

Zurich Insurance Company South Africa Limited Annual Report 2007



“Whosoever desires constant success must change his conduct with the times.”
– Niccolò Machiavelli

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Highlights

For the year ended December 31	2007	2006	% increase/ (decrease)
Gross insurance premium revenue (Rm)	R4,400.9	R3,910.6	12.5%
Net income attributable to members of the Company (Rm)	R289.8	R320.6	(9.6%)
Headline earnings per share (cents)	1,670.8	2,067.0	(19.2%)
Earnings per share (cents)	2,379.9	2,632.1	(9.6%)
Dividends per share (cents)	700	650	7.7%
Solvency margin (%)	53.2	55.8	(4.7%)
Total assets (Rm)	R4,752.1	R4,605.9	3.2%
Net asset value per share (cents)	15 601	14 442	8.0%

- Zurich South Africa's renaming and rebranding project successfully concluded
- Financial Sector Charter Council awarded Zurich an A rating
- Zurich South Africa awarded the Key Contributor award for our Global Cross-Sell Strategy
- Global Credit Rating reaffirmed the Company's AA+ claims paying ability rating

About the Zurich Group



Zurich Financial Services Group is an insurance-based financial provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America, Southern Africa and other markets. Founded in 1872, the Group is headquartered in Zurich, Switzerland. It employs approximately 60,000 people serving customers in more than 170 countries.

Zurich is a company with vision. Since inception we have consistently looked both forward and outward, aiming to become the leading global insurance group within our chosen general and life insurance markets. This has borne fruit and resulted in a growing of our presence on a global scale. We are currently the second largest insurance group in global corporate business and the fourth largest global property and casualty insurer.

This expansion has highlighted our strengths. Our progress is built on our people; on the importance we place on individual relationships and on our ability to understand and manage change. We offer a well-balanced portfolio of insurance businesses, all strengthened with local expertise backed by the muscle of an international network. This provides the platform on which to develop innovative products and solutions for a changing world.



A Global Approach

The combination of our international expertise and local knowledge enables us to provide services on many fronts. We offer a comprehensive range of general and life insurance products and services for individuals, small businesses, commercial enterprises, mid-sized and large corporations and multinational companies.

Our Global Claims capability provides central co-ordination for thousands of claims specialists worldwide. This ensures consistent technical and operational standards. This global network fosters long-term relationships built on in-depth customer knowledge, skilled underwriters, a strong team of claims specialists and expert cash management to handle premiums and claims payments across multinational programmes.

Global Corporate offers risk management services to large corporations and multinational companies, including risk transfer and risk finance solutions. Zurich's broad understanding of today's interdependent global risk environment and the trends that influence it put us in a strong position to provide total risk management strategies. This is one of the reasons why most of Fortune's Global 100 companies select us as their insurer.

Customer Excellence



This is at the heart of Zurich. By focusing our commitment, drive and initiative to anticipate and meet customer needs we develop strong customer relationships. Central to customer rapport is our active search for opportunities to innovate and so develop thought leadership at all times.

For our corporate and commercial customers we maintain contact via customer councils and advisory boards, workshops and risk management conferences. Numerous boards also encourage the development of fresh insights and knowledge-sharing to promote better understanding.

For our personal customers, our network of agents and distributors provide constant contact. A network of partnerships and alliances helps increase the range of products and services we offer. The offering is complemented by brokers and intermediaries.

Constant evaluation and anticipation of changing trends and movements means we are prepared for risks that may be global or local, geopolitical or economic, financial or commercial.

Our Natural Catastrophe Advisory Board consisting of external experts in climatology, geology and related sciences advises our underwriters on forces affecting our exposure.

Product Excellence

Our experience has shown that personal customers want an insurer who thinks ahead and creates products that reflect current trends and situations. On the other hand, commercial customers find themselves in an increasingly complex world, particularly in the areas of legislation, regulation and litigation.

By creating products fully attuned to various needs we strive to manage change.

Our corporate customers enjoy consulting and insurance services that help them reduce enterprise risk. We provide technical expertise and value-added services, including risk engineering, claims management and local policy assurance.

As a global organisation backed by 136 years of experience, we enjoy a comprehensive perspective on our complex environment. This, when combined with specific local knowledge of particular markets and risk insights, prepares us to offer relevant products and services. Our timing is often impeccable as innovation frequently occurs just as our customers are becoming aware of emerging challenges.

Financial Strength Ratings

A financial strength rating is a third-party assessment of an insurance company's financial security, based on its ability to meet policyholder claims. As of June 19, 2007 Zurich has the following ratings:

Rating agency	Financial strength rating	Rating outlook
A.M. Best	A	Stable
Fitch Ratings	A+	Stable
Moody's	A1	Stable
Standard & Poor's	AA-	Stable

The Zurich Way

As a large organisation with operations across the world, we apply a common way of dealing with core business processes. A common approach to business – firmly embedded in our operations group-wide – is fundamental to our success and moves us closer to our goal of being one Zurich. The Zurich Way is about one common language and methodology, supported by shared mindsets and behaviours, for how we think about and tackle business challenges. Through The Zurich Way we deliver standardised processes to improve performance throughout the organisation.

The Zurich Way encourages people to share their knowledge and best practices and continually build their skills. By involving experienced operators and practitioners, The Zurich Way creates a distinct set of tools with which to analyse our core business processes, measure their efficiency and effectiveness and consistently improve them. It also includes common metrics to ensure that improvements and resulting benefits are fully achieved. The Zurich Way transforms how we do business every day and helps us provide better services to customers in a consistent and recognisably Zurich way. It is a passion for excellence that affects everything we do and a lasting commitment to ensure that improvements are sustainable and will continue to generate benefits in the years to come.

How The Zurich Way fits with our Strategic Direction

Zurich focuses on sustaining profitability driven by The Zurich Way of doing business. Together, The Zurich Way, Zurich Brand and Zurich *Basics* are the fundamental drivers that deliver profit, growth and value for all our stakeholders. Zurich *Basics* are the core values that shape everything we do. Group strategy guides where we are going; our aspiration to be the leading global insurer. The Zurich Way is how we deliver – our methods, tools and metrics for improving how we operate. The outcome is how customers and investors perceive us; the Zurich Brand.

Why we are doing business The Zurich Way

To help us provide better customer service in a consistent and recognisably Zurich way and so deliver sustainable profitable growth for Zurich and achieve our ambition to be the leading global insurer. Eventually The Zurich Way will help each of us to raise our ability to deliver everything we do to best practice standards.

What The Zurich Way aspirations mean

To transform how we do business and shift our culture so we act more as one team and are perceived as one Zurich in the marketplace in line with our global brand-building effort. We intend to move away from a variety of core business processes measured differently to common process methods, tools and metrics. We are also moving away from the use of different terms for the same thing to common terms for shared understanding and shared mindsets and behaviours – adapting to best practices even if ‘invented’ in other parts of our Group. The Zurich Way has proved that, despite differing cultures, legal structures and regulations there are more similarities than differences in how we operate.

Core elements of The Zurich Way

The heart of The Zurich Way is a shared understanding of core process steps, common language for process terms and shared mindsets and behaviours. Common tools are developed to identify the ‘size’ of an improvement opportunity as well as a common set of metrics to measure the impact of Zurich Way improvements.

Guiding Principles of The Zurich Way

The Zurich Way does not try to reinvent the wheel. It builds on many things that are or were already in place such as Zurich *Basics*, Creating Underwriting Excellence (CUE), the motor claims initiative and the Strategic Improvement Programme (SIP), to name but a few.

The Zurich Way is not intended to provide universal solutions to all our business challenges but to be a common basis for how we at Zurich think about and tackle problems. By involving our senior leaders and experts, we can base The Zurich Way on a broad range of practical experiences and business judgements. Common methodologies and consistent improvement approaches brought about through The Zurich Way are tested in practice at the frontlines – The Zurich Way is therefore never a theoretical exercise.

Sustainability is key to achieving the aspirational targets we have set ourselves. The Zurich Way helps us to continuously improve how we do things by establishing the mindset and behaviours we need for operational excellence. This ensures we will not run the risk of losing our current momentum. Each Zurich Way workstream is actively and continuously monitored to track implementation progress, review results and share key learnings.

How The Zurich Way adds value

Customers benefit by receiving quality service in a distinctively Zurich way. This helps strengthen our platform for sustained, profitable growth, which is good news for our investors. It also enables employees involved in Zurich Way initiatives to increase their individual capabilities and skills.

How The Zurich Way is measured

What gets measured gets done! That's why all Zurich Way initiatives are closely and rigorously monitored using project tracker methodology. To ensure sustainability, the global implementation status and benefits captured from the initiatives are assessed monthly – quarterly for some elements – via The Zurich Way War Room so we always have a full picture of how we are making The Zurich Way improvements happen, the benefits we are achieving as a result, the quality of Zurich Way execution against its aspirations and a fact-base for decision-making.



About Zurich in South Africa



Zurich in South Africa is a short-term insurance company headquartered in Johannesburg and listed on the Johannesburg Stock Exchange. Founded in 1965 as SA Eagle, Zurich offers insurance products and services that respond to the needs of individual, commercial and corporate customers. It has a network of 11 sales areas and a series of service outlets across the country, and employs approximately 1,000 people. In addition, Zurich has subsidiaries locally as well as in Botswana and Zimbabwe.

History

The South African arm of the Zurich Group can be traced back to the 1800s, but the Company as we know it began to take shape in 1917 when Eagle Star came into existence. In 1965 Eagle Star merged with African Guarantee & Indemnity (founded in 1911 by IW Schlesinger) and SA Fire & Accident (founded in 1932 by a group of Johannesburg businessmen) to form SA Eagle.

In 1968, the Company made its debut on the Johannesburg Stock Exchange with an oversubscription of 32 times – a record in those days. At inception, the Company traded as a composite insurer but sold its life fund in 1972.

At the end of July 2007, SA Eagle underwent a name-change and began operating as part of the global Zurich brand. Currently, the major shareholder with 73.6 percent of the equity is Zurich Financial Services. A BEE transaction, which addresses issues of ownership and equity within the industry, saw Royal Bafokeng Finance (Pty) Ltd purchase a 10% stake in the Company. The remaining 16.4% is held by a number of minority shareholders.

Our Business and Products

Zurich operates in the domestic, commercial and corporate markets, transacting all classes of short-term insurance. The Company markets its products almost exclusively through brokers and agents.

Specialist products include marine, engineering and aviation insurance. In addition, the Company has several innovative tailored products: risk financing with cell captive facilities through its wholly owned subsidiary, Zurich Risk Financing SA; and a personal legal expenses insurance product, the Zurich Legal Plan, through a joint venture company, Zurich Legal Expenses Underwriting Managers SA. Escape, another wholly owned subsidiary, is an electronic collection and payment system.

The Company also operates a toll-free helpline, Zurich Assist, for emergencies, personal health, legal, tax and investment advice. Auto Assess frees policyholders from the frustrations associated with a minor accident claim. The Company's business-to-business initiative, called the Internet Monthly Policy, offers brokers and agents a complete policy and claims management system via the Internet. Other products include a policy tailored to the needs of the bed-and-breakfast industry, a solution suited to individuals or collectors of fine art, policies for 4x4 owners, cyclists and bowlers.

Zurich is acutely aware of the advantages of computer technology and its effects on work flow, decision-making, cost reduction and productivity. The Company's computer system, in the form of workflow technology and a business intelligence system, ensures that Zurich is at the forefront of leading-edge information technology solutions.

Our Market

South Africa is Africa's largest and most sophisticated short-term insurance market. Insurers operate in an extremely competitive industry, an environment where the issue of corporate governance is highly profiled. The industry climate is also strongly characterised by legislative requirements. Current and upcoming legislation seeks increasingly to empower and protect the customer.

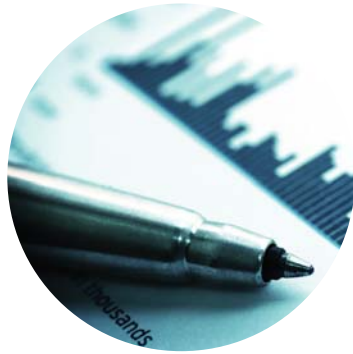
Social Investment

According to the terms of the Financial Sector Charter, Zurich has undertaken to fund specific projects nominated by Royal Bafokeng Finance in areas such as corporate social investment, enterprise development and empowerment financing.

In addition, Zurich supports various initiatives and projects, with strong focus on environmental issues and education.

Letter from the Chairman

We are pleased to announce that despite a competitive market we have posted another set of satisfactory underwriting results. The Company continues its focus on achieving and sustaining profitable growth. July 2007 saw the successful launch of the Zurich brand in South Africa and a notable achievement was the acquisition of the Gautrain underwriting account. This clearly demonstrates the Company's ability to make use of the expertise and capacity afforded by the global Group.



Looking at the industry, the insurance cycle remains favourable. This applies mainly to the corporate and commercial sectors. The motor portfolio, however, remains a challenge and continued efforts to implement appropriate risk management strategies, rating models and improved customer segmentation are still a priority. Underwriting results were impacted by a variety of factors – an increase in the number of motor claims and repair costs, weather-related claims such as severe flooding in KwaZulu-Natal and an increase in the number of medium to large commercial fire losses. The global reinsurance market has experienced a softening of rates, particularly in respect of property catastrophe risks. This is expected to positively impact the local reinsurance market.

Demand for capacity continues and statistical models are increasingly being used to evaluate and price risks. While recent interest rate increases have slowed consumer spending, the domestic economy remained resilient during the year. Continued infrastructure development is a positive indicator for future GDP growth, but the onset of the energy crisis is a cause for concern.

Compliance with legislation continued to receive much attention, particularly the requirements set out in the Financial Sector Charter. The Charter Council awarded the Company an A rating. In order to create access to financial services products for historically disadvantaged groups, we remain focused on the development of low-cost insurance products to meet the needs of this market. Insurers will have to continue their efforts to understand the changing needs of the insuring public. Differentiation, expansion of product offerings and improved distribution management are key factors to future success.

Profitable growth must remain an area of focus in a constantly changing market and strict underwriting disciplines will have to be maintained. At Zurich, we will continue to focus on profitable growth by developing products and services to meet the needs of the ever-changing market. We will strive to forge strong relationships with our customers and brokers while providing rewarding opportunities for our employees.

On behalf of the Board, I would like to welcome four Non-Executive Directors: Christopher Cron, Mandiza Mbekeni, Joseph Deiss and Dolly Mokgatle. We look forward to working with them and realising the benefits of the diverse range of skill and expertise they will bring to the Board. I also wish to thank Nick Beyers, our Chief Executive Officer, and the other members of our Board for their valuable contributions during an exciting year. Non-Executive Director, Al Paas, resigned from the Board during the year. I thank him for his support during his tenure.

Lastly, I would like to extend a word of thanks to our employees. Your sterling efforts towards the achievement of our objectives have not gone unnoticed. Our success would not have been possible without your continued commitment.



JPG de Rauville
Chairman

April 8, 2008

Business Overview from the CEO

Market and competitive environment

The Group, after a concerted effort across all areas of the business, maintained profit before tax at a similar level to that achieved in the previous year.

Gross premium income rose by an expected 12.5%. This increase was achieved despite a reduction in the contribution received from our Zimbabwean subsidiary due to currency devaluation and the effects of hyper-inflation. The growth in premium, although slightly lower than in the period to June 2007, is still satisfactory in a challenging market.

In 2007, the Group benefited from a net pension fund surplus of R43 million including related investment income (2006: R97 million, after accounting for a R133 million expense of conversion from a defined benefit to a defined contribution pension fund). Expenses increased by 11% during the year after allowing for the effects of the offering in respect of the Pension Fund conversion to employees discussed above. The expense ratio improved to 9.6% (2006: 10%).

The increase in both the number and the quantum of claims continued into the second half of the year. This resulted in an increase in claims of some 15%. The main area of concern remains the motor portfolio. Corrective action continues to be taken and our focus for 2008 will be on the implementation of a revised procurement policy, an actuarial rating structure, disciplined underwriting and the cancellation of poor performing business.

During the year, a new corporate business unit was introduced to provide brokers and corporate customers with structured solutions. A notable success was the acquisition of the Gautrain account, which clearly demonstrates our ability to take advantage of the global expertise and reinsurance capacity of the Zurich Group.

Personal lines, another focal point, has developed a strategy that incorporates performance improvement, organic growth and new distribution channel initiatives. This strategy will be introduced in 2008 and will result in the development of a product set that will offer quality, innovation and value-add to policyholders and brokers. Our market focus will include broader consumer markets such as the mass and micro-insurance markets.

Investment income grew to R236.2 million (2006: R202.2 million), which reflected the enhanced interest rates received by the Group on funds deposited at institutions. The fair value through income adjustment on our bond portfolio continued to show a loss. This was however offset by the increase in realised gains on the disposal of equities held as available-for-sale. Investment-related income therefore increased over 2006 levels by 16.4%.

Taxation increased by R24 million due to an under-provision for prior years. Excluding this, the tax rate is comparable to 2006. The Group's balance sheet remains strong with an increase in net asset value of 8%. Solvency is satisfactory at 53.2% and continues to remain within the Group's policy range.

During 2008 we will continue our focus on customer, product and distribution excellence. Profitable growth alongside operational transformation and underwriting discipline will be the main drivers of our business strategy. The Company's claims paying ability rating has been reaffirmed at AA+ and we feel strongly positioned to establish and embed the presence of Zurich in South Africa.

Dividend

A final dividend of 440 cents per share (2006: 430 cents per share) was declared by the Directors, bringing the total normal dividend for the year to 700 cents per share (2006: 650 cents per share).

Regulatory environment

Regulation continues to have an impact on the insurance sector. The Financial Sector Charter (FSC), Financial Advisory and Intermediary Services (FAIS) Act and the implementation of Financial Condition Reporting (FCR) are receiving widespread interest.

During 2007, the FSC continued to receive a great deal of attention. In the last reporting period, the FSC Council required that scorecards submitted by insurers be audited before submission.

In May 2007, Zurich received a final audit report relating to our submission that confirmed an overall "satisfactory report". This essentially confirmed the correctness of the data submitted to the Council. In terms of the 2007 scorecard, Zurich achieved an overall score in excess of 80% of the target, which translates into an A rating.

Going forward, the alignment of the Financial Sector Charter and the Department of Trade and Industry's codes appears imminent. This will help to facilitate clearer planning and measurement of targets.

To enable historically disadvantaged groups to access financial services products, insurers will continue to focus their efforts on developing solutions to meet the needs of this market. Consumer education drives, to improve communication and build credibility among the previously uninsured, will also continue.

Compliance with FAIS and its attendant regulations continues to be an important regulatory driver in the market.



The potential implementation of FCR has clear consequences for the industry. Designed to embed the notion of risk at all levels within an organisation, FCR would necessitate the collection of high quality data as well as an automated interaction between a host of financial, claims, underwriting and other systems. Increased risk awareness and the use of risk management tools would facilitate more proactive decision-making which would result in risk profiles being tailored to remain consistent with a company's appetite for risk.

Technological change

Based on the successes achieved from workflow capabilities, the Company embarked on a project to upgrade and extend the environment in support of our business objectives.

The project in its various phases began in 2005. The first phase focused on policy administration and credit control, the precursor to a successful roll-out to the business in 2006.

The second and more complex phase involved the entire claims process, including the recovery and salvage element. Implementation of this phase was completed at the end of 2007.

Business Relationships

Due to our single intermediated channel approach, brokers remain the main distribution channel. Although we are fully committed to our existing trusted relationships with our brokers, initiatives are being put in place to build relationships with policyholders and improve customer experience through value-added services.

Our strategy to achieve customer excellence through ongoing efficiency improvement and a continuous review of automated processes has and continues to be a high priority for the Company.

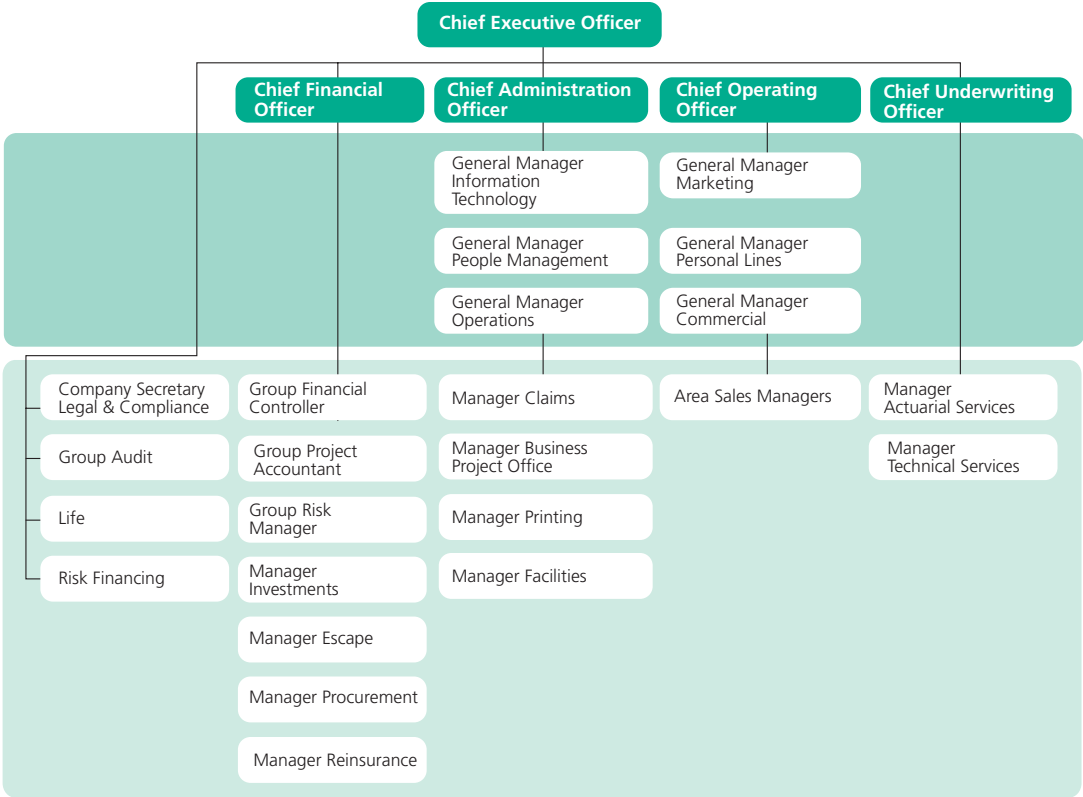
People Management

People Management has a strategic role in any organisation. Industry players are taking an integrated approach to human resources – putting the right people with the right skills in the right place at the right time.

Our human resources function is no different and, in support of the strategic objectives set for 2007, a number of programmes were either embarked upon or continued in the year under review.

A new executive structure with an expanded reporting platform has been put in place. This structure allows for an increased focus on critical areas of our business, including corporate, commercial and personal lines and distribution.

Executive structure



Key ● Strategic Executive Management ● Operational Executive Management ● Senior Management

Our Global Associate Programme, a highly competitive group-wide training initiative, began in 2007. The first year, in which 60 Associates in 10 countries underwent training, has resulted in the graduation of our first South African Associate who has taken up office in the actuarial department. This innovative initiative will continue with two employees from our South African operation having been recruited to undergo training in the coming year. Recruitment and selection continues to be one of the Company’s major interventions. In 2007, we were able to reach our target for the recruitment of suitably qualified candidates from designated groups.

Learnerships, a requirement of the Financial Sector Charter, resulted in the largest intake for 2007, comprising 23 learners. Two learners were employed following the first cycle of the programme, five from the second and, although the Company has not yet made offers to learners who completed the third cycle, this is under way and will be finalised shortly.

As part of the 2008 learnership programme, negotiations are currently underway with a PC Training Institution and it is envisaged that a total of 15 learners will be enlisted for the period. Our cost management initiatives culminated in the conversion of our retirement fund from a defined benefit to a defined contribution fund, thus eliminating a huge long-term indeterminable liability as well as a large part of our post-retirement medical liability.

Finally, the Surplus Apportionment Scheme was submitted to the Financial Services Board and approval was received early in 2007. The distribution of the surplus has begun and is currently being finalised.



Branding

July 2007 saw the successful launch of the Zurich brand in South Africa. Business partners and employees were invited to events at Gallagher Estate in Midrand to herald the launch. John Amore, Zurich's global Chief Executive Officer General Insurance and member of the Group Executive Committee, visited South Africa to attend the launch.



to active evaluation of change in order to deliver innovative and secure insurance solutions to our customers.

Key messages communicated to our stakeholders emphasised our main differentiator – a combination of international expertise and detailed local knowledge of our market. We remain committed to maintaining the trusted relationships that have always characterised the interaction with our customers.



2007 was concluded with the sponsorship of the Nedbank Golf Challenge. Participating in an event that has such high acclaim enabled us to reach our target audience both on and off the golf course. We were able to closely align the event with one of our primary business objectives – profitable business growth. This will act as an enabler, helping to attract those who are looking to place their risk with a global insurer such as ourselves.

The migration, which is much more significant than a simple name-change, underpins the commitment of the Group to both our local operation and the Southern African market.



Social and Community Issues

Social and community issues received continued focus during the year. Zurich's Bursary Fund continued to support students studying towards a BTech (Education). The South African Institute of Race Relations, which administers the fund, reported that the students achieved satisfactory results.

Continuing our support of tertiary institutions, Zurich once again provided financial support to three universities operating in the major centres where the Company has a presence.

Continued funding was provided to Tapologo, a charity nominated by Royal Bafokeng Holdings and a community-focused holistic intervention programme that seeks to improve the quality of life of everyone who is affected by the scourge of HIV/Aids.

Zurich Cares Day, a voluntary programme aimed at raising funds for either a charitable organisation or the Eagle Trust Fund, gave employees an opportunity to give a little of their time to help those less fortunate than themselves. Employees participate in projects ranging from cake sales to larger scale fund-raising events. Originally launched as a means of supporting our conservation initiatives, employees are asked to spread the conservation message.

The Eagle Trust Fund, set up to sponsor eagle conservation activities, continued to support the work of the Birds of Prey Working Group. During 2007, a number of projects received continued support:

The Kalahari Raptor Project, aimed at changing the attitude of farmers to eagles and other birds of prey had another successful year. The project's activities have expanded and strong relationships have developed with local communities, farmers and landowners.

Company support of the Information Help Line continued. The results achieved by this facility will benefit not only our raptor population but the environment as a whole. Literature was also circulated to callers to explain the role of the Birds of Prey Working Group and educate the general public (especially farmers) about raptors.

Policyholders of the All Terrain Insurance Policy continued to be involved in the projects supported by the Eagle Trust Fund via a pledge by Zurich and Cross Country Insurance Consultants. The income continues to support conservation projects in which the Company is involved.

Environmental Matters

Zurich in South Africa, as part of the global Zurich Group, recognises that balancing non-financial factors such as environmental and social issues with financial priorities is an essential part of good corporate citizenship.

While our core business operations mitigate climate change through flexible mechanisms under the Kyoto Protocol, we still have a direct impact on the environment through our daily consumption of energy, impact of global travel and paper usage.

Protecting the natural systems upon which all life depends while lifting people out of poverty and advancing economic development are among the greatest challenges confronting humanity. These three pillars of sustainable development are central to the UN Millennium Development Goals adopted in 2000. We recognise that the policies and practices we adopt today will shape not only our lives but also those of future generations. We have an opportunity to make a positive contribution to environmental and social initiatives by enacting policies designed within our business operations that will enhance the environment. Such policies not only indicate positive environmental stewardship, but also present business opportunities through the creation of innovative products and solutions. This will help us better manage our risks, attract and retain scarce skills, develop expertise and provide clients with solutions to climate change.

Early in 2008, the Zurich Group announced a global initiative that will set Zurich on course to become a leader in the identification and management of climate-related risks, while preparing the Group to take meaningful and sustainable steps to manage our own carbon footprint.

Global approach through Climate Office

Zurich entities around the world were already actively addressing customers' needs and expectations in this area. The new climate initiative will, however, establish a consistent and focused approach to the risk class globally and facilitate economic and policy-oriented research that can then be integrated into the Group's product development activities. As part of the effort, an internal Climate Office has been established that will be charged with driving an understanding of climate-related risks across its businesses.

Climate Change Advisory Council

In addition, a Climate Change Advisory Council consisting of both internal functional leaders and external advisors has been established to focus on strategic and operational issues associated with climate change.

Carbon management strategy

The final element of Zurich's climate initiative is the launch of an applied research programme with external organisations and institutions to examine the critical economic, finance and policy issues associated with climate change. The first such partnership will assess the Group's carbon footprint and develop a consistent approach on how we can actively manage our carbon emissions in a meaningful and sustainable manner. The risks associated with climate change go well beyond rising sea levels and reflect the burgeoning regulatory and financial infrastructures that are being created to address this major societal concern. Tapping into the experts in these fields will ensure that our products remain fresh and innovative, and effectively address the rapidly changing risk profile.

Internal resource management

Activities such as air travel contribute to carbon dioxide emissions and therefore global warming. We are conducting an audit of our activities and believe we can reduce air travel by better planning and combining multiple activities in a single trip.

A number of Zurich offices have either relocated or are relocating to new premises. Buildings that comply with energy efficiency principles have been selected for our operations. This policy will continue as more offices are relocated.

Technology, in the form of workflow, enables the Company to operate in a paperless environment. Employees are encouraged to participate in the recycling programme and print documentation only when necessary.

We will use environmentally friendly paper for our printing requirements and will procure our paper from suppliers that source their products from independently certified and well-managed forests.



NV Beyers
Chief Executive Officer

April 8, 2008

Board of Directors

Executive Directors



NV Beyers ACII AMP (Harvard) (60)
Chief Executive Officer
Joined in 1971. Appointed Managing Director in 1998.



DM Burton ACII (59)
Executive Director – Sales
Joined in 1986. Appointed Executive Director in 2005.



CN Zungu BCom (51)
Executive Director – People Management
Joined in 2000. Appointed Executive Director in 2005.

Independent Non-Executive Directors



JPG de Rauville CA (SA) (66)

Chairman

Appointed to the Board in 1983 and as Chairman in 2007.



MN Mbekeni BA (Law), LLB (40)

Director

Appointed to the Board in 2007.



DD Mokgatle BProc, LLB, HDip (Tax Law) (51)

Director

Appointed to the Board in 2007.



SG Morris BCom, CA (SA) (62)

Director

Appointed to the Board in 2005.

Non-Executive Directors



CJ Cron BA (Economics), MBA (55)
Director
Appointed to the Board in 2007.



JPM Deiss Lic. Rer. Pol. Dr Rer. Pol. Habilitation Dr. H.C. (62)
Director
Appointed to the Board in 2007.



DS Phiri BJuris, LLB, HDip (Corp Law), LLM (51)
Director
Appointed to the Board in 2005.

Executive Management Committee

NV Beyers ACII AMP (Harvard) (60)
Chief Executive Officer
Joined in 1971. Appointed Managing Director in 1998.

DM Burton ACII (59)
Executive Director – Sales
Joined in 1986. Appointed Executive Director in 2005.

HC Ehlers FCII (55)
General Manager – Operations Support
Joined in 1986. Appointed General Manager in 2000.

DR Garnett BSc, BCom (31)
Chief Administration Officer
Joined in 2007.

T Laupsa FCCA, MBA (45)
Chief Financial Officer
Joined in 2006.

K Miller FIISA, BA, MBA (45)
General Manager – Personal Lines
Joined in 2007.

MT Neille MBA (45)
General Manager – Information Technology
Joined in 1995. Appointed General Manager in 2001.

DA Roussouw BCom, BSc, MBA (38)
General Manager – Group Marketing
Joined in 2007.

CN Zungu BCom (50)
Executive Director – People Management
Joined in 2000. Appointed Executive Director in 2005.

TA Pitman BA, LLB, Post Grad Dip (Management) (37)
Group Company Secretary
Joined in 2006.

Corporate Governance

Corporate Governance Statement

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

Board of Directors

i) Composition

There is a clear procedure for appointments to the Board. Such appointments are formal and transparent and a matter for the Board as a whole. There is a clear division of responsibility to ensure a balance of power, such that no one individual has unfettered powers of decision-making. At December 31, 2007 the Board comprised seven Non-Executive and three Executive Directors who, with their experience, knowledge and skill, add to the successful operation of the Company. Four of the Non-Executive Directors are independent.

ii) Chairman and Chief Executive Officer

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

Managing the Executive Committee is the responsibility of the Chief Executive Officer, NV Beyers.

iii) Shareholder Representation

Zurich Financial Services (73.6% Controlling Shareholder)

Board: CJ Cron and JPM Deiss. A Paas resigned on February 7, 2007

Audit Committee: CJ Cron, as an attendee

Investment Committee: M Christen was appointed on August 1, 2007 although he is not a Board Member.

R Bollag resigned on August 1, 2007 although he was not a Board Member

Remuneration Committee: R Schaezle was appointed on October 24, 2007 although he is not a Board Member. D Arkell resigned on February 21, 2007 although he was not a Board Member

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

Board: DS Phiri

Transformation Committee: DS Phiri

iv) Functions

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

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

v) Meetings

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

Attendance Register 2007	February 21	May 09	August 01	October 24
NV Beyers	Present	Present	Present	Present
DM Burton	Present	Present	Present	Absent
CJ Cron *	–	–	Present	Present
JPM Deiss *	–	–	–	Present
JPG de Rauville	Present	Present	Present	Present
PT Martin #	Present	–	–	–
MN Mbekeni *	–	–	Present	Absent
DD Mokgatle *	–	–	–	Present
SG Morris	Present	Present	Present	Present
A Paas #	Present	Absent	–	–
DS Phiri	Present	Present	Present	Present
CN Zungu	Present	Present	Present	Present

Resignations:

PT Martin resigned on February 21, 2007

A Paas resigned on August 1, 2007

* New appointments:

CJ Cron was appointed on August 1, 2007

JPM Deiss was appointed on October 23, 2007

MN Mbekeni was appointed on August 1, 2007

DD Mokgatle was appointed on October 1, 2007

Executive Management Committee

The Executive Management Committee assists the Chief Executive Officer, to whom the daily running of the business has been delegated by the Board, to efficiently and effectively manage the Zurich Insurance Company South Africa Group of Companies (the Group) and to implement strategic plans as approved by the Board.

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

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

Executive Committee meetings are held weekly.

Board Committees

Audit Committee

i) Composition

SG Morris (Chairman, Independent Non-Executive Director)
 CJ Cron (Non-Executive Director) – appointed on August 1, 2007
 JPM Deiss (Non-Executive Director) – appointed on October 23, 2007
 JPG de Rauville (Independent Non-Executive Director)
 PT Martin (Independent Non-Executive Director) – resigned on February 21, 2007

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

ii) Function

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

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

The functions of the Committee include the following:

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

iii) Meetings

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

Attendance Register 2007	February 19	May 07	August 01	October 23
CJ Cron *	–	–	Present	Present
JPM Deiss *	–	–	–	Present
JPG de Rauville	Present	Present	Present	Present
PT Martin #	Present	–	–	–
SG Morris	Present	Present	Present	Present

Resignations:

PT Martin resigned on February 21, 2007

* New appointments:

CJ Cron was appointed on August 1, 2007

JPM Deiss was appointed on October 23, 2007

Remuneration Committee

i) Composition

SG Morris (Chairman, Independent Non-Executive Director)

PT Martin (Independent Non-Executive Director) – resigned on February 21, 2007

D Arkell – resigned on February 21, 2007 – although he was not a Board Member (Zurich Financial Services Representative)

R Schaetlze – appointed on October 24, 2007 – although he is not a Board Member (Zurich Financial Services Representative)

ii) Functions

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

The financial statements include the details of Executive and Non-Executive Directors' remuneration and other benefits in accordance with the requirements of the Companies Act 1973 and JSE Listings Requirements. For details of Directors' emoluments, refer to page 102 of this report.

iii) Meetings

The Committee meets when necessary; such meetings normally coincide with Board Meetings.

Investment Committee

i) Composition

PT Martin (Chairman, Independent Non-Executive Director) – resigned on February 7, 2007

JPG de Rauville (Chairman, Independent Non-Executive Director)

NV Beyers (Executive Director)

R Bollag – resigned on August 1, 2007 – although he was not a Board Member (Zurich Financial Services Representative)

M Christen – appointed on August 1, 2007 – although he is not a Board Member (Zurich Financial Services Representative)

ii) Functions

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

iii) Meetings

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

Transformation Committee

i) Composition

DS Phiri (Chairman, Non-Executive Director)
 G Kettaneh (Royal Bafokeng Finance Representative)
 MT Neille (Zurich SA Executive Committee Member)
 DA Roussouw (Zurich SA Executive Committee Member) – appointed on October 1, 2007
 CN Zungu (Zurich SA Executive Director)

ii) Functions

The purpose of the Committee is to:

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

iii) Meetings

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

Nominations Committee

i) Composition

SG Morris (Chairman, Independent Non-Executive Director)
 DS Phiri (Non-Executive Director)
 NV Beyers (Executive Director)

ii) Functions

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

iii) Meetings

The Nominations Committee consists of not less than three Directors appointed by the Board, the majority of whom are Non-Executive Directors. Meetings are held as appropriate, though the committee meets at least once a year.

Business Risk Management Committee

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

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

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

Accounting and Auditing

External Audit

The external auditors, PricewaterhouseCoopers Inc., are responsible for reporting on whether the financial statements are fairly presented in conformity with International Financial Reporting Standards. The external auditors offer reasonable, but not absolute assurance on the accuracy of financial disclosures. The preparation of the financial statements is the responsibility of management. Consultation occurs between external and internal auditors to effect an efficient audit process. The Audit Committee sets the principles for recommending the use of the external auditors for non-audit services.

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

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

Group Audit

The function of the Group Audit Department is to provide independent, objective assurance and consulting services designed to add value and improve Zurich's operations. It helps Zurich to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Group Audit is independent of management and is staffed by qualified and experienced individuals, with the head of the department reporting directly to the Chief Executive Officer and the Audit Committee. Group Audit submits reports to and attends the Audit Committee meetings.

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

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

Directors' Responsibility

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

Going Concern

Based on the Annual Financial Statements as set out on pages 32 to 112, the Directors have every reason to believe that the Company has adequate resources in place to continue operations for the foreseeable future.

Code of Business Conduct

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

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

Communication

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

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

Disclosure

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

Annual Financial Statements

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Independent Auditor's Report

To the members of Zurich Insurance Company South Africa Limited

We have audited the Annual Financial Statements and Group Annual Financial Statements of Zurich Insurance Company South Africa Limited, which comprise the Directors' report; the balance sheet and the consolidated balance sheet as at December 31, 2007; the income statement and the consolidated income statement; the statement of changes in equity and the consolidated statement of changes in equity; the cash flow statement and the consolidated cash flow statement for the year then ended; and a summary of significant accounting policies and other explanatory notes; as set out on pages 32 to 112.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and of the Group as at December 31, 2007 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.

Director: S Masuku

Registered Auditor

2 Eglin Road, Sunninghill, 2157

April 8, 2008

Directors' Responsibility and Approval of Annual Financial Statements

The Directors are required by the Companies Act of South Africa, 1973, as amended, to maintain adequate accounting records and are responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is the Directors' responsibility to ensure that the financial statements fairly present the state of affairs of the Company and the Group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are responsible for independently reviewing and reporting on the financial statements.

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

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

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

In light of the current financial position, the Directors are satisfied that Zurich Insurance Company South Africa Limited is a going concern and have continued to adopt the going concern basis in preparing the financial statements. The Group's external auditors, PricewaterhouseCoopers Inc., have audited the financial statements and their unqualified report appears on page 33. This statement concurs with the Directors' statements on internal financial control and going concern.

The Company and Group Annual Financial Statements which are set out on pages 32 to 112 were, in accordance with their responsibilities, approved by the Board of Directors on February 22, 2008 and are signed on its behalf by:



JPG de Rauville
Chairman



NV Beyers
Chief Executive Officer

Bryanston
April 8, 2008

Certificate by Group Company Secretary

In terms of section 268G (d) of the Companies Act, 1973, as amended, I certify, that the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act, 1973, and that all such returns are true, correct and up to date.



TA Pitman

Group Company Secretary

Bryanston
April 8, 2008

Directors' Report

Nature of business

The Company conducts all classes of short term insurance business in the Republic of South Africa, and through its subsidiaries in Botswana and Zimbabwe. Details of investments in subsidiaries and associated companies are set out on pages 105 and 106.

Operations in 2007

The Group, after a concerted effort across all areas of the business, maintained profit before tax at a similar level to that achieved in the previous year.

Gross premium income rose by an expected 12.5%. This increase was achieved despite a reduction in the contribution received from our Zimbabwean subsidiary due to currency devaluation and the effects of hyper-inflation. The growth in premium, although slightly lower than in the period to June 2007, is still satisfactory in a challenging market.

In 2007, the Group benefited from a net pension fund surplus of R43 million including related investment income (2006: R97 million, after accounting for a R133 million expense of conversion from a defined benefit to a defined contribution pension fund).

Expenses increased by 11% during the year after allowing the effects of the offering in respect of the Pension Fund conversion to employees, discussed above. The expense ratio improved to 9.6% (2006: 10%).

The increase in both the number and the quantum of claims continued into the second half of the year. This resulted in an increase in claims of some 15%. The main area of concern remains the motor portfolio. Corrective action continues to be taken and our focus for 2008 will be on the implementation of a revised procurement policy, an actuarial rating structure, disciplined underwriting and the cancellation of poor performing business.

A new corporate business unit that is focused on providing brokers and corporate customers with structured solutions was introduced during the year. A notable success was the acquisition of the Gautrain account, which clearly demonstrates our ability to take advantage of the global expertise and reinsurance capacity of the Zurich Group.

Personal lines, another focal point, has resulted in a strategy that incorporates performance improvement, organic growth and new distribution channel initiatives. This strategy will be introduced in 2008 and will result in the development of a product set that will offer quality, innovation and value-add to policyholders and brokers. Our market focus will include broader consumer markets such as the mass and micro-insurance markets.

Investment income grew to R236.2 million (2006: R202.2 million) which reflected the enhanced interest rates received by the Group on funds deposited at institutions. The fair value through income adjustment on our bond portfolio continued to show a loss. This was however offset by the increase in realised gains on the disposal of equities held as available-for-sale. Investment related income therefore increased over 2006 levels by 16.4%.

Taxation increased by R24 million due to an under-provision for the prior years. Excluding this, the tax rate is comparable to 2006.

The Group's balance sheet remains strong with an increase in net asset value of 8%. Solvency is satisfactory at 53.2% and continues to remain within the Group's policy range.

During 2008 we will continue our focus on customer, product and distribution excellence. Profitable growth alongside operational transformation and underwriting discipline will be the main drivers of our business strategy. Coupled with the fact that the Company's claims paying ability rating has been reaffirmed at AA+ we feel strongly positioned to establish and embed the presence of Zurich in South Africa.

Dividend

The Directors have declared a final dividend of 440 cents per share (2006: 430 cents per share) making a total of 700 cents per share for the year (2006: 650 cents per share).

Directors and management

The following resignations were noted in the period under review: PT Martin resigned on February 21, 2007; A Paas resigned on August 1, 2007; and the following Directors were welcomed to the Board during the same period: CJ Cron and MN Mbekeni on August 1, 2007; DD Mokgatle on October 1, 2007 and JPM Deiss on October 24, 2007. The Directors who remained unchanged were: NV Beyers; DM Burton; JPG de Rauville; SG Morris; DS Phiri; and CN Zungu. Full details of the Directors and Executive Management are set out on pages 18 to 23.

Directors' shareholding

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

Fully paid shares	2007	2006
Indirect Beneficial		
Indirect Non-Beneficial	1,000	1,000
Breakdown		
Indirect Non-Beneficial:		
Shareholder	2007	2006
NV Beyers	200	200
DM Burton	100	100
JPG de Rauville	100	100
PT Martin	100	100
SG Morris	100	100
A Paas	100	100
DS Phiri	100	100
MC South	100	100
CN Zungu	100	100

There have been no changes in the above interests between the end of the financial year and the date of posting this Annual Report.

The qualification shares for all the Directors who resigned during the year under review will be transferred to the new appointees and NV Beyers will subsequently have a balance of 100 shares after the transfer as follows:

Transferor	Transferee	No of Shares
NV Beyers	CJ Cron	100
PT Martin	MN Mbekeni	100
A Paas	JPM Deiss	100
MC South	DD Mokgatle	100

Directors' Report (continued)

Group Company Secretary

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

Zurich House, The Braes, 193 Bryanston Drive, Bryanston, 2021
PO Box 61489, Marshalltown, 2107

Holding and ultimate holding company

The immediate holding company is SA Fire House Limited, incorporated in South Africa, which directly and indirectly owns 73.6% (2006: 73.6%) of the issued and fully paid share capital. The ultimate holding company is Zurich Financial Services, incorporated in Switzerland.

Code of corporate practices and conduct

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

Balance Sheets

as at December 31, 2007

R000

	Note	Group		Company	
		2007	2006	2007	2006
Assets					
Property and equipment	5	63,531	68,476	59,910	63,181
Investment property	7.1	5,674	9,641	–	–
Investment in subsidiaries	7.2	–	–	73,075	75,138
Investment in associates	7.3	–	3,295	–	–
Financial assets:					
– Available-for-sale	7.4	668,267	678,650	666,066	628,830
– At fair value through income	7.5	437,811	379,761	437,666	379,705
– Loans and receivables	8	1,231,857	1,013,867	1,127,129	896,626
Retirement benefit fund surplus	9	96,196	230,764	96,196	230,764
Assets arising from reinsurance contracts	11	481,928	605,614	461,736	543,145
Intangible insurance assets – deferred acquisition costs	12	113,127	98,736	102,680	98,736
Taxation asset		70,083	34,811	62,910	31,645
Cash and cash equivalents	13	1,583,650	1,482,314	706,572	709,198
Total assets		4,752,124	4,605,929	3,793,940	3,656,968
Equity					
Share capital	14	3,045	3,045	3,045	3,045
Share premium	15	1,605	1,605	1,605	1,605
Non-distributable reserve		368,705	434,474	376,411	420,880
Translation reserve		(38,675)	(84,336)	–	–
Statutory contingency reserve		361,188	313,643	336,393	292,302
Retained profit		1,204,262	1,090,502	1,016,260	886,096
Shareholders' equity		1,900,130	1,758,933	1,733,714	1,603,928
Minority shareholders' interest in subsidiaries		2,090	13,043	–	–
Total equity		1,902,220	1,771,976	1,733,714	1,603,928
Liabilities					
Employee benefit obligations	9	17,388	179,924	17,388	179,924
Deferred tax liabilities	16	77,656	99,451	77,388	66,328
Liabilities arising from insurance contracts	11	1,893,070	1,920,676	1,653,049	1,604,568
Reinsurance commission		35,263	34,270	33,696	34,270
Financial liabilities: amounts due to cell shareholders		294,805	211,114	–	–
Taxation liability		13,197	15,030	–	–
Trade and other payables	17	518,525	373,488	278,705	167,950
Total liabilities		2,849,904	2,833,953	2,060,226	2,053,040
Total equity and liabilities		4,752,124	4,605,929	3,793,940	3,656,968

Income Statements

for the year ended December 31, 2007

R000

	Note	Group		Company	
		2007	2006	2007	2006
Insurance premium revenue		4,400,960	3,910,639	3,964,136	3,431,870
Insurance premium ceded to reinsurers		827,941	735,513	600,219	508,863
Net insurance premium revenue		3,573,019	3,175,126	3,363,917	2,923,007
Change in provision for unearned premium		(17,100)	(114,622)	627	(37,838)
Reinsurers' share of change in provision for unearned premium		(16,794)	55,043	(17,269)	23,776
Net insurance premium earned	10	3,539,125	3,115,547	3,347,275	2,908,945
Reinsurance commission earned		114,959	138,032	109,372	93,964
Other income – fee income		19,947	10,602	36	–
Pension fund surplus	9	19,753	230,764	19,753	230,764
Investment income	18	236,159	202,224	188,415	163,822
Net fair value losses on assets held at fair value through income	19	(23,839)	(18,962)	(23,839)	(18,962)
Net realised gains on financial assets – available-for-sale	20	94,512	71,334	95,309	71,250
Net income		4,000,616	3,749,541	3,736,321	3,449,783
Insurance claims					
Gross insurance claims paid	21	2,813,110	2,513,901	2,650,634	2,288,209
Reinsurers' share of claims paid		(333,419)	(323,881)	(325,907)	(236,331)
Change in gross provision for outstanding claims		54,068	160,905	47,853	150,958
Reinsurers' portion of change in provision for outstanding claims		62,035	(94,083)	64,141	(90,369)
Net insurance claims	10	2,595,794	2,256,842	2,436,721	2,112,467
Expenses					
Gross acquisition costs		618,605	609,307	609,353	532,720
Administrative and other operating expenses		349,759	447,250	309,216	423,022
Investment expenses		4,734	3,594	4,734	3,594
Expenses		973,098	1,060,151	923,303	959,336
Profit before tax and interest		431,724	432,548	376,297	377,980
Interest paid		10,564	–	10,564	–
Profit before tax	22	421,160	432,548	365,733	377,980
Income tax expense	23	130,128	105,666	107,439	90,330
Profit after tax		291,032	326,882	258,294	287,650
Net income attributable to:					
– Members of the Company		289,860	320,580	258,294	287,650
– Minority interest		1,172	6,302	–	–
Earnings per share (cents)	4	2,379.9	2,632.1	–	–

Cash Flow Statements

for the year ended December 31, 2007

R000

	Note	Group		Company	
		2007	2006	2007	2006
Cash flows from operating activities					
Cash generated from operations	24	194,863	220,046	233,867	159,406
Interest received		209,739	164,779	152,208	128,948
Interest paid		(10,564)	–	(10,564)	–
Dividends received		26,420	37,445	36,207	34,874
Net movement in working capital	25	14,085	146,711	(123,680)	93,289
Cash generated from operating activities		434,543	568,981	288,038	416,517
Taxation paid	26	(167,764)	(70,706)	(139,237)	(65,296)
Dividends paid		(94,155)	(99,873)	(84,039)	(99,873)
Net cash flows from operating activities		172,624	398,402	64,762	251,348
Cash flows (utilised by)/from investing activities					
Acquisitions:		(715,364)	(435,479)	(713,494)	(429,858)
Investment property		–	(426)	–	–
Financial assets at fair value through income		(615,808)	(369,128)	(615,808)	(369,128)
Financial assets – available-for-sale		(78,448)	(34,975)	(78,448)	(33,272)
Property and equipment		(21,108)	(30,950)	(19,238)	(27,458)
Proceeds on disposal:		647,423	500,451	640,111	497,853
Investment property		4,138	–	–	–
Financial assets at fair value through income		536,179	400,140	534,008	400,140
Financial assets – available-for-sale		100,628	95,391	100,191	92,819
Property and equipment		6,478	4,920	5,912	4,894
Repayment of mortgages and loans advanced		(3,347)	1,412	5,995	1,969
Net cash flows from investing activities		(71,288)	66,384	(67,388)	69,964
Net increase/(decrease) in cash and cash equivalents		101,366	464,786	(2,626)	321,312
Cash and cash equivalents at beginning of year		1,482,314	1,017,528	709,198	387,886
Cash and cash equivalents at end of year	13	1,583,650	1,482,314	706,572	709,198

Statements of Changes in Equity

for the year ended December 31, 2007

R000

Group	Share capital	Share premium	
Balance at December 31, 2005	3,045	1,605	
Net gains in available-for-sale financial assets transferred to income on disposal			
Revaluation of available-for-sale financial assets			
Share of losses in associates recognised in equity			
Deferred tax adjustment resulting from revaluations			
Translation of foreign subsidiaries			
Transfer to/(from) statutory contingency reserve			
Net profit for the year			
Dividends paid			
Balance at December 31, 2006	3,045	1,605	
Net gains in available-for-sale financial assets transferred to income on disposal			
Revaluation of available-for-sale financial assets			
Deferred tax adjustment resulting from revaluations			
Translation of foreign subsidiaries			
Transfer to/(from) statutory contingency reserve			
Net profit for the year			
Dividends paid			
Balance at December 31, 2007	3,045	1,605	

Company	Share capital	Share premium	
Balance at December 31, 2005	3,045	1,605	
Net gains in available-for-sale financial assets transferred to income on disposal			
Revaluation of available-for-sale financial assets			
Deferred tax adjustment resulting from revaluations			
Transfer to/(from) statutory contingency reserve			
Net profit for the year			
Dividends paid			
Balance at December 31, 2006	3,045	1,605	
Net gains in available-for-sale financial assets transferred to income on disposal			
Revaluation of available-for-sale financial assets			
Deferred tax adjustment resulting from revaluations			
Transfer to/(from) statutory contingency reserve			
Net profit for the year			
Dividends paid			
Balance at December 31, 2007	3,045	1,605	

In addition to the statutory contingency reserve, an additional 15% of net earned premium, being R502,091,000 (2006: R436,341,000), may not be distributed in order to achieve the 25% regulatory capital requirement of the Short Term Insurance Act and the Financial Services Board.

	Non-distributable reserve	Translation reserve	Statutory contingency reserve	Retained profit	Total attributable to members of the Company	Minority interest in subsidiaries	Total
	369,716	(45,855)	269,372	914,066	1,511,949	3,147	1,515,096
	(66,473)				(66,473)		(66,473)
	191,364				191,364		191,364
	(22)				(22)		(22)
	(60,111)				(60,111)		(60,111)
		(38,481)			(38,481)	3,594	(34,887)
			44,271	(44,271)	–		–
				320,580	320,580	6,302	326,882
				(99,873)	(99,873)		(99,873)
	434,474	(84,336)	313,643	1,090,502	1,758,933	13,043	1,771,976
	(87,880)				(87,880)		(87,880)
	55,609				55,609		55,609
	(11,591)				(11,591)		(11,591)
	(21,907)	45,661		(34,400)	(10,646)	(12,125)	(22,771)
			47,545	(47,545)	–		–
				289,860	289,860	1,172	291,032
				(94,155)	(94,155)		(94,155)
	368,705	(38,675)	361,188	1,204,262	1,900,130	2,090	1,902,220

	Non-distributable reserve	Statutory contingency reserve	Retained profit	Total
	374,780	261,019	729,602	1,370,051
	(61,868)			(61,868)
	136,783			136,783
	(28,815)			(28,815)
		31,283	(31,283)	–
			287,650	287,650
			(99,873)	(99,873)
	420,880	292,302	886,096	1,603,928
	(87,880)			(87,880)
	55,002			55,002
	(11,591)			(11,591)
		44,091	(44,091)	–
			258,294	258,294
			(84,039)	(84,039)
	376,411	336,393	1,016,260	1,733,714

Notes to the Annual Financial Statements

for the year ended December 31, 2007

1. Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB) that are effective on December 31, 2007.

1.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties, financial assets and financial liabilities at fair value through income and available-for-sale financial assets. Some employee benefits have been calculated using the projected unit credit method. The consolidated financial statements are presented in Rands and all values are rounded to the nearest thousand (R'000) except when otherwise indicated.

The Group has adopted the following mandatory amendments to International Financial Reporting Standards, which are effective for accounting periods beginning on or after January 1, 2007:

a) Amendments to published standards effective in 2007

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after January 1, 2007:

The accounting policies adopted are consistent with those of the previous financial year except for the following:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. The early adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 Financial Instruments: Disclosures;
- IAS 1 Amendment: Presentation of Financial Statements;
- IFRIC 8 Scope of IFRS 2;
- IFRIC 9 Reassessment of Embedded Derivatives; and
- IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

- IFRS 7 Financial Instruments: Disclosures
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.
- IAS 1 Amendment: Presentation of Financial Statements
This amendment requires the Group to make disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These additional disclosures have been made under the various affected notes.
- IFRIC 8 Scope of IFRS 2
This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As no equity instruments have been issued, the interpretation had no impact on the financial position or performance of the Group.

- **IFRIC 9 Reassessment of Embedded Derivatives**
IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.
- **IFRIC 10 Interim Financial Reporting and Impairment**
The Group adopted IFRIC Interpretation 10 as of January 1, 2007 which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

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

The Group has not early adopted the following IFRS and IFRIC interpretations:

- IFRS 8 Operating Segments; and
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions.
- IFRS 8 Operating Segments;
This standard should be applied to all annual periods commencing on or after January 1, 2009. The standard requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments based on information provided to key management. The statement will therefore not impact the results of the Group but may impact the identification and measurement of segment results.
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions
This interpretation should be applied to annual periods commencing on or after March 1, 2007. IFRIC 11 provides guidance on applying IFRS 2 in three circumstances:
 - Share-based payments involving an entity's own equity instruments in which the entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligation should always be accounted for as equity-settled share-based transactions under IFRS 2.
 - If a parent grants rights to its equity instruments to employees of its subsidiary and assuming the transaction is accounted for as equity-settled in the consolidated financial statements, the subsidiary must measure the services received using the requirements for equity-settled transactions in IFRS 2, and must recognise a corresponding increase in equity as a contribution from the parent.
 - If a subsidiary grants rights to equity instruments of its parent to its employees, the subsidiary accounts for the transaction as a cash-based payment transaction.

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

IFRIC 12 Service Concession Arrangements. This interpretation should be applied to all annual periods commencing on or after January 1, 2008. Service concession arrangements are those arrangements whereby a Government or other body grants contracts for the supply of public services such as roads, energy distribution, prisons or hospitals to private operators. The objective of this IFRIC is to clarify how certain aspects of existing IASB literature are to be applied to service concession arrangements. This statement is not applicable to the business of the Group.

d) Estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions in the valuation of certain assets and liabilities. This is specifically true for the valuation of liabilities from insurance contracts. The estimates and associated assumptions are based on historical experience

Notes to the Annual Financial Statements (continued)

and various other factors that are believed to be relevant under the circumstances. Actual results may, however, differ from these estimates. Revisions to accounting estimates and assumptions are recognised in the year in which the estimate is revised.

The accounting policies set out below have been applied consistently.

1.2 Basis of consolidation

The Group's balance sheet is not presented using a current/non-current classification. However, the following balances are generally classified as current: cash and cash equivalents, short-term investments, intangible insurance assets, deferred acquisition, accrued investment income, receivables, taxation owing and asset and reserves for unearned premiums, accrued liabilities and liabilities arising from insurance contracts.

The following balances are generally classified as non-current: property and equipment, investment property, equity securities, pension fund surplus, investments in associates, investments held by investment companies, deferred tax assets and deferred tax liabilities.

The following balances are of a mixed nature (including both current and non-current portions): mortgage loans, other loans, other investments, employee benefit costs, other assets, reserves for losses and loss adjustment expenses and trade and other payables.

Subsidiaries

The consolidated financial statements include the Company and its subsidiaries. The results of the subsidiaries are included from the effective dates of control up to the effective dates that control ceases. Subsidiaries are those entities for which the Company, directly or indirectly, has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

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

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

Foreign subsidiaries in hyper-inflationary economies

Foreign subsidiaries which operate in a hyper-inflationary economy are adjusted for hyper-inflation using a general purchasing power of the local currency in which the accounts are prepared as required by IAS 29. This is in particular applicable to the Group's investment in the Zimbabwean subsidiary.

Transactions and minority interests

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

Associated companies

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

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

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

Transactions eliminated on consolidation

The accounting policies have been applied consistently by Group entities. All inter-company transactions, balances and unrealised gains and losses on transactions between Group entities have been eliminated. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1.3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements: (IAS 1.113 revised).

Operating lease commitments – Group as lessee

The Group has entered into commercial property leases. The Group has determined, based on an evaluation of the terms and conditions of the leases, that all the significant risks and rewards of ownership of these properties remain with the lessor. Therefore these leases are accounted for as operating leases.

Foreign subsidiary conversion rates

The Group has determined that the official exchange rates for Zimbabwe do not reflect fair value to entities outside of Zimbabwe and therefore the Group has opted to use the Old Mutual Implied Rates to convert the Zimbabwean subsidiary in the current year.

Estimates and assumptions

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments, and relate to general insurance and life insurance reserves, the determination of fair value for financial assets and liabilities, impairment charges, deferred policy acquisition costs, deferred taxes and pension

Notes to the Annual Financial Statements (continued)

benefits. In each case, the determination of these items requires management to make informed judgements based on information and financial data that may change in future periods.

a) Reserves for losses and loss adjustment expenses

The Group is required by applicable insurance laws, regulations and IFRS to establish reserves for payment of losses and loss adjustment expenses that arise from the Group's insurance products. These reserves represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the balance sheet date. The Group establishes its reserves by product line, type and extent of coverage and year of occurrence. Loss reserves fall into two categories: reserves for reported losses and reserves for incurred but not reported (IBNR) losses. Additionally, reserves are held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalise the settlement of the losses.

The Group's reserves for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported insurance claims. The Group bases such estimates on the facts available at the time the reserves are established. The Group generally establishes these reserves on an undiscounted basis to recognise the estimated costs of bringing pending claims to final settlement, taking into account inflation, as well as other factors that can influence the amount of reserves required, some of which are subjective and some of which are dependent on future events. In determining the level of reserves, the Group considers historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the Group's estimation of reserves. Between the reporting and final settlement of a claim, circumstances may change, which would result in changes to established reserves. Items such as changes in law and interpretations of relevant case law, results of litigation, changes in medical costs, as well as costs of vehicle and home repair materials and labour rates can substantially impact ultimate settlement costs. Accordingly, the Group reviews and re-evaluates claims and reserves on a regular basis. Amounts ultimately paid for losses and loss adjustment expenses may vary significantly from the level of reserves originally set.

The Group establishes IBNR reserves, generally on an undiscounted basis, to recognise the estimated cost of losses for events which have already occurred but which have not yet been notified. These reserves are established to recognise the estimated costs required to bring claims for these not yet reported losses to final settlement. As these losses have not yet been reported, the Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The Group also uses reported claim trends, claim severities, exposure growth, and other factors in estimating its IBNR reserves. The Group revises these reserves as additional information becomes available and as claims are actually reported.

The time required to learn of and settle claims is an important consideration in establishing the Group's reserves.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within months following the reported incident. Long-tail claims, such as bodily injury, pollution, asbestos and product liability, can take years to develop and additional time to settle. For long-tail claims, information concerning the event, such as the required medical treatment for bodily injury claims and the measures and costs required to clean up pollution, may not be readily available. Accordingly, the reserving analysis of long-tail lines of business is generally more difficult and subject to greater uncertainties than for short-tail losses.

Since the Group does not establish reserves for catastrophes in advance of the occurrence of such events, these events may cause volatility in the levels of its incurred losses and reserves, subject to the effects of reinsurance

recoveries. This volatility may also be contingent upon political and legal developments after the occurrence of the event.

The Group uses a number of accepted actuarial methods to estimate and evaluate the amount of reserves recorded. The nature of the claim being reserved for and the geographic location of the claim influence the techniques used by the Group's actuaries. Additionally, the Group's actuaries perform periodic reserve reviews. Management considers the results of these reviews and adjusts its loss and loss adjustment expense reserves, where necessary.

Refer to note 11 for further information on reserves for losses and loss adjustment expenses.

b) Fair value of financial assets and liabilities

Certain of the Group's assets and liabilities are recorded at fair value on the balance sheet. Fair value determinations for financial assets and liabilities are based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable, fair value is based on either internal valuation models or management estimates of amounts that could be realised under current market conditions. Fair values of certain financial instruments are determined using pricing models that consider, among other factors, contractual and market prices, correlations, yield curves, credit spreads, volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could lead to different estimates of fair value.

Changes in assumptions for any of these factors could affect the reported fair value of these financial instruments.

Refer to notes 7.4 and 7.5 for further information on the fair value of financial assets and liabilities.

c) Impairment of assets

Assets are subject to regular impairment reviews under the relevant IFRS standard. Impairments are measured as the difference between the cost (or amortised cost) of a particular asset and the current fair value or the recoverable amount.

For quoted available-for-sale financial assets the decision to make an impairment provision is based on a review of the issuer's current financial position and future prospects and an assessment of the probability that the current market price will recover to former levels within the foreseeable future. The recoverable amount is determined by reference to the market price. For non-quoted available-for-sale financial assets, the Group takes into consideration the issuer's current financial position and future prospects in determining whether an impairment provision is required. The recoverable amount is determined by applying recognised valuation techniques.

Impairments are recorded in the current period income statement when they occur.

Refer to note 5 for further information on impairments of assets.

d) Deferred taxes

Deferred tax assets are recognised if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, are available for realisation.

The utilisation of deferred tax assets arising from temporary differences depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled. As of each balance

Notes to the Annual Financial Statements (continued)

sheet date, management evaluates the recoverability of deferred tax assets and if it is considered probable, that all or a portion of the deferred tax asset will not be utilised, then a valuation allowance would be recognised.

Refer to note 16 for further information on deferred taxes.

e) Pension plans

The Group is running off a defined benefit pension fund. In assessing the Group's liability for this fund, critical judgements include estimates of mortality rates, discount rates, future pension increases and increases in long-term health care costs. These assumptions may differ from actual results due to changing economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in variability of pension income or expense recorded in future years.

Refer to note 9 for further information on defined benefit pension plans.

1.4 Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in thousands of Rands, which is the Group's presentation currency.

Transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to South African Rand at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Rand at foreign exchange rates ruling at the dates the fair value was determined and are reported as part of the fair value gain or loss.

Group companies

The assets and liabilities of foreign entities, including goodwill and fair value adjustments arising on consolidation, are translated to Rand at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign entity are translated to Rand at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising as a result of the aforementioned are recognised directly in a separate component of equity. On disposal the exchange gain or loss will be recognised in the disposal result in the income statement.

1.5 Classification of insurance and investment contracts

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

Cell captive business

Policies written under third party cells transfer insurance risk in terms of IFRS 4 Insurance Contracts and are accounted for in terms of the policy for the recognition of insurance contracts below. A liability in the balance sheet represents the amounts payable to cell shareholders and includes the cash component of assets due to the cell shareholders, which is included in cash and cash equivalents on the balance sheet.

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

Primary risk policies

Primary risk policies where the net positive result of the policy becomes available to the policyholder on termination of the policy are treated as insurance contracts, if they transfer significant insurance risk, with amounts due to policyholders from underwriting and investment income reflected as an expense in the income statement and as a liability in the balance sheet where these amounts have not been paid to the policyholder.

1.6 Recognition and measurement of insurance contracts

The insurance contracts that the Group underwrites are classified and described in note 1.5.

Insurance premium revenue

Insurance premium revenue comprises the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period and are disclosed gross of commission payable to intermediaries. Insurance premium revenue written includes adjustments to premiums written in prior accounting periods and estimates for 'pipeline insurance premium revenue'.

Premiums are earned from the date the risk attaches, over the indemnity period, based on the pattern of the risk underwritten.

Unearned premiums, which represent the proportion of premiums written in the current year which relate to risks that have not expired by the end of the financial year, are calculated on a basis that best represents the unearned risk profile for the underlying business.

Premiums received under third party cell captive business are included in gross premium revenue in the income statement. These premiums are subsequently ceded to insurance cells and are reflected as such in the income statement.

Claims

Claims paid consist of claims and claims handling expenses paid during the financial year and together with the movement in the provision for outstanding claims are recognised in the income statement. The provision for outstanding claims comprises the Group's estimate of the undiscounted ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not and related internal and external claims handling expenses. Related anticipated reinsurance recoveries are disclosed separately as assets. These estimated reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses including an implicit risk margin to allow for the ultimate cost of claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court rulings.

Notes to the Annual Financial Statements (continued)

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

Salvage and subrogation reimbursements

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

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

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

Liability adequacy test

The unexpired risk provision meets the criteria of the liability adequacy test required by IFRS 4 and therefore no additional test is performed. Provision is made for unexpired risks where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business that are managed together, after taking into account the relevant investment returns.

Reinsurance

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

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance) are accounted for as financial assets.

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

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

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that there is a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses are recognised in the income statement.

Insurance receivables and payables

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

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

Deferred acquisition costs

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

1.7 Investment contracts

Receipts and payments under investment contracts are not classified as insurance transactions in the income statement but are deposit accounted in the balance sheet. The deposit liability recognised in the balance sheet represents the expected amounts payable to the holders of the investment contracts inclusive of allocated investment income.

1.8 Property and equipment

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

Depreciation is provided on a straight-line basis at rates required to write off the costs of fixed assets over their estimated useful lives to their estimated residual values. Computer equipment and systems are depreciated over three years, motor vehicles and office equipment over five years and furniture over 10 years.

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

Gains and losses on disposals, which are included in operating profit, are determined by comparing the proceeds with the carrying amounts.

1.9 Financial assets

Classification

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

Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Notes to the Annual Financial Statements (continued)

Financial assets at fair value through income

Financial assets at fair value through income are financial assets, which on initial recognition, are designated by the Group as being at fair value through income. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking, or if so designated by management.

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

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or are not classified in any other category and are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity, changes in interest rates or market conditions.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short-term or that it may have designated as held at fair value through income or available-for-sale. Interest-bearing staff housing loans and other loans are included in this category.

Receivables arising from insurance contracts are also classified in this category.

Recognition

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

Measurement

Financial assets are initially measured at fair values plus, in the case of all financial assets not at fair value through income, transaction costs that are directly attributable to their acquisition. In the case of financial assets through income, transaction costs are expensed in the income statement.

After initial recognition, the Group measures investments at fair value through income and available-for-sale financial assets at fair value, without any deduction for transaction costs it may incur on disposal. The fair value of listed investments is their quoted bid prices at the balance sheet date. For unlisted investments the Group establishes fair values by using valuation techniques.

These include the use of recent arm's length market transactions, references to another instrument that is substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs. If the fair value of equity instruments cannot be reliably measured, they are measured at cost.

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

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through income, are included in the profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity except for impairment losses. When available-for-sale financial assets are sold or impaired, the cumulative gains or losses previously recognised in equity are recognised in profit or loss.

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

Fair value determinations for financial assets and liabilities are based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable, fair value is based on either internal valuation models or management estimates of amounts that could be realised under current market conditions. Fair values of certain financial instruments are determined using pricing models that consider, among other factors, contractual and market prices, correlations, yield curves, credit spreads, volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could lead to different estimates of fair value.

1.10 Impairment

Financial assets at amortised cost

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the income statement.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - Adverse changes in the payment status of issuers or debtors in the Group; or
 - National or local economic conditions that correlate with defaults on the assets in the Group.

The Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Notes to the Annual Financial Statements (continued)

The recoverable amount of the Group's loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. The amount of any loss is included in the income statement.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Financial assets at fair value

The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed. The impairment loss is reversed through the income statement, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Non-financial assets

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The reversal is recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.11 Provisions

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

1.12 Financial liabilities

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

1.13 Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation, or for both and which are not occupied by companies in the Group. Investment properties are measured initially at fair value, including transaction fair value. After initial recognition investment properties are measured at fair value. An external, independent valuer, having an appropriate recognised professional qualification and recent

experience in the location and category of property being valued, values the properties annually. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement.

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

1.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

1.15 Share capital

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

Where any Group company purchases the Company's equity share capital (treasury shares) the consideration paid including any directly attributable incremental costs (net of tax) is deducted from equity attributable to the shareholders of the Company.

Where such shares are subsequently sold, reissued or otherwise disposed any consideration received is included in equity attributable to the Company's shareholders net of any directly attributable incremental transaction costs and the related income tax effects.

1.16 Statutory contingency reserve

The annual adjustment to the statutory contingency reserve stems from premium increases or decreases during the year and is reflected as an appropriation to or from retained earnings. The statutory contingency reserve is calculated as 10% on net written premium in terms of the Short Term Insurance Act.

1.17 Leases

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

1.18 Revenue

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

Interest and dividends

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

Rental income

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

Notes to the Annual Financial Statements (continued)

Fee income

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

Reinsurance commission revenue

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

1.19 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case the related income tax is also recognised in equity.

Current tax

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided in full, using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. However if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction effects neither accounting nor tax profit or loss, it is not accounted for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary tax on companies

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

1.20 Employee benefits

Group companies operate various pension schemes and have both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current and prior periods.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of any plan assets, together with adjustments for unrecognised actuarial gains or losses and past service cost. The present value of the defined benefit obligation is determined by discounting

the estimated future cash outflows of the benefits that will be paid to employees and using interest rates of Government bonds that have terms to maturity approximating the terms of the related pension obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the average remaining service lives of the related employees except in the case of retired employees, where such amounts are recognised immediately.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period), in which case the past-service costs are amortised on a straight-line basis over the vesting period.

Defined contribution plans

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

Long-term service benefits

The Group provides post-retirement health care benefits to current and future pensioners, except in the case of employees who joined the Group after September 30, 2002 from which date these employees are no longer entitled to this benefit. The entitlement to the post-retirement health care benefits is conditional on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the expected average remaining working lives of the related employees. Independent qualified actuaries value these obligations annually.

Long-term performance share plan

Where key business performance targets are met, certain Directors and senior executives of the Group receive Zurich Financial Services shares. Based on a three-year plan cycle, performance is measured against agreed criteria. The cost of the shares is charged to the Group by Zurich Financial Services and expensed as paid.

Profit sharing, bonus plans and leave pay

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

1.21 Segment information

The primary basis for identifying business segments of the Group is to group together related products and services with similar business risks and returns while the secondary basis reflects geographic regions.

1.22 Dividend distribution

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

1.23 Financial offsetting

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

Notes to the Annual Financial Statements (continued)

2. Business analysis

Segmental analysis

The primary basis for identifying business segments of the Group is to group together related products and services with similar business risks and returns while the secondary basis reflects geographical regions.

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

The Group carefully evaluates all retention of risk in terms of statistical and underwriting disciplines, as well as specific and limited Board mandates for each insurance programme. The policies underwritten by the Group are detailed under insurance risk management, note 3.

Business segments

R000

	Property	Transport	
The segment results for the year ended December 31, 2007 are as follows:			
Insurance premium revenue	1,312,575	199,298	
Insurance premium ceded to reinsurers	(397,684)	(56,116)	
Change in provision for unearned premium	(5,477)	2,954	
Net insurance premium revenue	909,414	146,136	
Reinsurance commission earned	83,034	7,037	
Other income	–	–	
Investment income	–	–	
Net fair value gains on assets at fair value through income	–	–	
Net realised gains on disposal of investments	–	–	
Segmental income	992,448	153,173	
Net insurance claims	582,969	86,661	
Gross acquisition costs	249,930	33,665	
Administrative and other operating expenses	100,511	15,261	
Net investment expenses	–	–	
Segmental expenses	933,410	135,587	
Segmental results from operating activities	59,038	17,586	
Income tax expense	–	–	
Segmental results after tax	59,038	17,586	

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

Insurance premium revenue	1,304,618	156,353	
Insurance premium ceded to reinsurers	(363,753)	(36,011)	
Change in provision for unearned premium	(6,447)	(230)	
Net insurance premium revenue	934,418	120,112	
Reinsurance commission earned	68,265	6,758	
Other income	–	–	
Investment income	–	–	
Net fair value gains on assets at fair value through income	–	–	
Net realised gains on disposal of investments	–	–	
Segmental income	1,002,683	126,870	

	Motor	Engineering	Guarantee	Liability	Accident & Health	Miscellaneous	Total Insurance	Non-insurance	Total
	2,136,675	469,020	11,782	125,447	145,552	611	4,400,960	–	4,400,960
	(105,904)	(150,884)	(7,987)	(49,330)	(59,635)	(402)	(827,942)	–	(827,941)
	(42,604)	(12,118)	(285)	(130)	23,783	(17)	(33,894)	–	(33,894)
	1,988,167	306,018	3,510	75,988	109,700	192	3,539,124	–	3,539,125
	741	18,316	112	3,748	1,971	–	114,959	–	114,959
	–	–	–	–	–	–	–	39,700	39,700
	–	–	–	–	–	–	–	225,595	225,595
	–	–	–	–	–	–	–	(23,839)	(23,839)
	–	–	–	–	–	–	–	94,512	94,512
	1,988,908	324,334	3,622	79,735	111,671	192	3,654,083	335,968	3,990,052
	1,665,116	172,805	1,530	42,949	43,705	59	2,595,794	–	2,595,794
	234,356	71,042	(1,490)	14,303	16,561	238	618,605	–	618,605
	163,617	35,915	902	9,606	11,146	47	337,005	12,754	349,759
	–	–	–	–	–	–	–	4,734	4,734
	2,063,089	279,762	942	66,858	71,412	344	3,551,404	17,488	3,568,892
	(74,181)	44,572	2,680	12,877	40,259	(152)	102,679	318,480	421,160
	–	–	–	–	–	–	–	130,128	130,128
	(74,181)	44,572	2,680	12,877	40,259	(152)	102,679	188,352	291,032
	1,835,352	349,087	1,593	103,802	158,642	1,192	3,910,639	–	3,910,639
	(94,051)	(86,949)	(995)	(37,760)	(115,994)	–	(735,513)	–	(735,513)
	(26,606)	(10,333)	(45)	(2,619)	(13,135)	(164)	(59,579)	–	(59,579)
	1,714,695	251,805	553	63,423	29,513	1,028	3,115,547	–	3,115,547
	17,650	16,318	187	7,086	21,768	–	138,032	–	138,032
	–	–	–	–	–	–	–	241,366	241,366
	–	–	–	–	–	–	–	202,224	202,224
	–	–	–	–	–	–	–	(18,962)	(18,962)
	–	–	–	–	–	–	–	71,334	71,334
	1,732,345	268,123	740	70,509	51,281	1,028	3,253,579	495,962	3,749,541

Notes to the Annual Financial Statements (continued)

2. Business analysis (continued)

R000	Property	Transport	
Net insurance claims	594,088	73,153	
Gross acquisition costs	260,831	24,902	
Administrative and other operating expenses	93,945	12,076	
Investment expenses	–	–	
Segmental expenses	948,864	110,131	
Segmental results from operating activities	53,819	16,739	
Income tax expense	–	–	
Segmental results after tax	53,819	16,739	
As at December 31, 2007			
Segmental assets			
Assets arising from reinsurance contracts	231,483	32,664	
Intangible assets – deferred acquisition costs	110,401	1,073	
Current assets	254,398	38,627	
Non-current assets	–	–	
Investments	–	–	
Cash and cash equivalents	–	–	
Total segmental assets	596,282	72,364	
Segmental equity and liabilities			
Shareholders' equity	–	–	
Minority shareholders' interest in subsidiaries	–	–	
Liabilities arising from insurance contracts	564,603	85,728	
Reinsurers' share of deferred acquisition cost	16,938	2,390	
Other liabilities	37,128	5,637	
Non-current liabilities	–	–	
Total segmental equity and liabilities	618,669	93,755	
As at December 31, 2006			
Segmental assets			
Assets arising from reinsurance contracts	299,511	29,651	
Intangible assets – deferred acquisition costs	32,939	3,948	
Current assets	298,930	35,826	
Non-current assets	–	–	
Investments	–	–	
Cash and cash equivalents	–	–	
Total segmental assets	631,380	69,425	
Segmental equity and liabilities			
Shareholders' equity	–	–	
Minority shareholders' interest in subsidiaries	–	–	
Liabilities arising from insurance contracts	640,751	76,792	
Reinsurers' share of deferred acquisition cost	16,949	1,678	
Other liabilities	40,429	4,845	
Non-current liabilities	–	–	
Total segmental equity and liabilities	698,129	83,315	

	Motor	Engineering	Guarantee	Liability	Accident & Health	Miscellaneous	Total Insurance	Non-insurance	Total
	1,381,599	137,366	473	42,263	27,900	–	2,256,842	–	2,256,842
	230,692	45,663	93	13,542	32,747	837	609,307	–	609,307
	172,393	25,316	56	6,377	2,967	103	313,233	134,017	447,250
	–	–	–	–	–	–	–	3,594	3,594
	1,784,684	208,345	622	62,182	63,614	940	3,179,382	137,611	3,316,993
	(52,339)	59,778	118	8,327	(12,333)	88	74,197	358,351	432,548
	–	–	–	–	–	–	–	105,666	105,666
	(52,339)	59,778	118	8,327	(12,333)	88	74,197	252,685	326,882
	61,645	87,827	4,649	28,714	34,712	234	481,928	–	481,928
	4,540	1,166	(28)	(1,095)	(2,930)	–	113,127	–	113,127
	414,122	90,904	2,284	24,314	28,210	118	852,977	448,963	1,301,940
	–	–	–	–	–	–	–	159,727	159,727
	–	–	–	–	–	–	–	1,111,752	1,111,752
	–	–	–	–	–	–	–	1,583,650	1,583,650
	480,307	179,897	6,905	51,933	59,992	352	1,448,032	3,304,092	4,752,124
	–	–	–	–	–	–	–	1,900,130	1,900,130
	–	–	–	–	–	–	–	2,090	2,090
	919,089	201,749	5,068	53,961	62,609	263	1,893,070	–	1,893,070
	4,511	6,426	340	2,101	2,540	17	35,263	–	35,263
	60,438	13,267	333	3,548	4,117	17	124,485	702,042	826,527
	–	–	–	–	–	–	–	95,044	95,044
	984,038	221,442	5,741	59,610	69,266	297	2,052,818	2,699,306	4,752,124
	77,441	71,593	819	31,091	95,508	–	605,614	–	605,614
	46,339	8,814	40	2,621	4,005	30	98,736	–	98,736
	420,538	79,987	365	23,784	36,350	273	896,053	152,625	1,048,678
	–	–	–	–	–	–	–	299,240	299,240
	–	–	–	–	–	–	–	1,071,347	1,071,347
	–	–	–	–	–	–	–	1,482,314	1,482,314
	544,318	160,394	1,224	57,496	135,863	303	1,600,403	3,005,526	4,605,929
	–	–	–	–	–	–	–	1,758,933	1,758,933
	–	–	–	–	–	–	–	13,043	13,043
	901,417	171,451	782	50,982	77,916	585	1,920,676	–	1,920,676
	4,382	4,051	46	1,759	5,405	–	34,270	–	34,270
	56,876	10,818	49	3,217	4,916	37	121,187	478,445	599,632
	–	–	–	–	–	–	–	279,375	279,375
	962,675	186,320	877	55,958	88,237	622	2,076,133	2,529,796	4,605,929

Notes to the Annual Financial Statements (continued)

2. Business analysis (continued)

Geographical segments

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

R000

At December 31, 2007	South Africa	Foreign subsidiaries	Total
Gross segmental insurance premium revenue	4,246,690	154,270	4,400,960
Total segmental assets	4,534,951	217,173	4,752,124
Total segmental liabilities	2,770,817	79,087	2,849,904
Total segmental capital expenditure	19,236	1,872	21,108
Total segmental depreciation	14,921	1,174	16,095
Segmental profit before tax	375,625	45,535	421,160
At December 31, 2006			
Gross segmental insurance premium revenue	3,701,583	209,056	3,910,639
Total segmental assets	4,296,070	309,859	4,605,929
Total segmental liabilities	2,653,636	180,317	2,833,953
Total segmental capital expenditure	29,785	1,165	30,950
Total segmental depreciation	15,535	631	16,166
Segmental profit before tax	387,757	44,791	432,548

3. Insurance risk management

3.1 Exposure to insurance risk

The Group underwrites risks that natural persons, corporate or other entities wish to transfer to an insurer. Such risks include the perils around property, transport, motor, engineering, guarantee, liability, accident and health and miscellaneous that may give rise to an insurable event. As such the Group is exposed to uncertainty surrounding the timing and severity of claims under insurance contracts. The principal risk is that the frequency and/or severity of claims are greater than expected. Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated and experienced in prior periods.

The Group underwrites primarily short-tail risk, that is insurance under which claims are typically settled within one year of the occurrence of the events giving rise to the claims, and risks that are long-tail in nature represent an insignificant portion of the Group's insurance portfolio. Consequently, whilst the Group may experience variations in its claims patterns from one year to the next, the Group's exposure at any time to insurance contracts issued more than one year before is limited.

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

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

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

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

The Group participates with several of the cell shareholders in the underwriting risks of their business.

The Group carefully evaluates all retention of risks in terms of statistical and underwriting disciplines, as well as specific and limited Board mandates for each insurance programme. The policies underwritten by the Group are as follows:

Accident and health policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if a:

- a) disability event;
- b) health event; or
- c) death event,

contemplated in the contract as a risk, occurs and includes a reinsurance policy in respect of such a policy.

Engineering policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event contemplated in the contract as a risk relating to:

- a) the possession, use or ownership of machinery or equipment, other than a motor vehicle, in the carrying on of a business;
- b) the erection of buildings or other structures or the undertaking of other works; or
- c) the installation of machinery or equipment,

occurs and includes a reinsurance policy in respect of such a policy.

Guarantee policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event, contemplated in the policy as a risk relating to the failure of a person to discharge an obligation, occurs; and includes a reinsurance policy in respect of such a policy.

Liability policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically contemplated under another policy, occurs; and includes a reinsurance policy in respect of such a policy.

Motor policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if

Notes to the Annual Financial Statements (continued)

an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle, occurs; and includes a reinsurance policy in respect of such a policy.

Property policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the use, ownership, loss of or damage to movable or immovable property occurs; and includes a reinsurance policy in respect of such a policy.

Transportation policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed, occurs; and includes a reinsurance policy in respect of such a policy.

Miscellaneous policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to any matter not otherwise defined in the above policies, occurs; and includes a reinsurance policy in respect of such a policy.

As part of its product offering the Group underwrites group schemes, which are intermediary branded products available to groups of individuals. Often a third party has been provided with a mandate to underwrite group scheme risks on behalf of the Group. The underwriting mandates are clearly defined.

Through a dedicated subsidiary the Group underwrites primary risk policies and cell captive business. The primary risk policies expose the Group to limited risk only and include profit participation measures to promote good risk management amongst the insureds. The cell captives are created through shareholders' agreements and a cell owner is allocated the positive return from the underwriting and investment activities in its cell. Similarly the cell owner is accountable for any losses that arise in its cell. The Group is consequently exposed to credit risk if a deficit arises in a cell and the cell owner does not refund the deficit in its cell and as such the Group, on a monthly basis, monitors each cell's performance. These cell captives are special purpose vehicles through which the cell owners provide insurance to third parties.

3.2 Limiting exposure to insurance risk

The Group limits its exposure to insurance risk through setting a clearly defined underwriting strategy and limits, adopting appropriate risk assessment techniques and the reinsurance of risks that exceed its risk appetite. Each of these risk management aspects is dealt with below in more detail.

Underwriting strategy and limits and policies for mitigating insurance risk

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio of insurance risks. The strategy also aims to establish a sufficiently large portfolio of risks to reduce the variability of the outcome. To this end the Group underwrites a wide variety of risks spread across personal and commercial policyholders, which includes the underwriting of risks in niche markets with favourable claims expectations. Using gross written premium as an indicator the table below illustrates the Group's distribution of risks underwritten:

%		
	2007	2006
Property	30	33
Engineering	10	9
Liability	3	3
Transport	5	4
Motor	49	47
Accident and health	3	4
Guarantee	0	0
Miscellaneous	0	0
	100	100

Also using gross written premium as an indicator the Group's insurance portfolio is divided between personal and commercial (all insureds other than natural persons) risks as follows:

%		
	2007	2006
Personal	24.6	23.8
Commercial/corporate	75.4	76.2
	100	100

On an annual basis the Group prepares an underwriting budget that is based on the underwriting strategy to be followed in the next three years. The underwriting strategy is updated for changes in the underwriting results of the Group and the industry, the Group's available risk capital and available reinsurance capacity as well as existing concentrations of insurance risk.

The underwriting strategy is cascaded down to individual underwriters through underwriting authorities that set out the limits that any one underwriter can write by line size, class of business and territory in order to enforce appropriate risk selection within the Group's portfolio. Underwriters are also provided with clear pricing guidelines. Through management review and periodic internal audits it is ensured that the underwriters operate within the set limits.

The ability to adjust premiums, either on a monthly or an annual basis, also allows the Group to mitigate the risk of underwriting losses by the timely addressing of adverse loss ratios, both in terms of different classes of business and in terms of different portfolios or clients. The incidence of fraud is reduced by robust claims handling processes and regular review of these processes and the related claims payments.

On a monthly basis the underwriting results for group schemes are monitored against pre-determined budgets. In the event that a group scheme does not deliver underwriting results within accepted parameters corrective measures are implemented, including the possible cancellation of arrangements going forward.

The Group mitigates the insurance and credit risk brought about by the cell captive business through carefully selecting all new cell owners, calling for risk capital from the cell owners when needed and by actively participating in the risk management structures of each cell.

Notes to the Annual Financial Statements (continued)

Risk assessment

The Group adopts a rigorous process before accepting any proposed insurance risk. Some of the factors considered during the underwriting stage include:

- Past loss experience associated with the proposed risk;
- Insurable interest;
- Probability of ruin;
- Level of loss mitigation procedures adopted by the proposed insured;
- Location of the proposed risk;
- Past and proposed rating terms of the risk;
- Scope and terms of cover considered;
- Results of surveys completed, where applicable; and
- Possible exclusions that may be applied to the policy or risks insured.

Reinsurance strategy

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

The Group has an extensive proportional and non-proportional reinsurance programme that is aimed at reducing the volatility of the Group's underwriting results and protecting its capital. The reinsurance programme through a combination of treaty and facultative contracts reduces the Group's exposure in each of its classes of business to levels that are acceptable to management in terms of the Group's insurance risk appetite.

In addition, the Group purchases catastrophe reinsurance to protect itself from accumulation losses. The level of catastrophe reinsurance purchased is based on the Group's estimation of its expected losses from low frequency high severity loss events.

Concentration of insurance risks

The Group's largest portfolio of insurance risks consists of the motor risks that it underwrites, as can be seen by the distribution of premium income. The concentration of motor risks is managed by different levels of diversification mainly through the types of vehicles that are underwritten and the geographical areas in which the risks are situated, with single risks spread across all areas of the country. It is however not unusual for South African insurers to insure a large proportion of motor risks and even though the Group's exposure might be slightly higher it remains largely in line with its peers.

Motor risks are accepted and rated based on a number of different rating factors. Different premium levels for different geographical areas enhance diversification and the loss experience in different areas is closely monitored with rating appropriately adjusted as and when required. Whilst exposure is higher in certain areas the Group is satisfied that these exposures are managed in the context of the entire portfolio and the exposure risks associated with single events, such as hailstorms, in specific areas is thereby mitigated. Where the Group is at risk in case of the occurrence of an event that could threaten its solvency, catastrophe reinsurance is in place to reduce the threat associated with such an event.

Perils such as storms, floods, earthquakes, fires, explosions, and rising crime levels will occur on a regional basis, meaning that the Group has to manage its geographical risk dispersion carefully. The Group determines an aggregate exposure that it is prepared to accept in each region. The actual aggregate exposure per region is compared periodically to the limit and the underwriting strategy is amended where required.

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

The table below illustrates the geographic diversification of the Group's portfolio by gross written premium. The diversification after considering reinsurance is not significantly different.

%	2007	2006
Foreign		
Botswana	3.4	3.6
Zimbabwe	0.1	1.8
Domestic		
Western Cape	7	8
Eastern Cape	6.5	6.5
Gauteng	57.4	57.9
KwaZulu-Natal	18.8	13.1
Other	6.8	9.1
	100	100

The Group adheres to underwriting principles that limit its exposure to any one insured to levels not exceeding R500 million gross of reinsurance. Reinsurance protection is acquired on all classes of business limiting aggregate exposure to R18.25 million net of reinsurance per any one insured. The Group's most significant aggregate exposure will arise from an earthquake or from weather related events such as hailstorms or floods. It is difficult to reliably model the Group's earthquake exposure due to data limitations and scarcity of information. However, within these constraints, the Group's estimate of its gross exposure to an earthquake or severe weather related event is R2 billion and net of reinsurance is R15 million.

3.3 Reinsurance risk

The Group enters into reinsurance agreements to spread the insurance risk and minimise the effect of underwriting losses, which agreements are entered into only with approved reinsurers as listed by Zurich Financial Services. The reinsurers agree to reimburse the Group when a claim is paid under a risk that is reinsured. The Group, however, remains liable to its policyholders regardless of whether the reinsurers honour their obligations in terms of the reinsurance agreements.

The credit risk that originates from the reinsurance transactions is managed as follows:

- The independent credit ratings of all existing or new reinsurers are monitored prior to entering into reinsurance transactions. For the 2007 reinsurance programme the Group's cession to reinsurers with a Standard & Poor's rating of BBB+ or below or where the reinsurers are not rated is less than 10% of the total programme; and
- Cash deposits are retained or bank guarantees are obtained for reinsurers not registered in South Africa. As at December 31, 2007 the security held in this way amounted to R51.0 million (2006: R105.7 million).

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The table below shows the five largest treaty reinsurers with their credit ratings and security held by the Group. As noted above the security is held in the form of deposits or irrevocable bank guarantees.

Reinsurer	Standard & Poor's rating	Security held for the specific reinsurer R million
At December 31, 2007		
Africa Re	BBB+	–
Everest Re (USA)	A-	4.9
Mitsui Sumitomo	AA-	4.9
Munich Re of Africa	A-	–
Partner Re (Europe)	BBB+	49
At December 31, 2006		
Africa Re	BBB+	–
Everest Re (USA)	A-	4.9
Mitsui Sumitomo	AA-	4.9
Munich Re of Africa	A-	–
Partner Re (Europe)	BBB+	49

3.4 Claims development

The development of claims liabilities provides a measure of the ability to estimate the ultimate value of claims. The Group underwrites only a small proportion of long-tail risks and consequently the uncertainty about the amount and timing of claim payments a year after the loss event is limited. Regular estimates of claims run-off savings are performed in reviewing the adequacy of the claims provisions and corrective action is taken where necessary. The Group's experience is that run-off savings are positive but not significant in terms of the Group's results. Claims development tables are reviewed by management on a regular basis and the sufficiency of the claims provisions are ratified by an external actuarial firm annually.

4. Earnings per share

R000	2007	2006
Earnings per share		
The calculation of earnings per share is based on 12,179,500 (2006: 12,179,500) fully paid shares in issue. Group net income after taxation attributable to members of the Company	289,860	320,580
Earnings per share (cents)	2,379.9	2,632.1

5. Property and equipment

R000

Group	Motor vehicles	Furniture	Office equipment	Computer equipment and systems	Total
Cost					
At December 31, 2005	44,215	22,091	5,139	84,737	156,182
Additions	19,858	287	72	10,733	30,950
Disposals	(9,303)	(30)	(98)	(1,855)	(11,286)
Exchange rate movement	1,210	14	13	(250)	987
At December 31, 2006	55,980	22,362	5,126	93,365	176,833
Additions	12,019	841	195	8,053	21,108
Disposals	(12,862)	(320)	–	(2,017)	(15,199)
Exchange rate movement	(1,982)	(12)	(416)	(4,208)	(6,618)
At December 31, 2007	53,155	22,871	4,905	95,193	176,124
Accumulated depreciation					
At December 31, 2005	9,951	15,033	4,065	72,029	101,078
Depreciation charge for the year	6,126	1,265	443	8,332	16,166
Exchange rate movement	(6,603)	(1)	(63)	(2,103)	(8,770)
Accumulated depreciation on disposals	(71)	9	7	(62)	(117)
At December 31, 2006	9,403	16,306	4,452	78,196	108,357
Depreciation charge for the year	5,518	1,078	310	9,739	16,645
Accumulated depreciation on disposals	(5,118)	(260)	–	(1,480)	(6,858)
Exchange rate movement	(635)	(77)	(297)	(4,542)	(5,551)
At December 31, 2007	9,168	17,047	4,465	81,913	112,593
Carrying amount					
At December 31, 2006	46,577	6,056	674	15,169	68,476
At December 31, 2007	43,987	5,824	439	13,280	63,531
Company					
Cost					
At December 31, 2005	43,048	21,509	4,496	78,800	147,853
Additions	19,046	178	98	8,136	27,458
Disposals	(9,301)	(30)	(73)	(1,856)	(11,260)
At December 31, 2006	52,793	21,657	4,521	85,080	164,051
Additions	11,250	561	105	7,320	19,236
Disposals	(12,323)	(55)	–	(2,016)	(14,394)
At December 31, 2007	51,720	22,163	4,626	90,384	168,893

Notes to the Annual Financial Statements (continued)

5. Property and equipment (continued)

R000					
	Motor vehicles	Furniture	Office equipment	Computer equipment and systems	Total
Accumulated depreciation					
At December 31, 2005	9,598	14,659	3,678	66,342	94,277
Depreciation charge for the year	5,771	1,165	368	7,825	15,129
Accumulated depreciation on disposals	(6,603)	(1)	(41)	(1,891)	(8,536)
At December 31, 2006	8,766	15,823	4,005	72,276	100,870
Depreciation charge for the year	5,232	1,029	289	8,340	14,890
Accumulated depreciation on disposals	(4,794)	(1)	–	(1,982)	(6,777)
At December 31, 2007	9,204	16,851	4,294	78,634	108,983
Carrying amount					
At December 31, 2006	44,027	5,834	516	12,804	63,181
At December 31, 2007	42,516	5,312	332	11,750	59,910

Furniture, office equipment and systems at a cost of R79,655,034 are fully depreciated (2006: R77,037,000). There are no significant assets that were retired from service during the year under review.

6. Risks relating to financial assets

6.1 Financial risk

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

These risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Group primarily faces due to the nature of its investments and liabilities is interest rate risk.

The Group manages these positions within an asset liability management (ALM) framework that has been developed to achieve investment returns in excess of its obligations under insurance contracts. Within the ALM framework, the Group periodically produces reports at portfolio, legal entity and asset and liability class level that are circulated to the Group's key management personnel. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the benefits payable to contract holders.

The Group has not changed the processes used to manage its risks from previous periods, although these have been enhanced through the appointment of a Group Risk Manager reporting directly to executive management.

6.2 Interest rate risk

The Group does not have any borrowings. Exposure to interest rate risk is therefore limited to the Group's investments in floating rate instruments such as Government and other interest bearing securities as well as cash on deposit. The risk is furthermore limited by regular trading of the portfolio, providing diversification in terms of yield profiles and liability matching.

Sensitivity analysis – interest-rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The Group's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 100 basis points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the Group's overall exposure to interest rate sensitivities included in the Group's ALM framework and its impact in the Group's profit or loss by business.

An increase of 100 basis points in interest yields would result in a profit for the period of R7.8 million in 2007. The total profit of R7.8 million would have been recognised (2006: total profit of R6.3 million would have been recognised).

A decrease of 100 basis points in interest yields would result in a loss for the period of R7.8 million in 2007 (2006: total loss of R6.3 million would have been recognised).

6.3 Market price risk

Market price risk is the risk that the value of a financial asset will fluctuate as a result of changes in market prices or changes in market interest rates. Investments in marketable securities are valued at fair value and are therefore susceptible to market fluctuations. Risk is also managed by diversification and investing in reputable companies and institutions, details of which are described in note 7.

Sensitivity analysis – equity risk

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of financial assets and equity price risk movements on a monthly basis by assessing the expected changes in the different portfolios due to parallel movements of a 20% increase or decrease in the stock exchange indexes with all other variables held constant and all the Group's equity instruments in that particular index moving proportionally.

The equity securities described in this note are classified as available-for-sale.

An increase and a decrease in 20% in the JSE would result in an impact on available-for-sale reserve in equity of R114 million and a loss of R114 million respectively in 2007 (2006: R118 million profit and a loss of R118 million respectively).

Financial assets not quoted on an open market are valued using varying valuation techniques. These techniques include but are not limited to comparison of returns or earnings expectations on similar listed investments,

Notes to the Annual Financial Statements (continued)

calculation of net asset values of unlisted investments and comparison to similar quoted investments. In valuing the unquoted investments regard is given to the availability of a market for disposal, general prevailing market conditions, prior history of the investment and the availability of information on the unlisted investment. Changes in any of the above factors will affect the fair value of these assets. A 10% variation in the valuation of unquoted shares will result in a R8.5 million change in the valuation.

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

6.4 Currency risk

The Group is exposed to currency risk on its investments in foreign subsidiaries and foreign bank accounts. Hedging of the currency risk in terms of meeting insurance liabilities is achieved by the foreign subsidiaries investing in local assets that meet their requirements in terms of liquidity and maturity profiles. Foreign bank accounts are maintained in order to achieve an effective hedge against adverse currency movement but are not material. The total assets and liabilities are reflected in the geographic segment report included in note 2 and in cash and cash equivalents in note 13.

6.5 Credit risk

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

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries;
- Financial assets and cash and cash equivalents; and
- Cell shareholders' obligation to restore solvency of cells when required to do so.

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review.

Individual operating units maintain records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where this exists and where counterparties of the Group are liable for both receivables and payables. Intermediaries with whom the Group has a business relationship are in possession of the necessary guarantees for protection against the Group's credit risk.

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

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis. Refer to note 3 for additional comments on risks related to reinsurance agreements.

Credit risk in terms of direct insurance customers is mitigated by the fact that where premiums are not paid to the Group, the Group is not obliged to act in terms of the policy.

Financial assets, cash and cash equivalents and investments are placed with high credit rated financial institutions and are managed by investment managers. The Group has policies that limit the credit exposure to any one financial institution. The Investment Committee regularly reviews the investments on the basis of total asset security and minimised risk to the Group. The relationship with cell shareholders is managed through a shareholder agreement. The agreement determines the obligation to restore any deficit in a cell. The risk is managed by assessments of potential cell shareholders to meet their responsibilities and obligations in terms of the agreement.

6.6 Liquidity risk

The Group is exposed to daily calls on its available cash resources mainly from claims arising from short term insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds to be available to meet such calls to cover claims at unexpected levels of demand. Where the Group is unable to fund current commitments from premium revenue, investments can be liquidated that will match the commitment.

6.7 Capital management

The Group's objectives when managing capital are:

- To comply with the insurance capital requirements required by the regulators of the insurance markets where the Group operates. The Group manages its capital so as to maintain an international solvency ratio of 40 to 50%;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk;
- To ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value;
- To manage its capital structure and make adjustments to it, in light of changes in economic conditions; and
- To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made to the objectives, policies or processes during the years ended December 31, 2007 and December 31, 2006.

In each country in which the Group operates, the local insurance regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the year. The Group is subject to insurance solvency regulations in all the territories in which it issues insurance contracts, and where it has complied with all the local solvency regulations. The Group has embedded in its ALM Framework the necessary tests to ensure continuous and full compliance with such regulations.

The table below summarises the minimum required capital across the Group and the regulatory capital held against each of them. These figures are an aggregate number, being the sum of the statutory capital and surplus for each insurance company in each country subject to local regulatory requirements, which may differ from jurisdiction to jurisdiction. The current year is, in general, an estimate that is updated once calculations prepared for the regulators are final.

Notes to the Annual Financial Statements (continued)

Rm

	2007	2006
Shareholders' funds	1,900	1,759
Statutory contingency reserve	361	314
Additional reserve to achieve 25% regulatory capital requirement	237	219
Surplus over requirements before dividend to shareholders	1,302	1,226

7. Investments

7.1 Investment property

R000

	2007	2006
Group		
Opening carrying as previously stated	9,641	10,946
Additions	-	426
Revaluation deficit	-	(1,731)
Disposal	(1,640)	-
Exchange rate movement	(2,327)	-
Closing carrying value	5,674	9,641
Cost	947	2,587
Revaluation	4,727	7,054
	5,674	9,641

Land and buildings have been bought for investment purposes. Any income arising from investment properties is primarily the fair value gain expected as a result of market appreciation in the value of properties. The latest valuation was conducted at December 31, 2007 by an independent valuer, on the basis of determining the open market value of the investment property. The investment properties are primarily located in Gaborone and Harare and are not encumbered.

7.2 Investment in subsidiaries

R000

	Unquoted shares at cost	Unsecured loans	Current accounts	Total
Company				
Opening balance at January 1, 2006	71,826	4,087	1,194	77,107
Advances to subsidiaries	–	7,271	31,597	38,868
Repayments from subsidiaries	–	(9,090)	(31,747)	(40,837)
Balance at December 31, 2006	71,826	2,268	1,044	75,138
Advances to subsidiaries	–	23,648	8,336	31,985
Repayments from subsidiaries	–	(25,873)	(8,174)	(34,047)
Balance at December 31, 2007	71,826	43	1,206	73,075

7.3 Investment in associates

R000

	Unquoted
Group	
Opening balance at January 1, 2006	3,317
Purchase/advances to associates	–
Equity accounted income	(22)
Repayments/disposals	–
Revaluation/impairment of associates	–
Balance at December 31, 2006	3,295
Purchase/advances to associates	–
Equity accounted income	–
Repayments/disposals	–
Revaluation/impairment of associates	(3,295)
Dividends received	–
Balance at December 31, 2007	–
Directors' valuation – 2006	3,295
Directors' valuation – 2007	–

Notes to the Annual Financial Statements (continued)

7.4 Financial assets – available-for-sale

R000							Total
	Ordinary shares		Preference shares		Government and other approved securities	Municipal annuities and other fixed interest securities	
	Quoted	Unquoted	Quoted	Unquoted			
Group							
Opening balance at January 1, 2006	464,352	36,168	1,804	51,877	3,014	–	557,215
Purchases	24,674	301	–	10,000	–	–	34,975
Capital reductions	–	(5,343)	–	–	–	–	(5,343)
Disposals	(14,986)	(1,260)	–	–	(3,014)	(28)	(19,288)
Revaluation relating to disposals	(59,588)	(6,885)	–	–	–	–	(66,473)
Revaluation	176,158	–	1,215	154	–	37	177,564
Balance at December 31, 2006	590,610	22,981	3,019	62,031	–	9	678,650
Purchases	68,242	433	9,773	–	–	–	78,448
Capital reductions	(960)	–	–	–	–	–	(960)
Disposals	(8,706)	–	(1,014)	–	–	–	(9,720)
Revaluation relating to disposals	(80,107)	–	(2,007)	–	–	–	(82,114)
Revaluation	56,656	(345)	(702)	–	–	–	55,609
Exchange revaluation	(51,466)	–	–	–	–	–	(51,466)
Balance at December 31, 2007	574,089	23,069	9,069	62,031	–	9	668,267
2006							
At cost	83,609	16,525	1,013	61,804	–	36	162,987
Revaluations	507,001	6,456	2,006	227	–	(27)	515,663
	590,610	22,981	3,019	62,031	–	9	678,650
2007							
At cost	144,255	16,960	9,773	61,804	–	36	232,828
Revaluations	429,834	6,109	(704)	227	–	(27)	435,439
	574,089	23,069	9,069	62,031	–	9	668,267

R000

	Ordinary shares		Preference shares		Municipal annuities and other fixed interest securities	Total
	Quoted	Unquoted	Quoted	Unquoted		
Company						
Opening balance at January 1, 2006	458,865	36,168	1,804	50,000	–	546,837
Purchases	22,971	301	–	10,000	–	33,272
Capital reductions	–	(5,343)	–	–	–	(5,343)
Disposals	(14,986)	(1,260)	–	–	–	(16,246)
Revaluation relating to disposals	(59,588)	(6,885)	–	–	–	(66,473)
Revaluation	135,568	–	1,215	–	–	136,783
Balance at December 31, 2006	542,830	22,981	3,019	60,000	–	628,830
Purchases	68,242	433	9,773	–	–	78,448
Capital reductions	(960)	–	–	–	–	(960)
Disposals	(8,706)	–	(1,014)	–	–	(9,720)
Revaluation relating to disposals	(83,527)	–	(2,007)	–	–	(85,534)
Revaluation	56,049	(345)	(702)	–	–	55,022
Balance at December 31, 2007	573,928	23,069	9,069	60,000	–	666,066
2006						
At cost	81,712	16,525	1,013	60,000	–	159,250
Revaluations	461,118	6,456	2,006	–	–	469,580
	542,830	22,981	3,019	60,000	–	628,830
2007						
At cost	142,223	16,960	9,773	60,000	–	228,956
Revaluations	431,705	6,109	(704)	–	–	437,110
	573,928	23,069	9,069	60,000	–	666,066

Notes to the Annual Financial Statements (continued)

7.5 Financial assets at fair value through income

R000	Group	Company
	Government and other securities	Government and other securities
Opening balance at January 1, 2006	429,658	429,658
Purchases	369,128	369,128
Disposals	(408,756)	(408,812)
Revaluation	(10,269)	(10,269)
Balance at December 31, 2006	379,761	379,705
Purchases	615,808	615,808
Disposals	(545,897)	(545,897)
Revaluation	(11,861)	(11,950)
Balance at December 31, 2007	437,811	437,666
2006		
At cost	370,413	370,357
Revaluations	9,348	9,348
	379,761	379,705
2007		
At cost	440,306	440,250
Revaluations	(2,495)	(2,584)
	437,811	437,666

The Group's most significant listed equity and Government securities investments are set out below and comprise, in aggregate, 21% (2006: 20%) of total assets.

The terms of maturity range between 1 to 20 years and coupon rates between 1.0% and 4.3%. The effective interest rate achieved was 4.25% (2006: 5.97%).

R000	2007		2006	
	% of Government Stock Portfolio	Market value	% of Government Stock Portfolio	Market value
Government and other securities				
RSA stock				
Maturing within five years of balance sheet date	17.0%	75,755	28.1%	106,695
Maturing in more than five years and less than ten years from balance sheet date	58.0%	252,592	43.4%	164,788
Maturing in ten years or more from balance sheet date	25.0%	109,464	28.5%	108,278
	100.0%	437,811	100.0%	379,761

The majority of the portfolio consists of RSA stock with terms of maturity ranging from one to 20 years and coupon rates between 6.25% and 13.5%. The effective interest rate achieved was 4.30% (2006: 5.97%).

R000

	2007		2006	
	% of Equity Portfolio	Market value	% of Equity Portfolio	Market value
Listed ordinary shares				
Anglo American Corporation Limited	12.50%	71,757	12.60%	68,400
SAB Miller Plc	8.11%	46,559	8.13%	44,121
Sasol Limited	6.84%	39,251	5.96%	32,348
MTN Group Limited	6.02%	34,576	4.97%	26,995
Impala Platinum Holdings Limited	4.31%	24,674	4.34%	23,552
Standard Bank Group Limited	3.92%	22,518	4.53%	24,570
Anglo Platinum Corporation Limited	3.69%	21,175	4.73%	25,680
Aveng Limited	3.65%	20,976	2.79%	15,120
Hudaco Industries Limited	3.01%	17,296	3.03%	16,470
Nedbank Group Limited	2.96%	17,000	3.07%	16,687
Firstrand Limited	2.58%	14,813	3.48%	18,870
Remgro Limited	2.42%	13,900	0.00%	–
Mutual & Federal Insurance Company Limited	2.35%	13,465	2.67%	14,500
Old Mutual Plc	2.25%	12,931	0.00%	–
Richemont Securities Limited	2.05%	11,746	0.00%	–
Spar Group Limited	2.01%	11,485	1.59%	8,640
Liberty Holdings Limited	1.97%	11,300	1.93%	10,500
Absa Group Limited	1.93%	11,100	2.88%	15,637
Reunert Limited	1.89%	10,868	4.14%	22,481
Barloworld Limited	1.88%	10,770	3.02%	16,400
Telkom SA Limited	1.81%	10,350	1.95%	10,611
Sanlam Limited	1.68%	9,669	1.43%	7,777
Tiger Brands Limited	1.66%	9,526	1.89%	10,260
BHP Billiton Plc	1.65%	9,448	0.00%	–
Investec Plc	1.64%	9,431	2.48%	13,444
Mauritian Eagle Insurance Company Limited	1.60%	9,165	2.65%	14,382
Goldfields Limited	1.56%	8,968	0.00%	–
Pretoria Portland Cement Company Limited	1.41%	8,112	0.00%	–
Bidvest Group Limited	1.26%	7,230	1.48%	8,028
Investec Limited	1.14%	6,525	1.62%	8,774
Anglovaal Industries Limited	–	–	1.15%	6,218
Net 1 UEPS Technology Incorporated	–	–	5.99%	32,513
Rembrandt Group Limited	–	–	2.30%	12,460
Other	8.25%	47,344	3.20%	17,392
	100.00%	573,928	100.00%	542,830

Notes to the Annual Financial Statements (continued)

8. Loans and receivables

R000	Group		Company	
	2007	2006	2007	2006
Staff loans receivable	1,727	4,171	1,725	4,166
Other sundry loans	7,295	1,504	–	1,491
Agents and other insurance receivables	852,978	896,053	801,885	807,837
Value added tax	6,906	69,884	7,860	69,884
Other receivables	328,024	37,198	280,732	7,192
Holding company receivables	34,927	5,057	34,927	6,056
	1,231,857	1,013,867	1,127,129	896,626

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

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

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

9. Employee benefits

9.1 Pension fund

The Company operates a pension plan ("Fund") for its employees. The Fund is governed by the Pension Fund Act, 1965. During the year the members still in the employ of the Company were offered an opportunity to convert from a defined benefit plan to a defined contribution plan. The pensionable members remained on the defined benefit plan. The number of members on the defined contribution fund is 975 (2006: 78), in service members of the defined benefit fund reduced from 839 in 2006 to none in the current year and pensioners remaining on the defined benefit plan total 309 (2006: 304). From April 1, 2006 all new members join the Funds defined contribution plan.

The latest actuarial valuation was carried out as at December 31, 2006. A valuation was also carried out in terms of IAS 19 as at December 31, 2007 by the actuaries. The next actuarial valuation will take place for the year ending December 31, 2008.

The following principal actuarial assumptions were used in the valuation performed by the actuaries:

%	2007	2006
Discount rate	8.3%	8.0%
Inflation	5.0%	4.0%
Expected return assets	8.9%	8.4%
Future pension increases	4.3%	3.5%
Post-retirement mortality tables	PA(90) ultimate table rated down 2 years plus 1% improvement from 2006	PA(90) ultimate table

The Fund's December 31, 2003 surplus apportionment exercise was approved. As a result of this approval the Company accounted for the amount allocated to the Employer Surplus Account in terms of this apportionment exercise and following approval by the Trustees of the Fund. This amount has been reflected as other income in 2006 and the asset included in the balance sheet as a financial asset. In addition to the above, the Fund's Trustees and the Company agreed to give existing defined benefit members the option to convert to the defined contribution structure with effect from April 1, 2007. Enhancements were offered to these members if they elected to convert. The enhancements could amount to up to 105% of the member's actuarial reserve value. Whilst in terms of the Fund the surplus may not be returned to the Fund it may be used for a pension fund holiday by the Company or to meet any post-retirement employee obligation.

The actuarial surplus has been determined as follows:

R000	Group and Company 2007	2006
Balance brought forward	230,764	–
Initial recognition of surplus	–	230,764
Payment of conversion enhancements	(128,756)	–
Payment of post-retirement medical aid	(34,114)	–
Actuarial gain	19,743	–
Company contribution	10,744	–
Net periodic cost	(2,185)	–
	96,196	230,764
Pension fund change provision included with administration expenses	–	132,521

Pension funds of foreign subsidiaries

Foreign subsidiaries have defined contribution plans under which fixed contributions are paid into a separate entity, and will have no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employee benefits relating to employee service in current or prior periods. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

Notes to the Annual Financial Statements (continued)

9.2 Post-retirement medical aid benefits

The Company operates a defined benefit plan for qualifying employees, which is administered by Discovery Health Limited. The nature of the benefit is to pay 50% of the medical aid contributions in retirement to members. There are currently 38 continuation and 31 in-service members (2006: 661) being those employees who joined the medical aid before October 2002 and did not elect to take the buy-out offer in April 2007.

The latest actuarial valuation was carried out in terms of IAS 19 Employee Benefits as at December 31, 2007. The next actuarial valuation will take place as at December 31, 2008.

The following principal actuarial assumptions were used:

R000	2007	2006
Discount rate	8.5%	9.0%
Health care inflation rate	7.3%	7.8%
Average retirement age	63	63
Post-retirement mortality tables	PA(90) ultimate table rated down 2 years plus 1% improvement from 2006	PA(90) ultimate table

Sensitivity results

It is important to treat the results of the valuation with a degree of caution, as they are sensitive to the assumptions used. The valuation results set out above are based on a number of assumptions. The value of the liability could turn out to be overstated or understated, depending on the extent to which actual experience differs from the assumptions adopted.

Recalculation of the liability of Zurich Insurance Company to show the effect of:

A 1% point decrease or increase in the rate of health care cost inflation	R1.6 million	R1.0 million
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The amount recognised of in the balance sheet in respect of the defined benefit post-retirement medical aid plan is as follows:

R000	Group and Company				
	2007	2006	2005	2004	2003
Present value of unfunded obligations	17,388	53,418	44,928	83,121	69,321
Unrecognised actuarial (losses)/gains	-	(6,015)	(1,859)	457	(380)
Liability recognised in the balance sheet	17,388	47,403	43,069	83,578	68,941

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

R000	Group and Company				
	2007	2006	2005	2004	2003
Balance at beginning of the year	47,403	43,069	83,578	68,941	70,000
Current service cost	1,759	2,696	2,584	2,417	1,977
Interest cost	2,975	3,874	9,416	6,425	8,182
Employee benefit payments	(897)	(909)	–	(3,276)	(4,152)
Actuarial loss	262	(94)	–	(94)	–
Change in subsidy policy	–	–	–	9,165	(7,066)
Effect of curtailment or settlement	(34,114)	(1,233)	(52,509)	–	–
Balance at end of the year	17,388	47,403	43,069	83,578	68,941

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

Current service cost	1,759	2,696	2,584	2,417	2,584
Interest cost	2,975	3,874	9,416	6,425	9,416
Employee benefit payments	(897)	(909)	–	(3,370)	–
Change in subsidy policy	–	–	–	9,165	–
Actuarial loss	262	(94)	–	(94)	–
	4,099	5,567	12,000	14,543	12,000

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

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

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

Balance at beginning of the year	11,758	11,758	11,758	11,758	9,900
Investment gains on assets	1,058	–	–	–	1,858
Policy redeemed	(12,816)	–	–	–	–
Balance at the end of the year included in cash and cash equivalents	–	11,758	11,758	11,758	11,758

10. Insurance contract provisions

10.1 Process used to determine significant assumptions

Underwriting insurance risks incorporate unpredictability and the Group recognises that it is impossible to predict future claims payable under existing insurance contracts with absolute certainty. To this end the Group has, over time, developed a methodology that is aimed at establishing insurance provisions that have a reasonable likelihood of being adequate to settle all its insurance obligations.

Claim provisions

The Group's outstanding claims provisions include notified claims as well as incurred but not yet reported claims and due to the short-tail nature of the business it is not considered necessary to discount any of the

Notes to the Annual Financial Statements (continued)

claims provisions. Whilst the executive consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

Notified claims

Each notified claim is assessed on a separate, case by case basis with due regard to the specific circumstances, information available from the insured and/or loss adjuster and past experience with similar claims. The Group employs employees experienced in claims handling and rigorously applies standardised policies and procedures around claims assessment. The provision for each notified claim includes an estimate of the associated claims handling costs but excludes Value Added Tax.

The ultimate cost of the reported claims may vary as a result of future developments or better information becoming available about the current circumstances. Case estimates are therefore reviewed regularly and updated if new information becomes available.

Claims incurred but not yet reported (IBNR)

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

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

Implicit risk margins are added to the best estimate to reflect the uncertainty in the ultimate cost of claims. The risk margins are not determined statistically but represent an allowance based on judgement for instances where the actual claims development could be more severe than the best estimate liability. Different risk margins are applicable for different classes of business and their appropriateness is assessed against the Group's past claims experience. The risk margin for each class is never estimated to represent more than 20% of the best estimate liability for that class. The appropriateness of the IBNR methodology per class of business is assessed quarterly and adjusted if the recent claims experience shows that the methodology is no longer appropriate.

The provision for the notified claims and IBNR are initially estimated at a gross level. A separate calculation is then carried out to determine the estimated reinsurance recoveries.

The calculation of the reinsurance recoveries considers the type of the risk underwritten, in which year the gross claim occurred and therefore under which reinsurance programme the recovery will be made, the size of the claim and whether or not the claim was an isolated incident or forms part of a catastrophe reinsurance claim.

Premium provisions

The Group raises provisions for unearned premiums on a basis that reflects the underlying risk profile of its insurance contracts.

An unearned premium provision is created at the commencement of each insurance contract and is then released as the risk under the contract expires. The majority of the Group's insurance contracts have an even risk profile and therefore the unearned premium provisions are released evenly over the period of insurance. For

the remainder of the insurance portfolio, which includes engineering and marine risks, the unearned premium is released on a basis consistent with the increasing, decreasing or uneven risk profiles of the contracts. The provisions for unearned premiums are first determined on a gross level and thereafter the reinsurance impact is recognised. Deferred acquisition costs and reinsurance commission revenue is recognised on a basis consistent with the related provisions for unearned premiums.

10.2 Assumptions

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

%	2007	2006
Conventional South Africa	5 – 6	5 – 6
Risk Financing	6 – 7	6 – 7
Zimbabwe	5	5
Botswana	7	7

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

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

10.3 Changes in assumptions and sensitivities

There were no significant changes in the IBNR assumptions used during the 2007 and 2006 financial years.

A change in the mix of business could result in a change in the IBNR percentage used. Should the percentage change to reflect a portfolio shift to longer or shorter tail classes of business a change in the IBNR percentage of 1% for South Africa would change the reserves by R32 million (2006: R31 million).

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

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

Notes to the Annual Financial Statements (continued)

11. Insurance liabilities and reinsurance assets

R000	Group		Company	
	2007	2006	2007	2006
Technical provisions				
Gross liabilities arising from insurance contracts				
Outstanding claims	839,755	840,709	786,450	767,870
Claims incurred but not reported	234,592	193,434	218,027	188,753
Outstanding claims, including claims incurred but not reported	1,074,347	1,034,143	1,004,477	956,623
Unearned premiums	818,723	876,091	648,572	647,945
Amounts due to primary policyholders	–	10,442	–	–
Liabilities arising from insurance contracts	1,893,070	1,920,676	1,653,049	1,604,568
Technical assets				
Amounts recoverable from reinsurers				
Outstanding claims	267,680	342,077	259,249	324,434
Claims incurred but not reported	34,678	46,219	33,486	32,441
Outstanding claims, including claims incurred but not reported	302,358	388,296	292,735	356,875
Unearned premiums	179,570	217,318	169,001	186,270
Assets arising from insurance contracts	481,928	605,614	461,736	543,145
Net liabilities				
Outstanding claims	572,075	498,632	527,201	443,436
Claims incurred but not reported	199,914	147,215	184,541	156,312
Outstanding claims, including claims incurred but not reported	771,989	645,847	711,742	599,748
Unearned premiums	639,153	658,773	479,571	461,675
Amounts due to primary policyholders	–	10,442	–	–
	1,411,154	1,315,062	1,191,313	1,061,423

All of the above balances are current.

The movements for the year are summarised below:

R000

	Group			Company		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Outstanding claims, including claims incurred but not reported						
Year ended December 31, 2006						
Balance at beginning of year	854,968	(279,156)	575,812	774,036	(234,890)	539,146
Net insurance claims expensed during the year	2,674,806	(417,964)	2,256,842	2,439,155	(326,688)	2,112,467
Less: claims paid/recovered during the year	(2,513,901)	323,881	(2,190,020)	(2,288,196)	236,331	(2,051,865)
Less: exchange rate movement	(918)	–	(918)	–	–	–
Other movements	19,188	(15,057)	4,131	–	–	–
Balance at end of the year	1,034,143	(388,296)	645,847	924,995	(325,247)	599,748
Year ended December 31, 2007						
Balance at beginning of year	1,034,143	(388,296)	645,847	924,995	(325,247)	599,748
Net insurance claims expensed during the year	2,867,178	(271,384)	2,595,794	2,698,487	(261,766)	2,436,721
Less: claims paid/recovered during the year	(2,813,110)	333,419	(2,479,691)	(2,650,634)	325,907	(2,324,727)
Less: exchange rate movement	(9,225)	4,547	(4,678)	–	–	–
Other movements	(4,639)	19,356	14,717	–	–	–
Balance at end of the year	1,074,347	(302,358)	771,989	972,848	(261,106)	711,742
Unearned premium						
Year ended December 31, 2006						
Balance at beginning of year	869,864	(249,857)	620,007	614,143	(166,530)	447,613
Premiums written during the year	3,910,639	(735,513)	3,175,126	3,431,870	(508,863)	2,923,007
Less: premiums earned during the year	(3,796,014)	680,468	(3,115,546)	(3,394,032)	485,087	(2,908,945)
Less: exchange rate movement	(4,693)	–	(4,693)	–	–	–
Less: other movements	(103,705)	87,583	(16,122)	(4,036)	4,036	–
Balance at end of the year	876,091	(217,319)	658,772	647,945	(186,270)	461,675

Notes to the Annual Financial Statements (continued)

11. Insurance liabilities and reinsurance assets (continued)

R000	Group			Company		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Year ended December 31, 2007						
Balance at beginning of year	876,091	(217,319)	658,772	647,945	(186,270)	461,675
Premiums written during the year	4,400,960	(827,941)	3,573,019	3,964,136	(600,219)	3,363,917
Less: premiums earned during the year	(4,418,060)	844,735	(3,573,325)	(3,963,509)	617,488	(3,346,021)
Less: exchange rate movement	(31,500)	10,260	(21,240)	–	–	–
Less: other movements	(8,768)	10,696	1,928	–	–	–
Balance at end of the year	818,723	(179,569)	639,154	648,572	(169,001)	479,571

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

12. Intangible insurance assets

R000	Group	Company
<u>Deferred acquisition costs</u>		
Year ended December 31, 2006		
Balance at beginning of the year	134,200	93,600
Commission raised during the year	(573,843)	(537,856)
Less commission incurred during the year	609,307	532,720
Balance at end of the year	98,736	98,736
Year ended December 31, 2007		
Balance at beginning of the year	98,736	98,736
Commission raised during the year	(604,214)	(605,409)
Less commission incurred during the year	618,605	609,353
Balance at end of the year	113,127	102,680

All deferred acquisition costs are current.

13. Cash and cash equivalents

Cash and cash equivalents consist of short-term bank deposits with a maturity of less than three months, current accounts and cash on hand. The effective interest rate on short-term bank deposits with a duration of less than three months is between 8.60% and 10.60% per annum (2006: 5.5% and 7.7%). The effective interest rate on current accounts at the balance sheet date was between 7.25% and 9.25% per annum (2006: 6.9% and 5.5%).

R000	Group		Company	
	2007	2006	2007	2006
Insurance policy	–	11,758	–	11,758
Foreign deposits	172,446	152,884	9,294	8,664
Cash on deposit	892,117	426,694	465,909	426,672
Cash on call	351,476	857,517	104,943	235,013
Cash at bank	167,483	33,391	126,302	27,021
Cash on hand	128	70	124	70
	1,583,650	1,482,314	706,572	709,198

Included in cash and cash equivalents is an amount of R324,100 (2006: R20,634,000) held in Zimbabwe. Due to foreign exchange regulations in Zimbabwe these funds are not freely transferable.

14. Share capital

R000	Group		Company	
	2007	2006	2007	2006
Authorised				
13,207,360 (2006: 13,207,360) ordinary shares of 25 cents each	3,302	3,302	3,302	3,302
Issued				
12,179,500 (2006: 12,179,500) ordinary shares of 25 cents each fully paid	3,045	3,045	3,045	3,045

The 1,027,860 (2006: 1,027,000) unissued ordinary shares are under the control of the Directors until the next Annual General Meeting.

15. Share premium

R000	Group		Company	
	2007	2006	2007	2006
Balance at beginning and end of the year	1,605	1,605	1,605	1,605

Notes to the Annual Financial Statements (continued)

16. Deferred taxation

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

R000	Group		Company	
	2007	2006	2007	2006
Deferred income tax assets				
– Deferred income tax to be recovered after more than 12 months	(5,043)	(17,080)	(5,043)	(17,080)
– Deferred income tax to be recovered within 12 months	(9,259)	(38,431)	(9,259)	(38,431)
Balance at end of year	(14,302)	(55,511)	(14,302)	(55,511)
Deferred income tax liabilities				
– Deferred income tax to be recovered after more than 12 months	85,730	141,578	85,462	108,455
– Deferred income tax to be recovered within 12 months	6,228	13,384	6,228	13,384
Balance at end of year	91,958	154,962	91,690	121,839
Net deferred income tax liabilities	77,656	99,451	77,388	66,328

The gross movement in the deferred income tax account is as follows:

Balance at beginning of the year	99,451	12,963	66,328	11,136
Movement during the year attributable to temporary differences	(21,795)	86,488	11,060	55,192
Charged to income statement	(533)	26,377	(532)	26,377
Charged to equity on unrealised investment revaluations	(21,262)	60,111	11,592	28,815
Balance at end of the year	77,656	99,451	77,388	66,328

The movement in deferred tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

R000

	Capital allowances	Provision for leave pay and other accruals	Post-retirement medical aid cost	Operating lease liability	Unrealised gain on assets at fair value through income	Total
Group						
Deferred tax assets						
Balance at end of 2005		(5,681)	(9,080)	(1,885)	–	(16,646)
Charged/(credited) to the income statement		827	(39,692)	–	–	(38,865)
Balance at end of 2006		(4,854)	(48,772)	(1,885)	–	(55,511)
Charged/(credited) to the income statement		(1,769)	43,729	–	(751)	41,209
Balance at end of 2007		(6,623)	(5,043)	(1,885)	(751)	(14,302)
Company						
Balance at end of 2005	(652)	(5,681)	(9,080)	(1,885)	–	(17,298)
Charged/(credited) to the income statement	652	827	(39,692)	–	–	(38,213)
Balance at end of 2006	–	(4,854)	(48,772)	(1,885)	–	(55,511)
Charged/(credited) to the income statement	–	(1,769)	43,729	–	(751)	41,209
Balance at end of 2007	–	(6,623)	(5,043)	(1,885)	(751)	(14,302)

R000

	Post-retirement medical aid cost	Capital and other allowances	Unrealised appreciation on available-for-sale financial assets	Unrealised gain on assets at fair value through income	Total
Group					
Deferred tax liabilities					
Balance at end of 2005	–	1,175	22,737	5,697	29,609
Credited to equity	–	–	60,111	–	60,111
(Credited)/charged to the income statement	66,921	1,304	–	(2,983)	65,242
Balance at end of 2006	66,921	2,479	82,848	2,714	154,962
Credited to equity	–	–	(19,435)	–	(19,435)
(Credited)/charged to the income statement	(39,024)	(1,832)	–	(2,714)	(43,570)
Balance at end of 2007	27,897	647	63,413	–	91,957

Notes to the Annual Financial Statements (continued)

16. Deferred taxation (continued)

R000					
	Post-retirement medical aid cost	Capital and other allowances	Unrealised appreciation on available-for-sale financial assets	Unrealised gain on assets at fair value through income	Total
Company					
Balance at end of 2005	–	–	22,737	5,697	28,434
Credited to equity on disposal	–	–	28,815	–	28,815
(Credited)/charged to the income statement	66,921	652	–	(2,983)	64,590
Balance at end of 2006	66,921	652	51,552	2,714	121,839
Credited to equity on disposal	–	–	11,592	–	11,592
(Credited)/charged to the income statement	(39,024)	(5)	–	(2,714)	(41,743)
Balance at end of 2007	27,897	647	63,144	–	91,688

17. Trade and other payables

	Group		Company	
	2007	2006	2007	2006
Trade payables and accrued expenses	97,505	24,302	97,439	20,691
Agents and other insurance payables	124,486	121,187	121,808	99,798
Other payables	296,534	227,999	59,458	47,461
	518,525	373,488	278,705	167,950

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

18. Investment income

R000	Group		Company	
	2007	2006	2007	2006
Investment income				
Interest	209,739	164,779	152,208	128,948
Interest on call and term deposits	86,242	80,290	27,480	46,818
Interest on secured loans	44,643	41,147	44,642	41,147
Interest on staff loans	–	308	–	289
Interest on deposits for subsidiaries	–	–	–	690
Interest on managed funds including bonds	78,854	40,226	80,086	39,997
Sundry interest income	–	2,808	–	7
Investment income from available-for-sale financial assets	26,420	37,445	26,207	34,874
Ordinary shares – dividends received				
– Quoted shares	18,314	24,916	18,314	22,538
– Unquoted shares	3,067	8,787	3,067	8,787
Preference shares – dividends received				
– Quoted shares	–	64	–	65
– Unquoted shares	5,039	3,678	4,826	3,484
Investment income from subsidiaries				
Dividends from subsidiaries	–	–	10,000	–
	236,159	202,224	188,415	163,822

19. Net fair value (losses)/gains on assets held at fair value through income

Government and other approved securities				
Unrealised net fair value losses	(14,119)	(10,290)	(14,119)	(10,290)
Realised gains on disposal	(9,720)	(8,672)	(9,720)	(8,672)
	(23,839)	(18,962)	(23,839)	(18,962)

Notes to the Annual Financial Statements (continued)

20. Net realised gains

R000	Group		Company	
	2007	2006	2007	2006
Realised gains on disposal on financial assets – available-for-sale	92,014	71,334	95,309	71,250
Investment properties	2,498	–	–	–
	94,512	71,334	95,309	71,250

21. Claims handling expenses included in net claims

Net insurance benefits and claims including claims handling expenses and loss adjustment expenses amounting to	90,889	77,724	90,889	77,724
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22. Profit before tax

After charging:				
Auditors' remuneration				
– Fees for audit	3,203	2,298	2,050	1,315
– Other services	398	40	398	–
	3,601	2,338	2,448	1,315
Depreciation				
– Motor vehicles	5,518	6,126	5,232	5,771
– Furniture	1,078	1,265	1,029	1,165
– Office equipment	310	443	289	368
– Computer equipment and systems	9,739	8,332	8,340	7,825
	16,645	16,166	14,890	15,129
JSE Securities Exchange South Africa				
– Listing fees	–	128	–	128
Surplus/(loss) on disposal of property and equipment	816	2,170	1,397	2,170
Staff cost				
– Salaries and wages	200,999	167,760	191,307	157,077
– Medical aid	16,102	21,126	15,569	20,171
	217,101	188,886	206,876	177,248

R000

	Group		Company	
	2007	2006	2007	2006
Pension fund expenses	(2,245)	27,557	(2,990)	26,547
Provident fund expenses	229	445	209	426
Pension fund surplus	–	(230,764)	–	(230,764)
Constructive liabilities in respect of conversion from a defined benefit pension plan to a defined contribution pension plan	–	133,621	–	133,621
Operating lease rentals – property	18,534	17,376	17,162	17,034
Directors' fees	1,121	1,184	1,121	1,184
Paid by company	1,029	1,184	1,029	1,184
Paid by subsidiary	92	–	92	–
Directors' emoluments	4,863	4,730	4,863	4,730
Penalty and interest on taxation	–	1,496	–	1,496
Expenses by nature (included under claims handling expenses)				
Commission	618,605	609,307	609,353	532,720
Employee costs	215,694	350,509	204,700	337,842
Information technology costs	66,008	86,966	64,630	86,966
Marketing costs	39,676	13,340	39,019	13,159
Depreciation costs	16,645	16,166	14,890	15,129
Administration costs	102,624	57,993	76,866	47,650
Investment expenses	4,734	3,594	4,734	3,594
Total expenses	1,063,987	1,137,875	1,014,192	1,037,060

Notes to the Annual Financial Statements (continued)

23. Income tax expense

R000	Group		Company	
	2007	2006	2007	2006
South African and foreign				
Current taxation				
– Current year normal tax	103,447	73,670	80,758	59,623
– Prior year under/(over) provision	18,559	(4,564)	18,559	(4,564)
	122,006	69,106	99,317	55,059
Deferred taxation				
– Current year	2,877	27,364	2,877	27,364
– Prior year	(3,410)	(988)	(3,410)	(988)
Secondary tax on companies	8,655	10,184	8,655	8,895
	130,128	105,666	107,439	90,330
Reconciliation of taxation:				
South African normal taxation at statutory tax rate of 29%	125,200	125,873	106,063	110,048
Adjusted for:				
– Change in rate of taxation				
– Prior year under/(over) provision	15,149	(5,552)	15,149	(5,552)
– Exempt income	(38,730)	(29,785)	(32,994)	(28,007)
– Capital gains tax	9,552	4,561	9,552	4,561
– Disallowed expenses	10,060	385	773	385
– Secondary tax on companies	8,655	10,184	8,655	8,895
– Withholding tax in foreign subsidiary	242	–	242	–
Taxation charge in income statement	130,128	105,666	107,439	90,330

24. Cash generated from operations

Operating income before taxation	421,160	432,548	365,733	377,980
Adjustment for:				
Depreciation	16,645	16,166	14,890	15,129
Provision increase – post-retirement medical aid	4,994	5,243	4,994	5,243
Payments – post-retirement medical aid	(897)	(909)	(897)	(909)
Pension fund valuation adjustment	(28,302)	(98,243)	(28,302)	(98,243)
Foreign exchange adjustment	(5,967)	(9,789)	–	–
Loss/(profit) on disposal of property and equipment	816	(2,170)	1,397	(2,170)
Profit on disposal of property	(2,498)	–	–	–
Net increase in claims outstanding	126,142	70,035	111,994	60,602
Interest paid	10,564	–	10,564	–
Investment income before investment expenses	(304,333)	(254,596)	(259,885)	(216,110)
Net increase/(decrease) in unearned premiums	(43,461)	61,761	13,379	17,884
	194,863	220,046	233,867	159,406

25. Net movement in working capital

R000	Group		Company	
	2007	2006	2007	2006
Due from agents and other insurance companies	(290,392)	(24,493)	(280,223)	21,054
Other receivables	100,175	90,832	69,215	102,969
Due to agents and other insurance companies	3,299	4,334	178,907	(10,605)
Amounts due to primary policyholders	–	(8,655)	–	–
Amounts due to cell shareholders	83,691	60,126	–	–
Due from holding company	(24,426)	(3,481)	(23,427)	(4,480)
Other payables	141,738	28,048	(68,152)	(15,649)
	14,085	146,711	(123,680)	93,289

26. Taxation paid

Balance owing by the Receiver of Revenue at beginning of year	19,781	28,365	31,645	30,303
Current taxation and secondary tax on companies charged to the income statement	(130,660)	(79,290)	(107,972)	(63,954)
Balance due to the Receiver of Revenue at end of year	(56,886)	(19,781)	(62,910)	(31,645)
	(167,764)	(70,706)	(139,237)	(65,296)

27. Solvency margin

Shareholders' funds	1,902,219	1,771,976	1,733,714	1,603,928
Net premiums	3,573,019	3,175,126	3,363,917	2,923,007
The Group's solvency margin represents shareholders' funds expressed as a percentage of net premiums	53.2%	55.8%	51.5%	54.9%

Notes to the Annual Financial Statements (continued)

28. Related party transactions

The Company is controlled by SA Fire House Limited (incorporated in South Africa), which directly and indirectly owns 73.6% (2006: 73.6%) of the Company's shares. The ultimate holding company is Zurich Insurance Company (incorporated in Switzerland). A list of affiliated companies is set out on pages 105 and 106.

R000

	Group		Company	
	2007	2006	2007	2006
The following transactions were carried out with related parties:				
IT services provided to Zurich Group	17,346	18,750	17,346	18,750
IT services provided to Botswana Eagle Insurance Company Limited (Incorporated in Botswana)	–	–	1,306	1,306
IT services provided to Eagle Insurance Company Limited (Incorporated in Zimbabwe)	–	–	35	35
IT services provided to Zurich Risk Financing SA Limited	–	–	102	102
IT services provided to Escape Premium Collection (Pty) Limited	–	–	33	33
As part of the intergroup reinsurance arrangements, the following reinsurance premiums and claims were paid and recovered during the year from Zurich Insurance Company under normal market conditions.				
Reinsurance				
– Premiums paid	42,443	62,761	42,443	62,761
– Claims recovered	69,069	9,213	69,069	9,213
– Commission earned	1,588	2,002	1,588	2,002
Amounts owing by the Zurich Group are as follows:				
Current accounts	24,616	5,660	24,616	5,660
The current account bears no interest and is repayable on demand.				
Amounts owing by holding company SA Fire House Limited	10,311	–	10,311	–
Amounts owing by subsidiaries to the Company are as follows:				
Unsecured loans	–	–	43	2,268
Current accounts	–	–	1,206	1,044

R000

			Unsecured loans	Current accounts
Balance at end of 2005			4,087	1,194
Net movements			(1,819)	(150)
Balance at end of 2006			2,268	1,044
Advances			23,648	8,336
Repayments			(25,873)	(8,174)
Balance at December 31, 2007			43	1,206

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

Insurance policy exposure

Members of the executive committee, including Executive Directors have insurance policies with the Company with an aggregate sum insured of R49.1 million at December 31, 2007 (2006: R22.3 million), paying premiums of R172,365 (2006: R75,000) and receiving claim payments of R162,422 (2006: R48,000).

R000

			2007	2006
Key management compensation*				
Salaries, bonuses and other short-term employee benefits			6,320	3,420
Payments by the Company for shares under the LTPSP**			1,179	320

There are no existing/outstanding loans.

***Key management**

5 Executive Committee Members excluding Executive Directors.

****Long Term Performance Share Plan (LTPSP)**

If key business performance targets are delivered, certain senior executives receive Zurich Financial Services shares. Based on a three year plan cycle, performance will be measured each year against the agreed criteria. Target shares allocated to executive members are a notified percentage value of the base salary as at April 1 (excluding bonuses, incentives and expense allowances). The share price for allocation is the closing price of Zurich Financial Services shares as it was on allocation date. The exchange rate used to convert a salary to Swiss Franc is the closing Bloomberg exchange rate as it was on allocation date. The target share allocation is not an award, but a translation of the LTPSP incentive salary at target into a number of shares at target.

One third of the target shares allocated will be assessed for vesting on each of three anniversary dates following the grant date. One half of the shares awarded under the Plan cannot be sold for three years after the vesting. A proportion of the allocated target shares will be transferred to executives in April following each performance period, based on the performance of the Company. Target performance of the Company is measured on a calendar basis.

Notes to the Annual Financial Statements (continued)

28. Related party transactions (continued)

Eligible participants employed on or before July 1, will be eligible to participate in the LTPSP on a pro rata basis. The pro rata number of shares will be calculated on the basis of a total 36-month participation.

These shares are payable on the vesting date.

The following shares vested during 2007:

R000				
	No of shares vested	Share price (CHF)	Exchange rate	Value
April 3	1,179	355.8	1ZAR:0.5868CHF	2,461

The following shares vested during 2006:

April 3	297	304.0	1ZAR:0.1934CHF	426
June 30	23	271.0	1ZAR:0.1934CHF	36
Total	320			462

29. Directors' emoluments

R000		
	2007	2006
Executive Directors		
NV Beyers		
Basic salary	1,500	1,399
Bonus	125	117
Other material benefits *	241	247
Pension scheme contributions	209	174
Profit sharing	465	533
Total	2,540	2,470
DM Burton		
Basic salary	691	645
Bonus	59	55
Other material benefits *	207	209
Pension scheme contributions	98	80
Profit sharing	107	162
Total	1,162	1,151
CN Zungu		
Basic salary	662	612
Bonus	56	52
Other material benefits *	227	211
Pension scheme contributions	94	76
Profit sharing	122	153
Total	1,161	1,104
Total Executive Directors	4,863	4,725

* Company car, medical aid, housing allowance and club subscriptions

R000

	2007	2006
Non-Executive Directors		
Directors fees paid to the following Non-Executive Directors:		
JPG de Rauville	398	249
PT Martin	70	261
SG Morris	267	257
DS Phiri	180	191
A Paas*	40	67
MC South*	–	159
MN Mbekeni	41	–
DD Mokgatle	24	–
JPM Deiss*	18	–
CJ Cron*	83	–
Total Non-Executive Directors	1,121	1,184
Total	5,984	5,909

* Payments made directly to Zurich Financial Services

The above emoluments have been paid by Zurich Insurance Company South Africa Limited. Details of the Directors shareholdings are set out in the Directors' Report.

30. Capital commitments

R000

	Group		Company	
	2007	2006	2007	2006
Authorised	36,814	18,500	36,814	18,500

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

31. Operating lease commitments

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

Not later than one year	18,418	17,034	18,418	17,034
Later than one year but not later than five years	141,515	54,059	141,515	54,059
Later than five years	524,728	31,325	524,728	31,325
	684,661	102,418	684,661	102,418

Notes to the Annual Financial Statements (continued)

32. Impact of application of IFRIC 11

The Group has not yet adopted IFRIC 11 Scope of IFRS 2: Group and treasury share transactions. This interpretation is applicable to the Group for the year ending December 31, 2008 and through IFRIC 8 has the effect of making the empowerment transaction entered into in April 2005 subject to IFRS 2. The effect of this is to push down the equity accounting for the transaction in the Company's holding company to the Group. This will result in an empowerment reserve being accounted for in the financial statements for the year ending December 31, 2008. The transaction according to current advice provided will result in a charge against retained income and a credit to equity. As a result, reported income and net asset value will be unaffected. The Company's holding company has also granted an option to the BEE partners to acquire a further 14.9% on favourable terms. This option is exercisable by the BEE partner between April 27, 2008 and October 27, 2008. The financial effect of this transaction has not been calculated.

33. Post balance sheet events

On February 22, 2008 the Directors declared a final dividend of 440 cents per share (2006: 430 cents per share). The dividend is payable to shareholders registered on March 13, 2008 and will be paid on March 25, 2008. The total cash payment in respect of the dividend declared will be R53,543,556 (2006: R52,371,850). Secondary tax on Companies (STC) on the dividend is expected to amount to R5,354,355 (2006: R5,301,000) after taking into account the STC credits on dividends received.

Affiliated companies

for the year ended December 31, 2007

	Issued ordinary share capital		Proportion held by holding company		Shares at cost		Amount due to/(by) holding company	
	2007 R000	2006 R000	2007 %	2006 %	2007 R000	2006 R000	2007 R000	2006 R000
(A) Subsidiaries directly held								
Short term insurance companies								
Zurich Risk Financing SA Limited (formerly SA Eagle Risk Financing Limited)	10,000	10,000	100	100	25,000	25,000	-	433
Botswana Eagle Insurance Company Limited (incorporated in Botswana)	14,425	14,425	100	100	14,359	14,359	-	224
Eagle Insurance Company Limited (incorporated in Zimbabwe)	711	711	49	49	1,151	1,151	1,084	969
African General Insurance Company Limited ^	1	1	99	99	6,967	6,967	308	485
General investment companies								
African Guarantee & Indemnity Company Limited ^	1	1	100	100	1	1	(636)	(617)
Property companies								
British African Properties Limited	1,200	1,200	100	100	6,142	6,142	(3,801)	668
Eagle Properties (Krugersdorp) (Proprietary) Limited ^	1	1	100	100	12	12	5,266	5,261
Eagle Star House (Johannesburg) Limited ^	120	120	100	100	136	136	(358)	(358)
Surrey View (Proprietary) Limited ^	1	1	100	100	1	1	(317)	(295)
Waverley Properties (Proprietary) Limited ^	90	90	100	100	7	7	(2,151)	(2,151)
Other								
Escape Premium Collection (Proprietary) Limited	1,000	1,000	100	100	1,000	1,000	122	-
Zurich Legal Expenses Underwriting Managers SA (Proprietary) Limited (formerly SA Eagle Legal Expenses Underwriting Managers (Proprietary) Limited)	1	1	89	89	4,450	4,450	-	-
Zurich Life SA Limited (formerly SA Eagle Life Limited)	-	-	100	100	10,000	10,000	-	-

^ Company is in the process of being deregistered

Affiliated companies (continued)

	Issued ordinary share capital		Proportion held by holding company		Shares at cost		Amount due to/(by) holding company	
	2007 R000	2006 R000	2007 %	2006 %	2007 R000	2006 R000	2007 R000	2006 R000
(B) Subsidiaries indirectly held								
Eagle Properties (Benoni) (Proprietary) Limited	-	-	100	100	-	-	-	-
Eagle Properties (East London) (Proprietary) Limited ^	2	2	100	100	-	-	-	-
Tarazed (Proprietary) Limited ^	-	-	100	100	-	-	-	-
Threadneedle Properties (SA) Limited ^	630	630	100	100	-	-	-	-
Goldrush Investments (Proprietary) Limited *	-	-	100	100	-	-	616	585
(C) Other								
Zurich Aviation Underwriting Managers SA (Proprietary) Limited (formerly SA Eagle Aviation Underwriting Managers (Proprietary) Limited)	1	1	50	50	-	-	-	-
IDI Technology Solutions (Proprietary) Limited	10	10	31	31	-	-	-	-
Flexilink Systems (Proprietary) Limited	4	4	33	33	-	-	-	-
BnB Sure (Proprietary) Limited	1	1	20	20	-	-	-	-
The aggregate taxed results of subsidiaries were as follows:								
Profits	32,875	41,451						
Losses	137	2,219						

* Shares held by British African Properties Limited

^ Company is in the process of being deregistered

Analysis of shareholders

Register date: December 28, 2007
 Issued share capital: 12,179,500 shares

	No. of shareholders	%	No. of shares	%
Shareholder spread				
1 – 1,000 shares	561	90.33	104,747	0.86
1,001 – 10,000 shares	35	5.64	103,107	0.85
10,001 – 100,000 shares	17	2.74	684,821	5.62
100,001 – 1,000,000 shares	6	0.97	1,103,833	9.06
1,000,000 shares and above	2	0.32	10,182,992	83.61
	621	100	12,179,500	100
Distribution of shareholders				
Banks	1	0.16	100	0
Close Corporations	9	1.45	7,553	0.06
Empowerment	1	0.16	1,217,950	10
Individuals	476	76.65	189,695	1.56
Insurance Companies	6	0.97	9,019,184	74.05
Mutual Funds	14	2.25	1,222,353	10.04
Nominees and Trusts	55	8.86	119,855	0.99
Other Corporations	10	1.61	1,360	0.01
Pension Fund	4	0.64	342,084	2.81
Private Companies	39	6.28	41,943	0.34
Public Companies	6	0.97	17,423	0.14
	621	100	12,179,500	100
Public/non-public shareholders				
Non-Public Shareholders	10	1.61	10,237,585	84.06
Directors and Associates of the Company holdings	7	1.13	700	0.01
Holding Company/Strategic Holdings	1	0.16	8,965,042	73.61
Empowerment	1	0.16	1,217,950	10
Own Pension Fund	1	0.16	53,893	0.44
Public Shareholders	611	98.39	1,941,915	15.94
	621	100	12,179,500	100
Beneficial shareholders holding of 3% or more				
SA Fire House Limited (SA Eagle – Zurich Financial Services)			8,965,042	73.61
Royal Bafokeng Nation			1,217,950	10
Old Mutual Group			447,441	3.67

Analysis of shareholders (continued)

	No. of Shares	% of Shares
Breakdown of non-public holdings		
Directors		
Beyers, NV	200	0
Burton, DM	100	0
de Rauville, JPG	100	0
Morris, SG	100	0
Phiri, DS	100	0
Zungu, CN	100	0
Total	700	0.01
Holding company		
SA Fire House Limited (SA Eagle – Zurich Financial Services)	8,965,042	73.61
Empowerment		
Royal Bafokeng Nation	1,217,950	10
Own pension fund		
Zurich South Africa Pension Fund	53,893	0.44
Beneficial breakdown		
Old Mutual Group	447,441	3.67
Old Mutual Growth Fund	165,478	1.36
Old Mutual Top Companies Fund	101,462	0.83
Old Mutual Financial Services Fund	92,635	0.76
Old Mutual Life Assurance Company SA	44,062	0.36
Old Mutual Small Companies Fund	43,804	0.36

Employee Profile

for the year ended December 31, 2007

	Grade	Total
Occupational level		
Top Management Chief Executive Officer	1	1
Senior Management Head of Major Functions	2, 3, 4	12
Experienced Specialists & Middle Management	5, 6, 7	186
Skilled Technical & Foreman	8, 9, 10, 11	695
Automatic Decision	12, 13, 14, 15	90
Defined Decision	16	6
Total Permanent		990

	Male		African Female		Total	
	N	%	N	%	N	%
Occupational level						
Top Management Chief Executive Officer						
Senior Management Head of Major Functions	1	0.1			1	0.1
Experienced Specialists & Middle Management	12	1.2	8	0.8	20	2.0
Skilled Technical & Foreman	95	9.6	78	7.9	173	17.5
Automatic Decision	17	1.7	14	1.4	31	3.1
Defined Decision	3	0.3	3	0.3	6	0.6
Total Permanent	128	12.9	103	10.4	231	23.3

Employee Profile (continued)

	Male		Coloured Female		Total	
	N	%	N	%	N	%
	Occupational level					
Top Management Chief Executive Officer						
Senior Management Head of Major Functions						
Experienced Specialists & Middle Management	5	0.5	3	0.3	8	0.8
Skilled Technical & Foreman	50	5.0	68	6.9	118	11.9
Automatic Decision	6	0.6	18	1.9	24	2.5
Defined Decision						
Total Permanent	61	6.2	89	9.1	150	15.2

	Male		Indian Female		Total	
	N	%	N	%	N	%
	Occupational level					
Top Management Chief Executive Officer						
Senior Management Head of Major Functions						
Experienced Specialists & Middle Management	22	2.2	13	1.3	35	3.5
Skilled Technical & Foreman	63	6.4	72	7.3	135	13.7
Automatic Decision	4	0.4	6	0.6	10	1.0
Defined Decision						
Total Permanent	89	9	91	9.2	180	18.2

	Male		White Female		Total	
	N	%	N	%	N	%
	Occupational level					
Top Management Chief Executive Officer	1	0.1			1	0.1
Senior Management Head of Major Functions	8	0.8	3	0.3	11	1.1
Experienced Specialists & Middle Management	79	8.0	44	4.4	123	12.4
Skilled Technical & Foreman	62	6.8	207	21	269	27.2
Automatic Decision	3	0.3	22	2.2	25	2.5
Defined Decision						
Total Permanent	153	15.5	276	27.8	429	43.3

	No	%
Totals per race		
African	231	23.3
Coloured	150	15.2
Indian	180	18.2
White	429	43.3
Total	990	100

		No	%
Totals per gender			
African	Male	128	12.9
	Female	103	10.4
Coloured	Male	61	6.2
	Female	89	9.0
Indian	Male	89	9.0
	Female	91	9.2
White	Male	153	15.5
	Female	276	27.8
Total		990	100

Notice to Shareholders

Zurich Insurance Company South Africa Limited

(Incorporated in the Republic of South Africa)

(Registration number 1965/006764/06)

Share code: ZSA

ISIN: ZAE000094496

("Zurich SA" or "the Company")

Notice is hereby given that the forty-third Annual General Meeting of shareholders of Zurich SA will be held at the offices of the Company, Zurich House, The Braes, 193 Bryanston Drive, Bryanston, on Wednesday May 21, 2008 at 10:00 to consider and, if deemed fit, to pass with or without modification, the following ordinary and special resolutions in the manner required by the Companies Act No. 61 of 1973 as amended, and subject to the JSE Listings Requirements:

Ordinary business

1 Adoption of Annual Financial Statements

"**THAT** the audited Annual Financial Statements of the Company and the Group for the year ended December 31, 2007 together with the report of the auditors thereon, be considered and adopted."

2 Election of Directors

2.1 "**THAT** Mr DM Burton, an Executive Director, who retires in terms of the Company's Articles of Association ("the Articles"), and being eligible has offered himself for re-election as an Executive Director, be re-elected."

Details of an Executive Director up for re-election:

Mr DM Burton ACII (59)

1969 – 1986 Administration Manager: AA Mutual Insurance

1986 – 1999 Various senior positions: SA Eagle

1999 – 2005 General Manager: Sales

2005 – to date Executive Director: Sales: Zurich SA

2.2 "**THAT** Mr CN Zungu, an Executive Director, who retires in terms of the Company's Articles, and being eligible has offered himself for re-election as an Executive Director, be re-elected."

Details of an Executive Director up for re-election:

Mr CN Zungu BCom (51)

1994 – 2000 Human Resources Director: Avis Rent-A-Car

2000 – 2005 General Manager: People Management: SA Eagle

2005 – to date Executive Director: People Management: Zurich SA

2.3 "**THAT** Mr DS Phiri, a Non-Executive Director, who retires in terms of the Company's Articles, and being eligible has offered himself for re-election as a Non-Executive Director, be re-elected."

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

Mr DS Phiri BJuris, LLB, HDip Corporate Law, LLM (51)

1991 – 2000 Partner/Attorney: Phiri-Moalusi Attorneys

2000 – 2003 Legal Corporate Advisor: Royal Bafokeng Finance

2003 – to date Chief Executive Officer: Merafe Resources

2005 – to date Non-Executive Director: Zurich SA

2.4 **“THAT** Mr SG Morris, a Non-Executive Director, who retires in terms of the Company's Articles, and being eligible and has offered himself for re-election as a Non-Executive Director, be re-elected.”

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

Mr SG Morris BCom CA (SA) (62)

1966 – 1999 Chairman; Senior Partner; Deputy Chief Executive Officer; Chief Executive Officer:
KPMG South Africa

1999 – 2004 Group Financial Director: Nedcor

2005 – to date Non-Executive Director: Zurich SA

3 Approval of Directors' remuneration

“THAT the joint remuneration of the Directors as reflected on pages 102 and 103 of this Annual Report, to which this notice forms part, be approved.”

4 Approval of reappointment of auditors

“THAT the reappointment of PricewaterhouseCoopers Inc. as auditors of the Company until the next Annual General Meeting be approved.”

5 Approval of auditors' remuneration

“THAT the Directors be and are hereby authorised to fix and pay the auditors' remuneration for the year ended December 31, 2007 be approved.”

Special business

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

Ordinary resolution number 1

Place unissued shares under the control of the Directors

“THAT the entire authorised but unissued ordinary share capital of the Company be and is hereby placed under the control of the Directors until the forthcoming Annual General Meeting and that they be and are hereby authorised and empowered to allot, issue and otherwise dispose of such shares on such terms and conditions and at such times as they may deem fit, subject to the provisions of the Companies Act (Act 61 of 1973), as amended (“the Act”), the Company's Articles and the JSE Limited (“JSE”) Listings Requirements, when applicable.”

Ordinary resolution number 2

Issue unissued shares in the Company for cash

“THAT the Directors of the Company be authorised, by way of a General Authority to allot and issue unissued shares in the Company for cash as and when they in their discretion deem fit, subject to the Companies Act, the Company's Articles and the JSE Listings Requirements, when applicable, and the following limitations, namely:

- That this authority shall not extend beyond 15 (fifteen) months from the date of this meeting or the date of the next Annual General Meeting, whichever is the earlier date;
- That the issue shall be to public shareholders, as defined in the JSE Listings Requirements and not to related parties;
- That a paid press release, giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one year, 5% (five percent) or more of the number of ordinary shares issued prior to the issue;

Notice to Shareholders (continued)

- That issues in the aggregate in any financial year shall not exceed 8% (eight percent) of the number of ordinary shares of the Company's issued share capital, including instruments which are convertible into ordinary shares;
- That, in determining the price at which an issue for shares will be made in terms of this authority, the maximum discount permitted be 10% (ten percent) of the weighted average traded price of the shares in question over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed to by the Company's Directors and the party subscribing for the shares;
- That the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case must be limited to such securities or rights that are convertible into a class already in issue; and
- Any other requirements the JSE may have."

In terms of the Listings Requirements of the JSE, 75% (seventy-five percent) of the votes cast by shareholders present or represented by proxy at the Annual General Meeting must be cast in favour of this Ordinary Resolution for it to be approved.

Special resolution number 1

Authority to repurchase shares

"**THAT** the Company hereby approves, as a general approval contemplated in Section 85 of the Companies Act, 1973 (Act 61 of 1973), as amended ("the Act"), the acquisition by the Company of its own shares, or of shares in its holding company or to permit a subsidiary of the Company to purchase shares in the Company, upon such terms and conditions and in such amounts as the Directors of the Company may decide, but subject to the provisions of the Articles, the Companies Act and the JSE Listings Requirements from time to time, subject to the following limitations:

- That this General Authority shall not extend beyond 15 (fifteen) months from the date of this meeting or the date of the next Annual General Meeting, whichever is the earlier date;
- That any such repurchase be implemented through the order book operated by the JSE and done without prior understanding or arrangement between the Company and the counter party;
- That a paid press release giving such details as may be required in terms of the Listings Requirements of the JSE be published when the Company or its subsidiaries have cumulatively repurchased 3% (three percent) of the initial number of shares in issue and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter;
- That the general repurchase may not in the aggregate in any one financial year exceed 20% (twenty percent) of the number of shares in the Company's issued share capital at the time this authority is given provided that the acquisition of shares by a subsidiary of the Company may not exceed 10% (ten percent) of the number of issued shares of the Company if such shares are to be held as treasury stock;
- That, in determining the price at which shares may be repurchased in terms of this General Authority, the maximum premium permitted be 10% (ten percent) above the weighted average traded price of the shares as determined over the 5 (five) business days immediately preceding the date of the repurchase of such ordinary shares by the Company;
- That the Company or its subsidiary are not repurchasing securities during a prohibited period as defined in the JSE Listings Requirements unless they have in place a repurchase programme where the dates and quantities of the securities to be traded during the relevant period are not fixed (not subject to variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period;

- The Company only appoints one agent to effect any repurchase(s) on its behalf;
- The sponsor to the Company provides a letter on the adequacy of working capital in terms of Section 2.12 of the JSE Listings Requirements prior to any repurchases being implemented on the open market of the JSE;
- That the Company may only undertake a repurchase of securities if, after such repurchase, it complies with the JSE Listings Requirements concerning shareholder spread requirements; and
- That such repurchase shall be subject to the Act and the applicable provisions of the Listings Requirements of the JSE.”

The Directors undertake that, for a period of 12 (twelve) months following the date of the general repurchase they will not undertake any such repurchases unless:

- The Company and the Group will, after payment for such maximum repurchase, be able to repay its debts in the ordinary course of business;
- The Company's and the Group's assets, fairly valued according to International Financial Reporting Standards and on a basis consistent with the last financial year of the Company will, after such payment, exceed the Company's and the Group's liabilities;
- The Company's and the Group's share capital and reserves will, after such payment, be available for ordinary business purposes; and
- The Company and the Group will, after such payment, have sufficient working capital available for ordinary business purposes.

Reason and effect

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

Intention

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

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

- Directors and management – pages 18 to 23;
- Major shareholders of Zurich SA – pages 107 and 108;
- Directors' interests in securities – page 37; and
- Share capital of the Company – page 91.

Litigation statement

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

Notice to Shareholders (continued)

Directors' responsibility statement

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

Material change

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

Voting and Proxies

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms must be forwarded to reach the Company's Transfer Secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 South Africa or posted to the Transfer Secretaries at PO Box 61051, Marshalltown, 2107 to be received by no later than 10:00 on Monday May 19, 2008. Proxy forms should only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

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

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

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

By order of the Board



TA Pitman

Group Company Secretary
March 29, 2008

Registered office

Zurich House, The Braes, 193 Bryanston Drive, Bryanston, 2021, South Africa

Transfer secretaries

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

Administration

Group Company Secretary and Registered Office

TA Pitman
Zurich House
The Braes, Block D
193 Bryanston Drive
Bryanston, 2021

PO Box 61489
Marshalltown
2107

Registration Number

1965/006764/06

Authorised Financial Services Provider Number

17703

Website

www.zurich.co.za

Transfer Secretaries

Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street
Johannesburg, 2001

Auditors

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

Sponsor

RAND MERCHANT BANK
(A division of FirstRand Bank Limited)
1 Merchant Place
Cnr Fredman Drive & Rivonia Road
Sandton, 2196

Zurich Insurance Company South Africa Limited
The Braes, 193 Bryanston Drive, 2021 PO Box 61489, Marshalltown, 2107
Registration No. 1965/006764/06
Authorised Financial Services Provider No. 17703
Authorised Financial Services Provider

