# FINANCIAL STATEMENTS

*for the year ended 31 December 2008*

**CONTENTS................................................................................................................................. PAGE**



# 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 2008, 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

19 March 2009

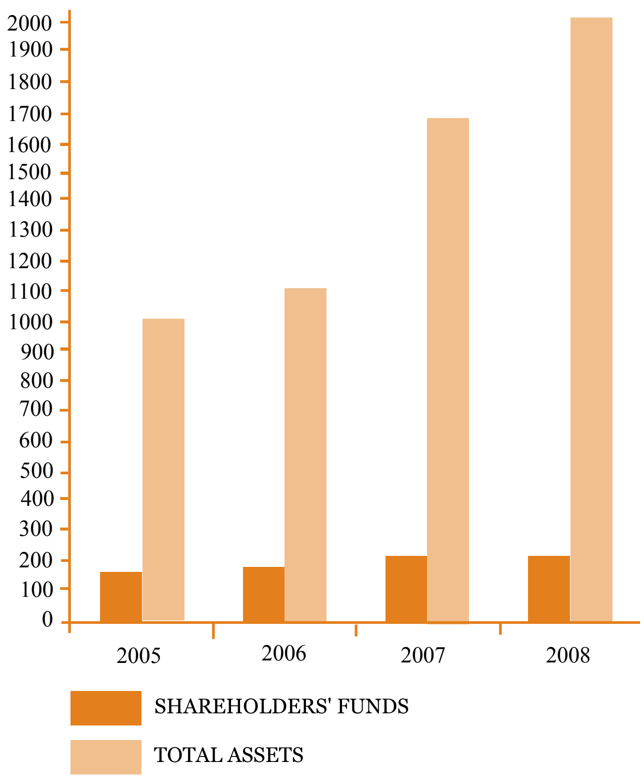
# FINANCIAL HIGHLIGHTS

*for the year ended 31 December 2008*

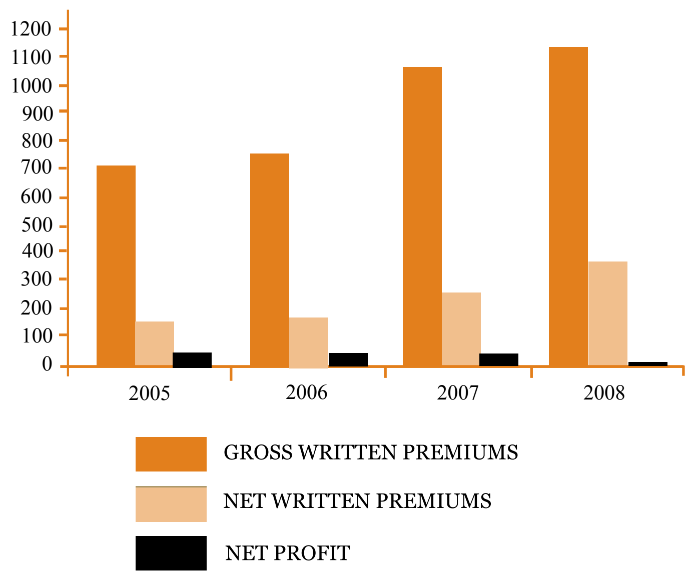
| In R'000 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| **RESULTS** | | | | |
| GROSS WRITTEN PREMIUMS | **1 140 547** | 1 067 364 | 747 445 | 725 005 |
| NET WRITTEN PREMIUMS | **377 991** | 253 005 | 179 387 | 173 859 |
| NET EARNED PREMIUMS | **373 899** | 243 034 | 169 221 | 166 756 |
| NET PROFIT | **6 309** | 28 267 | 29 052 | 28 899 |
| **FINANCIAL POSITION** | | | | |
| SHAREHOLDER'S FUNDS | **170 200** | 173 440 | 145 173 | 116 121 |
| TOTAL ASSETS | **1 991 576** | 1 655 030 | 1 075 351 | 977 804 |
| INTERNATIONAL SOLVENCY MARGIN[N1] | **45%** | 69% | 74% | 62% |

[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 2005 - 2008 In Rand Million**




**Results 2005 - 2008 In Rand Million**



# CHAIRMAN AND EXECUTIVE MANAGEMENT STATEMENT

*for the year ended 31 December 2008*

It is our privilege to present the annual financial statements of African Reinsurance Corporation (South Africa) Limited ("Africa Re (SA)") for the year ended 31 December 2008.

The year under review was characterised by a number of large individual market losses whilst losses continued to affect the Motor and Aviation markets particularly during the latter half of 2008.

Coupled with the above, financial markets across the world were negatively impacted by the collapse of the financial sector internationally which has obviously had a knock-on effect on South African equity markets.

Africa Re (SA) are pleased to confirm that following a conservative investment policy, investment returns remained positive which in turn offset some of the unfortunate underwriting results reported during the year under review.

Corrective action has already been taken to improve the underwriting result of the company and it is expected that these results will improve during the years ahead.

Competition and soft market cycles also continued to impact on results but it is heartening to report that certain sectors of our market have shown signs of rate hardening which will obviously impact on results going forward.

Gross written premiums for the year under review was R1,140.5 million compared to R1,067.4 million recorded in 2007. This represents a 6.8% increase over the premiums recorded in the previous year.

The company recorded an underwriting loss of R40.2 million for the year under review compared to an underwriting loss of R9.1 million reported in 2007. The underwriting loss recorded during the year under review was mainly due to higher incurred claims, higher acquisition costs and an increase in management expenses. Management expenses for the year under review were R27.6 million compared to R23.9 million in 2007.

Net investment income for the year under review was R47.3 million compared to R45.3 million recorded in 2007 representing an increase of 4.4%. The reasonably good investment income performance for the year under review despite the current turmoil in the credit and financial markets was mainly due to increased cash flows and higher interest rates realised on term deposits during the year compared to the rates realised in 2007. The company held most of its investment funds in government bonds, fixed deposits and money market funds, with only a relatively small proportion of investment funds held in equities. This greatly helped to shield the company from investment losses from the turmoil in the credit and financial markets experienced last year.

Profit before tax for the period under review was R7.1 million compared to R36.2 million recorded in 2007. Accrued income tax expense charged to the income statement for the period was R0.8 million (2007: R7.9 million) resulting in an after tax profit of R6.3 million compared to R28.3 million in 2007.

The South African economy has not escaped the vagaries of the current international economic crisis and as a result is only expected to show modest growth in the order of 1.2% as opposed to 3.2% during the year under review. Despite the downturn in the economy, management are still confident that there are many opportunities for sustainable, profitable growth going forward.

# CHAIRMAN AND EXECUTIVE MANAGEMENT STATEMENT

*for the year ended 31 December 2008 (continued)*

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 which is reflected in the growth of the company's income over the past twelve months.

Our thanks also to our fellow Directors who continue to assist with the development of the company.

There were no changes to the Board of Directors who met three times during the course of the financial year under review and attendances at these meetings are listed below:

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

The Audit and Risk Committee under the Chairmanship of A F W Peters met three times during the course of the financial year just completed. Also in attendance at these meetings were Messrs. Musa (Member), P D Ray, D N De Vos and G Waweru of Africa Re (SA) together with both the Internal and External Auditors.

Corporate Social Investment continues to be one of our priorities and Africa Re (SA) continues to set aside funds for the promotion and 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 are undoubtedly 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 will continue to develop an environment where each employee is able to reach their full 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 the right rewards and incentives whilst allowing staff to create a balance between both personal and professional capabilities.

To all our staff who continue to demonstrate commitment to the company, we wish to extend sincere thanks for all their valued efforts.

**Bakary H Kamara**
**Chairman**

**Paul D Ray**
**Managing Director**

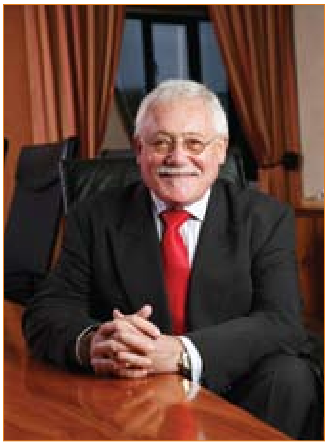
# BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

**Allan F W Peters**
*Non-Executive Director*

**Bakary H Kamara**
*Chairman*

**Ganiyu Musa**
*Non-Executive Director*

**Daryl N De Vos**
*Deputy Managing Director*



**Paul D Ray**
*Managing Director*

**Ibrahim Ibisomi**
*New General Manager,*
*Finance & Accounts*

**Godfrey Waweru**
*Former General Manager,*
*Finance & Accounts*

# STAFF

**Back Row - standing - left to right:** Stephen Lewin, Gavin Henry, Benson Sithebe, Fraser Nkosi, Glen Peters, Andre Pienaar, Smith Mangena, Lincoln Mthembu, John Izegbu, Matilda Tlowana, Nkululeko Ngobese

**Front Row - sitting - left to right:** Sane Mpofu, Amina Shoshore, Daryl De Vos, Paul Ray, Ibrahim Ibisomi, Carol Eatwell, Lillian Malele

# DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008*

The company's directors are responsible for the preparation and fair presentation of the annual financial statements, comprising the balance sheet at 31 December 2008, 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 19 March 2009 and are signed on their behalf by:

| | |
|---|---|
| **B H Kamara**<br>**Chairman** | **P D Ray**<br>**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 2008, 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 49.

*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 2008, 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*

19 March 2009

# DIRECTORS' REPORT

*for the year ended 31 December 2008*

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 2008.

## 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 2008 amount to R170.2 million (2007: R173.4 million). Net technical liabilities under insurance contracts at 31 December 2008 amount to R250.4 million (2007: R183.5 million).

## INCOME STATEMENT

Net income after taxation for the year is R6.3 million (2007: R28.3 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 declared and paid a dividend amounting to R9.6 million (2007: R0) during the year.

## 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 2008 (continued)*

## SECRETARY

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

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

PO Box 1523
Johannesburg
2000

## AUDITORS

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

# BALANCE SHEET

*at 31 December 2008*

| | Note | 2008 R'000 | 2007 R'000 |
|---|---|---|---|
| **Assets** | | | |
| Equipment | 6 | **1 139** | 1 398 |
| Intangible assets | 7 | **157** | 258 |
| Financial assets | 8 | **1 074 568** | 708 609 |
| - Held-to-maturity instruments at amortised cost | | **790 792** | 368 463 |
| - Instruments at fair value through profit and loss | | **283 776** | 340 146 |
| Technical assets under insurance contracts | 9 | **752 979** | 628 866 |
| - Retroceded outstanding claims reserve | | **562 572** | 411 255 |
| - Retroceded unearned premium reserve | | **144 413** | 166 992 |
| - Deferred acquisition costs | | **45 994** | 50 619 |
| Amounts due from companies on reinsurance accounts | 10 | **135 673** | 186 017 |
| Deposits retained by ceding companies | 11 | **23 643** | 79 747 |
| Accounts receivable | 12 | **477** | 104 |
| Cash and cash equivalents | 13 | **2 940** | 50 031 |
| **Total assets** | | **1 991 576** | 1 655 030 |
| **Equity** | | | |
| Share capital and share premium | 15 | **80 300** | 80 300 |
| Contingency reserve | 14 | **38 122** | 26 011 |
| Retained earnings | | **51 778** | 67 129 |
| **Total equity attributable to equity holders of the company** | | **170 200** | 173 440 |
| **Liabilities** | | | |
| Technical liabilities under insurance contracts | 9 | **1 003 413** | 812 385 |
| - Gross outstanding claims reserve | | **762 483** | 548 001 |
| - Gross unearned premium reserve | | **203 694** | 222 181 |
| - Deferred retrocession commission revenue | | **37 236** | 42 203 |
| Amounts due to companies on reinsurance accounts | 16 | **49 626** | 17 752 |
| Deposits due to retrocessionaire | 17 | **757 109** | 618 930 |
| Amount due to holding company | | **5 369** | 17 609 |
| Other provisions and accruals | 18 | **3 829** | 9 016 |
| Deferred tax liability | 19 | **554** | 5 309 |
| Current income tax liability | 20 | **1 476** | 589 |
| **Total liabilities** | | **1 821 376** | 1 481 590 |
| **Total equity and liabilities** | | **1 991 576** | 1 655 030 |

# INCOME STATEMENT

*for the year ended 31 December 2008*

| | Note | 2008<br>R'000 | 2007<br>R'000 |
|---|---|---|---|
| **Income from operations** | | **640 294** | 522 527 |
| Net earned premiums from insurance contracts | 21 | **373 899** | 243 034 |
| Commission earned | 22 | **194 796** | 217 807 |
| Finance income | 23 | **71 599** | 61 686 |
| **Operating costs** | | **633 174** | 486 372 |
| Net claims incurred on insurance contracts | 21 | **247 505** | 181 389 |
| Commission incurred | 22 | **333 769** | 264 673 |
| Finance expenses | 23 | **24 264** | 16 386 |
| Management expenses | | **27 636** | 23 924 |
| **Profit before taxation** | **24** | **7 120** | 36 155 |
| Taxation | 25 | **810** | 7 888 |
| **Profit for the year** | | **6 310** | 28 267 |

# STATEMENT OF CHANGES IN EQUITY

*for the year ended 31 December 2008*

| | Share capital and share premium R'000 | Contingency reserve R'000 | Retained earnings R'000 | Total R'000 |
|---|---|---|---|---|
| **Balance as at 1 January 2007** | 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 |
| Profit for the year | | | 6 310 | 6 310 |
| Transfer to contingency reserve | | 12 111 | (12 111) | - |
| Dividend | | | (9 550) | (9 550) |
| **Balance as at 31 December 2008** | 80 300 | 38 122 | 51 778 | 170 200 |

# CASH FLOW STATEMENT

*for the year ended 31 December 2008*

| | Note | 2008<br>R'000 | 2007<br>R'000 |
|---|---|---|---|
| **Cash generated by operations** | 30.1 | **285 809** | 163 472 |
| Finance expenses | | **(24 264)** | (16 386) |
| Taxation paid | 30.2 | **(4 678)** | (13 019) |
| **Net cash inflow from operating activities** | | **256 867** | 134 067 |
| | | | |
| **Cash flows from investment activities** | | | |
| Net purchases and disposals of equipment and intangibles | | **(48)** | (1 143) |
| Net purchases and disposals of investments | | **(383 229)** | (158 843) |
| Interest received net of investment management fees | | **86 322** | 51 499 |
| Realised (loss)/gains on investment disposed | | **(1 206)** | 68 |
| Dividends received | | **3 753** | 3 275 |
| **Net cash outflow from investment activities** | | **(294 408)** | (105 144) |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividend paid | | **(9 550)** | - |
| **Net cash outflow from financing activities** | | **(9 550)** | - |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(47 091)** | 28 923 |
| **Cash and cash equivalents at the beginning of the year** | | **50 031** | 21 108 |
| **Cash and cash equivalents at the end of the year** | | **2 940** | 50 031 |

# STATEMENT OF CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

*for the year ended 31 December 2008*

| | 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 instruments | Total |
|---|---|---|---|---|---|---|---|
| **December 2008** | | | | | | | |
| **Assets** | | | | | | | |
| Equipment | 6 | | | | | 1 139 | 1 139 |
| Intangible assets | 7 | | | | | 157 | 157 |
| Financial assets | 8 | 283 776 | 790 792 | | | | 1 074 568 |
| Listed bonds | | 133 386 | 55 233 | | | | 188 619 |
| Listed ordinary share | | 62 303 | | | | | 62 303 |
| Listed preferred shares | | 9 960 | | | | | 9 960 |
| Money market unit trust | | 78 127 | | | | | 78 127 |
| Fixed and call deposits | | | 735 559 | | | | 735 559 |
| Technical assets under insurance contracts | 9 | | | | | 752 979 | 752 979 |
| Retroceded outstanding claims reserve | | | | | | 562 572 | 562 572 |
| Retroceded unearned premium reserve | | | | | | 144 413 | 144 413 |
| Deferred acquisition costs | | | | | | 45 994 | 45 994 |
| Amounts due from companies on reinsurance accounts | 10 | | | 135 673 | | | 135 673 |
| Deposits retained by ceding companies | 11 | | | 23 643 | | | 23 643 |
| Account receivable | 12 | | | 477 | | | 477 |
| Cash and cash equivalent | 13 | 2 940 | | | | | 2 940 |
| **Total assets** | | 286 716 | 790 792 | 159 793 | | 754 275 | 1 991 576 |

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

*for the year ended 31 December 2008*

| | 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 instruments | Total |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Technical liabilities under insurance contracts | 9 | | | | | **1 003 413** | **1 003 413** |
| Gross outstanding claims reserve | | | | | | **762 483** | **762 483** |
| Gross unearned premium reserve | | | | | | **203 694** | **203 694** |
| Deferred retrocession commission revenue | | | | | | **37 236** | **37 236** |
| Amounts due to companies on reinsurance accounts | 16 | | | | **49 626** | | **49 626** |
| Deposits due to retrocessionaire | 17 | | | | **757 109** | | **757 109** |
| Amount due to holding company | | | | | **5 369** | | **5 369** |
| Other provisions and accruals | 18 | | | | **3 829** | | **3 829** |
| Creditors and accruals | | | | | **3 194** | | **3 194** |
| Provisions | | | | | **635** | | **635** |
| Deferred tax liability | 19 | | | | | **554** | **554** |
| Current income tax liability | 20 | | | | | **1 476** | **1 476** |
| **Total liabilities** | | | | | **815 933** | **1 005 443** | **1 821 376** |

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

*for the year ended 31 December 2008*

| | 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 instruments | 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 share | | 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 2008*

| | 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 instruments | 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 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008*

## 1. General information

African Re (SA) 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 19 March 2009.

## 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 cost.

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.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

## 2. Accounting policies *(continued)*

### (d) Recognition and measurement of insurance contracts

Insurance business is accounted for on an annual basis.

**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 insurance contracts**

The portion of gross written premiums on 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.

**Claims arising from non-life insurance contracts**

Claims incurred in respect of 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 claims 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 outstanding 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 claims 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.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

## 2. Accounting policies *(continued)*

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

**Unexpired risk provision for 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.

**Liability adequacy test**

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

**Reinsurance contracts and assets**

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

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

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.

The proportion of acquisition costs that correspond to the unearned premiums are deferred and amortised on a pro rata basis over the contract term. 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.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

## 2. Accounting policies *(continued)*

### (e) Contingency reserve

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

### (f) Operating lease payment

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

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

## 2. Accounting policies *(continued)*

### (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.

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 2008 (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 are not yet effective for the year ended 31 December 2008, 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 impact the preparation of financial statements of Africa Re (SA).

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (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 2008 and the comparative information presented in these financial statements.

## 4. Accounting estimates and judgements

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

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

**Policyholder claims for 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 prior 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.

**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 2008 (continued)*

## 5. Risk management objectives and policies

### 5.1 General

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.

**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 2008 (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 2008 (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 loss or stop loss cover agreements. These retrocession agreements spread the risk and minimise the effect of losses.

Under the terms of the retrocession agreements, the 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 2008 (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 R6.7 million (2007: R7.6 million).

| Asset class | Cost R'm | Market Value R'm | Risk factor | % change | Impact on equity R'm | Impact on profit R'm |
|---|---|---|---|---|---|---|
| **December 2008** | | | | | | |
| Equity | **57.3** | **62.3** | Market price | **10%** | **6.7** | **6.7** |
| Bonds at fair value | **127.2** | **133.4** | Interest rate movement | **1%** | **5.9** | **5.9** |
| Bonds at amortised cost | **55.2** | **55.2** | Interest rate movement | **1%** | **0.6** | **0.6** |
| Money market | **77.2** | **78.1** | Market price | **1%** | **0.8** | **0.8** |
| Fixed deposit | **735.6** | **735.6** | Interest rate movement/ Amortised value | **1%** | **7.4** | **7.4** |
| **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 | Interest rate movement | 1% | 1.5 | 1.5 |
| Fixed deposit | 368.4 | 368.4 | Interest rate movement/ Amortised value | 1% | 3.7 | 3.7 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (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 R5.9 million (2007: R4.4 million) while a change of 1% in interest rate would change the cash flows from interest bearing investments at year end by R7.4 million (2007: 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 2008 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 following table:

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (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 R'm | A+ to A R'm | BBB+ to BBB R'm | Secured R'm | Equities R'm | Not indicated R'm | Total R'm |
|---|---|---|---|---|---|---|---|
| **December 2008** | | | | | | | |
| Reinsurance assets | | | | **752.9** | | | **752.9** |
| Financial assets | **162.4** | **669.8** | **170.1** | | **62.3** | **10.0** | **1 074.6** |
| Insurance receivables | | **9.9** | **24.5** | | | **101.3** | **135.7** |
| Insurance deposits | | | | | | **23.6** | **23.6** |
| Accounts receivables | | | | | | **0.5** | **0.5** |
| Cash and cash equivalent | | **2.9** | | | | | **2.9** |
| **Total** | **162.4** | **682.6** | **194.6** | **752.9** | **62.3** | **135.4** | **1 990.2** |
| **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 |

[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 2008 (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 shareholders' funds. The overall philosophy governing the investment of insurance funds is driven by liquidity considerations and a strong emphasis on capital preservation. Most of the company's investments are held in readily realisable investments in line with the short-tail nature of the company's business. The maturity profile of investments will approximate the average term of operational liabilities.

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

| December 2008<br>Assets maturities | On demand<br>R'000 | 1 Year<br>R'000 | 2 Year<br>R'000 | 3 Year<br>R'000 | >4 Year<br>R'000 | Total<br>R'000 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 2 940 | | | | | 2 940 |
| Fixed and call deposit | | 735 559 | | | | 735 559 |
| Money market funds | | 78 127 | | | | 78 127 |
| Debt securities | | 39 090 | 25 176 | | 124 353 | 188 619 |
| Preference shares | 9 960 | | | | | 9 960 |
| Equities | 62 303 | | | | | 62 303 |
| Insurance contracts assets | | 539 202 | 129 392 | 28 128 | 56 257 | 752 979 |
| Amounts due from companies on reinsurance accounts | | 135 673 | | | | 135 673 |
| Deposits retained by ceding companies | | 23 643 | | | | 23 643 |
| Accounts receivable | | 477 | | | | 477 |
| **Total financial and insurance assets** | **75 203** | **1 551 771** | **154 568** | **28 128** | **180 610** | **1 990 280** |
| **Liability maturities** | | | | | | |
| Insurance contracts liabilities | | 713 669 | 175 371 | 38 124 | 76 249 | 1 003 413 |
| Reinsurance account balance | | 49 626 | | | | 49 626 |
| Reinsurance deposits | | 757 109 | | | | 757 109 |
| Due to holding company | | 5 369 | | | | 5 369 |
| Other provision and accruals | | 3 829 | | | | 3 829 |
| **Total financial and insurance liabilities** | | **1 529 602** | **175 371** | **38 124** | **76 249** | **1 819 346** |
| **Net maturities** | **75 203** | **22 169** | **(20 803)** | **(9 996)** | **104 361** | **170 934** |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (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 2007<br>Assets maturities | On demand<br>R'000 | 1 Year<br>R'000 | 2 Year<br>R'000 | 3 Year<br>R'000 | >4 Year<br>R'000 | Total<br>R'000 |
|---|---|---|---|---|---|---|
| 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 |

### (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 2008 (continued)*

| 6. Equipment | 2008<br>R'000 | 2007<br>R'000 |
|---|---|---|
| **Cost** | | |
| Motor vehicles | **565** | 565 |
| Computer equipment | **452** | 434 |
| Office equipment | **244** | 241 |
| Furniture & fittings | **997** | 970 |
| | **2 258** | 2 210 |
| **Accumulated depreciation** | | |
| Motor vehicles | **314** | 274 |
| Computer equipment | **388** | 314 |
| Office equipment | **164** | 96 |
| Furniture & fittings | **253** | 128 |
| | **1 119** | 812 |
| **Carrying values** | | |
| Motor vehicles | **251** | 291 |
| Computer equipment | **64** | 120 |
| Office equipment | **80** | 145 |
| Furniture & fittings | **744** | 842 |
| | **1 139** | 1 398 |
| **Reconciliation of carrying values** | | |
| Opening balance | **1 398** | 801 |
| Additions | **48** | 907 |
| Disposals | **-** | (41) |
| Depreciation | **(307)** | (269) |
| **Closing balance** | **1 139** | 1 398 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

| | | 2008 R'000 | 2007 R'000 |
|---|---|---|---|
| **6.** | **Equipment (continued)** | | |
| | **Motor vehicles** | | |
| | Net carrying value at beginning of year | **291** | 354 |
| | Depreciation | **(40)** | (63) |
| | Net carrying value at end of year | **251** | 291 |
| | **Computer equipment** | | |
| | Net carrying value at beginning of year | **120** | 117 |
| | Additions | **18** | 114 |
| | Disposals | **-** | (11) |
| | Depreciation | **(74)** | (100) |
| | Net carrying value at end of year | **64** | 120 |
| | **Office equipment** | | |
| | Net carrying value at beginning of year | **145** | 64 |
| | Additions | **3** | 135 |
| | Disposals | **-** | (2) |
| | Depreciation | **(68)** | (52) |
| | Net carrying value at end of year | **80** | 145 |
| | **Furniture & fittings** | | |
| | Net carrying value at beginning of year | **842** | 266 |
| | Additions | **27** | 658 |
| | Disposals | **-** | (28) |
| | Depreciation | **(125)** | (54) |
| | Net carrying value at end of year | **744** | 842 |
| **7.** | **Intangible assets** | | |
| | **Computer software** | | |
| | **Cost** | | |
| | Opening balance | **372** | 113 |
| | Acquisitions – purchased software | **-** | 259 |
| | Closing balance | **372** | 372 |
| | **Accumulated amortisation** | | |
| | Opening balance | **114** | 71 |
| | Amortisation – software in use | **101** | 43 |
| | Closing balance | **215** | 114 |
| | **Net carrying value** | **157** | 258 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

| 8. Financial assets | 2008 R'000 | 2007 R'000 |
|---|---|---|
| **Held-to-maturity instruments at amortised cost** | | |
| Fixed and call deposits | **735 559** | 368 463 |
| Listed bonds and treasury bills | **55 233** | - |
| | **790 792** | 368 463 |
| **Instruments at fair value through profit and loss** | | |
| Listed instruments | | |
| – bonds | **133 386** | 103 028 |
| – equities | **62 303** | 76 619 |
| – preference shares | **9 960** | 11 885 |
| – money market funds | **78 127** | 148 614 |
| | **283 776** | 340 146 |
| **Total financial assets** | **1 074 568** | 708 609 |
| Cost of instruments disclosed at fair value through profit and loss | | |
| Bonds | **127 226** | 103 489 |
| Equities | **57 264** | 48 356 |
| Preference shares | **12 111** | 13 739 |
| Money market funds | **77 164** | 147 018 |
| | **273 765** | 312 602 |

**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 2008** | | |
| On demand | 12.27% to 12.48% | **88 087** |
| Within 1 year | 11.97% to 12.30% | **774 649** |
| 1 to 3 years | 7.41% to 7.48% | **25 177** |
| 3 to 7 years | 8.26% to 8.66% | **45 719** |
| 7 to 12 years | 8.12% to 8.29% | **78 633** |
| | | **1 012 265** |
| **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 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

| 9. | Technical assets and liabilities under insurance contracts | 2008 R'000 | 2007 R'000 |
|---|---|---|---|
| | **Technical liabilities** | | |
| | -Gross claims reported but not yet settled | **569 137** | 379 965 |
| | -Gross claims incurred but not reported | **193 346** | 168 036 |
| | -Gross unearned premium provision | **203 694** | 222 181 |
| | -Deferred retrocession commission revenue | **37 236** | 42 203 |
| | | **1 003 413** | 812 385 |
| | **Technical assets** | | |
| | -Retrocessionaire's share of claims reported but not yet settled | **423 034** | 285 051 |
| | -Retrocessionaire's share of claims incurred but not reported | **139 538** | 126 204 |
| | -Retrocessionaire's share of unearned premium provision | **144 413** | 166 992 |
| | -Deferred acquisition costs | **45 994** | 50 619 |
| | | **752 979** | 628 866 |
| | **Net technical liabilities** | | |
| | -Claims reported but not yet settled | **146 103** | 94 914 |
| | -Claims incurred but not reported | **53 808** | 41 832 |
| | -Unearned premium provision | **59 281** | 55 189 |
| | -Deferred acquisition costs | **(8 758)** | (8 416) |
| | | **250 434** | 183 519 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (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 | 2008 Gross R'000 | 2008 Reinsurance R'000 | 2008 Net R'000 |
|---|---|---|---|
| Claims reported but not yet settled | **379 965** | **285 051** | **94 914** |
| Claims incurred but not reported | **168 036** | **126 204** | **41 832** |
| Total outstanding at beginning of year | **548 001** | **411 255** | **136 746** |
| Increase/(decrease) in liabilities | **214 482** | **151 317** | **63 165** |
| -arising from current year claims | **226 352** | **159 199** | **67 153** |
| -arising from prior period claims | **(11 870)** | **(7 882)** | **(3 988)** |
| Total at end of year | **762 483** | **562 572** | **199 911** |
| Notified claims | **569 137** | **423 034** | **146 103** |
| Incurred but not reported | **193 346** | **139 538** | **53 808** |
| Total at end of year | **762 483** | **562 572** | **199 911** |

| Year ended 31 December | 2007 Gross R'000 | 2007 Reinsurance R'000 | 2007 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 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (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<br>R'000 | 2005<br>R'000 | 2006<br>R'000 | 2007<br>R'000 | 2008<br>R'000 |
|---|---|---|---|---|---|
| Claim settlement for each year: | | | | | |
| - First year | 225 255 | 130 623 | 112 300 | 241 506 | 210 834 |
| - one year later | 214 451 | 201 048 | 239 748 | 407 086 | |
| - two years later | 81 444 | 41 041 | 64 850 | | |
| - three years later | (1 577) | 987 | | | |
| - four years later | (1 006) | | | | |
| Provision for gross outstanding claims at year end | 21 578 | 50 907 | 80 550 | 358 187 | 251 261 |
| Claim development run-off result at year end | 540 145 | 424 606 | 497 448 | 1 006 779 | 462 095 |

**Unearned premium provision**

| Year ended 31 December | 2008<br>Gross<br>R'000 | <br>Reinsurance<br>R'000 | <br>Net<br>R'000 |
|---|---|---|---|
| At the beginning of year | **222 181** | **166 992** | 55 189 |
| Premiums written during the year | **1 140 547** | **762 556** | 377 991 |
| Premiums earned during the year | **(1 159 034)** | **(785 135)** | (373 899) |
| Total at end of year | **203 694** | **144 413** | 59 281 |

| Year ended 31 December | 2007<br>Gross<br>R'000 | <br>Reinsurance<br>R'000 | <br>Net<br>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 |

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 2008 (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 | 2008 Gross R'000 | 2008 Reinsurance R'000 | 2008 Net R'000 |
|---|---|---|---|
| At the beginning of year | **50 619** | **42 203** | **8 416** |
| Acquisition costs paid during the year | **329 144** | **189 829** | **139 315** |
| Transferred to costs incurred during the year | **(333 769)** | **(194 796)** | **(138 973)** |
| At the end of year | **45 994** | **37 236** | **8 758** |

| Year ended 31 December | 2007 Gross R'000 | 2007 Reinsurance R'000 | 2007 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 |

**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 assumptions and estimation bases are believed to be reasonable under the circumstances while 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 2008 (continued)*

| | | 2008<br>R'000 | 2007<br>R'000 |
|---|---|---|---|
| **10.** | **Amounts due from companies on reinsurance accounts** | | |
| | Amounts due from ceding companies | **111 174** | 79 139 |
| | Amounts due from retrocessionaire | **24 499** | 106 878 |
| | | **135 673** | 186 017 |
| **11.** | **Deposits retained by ceding companies** | | |
| | At beginning of year | **79 747** | 8 573 |
| | New deposits retained | **23 643** | 79 747 |
| | Deposits released | **(79 747)** | (8 573) |
| | At the end of year | **23 643** | 79 747 |
| **12.** | **Accounts receivable** | | |
| | Other prepayments and sundry debtors | **477** | 104 |
| **13.** | **Cash and cash equivalents** | | |
| | Cash on hand | **21** | 14 |
| | Cash on call | **-** | 10 209 |
| | Current bank account balances | **2 919** | 39 808 |
| | | **2 940** | 50 031 |
| **14.** | **Contingency reserve** | | |
| | Opening balance | **26 011** | 17 911 |
| | Transfer from income | **12 111** | 8 100 |
| | Closing balance | **38 122** | 26 011 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

| 15. | Share capital and share premium | 2008 R'000 | 2007 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. | | |
| **16.** | **Amounts due to companies on reinsurance accounts** | | |
| | Amount due to ceding companies | **47 372** | 15 341 |
| | Amount due to retrocessionaire | **2 254** | 2 411 |
| | | **49 626** | 17 752 |
| **17.** | **Deposits due to retrocessionaire** | | |
| | At beginning of year | **618 930** | 340 347 |
| | New deposits retained | **757 109** | 618 930 |
| | Deposits released | **(618 930)** | (340 347) |
| | At the end of the year | **757 109** | 618 930 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

| | | 2008<br>R'000 | 2007<br>R'000 |
|---|---|---|---|
| **18.** | **Other provisions and accruals** | | |
| | **Creditors and accruals** | | |
| | VAT payable | **2 108** | 7 794 |
| | Other creditors and accruals | **1 086** | 831 |
| | | **3 194** | 8 625 |
| | **Provisions** | | |
| | Opening balance | **391** | 264 |
| | Accrued leave | **371** | 232 |
| | Lease commitments | **20** | 32 |
| | Provision utilised | **(374)** | (261) |
| | Accrued leave | **(371)** | (232) |
| | Lease commitments | **(3)** | (29) |
| | Provision created | **618** | 388 |
| | Accrued leave | **519** | 371 |
| | Lease commitment | **99** | 17 |
| | Closing balance | **635** | 391 |
| | Accrued leave | **519** | 371 |
| | Lease commitments | **116** | 20 |
| | **Total other provisions and accruals at end of year** | **3 829** | 9 016 |

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.

| | | 2008<br>R'000 | 2007<br>R'000 |
|---|---|---|---|
| **19.** | **Deferred tax liability** | | |
| | **Opening balance** | **5 309** | 5 009 |
| | Change in tax rate | **(53)** | - |
| | Current year | **(4 702)** | 300 |
| | **Closing balance** | **554** | 5 309 |
| | The net deferred tax liability balance at the end of the period comprises: | | |
| | – capital allowance | **(215)** | (191) |
| | – provisions | **181** | 113 |
| | – unrealised gains on revaluation of investments | **588** | 5 387 |
| | | **554** | 5 309 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

## 20. Current income tax liability

The current income tax liability of R1.5 million (2007: R0.6 million) represents the amount of income taxes payable in the current year less adjustments in respect of prior years.

## 21. Revenue account for insurance business

| | 2008 R'000 | 2007 R'000 |
|---|---|---|
| **Income** | | |
| Gross written premiums | **1 140 547** | 1 067 364 |
| Retroceded premiums | **(762 556)** | (814 359) |
| **Net written premiums** | **377 991** | 253 005 |
| Provision for unearned premiums | **(4 092)** | (9 971) |
| Gross amounts | **18 487** | (41 309) |
| Retrocessionaire's share | **(22 579)** | 31 338 |
| **Earned premium net of retrocession** | **373 899** | 243 034 |
| **Outgo** | | |
| Gross claims paid | **(682 751)** | (520 715) |
| Retroceded claims received | **498 411** | 390 538 |
| **Net claims paid** | **(184 340)** | (130 177) |
| Provision for outstanding claims | **(63 165)** | (51 212) |
| Gross amounts | **(214 482)** | (205 859) |
| Retrocessionaire's share | **151 317** | 154 647 |
| **Claims incurred net of retrocession** | **(247 505)** | (181 389) |
| Net commission incurred | **(138 973)** | (46 866) |
| Management expenses | **(27 636)** | (23 924) |
| Underwriting loss | **(40 215)** | (9 145) |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

| 22. Commission paid and received | 2008 R'000 | 2007 R'000 |
|---|---|---|
| Gross commission and brokerage paid | **329 144** | 273 712 |
| Gross deferred acquisition costs | **4 625** | (9 039) |
| Commission incurred | **333 769** | 264 673 |
| Commission earned | **(194 796)** | (217 807) |
| Retrocession commission and brokerage received | **(170 568)** | (205 446) |
| Retroceded overriding commission received | **(19 261)** | (19 988) |
| Retroceded deferred commission revenue | **(1 711)** | 6 815 |
| Retroceded deferred overriding commission revenue | **(3 256)** | 812 |
| Net commission incurred | **138 973** | 46 866 |
| Total commission and brokerage incurred | **333 769** | 264 673 |
| Total commission and brokerage earned | **194 796** | 217 807 |

## 23. Finance income, expenses, gains and losses

| | | |
|---|---|---|
| Interest received | **87 619** | 52 224 |
| Investment management fees | **(1 297)** | (725) |
| | **86 322** | 51 499 |
| Dividend income received | **3 753** | 3 275 |
| Unrealised (loss)/gains on revaluation of investments | **(17 270)** | 6 844 |
| Realised (loss)/gain on disposal of investments | **(1 206)** | 68 |
| Total finance income | **71 599** | 61 686 |
| Finance expenses | **(24 264)** | (16 386) |
| Net finance income | **47 335** | 45 300 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

| 24. Profit before taxation | 2008 R'000 | 2007 R'000 |
|---|---|---|
| **Profit before taxation is arrived at after charging the following items:** | | |
| Auditors remuneration: | | |
| – for audit services | **779** | 734 |
| current year | **757** | 660 |
| prior years underprovision | **22** | 74 |
| Consultancy fees | **335** | 810 |
| Depreciation | **307** | 269 |
| Loss on disposal of assets | **-** | 18 |
| Amortisation | **101** | 43 |
| Directors remuneration | **2 010** | 1 627 |
| Executive – for services rendered | **1 625** | 1 383 |
| Non executive – for services as directors | **385** | 244 |
| Leases | **771** | 539 |
| Secretarial fees | **57** | 39 |
| Staff costs including contribution to pension fund, UIF, SDL and allowances | **7 682** | 6 133 |
| Number of staff | **18** | 17 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

## 25. Taxation

| Taxation | 2008 R'000 | 2007 R'000 |
|---|---|---|
| **South African normal taxation** | | |
| Current tax - current year | **5 565** | 7 580 |
| - Prior year underprovision | **-** | 8 |
| - Deferred tax – current year | **(4 755)** | 300 |
| | **810** | 7 888 |
| **Tax rate reconciliation** | **%** | **%** |
| Effective tax rate | **11.4** | 21.8 |
| Exempt income | **14.8** | 2.6 |
| Disallowed expenses | **(1.7)** | (0.1) |
| Capital gain tax | **3.5** | 4.7 |
| South African standard corporate tax rate | **28.0** | 29.0 |

## 26. 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 R3.8 million (2007: R2.9 million)

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

| Balance sheet | 2008 R'000 | 2007 R'000 |
|---|---|---|
| **Assets** | | |
| Technical assets under insurance contracts | **698 717** | 575 804 |
| Amounts due from companies on reinsurance accounts | **24 499** | 106 878 |
| | **723 216** | 682 682 |
| **Liabilities** | | |
| Deferred retrocession commission revenue | **(37 223)** | (37 857) |
| Deposits due to retrocessionaire | **(757 109)** | (618 930) |
| Amount due to holding company | **(5 371)** | (17 609) |
| Net (liabilities)/assets | **(76 487)** | 8 286 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2008 (continued)*

| 26. Related party transactions (continued) | 2008 R'000 | 2007 R'000 |
|---|---|---|
| **Revenue account for insurance business** | | |
| Retroceded premiums | **(759 324)** | (807 250) |
| Retrocessionaire's share of provision for unearned premiums | **(21 279)** | 29 912 |
| Retroceded claims received | **497 698** | 390 538 |
| Retrocessionaire's share of provision for outstanding claims | **144 194** | 153 631 |
| Retrocessionaire's share of net commission incurred | **194 397** | 217 043 |
| Management expenses | **(11 566)** | (10 899) |

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

**27. 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 R447 084 (2007: R363 142).

**28. Operating lease commitments**

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

| | 2008 R'000 | 2007 R'000 |
|---|---|---|
| – less than one year | **613** | 592 |
| – between one and five years | **1 962** | 2 516 |
| | **2 575** | 3 108 |

**29. 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 2008 (continued)*

| | | 2008 R'000 | 2007 R'000 |
|---|---|---|---|
| **30.** | **Notes to the cash flow statement** | | |
| **30.1.** | **Reconciliation of cash generated/ (utilised) by operations** | | |
| | Profit before taxation | **7 120** | 36 155 |
| | Adjusted for : | | |
| | - depreciation and amortisation | **408** | 312 |
| | - loss on disposal of assets | **-** | 18 |
| | - finance income | **(71 599)** | (61 686) |
| | - finance expenses | **24 264** | 16 386 |
| | - net unearned premium reserve net of deferred acquisition costs | **3 750** | 8 558 |
| | Cash generated by changes in working capital | **321 866** | 163 729 |
| | Amounts due from companies on reinsurance accounts | **82 218** | (113 124) |
| | Deposits retained by ceding companies | **56 104** | (71 174) |
| | Accounts receivable | **(373)** | (74) |
| | Amount due to holding company | **(12 240)** | 11 291 |
| | Other provision and accruals | **(5 187)** | 7 015 |
| | Deposits due to retrocessionaire | **138 179** | 278 583 |
| | Net outstanding claims reserve | **63 165** | 51 212 |
| | | **285 809** | 163 472 |
| **30.2.** | **Reconciliation of taxation paid** | | |
| | Balance payable at the beginning of the period | **(589)** | (6 020) |
| | Current tax charged in the income statement | **(5 565)** | (7 588) |
| | Balance payable at the end of the period | **1 476** | 589 |
| | Taxation paid | **(4 678)** | (13 019) |

# NOTES

# NOTES

# NOTES