

# Annual Report 2007

**Registration Number 1966/003833/06  
General Reinsurance Africa Limited**

## Board of Directors and committees

### Non-executive directors

Dr. W. Droste #  
Dr. W. Heinen # (appointed 1 July 2007)  
Mr. R. Isringhaus # (resigned 30 June 2007)  
Mr. H. Meyer \*  
Mr. S. Moloko \*  
Mr. L. van Wyk \* (Chairman)

### Committee members

Dr. W. Droste \$ &  
Dr. W. Heinen \$ & (appointed 1 July 2007)  
Mr. R. Isringhaus \$ & (resigned 30 June 2007)  
Mr. H. Meyer \$  
Mr. S. Moloko \$  
Mr. L. van Wyk \$

### Executive directors

Mr. P. Temple

(# German non-independent)  
(\* Independent)

(\$ Audit committee member)  
(& Remuneration committee member)

## Management

Mr. P. Temple      Managing Director

## Life

Mr. C. Geyer      Chief Marketing Actuary  
Mr. P. Lewis      Chief Actuary  
Mr. J. Louw      Chief Underwriter & Actuary

## Non-Life

Mr. E. Akwivu      Property Facultative Manager (appointed 1 November 2007)  
Mr. M. Leitch      Property Facultative Manager (resigned 30 October 2007)  
Mr. F. Peters      Non-Life Treaty Manager  
Mr. M. Speer      Casualty Facultative Manager

## Finance

Mr. H. Beukes      Financial Manager

## Chief Medical Officers

Dr. G. Parr  
Dr. D. Nathan

## Offices

### Cape Town

3<sup>rd</sup> Floor, Block A, West Quay Office Block, 7 West Quay Road,  
V&A Waterfront, Cape Town, 8001

### Johannesburg

4<sup>th</sup> Floor, 23 Melrose Boulevard, Melrose Arch,  
Melrose North, 2196

# Annual Report for the year ended 31 December 2007

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## **Attorneys**

Deneys Reitz

## **Auditors**

Deloitte & Touche

## **Bankers**

The Standard Bank of South Africa Limited  
Nedbank Limited  
First National Bank - a division of FirstRand  
Bank Limited

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## **Company Secretary**

Mr. H. Beukes  
(appointed 30 November 2007)

Previously  
Ms. L. Steenkamp  
(resigned 29 November 2007)

*Registered address:*  
3rd Floor, Block A  
West Quay Office Block  
7 West Quay Road  
V&A Waterfront  
Cape Town  
8001

*Postal address:*  
P O Box 444  
Cape Town  
8000

# Directors' responsibilities for Financial Reporting

General Reinsurance Africa Limited (Gen Re) Directors are required by the Companies Act in South Africa to maintain adequate accounting records and to prepare Financial Statements for each financial year, which fairly present the state of affairs of the Company at the end of the financial year and of the financial performance and cash flows for the year. In preparing the accompanying Financial Statements, International Financial Reporting Standards have been followed, suitable accounting policies have been used and reasonable estimates have been made. Any changes to accounting policies are approved by the Board and the effects thereof are fully explained in the Annual Financial Statements. The Financial Statements incorporate full and responsible disclosure in line with the Board's philosophy on corporate governance.

The Directors have reviewed the Company's budget and business plan for the year to 31 December 2008. On the basis of this review, and in the light of the current financial position, the Directors have no reason to believe that the Company will not be a going concern in the period to the next Financial Statements and have continued to adopt the going concern basis in preparing the Financial Statements. The Company's external auditors, Deloitte & Touche, have audited the Financial Statements and their unqualified report appears on page 43.

The Directors are responsible for the Company's system of internal control, which includes internal financial controls, that are designed to provide reasonable, not absolute, assurance against material misstatements and loss. The Company maintains internal financial controls to provide assurance regarding:

- ⊕ the safeguarding of assets against unauthorised use or disposition; and
- ⊕ the maintenance of proper accounting records and the reliability of financial information within the business and for publication.

The controls contain mechanisms to identify deficiencies, and corrective action is taken as deficiencies are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention or the overriding of controls. An effective system of internal control, therefore, aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, financial statement presentation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

## Approval of the Annual Financial Statements

The Annual Financial Statements for the year ended 31 December 2007 set out on pages 4 to 42 have been approved and authorised for issue by the Board of Directors and are signed on its behalf by:



**Mr. L. van Wyk**  
Chairman



**Mr. P. Temple**  
Managing Director

**Cape Town**  
**11 March 2008**

# Report of the Statutory Actuary

## Report of the Statutory Actuary to the member of General Reinsurance Africa Limited

### 1. Financial soundness

I have conducted an actuarial review of the Life and Health business of General Reinsurance Africa Limited, the results of which are summarised below, in accordance with the applicable Actuarial Society of South Africa Professional Guidance Notes. These principles require reasonable provision for future outgo under policies, generally based on the assumption that current conditions will continue. Provision is therefore not made for all possible contingencies. I have accepted that the Financial Statements comply with the requirements of the Companies Act and the Long-term Insurance Act.

<b>Actuarial balance sheet</b>	<u>Notes</u>	<u>2007</u> R'000	<u>2006</u> R'000
<b>Published reporting basis</b>			
Total value of insurance and other assets		1 361 573	1 044 917
Value of policy liabilities retroceded		5 357	10 071
Total value of assets as per balance sheet	2	1 366 930	1 054 988
<hr/>			
Total value of liabilities		1 150 899	859 118
Value of policy liabilities	3	863 933	671 750
Current and other liabilities as per balance sheet		286 966	187 368
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Excess of life assets over liabilities		216 031	195 870
<hr/>			
<b>Statutory basis</b>			
Total value of insurance and other assets		1 361 573	1 044 917
Value of policy liabilities retroceded		5 357	10 071
Insurance and other assets disallowed			-
Total value of allowed assets		1 366 930	1 054 988
<hr/>			
Total value of liabilities		1 150 899	859 118
Value of policy liabilities	3	863 933	671 750
Current and other liabilities as per balance sheet		286 966	187 368
<hr/>			
Excess of life assets over liabilities		216 031	195 870
<hr/>			
Capital Adequacy Requirement (CAR)	4	70 765	64 445
<hr/>			
Ratio of Excess Assets to CAR		3.1	3.0

## Analysis of change in excess assets over the reporting period

	<b>2007</b> R'000	<b>2006</b> R'000
Excess assets at the start of the reporting period	195 870	209 289
Excess assets at the end of the reporting period	216 031	195 870
<b>Change in excess assets over the reporting period</b>	<b>20 161</b>	<b>-13 419</b>

### This change in excess of assets is due to the following factors:

Gross investment return on free assets	13 416	12 765
Excess investment return on actuarial liabilities	33 804	25 966
Tax	-42 490	-47 013
Change in valuation basis and methodology	4 039	13 176
Release of planned margins over the year	9 566	8 568
Operational earnings (mortality and expense profits)	61 826	28 119
<b>Total earnings</b>	<b>80 161</b>	<b>41 581</b>
Dividend paid	-60 000	-55 000
Capital raised	-	-
<b>Total change in excess assets</b>	<b>20 161</b>	<b>-13 419</b>

## Reconciliation to reported earnings

Total earnings as per above table	80 161	41 581
Reported earnings in annual Financial Statements	104 743	61 949
Difference	24 582	20 368

The difference is due to the change in unrealised investment gains reflected directly in the Statement of Changes in Equity.

## Certification of financial position

I hereby certify that:

- ⊕ the valuation of the Company as at 31 December 2007, the results of which are summarised above, has been produced in accordance with the Actuarial Society of South Africa's Professional Guidance Note 104;
- ⊕ the Statutory Actuary's report has been produced in accordance with the Actuarial Society of South Africa's Professional Guidance Note 103;
- ⊕ this Statutory Actuary's report, read together with the annual Financial Statements, fairly presents the financial position of the Company as at the valuation date; and
- ⊕ the Company was financially sound as at the valuation date, and, in my opinion, is likely to remain financially sound for the foreseeable future.

## **2. Valuation basis of assets**

Investments were stated at balance sheet values as described in Note 1.6 to the Annual Financial Statements. This is consistent with the basis used for policy liabilities.

## **3. Valuation basis of policy liabilities**

The valuation was performed using the Financial Soundness Valuation method and was conducted in accordance with the requirements of the Long-term Insurance Act, 1998. Assumptions regarding the future were on a best estimate basis plus further allowance for statutory planned margins as required by Professional Guidance Note 104 of the Actuarial Society of South Africa (PGN104). Appropriate allowance has been made for the expected impact of AIDS by increasing the assumptions for mortality and morbidity in line with current industry models. A gross discount rate of 8.5% p.a. for PHI Claims in Payment liabilities, and 8.00% p.a. for all other liabilities (2006 – 8.50% and 7.50% respectively) has been used.

For individual policies reinsured on an original terms basis, policy liabilities were determined as the present value of expected future claims and expenses less the present value of expected future premiums. Assumptions in respect of future mortality, morbidity, expenses and lapse rates were based on the results of recent experience investigations and assume continuation of this experience. Future inflation of expenses was assumed to be 5.5% p.a. Tax was allowed for assuming continuation of current life office taxation. No allowance was made for possible future effects of Capital Gains Tax due to the nature of the assets held at the valuation date.

For risk premium business in respect of death, health, dread disease and disability benefits the liability was taken as an appropriate IBNR reserve plus the unexpired risk portion of the retained premium.

Implicit second tier margins are included in IBNR and UPR reserves equal to the profits expected on the premium rating basis.

## **4. Capital Adequacy Requirement**

The Capital Adequacy Requirement (CAR) was calculated to determine whether the excess of assets over liabilities is sufficient to provide for the possibility of severely negative future experience. The calculation was as required by the Long-term Insurance Act, 1998. The following main assumption was used to calculate the investment resilience CAR:

- ✚ A decline of 5.0% in fixed interest asset values, as a result of a 25% increase in fixed interest yields, will occur, in accordance with PGN104.

For 2007 the grossing up factor for the intermediate ordinary Capital Adequacy Requirement (IOCAR) to determine the ordinary Capital Adequacy Requirements (OCAR) is 99.6%.

The OCAR exceeded the termination Capital Adequacy Requirement (TCAR), and thus the Capital Adequacy Requirement has been based on the OCAR. No management action was assumed in the capital adequacy calculation.

A requirement of R70.8 million (prior year R64.4 million) has been established. The assets backing CAR are held in short-term bonds, especially the R195 maturing in 2008. The excess of assets over liabilities is 3.1 times (prior year 3.0) CAR on the Statutory Valuation Method.

## 5. Experience investigations

The following experience investigations were performed:

Business Unit	Type of investigation	Period of investigation
Individual Life	Mortality (excluding MDB)	01/01/1999 to 31/12/2007
	MDB mortality	01/01/1999 to 31/12/2007
	Dread disease incidence rates	01/01/1999 to 31/12/2007
	Capital Disability incidence rates	01/01/1999 to 31/12/2007
	Persistency	01/01/1999 to 31/12/2007
Group Life	Mortality	Ongoing for the purpose of setting scheme rates.
	Capital Disability incidence rates	
	PHI incidence rates	
Health	Incidence rates	Ongoing for the purpose of setting reinsurance rates.
	Cost of benefits	
All	Expenses	For all business units the expense assumptions are reviewed on an annual basis.

## 6. Material changes in valuation basis since the previous report

The investment return assumption was increased from 7.50% to 8.00% p.a. for assets backing policyholder liabilities excluding PHI Claims in Payment reserves. Planned margins were allowed for in the calculation of the Premium Deficiency reserve. This resulted in a total non-recurring decrease in liabilities of R4.04 million.



**Mr. P. L. Lewis, BBusSc, F.I.A., F.A.S.S.A**  
Statutory Actuary



**Mr. L.J. Rossouw, B. Comm (Hons.), F.I.A., F.A.S.S.A**



**Ms. L. C. McLaren, BBusSc, F.F.A., F.A.S.S.A.**

**Cape Town**  
**11 March 2008**

# Certificate of the Company Secretary

I, Herman Beukes, in my capacity as company secretary of General Reinsurance Africa Limited hereby certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies all such returns as are required in terms of section 268 G (d) of the Companies Act 1973, as amended, and that all such returns are true, correct and up to date.



**Mr. H. Beukes**  
Company Secretary  
**Cape Town**  
**11 March 2008**

# Report on Corporate Governance

The Company is fully committed to the principles of the code of corporate practices and conduct as set out in the King Committee Report on Corporate Governance.

In supporting the code, the Directors recognise the need to conduct the Company with integrity and in accordance with generally accepted corporate practices.

As a result of the Company's ownership structure, not all the recommendations of the King Code are applicable and practical.

Notwithstanding the aforementioned, the Directors of General Reinsurance Africa Limited are of the opinion that the Company has complied with the spirit and principles of the Code and has applied in all material respects the requirements of the Code with regard to the year under review.

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## Board of Directors

The Board meets regularly to monitor operational and financial performance and management, to ensure integrity of the Company's risk management and internal controls and to ensure that the delegated responsibilities are implemented. Directors' interests in other boards and contracts are regularly declared and recorded.

All Directors are entitled to seek independent professional advice about the Company's affairs at the Company's expense.

The Board and Audit Committee met four times during the year.

Attendance of Board and Audit Committee Meetings:

	<b>Board Meetings attended</b>	<b>Audit Committee meetings attended</b>	<b>Change in Directorship</b>
Dr. W. Droste # \$	2	2	No change
R. Isringhaus # \$	1	0	Resigned 30/06/2007
Dr. W. Heinen # \$	1	1	Appointed 1/07/2007
H. Meyer \$	4	4	No change
S. Moloko \$	4	4	No change
P. Temple *	4	4	No change
L. van Wyk (chairman) \$	4	4	No change

\$ Audit Committee member

# Dr. W. Heinen and Dr. W. Droste are representatives of the shareholder and are both employed within the Gen Re Group. Only one representative is required to be present at any specific meeting. Per arrangement they alternate their attendance at Board meetings.

\* Attended Audit Committee meetings by invitation.

Board Changes:

Mr. R. Isringhaus resigned from the Board and the company on 30 June 2007. Dr. W. Heinen was appointed to the Board on 1 July 2007. He replaced Mr. R. Isringhaus as Head of Life/Health International of the Gen Re group and is based in Germany.

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## **Audit Committee**

The chairman of this committee, Mr. S. Moloko, is an independent non-executive director. The Audit Committee functions in terms of a written mandate approved by the Board.

The Audit Committee considers the annual Financial Statements of the Company including the results of operations and changes in equity and cash flows which are prepared in accordance with International Financial Reporting Standards and the Companies Act and recommends the approval of the annual Financial Statements to the Board as well as other functions as prescribed by the Audit Committee charter.

The Audit Committee also reviews and considers the results of the actuarial valuation.

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## **Risk Management**

Risk management can be defined as the identification and evaluation of the actual and potential risk areas as they pertain to the Company, followed by a process of either termination, transfer, acceptance or mitigation of each risk.

The Risk Management Programme is designed to assist in the identification, assessment and management of the risks faced by the Company. The Audit Committee reviews risks identified and monitored in terms of this programme biannually.

Management is continuously developing and enhancing the control procedures to improve the mechanisms for identifying and monitoring risks.

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## **Ethical Standards**

Integrity is the cornerstone of the Company's corporate culture and is at the core of the Company's Code of Business Conduct. The Code sets forth the guidelines for conducting the Company's business the right way and describes the Company's responsibilities towards its owner, clients, the public and each other. The General Re Corporation Code of Business Conduct applies to all offices and employees of the Company.

On joining the Company, each employee formally signs an acknowledgement that the Code has been read and the contents fully understood. The Directors regard the Code as an important part of good corporate governance.

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## **Remuneration of Directors**

Directors are remunerated at market related levels, adjusted to the context of the Company as a wholly owned subsidiary.

Non-executive Directors' remuneration is determined by the Remuneration Committee and approved by the Board. The Executive Director's remuneration is determined in accordance with the Gen Re global policy and practice. The Group Chief Executive Officer (CEO) ultimately approves all forms of remuneration. Executive Director's remuneration comprises a guaranteed remuneration package and a performance-linked bonus.

The Company does not remunerate non-independent non-executive Directors. The independent non-executive Directors' remuneration comprises a guaranteed remuneration package, subject to annual review.

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## **Employment Equity**

The Company is committed to the policy of equal employment opportunity and acts in accordance with the Employment Equity Act, 55 of 1998. The Company's policy seeks to ensure equal employment and advancement opportunity for all qualified individuals without distinction or discrimination in respect of race, religion, gender, age, sexual orientation or any other unlawful basis.

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## **Financial Sector Charter**

The Company is fully committed to the spirit of the Charter and Management reports regularly to the Board on progress made on specific measured criteria in terms of the Charter.

# Report of the Audit Committee

## Background

Although the Corporate Laws Amendment Act (the Act) has only become effective on 14 December 2007, the committee has, during the year under review, commenced with the implementation of some of its requirements. The committee intends to amend its charter in order to be fully compliant with the Act during 2008.

The committee's operation is guided by a detailed charter that is informed by the Act and is approved by the Board as and when it is amended.

## Purpose

The purpose of the committee is:

- ✦ to assist the Board in discharging its duties relating to safeguarding of assets, the operation of adequate systems, control and reporting processes and the preparation of accurate reporting and financial statements in compliance with the applicable legal requirements and accounting standards.
- ✦ To provide a forum for discussing business risk and control issues for developing recommendations for consideration by the Board.
- ✦ To oversee the activities of internal and external audit; and
- ✦ To perform duties that are attributed to it by the Act.

## Membership

During the course of the year the membership of the committee included non-independent and independent non-executive directors. The membership will be amended in terms of the committee's charter to be compliant with the Act in 2008. Refer to page 1 of the Annual Report for a list of members.

## External audit

The committee has satisfied itself through enquiry that the auditor of General Reinsurance Africa Limited is independent as defined by the Act.

The committee, in consultation with the executive management, agreed to an audit fee for the 2007 financial year audit. The fee is considered appropriate for the work that could reasonably have been foreseen at that time. Audit fees are disclosed in note 14 to the financial statements.

There is a formal process procedure that governs the process whereby the auditor is considered for non-audit services, and each engagement letter for such work is reviewed by the committee.

When requested, meetings are held with the auditor where management is not present, and no matters of concern were raised.

## Annual financial statements

The committee has recommended the financial statements for approval to the Board. The Board has subsequently approved the financial statements which will be open for discussion at the forthcoming annual general meeting.



**Mr. S. Moloko**

Chairman of the Audit Committee

**Cape Town**  
**11 March 2008**

# Report of the Directors

Your Directors submit herewith their fortieth annual report and audited financial statements for the year ended 31 December 2007.

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## Nature of Business

The people working for Gen Re are responsible for providing professional reinsurance services to the corporation's clients in all classes of reinsurance business in a manner consistent with global best practice.

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## Financial Strength

General Reinsurance Africa Limited remains the only locally registered reinsurer with a Standard & Poor's AAA rating. This is backed by a parental guarantee. As part of the Berkshire Hathaway group, with capital and surplus of US\$119.9 billion, we have an unmatched ability to withstand unexpected events and stand by our commitments to our clients.

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## Dividends

The Company paid dividends of R60 million to our shareholder during the year and ended the year on a Life ratio of excess assets to CAR of 3.1.

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## Non-Life overview

Gross premium written has increased marginally by 1.85% during the current period to R70.3 million.

Facultative business lines remained very profitable during 2007. Gross underwriting profits of R27.8 million were reported in the current year. Treaty business showed a significant improvement in results in 2007 with underwriting profits of R6.1 million on a gross and net basis.

All business is written on a direct, non-proportional basis.

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## Life overview

Life business showed an even higher growth rate than in 2006. Underwriting profitability further improved and gross premium volume was boosted by 32.8% to R905.4 million.

The underwriting performance delivered an excellent result due to favourable mortality and morbidity experience.

A significant element of our business philosophy is to underwrite risk at the right price. It is through consistent underwriting discipline that we are able to produce the profits as again seen during the current financial year.

The Directors expect profitable growth to continue in 2008.

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## **Share Capital**

The authorised and issued share capital remains unchanged at 4 000 000 ordinary shares of R1 each.

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## **Post Balance Sheet Events**

The Directors are not aware of any matters or circumstances arising since the end of the financial year, not otherwise dealt with in the annual Financial Statements, which significantly affect the financial position of the Company or the results of its operations.

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## **Directors and Secretary**

A new appointment was made during the year. Dr. W. Heinen replaced Mr. R. Isringhaus on 1 July 2007. Directors in office during the year appear on page 1.

The details of the change in Company Secretary appear on page 2.

No contracts involving Directors were entered into in the current year.

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## **Holding Company**

The Company's holding company is Kölnische Rückversicherungs-Gesellschaft AG, which is incorporated in Germany. The Company's ultimate holding company is Berkshire Hathaway Incorporated, which is incorporated in the USA.

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## **Taxation**

The Company has assessable losses for taxation in the Individual Policyholder Fund and the Corporate Policyholder Fund in respect of its Life business. Deferred taxation assets have not been raised as the losses are not likely to be utilised in the medium term. Details are disclosed in notes 5 and 15 to the Financial Statements.

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## **General**

It is again a pleasure to record our sincere appreciation to our clients who have supported the Company throughout the year.

The efforts of staff and management, who have worked with dedication, are much appreciated.

# Balance Sheets as at 31 December 2007

		LIFE		NON-LIFE		TOTAL	
Notes	2007 R'000	2006 R'000	2007 R'000	2006 R'000	2007 R'000	2006 R'000	
<b>Assets</b>							
<b>Non-current assets</b>							
	<b>1 084 950</b>	<b>493 833</b>	<b>294 076</b>	<b>254 665</b>	<b>1 379 026</b>	<b>748 498</b>	
Property and equipment	3 870	590	126	45	996	635	
Deferred taxation	5 9 962	716	20 882	20 350	30 844	21 066	
Long-term retrocession assets	7 -	146	9 124	-	9 124	146	
Available for sale investments	4 1 074 118	492 381	263 944	234 270	1 338 062	726 651	
<b>Current assets</b>							
	<b>281 980</b>	<b>561 155</b>	<b>47 838</b>	<b>63 747</b>	<b>329 818</b>	<b>624 902</b>	
Short-term retrocession assets	7 8 360	16 295	21 573	27 639	29 933	43 934	
Amounts due by cedants	160 260	116 942	22 135	19 533	182 395	136 475	
Other receivables	31 691	16 706	9 707	8 220	41 398	24 926	
Taxation	7 091	-	9 742	7 565	16 833	7 565	
Short term investment deposits	-	389 174	-	-	-	389 174	
Inter-divisional clearing account	17 732	2 587	-17 732	-2 587	-	-	
Bank balances	56 846	19 451	2 413	3 377	59 259	22 828	
<b>Total Assets</b>							
	<b>1 366 930</b>	<b>1 054 988</b>	<b>341 914</b>	<b>318 412</b>	<b>1 708 844</b>	<b>1 373 400</b>	
<b>Equity and Liabilities</b>							
<b>Capital and reserves</b>							
	<b>216 031</b>	<b>195 870</b>	<b>107 238</b>	<b>76 884</b>	<b>323 269</b>	<b>272 754</b>	
Issued capital	6 1 000	1 000	3 000	3 000	4 000	4 000	
Investment reserve	16 852	41 097	8 143	9 190	24 995	50 287	
Contingency reserve	-	-	3 772	4 076	3 772	4 076	
Accumulated profit	198 179	153 773	92 323	60 618	290 502	214 391	
<b>Non-current liabilities</b>							
	<b>404 105</b>	<b>317 925</b>	<b>98 089</b>		<b>502 194</b>	<b>317 925</b>	
Long-term technical reserves	7 399 988	315 847	98 089	-	498 077	315 847	
Funds held under retrocession treaties	4 117	2 078	-	-	4 117	2 078	
<b>Current liabilities</b>							
	<b>746 794</b>	<b>541 193</b>	<b>136 587</b>	<b>241 528</b>	<b>883 381</b>	<b>782 721</b>	
Short-term technical reserves	7 627 893	456 583	100 377	217 178	728 270	673 761	
Taxation	-	5 233	-	-	-	5 233	
Amounts due to cedants	96 696	58 695	2 811	3 648	99 507	62 343	
Amounts due to group companies	8 13 956	12 266	30 376	18 872	44 332	31 138	
Other provisions	9 7 968	7 512	1 549	1 291	9 517	8 803	
Other payables	281	904	1 474	539	1 755	1 443	
<b>Total Equity and Liabilities</b>							
	<b>1 366 930</b>	<b>1 054 988</b>	<b>341 914</b>	<b>318 412</b>	<b>1 708 844</b>	<b>1 373 400</b>	

# Income Statements for the year ended 31 December 2007

	Notes	LIFE		NON-LIFE		TOTAL	
		2007 R'000	2006 R'000	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Gross written premium		905 416	681 571	65 911	69 046	971 327	750 617
Retrocession premium		-45 393	-45 317	-32 602	-28 290	-77 995	-73 607
<b>Net written premium</b>		<b>860 023</b>	<b>636 254</b>	<b>33 309</b>	<b>40 756</b>	<b>893 332</b>	<b>677 010</b>
Change in net unearned premium							
Gross amount		-4 189	-4 666	-2 534	12 967	-6 723	8 301
Retrocession share		-4 535	393	1 464	-23	-3 071	370
<b>Net earned premium</b>	10	<b>851 299</b>	<b>631 981</b>	<b>32 239</b>	<b>53 700</b>	<b>883 538</b>	<b>685 681</b>
Interest income		96 137	66 967	23 759	21 260	119 896	88 227
Other investment income	11	-	9 660	-	422	-	10 082
<b>Total income</b>		<b>947 436</b>	<b>708 608</b>	<b>55 998</b>	<b>75 382</b>	<b>1 003 434</b>	<b>783 990</b>
Gross claims	12	692 482	522 088	455	56 119	692 937	578 207
Retrocession claims recovered	12	-21 551	-7 689	-1 609	1 354	-23 160	-6 335
Gross commission	13	99 292	52 888	-373	153	98 919	53 041
Retrocession commission recovered	13	-1 400	1 452	-4 547	-5 117	-5 947	-3 665
Management expenses	14	30 439	31 217	9 318	7 001	39 757	38 218
Interest paid on underwriting balances		1 503	252	578	721	2 081	973
Currency fluctuations		77	53	293	304	370	357
<b>Total expenses</b>		<b>800 842</b>	<b>600 261</b>	<b>4 115</b>	<b>60 535</b>	<b>804 957</b>	<b>660 796</b>
<b>Profit before taxation</b>		<b>146 594</b>	<b>108 347</b>	<b>51 883</b>	<b>14 847</b>	<b>198 477</b>	<b>123 194</b>
<b>Taxation</b>	15	<b>41 851</b>	<b>46 398</b>	<b>15 064</b>	<b>4 191</b>	<b>56 915</b>	<b>50 589</b>
Shareholder's fund		41 787	42 683	15 064	4 191	56 851	46 874
Policyholders' funds		64	3 715	-	-	64	3 715
<b>Net profit after taxation</b>		<b>104 743</b>	<b>61 949</b>	<b>36 819</b>	<b>10 656</b>	<b>141 562</b>	<b>72 605</b>

# Statements of Changes in Equity for the year ended 31 December 2007

Notes	Available for sale				Total
	Issued capital	investment reserve	Contingency reserve	Accumulated profit	
	R'000	R'000	R'000	R'000	R'000
<b>LIFE</b>					
<b>Balance as at 31 December 2005</b>	<b>1 000</b>	<b>61 465</b>	-	<b>146 824</b>	<b>209 289</b>
Net profit after taxation	-	-	-	61 949	61 949
Dividends	-	-	-	-55 000	-55 000
Unrealised losses (Net of deferred CGT)	-	-20 368	-	-	-20 368
<b>Balance as at 31 December 2006</b>	<b>1 000</b>	<b>41 097</b>	-	<b>153 773</b>	<b>195 870</b>
Net profit after taxation	-	-	-	104 743	104 743
Dividends	-	-	-	-60 000	-60 000
Transfer	-	337	-	-337	-
Unrealised losses (Net of deferred CGT)	-	-24 582	-	-	-24 582
<b>Balance as at 31 December 2007</b>	<b>1 000</b>	<b>16 852</b>	-	<b>198 179</b>	<b>216 031</b>
<b>NON-LIFE</b>					
<b>Balance as at 31 December 2005</b>	<b>3 000</b>	<b>15 052</b>	<b>3 532</b>	<b>50 506</b>	<b>72 090</b>
Net profit after taxation	-	-	-	10 656	10 656
Transfer to contingency reserve	-	-	544	-544	-
Unrealised losses (Net of deferred CGT)	-	-5 862	-	-	-5 862
<b>Balance as at 31 December 2006</b>	<b>3 000</b>	<b>9 190</b>	<b>4 076</b>	<b>60 618</b>	<b>76 884</b>
Net profit after taxation	-	-	-	36 819	36 819
Transfer from contingency reserve	-	-	-304	304	-
Transfer	-	5 418	-	-5 418	-
Unrealised losses (Net of deferred CGT)	-	-6 465	-	-	-6 465
<b>Balance as at 31 December 2007</b>	<b>3 000</b>	<b>8 143</b>	<b>3 772</b>	<b>92 323</b>	<b>107 238</b>

# Cash Flow Statements for the year ended 31 December 2007

Note	LIFE		NON-LIFE		Total	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>Cash generated from operations</b>						
Net profit after taxation	104 743	61 949	36 819	10 656	141 562	72 605
Adjustments for:						
Change in technical reserves and retrocession assets	263 532	197 224	-21 770	38 613	241 762	235 837
Change in funds held under retrocession treaties	2 039	-4 556	-	-	2 039	-4 556
Change in amounts due to/from cedants and group companies	-4 144	-5 831	8 101	-19 898	3 957	-25 729
Other changes in assets and liabilities	-35 165	4 293	16 622	-12 959	-18 543	-8 666
Realised gains on disposal of investments	-	-9 660	-	-422	-	-10 082
Provision for taxation	41 851	46 398	9 094	4 191	50 945	50 589
Amortisation cost	19 849	876	5 681	3 211	25 530	4 087
Interest earned	-96 137	-66 967	-23 759	-21 260	-119 896	-88 227
Interest incurred	1 503	1 784	578	721	2 081	2 505
Depreciation on property and equipment	229	297	80	138	309	435
	<b>298 300</b>	<b>225 807</b>	<b>31 446</b>	<b>2 991</b>	<b>329 746</b>	<b>228 798</b>
<b>Cash flows from operating activities</b>						
Cash generated from operations	298 300	225 807	31 446	2 991	329 746	228 798
Interest received	100 540	65 945	26 860	26 478	127 400	92 423
Interest paid	-986	-1 756	-614	-1 164	-1 600	-2 920
Normal taxation paid	-62 956	-38 669	-16 675	-6 000	-79 631	-44 669
<i>Net cash inflow from operating activities</i>	<b>334 898</b>	<b>251 327</b>	<b>41 017</b>	<b>22 305</b>	<b>375 915</b>	<b>273 632</b>
<b>Cash flows from investing activities</b>						
Purchases of equipment	-509	-212	-161	-51	-670	-263
Net purchases of investments	-236 994	-185 051	-41 820	-29 953	-278 814	-215 004
<i>Net cash outflow from investing activities</i>	<b>-237 503</b>	<b>-185 263</b>	<b>-41 981</b>	<b>-30 004</b>	<b>-279 484</b>	<b>-215 267</b>
<b>Cash flows from financing activities</b>						
Dividends paid	-60 000	-55 000	-	-	-60 000	-55 000
<i>Net cash outflows from financing activities</i>	<b>-60 000</b>	<b>-55 000</b>	<b>-</b>	<b>-</b>	<b>-60 000</b>	<b>-55 000</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>37 395</b>	<b>11 064</b>	<b>-964</b>	<b>-7 699</b>	<b>36 431</b>	<b>3 365</b>
Cash and cash equivalents at the beginning of the year	19 451	8 387	3 377	11 076	22 828	19 463
<b>Cash and cash equivalents at the end of the year</b>	<b>56 846</b>	<b>19 451</b>	<b>2 413</b>	<b>3 377</b>	<b>59 259</b>	<b>22 828</b>

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# Notes to the Annual Financial Statements

## 31 December 2007

### 1 Accounting policies

#### 1.1 General Information

Gen Re is a limited liability company incorporated in South Africa. The principal activities of Gen Re involve the reinsurance of Life and Non-Life insurance risks such as those associated with death, disability, health, property and liability. The Company's range of products is offered to the Southern African market. The addresses of the Company's registered office and places of business are disclosed on page 2 of the Annual Report.

#### 1.2 Adoption of new and revised standards

In the current year, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has not resulted in any changes to the Company's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

	<b>Effective for annual periods beginning on or after</b>
IFRS 8 Operating segments	1 January 2009
IFRS 3 Business Combinations	To be announced

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

#### 1.3 Basis of preparation

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) and applicable legislation. The Financial Statements have been prepared on the historical cost basis, except for the revaluation of financial instruments per note 1.5.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in note 7.

The Financial Statements are presented in South African Rands. All amounts in the notes are shown in thousands of Rands, rounded to the nearest thousand, unless otherwise stated. The following principal accounting policies are incorporated in the Financial Statements and have been consistently applied to all the years presented.

#### 1.4 Foreign currency transactions

Transactions in foreign currencies are accounted for at the rate of exchange ruling on the date of the transactions. Gains and losses arising from the settlement of such transactions are recognised in the income statement. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Realised and unrealised differences on monetary assets and liabilities are recognised in the income statement in the period in which they occur.

## 1.5 Financial instruments

**Recognition:** The company recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract not exempt from the scope of IAS 39.

**Derecognition:** The company derecognises a financial asset when the contractual rights to the cashflows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

**Financial assets:** The Company's principal financial assets are fixed interest and index linked gilts, deposits with financial institutions, receivables, amounts due by cedants and bank balances. Receivables and amounts due from cedants are initially recognised at fair value and subsequently measured at amortised cost. The particular recognition and valuation methods adopted at the date of the transaction are disclosed in the individual policy statements associated with each item.

**Financial liabilities:** Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include cedant and inter-company payables and outstanding claims. Financial liabilities are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. The particular recognition and valuation methods adopted are disclosed in the individual policy statements associated with each item.

## 1.6 Investments

Investments are classified as available for sale and are initially recognised at fair value including transaction costs. After initial recognition investments are measured at their fair value with reference to an active market, without any deduction for transaction costs that may be accrued for on sale or disposal.

## 1.7 Investment reserve and market value fluctuations

Realised gains and losses on available for sale financial assets are included in net profit or loss for the period. Unrealised gains and losses arising from changes in the fair value of available for sale financial assets that are measured at fair value subsequent to initial recognition are included in equity with transfers to the distributable reserves once realised. Unrealised gains and losses are stated after adjustments for deferred capital gains tax.

## 1.8 Property and equipment

Property and equipment comprises motor vehicles, computer hardware and software, furniture and fittings and office equipment, which are depreciated on the straight line basis over their estimated useful lives and are stated at historical cost less accumulated depreciation. Historical cost includes expenditure, which is directly attributable to the acquisition of the items. Property and equipment is depreciated as follows:

Motor vehicles:	5 years
Computer hardware:	3 years
Computer software:	2 years
Furniture and fittings:	6 years
Office equipment:	5 years

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

## **1.9 Premium income**

Premium income, including renewal premium income, is brought to account at the inception date of a contract for both gross premiums and premiums retroceded. Premiums are shown before the deduction of commissions. Estimates are made if a reasonable basis exists in cases where actual amounts have not yet been notified. Non-Life premium income is shown net of VAT.

Unearned premium reserves are set up when the risk attributable to premiums written extends over more than one financial period. These reserves are released over the duration of the attributable cover provided on a straight-line basis.

Notified policy lapses are not recorded as premium income.

## **1.10 Commissions**

Commissions are accounted for on the same basis as premium income. Profit commissions are accounted for based on underlying contractual obligations.

## **1.11 Claims**

Claims are accounted for on notification from the ceding company for both gross claims and claims retroceded. Non-Life claims are shown net of VAT and no discounting is applied other than disability claims in payment. Provision is made for estimated claims on a gross basis as well as claims retroceded in respect of:

- claims notified but not settled at the end of the year, and
- claims incurred during the financial year but not yet reported at year-end.

## **1.12 Investment income**

Investment income comprises interest and realised gains on the sale of investments. Interest income is recognised on the accrual basis using the effective interest rate method.

## **1.13 Contingency reserve**

A contingency reserve for catastrophes is provided as required by the Short-term Insurance Act. Transfers to and from this reserve are treated as appropriations between distributable and non-distributable reserves.

## **1.14 Deferred taxation**

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

Deferred taxation assets are recognised only to the extent that it is probable that future taxable profits will be available against which the unused taxation losses and credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred taxation assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred taxation is charged or credited to profit or loss, except where it relates to items charged directly to equity, in which case the deferred taxation is also dealt with in equity.

#### **1.14 Deferred taxation**

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current taxation assets and liabilities on a net basis.

Deferred Capital Gains Taxation is provided for at the current Capital Gains Taxation rates based on the unrealised gains on investments.

#### **1.15 Retirement benefit costs**

Payments to the Company's hybrid fund are charged as an expense in the income statement as they fall due. The Company has no further payment obligations once the contributions have been paid. The Company's defined benefit retirement section is closed to new members with two members remaining.

#### **1.16 Post retirement benefits other than pensions**

The expected cost of post retirement benefits, other than pensions, is charged against income to spread the cost over the service lives of employees entitled to these benefits.

Post retirement benefits consist of a contribution towards medical aid premiums for all staff employed by the Company before 30 November 2000. There are currently four employees that qualify for this benefit and six ex-employees that are receiving the benefit on a month-to-month basis.

#### **1.17 Offsetting**

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

#### **1.18 Provisions**

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

#### **1.19 Technical reserves**

**Life:** The liabilities under unmatured policies are computed annually at the balance sheet date by the Company's Statutory Actuary in accordance with prevailing legislation and in accordance with Professional Guidance Notes issued by the Actuarial Society of South Africa. The method utilised as described meets the requirements as set out in IFRS 4: Insurance Contracts to determine the adequacy of insurance liabilities. Technical reserves include actuarial reserves, outstanding claims, the provision for incurred but not reported (IBNR) claims and unearned premiums.

Reserves are calculated based on actual policyholder data for individual life business and actual experience as reported by cedants for group business.

**Non-Life:** The liabilities under unmatured policies are computed annually at the balance sheet date. A valuation of the liabilities are performed to ensure that liabilities as stated are adequate to meet current insurance obligations. Liabilities are raised based on future cash flow requirements needed to meet the current obligations. The method utilised as described meets the requirements as set out in IFRS 4: Insurance Contracts to determine the adequacy of insurance liabilities. Technical reserves include outstanding claims, the provision for incurred but not reported (IBNR) claims and unearned premiums.

Reserves are calculated based on actual experience per product line for each Non-Life business line.

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling, administration expenses and investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by subsequently establishing a provision for losses arising from liability adequacy tests.

#### **1.20 Cash flows**

For the purposes of the Cash Flow Statement, cash and cash equivalents include cash at bank and the cash float.

#### **1.21 Leased assets**

Leases for which the lessor effectively retains the risks and benefits of ownership are classified as operating leases. Obligations incurred under operating leases are charged to the revenue account in equal instalments over the period of the lease.

#### **1.22 Classification of insurance and investment contracts**

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

#### **1.23 Impairment**

At each balance sheet date, where there is objective evidence, the Company assesses financial assets for impairment. Impairment is an event that occurs after initial recognition and the loss event has an impact on the estimated future cash flows of the financial asset. A significant prolonged decline in the fair value of the financial asset indicates impairment. An impairment assessment is first performed on an individual asset basis, but if no indication occurs a group of assets with similar credit risk characteristics are collated and reassessed for impairment.

The impairment charge is the difference between the current and previously reported fair value. The impairment charge is recorded directly in the income statement.

#### **1.24 Retrocession contracts held**

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

The Company assesses its retrocession assets for impairment on a quarterly basis. If there is objective evidence that the retrocession asset is impaired, the Company reduces the carrying amount of the retrocession asset to its recoverable amount and recognises that impairment loss in the income statement.

#### **1.25 Dividends**

Dividends payable are recognised as a liability in the period in which they are declared.

#### **1.26 Equity instruments**

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received.

## **2 Critical accounting estimates and judgements in applying accounting policies**

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### **Claims liability arising from long-term insurance contracts**

The estimation of the ultimate liability arising from claims made under life insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims. Estimates are made as to the expected number of deaths, disability and other claims for each of the years in which the Company is exposed to risk. The Company based these estimates on standard industry and national mortality and morbidity tables that reflect historical mortality and morbidity experience, adjusted where appropriate to reflect the Company's unique risk exposure. The estimated number of deaths and disabilities determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Uncertainty with regards to epidemics like AIDS, as well as wide ranging changes to life style, such as giving up smoking, becoming more health conscious, better exercise habits and improved medical care, could result in significant changes to future mortality and morbidity. These influences give rise to uncertainty in estimating the ultimate liability. A large part of the liability is shown as IBNR reserves, which would be expected to be paid out within a year. As a result the above influences will have less effect on the majority of the business.

Discounted cash flows are used to value disability claims in payment using appropriate industry tables and prescribed margins.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Estimates for future deaths, voluntary terminations, investment returns and administration expenses are determined at the inception of the contract and are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability.

### **Claims liability arising from short-term insurance contracts**

There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for claims arising from its property, liability and casualty business. Estimates are made as to the expected claims based on the minimum regulatory requirements, the Company's past experience over a 10 year period, future trends developed from past experience and globally developed underwriting tools. There is a degree of uncertainty over the ultimate liability. The majority of the liability is reflected as IBNR's of which the duration is uncertain. All property facultative business is retroceded to the Company's holding company.

### 3 Property and equipment

	LIFE		NON-LIFE	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>Cost</b>				
Computer hardware & software	1 732	1 514	582	565
Furniture & fittings	1 222	1 030	538	440
Office equipment	719	620	313	267
Motor vehicles	150	150	99	99
	<b>3 823</b>	<b>3 314</b>	<b>1 532</b>	<b>1 371</b>
<b>Accumulated depreciation</b>				
Computer hardware & software	1 410	1 283	599	565
Furniture & fittings	884	840	423	400
Office equipment	509	451	285	262
Motor vehicles	150	150	99	99
	<b>2 953</b>	<b>2 724</b>	<b>1 406</b>	<b>1 326</b>
<b>Carrying value</b>	<b>870</b>	<b>590</b>	<b>126</b>	<b>45</b>

The carrying value of the Company's property and equipment can be reconciled as follows:

#### 2007

#### LIFE

	Computer hardware & software R'000	Furniture & fittings R'000	Office equipment R'000	Motor vehicles R'000	Total R'000
Balance at beginning of the year	231	190	169	-	590
Additions	218	192	99	-	509
Depreciation	-127	-44	-58	-	-229
<b>Balance at end of the year</b>	<b>322</b>	<b>338</b>	<b>210</b>	<b>-</b>	<b>870</b>

#### NON-LIFE

Balance at beginning of the year	-	40	5	-	45
Additions	17	98	46	-	161
Depreciation	-34	-23	-23	-	-80
Change in category	17	-	-17	-	-
<b>Balance at end of the year</b>	<b>-</b>	<b>115</b>	<b>11</b>	<b>-</b>	<b>126</b>

### 3 Property and equipment (Continued)

2006 LIFE	Computer hardware	Furniture & fittings	Office equipment	Motor vehicles	Total
	software R'000	R'000	R'000	R'000	R'000
Balance at beginning of the year	232	229	214	-	675
Additions	132	39	41	-	212
Depreciation	-133	-78	-86	-	-297
<b>Balance at end of the year</b>	<b>231</b>	<b>190</b>	<b>169</b>	<b>-</b>	<b>590</b>
<b>NON-LIFE</b>					
Balance at beginning of the year	27	60	45	-	132
Additions	38	10	3	-	51
Depreciation	-69	-30	-39	-	-138
Change in category	4	-	-4	-	-
<b>Balance at end of the year</b>	<b>-</b>	<b>40</b>	<b>5</b>	<b>-</b>	<b>45</b>

### 4 Available for sale investments

	LIFE		NON-LIFE	
	<u>2007</u> R'000	<u>2006</u> R'000	<u>2007</u> R'000	<u>2006</u> R'000
<i>Listed</i>				
Government and public utility stock	1 074 118	492 381	263 944	234 270
	<b>1 074 118</b>	<b>492 381</b>	<b>263 944</b>	<b>234 270</b>

A schedule of investments is available for inspection at the Company's registered office. Government and public utility stock held as available for sale is valued at fair value. Old Mutual shares with a fair value of approximately ZWD3,910 million listed on the Zimbabwe Stock Exchange are reflected at a book and market value of nil as per the Directors' valuation as a restriction has been placed on the sale of these shares by the Zimbabwean government.

## 5 Deferred taxation

	LIFE		NON-LIFE	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Property and equipment	12	12	23	23
Sundry creditors and provisions	616	645	581	243
Unrealised gains on available for sale investments	525	59	1 275	178
Non-Life IBNR reserves	-	-	19 003	19 457
Assessable tax loss	8 809	-	-	449
<b>Deferred tax asset</b>	<b>9 962</b>	<b>716</b>	<b>20 882</b>	<b>20 350</b>

### Reconciliation of the movement in deferred taxation

Deferred tax asset at beginning of the year	716	-3 344	20 350	23 618
Increase (decrease) from prior year's temporary differences:				
Sundry creditors and provisions	-29	603	338	-219
Unrealised gains on government bonds	466	3 457	1 097	922
Non-Life IBNR reserves	-	-	-454	-4 420
Assessable tax loss	8 809	-	-449	449
Change in taxation rate	-	-	-	-
<b>Deferred tax asset</b>	<b>9 962</b>	<b>716</b>	<b>20 882</b>	<b>20 350</b>

There are unutilised tax losses of R203.4 million (2006: R183.6 million) in the Individual Policyholder Fund and R76.3 million (2006: R34.2 million) in the Corporate Policyholder Fund. A deferred tax asset has not been recognised, as due to the nature of tax legislation applicable to insurance companies, it is unlikely that these losses will be utilised in the medium term.

## 6 Issued capital

	LIFE AND NON-LIFE	
	2007 R'000	2006 R'000
Authorised and issued		
4 000 000 ordinary shares of R1 each	4 000	4 000

## 7 Technical reserves

	LIFE		NON-LIFE	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
<b>Gross</b>				
<b>Long-term reserves</b>	<b>399 988</b>	<b>315 847</b>	<b>98 089</b>	-
Actuarial reserves	143 788	133 671	-	-
Claims incurred but not reported (IBNR)	-	-	81 096	-
PHI reserves	256 200	182 176	-	-
Outstanding claims	-	-	16 993	-
<b>Short-term reserves</b>	<b>627 893</b>	<b>456 583</b>	<b>100 377</b>	<b>217 178</b>
Actuarial reserves	5 651	3 148	-	-
Claims incurred but not reported (IBNR)	338 072	250 475	-	88 079
Unearned premium reserves	72 606	68 418	15 050	12 516
PHI reserves	47 616	33 862	-	-
Outstanding claims	163 948	100 680	85 327	116 583
	<b>1 027 881</b>	<b>772 430</b>	<b>198 466</b>	<b>217 178</b>
<b>Retrocession</b>				
<b>Long-term reserves</b>	-	<b>146</b>	<b>9 124</b>	-
Actuarial reserves	-	146	-	-
Claims incurred but not reported (IBNR)	-	-	9 124	-
PHI reserves	-	-	-	-
Outstanding claims	-	-	-	-
<b>Short-term reserves</b>	<b>8 360</b>	<b>16 295</b>	<b>21 573</b>	<b>27 639</b>
Actuarial reserves	-	3	-	-
Claims incurred but not reported (IBNR)	3 176	3 204	2 446	16 091
Unearned premium reserves	2 182	6 718	12 814	11 350
PHI reserves	-	-	-	-
Outstanding claims	3 002	6 370	6 313	198
	<b>8 360</b>	<b>16 441</b>	<b>30 697</b>	<b>27 639</b>

### Reconciliation of reserves

#### Gross

Life	Actuarial reserves	PHI reserves	IBNR	UPR	Outstanding claims
	R'000	R'000	R'000	R'000	R'000
<b>Balance as at 31 December 2005</b>	<b>118 294</b>	<b>215 610</b>	<b>185 890</b>	<b>63 751</b>	<b>57 583</b>
Claims paid	-	-	-	-	-395 452
Claims notified	-	-	-	-	438 549
Change in reserve	18 525	428	64 585	4 667	-
<b>Balance as at 31 December 2006</b>	<b>136 819</b>	<b>216 038</b>	<b>250 475</b>	<b>68 418</b>	<b>100 680</b>
Claims paid	-	-	-	-	-441 220
Claims notified	-	-	-	-	504 488
Change in reserve	12 620	87 778	87 597	4 188	-
<b>Balance as at 31 December 2007</b>	<b>149 439</b>	<b>303 816</b>	<b>338 072</b>	<b>72 606</b>	<b>163 948</b>

## 7 Technical reserves (Continued)

Non-Life	IBNR	UPR	Outstanding claims
	R'000	R'000	R'000
<b>Balance as at 31 December 2005</b>	<b>103 737</b>	<b>25 483</b>	<b>51 809</b>
Claims paid	-	-	-7 003
Claims notified	-	-	71 777
Change in reserves	-15 658	-12 967	
<b>Balance as at 31 December 2006</b>	<b>88 079</b>	<b>12 516</b>	<b>116 583</b>
Claims paid	-	-	-21 701
Claims notified	-	-	7 438
Change in reserves	-6 983	2 534	-
<b>Balance as at 31 December 2007</b>	<b>81 096</b>	<b>15 050</b>	<b>102 320</b>

### Retrocession

Life	Actuarial reserves	PHI reserves	IBNR	UPR	Outstanding claims
	R'000	R'000	R'000	R'000	R'000
<b>Balance as at 31 December 2005</b>	<b>1 507</b>	<b>56 511</b>	<b>10 107</b>	<b>6 325</b>	<b>7 913</b>
Claims paid	-	-	-	-	-74 004
Claims notified	-	-	-	-	72 461
Change in reserve	-1 358	-56 511	- 6 903	393	-
<b>Balance as at 31 December 2006</b>	<b>149</b>	<b>-</b>	<b>3 204</b>	<b>6 718</b>	<b>6 370</b>
Claims paid	-	-	-	-	-12 544
Claims notified	-	-	-	-	9 176
Change in reserve	-149	-	-29	- 4 536	-
<b>Balance as at 31 December 2007</b>	<b>-</b>	<b>-</b>	<b>3 175</b>	<b>2 182</b>	<b>3 002</b>

Non-Life	IBNR	UPR	Outstanding claims
	R'000	R'000	R'000
<b>Balance as at 31 December 2005</b>	<b>17 163</b>	<b>11 373</b>	<b>1 567</b>
Claims paid	-	-	-1 087
Claims notified	-	-	-282
Change in reserves	- 1 072	-23	-
<b>Balance as at 31 December 2006</b>	<b>16 091</b>	<b>11 350</b>	<b>198</b>
Claims paid	-	-	-15
Claims notified	-	-	6 130
Change in reserves	-4 521	1 464	-
<b>Balance as at 31 December 2007</b>	<b>11 570</b>	<b>12 814</b>	<b>6 313</b>

## 7 Technical reserves (Continued)

### Assumptions

#### Life

Assumptions that have a significant impact on the measurement of actuarial reserves are interest rates and mortality and morbidity assumptions. The process used to determine these assumptions is as follows:

- the objective of the assumptions used to value technical reserves is to meet regulatory requirements at a minimum, but ultimately to reflect the actual result of insurance-related transactions.
- the source of the data used as inputs for the valuation is a combination of the Company's own statistics, industry statistics and cedant statistics.
- interest rates used are based on the current yield of bonds matching the duration of liabilities. Comparisons of assumptions to industry data apply in the case of termination rates used in PHI reserve calculations.
- past experience of 5 years is seen as relevant for the determination of technical reserves. Observed trends such as AIDS and mortality improvements are explicitly allowed for when calculating reserves.
- assumptions applied to future trends are developed based on actuarial judgement.

The Statutory Actuary's report on pages 4 to 7 sets out the methodology, main assumptions and results of the Financial Soundness Valuation as well as the financial effect of changes in the assumptions compared to the previous valuation and experience investigations performed.

#### Non-Life

- the objective of the assumptions used to value technical reserves is to meet regulatory requirements at a minimum, but ultimately to reflect the actual result of insurance-related transactions.
- the source of the data used as inputs for the valuation is a combination of the Company's own statistics supplemented by corporate average patterns.
- no discounting is applied to technical reserves.
- past experience of 10 years is seen as relevant for the determination of technical reserves.
- assumptions applied to future trends are developed based on past experience and corporate average patterns.

### Significant changes in assumptions

#### Life

The investment return assumption was increased from 8% to 8.5% p.a. for assets backing reserves excluding PHI Claims in Payment reserves. This decreased liabilities by R4 million and increased underwriting results accordingly.

#### Non-Life

No significant changes were made to assumptions used to calculate Non-Life reserves at year-end.

## 8 Amounts due to group companies

	LIFE		NON-LIFE	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Kölnische Rückversicherungs- Gesellschaft AG	-13 782	-12 118	-26 894	-15 338
Gen Re Capital GmbH	-174	-148	-89	-76
General Reinsurance UK Ltd	-	-	-3 393	-3 458
	<b>-13 956</b>	<b>-12 266</b>	<b>-30 376</b>	<b>-18 872</b>

Included in the total amounts due to group companies are amounts denominated in Euro 126.89 (2006: Euro 142.13) and GB Pounds 251.07 (2006: GB Pounds 257.60). Exchange rates used to translate foreign currencies at year-end were: Euro 1 = R9.98, GBP 1 = R14.05.

All related party transactions between the Company and non-South African group companies are concluded at arms length. Several retrocession agreements are in place with the Holding Company.

Included in net amounts due from group companies are amounts in respect of deposits maintained in terms of Non-Life retrocession agreements to meet the Regulator's requirements for approved reinsurance amounting to R19.1 million (2006: R11.5 million). These deposits attract interest at market rates. The remainder of the amounts due from or to group companies are non-interest bearing, unsecured, and are settled at least annually.

## 9 Other provisions

### 2007

#### LIFE

	<b>Staff related provisions</b>	<b>IAS 17 lease adjustment</b>	<b>Total</b>
	R'000	R'000	R'000
Balance at the beginning of the year	5 970	1 542	7 512
Increase (decrease) in provisions	573	-117	456
Balance at the end of the year	<b>6 543</b>	<b>1 425</b>	<b>7 968</b>

#### NON-LIFE

	<b>Staff related provisions</b>	<b>IAS 17 lease adjustment</b>	<b>Total</b>
	R'000	R'000	R'000
Balance at the beginning of the year	1 291	-	1 291
Increase in provisions	258	-	258
Balance at the end of the year	<b>1 549</b>	<b>-</b>	<b>1 549</b>

### 2006

#### LIFE

	<b>Staff related provisions</b>	<b>IAS 17 lease adjustment</b>	<b>Total</b>
	R'000	R'000	R'000
Balance at the beginning of the year	4 784	1 540	6 324
Increase in provisions	1 186	2	1 188
Balance at the end of the year	<b>5 970</b>	<b>1 542</b>	<b>7 512</b>

#### NON-LIFE

	<b>Staff related provisions</b>	<b>IAS 17 lease adjustment</b>	<b>Total</b>
	R'000	R'000	R'000
Balance at the beginning of the year	2 700	-	2 700
Decrease in provisions	-1 409	-	-1 409
Balance at the end of the year	<b>1 291</b>	<b>-</b>	<b>1 291</b>

The staff related provisions include bonus (approximately 2007: R6.8 million; 2006: R6.2 million), leave pay (approximately 2007: R0.4 million; 2006: R0.3 million) and post retirement medical benefits (approximately 2007: R0.9 million; 2006: R0.8 million). This liability has been determined by an actuarial valuation as at 31 March 2005. These provisions will be settled during the normal course of operations as payment becomes due to employees.

## 10 Net earned premium

2007

LIFE	Individual Life	Group	Health	Total
	R'000	R'000	R'000	R'000
Gross written premium	569 321	331 994	4 101	905 416
Retrocession premium	-37 025	-8 368	-	-45 393
Change in unearned premium - gross	-10 378	6 189	-	-4 189
Change in unearned premium - retro	-4 535	-	-	-4 535
<b>Net earned premium</b>	<b>517 383</b>	<b>329 815</b>	<b>4 101</b>	<b>851 299</b>

The company has identified that premiums from a cedant may be understated due to difficulties being experienced by that cedant with its reinsurance administration systems. No accrual has been made for these premiums as the amounts cannot be accurately determined at present.

NON-LIFE

	Treaty	Facultative	Total
	R'000	R'000	R'000
Gross written premium	32 682	33 229	65 911
Retrocession premium	-	-32 602	-32 602
Change in unearned premium - gross	-859	-1 675	-2 534
Change in unearned premium - retro	-	1 464	1 464
<b>Net earned premium</b>	<b>31 823</b>	<b>416</b>	<b>32 239</b>

2006

LIFE	Individual Life	Group	Health	Total
	R'000	R'000	R'000	R'000
Gross written premium	395 910	281 350	4 311	681 571
Retrocession premium	-34 967	-10 350	-	-45 317
Change in unearned premium - gross	-21	-4 645	-	-4 666
Change in unearned premium - retro	393	-	-	393
<b>Net earned premium</b>	<b>361 315</b>	<b>266 355</b>	<b>4 311</b>	<b>631 981</b>

NON-LIFE

	Treaty	Facultative	Total
	R'000	R'000	R'000
Gross written premium	40 481	28 565	69 046
Retrocession premium	-	-28 290	-28 290
Change in unearned premium - gross	12 770	197	12 967
Change in unearned premium - retro	-	-23	-23
<b>Net earned premium</b>	<b>53 251</b>	<b>449</b>	<b>53 700</b>

## 11 Other investment income

	LIFE		NON-LIFE	
	2007	2006	2007	2006
	R'000	R'000	R'000	R'000
Realised gains on available for sale investments	-	9 660	-	422

## 12 Claims incurred

	LIFE		NON-LIFE	
	<u>2007</u> R'000	<u>2006</u> R'000	<u>2007</u> R'000	<u>2006</u> R'000
<b>Gross claims</b>				
Claims paid	441 220	395 452	21 701	7 003
Change in outstanding claims	63 267	43 098	-14 263	64 774
Change in actuarial reserves	12 620	18 525	-	-
Change in PHI reserves	87 778	428	-	-
Change in claims incurred but not reported (IBNR)	87 597	64 585	-6 983	-15 658
	<b>692 482</b>	<b>522 088</b>	<b>455</b>	<b>56 119</b>
<b>Retrocession claims recovered</b>				
Claims paid	-25 097	-74 004	-15	-1 087
Change in outstanding claims	3 367	1 543	-6 116	1 370
Change in actuarial reserves	149	1 358	-	-
Change in PHI reserves	-	56 511	-	-
Change in claims incurred but not reported (IBNR)	30	6 903	4 522	1 071
	<b>-21 551</b>	<b>-7 689</b>	<b>-1 609</b>	<b>1 354</b>

## 13 Commission

	LIFE		NON-LIFE	
	<u>2007</u> R'000	<u>2006</u> R'000	<u>2007</u> R'000	<u>2006</u> R'000
<b>Gross commission</b>				
Commission	21 072	29 623	165	47
Profit commission				
Payment	37 983	52 381	-	106
Change in accrual	40 237	-29 116	-538	-
	<b>99 292</b>	<b>52 888</b>	<b>-373</b>	<b>153</b>
<b>Retrocession commission recovered</b>				
Commission	-1 392	-4 584	-4 547	-5 117
Profit commission				
Payment	-80	-3 027	-	-
Change in accrual	72	9 063	-	-
	<b>-1 400</b>	<b>1 452</b>	<b>-4 547</b>	<b>-5 117</b>

## 14 Management expenses include

	<b>LIFE AND NON-LIFE</b>	
	<b>2007</b>	<b>2006</b>
	R'000	R'000
<i>Auditors' remuneration</i>		
Fees for:		
Audit – current year	831	764
	<b>831</b>	<b>764</b>
<i>Directors' remuneration</i>		
For services as non-executive Directors	184	136
For services as executive Directors		
- basic salary	1 328	1 270
- performance bonus	1 952	1 415
- provident fund, group life and medical	171	160
	<b>3 635</b>	<b>2 981</b>
<i>Staff costs including executive Directors salaries</i>		
Salaries and other staff costs	13 441	12 315
Retirement and medical benefit costs	1 742	1 642
	<b>15 183</b>	<b>13 957</b>
<i>Other</i>		
Depreciation charge	309	435
Value Added Tax and statutory levies	882	316
Operating lease of rental of offices	2 894	2 694
Increase (decrease) in provisions	714	-221

Statutory levies are the levies payable to the Financial Services Board.

At 31 December 2007 the number of permanently employed staff was 35 (2006: 34).

The Managing Director's service contract does not provide for compensation on termination, is not for a fixed term and can be terminated by either party with one month's notice.

## 15 Taxation

	<b>LIFE</b>		<b>NON-LIFE</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	R'000	R'000	R'000	R'000
<i>SA Normal taxation</i>				
<i>Current taxation</i>				
- current year	45 383	33 734	14 499	-
- prior year (over) under-provision	-815	2 669	-	-
Deferred taxation	-8 781	-602	565	4 191
Secondary tax on companies	6 000	6 875	-	-
<i>Tax on retirement funds</i>				
- current year	-	351	-	-
- prior years under-provision	64	3 371	-	-
	<b>41 851</b>	<b>46 398</b>	<b>15 064</b>	<b>4 191</b>

Income tax is calculated at 29% (2006: 29%) of the estimated assessable profit for the year.

## 15 Taxation (Continued)

	LIFE		NON-LIFE	
	2007	2006	2007	2006
SA normal taxation standard rate	29%	29.00%	29%	29.00%
Disallowed expenditure	0.01%	0.52%	0.03%	0.05%
STC	4.09%	6.35%	-	-
Life four-funds tax adjustment	-4.03%	3.64%	-	-
Capital gains tax	-	-2.58%	-	-0.82%
Prior year tax adjustments	-0.56%	2.45%	-	-
Tax on retirement funds	0.04%	3.44%	-	-
Effective taxation rate	<b>28.55%</b>	<b>42.82%</b>	<b>29.03%</b>	<b>28.23%</b>

There are unutilised tax losses of R203.4 million (2006: R183.6 million) in the Individual Policyholder Fund and R76.3 million (2006: R34.2 million) in the Corporate Policyholder Fund. A deferred tax asset has not been recognised, as due to the nature of tax legislation applicable to insurance companies, it is unlikely that these losses will be utilised in the medium term.

In addition to the income tax expense charge to profit or loss, a deferred tax credit of R0.5 million (Life) and R1.1 million (Non-Life) (2006: charge of R3.5 million (Life) and R0.9 million (Non-Life)) has been recognised in equity (see note 5).

## 16 Dividends

On 29 October 2007, a dividend of 1 500 cents per share (total dividend of R60 million) was paid to the shareholder. In 2006 the total dividend paid was 1 375 cents per share (total dividend of R55 million).

## 17 Risk management

### Risk management policies

The Company issues contracts that transfer insurance risk.

### Risk Management Framework

- Governance

The risk management of the insurance business is performed by the appropriate areas within the business. An analysis of the current situation with regard to these risks is presented to the Audit Committee biannually in the form of the Risk Management Report.

- Capital Management

Capital requirements, as laid down by the Regulator take into account the different risks to which the business is exposed and their impact on capital. The results of these tests are reported to the Audit Committee.

- Regulatory

Regulators are interested in protecting the rights of the policyholders and maintaining close attention to ensure that the insurance industry is satisfactorily managing affairs for policyholders' benefit. At the same time, the Regulators are also interested in ensuring that the insurance industry maintains appropriate solvency levels to meet unforeseen liabilities arising from economic shocks or natural disasters.

## 17 Risk management (Continued)

The operations of the insurance business are also subject to local regulatory requirements within the jurisdictions where they operate. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimise the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Exposure to the risks detailed below arises in the normal course of the Company's business. The Company has the following concentrations of risk:

### Financial Risk

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

The Company manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

### Currency risk

Foreign currency transactions are assessed as and when they arise with amounts being covered forward where considered necessary. Foreign cash accounts are held to settle foreign liabilities. The company's exposure to foreign currency movements is set out in note 19.

### Interest rate risk

The Company does not have any external borrowings other than from group companies where interest rates are market related. The Company is subject to interest rate risk to the extent of its investments in government bonds, corporate bonds and bank balances. The exposure to interest rate risk is managed through matching the duration of assets and liabilities and consequently the company's net exposure to interest rate risk is not considered to be significant.

Maturity structure of the investment portfolio:

#### 2007

	Less than one year	One to five years	Five to ten years	Over ten years	Total
	R'000	R'000	R'000	R'000	R'000
Available for sale financial assets	512 325	482 966	154 327	188 444	1 338 062

The weighted-average interest rate on short-term investment deposits for the year was 9.33% (2006: 7.50%).

#### 2006

	Less than one year	One to five years	Five to ten years	Over ten years	Total
	R'000	R'000	R'000	R'000	R'000
Available for sale financial assets	42 194	382 033	162 187	140 237	726 651
Short-term investment deposits	389 174	-	-	-	389 174

## 17 Risk management (Continued)

### Investment risk

Market and credit risks may occur in connection with investments. Market risks refer to the fact that interest rates or the prices of securities may not develop as anticipated. Our portfolio managers work within detailed investment guidelines, which are constantly reviewed and revised in line with the latest developments to mitigate this risk.

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Appropriately rated financial institutions are used for investing and cash handling purposes and the company only deals with reputable counterparties. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet. Approximately 80.68% of amounts due from cedants are in respect of six major counterparties which are all well respected financial institutions in the South African insurance industry. The overdue balances due from cedants at the reporting date amount to R6.20 million (2006: R4.0 million). The average credit period granted to cedants is 90 days. Approximately 4.48% of amounts due from cedants exceed the 90 day credit period. No interest is charged on overdue amounts. The provision for doubtful debts at year-end amounted to approximately R1.7 million (2006: approximately R1.5 million). No material bad debt losses were incurred during the year.

### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing on repayment of a contractual obligation; or an insurance liability falling due for payment earlier than expected; or an inability to generate cash inflows as anticipated.

The company manages liquidity risk by maintaining adequate cash resources and facilities, by continuously monitoring forecasted and actual cashflows and matching the maturity profiles of financial assets and all liabilities.

On average claim payments to cedants are made within ninety days from receipt of all necessary information required to finalise the claim. Generally interest is not paid to cedants on overdue amounts.

The insurance business has determined that liquidity risk does not represent a significant exposure to its long-term and short-term assurance business. This assessment is based on the fact that the majority of investments are held in listed, readily realisable debt instruments and cash. The Company has a parental guarantee that can be called upon if required.

### Fair values

The fair values of all financial instruments approximate the carrying values reflected in the balance sheet.

### Underwriting risk

#### Life

The Statutory Actuary reports annually on the actuarial soundness of the premium rates in use and the profitability of the business. Regular investigations into mortality and morbidity experience are conducted. All applications for risk cover in excess of specified limits are reviewed by experienced underwriters and evaluated against established standards. All risk-related liabilities in excess of specified monetary limits are retroceded.

### Other significant Life risks

#### Claim Risk

There is a risk that actual claims will be higher than those priced for. This risk is being managed by continuous experience analysis, and profitability analysis by client.

#### Lapse Risk

There is a risk that actual lapses are higher or lower than those priced for. The majority of the business is written on a risk premium basis, and hence is not affected by lapse rates. Conservative assumptions are used for products that do have a lapse risk.

### Risk of Guarantees

Some of the reinsurance treaties have guarantees on the underlying rates that are offered. There is a risk that experience deteriorates more rapidly than is assumed in the pricing of the guarantees. Management is aware of these risks and ensures that they are being priced for correctly and monitored through ongoing experience analyses. In addition to this, an explicit reserve for premium guarantees for the individual life business is held.

## **17 Risk management (Continued)**

### **Data Quality Risk**

There is an inherent risk that there are errors in the underlying data on which the valuation is based. Management is aware of these risks and steps are continuously being taken to ensure the integrity of the data.

### **Expense Risk**

There is a risk that actual expenses are greater than those priced for. This risk is being managed by continuous analysis of the expense ratios. The pricing assumption used on an ongoing basis allows for our actual expenses.

### **Risk of Large Claims and Catastrophes**

There is a risk that large claims, or large losses due to a catastrophe, could have a significant effect on profitability. The retrocession agreement with our parent company is sufficient to manage and limit these risks.

### **Matching of Assets and Liabilities**

There is a risk that, if the assets and liabilities are mismatched, adverse movements in interest rates could affect the solvency of the company. Management is comfortable that the assets and liabilities are well matched.

### **Non-Life**

Global underwriting tools are utilised to determine the appropriate price for the risks underwritten. These tools assist to manage other insurance risks such as accumulation. All risks in excess of specified limits are reviewed by experienced underwriters and evaluated against established standards.

## 18 Amount, timing and uncertainty of cash flows

### Terms and conditions of insurance contracts

#### Life

Terms and conditions of insurance contracts relating to Group business and Individual Level Premium business provide for AIDS cover. Additional AIDS reserves are raised to meet obligations relating to this exposure.

#### Non-Life

There are no terms and conditions that have a significant impact on future cash flows of Non-Life business.

### Insurance risk

#### Life

#### Sensitivity analysis

A sensitivity analysis on incidence rates is performed annually. The impact on the underwriting result in the event of a 5% increase in the incidence rate is disclosed below.

	<b>Impact on underwriting result</b>
	R'000
<b>Life</b>	<b>35 705</b>
Mortality	23 348
Disability	12 357
<b>Health</b>	<b>43</b>
<b>Total</b>	<b>35 748</b>

#### Accumulation Risk

Accumulation risk on group business is managed geographically and there are event limits on all group schemes. The maximum retention per life is monitored for all individual life business and treaties have risk mitigation measures in place for War and Riot. Retrocession cover with the Holding Company is also in place on an excess of loss basis for all lines of Life business.

### Expected future cash outflows

#### Gross

	<b>Outstanding claims</b>	<b>PHI reserves</b>	<b>IBNR</b>	<b>Actuarial reserves</b>
	R'000	R'000	R'000	R'000
Due in one year or less	163 948	47 616	338 072	5 651
Due after one year through five years	-	123 104	-	33 443
Due after five years through ten years	-	77 543	-	37 540
Due after ten years	-	55 553	-	72 804
<b>Total</b>	<b>163 948</b>	<b>303 816</b>	<b>338 072</b>	<b>149 439</b>

#### Retro

	<b>Outstanding claims</b>	<b>PHI reserves</b>	<b>IBNR</b>	<b>Actuarial reserves</b>
	R'000	R'000	R'000	R'000
Due in one year or less	3 002	-	3 175	-
Due after one year through five years	-	-	-	-
Due after five years through ten years	-	-	-	-
Due after ten years	-	-	-	-
<b>Total</b>	<b>3 002</b>	<b>-</b>	<b>3 175</b>	<b>-</b>

## 18 Amount, timing and uncertainty of cash flows (Continued)

### Claims development

Calculations of PHI reserves and actuarial reserves are based on actuarial assumptions as detailed in note 7.

Amounts of reserves payable in future will vary when actual interest rates and incidence rates differ from the valuation basis. Matching of PHI assets and liabilities ensures that changes in interest rates do not have an impact on net assets. Experience analysis is performed on termination rates to ensure that the rates used as the valuation basis, are appropriate.

### Non-Life

#### Sensitivity analysis

Due to the nature and size of the business a sensitivity analysis is not meaningful as any one event could have a significant effect on the results as reported.

#### Accumulation Risk

Global underwriting tools are utilised to monitor accumulation risk on all Non-Life business. All Property Facultative business written is retroceded to the Holding Company. The Company also has a parental guarantee in place to protect the solvency in case of significant unfavourable claims experience.

#### Expected future payment patterns

All technical reserves are classified as short-term commitments due to the uncertainty surrounding the timing of the actual cash outflows.

### Claims development

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>Net liability for unpaid claims and claims expenses</b>	<b>121 501</b>	<b>112 925</b>	<b>132 940</b>	<b>136 041</b>	<b>136 816</b>	<b>188 373</b>	<b>165 533</b>
Net liability estimated as of:							
1 year later	155 245	149 221	121 978	136 188	112 833	<b>145 872</b>	
2 years later	161 043	142 062	118 173	101 703	<b>80 488</b>		
3 years later	166 840	134 902	91 317	<b>72 398</b>			
4 years later	172 638	108 108	<b>68 977</b>				
5 years later	152 355	<b>85 912</b>					
6 years later	<b>130 595</b>						
<b>Total cumulative (deficiency) redundancy</b>	<b>-9 094</b>	<b>27 013</b>	<b>63 963</b>	<b>63 643</b>	<b>56 328</b>	<b>42 501</b>	
<b>Cumulative amount of net liability paid through</b>							
1 year later	46 961	18 165	3 794	12 295	5 916	<b>21 686</b>	
2 years later	65 125	21 959	16 089	14 808	<b>13 602</b>		
3 years later	68 177	34 254	18 602	<b>15 097</b>			
4 years later	80 471	36 767	<b>18 891</b>				
5 years later	82 984	<b>37 056</b>					
6 years later	<b>83 273</b>						
<b>Cumulative amount of net liability paid through</b>	<b>83 273</b>	<b>37 056</b>	<b>18 891</b>	<b>15 808</b>	<b>5 916</b>	<b>21 686</b>	

- Net liability for unpaid claims and claims expenses are presented on a financial year basis.
- Triangulations represent the total estimated net liability at intervals of 1 financial period.
- Total cumulative deficiency or redundancy represent the difference between the actual net unpaid claims and claims expenses as per a specific financial year and total reserves raised for that business at 31 December 2007.
- Cumulative amount of net liability paid indicates the timing of actual cash outflows represented by the net liability for unpaid claims and claims expenses.

## 19 Foreign currency exposure

The following uncovered foreign exchange exposures existed at year end, on bank balances:

Bank deposits	<b>Foreign Currency Amount R'000</b>	<b>Rand exchange rate R'000</b>	<b>Rand amount R'000</b>
US Dollar	4	6.80	31
Pound Sterling	6	14.05	88

The company's exposure to foreign currency risk is considered to be insignificant.

## 20 Non-Life solvency margin

The solvency margin calculated in accordance with the international basis for Non-Life business amounts to 199% (2006: 125%).

## 21 Retirement benefits

The Company provides retirement benefits for all its permanent employees. It contributes to the GeneralCologne Re Pension Fund, a hybrid fund registered and governed by the Pension Funds Act 1956. Actuarial valuations are performed at least every three years. The last statutory valuation was performed as at 30 September 2007 and showed that the fund was in a sound financial position. Contributions to the fund of R1.7 million (2006: R1.6 million) are charged against income. The expected costs of post retirement benefits are charged over the expected working lives of eligible employees.

The Defined Benefit Section comprises 2 members. Given the size of the fund no further disclosure is given in the Financial Statements. A nil surplus scheme was submitted to the Financial Services Board during 2006 and acceptance thereof was confirmed by them in 2007.

## 22 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the Cash Flow Statement comprise the following balance sheet amounts.

<b>LIFE</b>		<b>NON-LIFE</b>	
<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
R'000	R'000	R'000	R'000
56 846	19 451	2 413	3 377

## 23 Operating lease commitments

The future operating lease commitments in terms of the lease agreements in respect of the Cape Town and Johannesburg office building rentals are:

	<b>LIFE AND NON-LIFE</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
	R'000	R'000
Due within:		
Not later than 1 year	3 658	3 188
Later than 1 year and not later than 5 years	2 629	7 523
	<b>6 287</b>	<b>10 711</b>

## 24 Related Party Transactions

All transactions between the Company, its parent and the entities within the Group are conducted on commercial terms and conditions and at market rates.

The Company's immediate holding company is Kölnische Rückversicherungs-Gesellschaft AG (KR), which is incorporated in Germany. The Company's ultimate holding company is Berkshire Hathaway Incorporated, which is incorporated in the USA. Gen Re Capital GmbH and General Reinsurance UK Limited are fellow subsidiaries.

	LIFE		NON-LIFE	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	R'000	R'000	R'000	R'000
<b>Transactions with KR</b>				
Retroceded premiums incurred	-24 161	-13 318	-31 138	-28 313
Retroceded claims charged	12 552	1 765	1 609	-1 354
Retroceded commissions charged	-	-31	4 547	5 117
Inter-company charges	-299	-764	-3 585	-1 868
Interest on underwriting balances	-769	-252	-578	-721
	<b>-12 677</b>	<b>-12 600</b>	<b>-29 145</b>	<b>-27 139</b>

Details of dividends paid to the immediate holding company are set out in note 16.

	LIFE		NON-LIFE	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	R'000	R'000	R'000	R'000
<b>Transactions with General Reinsurance UK Limited</b>				
Inter-company charges	-	-	83	-1 642

	LIFE		NON-LIFE	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	R'000	R'000	R'000	R'000
<b>Transactions with Gen Re Capital GmbH</b>				
Inter-company charges	-731	-608	-373	-310

The amounts due to group companies is disclosed in note 8.

### Transactions with key management and directors

	<u>2007</u>	<u>2006</u>
	R'000	R'000
Short-term benefits paid to key management including Executive Director	9 214	7 984
Non-executive directors' remuneration	184	136

The company reinsures insurance contracts held by key management. The amounts are not considered to be significant.

## **25 Management of Capital**

### **Objectives**

The company manages its capital for both the Life and Non-Life divisions with the objectives to satisfy South African statutory requirements, to protect itself against large losses and to maximize returns on equity for its shareholder. All these objectives were met satisfactorily during the year.

### **Policies**

- Life

The company maintains its capital for the Life division in terms of Capital Adequacy Requirements and other requirements set by the Financial Services Board (FSB) at a minimum of R10 million. The company has retrocession agreements in place that protects itself against any potential large losses. The minimum requirements determined by the regulatory bodies are therefore deemed adequate.

- Non-life

Non-Life capital is managed in terms of the requirements set by the FSB. The company has limited retrocession agreements in place and therefore holds additional capital to protect itself against large losses.

### **Procedures**

Management ensures that capital is adequately managed at all times. This is done by performing the calculations on a regular basis and submitting quarterly returns to the FSB disclosing the capital held as required. Annual statutory returns are signed off by the statutory actuary.

Capital is invested in South African government and corporate bonds.

# Report of the Independent Auditors

## Report of the Independent Auditors to the Member of General Reinsurance Africa Limited

We have audited the annual financial statements of General Reinsurance Africa Limited, which comprise the director's report, the balance sheet as at 31 December 2007, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 12 to 42.

### *Directors' Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2007, and of its financial performance and its 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.

*Deloitte & Touche*

### **Deloitte & Touche**

Registered Auditors

Per G Cavaleros

Partner

**11 March 2008**

Brookside, 11 Lansdowne Road, Claremont, 7708

### **Deloitte & Touche National Executive:**

G G Gelink, Chief Executive

A E Swiegers, Chief Operating Officer

G M Pinnock, Audit

D L Kennedy, Tax

L Geeringh, Consulting

L Bam, Strategy

C R Beukman, Finance

T J Brown, Clients and Markets

N T Mtoba, Chairman of the Board

J Rhynes, Deputy Chairman of the Board

Regional Leader: H Christophers

A full list of partners and directors is available on request.