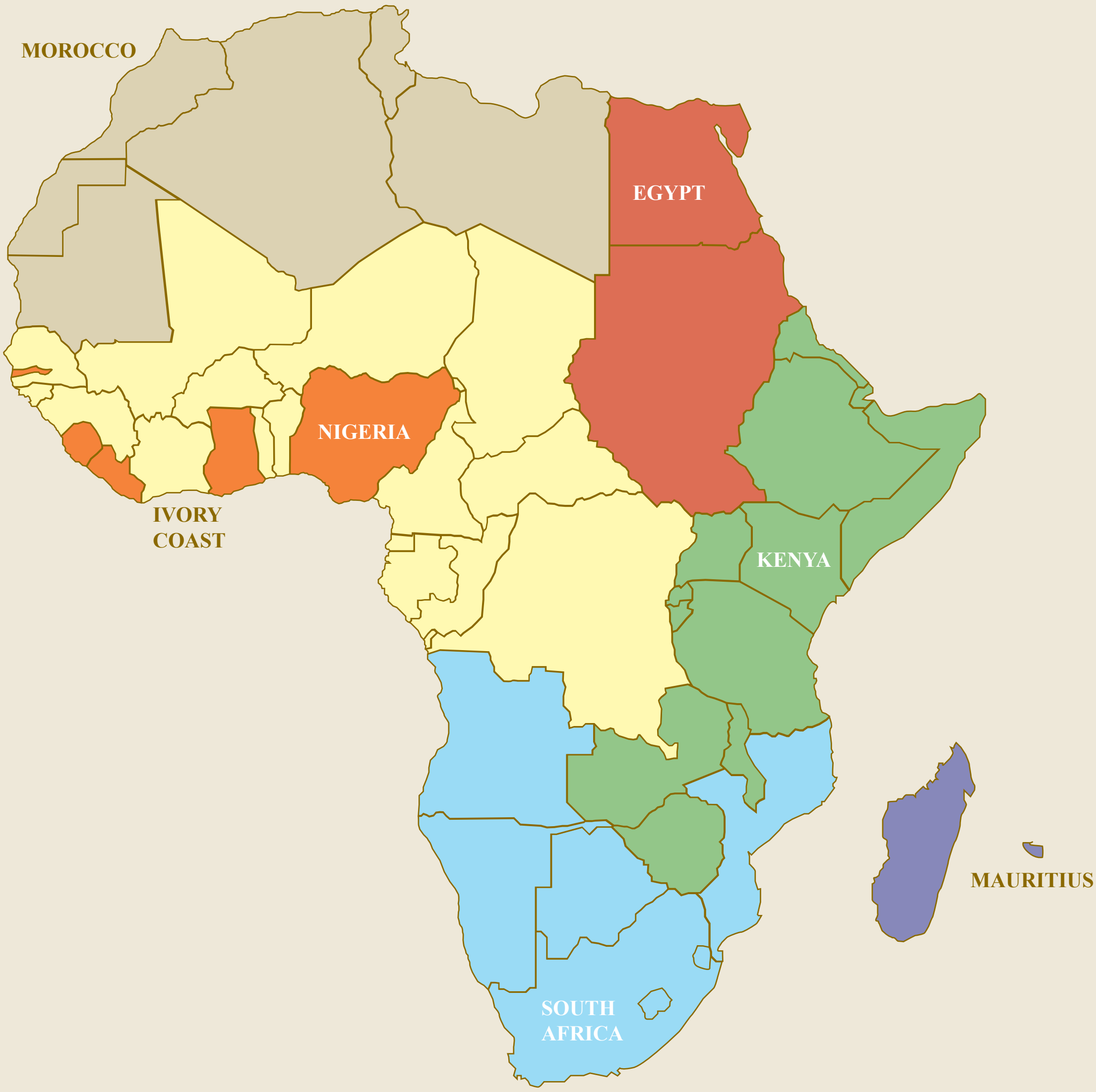
African Reinsurance Corporation
(South Africa) Limited

FINANCIAL STATEMENTS
For the year ended 31 December 2007

African Reinsurance
Network in Africa



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FINANCIAL STATEMENTS

for the year ended 31 December 2007

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DECLARATION BY COMPANY SECRETARY

In our capacity as Company Secretary, we hereby confirm and certify, in terms of the Companies Act, 1973, as amended, that for the year ended 31 December 2007, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

Levitt Kirson

Levitt Kirson Management Services CC
Secretary

12 March 2008

FINANCIAL HIGHLIGHTS

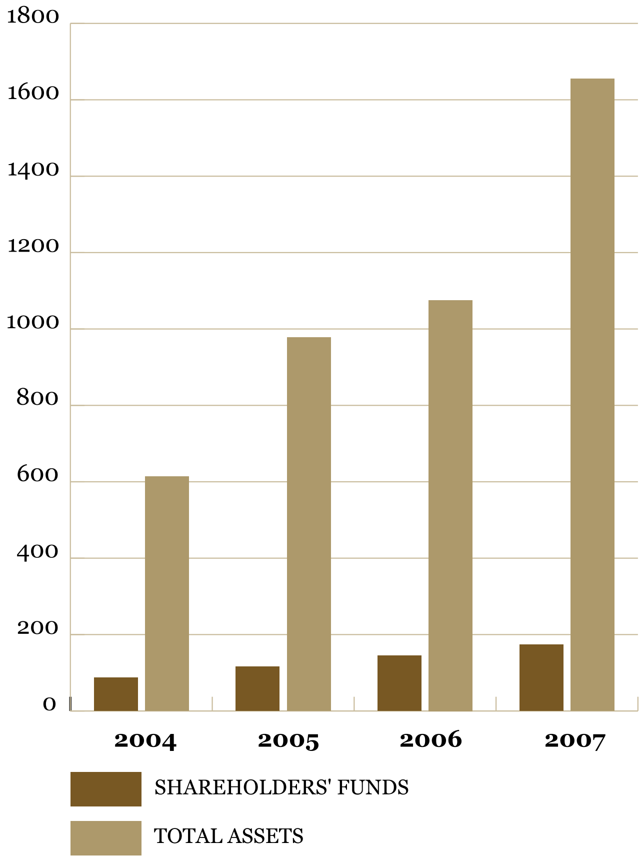
for the year ended 31 December 2007

In R'000	2007	2006	2005	2004
RESULTS				
GROSS WRITTEN PREMIUMS	**1 067 364**	747 445	725 005	587 940
NET WRITTEN PREMIUMS	**253 005**	179 387	173 859	142 154
NET EARNED PREMIUMS	**243 034**	169 221	166 756	114 205
NET PROFIT	**28 267**	29 052	28 899	6 922
FINANCIAL POSITION				
SHAREHOLDER'S FUNDS	**173 440**	145 173	116 121	87 222
TOTAL ASSETS	**1 655 030**	1 075 351	977 804	614 089
INTERNATIONAL SOLVENCY MARGIN[N1]	**69%**	74%	62%	55%

N1 International solvency margin is calculated as the non-life net assets expressed as a percentage of the non-life net written premium.

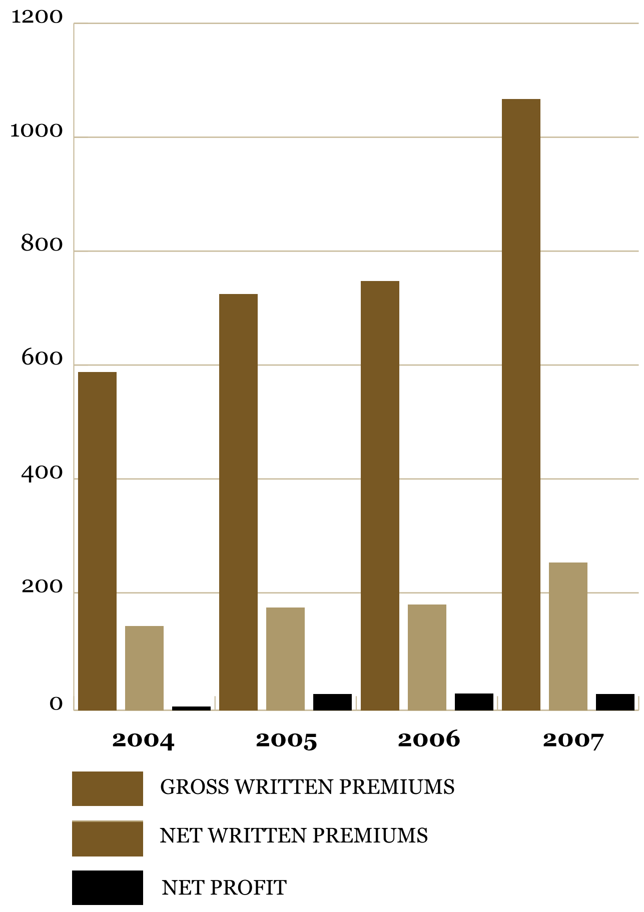
FINANCIAL POSITION 2004 - 2007

In Rand'Million



RESULTS 2004 - 2007

In Rand'Million



CHAIRMAN AND EXECUTIVE MANAGEMENT STATEMENT

for the year ended 31 December 2007

During the year ended 31 December 2007, markets were characterised by a highly competitive trading environment, a gradual decline in the underwriting cycle since it's peak in 2004 and 2005, an increase in the frequency and severity of large industrial fires and a continued deterioration of the motor account as a result of declining driving standards, deteriorating road conditions and an increase in the cost of claims.

Adverse weather conditions also negatively affected insurer's results with severe storms being experienced almost throughout the year in Gauteng, Kwa Zulu Natal, Western Cape and along the Garden route.

The International market continued to show interest in the South African market resulting in increased pressure on local reinsurers to retain business in the domestic market.

Despite these challenges, African Reinsurance Corporation (South Africa) Limited ("Africa Re (SA)" or "the Company") completed its fourth year of operations posting another positive result for the year ended 31 December 2007.

Gross written premiums for the year under review was R1,067.4 million compared to R747.4 million recorded in 2006. This represents a 42.8% increase over the premiums recorded in the previous year. The growth in written premiums was recorded in non-life business as no premiums were written in respect of life business in 2007 following the company's decision in 2006 to stop writing life business.

The company recorded an underwriting loss of R9.1 million for the year under review compared to an underwriting profit of R0.4 million reported in 2006. The underwriting loss recorded during the year under review was mainly due to higher incurred claims and increase in management expenses. Management expenses for the year under review were R23.9 million compared to R15.9 million in 2006.

Net investment income for the year under review was R45.3 million compared to R39.9 million recorded in 2006 representing an increase of 13.5%. The good investment income performance for the year under review was mainly due to increased cash flows and higher interest rates realised on term deposits during the year compared to the rates realised in 2006. This mainly resulted from the 4% cumulative increase in the repo interest rate by the Reserve Bank since June last year. Equity investments also continued to perform well in 2007 but the performance was not as strong as that recorded in 2006.

Profit before tax for the period under review was R36.2 million compared to R40.3 million recorded in 2006. Accrued income tax expense charged to the income statement for the period was R7.9 million (2006: R11.2 million) resulting in an after tax profit of R28.3 million compared to R29.1 million in 2006.

The South African economy continues to perform well under difficult circumstances growing by more than 5.7% during the course of the year under review and it is expected that this growth will slow down during the course of 2008. Having said that, management are confident that there will be ample opportunities to grow a profitable book of business and will continue to underwrite prudently thus developing long term partnerships with our client base producing profits for both cedant and shareholder alike.

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

CHAIRMAN AND EXECUTIVE MANAGEMENT STATEMENT

for the year ended 31 December 2007 (continued)

Our thanks also go to our fellow Directors who continue to assist with the development of the South African subsidiary.

There were no changes to the Board of Directors who met three times during the course of the financial year ended 31 December 2007. These meetings were attended by all the directors as detailed below:

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

The Audit Committee under the Chairmanship of A F W Peters met three times during the financial year.

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

In the field of Corporate Social Investment, Africa Re (SA) continues to set aside funds for the promotion of the development of education and training through the Turning Point Home and the Liberty Life Investment Challenge and we continue to seek out worthy individuals and causes and pledge ongoing support to these initiatives.

Our employees continue to be our most important asset and we believe that each and every member has contributed towards the success in the development of Africa Re (SA). We continue to develop an environment where each employee is able to reach their potential and to share in the success of our business.

In this regard, Africa Re (SA) will continue to strive to attract and retain the very best people focussing on appropriate rewards and incentives whilst allowing staff to create a balance between both personal and professional capabilities.

To all our staff who continue to give their best proving commitment to the Company, we wish to extend sincere thanks for all their valued efforts.

Bakary H Kamara
Chairman

Paul D Ray
Managing Director

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Allan F W Peters
Non-Executive Director

Bakary H Kamara
Chairman

Ganiyu Musa
Non-Executive Director

Daryl N De Vos
General Manager,
Underwriting & Marketing

Paul D Ray
Managing Director

Godfrey Waweru
General Manager,
Finance & Accounts

STAFF

Back Row - standing - left to right: Sane Mpofu, Benson Sithebe, Gavin Kennedy, Amina Shoshore, Glen Peters, Smith Mangena, Gavin Henry, Nkululeko Ngobese, Matilda Tlowana, Lincoln Mthembu, Carol Eatwell

Front Row - sitting - left to right: Stephen Lewin, Daryl De Vos, Paul Ray, Godfrey Waweru, Andre Pienaar, John Izegbu

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

The company's directors are responsible for the preparation and fair presentation of the annual financial statements, comprising the balance sheet at 31 December 2007, and the income statement, the statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

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

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

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

The audit committee has satisfied itself on the independence and the objectivity of the external auditors by considering, inter alia, that there has been no actual or perceived threats that can unduly affect their objectivity and independence for the audit of the Company and that the external auditor provides information about its policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current plans regarding the rotation of audit partners and staff. Non- audit services were not provided by the external auditors during the year under review.

The auditor is responsible for reporting whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the annual financial statements

The annual financial statements were approved by the board of directors on 12 March 2008 and are signed on their behalf by:

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

REPORT OF THE INDEPENDENT AUDITORS

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

We have audited the annual financial statements of African Reinsurance Corporation (South Africa) Limited, which comprise the balance sheet at 31 December 2007, and the income statement, the statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 9 to 52.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation (South Africa) Limited at 31 December 2007, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG INC.

Registered Auditor

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

KPMG Crescent
85 Empire Road
Parktown
South Africa, 2193

12 March 2008

DIRECTORS' REPORT

for the year ended 31 December 2007

The directors are pleased to present the directors' report that forms part of the financial statements of the company for the year ended 31 December 2007.

BUSINESS

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

SHARE CAPITAL

The authorised and issued share capital of the company including share premium is R80.3 million. The issued share capital comprises of seven ordinary shares of R0.01 each of which one share was issued at a premium of R80.3 million.

BALANCE SHEET

The company's shareholder funds represented by share capital and share premium, statutory contingency reserve and retained earnings as at 31 December 2007 amount to R173.4 million (2006: R145.2 million). Net technical liabilities under insurance contracts at 31 December 2007 amount to R183.5 million (2006: R123.7 million).

INCOME STATEMENT

Net income after taxation for the year is R28.3 million (2006: R29.1 million). The results for the year are presented in the accompanying income statement and notes to the accounts and require no further amplification.

HOLDING COMPANY

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

DIVIDEND

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

DIRECTORS

The directors who served the company during the year were:

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

DIRECTORS' REPORT

for the year ended 31 December 2007 (continued)

SECRETARY

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

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

PO Box 1523
Johannesburg
2000

STATUTORY ACTUARY'S REPORT

The company was originally registered to underwrite both life and non-life insurance risks, but ceased to underwrite life insurance risks at the end of 2006 following a decision taken at the board level and application to the Registrar of Long-term Insurance. As a result the statutory actuary's report on the actuarial values of life's business assets and liabilities formed part of the company's previous years' annual financial statements. No life business was written in 2007 and the statutory actuary's valuation report was not required.

AUDITORS

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

BALANCE SHEET

at 31 December 2007

	Note	2007 R'000	2006 R'000
Assets			
Equipment	6	**1 398**	801
Intangible assets	7	**258**	42
Financial assets	8	**708 609**	542 922
- Held-to-maturity instruments at amortised cost		**368 463**	380 842
- Instruments at fair value through profit and loss		**340 146**	162 080
Technical assets under insurance contracts	9	**628 866**	433 842
- Retroceded outstanding claims reserve		**411 255**	256 608
- Retroceded unearned premium reserve		**166 992**	135 654
- Deferred acquisition costs		**50 619**	41 580
Amounts due from companies on reinsurance accounts	10	**186 017**	68 033
Deposits retained by ceding companies	11	**79 747**	8 573
Accounts receivable	12	**104**	30
Cash and cash equivalents	13	**50 031**	21 108
Total assets		**1 655 030**	1 075 351
Equity			
Share capital and share premium	15	**80 300**	80 300
Contingency reserve	14	**26 011**	17 911
Retained earnings		**67 129**	46 962
Total equity attributable to equity holders of the company		**173 440**	145 173
Liabilities			
Technical liabilities under insurance contracts	9	**812 385**	557 591
- Gross outstanding claims reserve		**548 001**	342 142
- Gross unearned premium reserve		**222 181**	180 872
- Deferred retrocession commission revenue		**42 203**	34 577
Amounts due to companies on reinsurance accounts	16	**17 752**	12 892
Deposits due to retrocessionaire	17	**618 930**	340 347
Amount due to holding company		**17 609**	6 318
Other provisions and accruals	18	**9 016**	2 001
Deferred tax liability	19	**5 309**	5 009
Current income tax liability	20	**589**	6 020
Total liabilities		**1 481 590**	930 178
Total equity and liabilities		**1 655 030**	1 075 351

INCOME STATEMENT

for the year ended 31 December 2007

	Note	**2007** **R'000**	2006 R'000
Income from operations		**522 527**	388 064
Net earned premiums from non-life insurance contracts	*21*	**243 034**	168 943
Net earned premiums from life insurance contracts	*22*	**-**	278
Commission earned	*23*	**217 807**	162 628
Transfer from policyholder liabilities on life insurance contracts	*22*	**-**	59
Finance income	*24*	**61 686**	56 156
Operating costs		**486 372**	347 795
Net claims incurred on non-life insurance contracts	*21*	**181 389**	117 878
Net claims incurred on life insurance contracts	*22*	**-**	284
Commission incurred	*23*	**264 673**	197 400
Finance expenses	*24*	**16 386**	16 301
Management expenses		**23 924**	15 932
Profit before taxation	*25*	**36 155**	40 269
Taxation	*26*	**7 888**	11 217
Profit for the year		**28 267**	29 052

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

	Share capital and share premium R'000	Contingency reserve R'000	Retained earnings R'000	Total R'000
Balance as at 1 January 2006	80 300	17 010	18 811	116 121
Profit for the year			29 052	29 052
Transfer to contingency reserve		901	(901)	
Balance as at 31 December 2006	**80 300**	**17 911**	**46 962**	**145 173**
Profit for the year			**28 267**	**28 267**
Transfer to contingency reserve		**8 100**	**(8 100)**	
Balance as at 31 December 2007	**80 300**	**26 011**	**67 129**	**173 440**

CASH FLOW STATEMENT

for the year ended 31 December 2007

	Note	2007 R'000	2006 R'000
Cash generated/(utilised) by operations	*32.1*	**163 472**	(31 316)
Finance expenses		**(16 386)**	(16 301)
Taxation paid	*32.2*	**(13 019)**	(12 491)
Net cash inflow/(outflow) from operating activities		**134 067**	(60 108)
Cash flows from investment activities			
Net purchases and disposals of equipment and intangibles		**(1 143)**	(241)
Net purchases and disposals of investments		**(158 843)**	7 307
Interest received net of investment management fees		**51 499**	42 821
Realised gains on investment disposed		**68**	9 934
Dividends received		**3 275**	2 069
Net cash (outflow)/inflow from investment activities		**(105 144)**	61 890
Net increase in cash and cash equivalents		**28 923**	1 782
Cash and cash equivalents at the beginning of the year		**21 108**	19 326
Cash and cash equivalents at the end of the year		**50 031**	21 108

STATEMENT OF CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

for the year ended 31 December 2007

	Notes	Designated upon initial recognition at fair value through profit and loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial instru-ments	Total
December 2007							
Assets							
Equipment	*6*					1 398	1 398
Intangible assets	7					258	258
Financial assets	*8*	340 146	368 463				708 609
Listed bonds		103 028					103 028
Listed ordinary shares		76 619					76 619
Listed preferred shares		11 885					11 885
Money market unit trust		148 614					148 614
Fixed and call deposits			368 463				368 463
Technical assets under insurance contracts	*9*					628 866	628 866
Retroceded outstanding claims reserve						411 255	411 255
Retroceded unearned premium reserve						166 992	166 992
Deferred acquisition costs						50 619	50 619
Amounts due from companies on reinsurance accounts	*10*			186 017			186 017
Deposits retained by ceding companies	*11*			79 747			79 747
Account receivable	*12*			104			104
Cash and cash equivalent	*13*	50 031					50 031
Total assets		**390 177**	**368 463**	**265 868**		**630 522**	**1 655 030**

STATEMENT OF CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (*continued*)

for the year ended 31 December 2007

	Notes	Designated upon initial recognition at fair value through profit and loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial instru-ments	Total
Liabilities							
Technical liabilities under insurance contracts	*9*					812 385	812 385
Gross outstanding claims reserve						548 001	548 001
Gross unearned premium reserve						222 181	222 181
Deferred retrocession commission revenue						42 203	42 203
Amounts due to companies on reinsurance accounts	*16*				17 752		17 752
Deposits due to retrocessionaire	*17*				618 930		618 930
Amount due to holding company					17 609		17 609
Other provisions and accruals	*18*				9 016		9 016
Creditors and accruals					8 625		8 625
Provisions					391		391
Deferred tax liability	*19*					5 309	5 309
Current income tax liability	*20*					589	589
Total liabilities					**663 307**	**818 283**	**1 481 590**

STATEMENT OF CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (*continued*)

for the year ended 31 December 2007

	Notes	Designated upon initial recognition at fair value through profit and loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial instru-ments	Total
December 2006							
Assets							
Equipment	*6*					801	801
Intangible assets	*7*					42	42
Financial assets	*8*	162 080	380 842				542 922
Listed bonds		88 034					88 034
Listed ordinary shares		61 049					61 049
Listed preferred shares		12 997					2 997
Fixed and call deposits			380 842				380 842
Technical assets under insurance contracts	*9*					433 842	433 842
Retroceded outstanding claims reserve						256 608	256 608
Retroceded unearned premium reserve						135 654	135 654
Deferred acquisition costs						41 580	41 580
Amounts due from companies on reinsurance accounts	*10*			68 033			68 033
Deposits retained by ceding companies	*11*			8 573			8 573
Account receivable	*12*			30			30
Cash and cash equivalent	*13*	21 108					21 108
Total assets		**183 188**	**380 842**	**76 636**		**434 685**	**1 075 351**

STATEMENT OF CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (*continued*)

for the year ended 31 December 2007

	Notes	Designated upon initial recognition at fair value through profit and loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial instru-ments	Total
Liabilities							
Technical liabilities under insurance contracts	*9*					557 591	557 591
Gross outstanding claims reserve						342 142	342 142
Gross unearned premium reserve						180 872	180 872
Deferred retrocession commission revenue						34 577	34 577
Amounts due to companies on reinsurance accounts	*16*				12 892		12 892
Deposits due to retrocessionaire	*17*				340 347		340 347
Amounts due to holding company					6 318		6 318
Other provisions and accruals	*18*				2 001		2 001
Creditors and accruals					1 737		1 737
Provisions					264		264
Deferred tax liability	*19*					5 009	5 009
Current income tax liability	*20*					6 020	6 020
Total liabilities					**361 558**	**568 620**	**930 178**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

1. General information

African Reinsurance Corporation (South Africa) Limited is a professional reinsurer underwriting non-life insurance risks in the domestic and regional markets. The company was originally registered to underwrite both life and non-life insurance risks but ceased to underwrite life insurance risks at the end of 2006 following application to the Registrar of Long-term Insurance. The company is a public company incorporated and domiciled in the Republic of South Africa. The company is a wholly owned subsidiary of African Reinsurance Corporation established under the auspices of the African Union with its headquarters in Nigeria.

The financial statements were authorised for issue by the directors on 12 March 2008.

2. Accounting policies

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

(a) Statement of compliance

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

(b) Basis for preparation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

2. Accounting policies *(continued)*

(c) Classification of contracts

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

(d) Recognition and measurement of insurance contracts

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

Non-life insurance premiums

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

Unearned premiums provision for non-life insurance contracts

The portion of gross written premiums on non-life insurance contracts which is estimated to be earned in the following or subsequent years is recognised as an unearned premium provision. This is computed separately for each contract at the balance sheet date using principally the one-over-eighth basis for treaty business and the 365 days basis for facultative business. Where the nature of the underlying business and risk does not justify the use of the above methods, the unearned premium reserve is calculated on bases relevant to the risk profile of the insurance contract.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

2. Accounting policies *(continued)*

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

Claims arising from non-life insurance contracts

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

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

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

Unexpired risk provision for non-life insurance contracts

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

2. Accounting policies *(continued)*

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

Claims and policyholder liabilities arising from life insurance contracts

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

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

Liability adequacy test

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

Reinsurance contracts and assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

2. Accounting policies *(continued)*

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

Reinsurance contracts and assets *(continued)*

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

Deferred acquisition costs

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

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

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

Commission income

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

(e) Contingency reserve

A contingency reserve is provided for in terms of the Short-term Insurance Act, 1998, and represents 10% of gross non-life insurance premiums written less approved reinsurance (as defined in the Act). The reserve is treated as a separate component of shareholder's equity in the balance sheet and transfers to or from the reserve as an appropriation in the statement of changes in equity. The reserve may be utilised only with the prior permission of the Registrar of Short-term Insurance.

(f) Operating lease payment

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

2. Accounting policies *(continued)*

(g) Employee benefits under defined contribution plan

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

(h) Foreign currencies transactions

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

(i) Equipment

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

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

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

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

(j) Intangible assets

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

(k) Financial instruments

Investments

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

- Financial instruments at fair value through profit or loss are financial assets which on initial recognition are designated by the company as being at fair value through profit or loss. The company's listed equity and fixed income investments are classified as financial instruments through profit or loss.
- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company has positive intention and ability to hold to maturity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

2. Accounting policies *(continued)*

(k) Financial instruments *(continued)*

Investments *(continued)*

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

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

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

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

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

Other receivables

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

Trade and other payables

Trade and other payables are stated at amortised cost.

Deposits retained on reinsurance ceded

Deposits retained on reinsurance ceded are stated at amortised cost.

Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

2. Accounting policies *(continued)*

(l) Impairment

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

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

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

(m) Provisions

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

(n) Taxation

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

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

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

Deferred tax assets are recognised for tax losses carried forward only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

(o) Comparative figures

Where necessary comparative figures have been reclassified.

(p) New standards and interpretations not yet effective and not yet adopted

A number of new standards, amendments to standards and interpretations that have been issued were not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements. None of these standards or interpretations are relevant to the operations of the company and they will not have a significant impact on the financial statements of Africa Reinsurance Corporation (South Africa) Limited.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2007 and the comparative information presented in these financial statements. In 2007 the company adopted and applied International Financial Reporting Standard (IFRS) 7; Financial Instruments. The adoption of IFRS 7 in 2007 did not have any impact on the company's current or prior years' results, equity, assets and liabilities.

4. Accounting estimates and judgements

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

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

Policyholder claims for non-life insurance contracts

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

During the year, the company changed the estimation method for incurred but not reported (IBNR) claims on some non-life insurance contracts under the liability class of business. The impact of the change in the estimation method was to increase net outstanding claim reserves by R2.5 million and reduce profit before tax by the same amount.

Policyholder claims for life insurance contracts

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

Estimates

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

5. Risk management objectives and policies

5.1 General

African Reinsurance Corporation (South Africa) Limited ("Africa Re (SA)") is licensed to write all classes of insurance business as stipulated in the Short-term Insurance Act, 1998. The company was also originally licensed to write life insurance business as stipulated in the Long-term Insurance Act, 1998. In 2006 the company applied to the Registrar of Long-term Insurance to cease underwriting life insurance business. The application was approved with effect from 31 December 2006.

(a) Life insurance contracts

There were only nine life treaties in force at the beginning of the 2006 financial year. The risks assumed under these treaties included disability, life and credit protection cover. Risks were accepted on a quota share and excess of loss basis.

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

(b) Non-life insurance contracts

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

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

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

5.2 Insurance risk management objectives and policies for mitigating risks

(a) Introduction

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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

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

(b) Premium pricing adequacy risk

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

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

(c) Event exposure and concentration risk

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

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

(d) Claims development or reserving risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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

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

(e) Reinsurance risk

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

Under the terms of the retrocession agreements, the retrocessionaires agree to reimburse their share of paid claims and acquisition costs. However, the company remains liable to its cedants with respect to retroceded insurance liabilities if the retrocessionaires fail to meet the obligations they assume. This is a credit risk and as noted under the credit risk section, except for one retrocession contract which is not significant, the retrocessionaires' shares of insurance liabilities are fully secured by deposits held by the company or bank guarantee in accordance with the regulatory solvency requirements and the retrocession agreements.

5.3 Financial risk management objectives and policies for mitigating risks

(a) Introduction

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

(b) Market risk

Market risk is the risk of change in the fair value or future cash flows of financial instruments because of changes in market conditions and prices of those financial instruments. Market risk comprises currency risk, interest rate risk and other price risk including equity market price risk. The company is exposed to market price risk through fluctuation of the value of financial instruments due to changes in their market prices.

(i) Currency exchange risk

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

(ii) Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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

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

(iii) Equity price risk

Equity price risk can be described as the risk of changes in the fair value of equity financial instrument due to changes in market conditions and prices of these instruments. The company's investments in marketable securities are valued at fair value and are therefore susceptible to changes in market prices.

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

(iv) Market risk sensitivity analysis

The company conducts sensitivity analysis to estimate the possible effect of movements in the market prices of its equity financial instruments on the fair values of those instruments. All the company's equity financial instruments are listed on the Johannesburg Stock Exchange. The sensitivity analysis on market price movement of equity financial instruments indicates that a change of 10% on the Johannesburg Stock Exchange index would result in change in fair value of those financial instruments and profit before tax by R7.6 million.

Asset class	Cost	Market value	Risk factor	% change	Impact on equity	Impact on profit
December 2007						
Equity	48.4	76.6	Market price	10%	7.6	7.6
Bonds	103.4	103.0	Interest rate movement	1%	4.4	4.4
Money market	147.0	148.6	Market price	1%	1.5	1.5
Fixed deposit	368.4	368.4	Interest rate movement/ Amortised value	1%	3.7	3.7
December 2006						
Equity	38.2	61.0	Market price	10%	5.5	5.5
Bonds	90.1	88.0	Interest rate movement	1%	3.7	3.7
Fixed deposit	380.8	380.8	Interest rate movement/ Amortised value	1%	3.8	3.8

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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

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

(iv) Market risk sensitivity analysis *(continued)*

The company also conducts sensitivity analysis to estimate the possible effect of movements of interest rates on the fair value of interest rate bearing financial instruments and cash flows relating to those instruments. The sensitivity analysis on the effect on interest rates movement indicates that a change of 1% in interest rates would change the value of fixed income investment and profit before tax by R4.4 million while a change of 1% in interest rate would change the cash flows from interest bearing investments at year end by R3.7 million.

The sensitivity analysis of the effects of movements in market prices and interest rates on the company's financial assets and liabilities in millions as at 31 December 2007 are presented in the table above.

(c) Credit risk

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

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

Except for one retrocession contract which is not significant, retrocessionaires' share of insurance liabilities classified as reinsurance assets in the financial statements are fully secured by a combination of deposits withheld by the company and bank guarantees obtained from local banks. This is in accordance with the regulatory solvency requirements and the retrocession agreements.

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

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

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each class of financial asset in the balance sheet. The analysis of the credit exposure and credit quality of the company's financial assets, based on Standard & Poor's, Moody's, Fitch and AM Best local currency credit ratings at the end of the year is presented in the table below.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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

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

(c) Credit risk *(continued)*

	AAA to AA	A+ to A	BBB+ to BBB	Secured	Equities	Not indicated	Total
December 2007							
Reinsurance assets		9.9		619.0			**628.9**
Financial assets	148.6	479.5			76.6	3.9	**708.6**
Insurance receivables		11.7 [a]	104.4			69.9	**186.0**
Insurance deposits		62.2 [a]				17.5	**79.7**
Accounts receivables						0.1	**0.1**
Cash and cash equivalent		50.0					**50.0**
Total	**148.6**	**613.3**	**104.4**	**619.0**	**76.6**	**91.4**	**1 653.3**
December 2006							
Reinsurance assets		93.5		340.3			433.8
Financial assets		482.8			61.0	12.9	556.7
Insurance receivables			20.1			47.9	68.0
Insurance deposits						8.6	8.6
Cash and cash equivalent		7.3					7.3
Total		583.6	20.1	340.3	61.0	69.4	1 074.4

[a] Global credit rating

Aging analysis of insurance receivables

None of the reinsurance receivables that were past due but not impaired were older than three months.

(d) Liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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

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

(d) Liquidity risk *(continued)*

Maturity profile of financial and insurance assets and liabilities

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

The maturities of the company's liabilities and assets at the end of the year are analysed in the table below:

December 2007 **Assets maturities**	**On demand**	**1 Year**	**2 Year**	**3 Year**	**>4 Year**	**Total**
Cash and cash equivalents	50 031					50 031
Fixed and call deposit		368 463				368 463
Money market funds		148 614				148 614
Debt securities		4 039		14 759	84 230	103 028
Preference shares	11 885					11 885
Equities	76 619					76 619
Insurance contracts assets		456 873	61 414	20 011	90 568	628 866
Amounts due from companies on reinsurance accounts		186 017				186 017
Deposits retained by ceding companies		79 747				79 747
Accounts receivable		104				104
Total financial and insurance assets	**138 535**	**1 243 857**	**61 414**	**34 770**	**174 798**	**1 653 374**
Liability maturities						
Insurance contracts liabilities		583 202	81 834	26 665	120 684	812 385
Reinsurance account balance		17 752				17 752
Reinsurance deposits		618 930				618 930
Due to holding company		17 609				17 609
Other provision and accruals		9 016				9 016
Total financial and insurance liabilities		**1 246 509**	**81 834**	**26 665**	**120 684**	**1 475 692**
Net maturities	**138 535**	**(2 652)**	**(20 420)**	**8 105**	**54 114**	**177 682**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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

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

(d) Liquidity risk *(continued)*

Maturity profile of financial and insurance assets and liabilities *(continued)*

December 2006 Assets maturities	On demand	1 Year	2 Year	3 Year	>4 Year	Total
Cash and cash equivalents	21 108					21 108
Fixed and call deposit		380 842				380 842
Debt securities		1 003		21 654	65 377	88 034
Preference shares	12 997					12 997
Equities	61 049					61 049
Insurance contracts assets		315 188	42 368	13 805	62 481	433 842
Amounts due from companies on reinsurance accounts		68 033				68 033
Deposits retained by ceding companies		8 573				8 573
Accounts receivable		30				30
Total financial and insurance assets	**95 154**	**773 669**	**42 368**	**35 459**	**127 858**	**1 074 508**
Liability maturities						
Insurance contracts liabilities		400 288	56 168	18 302	82 833	557 591
Reinsurance account balance		12 892				12 892
Reinsurance deposits		340 347				340 347
Due to holding company		6 318				6 318
Other provision and accruals		2 001				2 001
Total financial and insurance liabilities		**761 846**	**56 168**	**18 302**	**82 833**	**919 149**
Net maturities	**95 154**	**11 823**	**(13 800)**	**17 157**	**45 025**	**155 359**

(e) Categories and classes of financial assets and financial liabilities

The company's categories and classes of financial assets and financial liabilities are included in the statement of categories of financial assets and financial liabilities on pages 15 to 18.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

	2007	2006
6. Equipment	**R'000**	R'000
Cost		
Motor vehicles	**565**	565
Computer equipment	**434**	332
Office equipment	**241**	128
Furniture & fittings	**970**	356
	2 210	1 381
Accumulated depreciation		
Motor vehicles	**274**	211
Computer equipment	**314**	215
Office equipment	**96**	64
Furniture & fittings	**128**	90
	812	580
Carrying values		
Motor vehicles	**291**	354
Computer equipment	**120**	117
Office equipment	**145**	64
Furniture & fittings	**842**	266
	1 398	801
Reconciliation of carrying values		
Opening balance	**801**	760
Additions	**907**	210
Disposals	**(41)**	-
Depreciation	**(269)**	(169)
Closing balance	**1 398**	801

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

	2007 R'000	2006 R'000
6. Equipment *(continued)*		
Motor vehicles		
Net carrying value at beginning of year	**354**	348
Depreciation	**(63)**	6
Net carrying value at end of year	**291**	354
Computer equipment		
Net carrying value at beginning of year	**117**	155
Additions	**114**	63
Disposals	**(11)**	-
Depreciation	**(100)**	(101)
Net carrying value at end of year	**120**	117
Office equipment		
Net carrying value at beginning of year	**64**	35
Additions	**135**	63
Disposals	**(2)**	-
Depreciation	**(52)**	(34)
Net carrying value at end of year	**145**	64
Furniture & fittings		
Net carrying value at beginning of year	**266**	222
Additions	**658**	84
Disposals	**(28)**	-
Depreciation	**(54)**	(40)
Net carrying value at end of year	**842**	266
7. Intangible assets		
Computer software		
Cost		
Opening balance	**113**	82
Acquisitions – purchased software	**259**	31
Closing balance	**372**	113
Accumulated amortisation		
Opening balance	**71**	38
Amortisation – software in use	**43**	33
Closing balance	**114**	71
Net carrying value	**258**	42

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

	2007	2006
8. Financial assets	**R'000**	R'000
Held-to-maturity instruments at amortised cost		
Fixed and call deposits		
– non-life	**368 463**	367 463
– life	**-**	13 379
	368 463	380 842
Instruments at fair value through profit and loss		
Listed equities and bonds		
– bonds (non-life)	**103 028**	88 034
– equities (non-life)	**76 619**	61 049
– preference shares (non-life)	**11 885**	12 997
– money market funds (non-life)	**148 614**	-
	340 146	162 080
Total financial assets	**708 609**	542 922
Cost of instruments disclosed at fair value through profit and loss		
Bonds	**103 489**	90 108
Equities	**48 356**	38 225
Preference shares	**13 739**	13 739
Money market funds	**147 018**	-
	312 602	142 072

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

Maturity period	**Effective interest Rate %**	**Market value R'000**
At 31 December 2007		
On demand	9.45% to 11.79%	**160 499**
Within 1 year	8.14% to 11.15%	**372 502**
1 to 3 years	7.41% to 7.64%	**14 758**
3 to 7 years	8.24%	**29 558**
7 to 12 years	8.12% to 8.18%	**54 673**
		631 990
At 31 December 2006		
On demand	6.61%	12 997
Within 1 year	8.00% to 9.63%	381 845
1 to 3 years	7.24% to 8.14%	21 654
3 to 7 years	7.48% to 7.75%	58 600
7 to 12 years	7.42% to 7.48%	6 777
		481 873

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

	2007	2006
9. Technical assets and liabilities under insurance contracts	**R'000**	R'000
Technical liabilities		
Non-life insurance contracts		
- Gross claims reported but not yet settled	**379 965**	235 931
- Gross claims incurred but not reported	**168 036**	106 211
- Gross unearned premium provision	**222 181**	180 872
- Deferred retrocession commission revenue	**42 203**	34 577
	812 385	557 591
Technical assets		
Non-life insurance contracts		
- Retrocessionaire's share of claims reported but not yet settled	**285 051**	176 949
- Retrocessionaire's share of claims incurred but not reported	**126 204**	79 659
- Retrocessionaire's share of unearned premium provision	**166 992**	135 654
- Deferred acquisition costs	**50 619**	41 580
	628 866	433 842
Net technical liabilities		
Non-life insurance contracts		
- Claims reported but not yet settled	**94 914**	58 982
- Claims incurred but not reported	**41 832**	26 552
- Unearned premium provision	**55 189**	45 218
- Deferred acquisition costs	**(8 416)**	(7 003)
	183 519	123 749

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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

9.1 Movements in technical assets and liabilities under insurance contracts

Outstanding claims

Year ended 31 December	**2007**		
	Gross R'000	**Reinsurance R'000**	**Net R'000**
Claims reported but not yet settled	**235 931**	**176 948**	**58 983**
Claims incurred but not reported	**106 211**	**79 660**	**26 551**
Total outstanding at beginning of year	**342 142**	**256 608**	**85 534**
Increase/(decrease) in liabilities	**205 859**	**154 647**	**51 212**
-arising from current year claims	**276 641**	**207 735**	**68 906**
-arising from prior period claims	**(70 782)**	**(53 088)**	**(17 694)**
Total at end of year	**548 001**	**411 255**	**136 746**
Notified claims	**379 965**	**285 051**	**94 914**
Incurred but not reported	**168 036**	**126 204**	**41 832**
Total at end of year	**548 001**	**411 255**	**136 746**

Year ended 31 December	2006		
	Gross R'000	Reinsurance R'000	Net R'000
Claims reported but not yet settled	161 683	121 263	40 420
Claims incurred but not reported	102 604	76 953	25 651
Total outstanding at beginning of year	264 287	198 216	66 071
Increase/(decrease) in liabilities	77 855	58 392	19 463
-arising from current year claims	143 902	107 927	35 975
-arising from prior period claims	(66 047)	(49 535)	(16 512)
Total at end of year	342 142	256 608	85 534
Notified claims	235 931	176 948	58 983
Incurred but not reported	106 211	79 660	26 551
Total at end of year	342 142	256 608	85 534

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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

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

Gross claims settlement development run-off results

	2004 R'000	2005 R'000	2006 R'000	2007 R'000
Claim settlement for each year:				
- First year	225 255	130 623	112 300	241 506
- one year later	214 451	201 048	239 748	
- two years later	81 444	41 041		
- three years later	(1 577)			
- four years later				
Provision for gross outstanding claims at year end	41 260	42 859	187 241	276 640
Claim development run-off result at year end	**560 833**	**415 571**	**539 289**	**518 146**

The development presented above is continuously monitored against the net technical liabilities under insurance contracts. This assessement concluded that the net technical liabilities under insurance contracts at the reporting date were adequate.

Unearned premium provision

Year ended 31 December	**2007**		
	Gross R'000	**Reinsurance R'000**	**Net R'000**
At the beginning of year	**180 872**	**135 654**	**45 218**
Premiums written during the year	**1 067 364**	**814 359**	**253 005**
Premiums earned during the year	**(1 026 055)**	**(783 021)**	**(243 034)**
Total at end of year	**222 181**	**166 992**	**55 189**

Year ended 31 December	2006		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	140 208	105 156	35 052
Premiums written during the year	746 288	567 179	179 109
Premiums earned during the year	(705 624)	(536 681)	(168 943)
Total at end of year	180 872	135 654	45 218

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

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

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

Deferred acquisition costs

Year ended 31 December	**2007**		
	Gross R'000	**Reinsurance R'000**	**Net R'000**
At the beginning of year	**41 580**	**34 577**	**7 003**
Acquisition costs paid during the year	**273 712**	**225 434**	**48 278**
Transferred to costs incurred during the year	**(264 673)**	**(217 808)**	**(46 865)**
At the end of year	**50 619**	**42 203**	**8 416**

Year ended 31 December	2006		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	35 126	29 470	5 656
Acquisition costs paid during the year	203 578	167 506	36 072
Transferred to costs incurred during the year	(197 124)	(162 399)	(34 725)
At the end of year	41 580	34 577	7 003

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

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

Estimates and outstanding claims

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

Unearned premium provision

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

		2007 R'000	2006 R'000
10.	**Amounts due from companies on reinsurance accounts**		
	Non-life		
	Amounts due from ceding companies	**79 139**	47 918
	Amounts due from retrocessionaire	**106 878**	20 069
		186 017	67 987
	Life		
	Amounts due from retrocessionaire	**-**	46
	Total	**186 017**	68 033
11.	**Deposits retained by ceding companies**		
	Non-life		
	At beginning of year	**8 573**	3 601
	New deposits retained	**79 747**	8 573
	Deposits released	**(8 573)**	(3 601)
	At the end of year	**79 747**	8 573
12.	**Accounts receivable**		
	Other prepayments and sundry debtors	**104**	30
13.	**Cash and cash equivalents**		
	Cash on hand	**14**	3
	Cash on call	**10 209**	13 801
	Current bank account balances	**39 808**	7 304
		50 031	21 108
14.	**Contingency reserve**		
	Opening balance	**17 911**	17 010
	Transfer from income	**8 100**	901
	Closing balance	**26 011**	17 911

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

		2007	2006
15.	**Share capital and share premium**	**R'000**	R'000
	Share capital	**-**	-
	Share premium	**80 300**	80 300
		80 300	80 300
	Authorised		
	7 ordinary shares of R0,01 each	**-**	-
	Issued		
	7 ordinary shares of R0,01 each	**-**	-

Share capital comprises of seven ordinary shares of R0.01 each of which one share was issued at a premium of R80.3 million. No changes occurred during the year.

		2007	2006
16	**Amounts due to companies on reinsurance accounts**		
	Non-life		
	Amount due to ceding companies	**15 341**	12 892
	Amount due to retrocessionaire	**2 411**	-
		17 752	12 892
17.	**Deposits due to retrocessionaire**		
	At beginning of year	**340 347**	293 052
	New deposits retained	**618 930**	340 347
	Deposits released	**(340 347)**	(293 052)
	At the end of the year	**618 930**	340 347
	Deposits due to retrocessionaire are allocated as follows:		
	- non-life insurance contracts	**618 930**	340 177
	- life insurance contracts	**-**	170
		618 930	340 347

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

	2007	2006
18. Other provisions and accruals	**R'000**	R'000
Creditors and accruals		
VAT payable	**7 794**	1 035
Other creditors and accruals	**831**	702
	8 625	1 737
Provisions		
Opening balance	**264**	122
Accrued leave	**232**	122
Lease commitments	**32**	-
Provision utilised	**(261)**	(122)
Accrued leave	**(232)**	(122)
Lease commitments	**(29)**	-
Provision created	**388**	264
Accrued leave	**371**	232
Lease commitment	**17**	32
Closing balance	**391**	264
Accrued leave	**371**	232
Lease commitments	**20**	32
Total other provisions and accruals at end of year	**9 016**	2 001

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

19. Deferred tax liability

	2007	2006
Opening balance	**5 009**	4 654
Current year	**300**	355
Closing balance	**5 309**	5 009
The net deferred tax liability balance at the end of the period comprises:		
– capital allowance	**(191)**	(132)
– provisions	**113**	76
– unrealised gains on revaluation of investments	**5 387**	5 065
	5 309	5 009

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

20. Current income tax liability

The current income tax liability of R0.6 million (2006: R6.0 million) represents the amount of income taxes payable in the current year less adjustments in respect of prior years.

21. Revenue account for non-life insurance contracts

	2007 R'000	2006 R'000
Income		
Gross written premiums	**1 067 364**	746 288
Retroceded premiums	**(814 359)**	(567 179)
Net written premiums	**253 005**	179 109
Provision for unearned premiums	**(9 971)**	(10 166)
Gross amounts	**(41 309)**	(40 664)
Retrocessionaire's share	**31 338**	30 498
Earned premium net of retrocession	**243 034**	168 943
Outgo		
Gross claims paid	**(520 715)**	(393 658)
Retroceded claims received	**390 538**	295 244
Net claims paid	**(130 177)**	(98 414)
Provision for outstanding claims	**(51 212)**	(19 464)
Gross amounts	**(205 859)**	(77 856)
Retrocessionaire's share	**154 647**	58 392
Claims incurred net of retrocession	**(181 389)**	(117 878)
Net commission incurred	**(46 866)**	(34 725)
Management expenses	**(23 924)**	(15 676)
Underwriting (loss)/ profit	**(9 145)**	664

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

		2007	2006
22.	**Revenue account for life insurance contracts**	**R'000**	R'000
	Income		
	Gross written premiums	-	1 157
	Retroceded premiums	-	(879)
	Net written premiums	-	278
	Outgo		
	Gross claims paid	-	(1 135)
	Retroceded claims received	-	851
	Net claims paid	-	(284)
	Provision for outstanding claims	-	-
	Gross amounts	-	-
	Retrocessionaire's share	-	-
	Claims incurred net of retrocession	-	(284)
	Net commission incurred	-	(47)
	Management expenses	-	(256)
	Transfer from policyholders liability	-	59
	Gross amounts	-	233
	Retrocessionaire's share	-	(174)
	Underwriting loss	-	(250)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

23. Commission paid and received

	2007 R'000	2006 R'000
Non Life		
Gross commission and brokerage paid	**273 712**	203 578
Gross deferred acquisition costs	**(9 039)**	(6 455)
Commission incurred	**264 673**	197 123
Commission earned	**(217 807)**	(162 398)
Retrocession commission and brokerage received	**(205 446)**	(152 684)
Retroceded overriding commission received	**(19 988)**	(14 822)
Retroceded deferred commission revenue	**6 815**	4 842
Retroceded deferred overriding commission revenue	**812**	266
Net commission incurred	**46 866**	34 725
Life		
Gross commission and brokerage incurred	**-**	277
Commission earned	**-**	(230)
Retrocession commission and brokerage earned	**-**	(207)
Retroceded overriding commission revenue	**-**	(23)
Net commission incurred	**-**	47
Total commission and brokerage incurred	**264 673**	197 400
Total commission and brokerage earned	**217 807**	162 628

24. Finance income, expenses, gains and losses

	2007 R'000	2006 R'000
Interest received	**52 224**	43 591
Investment management fees	**(725)**	(687)
	51 499	42 904
Dividend income received	**3 275**	2 069
Unrealised gains on revaluation of investments	**6 844**	1 249
Realised gain on disposal of investments	**68**	9 934
Total finance income	**61 686**	56 156
Finance expenses	**(16 386)**	(16 301)
Net finance income	**45 300**	39 855
Net investment income is allocated as follows:		
– non-life insurance contracts	**45 300**	38 798
– life insurance contracts	**-**	1 057
	45 300	39 855

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

	2007	2006
25. Profit before taxation	**R'000**	R'000
Profit before taxation is arrived at after charging the following items:		
Actuarial fees	**-**	138
Auditors remuneration:		
– for audit services	**734**	619
current year	**660**	619
prior years underprovision	**74**	-
Consultancy fees	**810**	258
Depreciation	**269**	169
Loss on disposal of assets	**18**	-
Amortisation	**43**	33
Directors remuneration	**1 627**	1 595
Executive – for services rendered	**1 383**	1 351
Non executive – for services as directors	**244**	244
Leases	**539**	468
Secretarial fees	**39**	44
Staff costs including contribution to pension fund, UIF, SDL and allowances	**6 133**	4 341
Number of staff	**17**	15

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

	2007	2006
26. Taxation	**R'000**	R'000
South African normal taxation		
Current tax - current year	**7 580**	10 746
- Prior year underprovision	**8**	116
- Deferred tax – current year	**300**	355
	7 888	11 217

Tax rate reconciliation	**%**	%
Effective tax rate	**21.8**	27.8
Exempt income	**2.6**	1.5
Disallowed expenses	**(0.1)**	-
Capital gain tax	**4.7**	-
Over (under) provision in prior year	**-**	(0.3)
South African standard corporate tax rate	**29.0**	29.0

27. Related party transactions

Holding company

The company conducts reinsurance business with its holding company. The holding company also charges management fees for services provided by the group and license fees to cover the cost of insurance and accounting software used by the company. Transactions carried out with the holding company are on commercial terms and conditions no less favourable as to the public.

Key management

The managing director, the general manager finance and accounts and the general manager underwriting and marketing are considered the key members of management. Their total remuneration for the year is R2.9 million (2006: R2.7 million)

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

	2007	2006
Balance sheet	**R'000**	R'000
Assets		
Technical assets under insurance contracts	**575 804**	392 262
Amounts due from companies on reinsurance accounts	**106 878**	20 115
	682 682	412 377
Liabilities		
Deferred retrocession commission revenue	**(37 857)**	(34 577)
Deposits due to retrocessionaire	**(618 930)**	(340 347)
Amount due to holding company	**(17 609)**	(6 318)
Net assets	**8 286**	31 135

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

27. Related party transactions *(continued)*	**2007 R'000**	2006 R'000
Revenue account for non-life insurance contracts		
Retroceded premiums	**(807 250)**	(567 179)
Retrocessionaire's share of provision for unearned premiums	**29 912**	30 498
Retroceded claims received	**390 538**	295 244
Retrocessionaire's share of provision for outstanding claims	**153 631**	58 392
Retrocessionaire's share of net commission incurred	**217 043**	162 398
Management expenses	**(10 899)**	(5 187)
Revenue account for life insurance contracts		
Retroceded premiums	**-**	879
Retroceded claims recovered	**-**	851
Retrocessionaire's share of outstanding claims	**-**	-
Retrocessionaire's share of net commission incurred	**-**	(47)
Retrocessionaire's share of policy holders liability	**-**	(175)

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

28. Retirement benefits costs

The company contributes to a defined contribution pension plan for all its employees. The company's contributions to the defined contribution pension plan for its employees during the period were R363 142 (2006: R252 658).

29. Operating lease commitments

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

	2007 R'000	2006 R'000
– less than one year	**592**	398
– between one and five years	**2 516**	415
	3 108	813

30. Fair value

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007 (continued)

31. Discontinuing operation

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

A summary of the financial results of the discontinuing operation is as follows:	**2007**	2006
	R'000	R'000
Underwriting loss	**-**	(250)
Finance income	**-**	1 057
Profit before taxation	**-**	807
Taxation	**-**	(341)
Profit for the year	**-**	466

32. Notes to the cash flow statement

32.1 Reconciliation of cash generated/ (utilised) by operations

	2007	2006
Profit before taxation	**36 155**	40 269
Adjusted for :		
- depreciation and amortisation	**312**	202
- loss on disposal of assets	**18**	-
- finance income	**(61 686)**	(56 156)
- finance expenses	**16 386**	16 301
- net unearned premium reserve net of deferred acquisition costs	**8 558**	8 819
Cash generated / (utilised) by changes in working capital	**163 729**	(40 751)
Amounts due from companies on reinsurance accounts	**(113 124)**	(92 991)
Deposits retained by ceding companies	**(71 174)**	(4 972)
Accounts receivable	**(74)**	181
Amount due from holding company	**11 291**	(8 431)
Other provision and accruals	**7 015**	(1 237)
Deposits due to retrocessionaire	**278 583**	47 295
Net outstanding claims reserve	**51 212**	19 463
Net life policyholders' liability	**-**	(59)
	163 472	(31 316)

32.2 Reconciliation of taxation paid

	2007	2006
Balance payable at the beginning of the period	**(6 020)**	(7 649)
Current tax charged in the income statement	**(7 588)**	(10 862)
Balance payable at the end of the period	**589**	6 020
Taxation paid	**(13 019)**	(12 491)

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