipment Rm	Total Rm
Cost or fair value					
Balance at 31 December 2004	76	32	58	117	283
Additions	4	4	30	13	51
Disposals	–	(1)	(15)	(3)	(19)
Arising on consolidation of CGIC	28	11	3	12	54
Balance at 31 December 2005	**108**	**46**	**76**	**139**	**369**
Revaluation	**7**	**–**	**–**	**–**	**7**
Additions	**4**	**4**	**23**	**36**	**67**
Disposals	**–**	**(1)**	**(16)**	**(12)**	**(29)**
Balance at 31 December 2006	**119**	**49**	**83**	**163**	**414**
Accumulated depreciation					
Balance at 31 December 2004	–	(24)	(11)	(82)	(117)
Depreciation	(7)	(4)	(12)	(19)	(42)
Disposals	–	1	11	3	15
Arising on consolidation of CGIC	(1)	(9)	(2)	(11)	(23)
Balance at 31 December 2005	**(8)**	**(36)**	**(14)**	**(109)**	**(167)**
Revaluation	**(1)**	**–**	**–**	**–**	**(1)**
Depreciation	**(7)**	**(3)**	**(15)**	**(19)**	**(44)**
Disposals	**–**	**–**	**12**	**12**	**24**
Balance at 31 December 2006	**(16)**	**(39)**	**(17)**	**(116)**	**(188)**
Net book value					
Balance at 31 December 2004	76	8	47	35	166
Net additions	4	4	26	13	47
Depreciation	(7)	(4)	(12)	(19)	(42)
Arising on consolidation of CGIC	27	2	1	1	31
Balance at 31 December 2005	**100**	**10**	**62**	**30**	**202**
Revaluation	**6**	**–**	**–**	**–**	**6**
Net additions	**4**	**3**	**19**	**36**	**62**
Depreciation	**(7)**	**(3)**	**(15)**	**(19)**	**(44)**
Balance at 31 December 2006	**103**	**10**	**66**	**47**	**226**

9. Property and equipment (continued)

9.2 Company

	Land and buildings Rm	Furniture and equipment Rm	Motor vehicles Rm	Computer equipment Rm	Total Rm
Cost or fair value					
Balance at 31 December 2004	76	30	58	114	278
Additions	4	3	28	13	48
Disposals	–	(1)	(15)	(3)	(19)
Balance at 31 December 2005	**80**	**32**	**71**	**124**	**307**
Additions	**4**	**3**	**22**	**34**	**63**
Disposals	**–**	**–**	**(15)**	**(12)**	**(27)**
Balance at 31 December 2006	**84**	**35**	**78**	**146**	**343**
Accumulated depreciation					
Balance at 31 December 2004	–	(22)	(12)	(80)	(114)
Depreciation	(5)	(3)	(12)	(19)	(39)
Disposals	–	1	11	3	15
Balance at 31 December 2005	**(5)**	**(24)**	**(13)**	**(96)**	**(138)**
Depreciation	**(6)**	**(3)**	**(15)**	**(18)**	**(42)**
Disposals	**–**	**–**	**12**	**11**	**23**
Balance at 31 December 2006	**(11)**	**(27)**	**(16)**	**(103)**	**(157)**
Net book value					
Balance at 31 December 2004	76	8	46	34	164
Net additions	4	3	24	13	44
Depreciation	(5)	(3)	(12)	(19)	(39)
Balance at 31 December 2005	**75**	**8**	**58**	**28**	**169**
Net additions	**4**	**3**	**19**	**33**	**59**
Depreciation	**(6)**	**(3)**	**(15)**	**(18)**	**(42)**
Balance at 31 December 2006	**73**	**8**	**62**	**43**	**186**

The carrying amount of assets under finance leases included in computer equipment is R2 million (2005: R2 million).

The land and buildings in the company comprise an office block situated on Erf 5230, 75 President Street, Johannesburg, Gauteng, as well as a sectional title unit situated on Erf 198, Eros Park, Windhoek. These properties were acquired in 1998 for an amount of R85 million and in 1983 for an amount of R59 000 respectively.

The group's credit insurance subsidiary leases a property situated on Erven 690 and 1769, 31 Dover Street, Randburg, Gauteng. The property, which was acquired in 1983 for an amount of R11 million, has since 1997 been leased in terms of a sale-and-lease back agreement. On 1 October 2006, these land and buildings were revalued by JHI Real Estate Limited, a registered professional valuer, at R25 million. The valuation was made on the basis of open market value.

All other land and buildings within the group were last revalued during 2004 at their values reflected above.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
9. Property and equipment (continued)				
9.3 Historical cost				
If land and buildings were stated on the historical cost basis, which includes improvements, the amounts would be as follows:				
Cost	**104**	102	**93**	91
Accumulated depreciation	**(35)**	(30)	**(34)**	(30)
	69	72	**59**	61
10. Interest in associated companies				
Share of post-acquisition earnings	**4**	–	**–**	–
	4	–	**–**	–

Analysis of movements in carrying value	Group 2006 Rm	Group 2005 Rm
Balance at the beginning of the year	**–**	220
Reclassification of associated company to subsidiary company	**–**	(220)
Arising on consolidation of CGIC	**–**	38
Share of profit after taxation	**4**	3
Disposal of associated company	**–**	(43)
Profit on sale of associated company	**–**	2
Balance at the end of the year	**4**	–

The carrying value at the end of the year is net of an accumulated impairment charge of R30 million (2005: R29 million). The impairment charge originates from uncertainties regarding future cash flows from the associated company.

Details of associated companies	Nature of business	% shareholding and voting power 2006	% shareholding and voting power 2005
RM Insurance Company (Private) Limited (Zimbabwe)	Short-term insurance	**46**	46

	Group	
	2006 Rm	2005 Rm
11. Goodwill		
Cost	**205**	205
Accumulated impairment charges	**(159)**	(123)
Balance at the beginning of the year	**(123)**	(65)
Current year impairment	**(36)**	(58)
Balance at the end of the year	**46**	82
Goodwill arising from the acquisition of:		
Cougar Investment Holding Company Limited	**33**	68
Sentrasure Limited	**7**	7
Fedsure General Insurance Namibia Limited	**6**	7
	46	82

During the financial year, the group assessed the recoverable amount of goodwill, and determined that goodwill associated with the purchase of various cash-generating units was impaired by R36 million (2005: R58 million). The recoverable amount of the cash-generating unit was assessed by reference to the cash-generating unit's value in use. A discount factor of 20% per annum (2005: 20%) was applied in the value in use model.

The main factor contributing to the impairment of the cash-generating units was the normal churn of business which the industry experiences, as well as future anticipated loss ratios from insurance contracts. No write-down of the carrying amounts of other assets in the cash-generating unit was necessary.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
12. Intangible assets				
Cost	**345**	258	**334**	248
Balance at the beginning of the year	**258**	178	**248**	178
Arising on consolidation of CGIC	**–**	10		
Current year developments and purchases	**87**	70	**86**	70
Accumulated amortisation and impairment losses	**(213)**	(151)	**(203)**	(141)
Balance at the beginning of the year	**(151)**	(84)	**(141)**	(84)
Arising on consolidation of CGIC	**–**	(10)		
Current year amortisation	**(48)**	(21)	**(48)**	(21)
Impairment charge	**(14)**	(36)	**(14)**	(36)
Balance at the end of the year	**132**	107	**131**	107
Intangible assets represent purchased and developed software.				
13. Investment properties				
Balance at the beginning of the year	**7**	7	**7**	7
Disposals	**(7)**	–	**(7)**	–
Balance at the end of the year	**–**	7	**–**	7
Investment properties consisted of business premises situated on Erf 51, 2 Bonsmara Road, Johannesburg, Gauteng and Erven 608, 610 and 612, 90 Elston Avenue, Benoni, Gauteng.				
14. Investments at fair value through profit and loss				
14.1 Total investments at fair value through profit and loss				
14.1.1 At cost				
Preference shares – listed	**68**	27	**20**	1
Ordinary shares	**1 607**	1 464	**1 386**	1 025
Listed	**1 571**	1 428	**1 350**	989
Unlisted	**36**	36	**36**	36
BEE private equity fund	**112**	–	**112**	–
Unit trusts	**38**	39	**–**	–
Government securities	**4**	44	**–**	–
Loans advanced	**34**	41	**34**	41
Money market instruments	**1 873**	1 569	**1 873**	1 500
	3 736	3 184	**3 425**	2 567

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
14. Investments at fair value through profit and loss (continued)				
14.1 Total investments at fair value through profit and loss (continued)				
14.1.2 At fair value				
Preference shares – listed	**66**	31	**19**	2
Ordinary shares	**2 868**	3 986	**1 988**	2 690
Listed	**2 825**	3 963	**1 982**	2 688
Unlisted	**43**	23	**6**	2
BEE private equity fund	**126**	–	**126**	–
Unit trusts	**96**	75	**–**	–
Government securities	**3**	50	**–**	–
Loans advanced	**20**	32	**20**	32
Money market instruments	**1 872**	1 568	**1 872**	1 500
	5 051	5 742	**4 025**	4 224

The group classifies all its investments at fair value through profit and loss. The investments are managed and their performance evaluated and reported internally on a fair value basis in terms of a documented investment strategy.

The government securities mature between one and five years. The coupon rate on the government securities is 13,0% (2005: varied between 9,5% and 13,0%).

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
14.2 Current portion of investments at fair value through profit and loss				
14.2.1 At cost				
Government securities	**–**	14	**–**	–
Loans advanced	**34**	3	**34**	3
Money market instruments	**1 873**	1 569	**1 873**	1 500
	1 907	1 586	**1 907**	1 503
14.2.2 At fair value				
Government securities	**–**	17	**–**	–
Loans advanced	**20**	3	**20**	3
Money market instruments	**1 872**	1 568	**1 872**	1 500
	1 892	1 588	**1 892**	1 503

Loans advanced comprise mortgages to staff and are granted at interest rates varying from 0% to 9,5% (2005: 1% – 10,5%). Personal loans are included in other receivables. The group expects to transfer these loans to a financial services provider in the next 12 months.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
14. Investments at fair value through profit and loss (continued)				
14.3 Listed ordinary shares by sector				
Resources	**772**	1 360	**462**	922
Financial	**887**	1 256	**669**	907
Real estate	**47**	61	**47**	47
Industrial	**1 119**	1 286	**804**	812
	2 825	3 963	**1 982**	2 688

14.4 Major equity investments

The group's most significant listed equity investments at 31 December 2006 are set out below and comprise in aggregate 23,0% of total assets and 69,3% of the listed equity portfolio. The analysis shown reflects the percentage of the total market value at 31 December 2006 of the listed equity investments.

Name of company	Fair value Rm	% of equity portfolio
MTN Group Limited	230	8,1
South African Eagle Insurance Company Limited	206	7,3
Sasol Limited	204	7,2
Remgro Limited	182	6,4
Standard Bank Group Limited	148	5,2
BHP Billiton plc	140	5,0
Nedbank Group Limited	128	4,5
Richemont Securities AG	124	4,4
Anglo American plc	123	4,4
Anglo Platinum Limited	113	4,0
Imperial Holdings Limited	104	3,7
Naspers Limited – "N" ordinary shares	70	2,5
ABSA Limited	65	2,3
Impala Platinum Holdings Limited	60	2,1
Tiger Brands Limited	60	2,1

A register of investments at 31 December 2006 is available for inspection at the company's registered office.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
15. Subrogation recoveries receivable				
Balance at the beginning of the year	**34**	48	**6**	6
Change in income statement	**73**	(14)	**70**	–
Balance at the end of the year	**107**	34	**76**	6
Estimated maturity profile				
within the next year	**72**	23	**51**	4
thereafter	**35**	11	**25**	2
Balance at the end of the year	**107**	34	**76**	6

	Group		Company	
	2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
16. Deferred acquisition costs and reinsurance commission revenue				
Deferred acquisition costs	**174**	150	**106**	110
Deferred reinsurance commission revenue	**(74)**	(54)	**(27)**	(36)
Net deferred acquisition costs	**100**	96	**79**	74
Analysis of movements in deferred acquisition costs				
Balance at the beginning of the year	**150**	149	**110**	114
Change in income statement	**24**	3	**(4)**	(4)
Foreign currency translations	**–**	(2)		
Balance at the end of the year	**174**	150	**106**	110
Analysis of movements in net deferred acquisition costs				
Balance at the beginning of the year	**96**	94	**74**	71
Change in income statement	**4**	3	**5**	3
Foreign currency translations	**–**	(1)		
Balance at the end of the year	**100**	96	**79**	74
The net deferred acquisition costs relate to annual contracts and will be released into the income statement within the next 12 months.				
17. Cash and cash equivalents				
Cash at bank and on hand	**957**	1 796	**240**	1 110
Short-term bank deposits	**202**	178	**–**	–
	1 159	1 974	**240**	1 110
18. Deferred taxation				
Balance at the beginning of the year	**244**	129	**116**	87
Arising on consolidation of CGIC	**–**	25	**–**	–
(Released in)/charged to income statement	**(122)**	90	**(112)**	29
Balance at the end of the year	**122**	244	**4**	116
Presented on balance sheet				
Deferred tax asset	**(10)**	(18)	**(9)**	(18)
Deferred tax liability	**132**	262	**13**	134
	122	244	**4**	116
Analysis of major temporary differences				
Provisions and impairments	**(107)**	(97)	**(84)**	(78)
Revaluation of owner occupied property	**9**	8	**4**	5
Contingency reserve[1]	**11**	10	**–**	–
Revaluation of investments[2]	**214**	335	**88**	202
STC credits[3]	**(10)**	(18)	**(9)**	(18)
Other	**5**	6	**5**	5
	122	244	**4**	116

[1] *At Namibian corporate tax rate of 35%.*
[2] *At an effective capital gains tax rate of 14,5%.*
[3] *At 12,5% for STC credits.*

	Group		Company	
	2006	2005	**2006**	2005
	Rm	Rm	**Rm**	Rm
18. Deferred taxation (continued)				
Ageing of deferred taxation				
Within 12 months	**(77)**	(98)	**(86)**	(88)
After more than 12 months	**199**	342	**90**	204
	122	244	**4**	116
At 31 December 2006, a deferred tax liability of R48 million (2005: R42 million) relating to the revaluation of investments in subsidiary companies has not been recognised because the group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.				
19. Interest-bearing loans				
Land and buildings under finance lease	**3**	8	**–**	–
Computer and office equipment under finance leases	**2**	2	**2**	2
Finance lease liability	**5**	10	**2**	2
Finance lease liabilities – future minimum lease payments				
Not later than one year	**4**	7	**1**	1
Later than one year and not later than five years	**1**	4	**1**	1
	5	11	**2**	2
The present value of finance lease liabilities is as follows:				
Not later than one year	**4**	6	**1**	1
Later than one year and not later than five years	**1**	4	**1**	1
	5	10	**2**	2

Finance lease liabilities relating to land and buildings are payable over a 10 year period in bi-annual instalments at an effective interest rate of 18,9%. The last instalment will be on 15 June 2007.

It is the group's policy to lease certain of its office and computer equipment under finance leases. The average lease term is three years. For the year ended 31 December 2006, the average effective borrowing rate was 10,0% (2005: 10,1%). Interest rates are fixed at the contract date.

Finance lease liabilities, relating to office and computer equipment, are effectively secured, as the rights to the leased assets revert to the lessor in the event of default.

All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental repayments.

The fair value of the group's lease obligations approximates their carrying amount.

20. Insurance contract provisions

Group	2006 Gross Rm	2006 Reinsurance Rm	2006 Net Rm	2005 Gross Rm	2005 Reinsurance Rm	2005 Net Rm
Unearned premiums	**897**	**241**	**656**	917	230	687
Outstanding claims	**2 759**	**540**	**2 219**	2 702	568	2 134
	3 656	**781**	**2 875**	3 619	798	2 821
Estimated maturity profile						
within the next year	**3 413**	**709**	**2 704**	3 303	733	2 570
thereafter	**243**	**72**	**171**	316	65	251
	3 656	**781**	**2 875**	3 619	798	2 821
Company						
Unearned premiums	**606**	**112**	**494**	627	127	500
Outstanding claims	**2 278**	**449**	**1 829**	2 201	448	1 753
	2 884	**561**	**2 323**	2 828	575	2 253
Estimated maturity profile						
within the next year	**2 680**	**498**	**2 182**	2 663	534	2 129
thereafter	**204**	**63**	**141**	165	41	124
	2 884	**561**	**2 323**	2 828	575	2 253

	Group		Company	
	2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
Analysis of movements in net outstanding claims				
Balance at the beginning of the year	**2 134**	1 840	**1 753**	1 640
Value-Added Tax	**(188)**	(166)	**(180)**	(158)
	1 946	1 674	**1 573**	1 482
Arising on consolidation of CGIC	**–**	214		
Current year claims incurred	**5 313**	4 750	**4 851**	4 363
Change in previous year claims estimates	**(454)**	(419)	**(365)**	(313)
Current year claims paid	**(3 948)**	(3 509)	**(3 660)**	(3 323)
Previous year claims paid	**(829)**	(763)	**(768)**	(636)
Foreign currency translations	**–**	(1)		
	2 028	1 946	**1 631**	1 573
Value-Added Tax	**191**	188	**198**	180
Balance at the end of the year	**2 219**	2 134	**1 829**	1 753

	Group		Company	
	2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
20. Insurance contract provisions (continued)				
Analysis of movements in gross unearned premium reserve				
Balance at the beginning of the year	**917**	842	**627**	637
Arising on consolidation of CGIC	**–**	65		
Change in income statement	**(21)**	17	**(21)**	(10)
Foreign currency translations	**1**	(7)		
Balance at the end of the year	**897**	917	**606**	627
Analysis of movements in net unearned premium reserve				
Balance at the beginning of the year	**687**	644	**500**	498
Arising on consolidation of CGIC	**–**	56		
Change in income statement	**(32)**	(8)	**(6)**	2
Foreign currency translations	**1**	(5)		
Balance at the end of the year	**656**	687	**494**	500

20.1 Process used to determine significant assumptions

Insurance risks are unpredictable and the group recognises that it is impossible to forecast with absolute precision, future claims payable under existing insurance contracts. Over time, the group has developed a methodology that is aimed at establishing insurance provisions that have a reasonable likelihood of being adequate to settle all its insurance obligations.

20.1.1 Claim provisions

The group's outstanding claims provisions include notified claims as well as incurred but not yet reported claims.

Notified claims

Other than for credit policies, 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 Value-Added Tax, where applicable.

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 IBNR provision, other than for credit policies, consists of a best estimate reserve and an explicit risk margin. The best estimate represents the expected value of the insurance liabilities i.e. the mean in a range of possible outcomes in the development of unreported claims and the future development of case reserves. The explicit risk margins are added to the best estimate to reflect the uncertainty of the ultimate cost of claims. The risk margins are determined statistically such that the level of confidence on the adequacy of the reserves is approximately 95% (or only a 5% probability that the provision will be inadequate). The levels of the IBNR provisions and the risk margins are assessed annually by management against the group's past claims experience and adjusted if the experience indicates that the methodology is no longer appropriate. The aggregate of the best estimate reserve and risk margins expressed as a percentage of premiums written, represents the IBNR assumption for each financial year.

20. Insurance contract provisions (continued)

20.1 Process used to determine significant assumptions (continued)

20.1.1 Claim provisions (continued)

Claims incurred but not yet reported ("IBNR") (continued)

For credit policies, the cost of notified claims and the IBNR provisions are estimated using a range of statistical methods such as the Chain Ladder and Bornhuetter Ferguson methods. Such methods extrapolate the development of paid and incurred claims, average cost per claims and ultimate claim numbers for each loss year based upon observed development of earlier years and expected loss ratios.

As these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

– changes in processes that affect the development/recording of claims paid and incurred;
– economic, legal, political and social trends;
– changes in mix of business; and
– random fluctuations, including the impact of large losses.

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 risk underwritten, which year the gross claim occurred and therefore under which reinsurance programme the recovery will be made, the size of the claim and whether the claim was an isolated incident or forms part of a catastrophe reinsurance claim.

20.1.2 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 using a time proportionate basis. For the remainder of the insurance portfolio, which includes engineering, crop risks and the risk finance business, the unearned premium is released on a basis consistent with the increasing, decreasing or uneven risk profile of the contracts.

The group has changed the basis of determining the unearned premium provision for even risk insurance contracts from the 24ths basis to the 365ths basis with effect from 1 January 2006. The refinement in the calculation represents a change in estimate and increased the current year group profit before taxation by R42 million and company profit before taxation by R35 million.

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.

20.2 Assumptions

Other than for credit policies, the assumption that has the greatest effect on the measurement of insurance contract provisions is the percentage applied to premiums written in the IBNR calculation. A 5,5% of written premium assumption has been used for 2006 (2005: 7%).

For credit policies the assumption that has the greatest effect on the measurement of insurance contract provisions, and specifically IBNR, is the expected loss ratios for the most recent underwriting year. The expected ultimate loss ratios assumed for the 2006 underwriting year are 40% and 70% for domestic and export business respectively (2005: 45% and 50% respectively).

20. Insurance contract provisions (continued)

20.3 Changes in assumptions

The group has changed the IBNR assumption for non-credit policies for 2006 from 7% of written premium assumption to 5,5%. This change in assumption had the effect of increasing group profit before taxation by R92 million (and company profit before taxation of R88 million). The changes from 2005 to 2006 in the expected ultimate loss ratios for credit policies, as detailed above, reduced the group's insurance contract provisions by R3 million (2005: R60 million).

20.4 Sensitivity of assumptions

The table below demonstrates the before tax profit impact of a hypothetical change in material assumptions:

	Group		Company	
	2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
Calculating IBNR at 6,5% of net written premiums other than for credit insurance	**67**	62	**63**	59
10% higher ultimate loss ratio for both domestic and export credit insurance	**33**	36	**–**	–

21. Cell owners' interest

	Group 2006 Rm	Group 2005 Rm
Balance at the beginning of the year	**245**	143
Net increase in cell owners' interest	**60**	102
Underwriting and investment income attributable to cell owners	**112**	134
Payments to cell owners	**(52)**	(32)
Balance at the end of the year	**305**	245

Cell owners' interest will be settled through the redemption of preference shares issued to cell owners by the risk finance subsidiary. The preference shares are redeemable at the option of the cell owner after three years from issue date, subject to the expiry of all insurance risk attributable to the cell owner.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
22. Current provisions				
Leave and bonus provisions				
Balance at the beginning of the year	**111**	97	**97**	94
Arising on consolidation of CGIC	**–**	6		
Utilisation of provisions	**(109)**	(95)	**(97)**	(90)
Provisions raised during the year	**125**	103	**109**	93
Balance at the end of the year	**127**	111	**109**	97

23. Share capital and share premium

Group	Number of shares 000	Share capital Rm	Share premium Rm	Treasury shares Rm	Total Rm
At 1 January 2005	247 414	25	128	–	153
Issue of shares – staff schemes	19 214	2	394	(385)	11
Issue of shares – BEE non-staff schemes	13 943	1	39	(15)	25
Issue of shares – capitalisation award BEE non-staff schemes	178	–	5	(4)	1
Issue of shares – capitalisation award other	244	–	6	–	6
At 31 December 2005	**280 993**	**28**	**572**	**(404)**	**196**
Issue of shares – staff schemes	**2 266**	**–**	**27**	**(12)**	**15**
Issue of shares – BEE non-staff schemes	**450**	**–**	**–**	**–**	**–**
Issue of shares – capitalisation award BEE non-staff schemes	**3 259**	**1**	**110**	**–**	**111**
Issue of shares – capitalisation award other	**1 607**	**–**	**55**	**–**	**55**
At 31 December 2006	**288 575**	**29**	**764**	**(416)**	**377**
Company					
At 1 January 2005	247 414	25	128	–	153
Issue of shares – staff schemes	19 214	2	394	–	396
Issue of shares – BEE non-staff schemes	13 943	1	39	–	40
Issue of shares – capitalisation award BEE non-staff schemes	178	–	5	–	5
Issue of shares – capitalisation award other	244	–	6	–	6
At 31 December 2005	**280 993**	**28**	**572**	**–**	**600**
Issue of shares – staff schemes	**2 266**	**–**	**27**	**–**	**27**
Issue of shares – BEE non-staff schemes	**450**	**–**	**–**	**–**	**–**
Issue of shares – capitalisation award BEE non-staff schemes	**3 259**	**1**	**110**	**–**	**111**
Issue of shares – capitalisation award other	**1 607**	**–**	**55**	**–**	**55**
At 31 December 2006	**288 575**	**29**	**764**	**–**	**793**

The authorised share capital comprises 350 million shares (2005: 350 million shares) with a par value of 10 cents each.

The treasury shares represent the company's shares held by the group at cost. At 31 December 2006, the group held 19 058 345 (2005: 18 641 806) of the company's shares.

The unissued shares were placed under the control of the directors at the Annual General Meeting held on 3 May 2006 until the commencement of the next Annual General Meeting.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
24. Commission income				
Commission received from reinsurers	**202**	233	**62**	93
Change in deferred reinsurance revenue liability	**(20)**	–	**9**	7
	182	233	**71**	100
25. Investment income				
25.1 Dividends, interest and rentals				
Dividends – listed investments	**120**	153	**76**	113
– subsidiary companies			**325**	246
Total dividends	**120**	153	**401**	359
Interest and rentals received	**291**	222	**235**	157
Interest paid	**(3)**	(6)	**(3)**	–
	408	369	**633**	516
25.2 Unrealised net (loss)/surplus on investments				
Reversal of prior year unrealised gains on disposal	**(1 630)**	(460)	**(1 321)**	(343)
Current year fair value changes	**396**	1 087	**224**	963
Unrealised foreign currency translation	**–**	(5)	**–**	(5)
	(1 234)	622	**(1 097)**	615
26. Other operating income				
Profit on disposal of property and equipment	**2**	6	**2**	6
Realised gains from foreign currency transactions	**6**	4	**1**	1
	8	10	**3**	7
27. Net claims incurred				
Gross	**5 079**	4 815	**4 406**	4 177
Claims paid	**5 286**	4 775	**4 608**	4 182
Change in provision for outstanding claims	**(207)**	40	**(202)**	(5)
Reinsurers' share	**(220)**	(446)	**80**	(125)
Claims paid	**(509)**	(503)	**(180)**	(223)
Change in provision for outstanding claims	**289**	57	**260**	98
Subrogation recoveries	**(178)**	(78)	**(149)**	(66)
Recoveries received	**(105)**	(92)	**(79)**	(66)
Change in receivables	**(73)**	14	**(70)**	–
	4 681	4 291	**4 337**	3 986
Claims include:				
Payments to insureds	**4 322**	3 881	**4 025**	3 620
Claims administration expenses	**359**	410	**312**	366
	4 681	4 291	**4 337**	3 986
28. Acquisition costs				
Acquisition costs paid	**1 818**	1 642	**1 640**	1 443
Change in deferred acquisition costs	**(24)**	(3)	**4**	4
	1 794	1 639	**1 644**	1 447

	Group		Company	
	2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
29. Management expenses				
29.1 Administration and claims administration expenses include:				
Employee costs	**759**	678	**643**	575
Salaries	**599**	557	**501**	471
Employer contribution to defined contribution retirement funds	**68**	53	**59**	43
Other	**92**	68	**83**	61
Share-based payments charge – employees (refer note 38)	**26**	25	**22**	25
Share-based payments charge – other (refer note 39)	**3**	119	**–**	119
Audit fees – audit services	**6**	6	**5**	4
– other services	**–**	1	**–**	1
Depreciation	**44**	42	**42**	39
Furniture and equipment	**3**	4	**3**	3
Land and buildings	**7**	7	**6**	5
Motor vehicles	**15**	12	**15**	12
Computer equipment	**19**	19	**18**	19
Amortisation of intangible assets	**48**	21	**48**	21
Impairment of intangible assets	**14**	36	**14**	36
Repairs and maintenance of property and equipment	**6**	4	**4**	3
Rentals under operating leases	**39**	38	**31**	32
Office equipment	**10**	9	**9**	9
Property	**29**	29	**22**	23
Directors' emoluments			**6**	6
Executive directors – for managerial remuneration			**4**	4
Non-executive directors – for services as directors			**2**	2

29. Management expenses (continued)

29.2 Directors' emoluments

2006 R000	Fees	Basic salary	Other	Bonus+	Pension contribution	Total
J B Magwaza	209		208			417
C J W Ball	33					33
T M Boardman#	33					33
B Campbell[1]	100	2 021		1 734	243	4 098
R M Head#	210					210
A M Hyatt	34					34
P D Jones Vilakazi	104					104
D Konar#	200					200
A A Maule	25					25
R P Menell	130					130
L M Mojela	130					130
M L Ndlovu	104					104
B T Ngcuka	168					168
J V F Roberts#	75					75
K T M Saggers	225		140			365
E P Theron	51					51
P R E Tsukudu	29					29
R A Williams	61					61
	1 921	2 021	348	1 734	243	6 267

2005 R000	Fees	Basic salary	Other	Bonus+	Pension contribution	Total
K T M Saggers	225		477			702
M J Levett#	61					61
B Campbell*	90	1 819		1 941	219	4 069
R M Head#	162					162
A M Hyatt	90					90
P D Jones Vilakazi	90					90
D Konar#	180					180
R P Menell	117					117
L M Mojela	31					31
M L Ndlovu	90					90
B T Ngcuka	31					31
J V F Roberts#	90					90
E P Theron	135					135
R A Williams	162					162
	1 554	1 819	477	1 941	219	6 010

Remuneration payable to the company by whom the director is employed, and not to the individual.
* *Executive director.*
\+ *Is in respect of the bonus amount which accrued during the year, although payment occurred in the following year.*
[1] *Excludes share-based payment charge in relation to executive director. Refer note 29.3.*

29. Management expenses (continued)

29.3 Executive director's share options and awards

29.3.1 Share options

B Campbell	Date of issue	Number	Strike price (R)	Date exercised	Market price (R)
Outstanding share options at 31 December 2005		360 800			
Share options exercised during the current financial year		61 700			
	01/01/2001	20 500	9,00	10/04/2006	35,80
	12/11/2001	20 600	11,50	10/04/2006	35,80
	12/11/2002	20 600	11,70	10/04/2006	35,80
Share options granted during the current financial year	08/11/2006	95 000	24,20		
Outstanding share options at 31 December 2006		**394 100**			

Outstanding share options consisting of:

Date of issue	Number	Strike price (R)*	Exercisable before#
12/11/2001	20 500	3,50	11/11/2007
12/11/2002	41 100	3,70	11/11/2008
11/11/2003	95 000	4,50	10/11/2009
10/11/2004	95 000	12,00	09/11/2010
08/11/2005	47 500	17,00	07/11/2011
08/11/2006	95 000	24,20	07/11/2012
	394 100		

29.3.2 Share awards

B Campbell	Date of issue	Number
Restricted share awards outstanding at 31 December 2006	08/11/2005	**14 250**

The share awards vest immediately subject to the condition that the director remains in the group's employment for a period of time. The director can take delivery of the shares after three years.

* *During September 2006, the company paid a special dividend of R8 per share as part of the capital management strategy. Accordingly the exercise price of all options granted before September 2006 were reduced by R8 per share and the fair value of the affected share-based payments remained unchanged.*

Refer to note 38 for details of the change in the vesting period of options granted.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
30. Taxation				
30.1 South African and foreign				
Current	**537**	293	**393**	190
Current year	**536**	291	**392**	190
Prior year	**1**	2	**1**	–
Deferred	**(130)**	102	**(121)**	44
Current year	**(130)**	107	**(121)**	47
Change in tax rate	**–**	(5)	**–**	(3)
Secondary tax on companies	**319**	35	**203**	1
Paid	**311**	47	**194**	16
Deferred movement	**8**	(12)	**9**	(15)
	726	430	**475**	235
30.2 Deferred tax movement by major temporary difference				
Provisions and impairments	**(10)**	(18)	**(6)**	(10)
Revaluation of owner occupied property	**1**	–	**(1)**	–
Contingency reserve	**1**	1	**–**	–
Revaluation of investments	**(121)**	118	**(114)**	49
Other	**(1)**	1	**–**	5
	(130)	102	**(121)**	44
30.3 Reconciliation of tax rate	**%**	%	**%**	%
Standard rate	**29,0**	29,0	**29,0**	29,0
Non-taxable income	**(6,5)**	(11,8)	**(9,9)**	(17,7)
Disallowed expenditure	**0,6**	2,1	**0,6**	2,3
Goodwill	**0,6**	0,9		
Secondary tax on companies and withholding tax	**18,8**	2,0	**15,4**	0,3
Foreign tax rate differential	**0,1**	0,1		
Prior year adjustment	**–**	–	**0,1**	–
Change in tax rate	**–**	(0,2)	**–**	(0,2)
Effective rate	**42,6**	22,1	**35,2**	13,7

31. Earnings per share

31.1 Basic earnings per share

Basic earnings per share are calculated on profit after tax attributable to equity holders of the company of R866 million (2005: R1 395 million). The weighted average number of shares in issue during the period was 252 462 702 (2005: 249 034 665).

31.2 Diluted earnings per share

Diluted earnings per share are determined by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares.

For share options issued to employees, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

For shares issued to trusts in favour of black business partners, the dilutive number of shares was based on the estimated number of unencumbered shares that the business partners can obtain at the termination of the schemes (refer note 37.1.4 and 37.2.2).

	Group	
	2006	2005
	m	m
Reconciliation of diluted weighted average number of shares		
Weighted average number of ordinary shares in issue	**252,5**	249,0
Adjustment for share options and awards issued to employees	**2,9**	2,5
Adjustment for shares issued to trusts in favour of black business partners	**9,4**	6,3
Diluted weighted average number of ordinary shares	**264,8**	257,8

31.3 Headline earnings per share

Headline earnings per share are calculated on profit attributable to equity holders of the company, adjusted for impairment of goodwill, intangibles and the profit on disposal of property and equipment, of R911 million (2005: R1 475 million). The weighted average number of shares in issue during the period was 252 462 702 (2005: 249 035 565).

	Rm	Rm
Reconciliation of headline earnings		
Profit attributable to equity holders of the company	**866**	1 395
Impairment of goodwill	**36**	58
Impairment of intangible assets	**10**	26
Profit on disposal of property and equipment	**(1)**	(4)
Headline earnings	**911**	1 475
Headline earnings per share (cents)	**361**	592

31.4 Diluted headline earnings per share

Diluted headline earnings per share are calculated on profit attributable to equity holders of the company, adjusted for impairment of goodwill, intangibles, and the profit on disposal of property and equipment, of R911 million (2005: R1 475 million). The diluted weighted average number of shares in issue during the period was 264 823 885 (2005: 257 799 356).

	2006	2005
Diluted headline earnings per share (cents)	**344**	572

	Group		Company	
	2006	2005	**2006**	2005
	Rm	Rm	**Rm**	Rm
32. Cash generated by operations				
Profit before taxation	**1 703**	1 945	**1 349**	1 712
Adjusted for:				
Investment income	**(1 306)**	(1 572)	**(1 131)**	(1 490)
Impairment of goodwill	**36**	58		
Share-based payment charge	**29**	128	**22**	128
Increase in net insurance contract provisions	**54**	67	**70**	115
(Decrease)/increase in subrogation recoveries receivable	**(73)**	14	**(70)**	–
Increase in net deferred acquisition costs	**(4)**	(3)	**(5)**	(3)
Depreciation of property and equipment	**44**	42	**42**	39
Amortisation and impairment of intangible assets	**62**	57	**62**	57
Profit on sale of property and equipment	**(2)**	(6)	**(2)**	(6)
Changes in working capital:				
(Increase)/decrease in net agents' and reinsurers' balances	**(17)**	29	**(54)**	68
Increase in other receivables	**(85)**	(53)	**(62)**	(55)
Increase/(decrease) in other payables	**46**	3	**15**	(12)
Increase in amounts due to cell owners	**60**	102		
Net increase/(decrease) in deposits with/by reinsurers	**27**	(13)	**32**	(15)
Decrease in interest-bearing loans	**(5)**	(5)	**–**	–
Increase in post-retirement medical benefit provisions	**16**	14	**10**	14
Increase in current provisions	**16**	7	**12**	3
Effect of foreign exchange translation on working capital	**–**	2	**–**	1
	601	816	**290**	556
33. Taxation paid				
Balance (prepaid)/owing at the beginning of the year	**(1)**	13	**(18)**	11
Arising on consolidation of CGIC	**–**	37		
Current taxation charged to the income statement	**537**	293	**393**	190
Secondary tax on companies paid	**311**	47	**194**	16
Balance (owing)/prepaid at the end of the year	**(60)**	1	**(25)**	18
	787	391	**544**	235
34. Dividend paid				
Total dividend paid per statements of changes in equity	**2 658**	427	**2 703**	310
Dividend paid in terms of capitalisation award	**(166)**	(11)	**(166)**	(11)
Cash dividend paid	**2 492**	416	**2 537**	299

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
35. Related party transactions				
35.1 Identity of related parties				
The company has a related party relationship with its holding company, subsidiaries, fellow subsidiaries, associates and with its directors and executive officers and their close family members. The subsidiary companies are listed in Appendix 1.				
35.2 Transactions with key management personnel				
The remuneration of the executive general management, who are the key management personnel of the group, is set out below in aggregate. Information about the remuneration of the executive director is provided in note 29.				
Salary and bonuses	**16**	15	**16**	15
Post-employment benefits	**1**	1	**1**	1
Share-based payments	**2**	1	**2**	1
	19	17	**19**	17
Short-term premiums received from executive general management (included in gross premiums)	**0,2**	0,2	**0,2**	0,2
Loans to directors and executive general management (included in other receivables)	**0,6**	0,3	**0,6**	0,3
Directors and executive general management of the group and their close family members control 0,2% (2005: 0,2%) of the voting rights of the company.				
35.3 Other related party transactions and balances				
The company has balances receivable/payable with subsidiary companies. These balances are disclosed in Appendix 1.				
Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation.				
During the year, the company and its subsidiaries, in the ordinary course of business, entered into various transactions with fellow subsidiary companies in the greater Old Mutual group of companies. These transactions occurred under terms that are no less favourable than those arranged with third parties.				
35.3.1 Transactions with fellow subsidiaries				
Premium received for insurance cover	**45**	42	**44**	41
Interest and dividends received	**61**	38	**55**	34
Administration fee income	**16**	19	**16**	19
Bank charges and administration fees paid	**(6)**	(7)	**(5)**	(7)
Claims incurred	**(28)**	(26)	**(27)**	(26)
Rentals paid	**(35)**	(28)	**(31)**	(28)
Dividend paid	**(2 058)**	(230)	**(2 058)**	(230)
Acquisition costs	**(132)**	(99)	**(129)**	(98)
35.3.2 Year-end balances with related parties				
Receivable from related parties				
Nedbank Limited – fellow subsidiary	**202**	750	**69**	669
Old Mutual South Africa Limited – fellow subsidiary	**127**	–	**127**	–

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
35. Related party transactions (continued)				
35.3 Other related party transactions and balances (continued)				
35.3.3 Equity investments in fellow subsidiaries at fair value				
Nedbank Group Limited	**128**	112	**111**	80
Old Mutual plc	**18**	23	**–**	–

35.4 Doubtful debts

There was neither a provision for doubtful debts, nor any impairment during the year, with regard to related parties.

36. Employee benefits

36.1 Retirement plans

The group operates pension funds for all permanent staff. These comprise defined contribution and defined benefit pension plans governed by the Pension Funds Act, 1956. Under the pension plans the employees are entitled to retirement benefits on attainment of a retirement age of between 55 and 64. There are no informal practices that give rise to constructive obligations that should otherwise have been included in the defined benefit obligations.

36.1.1 Defined benefit pension plans

The most recent actuarial valuation of the present value of the defined benefit obligations were carried out at 31 December 2006. The present value of the defined benefit obligations, the related current service cost and the past service cost were measured using the minimum benefits basis.

	Group 2006 %	Group 2005 %	Company 2006 %	Company 2005 %
Key assumptions:				
Discount rate	**7,4 - 8,3**	7,9	**8,3**	7,9
Consumer price inflation	**4,8 - 5,1**	4,3	**4,8**	4,3
Expected return on plan assets	**8,3 - 8,6**	7,9	**8,3**	7,9
Rate of compensation increase	**5,6 - 6,2**	5,2	**5,6**	5,2
Pension increase	**3,9 - 4,6**	4,3	**4,6**	4,3
	Rm	Rm	**Rm**	Rm
Amounts recognised in the income statement are as follows:				
Current service costs	**1**	2	**1**	1
Interest costs	**4**	4	**3**	2
Expected return on plan assets	**(3)**	(4)	**(2)**	(2)
	2	2	**2**	1

The amounts recognised are included in employee costs.

Actuarial gains and losses are recognised in the income statement as identified and no portion is deferred.

The actual return on plan assets was R5 million (2005: R5 million).

36. Employee benefits (continued)

36.1 Retirement plans (continued)

36.1.1 Defined benefit pension plans (continued)

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
The present value of the obligation and the fair value of the plan assets included in the balance sheet are as follows:				
Present value of defined benefit obligations	**34**	43	**23**	32
Fair value of plan assets	**34**	43	**23**	32
Surplus in plan assets	**–**	–	**–**	–
Movements in the present value of defined benefit obligation in the current period:				
At beginning of year	**43**	27	**32**	27
Arising on consolidation of CGIC		21		
Current service costs	**1**	2	**1**	1
Interest costs	**4**	4	**3**	2
Actuarial loss	**3**	2	**2**	2
Benefits paid	**(17)**	(13)	**(15)**	–
At end of year	**34**	43	**23**	32
Movements in the present value of the fair value of plan assets in the current period:				
At beginning of year	**43**	27	**32**	27
Arising on consolidation of CGIC		21		
Expected return on plan assets	**3**	4	**2**	2
Actuarial gain	**5**	4	**4**	3
Benefits paid	**(17)**	(13)	**(15)**	–
At end of year	**34**	43	**23**	32

36.1.2 Distribution of a pension fund surplus

In order to comply with the provisions of the Second Pension Fund Amendment Act, the Trustees of the Mutual & Federal Pension Fund have completed the work on a proposed Surplus Apportionment Scheme. The proposal was put to members and pensioners for comment and comments received were addressed. The Trustees submitted the proposed Scheme to the Financial Services Board for final approval in December 2006. It is expected that a response will be received before the end of June 2007.

At 31 December 2006 a liability of R12 million was included in "Other payables" in the balance sheet for the employer's shortfall in respect of the proposed Scheme, after considering the amount of the surplus used by the group in the past to fund, amongst other things, contribution holidays. This amount will be paid into the Fund during the first quarter of the 2007 financial year.

36.2 Post-retirement medical benefit provision

The group has an obligation to fund a portion of certain employees' and pensioners' contributions to their medical aids. The obligation is calculated using the projected unit credit method.

	Group 2006	Group 2005	Company 2006	Company 2005
	%	%	**%**	%
36. Employee benefits (continued)				
36.2 Post-retirement medical benefit provision (continued)				
Key assumptions:				
Discount rate	**8,0 – 8,3**	7,9 – 9,0	**8,3**	7,9
Increase in employer contributions	**4,8 – 6,0**	4,3 – 7,0	**4,8**	4,3
	Rm	Rm	**Rm**	Rm
Amounts recognised in the income statement are as follows:				
Current service cost	**3**	2	**1**	2
Interest cost	**14**	8	**9**	8
Actuarial loss	**2**	12	**3**	12
	19	22	**13**	22

The actuarial gains and losses are included in employee costs and no portion is deferred.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Present value of defined benefit obligation included in the balance sheet:				
Balance at the beginning of the year	**131**	100	**114**	100
Arising on consolidation of CGIC		17		
Current service cost	**3**	2	**1**	2
Interest cost	**14**	8	**9**	8
Actuarial loss	**4**	12	**3**	12
Contributions by employers	**(5)**	(8)	**(3)**	(8)
Balance at the end of the year	**147**	131	**124**	114

The group expects to contribute approximately R7 million towards medical aids relating to the post-retirement medical aid benefit obligation during 2007.

37. Black economic empowerment ("BEE") transactions

37.1 South African BEE transaction

During 2005, the company entered into a BEE share transaction which comprised the following key groupings:

- Employees;
- Distributors;
- Community and charitable groupings; and
- Black business partners ("BBPs").

37.1.1 The Employee Schemes

The Mutual & Federal Management Incentive Scheme

The primary purpose of the scheme is to attract, reward and retain senior and middle management. The allocations are a combination of restricted share plan ("RSP") share awards (50%) and share options (50%). The RSP shares vest immediately subject to the condition that the employee remains in the group's employment for a period of time and are not subject to corporate performance targets ("CPTs"). The share options may be exercised after three years, but no later than six years from grant date, and may be subject to CPTs.

Participants are paid dividends in respect of the RSP share awards and are entitled to exercise the voting rights in respect of the Mutual & Federal shares.

37. Black economic empowerment ("BEE") transactions (continued)

37.1 South African BEE transaction (continued)

37.1.1 The Employee Schemes (continued)

The Mutual & Federal Management Incentive Scheme (continued)

Although non-black management also participate in this scheme all shares issued to the scheme at its commencement are earmarked for allocation to black management.

The Mutual & Federal Senior Black Management Incentive Scheme

This scheme operates for the benefit of selected senior black management of the group. Allocations from this scheme are in addition to the normal annual allocations made in terms of The Mutual & Federal Management Incentive Scheme to the senior black management of Mutual & Federal. The trustees make RSP share awards to management for retention and attraction purposes.

RSP share awards are not subject to CPTs and vest immediately, subject to the resolutive condition that the participant remains in the group's employment for a period of time. Participants are to be paid dividends in respect of RSP share awards and will be entitled to exercise the voting rights in respect of the shares. Participants may only take delivery of the shares after four years (one-third), five years (one-third) and six years (one-third).

The Mutual & Federal Broad-based Scheme

This scheme operates for the benefit of employees of the group who do not participate in either The Mutual & Federal Management Incentive Scheme or The Mutual & Federal Senior Black Management Scheme. On 4 August 2005, an allocation was made by means of a once-off RSP share award to the value of approximately R8 575 per participant. The award is not subject to CPTs or service conditions. Staff joining Mutual & Federal after the allocation date do not participate in this scheme.

Participants are to be paid dividends in respect of the RSP share awards and will be entitled to exercise the voting rights in respect of the Mutual & Federal shares. Participants may, however, only take delivery of the shares after five years of participation in the scheme.

37.1.2 The Distributor Scheme (Black Broker Trust)

The objective of this scheme is to provide or secure finance to or for black brokers wishing to develop brokerage businesses to service the short-term insurance market in South Africa. The finance made available by The Mutual & Federal Black Broker Trust is utilised by black brokers to provide education and to acquire assets required in order to commence operations in a productive manner.

37.1.3 The Community Scheme

The objective of this scheme is to provide meaningful benefits to selected community and charitable projects. The aim is to supplement existing community and charitable initiatives on a co-ordinated and consistent basis.

The Community Trust acquired 0,5% of the issued share capital of the company at par value.

37.1.4 Black Business Partners ("BBPs") Schemes

The black business partners comprise the Wiphold and the Mtha Consortia, who have respectively acquired 3,5% and 0,5% of the company's issued share capital at the 2005 transaction date. The shares are held in a trust for ten years. A funding mechanism has been developed which involves Mutual & Federal issuing the shares at 2,5% of market value to the participants. On the applicable termination dates of each scheme, Mutual & Federal will be entitled to call back as many of the shares as, based on the then market value, are equal in value to the terminal value on a notional calculation model based at the original fair value of the shares and a funding rate.

37. Black economic empowerment ("BEE") transactions (continued)

37.2 Namibian BEE transaction

During 2006, the company entered into a Namibian BEE share transaction to introduce black Namibians into its shareholding structure. The group has elected to use Mutual & Federal shares instead of Mutual & Federal Namibia shares for the purposes of this transaction due to the Mutual & Federal share being listed on the JSE and NSX. The transaction comprised the following key groupings:

– Employees;
– Strategic business partners;
– Strategic community partners; and a
– Long-term strategic allocation.

37.2.1 The Employee Schemes

The Mutual & Federal Namibia Management Incentive Scheme
The primary purpose of the scheme is to attract, reward and retain senior and middle management. The allocations are a combination of RSP awards (50%) and share options (50%). The RSP shares vest immediately subject to the condition that the employee remains in the group's employment for a period of time and are not subject to CPTs. The share options may be exercised after three years, but no later than six years from grant date, and may be subject to CPTs.

Participants are paid dividends in respect of the RSP share awards and will be entitled to exercise the voting rights in respect of the Mutual & Federal shares.

Although non-black management also participate in this scheme, all shares issued to the scheme at its commencement are earmarked for allocation to black management.

The Mutual & Federal Namibia Senior Black Management Incentive Scheme
This scheme operates for the benefit of selected senior black management of Mutual & Federal Namibia. Allocations from this scheme are in addition to the normal annual allocations made in terms of The Mutual & Federal Namibia Management Incentive Scheme to the senior black management of Mutual & Federal Namibia.

The trustees make RSP share awards to management for retention and attraction purposes.

RSP share awards are not subject to CPTs and will vest immediately, subject to the resolutive condition that the participant remains in the group's employment for a period of time. Participants are to be paid dividends in respect of RSP share awards and will be entitled to exercise the voting rights in respect of the shares. Participants may only take delivery of the shares after four years (one-third), five years (one-third) and six years (one-third).

The Mutual & Federal Namibia Broad-based Scheme
This scheme operates for the benefit of employees of Mutual & Federal Namibia who do not participate in either The Mutual & Federal Namibia Management Incentive Scheme or The Mutual & Federal Namibia Senior Black Management Scheme. On 15 December 2006, an allocation was made by means of a once-off RSP share award to the value of approximately N$8 000 per participant. The award is not subject to CPTs or service conditions. Staff joining Mutual & Federal Namibia after the allocation date do not participate in this scheme.

Participants are to be paid dividends in respect of the RSP share awards and will be entitled to exercise the voting rights in respect of the Mutual & Federal shares. Participants may, however, only take delivery of the shares after five years of participation in the scheme.

37. Black economic empowerment ("BEE") transactions (continued)

37.2 Namibian BEE transaction (continued)

37.2.2 Strategic Business Partner ("SBPs") Schemes

The black business partners comprise Central Investment, Manmar and Northern Empowerment Investments, who have respectively acquired 0,05%, 0,02% and 0,02% of the company's issued share capital at the transaction date. The shares are held in a trust for ten years. A funding mechanism has been developed which involves Mutual & Federal issuing the shares at 2,5% of market value to the participants. On the applicable termination dates of each scheme, Mutual & Federal will be entitled to call back as many of the shares as, based on the then market value, are equal in value to the terminal value on a notional calculation model based at the original fair value of the shares and a funding rate.

37.2.3 Strategic Community Partner Schemes

The objective of these schemes is to provide meaningful benefits to selected community and charitable projects. The aim is to supplement existing community and charitable initiatives on a co-ordinated and consistent basis.

The community partners comprise Churches and WAD, who each acquired 0,02% of the issued share capital of the company at par value.

37.2.4 Long-term strategic allocation

An allocation of shares has been made to assist with future long-term strategic initiatives amounting to N$2,96 million. The shares will be used by Mutual & Federal Namibia to capitalise on strategic opportunities that may arise in the future that may add value to the group.

The table below sets out the total deal size at Mutual & Federal as well as the effective black ownership at Mutual & Federal Namibia, using the enlarged issued share capital of Mutual & Federal to facilitate the transaction.

	Total deal		Shareholding Mutual & Federal	Effective black ownership in Mutual & Federal Namibia
	Number of shares 000	Transaction value N$m/Rm	(post-issue of new shares)	(post-issue of new shares)
Employee schemes	279	7,6	0,10%	4,25%
M & F Namibia Management Incentive	143	3,9	0,05%	2,28%
M & F Namibia Senior Black Management	110	3,0	0,04%	1,77%
M & F Namibia Broad-based	26	0,7	0,01%	0,20%
Strategic business partners	249	6,8	0,09%	3,97%
Central Investment	148	4,0	0,05%	2,35%
Manmar	55	1,5	0,02%	0,88%
Northern Empowerment Investments	46	1,3	0,02%	0,74%
Strategic community partners	92	2,6	0,04%	1,46%
Churches	46	1,3	0,02%	0,73%
WAD	46	1,3	0,02%	0,73%
Long-term strategic allocation	109	3,0	0,03%	1,74%
	729	20,0	0,26%	11,42%

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
38. Share-based payments to employees				
Share option schemes	**10**	7	**9**	7
RSP awards	**16**	18	**13**	18
	26	25	**22**	25

Details of employees' share options and RSP awards are presented below.

During the year the company changed the rules with regard to The Mutual & Federal Management Incentive Scheme and The Mutual & Federal Share Option Scheme so that all RSPs and share options under these schemes vest three years after grant date. Share options may be exercised no later than six years after grant date.

During September 2006 the company paid a special dividend of R8 per share as part of the capital management strategy. Accordingly the exercise price of all options granted before September 2006 were reduced by R8 per share and the fair value of the share-based payments remained unchanged.

38.1 Details of share options

The Mutual & Federal Share Option Scheme

This scheme was in existence before the BEE transactions described in note 37. The primary purpose of the scheme is to attract, reward and retain senior and middle management. The allocations comprised share options only. The share options may be exercised after three years but no later than six years from grant date.

The scheme was replaced by The Mutual & Federal Management Incentive Scheme and is now in run-off.

	Group Number	Group Weighted average exercise price R	Company Number	Company Weighted average exercise price R
Balance at 1 January 2005	5 111 300	12,00	5 017 900	12,00
Issued during the year	494 000	23,85	458 000	23,85
Exercised during the year	(1 215 200)	8,49	(1 193 300)	8,49
Lapsed during the year	(92 700)	13,04	(92 700)	13,04
Balance at 31 December 2005	**4 297 400**	**14,71**	**4 189 900**	**14,71**
Exercised during the year	**(1 866 500)**	**7,13**	**(1 855 500)**	**7,13**
Lapsed during the year	**(240 000)**	**18,71**	**(240 000)**	**18,71**
Balance at 31 December 2006	**2 190 900**	**20,68**	**2 094 400**	**20,68**
Exercisable in the following 12 months				
– At 31 December 2005	409 067	7,93	404 067	7,93
– At 31 December 2006	**903 400**	**4,17**	**842 900**	**4,17**

The outstanding share options have an exercise price of between R3,35 and R16,50 (2005: R4,20 and R24,50) and a weighted average contractual life of six years (2005: six years).

The weighted average share price at date of exercise for options exercised during the period was R30,57 (2005: R23,70).

	Group		Company	
	Number	Weighted average exercise price R	Number	Weighted average exercise price R

38. Share-based payments to employees (continued)

38.1 Details of share options (continued)

The Mutual & Federal Management Incentive Schemes

	Group Number	Group Weighted average exercise price R	Company Number	Company Weighted average exercise price R
Balance at 1 January 2005	–		–	
Issued during the year	3 544 950	22,62	3 429 050	22,62
Lapsed during the year	(59 300)	21,33	(53 900)	21,33
Balance at 31 December 2005	**3 485 650**	**22,64**	**3 375 150**	**22,64**
Issued during the year	**1 865 100**	**24,38**	**1 817 450**	**24,38**
Exercised during the year	**(51 200)**	**23,61**	**(51 200)**	**23,61**
Lapsed during the year	**(256 450)**	**22,79**	**(256 450)**	**22,79**
Balance at 31 December 2006	**5 043 100**	**23,27**	**4 884 950**	**23,27**

The outstanding share options have an exercise price of between R18,00 and R29,99 (2005: R21,33 and R26,60) and a weighted average contractual life of six years.

Fair value of employee share options granted

The fair value of services received in return for share options granted to employees are measured by reference to the fair value of share options granted. The estimate of the fair value of share options granted is measured using a Black-Scholes option pricing model.

Share options granted have certain service conditions. However, they contain no market conditions.

Some of the option pricing inputs used in the model are included below:

Group	2006 Management incentive schemes	2005 Share option schemes	2005 Management incentive schemes
Number of options granted	**1 865 100**	494 000	3 544 950
Fair value at measurement date (Rand)	**5,25**	6,51	6,12
Share price (Rand)	**24,38**	23,85	24,72
Exercise price (Rand)	**24,38**	23,85	22,62
Expected volatility (%)	**27,00**	25,55	25,57
Expected life (years)	**3**	5	4
Risk free interest rate (%)	**7,50**	7,92	7,92

All the above inputs are expressed as weighted averages.

The expected volatility is based on the annualised historic volatility of the share price over a period commensurate with the expected option life, ending on the date of valuation of the option. The expected life assumption is based on the average length of time similar options have remained outstanding in the past and the type of employees to which awards have been granted.

38. Share-based payments to employees (continued)

38.2 Details of RSP awards

Group

	Management incentive schemes	Senior black management schemes	Broad-based schemes
Balance at 1 January 2005	–	–	–
Number of shares granted	983 225	232 345	751 100
Forfeited due to resignations	(17 790)	(5 340)	–
Balance at 31 December 2005	**965 435**	**227 005**	**751 100**
Number of shares granted	**429 805**	**107 550**	**23 895**
Number of shares vested	**(17 230)**	**–**	**–**
Forfeited due to resignations	**(78 040)**	**(48 660)**	**–**
Total in issue	**1 299 970**	**285 895**	**774 995**
Weighted average fair value at grant date (Rand)			
– at 31 December 2005	24,69	24,69	24,50
– at 31 December 2006	**24,43**	**24,89**	**29,40**

Company

	Management incentive schemes	Senior black management schemes	Broad-based schemes
Balance at 1 January 2005	–	–	–
Number of shares granted	946 425	217 500	751 100
Forfeited due to resignations	(16 170)	(4 530)	–
Balance at 31 December 2005	**930 255**	**212 970**	**751 100**
Number of shares granted	**417 690**	**105 930**	**–**
Number of shares vested	**(17 230)**	**–**	**–**
Forfeited due to resignations	**(78 040)**	**(48 660)**	**–**
Total in issue	**1 252 675**	**270 240**	**751 100**
Weighted average fair value at grant date (Rand)			
– at 31 December 2005	24,69	24,69	24,50
– at 31 December 2006	**24,43**	**24,89**	**–**

The share price at grant date was used to determine the fair value of the RSPs. Expected dividends were not considered when the fair value of the RSPs were determined as the holders of the RSPs are entitled to dividends throughout the vesting period of the shares.

	Group		Company	
	2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
39. Other share-based payments				
Black business partners	**2**	85	**–**	85
Community	**1**	34	**–**	34
	3	119	**–**	119

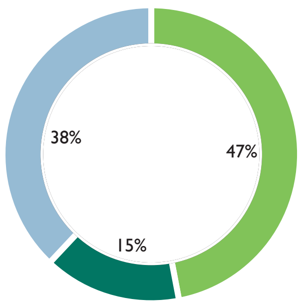
As detailed in note 37.1.4 and 37.2.2, the group operates equity settled share-based schemes for the benefit of black business partners. They take the form of grants not subject to service conditions. The black business partners were granted specific rights in respect of 248 590 (2005: 11 332 443) company shares during the year. The rights vested on grant date and the share-based expense recognised in the income statement represents the fair value of the rights at grant date. The fair value of the rights were measured using the Black-Scholes model.

As detailed in note 37.1.3 and 37.2.3, the group operates an equity-settled share-based scheme for the benefit of the community. The company issued 92 070 (2005: 1 394 291) shares to the schemes at par value during the year. The difference between the fair value of these shares at the date of issue and the par value received represents the share-based payment expense recognised in the income statement.

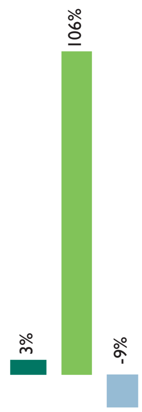
40. Group segmental analysis

40.1 Divisional segments

Gross premiums



Profit/(loss) before taxation



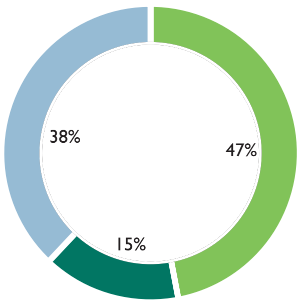
Commercial Risk finance Personal

	Commercial Rm	Risk finance Rm	Personal Rm	Unallocated Rm	Total Rm
2006					
Gross premiums	4 001	1 321	3 227	–	8 549
Less: Reinsurance premiums	563	478	81	–	1 122
Net premiums	3 438	843	3 146	–	7 427
Change in provision for unearned premiums	18	10	4	–	32
Earned premiums net of reinsurance	3 456	853	3 150	–	7 459
Commission income	133	33	16	–	182
Investment income				1 306	1 306
Dividends, interest and rentals				408	408
Realised net surplus on investments				2 132	2 132
Unrealised net loss on investments				(1 234)	(1 234)
Other operating income	4	–	4	–	8
Net income	3 593	886	3 170	1 306	8 955
Net claims incurred	(2 095)	(210)	(2 376)	–	(4 681)
Gross amount	(2 009)	(485)	(2 407)	–	(4 901)
Reinsurers' share	(86)	275	31	–	220
Acquisition costs	(616)	(657)	(521)	–	(1 794)
Administration expenses	(423)	(5)	(313)	–	(741)
Impairment of goodwill	–	–	–	(36)	(36)
Profit/(loss) before taxation	459	14	(40)	1 270	1 703

40. Group segmental analysis (continued)

40.1 Divisional segments (continued)

Gross premiums



2005

Profit before taxation

2005

Commercial Risk finance Personal

	Commercial Rm	Risk finance Rm	Personal Rm	Unallocated Rm	Total Rm
2006					
Segment assets					
Intangible assets and goodwill	72	1	59	46	178
Property and equipment	124	2	100	–	226
Investments	–	–	–	5 055	5 055
Reinsurers' share of insurance contract provisions and deferred acquisition costs	715	198	42	–	955
Agents' and reinsurers' balances	266	54	146	–	466
Other assets	274	34	218	1 137	1 663
Total assets	**1 451**	**289**	**565**	**6 238**	**8 543**
Segment liabilities					
Deferred taxation	–	–	–	132	132
Insurance contract provisions and deferred reinsurance commission revenue	2 474	348	908	–	3 730
Post-retirement medical benefit provision	80	1	66	–	147
Other liabilities	479	21	369	60	929
Total liabilities	**3 033**	**370**	**1 343**	**192**	**4 938**
Other segment items					
Depreciation	24	–	20	–	44
Capital expenditure	85	1	68	–	154

40. Group segmental analysis (continued)

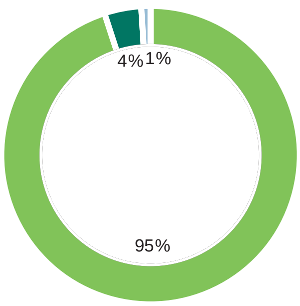
40.1 Divisional segments (continued)

	Commercial Rm	Risk finance Rm	Personal Rm	Unallocated Rm	Total Rm
2005					
Gross premiums	3 772	1 175	3 058	–	8 005
Less: Reinsurance premiums	612	469	50	–	1 131
Net premiums	3 160	706	3 008	–	6 874
Change in provision for unearned premiums	(9)	11	6	–	8
Earned premiums net of reinsurance	3 151	717	3 014	–	6 882
Commission income	173	55	5	–	233
Investment income				1 572	1 572
Dividends, interest and rentals				369	369
Realised net surplus on investments				581	581
Unrealised net surplus on investments				622	622
Other operating income	5	–	5	–	10
Net income	3 329	772	3 024	1 572	8 697
Net claims incurred	(1 880)	(192)	(2 219)	–	(4 291)
Gross amount	(2 101)	(405)	(2 231)	–	(4 737)
Reinsurers' share	221	213	12	–	446
Acquisition costs	(579)	(563)	(497)	–	(1 639)
Administration expenses	(438)	(5)	(321)	–	(764)
Impairment of goodwill	–	–	–	(58)	(58)
Profit/(loss) before taxation	432	12	(13)	1 514	1 945
Segment assets					
Intangible assets and goodwill	59	–	48	82	189
Property and equipment	111	2	89	–	202
Investments	–	–	–	5 749	5 749
Reinsurers' share of insurance contract provisions and deferred acquisition costs	771	139	38	–	948
Agents' and reinsurers' balances	229	102	133	–	464
Other assets	202	55	137	1 958	2 352
Total assets	1 372	298	445	7 789	9 904
Segment liabilities					
Deferred taxation	–	–	–	262	262
Insurance contract provisions and deferred reinsurance commission revenue	2 465	306	902	–	3 673
Post-retirement medical benefit provision	72	1	58	–	131
Other liabilities	400	38	306	19	763
Total liabilities	2 937	345	1 266	281	4 829
Other segment items					
Depreciation	23	–	19	–	42
Capital expenditure	66	1	54	–	121

40. Group segmental analysis (continued)

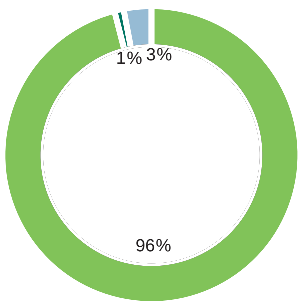
40.2 Geographical segments

Gross premiums



2006

Profit before tax



2006

South Africa   Namibia   Botswana

	South Africa Rm	Namibia Rm	Botswana Rm	Total Rm
2006				
Gross premiums	8 120	331	98	8 549
Less: Reinsurance premiums	1 029	53	40	1 122
Net premiums	7 091	278	58	7 427
Change in provision for unearned premiums	2	25	5	32
Earned premiums net of reinsurance	7 093	303	63	7 459
Commission income	193	(17)	6	182
Investment income	1 266	12	28	1 306
Dividends, interest and rentals	388	11	9	408
Realised net surplus on investments	2 132	–	–	2 132
Unrealised net (loss)/surplus on investments	(1 254)	1	19	(1 234)
Other operating income	8	–	–	8
Net income	8 560	298	97	8 955
Net claims incurred	(4 456)	(198)	(27)	(4 681)
Gross amount	(4 661)	(211)	(29)	(4 901)
Reinsurers' share	205	13	2	220
Acquisition costs	(1 730)	(48)	(16)	(1 794)
Administration expenses	(704)	(31)	(6)	(741)
Impairment of goodwill	(35)	(1)	–	(36)
Profit before taxation	1 635	20	48	1 703
Taxation	(714)	(9)	(3)	(726)
Profit after taxation	921	11	45	977

40. Group segmental analysis (continued)

40.2 Geographical segments (continued)

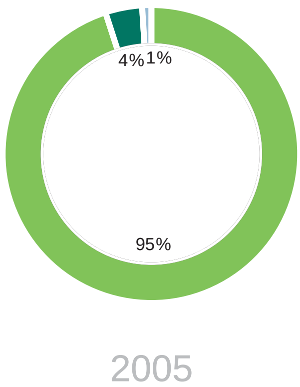
	South Africa Rm	Namibia Rm	Botswana Rm	Total Rm
2006				
Segment assets				
Intangible assets and goodwill	172	6	–	178
Property and equipment	224	2	–	226
Investments	4 995	–	60	5 055
Reinsurers' share of insurance contract provisions and deferred acquisition costs	874	54	27	955
Agents' and reinsurers' balances	433	18	15	466
Other assets	1 296	288	79	1 663
Total assets	7 994	368	181	8 543
Segment liabilities				
Deferred taxation	122	10	–	132
Insurance contract provisions and deferred reinsurance commission revenue	3 509	149	72	3 730
Post-retirement medical benefit provision	152	–	–	152
Other liabilities	786	125	13	924
Total liabilities	4 569	284	85	4 938
Other segment items				
Depreciation	43	1	–	44
Capital expenditure	154	–	–	154

South Africa is the home country of the parent company, which is also the main operating company. Transactions between corporations are eliminated on consolidation.

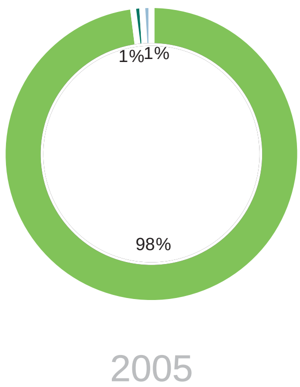
40. Group segmental analysis (continued)

40.2 Geographical segments (continued)

Gross premiums



Profit before tax



South Africa Namibia Botswana

	South Africa Rm	Namibia Rm	Botswana Rm	Total Rm
2005				
Gross premiums	7 603	297	105	8 005
Less: Reinsurance premiums	1 080	13	38	1 131
Net premiums	6 523	284	67	6 874
Change in provision for unearned premiums	5	1	2	8
Earned premiums net of reinsurance	6 528	285	69	6 882
Commission income	224	2	7	233
Investment income	1 535	14	23	1 572
Dividends, interest and rentals	345	14	10	369
Realised net surplus on investments	581	–	–	581
Unrealised net surplus on investments	609	–	13	622
Other operating income	10	–	–	10
Net income	8 297	301	99	8 697
Net claims incurred	(4 062)	(179)	(50)	(4 291)
Gross amount	(4 446)	(179)	(112)	(4 737)
Reinsurers' share	384	–	62	446
Acquisition costs	(1 569)	(52)	(18)	(1 639)
Administration expenses	(733)	(25)	(6)	(764)
Impairment of goodwill	(38)	(20)	–	(58)
Profit before taxation	1 895	25	25	1 945
Taxation	(412)	(16)	(2)	(430)
Profit after taxation	1 483	9	23	1 515

40. Group segmental analysis (continued)

40.2 Geographical segments (continued)

	South Africa Rm	Namibia Rm	Botswana Rm	Total Rm
2005				
Segment assets				
Intangible assets and goodwill	182	7	–	189
Property and equipment	200	2	–	202
Investments	5 639	–	110	5 749
Reinsurers' share of insurance contract provisions and deferred acquisition costs	863	34	51	948
Agents' and reinsurers' balances	438	13	13	464
Other assets	2 108	225	19	2 352
Total assets	9 430	281	193	9 904
Segment liabilities				
Deferred taxation	253	9	–	262
Insurance contract provisions and deferred reinsurance commission revenue	3 417	151	105	3 673
Post-retirement medical benefit provision	131	–	–	131
Other liabilities	704	55	4	763
Total liabilities	4 505	215	109	4 829
Other segment items				
Depreciation	41	1	–	42
Capital expenditure	120	1	–	121

41. Operating lease commitments

The group leases certain of its office buildings and office equipment in terms of operating leases. The group does not have an option to acquire the assets at termination of the lease.

	Group		Company	
	2006 Rm	2005 Rm	**2006 Rm**	2005 Rm
Total future minimum lease payments under non-cancellable operating leases:	**110**	151	**110**	150
Not later than one year	**32**	40	**32**	40
Between one and five years	**78**	111	**78**	110

42. Post-balance sheet events

There were no post-balance sheet events which affected the presentation of the financial statements for the year ended 31 December 2006.

43. Prior year adjustment and restatement

During the current year the group decided to separately recognise and disclose subrogation recoveries receivable as an asset and not as a net part of insurance contract provisions. The comparative information has been adjusted accordingly.

In 2005 the BEE trusts (refer note 37) were consolidated. During the year the group concluded that it does not control these trusts and consequently the consolidation entries in the prior year were reversed.

Group **Rm**	**Assets**	**Liabilities**	**Equity**
As previously reported at 31 December 2005	9 870	4 801	5 069
Subrogation recoveries receivable reclassified	34	34	–
Consolidation of BBP trusts reversed	–	(6)	6
As restated	9 904	4 829	5 075

Company **Rm**			
As previously reported at 31 December 2005	9 104	3 671	5 433
Subrogation recoveries receivable reclassified	6	6	–
As restated	9 110	3 677	5 433

The abovementioned prior-year adjustment and restatement had no effect on the company and group retained income at 1 January 2005 or the comparative income statements.

Appendix 1: Interest in subsidiary companies

		Issued share capital		Fair value of shares in subsidiaries		Indebtedness by/(to) subsidiaries	
		2006 Rm	2005 Rm	**2006 Rm**	2005 Rm	**2006 Rm**	2005 Rm
DIRECTLY HELD							
Cougar Investment Holding Company Limited	(a)	**5**	5	**337**	952	**–**	–
Credit Guarantee Insurance Corporation of Africa Limited (52,52%)	(b)	**2**	2	**289**	297	**–**	–
Mutual & Federal Company of Zimbabwe (Private) Limited #	(a)	**–**	–	**3**	–	**–**	–
Mutual & Federal Insurance Company of Botswana Limited *	(b)	**13**	13	**112**	103	**2**	3
Mutual & Federal Insurance Company of Namibia Limited +	(b)	**10**	10	**110**	120	**14**	37
Mutual & Federal Risk Financing Limited	(b)	**3**	3	**358**	316	**(276)**	(74)
Portion 1 of Stand 210 Rosebank (Proprietary) Limited (75%)	(c)	**–**	–	**–**	–	**–**	–
INDIRECTLY HELD							
CGU Insurance Limited	(a)	**10**	10	**579**	1 044	**68**	(113)
Equestrian Risk Services (Proprietary) Limited	(c)	**–**	–	**–**	–	**–**	–
Fedsure General Insurance Namibia Limited +	(c)	**13**	13	**16**	16	**–**	–
Huis-en-Haard Beskermingskoöperasie	(c)	**–**	–	**–**	–	**–**	–
Jesop Finance Company (Proprietary) Limited (50%)	(d)	**–**	–	**–**	–	**–**	–
Sentrasure Limited	(a)	**169**	169	**244**	410	**(7)**	(41)
SPECIAL PURPOSE VEHICLES							
The Mutual & Federal Management Incentive Trust		**–**	–	**–**	–	**234**	349
The Mutual & Federal Senior Black Management Trust		**–**	–	**73**	73	**–**	–
The Mutual & Federal Black Broker Trust		**–**	–	**–**	–	**34**	34
The Mutual & Federal Namibia Management Incentive Trust		**–**	–	**–**	–	**5**	–
The Mutual & Federal Namibia Senior Black Management Trust		**–**	–	**–**	–	**–**	–
The Mutual & Federal Namibia Discretionary Trust		**–**	–	**–**	–	**–**	–

Legend:

* *Incorporated in Botswana*
\# *Incorporated in Zimbabwe*
\+ *Incorporated in Namibia*

(a) Investment holding company
(b) Short–term insurance
(c) Dormant company
(d) Finance company

All holdings are 100% unless otherwise indicated.

The group's share of the after-tax results of subsidiaries for the year ended 31 December 2006 was as follows: Profits: R495 million (2005: R427 million).

Shareholder information

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	525	33,38	289 168	0,10
1 001 – 10 000 shares	744	47,30	2 755 693	0,95
10 001 – 100 000 shares	235	14,94	7 374 783	2,56
100 001 – 1 000 000 shares	58	3,69	18 365 155	6,36
1 000 001 shares and over	11	0,69	259 790 158	90,03
	1 573	**100,00**	**288 574 957**	**100,00**
Distribution of shareholders				
Investment companies	22	1,40	216 739 513	75,11
Empowerment	7	0,45	35 778 276	12,40
Mutual funds	30	1,91	8 684 912	3,01
Individuals	1 086	69,04	6 879 501	2,38
Insurance companies	10	0,64	5 804 828	2,01
Banks	31	1,97	4 635 659	1,61
Pension funds	30	1,91	3 821 285	1,32
Nominees and trusts	228	14,49	3 075 580	1,07
Private companies	63	4,01	1 277 416	0,44
Public companies	5	0,32	814 550	0,28
Other corporations	18	1,14	449 626	0,16
Endowment funds	15	0,95	388 315	0,13
Medical aid schemes	2	0,12	114 370	0,04
Close corporations	26	1,65	111 126	0,04
	1 573	**100,00**	**288 574 957**	**100,00**
Public/Non-public shareholders				
Non-public shareholders	19	1,21	251 274 623	87,07
Directors and associates of the company	11	0,70	246 100	0,09
Empowerment	7	0,45	35 778 276	12,40
Strategic holdings (more than 10%)	1	0,06	215 250 247	74,59
Public shareholders	1 554	98,79	37 300 334	12,93
	1 573	**100,00**	**288 574 957**	**100,00**

Top 10 beneficial shareholders		
Old Mutual Group	216 707 660	75,10
Mutual & Federal Management Incentive Trust	14 604 066	5,06
BOE Trust Limited – Wiphold Trust	12 767 584	4,42
Liberty Group	3 604 989	1,25
Mutual & Federal Senior Black Management Incentive Trust	3 018 205	1,05
Investec	2 803 618	0,97
Rand Merchant Bank	2 790 895	0,97
Namibian Government Institutions Pension Fund	1 902 900	0,66
BOE Trust Limited – Mtha Financial Services	1 823 941	0,63
Capital Alliance	1 600 893	0,55

Registered shareholders holding more than 1 000 000 shares		
Mutual & Federal Investments	215 520 547	74,68
Mutual & Federal Management Incentive Trust	14 604 066	5,06
BOE Trust Limited – Wiphold Trust	12 767 584	4,42
Liberty Group	3 604 989	1,25
Mutual & Federal Senior Black Management Incentive Trust	3 018 205	1,05
Investec Opportunity Fund	2 405 467	0,83
BOE Trust Limited – Mtha Financial Services	1 823 941	0,63
Rand Merchant Bank	1 747 952	0,61
Capital Alliance Absolute Return Fund	1 508 825	0,52
Mutual & Federal Black Broker Trust	1 394 291	0,48
Mutual & Federal Community Trust	1 394 291	0,48

Managers and branch organisation

Department	Group Manager
Accounting Services	J S Smit
Actuarial	E O Paul, B.Sc.(Hons)., F.F.A., C.F.A.
Administration	
Agriculture and Crop	J H du Plessis
Business Intelligence	J A Ulyate, EDP Dip.
Business Systems Support	L Dyasi, B.Comm., Dip. SAD., Dip. PM.
Claims Initiatives	E E A Morris, A.I.I.S.A.
Commercial Schemes	D A Hopcroft
Commercial Technical	W V Richards, F.I.I.S.A.
Corporate Accounting	J R Heunes, Dip. Bus. Man.
Commercial Division Development	J J Isaacs, H.D. Bus. M., Dip. Proj. M.
Financial Services	K H Kietzman, B.Compt.(Hons.). C.A. (S.A.)
Governance	M P Arnold, B.Com., B.Acc.
Group Procurement	A M Dias, H.D. Bus. Man.
Human Capital Strategy	S Griesbach, B.Com., M.B.A.
Human Capital Management	M Low, B.Admin.
IT Application Development and Maintenance	L Wolmarans, EDP Dip.
IT Architecture	J Maritz, N.Dip. Info. Tech.
IT Service Delivery	L Wolmarans, EDP Dip.
IT Service Support	G Gennari
IT Technical Support	R Roxburgh, B.Sc.
Information Services	K Wishart
Internal Audit	P M J Hancock, B.Compt.(Hons.) C.A. (S.A.), C.I.A.
Learning & Development	H Smith
Legal	A T Bouwer, B.Iur., LL.B., Dip.LL.
Management Accounting	L Collins, B.Com., C.A. (S.A.)
Marketing & Communications	L G M Comyn, B.A.
Motor Claims Solutions	C J Hayhurst, A.I.I.S.A.
Old Mutual Liaison, Channel Management & Direct Mail	D L Jarvis
Old Mutual Group Initiatives	I M Williamson, M.Comm.
Allsure	R E Jatho, A.C.I.I., A.I.I.S.A.
Personal Group Schemes	L A Robertson, A.I.I.S.A. L Friend, A.I.I.S.A.
Personal Business Technical	L Beckbessinger, F.C.I.I., F.I.I.S.A.
Reinsurance	C Blane
Specialist Investigation	P J K Viljoen, B.A. Police Science, B.A.(Hons.)
Strategy	M Tladinyane, B.Sc., Post Grad. Dip. (Bus. Management)

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		Ladysmith P O Box 372 Telephone +27 36 637 7031 Fax +27 36 637 2606	*C B Lee
		Newcastle P O Box 2338 Telephone +27 34 312 7094/5 Fax +27 34 315 2880	**S van der Walt**
PINETOWN P O Box 2178 Telephone +27 31 717 8300 Fax +27 31 702 9646	**D S Pascal,** F.I.I.S.A. *C F Coleman, A.I.I.S.A., B.A. *D Waite	**Port Shepstone** P O Box 263 Telephone +27 39 682 5625 Fax +27 39 682 0097	***C L Stretch,** F.I.I.S.A.
POLOKWANE P O Box 675 Telephone +27 15 293 3300/1/2/3 Fax +27 15 293 3340/90	**G L Fijma,** F.I.I.S.A. *A Coertzen, H.C.i.I. *N Dube	**Modimolle** P O Box 2136 Telephone +27 14 717 1712 Fax +27 14 717 1719	*C J C Jansen van Vuuren, A.C.I.I.
		Tzaneen P O Box 3215 Telephone +27 15 307 2001/2 Fax +27 15 307 2046	*D Coomer

OTHER BRANCHES (continued)

Branch	Regional Manager *Manager	Sub-branch/ Local Office	Branch Manager *Area Manager
PORT ELIZABETH Private Bag X60573 Greenacres 6057 Telephone +27 41 508 3111 Fax +27 41 508 3153	**P Pau** *T Daniels, A.C.I.I. *M R Delponte, H.C.i.I. *H Platt	**George** P O Box 300 Telephone +27 44 802 5200 Fax +27 44 873 3864	**A Cronje,** A.I.I.S.A.
PORT ELIZABETH CLAIMS Private Bag X60573 Greenacres 6057 Telephone +27 41 508 3111 Fax +27 41 508 3157	**J H Welthagen,** ICiBS. *L Westerman, B.Com.		
PRETORIA P O Box 29357 Sunnyside Telephone +27 12 400 8100 Fax +27 12 400 8130	**G E Martin,** ICiBS. *A Fourie, Nat. Cert.: Short Term Insurance *G P Lucas, A.I.I.S.A. *F L Marshall, H.C.i.I.	**Witbank** P O Box 2118 Telephone +2713 690 2850 Fax +27 13 656 5591	**J H Botha,** ICiBS.
PRETORIA CLAIMS P O Box 29357 Sunnyside Telephone +27 12 400 8100 Fax +27 12 400 8308	**S M Kapito,** M.B.A., H.C.i.I *A Berge *S Papadopoulos, H.C.i.I.		
RANDBURG **Commercial Business** P O Box 3909 Randburg Telephone +27 11 777 8400 Fax +27 11 886 1901	 **A S Errington,** A.I.I.S.A. *J B Goodchild, N.C.S.T.I. *L L Greer, ICiBS. *C A Kotze, F.I.I.S.A. *L Herrington, ICiBS.		
Personal Business P O Box 1060 Randburg Telephone +27 11 777 8400 Fax +27 11 789 2615	**M P McCann,** A.C.I.I., A.I.I.S.A., Chartered Insurer *L de Koker *R R Boggenpoel, ICiBS.		
ROODEPOORT P O Box 5802 Telephone +27 11 671 7800 Fax +27 11 475 7651	**A W G Vögel,** A.I.I.S.A. *A du Toit *L van Heerden, A.C.I.I. *F Sepuru, F.I.I.S.A.	**Carletonville** P O Box 997 Telephone +27 18 786 1147 Fax +27 18 788 5758	
RUSTENBURG P O Box 518 Telephone +27 14 592 1191 Fax +27 14 597 1006	**W J J Botha** ***R P van Rooyen,** ICiBS.		

OTHER BRANCHES (continued)

Branch	Manager	Sub/Local Office	Branch Manager
Managers:	L H Swanepoel, ICiBS.	East Rand, Limpopo	
Old Mutual Liaison	W F Immelman	Central Region	
	O Collins	Western Cape	
	D J R Blair, A.C.I.I., A.I.I.S.A.	KwaZulu Natal	
	S C Stevenson, ICiBS.	Head Office – Support Services	
	I D Dreyer	Northern Region	
	H A Duvenhage	KwaZulu Natal	
	Z de Clercq	Eastern Cape	
	E C Albrecht	Northern Region, Limpopo	
Channel Management	P Siwele	Head Office	

Branch	Regional Manager *Manager	Sub/Local Office	Branch Manager *Area Manager
MUTUAL & FEDERAL INSURANCE COMPANY OF BOTSWANA LIMITED			
Private Bag 00347	**Managing Director**		
Gabarone	**B A Kelly,** H.Dip Proj. M. (DMS)		
Telephone +267 390 3333	*J Bekker		
Fax +267 390 3400	*J S Heldsinger, A.I.I.S.A.		
MUTUAL & FEDERAL INSURANCE COMPANY OF NAMIBIA LIMITED			
P O Box 151	**Managing Director**	**Mariental**	**E Erlank**
Windhoek	**G R Katjimune,** B.A.(Hons.), M.A.	P O Box 900	
Telephone +264 61 207 7111	General Manager	Telephone +264 63 24 0999	
Fax +264 61 207 7205	**J W B le Roux**	Fax +264 63 24 2300	
	*A Lombard	**Oshakati**	**E Venter**
	*C Strauss, B.Compt.	P O Box 15372	
	*H Zapke	Telephone +264 65 22 2841	
	*A Puriza	Fax +264 65 22 2700	
		Otjiwarongo	**R Viviers**
		P O Box 1396	
		Telephone +264 67 30 3630	
		Fax +264 67 30 3246	
		Walvis Bay	**R Lotriet**
		P O Box 656	
		Telephone +264 64 20 2236	
		Fax +264 64 20 3183	
RM INSURANCE COMPANY (PRIVATE) LIMITED – ZIMBABWE			
P O Box 3599	**D M Muthe,** M.B.A., A.C.I.I.		
Harare			
Telephone +2634 75 8954			
Fax +2634 75 9700			

Website: www.mf.co.za
E-mail: investor@mf.co.za

Shareholders' diary

Annual general meeting	**9 May 2007**
Announcement of interim results	**2 August 2007**
Financial year-end	**31 December**
Announcement of annual results	**February 2008**

Dividend number 74

Dividend as at 31 December declared	**7 February 2007**
Last date to trade cum dividend	**2 March 2007**
Share trade ex dividend	**5 March 2007**
Record date	**9 March 2007**
Dividend payable	**12 March 2007**
Last date for shareholders to register	**9 March 2007**
Dematerialisation of share prohibited	**5 to 9 March 2007**

Dates are subject to change.

Notice to shareholders

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

Mutual & Federal Insurance Company Limited
(Incorporated in the Republic of South Africa)
(Registration number 1970/006619/06)
JSE share code: MAF NSX share code: MTF ISIN: ZAE000010823
("Mutual & Federal" or "the company")

Notice is hereby given that the thirty-sixth annual general meeting of shareholders of Mutual & Federal will be held on the 4th floor, Mutual & Federal Centre, 75 President Street, Johannesburg, at 09:30 on Wednesday, 9 May 2007 for the following purposes:

1. To receive and adopt the annual financial statements and reports for the year ended 31 December 2006.

2. To elect directors of the company.

The following directors retire in accordance with the company's Articles of Association and being eligible, offer themselves for re-election:

(a) C J Ball
(b) T M Boardman
(c) L Konar
(d) P D Jones Vilakazi
(e) A A Maule
(f) M L Ndlovu
(g) G T Serobe
(h) P R E Tsukudu

A brief *curriculum vitae* in respect of each director referred to above appears on pages 24 - 25 of this annual report.

3. To reappoint KPMG Inc. as auditors of the company.

4. To approve the remuneration of non-executive directors, in accordance with the provisions of article 69 of the company's Articles of Association until such time as it be further amended by the company in general meeting, with effect from 1 January 2007 as follows:

4.1 Chairman of the company – R265 000 per annum
4.2 Non-executive directors – R106 000 per annum

5. To place under the control of the directors of the company by way of a general authority all of the authorised but unissued shares in the share capital of the company in terms of clause 4 of the Articles of Association and section 221(2) of the Companies Act, 1973 (Act 61 of 1973) as amended ("the Act") with the power to allot and issue them at their discretion subject to section 221(3) of the Act and the JSE Limited ("JSE") Listings Requirements.

The issuing of shares granted under this authority will be limited to Mutual & Federal's existing contractual obligations to issue shares, any scrip dividend and/or capitalisation award, and shares required to be issued for the purpose of carrying out the terms of the Mutual & Federal Insurance Company Limited Share Option Scheme and the Mutual & Federal Management Incentive Scheme.

As special business to consider and, if deemed fit, pass with or without modification, the following resolutions:

6. Ordinary resolution

Resolved that the directors of the company are hereby authorised by way of a general authority, to issue all or any of the authorised but unissued shares in the capital of the company for cash, as and when they in their discretion deem fit, subject to the Act, the Articles of Association of the company, the JSE Listings Requirements, when applicable, and the following limitations, namely:

- 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;
- the authority shall be valid until the date of the next annual general meeting of the company, provided it shall not extend beyond 15 months from the date of this general meeting;
- a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published after any issue representing, on a cumulative basis within any one financial year, 5% or more of the number of shares in issue prior to such issue;
- issues in terms of this authority will not exceed 10% in the aggregate of the number of ordinary shares in the company's issued share capital in any one financial year. The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue, added to those that may be issued in future (arising from the conversion of options/convertibles) at the date of such application, less any ordinary shares issued, or to be issued in future arising from options/convertible ordinary shares issued during the current financial year; plus any ordinary shares to be issued pursuant to a rights issue which has been announced, is irrevocable and is fully underwritten, or an acquisition which has had final terms announced;
- in determining the price at which an issue of shares will be made in terms of this authority the maximum discount permitted will be 10% of the weighted average traded price of such shares, as determined over a 30-day period prior to the date that the price of the issue is determined or agreed by the directors; and
- any such issue will only be made to public shareholders as defined in paragraphs 4.26 and 4.27 of the JSE Listings Requirements and will not be made to a related party as defined in the JSE Listings Requirements.

In accordance with the JSE Listings Requirements, this ordinary resolution will require to be approved by a 75% majority of votes cast by members present or represented by proxy at the annual general meeting.

Voting and proxies

Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote in his stead. The proxy so appointed need not be a member of the company. A form of proxy is attached for the convenience of any certificated shareholder and own name registered dematerialised shareholders who cannot attend the meeting, but who wish to be represented thereat. In order to be valid, duly completed proxy forms should be forwarded to reach the transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107) by no later than 09:30 on 2 May 2007.

Shareholders who have dematerialised their shares through a Central Securities Depository Participant ("CSDP") or broker, other than own name registered dematerialised shareholders, and who wish to attend the annual general meeting must request their CSDP or broker to issue them with the necessary authority to attend. Should shareholders who have dematerialised their shares, other than own name registered shareholders, wish to vote by proxy, they must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between the dematerialised shareholders and their CSDP or broker.

By order of the board

G M Benton
Company Secretary

Company Secretary	G M Benton, B.A. (Hons.), C.A.(S.A.), F.C.A. (U.K.)
Address and registered office	19th floor, Mutual & Federal Centre 75 President Street, Johannesburg, 2001, South Africa P O Box 1120, Johannesburg, 2000
Auditors	KPMG Inc.
Bankers	First National Bank of Southern Africa Limited Nedbank Limited The Standard Bank of South Africa Limited
Transfer secretaries	Computershare Investor Services 2004 (Pty) Limited 70 Marshall Street, Johannesburg, 2001 P O Box 61051, Marshalltown, 2107
Joint sponsors	Merrill Lynch, 138 West Street, Sandown, 2196 Nedbank Capital, a division of Nedbank Limited 135 Rivonia Road, Sandown, 2196

Johannesburg
7 February 2007

Form of proxy

Mutual & Federal Insurance Company Limited
(Incorporated in the Republic of South Africa)
(Registration number 1970/006619/06)
JSE share code: MAF NSX share code: MTF ISIN: ZAE000010823
("Mutual & Federal" or "the company")

Proxy form

For use by certificated and own name registered dematerialised shareholders at the thirty-sixth annual general meeting of the company to be held on the 4th floor, Mutual & Federal Centre, 75 President Street, Johannesburg, at 09:30 on Wednesday, 9 May 2007.

Shareholders who have dematerialised their shares through a Central Securities Depository Participant ("CSDP") or broker, other than own name registered dematerialised shareholders, and who wish to attend the annual general meeting must request their CSDP or broker to issue them with the necessary authority to attend. Should shareholders who have dematerialised their shares, other than those with own name registration, wish to vote by proxy, they must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between the dematerialised shareholders and their CSDP or broker.

I/We ______________________________

of ______________________________

being a member(s) of Mutual & Federal Insurance Company Limited, holding [   ] ordinary shares

hereby appoint ______________________________

of ______________________________

or failing him ______________________________

of ______________________________

or failing him, the chairman of the meeting, as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of the company to be held on Wednesday, 9 May 2007 and at every adjournment thereof.

Please indicate how you wish your proxy to vote by placing a cross in the box which applies:

Resolution in respect of item of business number

	For	Against	Abstain
1. To receive and adopt the annual financial statements			
2. To re-elect directors of the company by single resolution			
3. To re-appoint KPMG Inc. as auditors			
4. To approve the following directors' remuneration:			
Chairman of the company – R265 000 per annum			
Non-executive directors – R106 000 per annum			
5. To place unissued shares under the control of the directors			
6. To grant the directors authority to issue shares for cash			

If no voting instructions are given, the proxy will be entitled to vote or to abstain at his discretion.

Signature ______________________________ Date ______________

Assisted by me, her husband ______________________________
(If applicable)

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Notes to the form of proxy

1. Any alteration or correction made to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory(ies).

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2. A member entitled to attend and vote may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided, with or without deleting "the chairman of the meeting". A proxy need not be a member of the company. The person whose name stands first on the form of proxy and who is present at the meeting will be entitled to act as proxy to the exclusion of those whose names follow.

3. A member is entitled to one vote on a show of hands and, on a poll, one vote in respect of each share held. A member's instructions to the proxy must be indicated by inserting the relevant number of votes exercisable by the member in the appropriate box(es). Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the member's votes.

4. A vote given in terms of an instrument of proxy shall be valid in relation to the annual general meeting notwithstanding the death of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the vote is given, unless an intimation in writing of such death, revocation or transfer is received by the Company Secretary not less than 48 hours before the commencement of the annual general meeting.

5. The Chairman of the annual general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.

6. The completion and lodging of this form of proxy will not preclude the relevant member from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.

7. Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the company or unless this requirement is waived by the Chairman of the annual general meeting.

8. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the company.

9. Where there are joint holders of shares:

    - any one holder may sign the form of proxy;
    - the vote(s) of the senior members (for that purpose seniority will be determined by the order in which the names of members appear in the company's register of shareholder(s)) who tender a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint member(s).

10. Forms of proxy should be lodged with the transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (P O Box 61051, Marshalltown, 2107) to be received by no later than 09:30 on 2 May 2007.

Reporting of fraud and corruption

Mutual & Federal subscribes to Tip-offs Anonymous, an independently managed ethics and fraud hotline. To report any suspicion of fraud or unethical behaviour contact:

Toll free number: 0800 006 930
Toll free fax number: 0800 007 788
Free post: DN 298
Umhlanga Rocks
4320

Designed by motiv
Printed by ince

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