

Notes to the annual financial statements

for the year ended 31 December 2008

1. General information

Zurich Insurance Company South Africa Limited ("the Company") and its subsidiaries and associates (together forming "the Group") underwrite all classes of short-term insurance business and offer premium collection services. The Group operates in the Republic of South Africa, Botswana, Zimbabwe, Swaziland and Mauritius.

The Company is a public limited company incorporated and domiciled in the Republic of South Africa. The Company is listed on the JSE Limited. The address of its registered office is: 193 Bryanston Drive, Bryanston 2021, Johannesburg, South Africa.

The immediate holding company is SA Fire House Limited incorporated in South Africa. The ultimate parent company is Zurich Financial Services incorporated in Switzerland.

The financial statements were authorised for issue on 13 May 2009 by the Board of Directors. Only the Board of Directors has power to amend these financial statements after issue.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated annual financial statements are set out below. These policies have been consistently applied to all the years presented and across all subsidiary companies, where applicable, unless otherwise stated.

2.1 Basis of presentation and preparation

These consolidated annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared under the historical-cost convention except where otherwise stated in the accounting policies below. The consolidated annual financial statements are presented in South African Rands, rounded to the nearest thousand (R'000) unless otherwise stated.

The Group's balance sheet is not presented using the current/non-current classification. However, the following balances are generally considered to be current: current taxation asset and liability, cash and cash equivalents, and deferred reinsurance commission.

The following balances are generally considered to be non-current: property and equipment, investment property, investments in subsidiaries and associates.

Loans and receivables, intangible assets, assets arising from reinsurance contracts, employee benefits (obligations and surplus), liabilities arising from insurance contracts, accounts payable and accrued expenses, financial liabilities: amounts due to cell shareholders, provisions, deferred tax liability and financial assets (available-for-sale and fair value through income) contain both current and non-current components.

The preparation of financial statements is in conformity with IFRS and requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

2.2 New and amended standards and interpretations

Effective in 2008

The following International Financial Reporting Standards became effective during the year and have been adopted by the Group where required:

IFRIC 11 – Group and treasury share transactions

This Interpretation is applicable for annual periods beginning on or after 1 March 2007. It provides guidance on:

- equity instruments of an entity granted to employees by the entity regardless of whether the entity chooses or is required to buy equity instruments from another party to satisfy its obligations to its employees;
- equity instruments of an entity granted to employees by either the entity itself or by its shareholders, and the shareholders of the entity provide the equity instruments needed; and
- share-based payment arrangements that involve two or more entities within the same group.

This interpretation has been applied by the Group to account for the share-based payment transaction described in note 19.

IFRIC 12 – Service concession arrangements

This interpretation, which is effective for annual periods beginning on or after 1 January 2008, gives guidance on the accounting by operators for public-to-private service concession arrangements. It has no impact as the Group is not an operator of public-to-private service concession arrangements.

IFRIC 14 – The limit on a defined benefit asset, minimum funding requirements and their interaction

This interpretation is effective for annual periods beginning on or after 1 January 2008. It applies to all post-employment defined benefits and other long-term employee defined benefits, and addresses:

- when refunds or reductions in future contributions should be regarded as available;
- how a minimum funding requirement might affect the availability of reductions in future contributions; and
- when a minimum funding requirement might give rise to a liability.

This interpretation has been applied by the Group to account for the employee benefits in note 10, but had no impact.

Effective in future periods

The following International Financial Reporting Standards will become effective after 31 December 2008 and will be adopted by the Group in the ensuing financial years, to the extent they are applicable to the operations of the Group. Unless indicated to the contrary, the Group is in the process of evaluating the potential impact these Standards will have on its financial statements. These changes have not been adopted early.

Amendments to IAS 39 and IFRS 7 – Reclassification of financial assets

The amendments provide for:

- reclassification of non-derivative financial assets (other than those designated at fair value through income upon initial recognition) out of the fair value through income category; and
- transfer from the available-for-sale category to the loans and receivable category of a financial asset that would have met the definition of loans and receivables (if the asset had not been designated as available-for-sale) if the entity has the intention and ability to hold that financial asset for the foreseeable future.

The amendments are effective for reclassification of financial assets on or after 1 July 2008. The amendments have had no impact.

IFRS 1 and IAS 27 (Amendment) – Cost of an investment in a subsidiary, jointly controlled entity or associate

The amendments are effective for annual periods beginning on or after 1 January 2009 and introduce an alternative measurement basis for the cost of an investment in a subsidiary, jointly controlled entity or associate for first-time adopters of IFRS. The amendment is not expected to have a significant effect on the Group's financial statements.

IFRS 2 (Amendment) – Share-based payments

The amendments which are applicable for annual periods beginning on or after 1 January 2009 provided guidance on the treatment of non-vesting conditions and cancellations.

Notes to the annual financial statements continued

for the year ended 31 December 2008

2. Summary of significant accounting policies (continued)

2.2 New and amended standards and interpretations (continued)

IAS 36 (Amendment) – Impairment of assets (effective from 1 January 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 28 (Amendment) and provide the required disclosure, where applicable, for impairment tests from 1 January 2009.

IAS 38 (Amendment) – Intangible assets (effective from 1 January 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009.

IAS 19 (Amendment) – Employee benefits (effective from 1 January 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment; an amendment that changes benefits attributable to past service gives rise to a negative past-service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short-term and long-term employee benefits is based on whether benefits are due to be settled within or after 12 months of employee service being rendered. IAS 37, *Provisions, contingent liabilities and contingent assets* requires contingent liabilities to be disclosed not recognised. IAS 19 has been amended to be consistent in this regard. The Group will apply IAS 19 (Amendment) from 1 January 2009.

IAS 32 (Amendment) – Financial instruments: Presentation, and IAS 1 (Amendment) – Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation (effective from 1 January 2009)

The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply IAS 32 and IAS 1 (Amendment) from 1 January 2009 but is not expected to have any impact on the Group's financial statements.

IAS 28 (Amendment) – Investments in associates (and consequential amendments to IAS 32 – Financial instruments: Presentation, and IFRS 7 – Financial disclosures) (effective from 1 January 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. An investment in an associate is treated as a single asset for the purposes of impairment testing, and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply IAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

IAS 28 (Amendment) – Investments in associates (and consequential amendments to IAS 32 – Financial instruments: Presentation, and IFRS 7 – Financial instruments: Disclosures) (effective from 1 January 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. Where an investment in associate is accounted for in accordance with IAS 39 – *Financial instruments: Recognition and measurement* only certain, rather than all, disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32 – *Financial instruments: Presentation*, and IFRS 7 – *Financial instruments: Disclosures*. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in an associate to be equity accounted in the Group's consolidated accounts.

IAS 39 (Amendment) – Financial instruments: Recognition and measurement (effective from 1 January 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. It clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that IAS 39 is consistent with IFRS 8 – *Operating segments*, which requires disclosure for segments to be based on information reported to the chief operating decision-maker. Currently, for segment reporting purposes, each subsidiary designates and documents (including effectiveness testing) contracts with Group treasury as fair value or cash flow hedges so that the hedges are reflected in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision-maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision-maker) but the Group will not formally document and test this hedging relationship. When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. The Group will apply IAS 39 (Amendment) from 1 January 2009, but it is not expected to have an impact on the Group's income statement.

IAS 29 (Amendment) – Financial reporting in hyperinflationary economies (effective from 1 January 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The Group will apply IAS 29 (Amendment) from 1 January 2009.

IFRS 5 (Amendment) – Non-current assets held for sale and discontinued operations (and consequential amendment to IFRS 1 – First-time adoption of IFRS) (effective from 1 July 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRS. The Group will apply IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

Interpretations and amendments to existing standards that are not yet effective and not relevant to the Group's operations

IAS 16 (Amendment) – Property, plant and equipment (and consequential amendment to IAS 7 – Statement of cash flows) (effective from 1 January 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Group's operations because none of the ordinary activities Group's companies' comprise renting and subsequently selling assets.

Notes to the annual financial statements continued

for the year ended 31 December 2008

2. Summary of significant accounting policies (continued)

2.2 New and amended standards and interpretations (continued)

IAS 20 (Amendment) – Accounting for government grants and disclosure of government assistance (effective from 1 January 2009)

The benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 – *Financial instruments: Recognition and measurement*, and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not currently have an impact on the Group's operations, as there are no loans received or other grants from the government.

The minor amendments to IAS 20 – *Accounting for government grants and disclosure of government assistance* and IAS 29 – *Financial reporting in hyperinflationary economies*, IAS 40 – *Investment property* and IAS 41 – *Agriculture*, which are part of the IASB's annual improvement project published in May 2008 (not addressed above), will not have an impact on the Group's operations as described above.

IAS 31 (Amendment) – Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. Where an investment in a joint venture is accounted for in accordance with IAS 39, only certain, rather than all, disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32 – *Financial instruments: Presentation* and IFRS 7 – *Financial instruments: Disclosures*. The amendment will not currently have an impact on the Group's operations as there are no interests held in joint ventures.

IAS 40 (Amendment) – Investment property (and consequential amendments to IAS 16) (effective from 1 January 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable. The amendment will not currently have an impact on the Group's operations as no investment properties are held by the Group.

IAS 41 (Amendment) – Agriculture (effective from 1 January 2009)

The amendment is part of the IASB's annual improvement project published in May 2008. Use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not currently have an impact on the Group's operations as no agricultural activities are undertaken.

IFRIC 13 – Customer loyalty programmes (effective from 1 July 2008)

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement, and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

IFRIC 15 – Agreements for construction of real estate (effective from 1 January 2009)

The interpretation clarifies whether IAS 18 – *Revenue* or IAS 11 – *Construction contracts* should be applied to particular transactions and will likely result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

IFRS 3 (Revised) – Business combinations

This revised standard is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. It establishes principles and requirements for how an acquirer recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

IFRS 8 – Operating segments

IFRS 8 is applicable for annual periods beginning on or after 1 January 2009. It specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34 – *Interim Financial Reporting*, also requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers. This standard will only impact disclosures.

IAS 1 (Revised) – Presentation of financial statements

This standard is applicable for annual periods beginning on or after 1 January 2009. It sets overall requirements for presentation of financial statements, guidelines for their structure and minimum requirements for their content. This standard will only impact disclosures.

Amendments to IAS 1 and IAS 32 – Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation

The amendments address the classification of some:

- puttable financial instruments; and
- instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.

IAS 23 (Revised) – Borrowing costs

This standard is applicable for annual periods beginning on or after 1 January 2009. It requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) as part of the cost of that asset.

IAS 27 (Revised) – Consolidated and separate financial statements

This standard is applicable for annual periods beginning on or after 1 July 2009. The standard aims to enhance the relevance, reliability and comparability of information that a parent entity provides in its separate financial statements and in its consolidated financial statements for a group of entities under its control. It specifies:

- the circumstances in which an entity must consolidate the financial statements of another entity;
- the accounting for changes in the level of ownership interest in a subsidiary;
- the accounting for the loss of control in a subsidiary; and
- the information that an entity must disclose to enable the users of financial statements to evaluate the nature of the relationship between the entity and its subsidiaries.

IFRIC 13 – Customer loyalty programmes

This interpretation is effective for annual periods beginning on or after 1 July 2008 for entities that grant loyalty award credits to its customers. It provides guidance on the recognition and measurements of an entity's obligation to provide free or discounted goods or services in the future. It has no impact as the Group does not grant loyalty award credits.

Notes to the annual financial statements continued

for the year ended 31 December 2008

2. Summary of significant accounting policies (continued)

2.2 New and amended standards and interpretations (continued)

IFRIC 15 – Agreements for the construction of real estate

This interpretation is applicable for annual periods beginning on or after 1 January 2009. It addresses when revenue from the construction of a real estate should be recognised by entities that undertake the construction of a real estate directly or through subcontractors. It will have no impact as the Group is not involved in the construction of real estate.

IFRIC 16 – Hedges of a net investment in a foreign operation

This interpretation is applicable for annual periods beginning on or after 1 October 2008. It provides guidance for an entity that hedges the foreign currency risk arising from its net investment in foreign operations and wishes to qualify for hedge accounting. It will have no impact as the Group does not hedge the foreign currency risk arising from its net investment in foreign operations.

IFRIC 17 – Distributions of non-cash assets to owners

This interpretation is applicable for annual periods beginning on or after 1 July 2009. It provides guidance on:

- when an entity should recognise dividends payable;
- how an entity should measure the dividends payable; and
- how to account for the difference between the carrying amount of assets distributed and the carrying amount of dividends payable.

IFRIC 18 – Transfers of assets from customers

This interpretation is effective for assets received from customers on or after 1 July 2009. It provides guidance on the recognition and measurement of assets received by an entity from its customers.

2.3 Basis of consolidation

Subsidiaries

The consolidated annual financial statements include the Company and its subsidiaries. Subsidiaries are those entities over which the Group, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The Group uses the purchase method 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.

Subsidiaries are consolidated 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 separate financial statements.

The Group holds less than half of the voting power in Eagle Insurance Company Limited (incorporated in Zimbabwe) but has the power to govern the financial and operating policies of the subsidiary, and it is therefore consolidated. As the subsidiary operates in a hyperinflationary economy, the financial statements are adjusted for hyperinflation using a general purchasing power of the local currency as required by IAS 29.

Intragroup transactions, balances and unrealised gains on intragroup transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Associated companies

Associated companies are those entities over 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 entity of between 20% and 50%.

Investments in associates are initially recognised at cost and are subsequently accounted for using the equity method of accounting. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

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.

2.4 Foreign currencies

Functional and presentation currency

Items included in the annual 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 annual financial statements are presented in South African Rands, which is the Group's presentation currency and the Company's functional currency.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency using 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 into the functional currency 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 denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates ruling at the dates the fair value is determined and are reported as part of the fair value gain or loss in equity or the income statement depending on the classification of the financial asset or liability.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Notes to the annual financial statements continued

for the year ended 31 December 2008

2. Summary of significant accounting policies (continued)

2.5 Classification of insurance and investment contracts

The Group issues contracts that transfer insurance risk. 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.

Structured insurance and risk-financing solutions

One of the Group entities, Zurich Risk Financing SA Limited, offers structured insurance and risk-financing solutions on the following basis:

Cell captive business

Cell captive business allows a client to purchase a separate class of ordinary shares in the registered insurance company resulting in the ownership of a "cell". The terms and conditions of the cell are governed by a shareholders' agreement. Under the agreement the management of the cell is undertaken by the cell owner and the risks and rewards are attributed to the cell owner. Policies issued are accounted for as insurance contracts. A liability is recognised in the balance sheet for the cumulative net positive results of the cell, which accrue to the cell holder at fair value. An asset is recognised in the balance sheet for the excess of claims settled by the Group in excess of premiums received.

2.6 Recognition and measurement of insurance contracts

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. Revenue from written insurance premiums includes adjustments to premiums written in prior accounting periods and is shown before deduction of commission payable, and excludes value-added tax.

Premiums received under 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. Premiums are earned from the date the risk attaches, over the indemnity period.

Unearned insurance premiums

Unearned premiums, which represent the proportion of premiums written in the current year which relate to risks that have not commenced or expired at the balance sheet date, are calculated on a basis that best represents the unearned risk profile for the underlying business.

Unearned premiums are calculated using the 365th method.

Claims

Claims paid during the financial year, 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 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 for claims incurred but not reported.

Claims paid and the movement in the provision for outstanding claims under cell captive business are 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 (ie salvage). The Group might also have the right to pursue third parties for the payment of some or all costs (ie 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.

Liability adequacy test

At each balance sheet date, liability adequacy tests are considered to ensure the adequacy of the insurance contract liabilities net of related deferred acquisition costs. 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 is made by initially writing off the deferred acquisition costs and then establishing a provision for losses (the unexpired risk provision). 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 (ie 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.

Reinsurance commission received on new or renewal reinsurance contracts is deferred and recognised in the income statement over the period of the contract.

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. 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.

Notes to the annual financial statements continued

for the year ended 31 December 2008

2. Summary of significant accounting policies (continued)

2.6 Recognition and measurement of insurance contracts (continued)

Insurance receivables and payables

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. These are recorded initially at fair value and are subsequently measured at amortised cost.

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 financial assets at amortised cost.

2.7 Property and equipment

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

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovation is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Depreciation is provided on a straight-line basis at rates required to write off the costs of assets over their estimated useful lives to their estimated residual values as follows:

– Buildings	40 years
– Computer equipment and systems	5 years
– Motor vehicles	4 – 5 years
– Office equipment	3 – 5 years
– Furniture and fittings	5 – 10 years
– Leasehold improvements	5 – 10 years

The residual values and useful lives of property and equipment are reviewed at each balance sheet date and adjusted accordingly.

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

2.8 Financial assets

Classification

The Group's 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 financial assets and loans and receivables.

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

Financial assets at fair value through income

Financial assets at fair value through income are financial assets, which on initial recognition are designated as such by the Group. 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as such or are not classified into 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 the Group 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 and are reviewed for impairment as part of the impairment review of loans and receivables.

Recognition

Regular-way purchases and sales of financial assets are recognised on the trade date, which is the date of commitment to purchase the asset. Financial assets 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 value 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 at fair value through income, transaction costs are expensed in the income statement.

After initial recognition, the Group subsequently measures financial assets 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 initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

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 income statement 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. When available-for-sale financial assets are sold or impaired, the cumulative gains or losses previously recognised in equity are recognised in the income statement. Unrealised gains and losses exclude interest or dividend income.

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 the amortised cost of monetary securities are recognised in income. Translation differences on non-monetary securities are recognised in equity. Unrealised gains or losses on monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Notes to the annual financial statements continued

for the year ended 31 December 2008

2. Summary of significant accounting policies (continued)

2.8 Financial assets (continued)

Interest on available-for-sale financial assets calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

2.9 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in the carrying amount of investments in associates. Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment charge recognised on goodwill is not reversible. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. Cash-generating units are identified according to the country of operation with further allocation to business units.

Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding the costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software recognised as assets are amortised using the straight-line method over their useful lives, but not exceeding a period of three years.

Deferred acquisition costs (DAC)

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

2.10 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 objective evidence of impairment. If any such evidence 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 becomes 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.

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 (ie 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.

Available-for-sale financial assets

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 (as described in detail in note 3(c)). 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 income – 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 income.

A 50% decline, over a period of 12 months, in the fair value is deemed significant.

Non-financial assets

Assets that have an indefinite useful life are tested annually for impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount is the greater of an asset's 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 income.

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.

2.11 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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Notes to the annual financial statements continued

for the year ended 31 December 2008

2. Summary of significant accounting policies (continued)

2.12 Financial liabilities

Trade payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

The amount due to cell shareholders represents the cell shareholders' funds in respect of the insurance business conducted in the cell structures. The 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.

2.13 Cash and cash equivalents

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

2.14 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.

2.15 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 profits.

South African Group companies

The statutory contingency reserve balance is calculated as 10% on net written premium in terms of the Short-term Insurance Act.

Botswana

The movement in the statutory contingency reserve is calculated at 10% of profit before tax in accordance with section 11 of the Insurance Industry Act.

2.16 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.

2.17 Revenue

The accounting policy in relation to revenue from insurance contracts is disclosed in note 2.6.

Interest income and expense

Interest on interest-bearing financial instruments, including those measured at fair value through income, is recognised in the income statement using the effective interest method.

Dividends

Dividends on available-for-sale financial instruments are recognised in the income statement at the last day for registration in respect of quoted shares and when declared in respect of unquoted shares.

Fee income

Revenue arising from management and other related services offered by the Group for cell captive business, and sale of other services 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.

2.18 Taxation

The tax expense comprises current and deferred tax, and secondary tax on companies. 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

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred tax is provided in full, using the liability method, on 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 affects 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.

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, it is carried forward and applied to the secondary tax liability when this arises.

2.19 Employee benefits

The Group operates both defined benefit and defined contribution pension schemes. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. 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.

Notes to the annual financial statements continued

for the year ended 31 December 2008

2. Summary of significant accounting policies (continued)

2.19 Employee benefits (continued)

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 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.

None of the employees in service are members of the defined benefit pension plan. This plan is in runoff as the only members are pensioners.

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. All employees in service are members of the defined contribution plan.

Post-employment healthcare benefits

The Group provides post-retirement healthcare benefits to 38 current pensioners. The entitlement to the post-retirement healthcare 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, similar to the defined benefit pension plan. Twenty-nine of the employees in the service are members of this plan which is in runoff.

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 and pensioners. Independent qualified actuaries value these obligations annually. This scheme is unfunded.

Long-term performance share plan

Zurich Financial Services operates long-term incentive plans for selected executives. These plans comprise the allocation of a target number of share grants and/or share option grants with the vesting of these share and option grants being subject to the achievement of specific financial performance goals.

Each year, Senior Executives are granted performance shares and performance options, which vest on an annual basis over the subsequent three-year period. The actual level of vesting, which can be between 0% and 175%, with an additional discretion to increase vesting to a maximum of 200%, of the original number of shares and/or options granted, depends on the performance of the Group during the previous calendar year. For 2007 and future grants, we are looking back to a three-year performance period. The current performance metrics are the Group's return on equity (ROE) and the position of its total annual relative shareholder return measured against an international peer group of insurance companies. One-half of the shares that actually vest are sales-restricted for a further period of three years. The options have a seven-year

term from the date of grant. Grants under the plan are made annually each April. The actual number of performance shares and performance options granted is determined such that the economic value is a defined percentage of annual salary as at 1 April excluding bonuses, incentives and expense allowances in the year of allocation. The share price for allocation is the closing price of Zurich Financial Service shares on the allocation date.

Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

2.20 Segment information

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to risks and returns that are different from those operating in other economic environments.

All insurance income, expenses, assets and liabilities are split per line of business. These include the following: revenue, commissions, claims, loans and receivables, assets arising from reinsurance contracts, deferred acquisition costs, liabilities arising from insurance contracts and deferred reinsurance commission.

Other income, expense, assets and liabilities that are not insurance related are disclosed as unallocated.

2.21 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.

2.22 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.

2.23 Share-based payments with persons or entities other than employees

The transactions in which equity instruments are issued to historically disadvantaged individuals and organisations in southern Africa as a means of enhancing the Group's image as a good corporate citizen, are accounted for as share-based payments.

The benefits of the transaction, being black economic empowerment (BEE) credentials, are recognised in equity with a corresponding debit to income.

In the case of an equity-settled share-based transaction, an entity is required to measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received. If the fair value of the goods or services received cannot be measured reliably (such as in the case of BEE transactions), then the transaction is measured with reference to the fair value of the equity instrument granted. The fair value of those equity instruments is measured at grant date.

Notes to the annual financial statements continued

for the year ended 31 December 2008

2. Summary of significant accounting policies (continued)

2.23 Share-based payments with persons or entities other than employees (continued)

The fair value of the options at the measurement date takes into account the exercise price of the option, the life of the option, the price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares and the risk-free interest rate for the life of the option.

The expense in relation to equity-settled share-based payments is recognised in the period in which the services are rendered (in the case of BEE transactions where the specific service cannot be identified, the date of the agreement or grant date applies), and is unrelated to the exercising of the options. Similarly, the lapse of a share option does not change the fact that the original transaction occurred and no adjustment is made on the lapse of the option. If the entity cancels or settles a grant of equity instruments during the vesting period, the cancellation or settlement is accounted for as an acceleration of vesting (ie the expense is recognised in full).

2.24 Comparative figures

Restatements

Available-for-sale financial assets previously included in cash and cash equivalents have now been restated. Reinsurance liabilities previously netted off against reinsurance assets have been restated.

Reclassifications

Comparatives have been reclassified to conform to current-year presentation. Provisions, which were previously included in accounts payables and accrued expenses, are now disclosed on the balance sheet.

Additional information has been supplied for the prior year where 2008 disclosures have been enhanced.

Impact of restatement and reclassification

The impact of the above restatements and reclassifications, which did not affect the profit for the year and total equity, is presented below:

	Group		Company	
	Adjusted 2007 R'000	Original 2007 R'000	Adjusted 2007 R'000	Original 2007 R'000
Financial assets – available-for-sale	1,150,279	668,267	1,009,245	666,066
Loans and receivables	1,399,276	1,231,857	1,294,548	1,127,129
Cash and cash equivalents	1,101,638	1,583,650	363,393	706,572
Accounts payables and accrued expenses	(663,107)	(518,525)	(423,287)	(278,705)
Provisions	(22,837)	–	(22,837)	–
Share-based payments reserve	(145,227)	–	(145,227)	–
Retained profit	(1,059,035)	(1,204,262)	(871,033)	(1,016,260)

3. Critical accounting judgements and estimates

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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Actual outcomes and results may differ from assumptions and estimations made by management as a result of the uncertainties involved in such judgements.

(a) Reserves for losses and loss adjustment expenses

The reserves for reported losses and loss adjustment expenses represent the estimated ultimate cost of settling claims reported but not yet settled at the balance sheet date. The estimate is based on the facts available at the time the reserves are established, taking into account such factors as past experience with similar claims, interpretation of existing laws, status of litigation proceedings, cost inflation, etc. The ultimate cost of settling claims reported may differ from the reserve established at the balance sheet date.

The Group relies on historical information (including reported claim trends, claim severities, exposure growth, etc) and statistical models to establish the incurred but not reported (IBNR) reserve for each class of business. 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 other 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.

Zurich Insurance Company South Africa Limited

The link ratio and the Bornheutter-Ferguson method are used to calculate a best-estimate gross outstanding claims liability per class of business. Claims development data from 1999 onwards is used in the link ratio method while the Bornheutter-Ferguson combines the use of 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. Outstanding reinsurance recoveries are estimated using the link ratio method based on reinsurance recovery development data. Net reserves are calculated by subtracting provisions for reinsurance recoveries from gross reserves.

The breakdown of the Incurred but Not Reported reserve by class of business is as follows:

Company	Net	
	2008 R'000	2007 R'000
Property	34,084	6,360
Transport	178	(1,110)
Motor	122,797	112,850
Engineering	14,891	13,664
Guarantee	408	772
Liability	22,562	29,556
Accident/health	3,822	2,051
Margin	2,008	502
Unallocated loss adjustment expenses	21,887	19,896
Total for Company	222,637	184,541
Botswana Eagle Insurance Company Limited	12,650	8,875
Zurich Risk Financing SA Limited	7,839	6,498
Total for the Group	243,126	199,914

Notes to the annual financial statements continued

for the year ended 31 December 2008

3. Critical accounting judgements and estimates (continued)

The key assumptions for each class of business are as follows:

Reserve range

The Mack (Bootstrap) method was used to get a full predictive distribution for IBNR claims, to gain a better understanding of the variability of the net IBNR reserve. To strengthen our IBNR reserve from a best estimate to a 75th percentile confidence level, the distribution indicates that IBNR should be increased by R33 million.

Assumption changes

The methods used for the projection of the estimated ultimate claims are based on analysing trends in the progression of paid and incurred claims (defined to be the sum of paid claims and notified outstanding claims) from past data and projecting this development pattern into the future. There has been no change in the methods used. This process implicitly assumes that the development pattern is stable over time. It also assumes that past patterns of inflation will be repeated in future. There is thus no explicit assumption for inflation. There are no explicit assumptions for catastrophes, with trends in the development of past catastrophes being projected into the future.

Loss ratios

A current set of loss ratio estimates are used as prior loss ratios for the Bornheutter-Ferguson method for each year of business. There is no change in prior loss ratios from one year to the next, and no need to quantify this assumption change.

Risk margin

Estimates of the reserves are shown at "best estimates", ie they represent the expected value of the distribution of possible outcomes of the unpaid liabilities, with implicit risk margins included for long-tail lines of business to reflect uncertainty inherent in these business classes. As such they contain no quantifiable margins for prudence or optimism.

Catastrophic events

The Group does not establish explicit reserves for catastrophes in advance of the occurrence of such events. These events may cause volatility in the levels of incurred losses and reserves, subject to the effects of reinsurance recoveries.

ULAE provision (unallocated loss adjustment expenses)

Unallocated loss adjustment expenses are Claims Department costs and overheads which are not specific to individual claims. There has been no change in the methods used.

Assets arising from reinsurance contracts

The reserve for the reported and Incurred But Not Reported claims are estimated on a gross basis. The reinsurance recovery is estimated separately. The estimation of the reinsurance recoveries considers the class of business, the year the claim occurred with the link ratio method being used based on reinsurance recovery development data. It also considers whether or not the claim was an isolated incident or forms part of a catastrophe reinsurance claim.

Liability adequacy test and unexpired risk provision

The unexpired risk provision meets the criteria of the liability adequacy test required by IFRS 4 and therefore a detailed liability adequacy test has not been performed. A provision should be 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 need for an unexpired risk provision has been considered separately by reference to classes of business that are managed together, after taking into account the relevant investment returns. An unexpired risk provision was not found necessary for any business classes and therefore a provision is not raised in the accounts.

(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, 9, 21 and 22 for further information on the fair value of financial assets and liabilities.

(c) Impairment of available-for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost.

A 50% decline in fair value is deemed significant. A decline over a period of 12 months is deemed to be a prolonged decline.

A sensitivity analysis is shown in note 7.2.

(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, is 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 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 20 for further information on deferred taxes.

(e) Cell captive business

Management has exercised judgement in concluding that the cell captive business issued by Zurich Risk Financing SA Limited (a subsidiary) results in risk transfer and hence these policies are accounted for as insurance contracts.

(f) Share-based payment transactions

Significant judgement and assumptions are used to determine the fair value of services received by reference to the fair value of equity instruments granted/issued. Additional information is disclosed in note 2.23.

(g) Operating lease commitments

The Group has entered into commercial property leases. Management 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.

Notes to the annual financial statements continued

for the year ended 31 December 2008

4. Segment information – Group

Segmental analysis

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

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 11.1.

(a) Primary reporting format – business segments

	Property R'000	Transport R'000	Motor R'000	Engineering R'000	Guarantee R'000	Liability R'000	Accident and health R'000	Miscellaneous R'000	Total insurance R'000	Unallocated R'000	Total R'000
Year ended 31 December 2008											
Insurance premium revenue	1,624,861	216,162	2,567,698	550,460	32,403	158,569	165,871	466	5,316,490	–	5,316,490
Insurance premium ceded to reinsurers	(545,275)	(59,410)	(132,553)	(211,082)	(36,869)	(77,354)	(64,650)	(327)	(1,127,520)	–	(1,127,520)
Net change in provision for unearned premium	(15,105)	8,097	(16,244)	(12,598)	(42,767)	(46,863)	52,584	321	(72,575)	–	(72,575)
Net insurance premium revenue	1,064,481	164,849	2,418,901	326,780	(47,233)	34,352	153,805	460	4,116,395	–	4,116,395
Reinsurance commission earned	80,950	8,589	2,720	22,856	39	4,583	3,749	–	123,486	–	123,486
Other income – fee income	–	–	–	–	–	–	–	–	–	14,147	14,147
Pension fund deficit	–	–	–	–	–	–	–	–	–	(24,156)	(24,156)
Investment income	–	–	–	–	–	–	–	–	–	313,753	313,753
Net fair value losses on assets at fair value through income	–	–	–	–	–	–	–	–	–	(20,041)	(20,041)
Net realised gains on disposal of available-for-sale financial assets	–	–	–	–	–	–	–	–	–	98,342	98,342
Segmental income	1,145,431	173,438	2,421,621	349,636	(47,194)	38,935	157,554	460	4,239,881	382,045	4,621,926
Net insurance claims	741,666	81,404	1,989,452	186,806	13,475	28,434	10,766	34,300	3,086,303	–	3,086,303
Acquisition expenses	288,577	40,168	313,526	82,003	(1,120)	18,361	24,474	(26)	765,963	–	765,963
Administrative and other operating expenses	–	–	–	–	–	–	–	–	–	437,411	437,411
Impairment of available-for-sale financial assets	–	–	–	–	–	–	–	–	–	21,050	21,050
Share of loss of associates	–	–	–	–	–	–	–	–	–	345	345
Investment expenses	–	–	–	–	–	–	–	–	–	3,960	3,960
Interest expense	–	–	–	–	–	–	–	–	–	39,599	39,599
Segmental expenses	1,030,243	121,572	2,302,978	268,809	12,355	46,795	35,240	34,274	3,852,266	502,365	4,354,631
Segmental results before income tax	115,188	51,866	118,642	80,827	(59,549)	(7,860)	122,314	(33,814)	387,615	(120,320)	267,295
Income tax expense	–	–	–	–	–	–	–	–	–	(56,838)	(56,838)
Segmental results for the year	115,188	51,866	118,642	80,827	(59,549)	(7,860)	122,314	(33,814)	387,615	(177,158)	210,457
Depreciation	–	–	–	–	–	–	–	–	–	–	18,875
Amortisation	–	–	–	–	–	–	–	–	–	–	4,182
Capital expenditure											
– Property and equipment	–	–	–	–	–	–	–	–	–	–	39,924
– Intangibles – computer software	–	–	–	–	–	–	–	–	–	–	8,927

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for the year ended 31 December 2008

Year ended 31 December 2007	Property R'000	Transport R'000	Motor R'000	Engineering R'000		Guarantee R'000	Liability R'000	Accident and health R'000	Miscellaneous R'000	Total insurance R'000	Unallocated R'000	Total R'000
Insurance premium revenue	1,312,575	199,298	2,136,675	469,020		11,782	125,447	145,552	611	4,400,960	–	4,400,960
Insurance premium ceded to reinsurers	(397,684)	(56,116)	(105,904)	(150,884)		(7,987)	(49,330)	(59,635)	(401)	(827,941)	–	(827,941)
Change in provision for unearned premium	(5,477)	2,954	(42,604)	(12,118)		(285)	(130)	23,783	(17)	(33,894)	–	(33,894)
Net insurance premium revenue	909,414	146,136	1,988,167	306,018		3,510	75,987	109,700	193	3,539,125	–	3,539,125
Reinsurance commission earned	83,034	7,037	741	18,316		112	3,748	1,971	–	114,959	–	114,959
Other income – fee income	–	–	–	–		–	–	–	–	–	19,947	19,947
Pension fund surplus	–	–	–	–		–	–	–	–	–	19,753	19,753
Investment income	–	–	–	–		–	–	–	–	–	236,159	236,159
Net fair value losses on assets at fair value through income	–	–	–	–		–	–	–	–	–	(23,839)	(23,839)
Net realised gains on disposal of investments	–	–	–	–		–	–	–	–	–	94,512	94,512
Segmental income	992,448	153,173	1,988,908	324,334		3,622	79,735	111,671	193	3,654,084	346,532	4,000,616
Net insurance claims	582,969	86,661	1,665,116	172,805		1,530	42,949	43,705	59	2,595,794	–	2,595,794
Acquisition expenses	249,930	33,665	234,356	71,042		(1,490)	14,303	16,561	238	618,605	–	618,605
Administrative and other operating expenses	–	–	–	–		–	–	–	–	–	349,759	349,759
Investment expenses	–	–	–	–		–	–	–	–	–	4,734	4,734
Interest expense	–	–	–	–		–	–	–	–	–	10,564	10,564
Segmental expenses	832,899	120,326	1,899,472	243,847		40	57,252	60,266	297	3,214,399	365,057	3,579,456
Segmental results before income tax	159,549	32,847	89,436	80,487		3,582	22,483	51,405	(104)	439,685	(18,525)	421,160
Income tax expense	–	–	–	–		–	–	–	–	–	(130,128)	(130,128)
Segmental results for the year	159,549	32,847	89,436	80,487		3,582	22,483	51,405	(104)	439,685	(148,653)	291,032
Depreciation	–	–	–	–		–	–	–	–	–	–	16,645
Amortisation	–	–	–	–		–	–	–	–	–	–	–
Capital expenditure												
– Property and equipment	–	–	–	–		–	–	–	–	–	–	21,108
– Intangibles – computer software	–	–	–	–		–	–	–	–	–	–	–

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for the year ended 31 December 2008

Year ended 31 December 2008	Property R'000	Transport R'000	Motor R'000	Engineering R'000	Guarantee R'000	Liability R'000	Accident and health R'000	Miscellaneous R'000	Total insurance R'000	Unallocated R'000	Total R'000
Segment assets											
Property and equipment	-	-	-	-	-	-	-	-	-	85,696	85,696
Investment in associates	-	-	-	-	-	-	-	-	-	743	743
Available-for-sale financial assets	-	-	-	-	-	-	-	-	-	1,382,173	1,382,173
Financial assets at fair value through income	-	-	-	-	-	-	-	-	-	349,102	349,102
Loans and receivables	441,877	58,785	698,279	149,696	8,812	43,122	45,108	127	1,445,806	258,256	1,704,062
Employee benefits – surplus	-	-	-	-	-	-	-	-	-	72,040	72,040
Assets arising from reinsurance contracts	401,997	35,564	44,166	31,465	974	15,932	10,731	18	540,847	-	540,847
Intangibles	-	-	-	-	-	-	-	-	-	8,749	8,749
Deferred acquisition costs	113,226	(6,193)	13,793	4,058	(94)	242	(2,625)	-	122,407	-	122,407
Current income tax	-	-	-	-	-	-	-	-	-	77,381	77,381
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	1,123,810	1,123,810
Total segment assets	957,100	88,156	756,238	185,219	9,692	59,296	53,214	145	2,109,060	3,357,950	5,467,010
Segment equity and liabilities											
Shareholders' funds	-	-	-	-	-	-	-	-	-	1,853,462	1,853,462
Minority interest in subsidiaries	-	-	-	-	-	-	-	-	-	3,362	3,362
Post-employment benefit obligations	-	-	-	-	-	-	-	-	-	18,060	18,060
Deferred income tax	-	-	-	-	-	-	-	-	-	24,910	24,910
Liabilities arising from insurance contracts	631,041	113,176	818,121	243,222	17,003	316,964	20,442	31,118	2,191,087	-	2,191,087
Deferred reinsurance commission	36,171	(4,837)	297	(3,043)	(43)	286	(2,725)	-	26,106	-	26,106
Financial liabilities: amounts due to cell shareholders	-	-	-	-	-	-	-	-	-	258,107	258,107
Current income tax	-	-	-	-	-	-	-	-	-	10,586	10,586
Accounts payable and accrued expenses	204,058	27,147	322,464	69,129	4,069	19,914	20,831	59	667,670	397,201	1,064,871
Provisions	-	-	-	-	-	-	-	-	-	16,459	16,459
Total segment liabilities	871,270	135,486	1,140,882	309,308	21,029	337,164	38,548	31,177	2,884,863	2,582,147	5,467,010

Notes to the annual financial statements continued

for the year ended 31 December 2008

Year ended 31 December 2007	Property R'000	Transport R'000	Motor R'000	Engineering R'000	Guarantee R'000	Liability R'000	Accident and health R'000	Miscellaneous R'000	Total insurance R'000	Unallocated R'000	Total R'000
Segment assets											
Property and equipment	-	-	-	-	-	-	-	-	-	63,531	63,531
Investment property	-	-	-	-	-	-	-	-	-	5,674	5,674
Available-for-sale financial assets	-	-	-	-	-	-	-	-	-	1,150,279	1,150,279
Financial assets at fair value through income	-	-	-	-	-	-	-	-	-	437,811	437,811
Loans and receivables	304,331	46,209	495,405	108,746	2,732	29,086	33,747	142	1,020,397	378,879	1,399,276
Employee benefits – surplus	-	-	-	-	-	-	-	-	-	96,196	96,196
Assets arising from reinsurance contracts	231,483	32,664	61,645	87,827	4,649	28,714	34,712	234	481,928	-	481,928
Deferred acquisition costs	110,401	1,073	4,540	1,166	(28)	(1,095)	(2,930)	-	113,127	-	113,127
Current income tax	-	-	-	-	-	-	-	-	-	70,083	70,083
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	1,101,638	1,101,638
Total segment assets	646,215	79,946	561,590	197,739	7,353	56,705	65,529	376	1,615,452	3,304,091	4,919,543
Segment equity and liabilities											
Shareholders' funds	-	-	-	-	-	-	-	-	-	1,900,130	1,900,130
Minority interest in subsidiaries	-	-	-	-	-	-	-	-	-	2,090	2,090
Post-employment benefit obligations	-	-	-	-	-	-	-	-	-	17,388	17,388
Deferred income tax	-	-	-	-	-	-	-	-	-	77,656	77,656
Liabilities arising from insurance contracts	564,603	85,728	919,089	201,749	5,068	53,961	62,609	263	1,893,070	-	1,893,070
Deferred reinsurance commission	16,938	2,390	4,511	6,426	340	2,101	2,540	17	35,263	-	35,263
Financial liabilities: amounts due to cell shareholders	-	-	-	-	-	-	-	-	-	294,805	294,805
Current income tax	-	-	-	-	-	-	-	-	-	13,197	13,197
Accounts payable and accrued expenses	87,060	13,219	141,720	31,109	781	8,321	9,654	41	291,904	371,203	663,107
Provisions	-	-	-	-	-	-	-	-	-	22,837	22,837
Total segment liabilities	668,601	101,337	1,065,320	239,284	6,189	64,383	74,803	321	2,220,237	2,699,306	4,919,543

(b) Secondary reporting format – geographical segments

	Year ended 31 December 2008			Year ended 31 December 2007		
	South Africa R'000	Foreign subsidiaries R'000	Total R'000	South Africa R'000	Foreign subsidiaries R'000	Total R'000
Gross insurance premium revenue	5,134,479	182,011	5,316,490	4,246,690	154,270	4,400,960
Total assets	4,985,896	481,114	5,467,010	4,702,370	217,173	4,919,543
Total liabilities	3,288,151	322,035	3,610,186	2,938,236	79,087	3,017,323
Total depreciation	22,538	519	23,057	14,921	1,174	16,645
Profit before tax	226,105	41,190	267,295	365,733	55,427	421,160
Profit after tax	178,461	31,996	210,457	258,294	32,738	291,032

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for the year ended 31 December 2008

	Group	
	2008 R'000	2007 R'000
5. Basic and diluted earnings and dividend per share		
5.1 Basic and diluted earnings per share		
Group net income after taxation attributable to members of the Company	210,457	289,860
Earnings per share (cents)	1,728.0	2,379.9
Headline earnings is determined as follows:		
Group net income after taxation attributable to members of the Company	210,457	289,860
Less: Gains on disposal of property and equipment	(2,542)	(1,405)
Less: Gains on disposal of land and buildings	–	(2,498)
Less: Gains on disposal of available-for-sale financial assets and impairment losses	(77,292)	(92,013)
Add: Tax effect	10,778	9,552
Headline earnings	141,401	203,496
Headline earnings per share (cents)	1,161.0	1,670.8

The calculation of earnings per share and headline earnings per share are based on 12,179,500 (2007: 12,179,500) fully paid shares in issue.

There were no potentially dilutive instruments in issue at both year-ends. There were no ordinary share transactions or potential ordinary share transactions occurring after the balance sheet date but before the financial statements were authorised for issue.

5.2 Dividends paid

Cash dividends amounting to R85,256,500 were paid to the shareholders of the Company in 2008.

	2008 cents	2007 cents
Dividends paid per share		
Final cash dividend in respect of 2007	440.0	430.0
Interim cash dividend in respect of 2008	260.0	260.0
Dividends paid during the year per share	700.0	690.0

At the next Annual General Meeting, a dividend in respect of the 2008 financial year, of 140 cents per share, amounting to a total dividend of R17,051,300, is to be proposed. These financial statements do not reflect the final dividend to be proposed.

	Motor vehicles R'000	Furniture R'000	Office equipment R'000	Computer equipment and systems R'000	Buildings R'000	Leasehold improve- ments R'000	Total R'000
	6. Property and equipment Group Cost						
At 31 December 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 31 December 2007	53,155	22,871	4,905	95,193	–	–	176,124
Additions	15,267	4,913	304	12,897	261	6,282	39,924
Transfer from investment property	–	–	–	–	5,674	–	5,674
Disposals	(12,328)	(118)	(5)	(1,448)	–	–	(13,899)
Exchange rate movement	(263)	8	(66)	306	(883)	–	(898)
At 31 December 2008	55,831	27,674	5,138	106,948	5,052	6,282	206,925
Accumulated depreciation							
At 31 December 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 31 December 2007	9,168	17,047	4,465	81,913	–	–	112,593
Depreciation charge for the year	5,600	1,549	460	10,619	124	523	18,875
Transfer from investment property	–	–	–	–	308	–	308
Accumulated depreciation on disposals	(4,420)	(99)	(3)	(1,425)	–	–	(5,947)
Exchange rate movement	350	70	(264)	(4,657)	(99)	–	(4,600)
At 31 December 2008	10,698	18,567	4,658	86,450	333	523	121,229
Carrying amount							
At 31 December 2007	43,987	5,824	440	13,280	–	–	63,531
At 31 December 2008	45,133	9,107	480	20,498	4,719	5,759	85,696

Buildings comprise Plot 54479, Fairgrounds Office Park, Gaborone, Botswana. It was acquired in 1997 and was previously classified as Investment Property. The building is now occupied by the Group and has been reclassified as Buildings during 2008 (see note 8).

Notes to the annual financial statements continued

for the year ended 31 December 2008

	Motor vehicles R'000	Furniture R'000	Office equipment R'000	Computer equipment and systems R'000	Leasehold improve- ments R'000	Total R'000
6. Property and equipment (continued) Company Cost						
At 31 December 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 31 December 2007	51,720	22,163	4,626	90,384	–	168,893
Additions	14,786	3,625	33	12,550	5,535	36,529
Disposals	(12,039)	(5)	(5)	(1,057)	–	(13,106)
At 31 December 2008	54,467	25,783	4,654	101,877	5,535	192,316
Accumulated depreciation						
At 31 December 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 31 December 2007	9,204	16,851	4,294	78,634	–	108,983
Depreciation charge for the year	5,445	1,353	193	4,050	227	11,268
Accumulated depreciation on disposals	(4,290)	–	(3)	(1,034)	–	(5,327)
At 31 December 2008	10,359	18,204	4,484	81,650	227	114,924
Carrying amount						
At 31 December 2007	42,516	5,312	332	11,750	–	59,910
At 31 December 2008	44,108	7,579	170	20,227	5,308	77,392

7. Management of financial risks – Group and Company

7.1 Financial risk

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

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

The Group manages these positions through the ALMIC that has been developed to achieve investment returns in excess of its obligations under insurance contracts. This committee is charged with local oversight of the invested assets of the portfolios and the management of the asset liability mismatch risk and its related decisions. The committee manages assets relative to the liabilities and reviews the relationship between assets and liabilities on a quarterly basis. The Group produces reports at portfolio, legal entity and asset and liability class level, that are circulated to the committee members.

The notes below explain how financial risks are managed using the categories utilised in the Group's ALM framework. In particular, the ALM framework requires the management of interest rate risk, market price risk and liquidity risk at the portfolio level. Credit risk is managed on a Group basis.

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.

The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated, for example change in interest rate and change in market values.

Notes to the annual financial statements continued

for the year ended 31 December 2008

7. Management of financial risks – Group and Company (continued)

7.1 Financial risk (continued)

The following table reconciles the balance sheet to the classes and portfolio used in the ALMIC:

	Total R'000	2008 Short-term insurance contracts R'000	Other assets and liabilities R'000	Total R'000	2007 Short-term insurance contracts R'000	Other assets and liabilities R'000
Group						
Financial assets						
Property and equipment	85,696	–	85,696	63,531	–	63,531
Investment property	–	–	–	5,674	–	5,674
Investment in associates	743	–	743	–	–	–
Available-for-sale financial assets	1,382,173	–	1,382,173	1,150,279	–	1,150,279
Fair value through income financial assets	349,102	–	349,102	437,811	–	437,811
Loans and receivables	1,704,062	1,445,806	258,256	1,399,276	1,020,397	378,879
Employee benefits – surplus	72,040	–	72,040	96,196	–	96,196
Assets arising from reinsurance contracts	540,847	540,847	–	481,928	481,928	–
Intangible assets	131,156	122,407	8,749	113,127	113,127	–
Current taxation asset	77,381	–	77,381	70,083	–	70,083
Cash and cash equivalents	1,123,810	–	1,123,810	1,101,638	–	1,101,638
Total assets	5,467,010	2,109,060	3,357,950	4,919,543	1,615,452	3,304,091
Employee benefits – obligation	18,060	–	18,060	17,388	–	17,388
Deferred tax liabilities	24,910	–	24,910	77,656	–	77,656
Liabilities arising from insurance contracts	2,191,087	2,191,087	–	1,893,070	1,893,070	–
Deferred reinsurance commission	26,106	26,106	–	35,263	35,263	–
Financial liabilities: amounts due to cell shareholders	258,107	–	258,107	294,805	–	294,805
Current taxation liability	10,586	–	10,586	13,197	–	13,197
Accounts payable and accrued expenses	1,064,871	667,670	397,201	663,107	291,904	371,203
Provisions	16,459	–	16,459	22,837	–	22,837
Total liabilities	3,610,186	2,884,863	725,323	3,017,323	2,220,237	797,086

	Total R'000	2008 Short-term insurance contracts R'000	Other assets and liabilities R'000	Total R'000	2007 Short-term insurance contracts R'000	Other assets and liabilities R'000
Company						
Financial assets						
Property and equipment	77,392	–	77,392	59,910	–	59,910
Investment in subsidiaries	75,335	–	75,335	73,075	–	73,075
Investment in associates	1,088	–	1,088	–	–	–
Available-for-sale financial assets	1,204,521	–	1,204,521	1,009,245	–	1,009,245
Fair value through income financial assets	349,102	–	349,102	437,666	–	437,666
Loans and receivables	1,503,056	1,281,849	221,207	1,294,548	969,304	325,244
Employee benefits – surplus	72,040	–	72,040	96,196	–	96,196
Assets arising from reinsurance contracts	517,334	517,334	–	461,736	461,736	–
Intangible assets	112,484	110,103	2,381	102,680	102,680	–
Current taxation asset	76,873	–	76,873	62,910	–	62,910
Cash and cash equivalents	328,159	–	328,159	363,393	–	363,393
Total assets	4,317,384	1,909,286	2,408,098	3,961,359	1,533,720	2,427,639
Employee benefits – obligation	18,060	–	18,060	17,388	–	17,388
Deferred tax liabilities	25,275	–	25,275	77,388	–	77,388
Liabilities arising from insurance contracts	1,887,499	1,887,499	–	1,653,049	1,653,049	–
Deferred reinsurance commission	24,787	24,787	–	33,696	33,696	–
Accounts payable and accrued expenses	714,356	600,229	114,127	423,287	289,227	134,060
Provisions	16,437	–	16,437	22,837	–	22,837
Total liabilities	2,686,414	2,512,515	173,899	2,227,645	1,975,972	251,673

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7. Management of financial risks – Group and Company (continued)

7.2 Interest rate risk – Group and Company

The Group does not have any borrowings. Amounts owing to cell shareholders are treated as insurance liabilities for risk assessment purposes. Exposure to interest rate risk is therefore limited to the Group's investments in fixed and 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.

Sensitivity analysis – interest-rate risk for Group

The Group's management monitors the sensitivity of reported interest rate movements on a regular 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.

During the year, the Group disposed of its fixed-interest gilt portfolio. Consequently, at the end of the financial year all of its fixed-interest investments form part of its cash management portfolio. Interest rates received on these investments reset on a regular and short-term basis. The following sensitivity analysis illustrates the Group's exposure to changes in interest income as a result of a 100 basis point movement in the average interest rate earned.

	Increase of 100 basis points		Decrease of 100 basis points	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Interest rate risk				
Estimated change in interest income:				
Floating or resetting rate instruments	8,913	2,410	(8,913)	(2,410)
Cash and cash equivalents	10,024	11,091	(10,024)	(11,091)
Advances and other	423	73	(423)	(73)
	19,360	13,574	(19,360)	(13,574)

7.3 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 financial assets are described in note 9.

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, as illustrated in the table on page 85.

Group and Company	Increase of 20%		Decrease of 20%	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Market price risk				
Available-for-sale financial assets				
Quoted equity instruments				
– Credited/(debited) to revaluation reserve	86,783	114,818	(85,271)	(114,818)
– Income statement change	2,620	–	(4,130)	–
Fixed-interest instruments	24,000	–	(24,000)	–
	113,403	114,818	(113,401)	(114,818)

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, 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.

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.

7.4 Currency risk

The Group is exposed to currency risk on its investments in foreign subsidiaries, and through foreign bank accounts held by the Company. 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. However, such movements might impact the value of the Group's consolidated shareholders' equity which is expressed in Rand.

The Group's sensitivity to exchange rates on consolidation is as follows:

	2008	2007	
The exchange rates used for Botswana are:			
– Average	P1: R1.184	P1: R1.145	
– Closing rate	P1: R1.164	P1: R1.136	
	2008 Botswana Pula '000	2007 Botswana Pula '000	
Group			
Profit and loss	27,029	29,496	
Total assets	413,415	205,051	
Total liabilities	276,720	93,768	
	Exchange rate used in consolidation		
	R'000	R'000	
Profit and loss	Average	31,996	33,779
Total assets	Closing	481,114	228,345
Total liabilities	Closing	322,035	104,420

Notes to the annual financial statements continued

for the year ended 31 December 2008

7. Management of financial risks – Group and Company (continued)

7.4 Currency risk (continued)

		At exchange rate which is 10% higher than consolidation rate		At exchange rate which is 10% lower than consolidation rate	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
Change in:	Average				
Profit and loss		3,200	3,378	(3,200)	(3,378)
Total assets	Closing	48,111	22,834	(48,111)	(22,834)
Total liabilities	Closing	32,204	10,442	(32,204)	(10,442)

The impact of the Group's sensitivity to exchange rates on consolidation of the Zimbabwean operations has been excluded above, due to the hyperinflationary economy in that country. The impact on the Group's profit and loss, total assets and total liabilities is insignificant.

The Company is exposed to currency risk in foreign subsidiaries and foreign bank accounts. Foreign bank accounts are maintained in order to achieve an effective hedge against adverse currency movement but are not material. The Group does not take cover on foreign currency transactions and balances.

7.5 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; and
- cell shareholders' obligation to restore solvency of cells when required to do so.

Credit risk – Group	Maximum exposure		Past due but not impaired		Impaired	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Assets bearing credit risk						
Financial assets:						
– Available-for-sale	1,382,173	1,150,279	–	–	21,050	–
– At fair value through income	349,102	437,811	–	–	–	–
– Loans and receivables	–	–	–	–	–	–
– Due from contract holders and intermediaries	1,047,622	917,129	75,144	65,504	13,000	–
– Due from reinsurers	398,184	103,268	–	–	10,300	–
– Salvage recoveries debtors	77,404	46,525	77,404	46,525	–	–
– Others – staff and other loans	180,852	332,354	–	–	–	–
Assets arising from reinsurance contracts	540,847	481,928	–	–	–	–
Cash and cash equivalents	1,123,810	1,101,638	–	–	–	–
Total assets bearing credit risk	5,099,994	4,570,932	152,548	112,029	44,350	–

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 a review at least annually.

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 affected accounts having 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 clients 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.

The Group is not subject to credit risk relating to cell captive business due to the cell owners having to make up the difference if claims exceed the related assets.

The credit rating for the largest treaty reinsurers are shown in note 11.3.

7.6 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.

7.7 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;

Notes to the annual financial statements continued

for the year ended 31 December 2008

7. Management of financial risks – Group and Company (continued)

7.7 Capital management (continued)

- 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 in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

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. The Group has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations and it has complied with all the local solvency regulations during the year under review.

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.

	2008 R'000	2007 R'000
8. Investments		
8.1 Investment property		
Group		
At beginning of the year	5,674	9,641
Reclassified to property and equipment	(5,674)	–
Disposal	–	(1,640)
Exchange rate movement	–	(2,327)
At end of the year	–	5,674
Cost	–	947
Revaluation	–	4,727
Total	–	5,674

The building is now occupied by the Group and has, accordingly, been reclassified as owner-occupied property (see note 6).

	Unquoted shares at cost R'000	Unsecured loans R'000	Current accounts R'000	Total R'000
8.2 Investment in subsidiaries				
Company				
At 31 December 2006	71,826	2,268	1,044	75,138
Advances to subsidiaries	–	23,648	8,336	31,984
Repayments from subsidiaries	–	(25,873)	(8,174)	(34,047)
At 31 December 2007	71,826	43	1,206	73,075
Reclassified to loans and receivables	–	(43)	(1,206)	(1,249)
Additions and transfers	3,509	–	–	3,509
Carrying value at 31 December 2008	75,335	–	–	75,335

With effect from 1 September 2008, the Group acquired an additional 3,647 shares (or 16.33%) of an associate company, IDI Technology Solutions (Pty) Limited (IDI), at the par value of the shares, ie R233. Consequently, the Group now holds 52.33% of IDI and therefore recognised it as a subsidiary in the consolidated financial statements of the Group from the effective date. IDI's contribution to the income of the Group subsequent to it becoming a subsidiary is not significant.

The assets and liabilities in subsidiary companies at date of acquisition and consolidated during the year were as follows:

Plant and equipment	95
Goodwill	4,004
Loans and receivables	1,287
Payables	(1,877)
Total net assets	3,509
Investment in associates transferred	(3,509)
	–

Notes to the annual financial statements continued

for the year ended 31 December 2008

	Group	
	2008 R'000	2007 R'000
8. Investments (continued)		
8.3 Investment in associates		
Equity-accounted carrying amount		
At beginning of the year	–	3,295
Cost of investments	4,597	–
Share of loss	(345)	–
Impairments	–	(3,295)
Transferred to investment in subsidiaries	(3,509)	–
At end of the year	743	–

	Company	
	2008 R'000	2007 R'000
Associates at cost		
BnB Sure (Pty) Ltd	211	–
Liquid Underwriting Managers (Pty) Ltd	877	–
Zurich Aviation Underwriting Managers (Pty) Ltd	–	–
	1,088	–

Details of associates Year ended 31 December 2008	Country of incorporation	% interest held	Assets R'000	Liabilities R'000	Revenue R'000	Profit/(loss) R'000
BnB Sure (Pty) Ltd	RSA	20	1,657	735	9,266	893
Liquid Underwriting Managers (Pty) Ltd	RSA	30	224	2,401	14	(2,477)
Zurich Aviation Underwriting Managers (Pty) Ltd	RSA	50	1,724	1,073	3,392	580

The carrying amounts of investments in associates approximates their fair value for the current year.

9. Financial assets

The financial assets are summarised by measurement category in the table below:

	Note	Group		Company	
		2008	2007	2008	2007
Available-for-sale	9.1	1,382,173	1,150,279	1,204,521	1,009,245
Fair value through income	9.2	349,102	437,811	349,102	437,666
Loans and receivables	9.4	1,704,062	1,399,276	1,503,056	1,294,548
Total financial assets		3,435,337	2,987,366	3,056,679	2,741,459

Notes to the annual financial statements continued

for the year ended 31 December 2008

	Ordinary shares		Preference shares		Interest-bearing securities	Total R'000
	Quoted R'000	Unquoted R'000	Quoted R'000	Unquoted R'000	Unquoted R'000	
9. Financial assets (continued)						
9.1 Available-for-sale financial assets Group						
At 31 December 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						
– Cost	(8,706)	–	(1,014)	–	–	(9,720)
– Revaluation relating to disposals	(80,107)	–	(2,007)	–	–	(82,114)
Net fair value gains/(losses) excluding net realised gains	56,656	(345)	(702)	–	–	55,609
Foreign exchange adjustment	(51,646)	–	–	–	–	(51,646)
Reclassified from cash and cash equivalents	–	–	–	–	482,012	482,012
At 31 December 2007	574,089	23,069	9,069	62,031	482,021	1,150,279
Purchases	131,801	–	–	250	353,048	485,099
Disposals						
– Cost	(12,108)	(917)	–	–	–	(13,025)
– Revaluation relating to disposals	(98,342)	–	–	–	–	(98,342)
Reclassified as investment in associates	–	(4,597)	–	–	–	(4,597)
Arising from corporate transactions	(1,387)	–	–	–	(9)	(1,396)
Net fair value (losses)/gains excluding net realised gains	(146,881)	(6,109)	(1,055)	–	18,145	(135,900)
Foreign exchange adjustment	(161)	–	–	216	–	55
At 31 December 2008	447,011	11,446	8,014	62,497	853,205	1,382,173
2007						
At cost	144,255	16,960	9,773	61,804	482,048	714,840
Cumulative fair value gains/(losses)	429,834	6,109	(704)	227	(27)	435,439
	574,089	23,069	9,069	62,031	482,021	1,150,279
2008						
At cost	262,400	11,446	9,773	62,270	835,087	1,180,976
Cumulative fair value gains/(losses)	184,611	–	(1,759)	227	18,118	201,197
	447,011	11,446	8,014	62,497	853,205	1,382,173

	Ordinary shares		Preference shares		Interest-bearing securities	Total R'000
	Quoted R'000	Unquoted R'000	Quoted R'000	Unquoted R'000	Unquoted R'000	
Company						
At 31 December 2006	542,830	22,981	3,019	60,000	–	628,830
Purchases	68,242	433	9,773	–	–	78,448
Capital reductions	(960)	–	–	–	–	(960)
Disposals						
– Cost	(8,706)	–	(1,014)	–	–	(9,720)
– Revaluation relating to disposals	(83,527)	–	(2,007)	–	–	(85,534)
Reclassified from cash and cash equivalents	–	–	–	–	343,179	343,179
Net fair value gains/(losses) excluding net realised gains	56,049	(345)	(702)	–	–	55,002
At 31 December 2007	573,928	23,069	9,069	60,000	343,179	1,009,245
Purchases	131,801	–	–	–	316,726	448,527
Disposals						
– Cost	(12,108)	(917)	–	–	–	(13,025)
– Revaluation relating to disposals	(98,342)	–	–	–	–	(98,342)
Reclassified as investment in associates	–	(4,597)	–	–	–	(4,597)
Arising from corporate transactions	(1,387)	–	–	–	–	(1,387)
Net fair value (losses)/gains excluding net realised gains	(146,881)	(6,109)	(1,055)	–	18,145	(135,900)
At 31 December 2008	447,011	11,446	8,014	60,000	678,050	1,204,521
2007						
At cost	142,223	16,960	9,773	60,000	343,179	572,135
Cumulative fair value gains/(losses)	431,705	6,109	(704)	–	–	437,110
	573,928	23,069	9,069	60,000	343,179	1,009,245
2008						
At cost	260,529	11,446	9,773	60,000	659,905	1,001,653
Cumulative fair value gains/(losses)	186,482	–	(1,759)	–	18,145	202,868
	447,011	11,446	8,014	60,000	678,050	1,204,521
The carrying value of financial assets measured at cost in the Company is:						
At 31 December 2007	–	–	–	60,000	–	60,000
At 31 December 2008	–	11,446	–	60,000	–	71,446

Management determines concentration of risk pertaining to financial assets available-for-sale by evaluating the maximum response in the fair value to a change in the economic or market conditions. In evaluating the concentration of risk, consideration is given to shared characteristic of the financial assets such as market segment and currency.

Notes to the annual financial statements continued

for the year ended 31 December 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
9. Financial assets (continued)				
9.2 Financial assets at fair value through income				
At beginning of the year	437,811	379,761	437,666	379,705
Purchases	1,482,675	615,808	1,482,675	615,808
Disposals (sales and redemptions)	(1,551,343)	(545,897)	(1,551,198)	(545,897)
Fair value losses	(20,041)	(11,861)	(20,041)	(11,950)
At end of the year	349,102	437,811	349,102	437,666
At cost	349,102	440,306	349,102	440,250
Revaluations	–	(2,495)	–	(2,584)
Carrying amount in the balance sheet	349,102	437,811	349,102	437,666

	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	2008 R'000	2008 R'000	2008 R'000	2007 R'000	2007 R'000	2007 R'000
9.3 Concentration of financial assets						
Available-for-sale – equity securities	4,179	–	4,179	10,770	–	10,770
Automobiles and parts	91,118	–	91,118	138,671	–	138,671
Mining	32,422	–	32,422	39,251	–	39,251
Construction	14,130	11,173	25,303	25,101	11,173	36,274
Banks	71,140	–	71,140	81,386	–	81,386
Insurance	58,056	163	58,219	35,129	6,726	41,855
Retail and consumer	33,941	–	33,941	73,528	1	73,529
Industrial	50,847	–	50,847	88,655	–	88,655
Technology and telecommunications	22,745	–	22,745	44,926	–	44,926
Healthcare	4,003	–	4,003	1,505	–	1,505
Others, including preference shares	72,444	60,110	132,554	44,075	65,169	109,244
Total Company	455,025	71,446	526,471	582,997	83,069	666,066
Banks and insurance	–	2,497	2,497	161	2,031	2,192
Total Group	455,025	73,943	528,968	583,158	85,100	668,258

	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	2008	2008	2008	2007	2007	2007
9.3 Concentration of financial assets (continued)						
Interest-bearing securities and unit trusts	–	310,781	310,781	–	–	–
Fixed-interest unit trusts	–	367,269	367,269	–	343,179	343,179
Money market and other funds	–	678,050	678,050	–	343,179	343,179
Total Company	–	678,050	678,050	–	343,179	343,179
Money market and other funds	–	175,155	175,155	–	138,842	138,842
Total Group	–	853,205	853,205	–	482,021	482,021
At fair value through income – fixed-interest securities						
Government securities	–	–	–	345,331	–	345,331
Corporate sector	–	–	–	24,558	–	24,558
Parastatals and utilities	–	–	–	22,633	–	22,633
Water authorities	–	–	–	23,657	–	23,657
Banks and other fixed-interest investments	–	349,102	349,102	21,632	–	21,632
Total Group and Company	–	349,102	349,102	437,811	–	437,811

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
9.4 Loans and receivables				
Due from agents, brokers and other intermediaries:				
Gross (excluding balances with related parties)	1,047,622	917,129	993,489	866,036
Due from reinsurers				
Gross (excluding balances with related parties)	398,184	103,268	288,360	103,268
Other loans and receivables				
Value-added tax	51,853	6,906	49,592	7,860
Mortgages and other advances	42,347	9,022	19,470	1,725
Other loans and receivables	76,569	328,024	62,270	280,732
Receivables from Zurich South Africa Group entities	–	–	2,388	–
Receivables from related parties	6,442	34,927	6,442	34,927
Salvage recoveries	77,404	–	77,404	–
Deferred for share-based payments expenses	3,641	–	3,641	–
	1,704,062	1,399,276	1,503,056	1,294,548
Fair value approximates carrying value.				
The holding company receivable is interest free and repayable on demand.				
Comprising:				
Non-current	9,194	17,430	1,240	1,725
Current	1,694,868	1,381,846	1,501,816	1,292,823
	1,704,062	1,399,276	1,503,056	1,294,548

Notes to the annual financial statements continued

for the year ended 31 December 2008

10. Employee benefit obligations (continued)

10.1 Employee benefits – surplus

The Company operates a defined benefit pension fund (“the Fund”). The Fund is governed by the Pension Funds Act, 1965. The Fund has 297 (2007: 309) members.

The latest actuarial valuation in respect of the Fund was carried out at 31 December 2008. The next actuarial valuation will take place as at 31 December 2009.

The amounts recognised in the balance sheet in respect of the Fund are as follows:

	2008 R'000	2007 R'000
Fair value of plan assets	471,073	600,752
Present value of funded obligations	(272,772)	(264,172)
Discretionary surplus apportionment	(126,261)	(240,384)
Asset in the balance sheet	72,040	96,196

As a result of the approval of the Fund's surplus apportionment exercise, the Company accounts for the amount allocated to the Employer Surplus Account in terms of this apportionment exercise. In terms of the Act, the surplus may not be returned to the Company, but may be used to meet any post-retirement employee obligation.

Changes in the present value of the defined benefit obligation are as follows:

	2008 R'000	2007 R'000
At beginning of the year	273,912	649,530
Benefit payments	(22,112)	(111,518)
Interest cost	22,247	56,616
Contributions by plan participants	–	6,703
Current service costs	–	22,408
Plan amendments	–	161,373
Payments on conversion to defined contribution (DC)	–	(505,628)
Actuarial gains	(1,275)	(5,572)
At end of the year	272,772	273,912
<i>Discretionary surplus apportionment</i>		
At beginning of the year	230,644	129,753
Fair value movement of assets backing liability	(104,383)	100,891
At end of the year	126,261	230,644

Changes in the fair value of defined benefit plan assets are as follows:

	2008 R'000	2007 R'000
At beginning of the year	600,752	1,062,558
Benefit payments	(22,112)	(111,518)
Funding for defined contribution scheme	(25,200)	(4,501)
Expected return	51,406	85,569
Payments on conversion to DC	–	(505,628)
Contributions to employer	–	10,744
Contributions by plan participants	–	6,703
Actuarial (loss)/gain	(133,773)	56,825
At end of the year	471,073	600,752

Detailed below is a statement of net assets:

	2008	%	2007	%
Equity	261,858	56	369,809	62
Debt instruments	29,642	6	54,530	9
Property	10,117	2	–	–
Other	54,593	12	55,234	9
Cash	114,863	24	121,179	20
	471,073		600,752	

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

	2008 R'000	2007 R'000
Current service cost	–	7,163
Interest cost	40,979	43,436
Expected return on plan assets	(51,406)	(59,848)
Actuarial gains and losses	9,383	28,654
Contribution expenses	25,200	4,501
Other adjustments	–	(43,659)
Net deficit/(surplus) for the year per the income statement	24,156	(19,753)

Notes to the annual financial statements continued

for the year ended 31 December 2008

10. Employee benefit obligations (continued)

10.1 Employee benefits – surplus (continued)

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

	2008 %	2007 %
Discount rate	8.3	8.3
Inflation	5.0	5.0
Expected return on plan assets	9.3	8.9
Future pension increases	4.3	4.3

Assumptions regarding post-retirement mortality were based on PA(90) mortality tables, rated down two years, and adjusted by an appropriate annual improvement factor.

The expected return on defined benefit plan assets was determined by applying the expected returns available on the constituent major asset classes to the proportion of the portfolio expected to be invested in each class, and deducting a provision for expected expenses.

The defined benefit plan suffered an actual loss of 14.3% of plan assets during the year.

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.

10.2 Employee benefits – obligation

The Company operates a defined benefit plan for qualifying employees and pensioners, 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 67 members (2007: 69).

The latest actuarial valuation was carried out in terms of IAS 19 – *Employee Benefits* as at 31 December 2008. The next actuarial valuation will take place as at 31 December 2009.

The following principal actuarial assumptions were used:

	2008 %	2007 %
Discount rate	9.25	8.5
Healthcare inflation rate	8.0	7.3
Average retirement age	63	63
Membership discontinued at retirement and death-in-service	5	5

Assumptions regarding post-retirement mortality were based on PA(90) mortality tables, rated down two years, and adjusted by an appropriate annual improvement factor.

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.

	2008		2007	
	Increase R'000	Decrease R'000	Increase R'000	Decrease R'000
The effect of a 1% movement in the assumed medical cost trend rate is as follows:				
– Effect on the aggregate of the current service cost and interest	2,191	(1,650)	1,952	(1,461)
– Effect on the accrued liability	20,714	(15,943)	19,963	(15,334)
The effect of a 1% movement in the discount rate on the accrued liability	(15,905)	20,808	(15,297)	20,055
The effect of a one-year change in the expected retirement age on the accrued liability	(17,970)	18,366	(17,238)	17,605

The amount recognised in the balance sheet in respect of the defined benefit post-retirement medical aid plan is as follows:

	Group and Company				
	2008 R'000	2007 R'000	2006 R'000	2005 R'000	2004 R'000
Present value of funded obligations	18,060	17,388	53,418	44,928	83,121
Fair value of plan assets (included in cash and cash equivalents)	–	–	(11,758)	(11,758)	(9,900)
Present value of unfunded obligations	18,060	17,388	41,660	33,170	73,221
Unrecognised actuarial (losses)/gains	–	–	(6,015)	(1,859)	457
Liability recognised in the balance sheet	18,060	17,388	35,645	31,311	73,678
Changes in the present value of the defined benefit obligation are as follows:					
At beginning of the year	17,388	47,403	43,069	83,578	68,941
Current service cost	236	1,759	2,696	2,584	2,417
Interest cost	1,442	2,975	3,874	9,416	6,425
Benefits paid	(949)	(897)	(909)	–	(3,276)
Actuarial gains/(losses)	(57)	262	(94)	–	(94)
Change in subsidy policy	–	–	–	–	9,165
Losses on curtailments	–	(34,114)	(1,233)	(52,509)	–
At end of the year	18,060	17,388	47,403	43,069	83,578

Notes to the annual financial statements continued

for the year ended 31 December 2008

10. Employee benefit obligations (continued)

10.2 Employee benefits – obligations (continued)

The amounts recognised in the income statement are as follows:

	2008 R'000	Group and Company			
		2007 R'000	2006 R'000	2005 R'000	2004 R'000
Current service cost	236	1,759	2,696	2,584	2,417
Interest cost	1,442	2,975	3,874	9,416	6,425
Employee benefit payments	(949)	(897)	(909)	–	(3,370)
Change in subsidy policy	–	–	–	–	9,165
Actuarial (losses)/gains	(57)	262	(94)	–	(94)
	672	4,099	5,567	12,000	14,543

The charge for the year is included in “Administrative and other operating expenses” in the income statement as part of staff costs.

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.

11. Insurance risk management

11.1 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, ie 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, while 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 balance sheet date is limited.

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.

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.

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.

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.

Motor 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 motor vehicle, occurs.

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.

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.

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.

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.

Cell captive business

Through a dedicated subsidiary, the Group underwrites cell captive business. These policies expose the Group to limited risk only and include profit-participation measures to promote good risk management among 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.

Notes to the annual financial statements continued

for the year ended 31 December 2008

11. Insurance risk management (continued)

11.2 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.

11.2.1 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:

	2008 %	2007 %
Property	31	30
Engineering	10	10
Transport	4	5
Liability	3	3
Motor	48	49
Accident and health	3	3
Guarantee	1	–
Miscellaneous	–	–
	100	100

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:

	2008 %	2007 %
Personal	27.7	24.6
Commercial/corporate	72.3	75.4
	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. Management reviews and periodic internal audits ensure 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. The Rating engine was implemented in 2008 for the motor book for personal lines.

On a monthly basis the underwriting results for group schemes are monitored against predetermined 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.

In certain circumstances, the Group is permitted to sell property acquired in settling a claim (ie salvage). The Group may also acquire the right to pursue third parties for losses paid to policyholders under insurance contracts.

A dedicated department (Specialist Claims) handles claims where the potential loss value or circumstance warrants more careful attention.

A deductible portion cover on insurance contracts provides protection to a limit.

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.

Refer to segment note for further details.

11.2.2 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;
- possible exclusions that may be applied to the policy or risks insured; and
- availability of reinsurance for risks above acceptable threshold.

11.2.3 Reinsurance strategy

On an annual basis, the Executive Management 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 extensive proportional and non-proportional treaty and facultative reinsurance programmes that are 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.

Notes to the annual financial statements continued

for the year ended 31 December 2008

11. Insurance risk management (continued)

11.2 Limiting exposure to insurance risk

11.2.3 Reinsurance strategy (continued)

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.

11.2.4 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 (under note 11.2.1). 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 that of 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 ratings appropriately adjusted as and when required. While 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 are thereby mitigated.

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.

	2008 %	2007 %
Foreign		
Botswana	3.4	3.4
Zimbabwe	–	0.1
Domestic		
Western Cape	6.3	7.0
Eastern Cape	6.0	6.5
Gauteng	64.2	57.4
KwaZulu-Natal	14.5	18.8
Other	5.6	6.8
	100.0	100.0

The Group adheres to underwriting principles that limit its exposure to any one insured. Many of our business classes are protected by surplus treaties where our maximum loss retention varies between R2 million and R25 million. The reinsurance treaties vary according to the maximum loss that can be accepted. Any risk with a potential loss in excess of this is covered by facultative reinsurance. Excess of loss cover is also used for business classes covered by treaties, and this further limits our retention to any one insured. The exception to this is for transport and motor business covered by excess of loss treaties which limits our retention to R3 million for any one loss for these classes. Catastrophe cover protects the Company against an accumulation of claims where cover is R2.1 billion, excess R15 million, net of reinsurance claims. The Group's estimate of its gross exposure to an earthquake or severe weather-related event, net of reinsurance, is R2 billion.

11.2.5 Sensitivity to insurance risk

The insurance risk is sensitive to various factors. Changes in economic conditions such as exchange rates could impact claim levels, especially on motor business. Driver behaviour and road conditions also impact motor claims experience. Crime levels impact claim experience for many lines of business. Weather conditions can have a significant impact on aggregate claims experience. There is a possibility of an emergence of latent claims on longer-tailed lines of business.

Variation in the number and amount of claims experienced in any one year is to be expected. Due to the random nature of claims experience, there is a possibility of an accumulation of many larger claims in any one year that result in unexpected losses for the Company.

11.3 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 Group's ultimate parent company. 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 2008 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.
- Cash deposits are retained or bank guarantees are obtained for reinsurers not registered in South Africa. As at 31 December 2008 the security held in this way amounted to R140 million (2007: R51 million).

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'm
At 31 December 2008		
Africa Re	BBB+	–
Everest Re (USA)	AA-	19.7
Mitsui Sumitomo	AA	16.7
Munich Re of Africa	A-	–
Partner Re (Europe)	AA-	–
At 31 December 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

Notes to the annual financial statements continued

for the year ended 31 December 2008

11. Insurance risk management (continued)

11.4 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 runoff savings are performed in reviewing the adequacy of the claims provisions and corrective action is taken where necessary. The Group's experience is that runoff 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 the statutory actuary.

A breakdown for the Company by accident year of gross outstanding claims, including claims incurred but not reported, as of the year ended 31 December 2008, is as follows:

Accident year	R'000	%
2008	895,654	77
2007	86,000	7
2006	100,244	9
2005 and prior	80,000	7
	1,161,898	100

The presentation of the claims development tables for the Company is based on the actual date of the event that caused the claim (accident year basis). The claims development tables represent the development of actual claims paid for continuing operations for 2008 and 2007.

Company Accident year Short-term insurance claims – gross	Claims paid in respect of					2004 and prior R'000
	Total R'000	2008 R'000	2007 R'000	2006 R'000	2005 R'000	
2008	3,262,939	2,520,743	661,853	54,368	8,679	17,296
2007	2,650,634	–	2,086,791	512,972	23,470	27,401
2006	2,128,909	–	–	1,692,290	388,553	48,066
2005	1,812,006	–	–	–	1,365,630	446,376
2004	2,847,944	–	–	–	–	2,847,944
Cumulative payments to date	12,702,432	2,520,743	2,748,644	2,259,630	1,786,332	3,387,083
Short-term insurance claims – net						
2008	2,865,841	2,235,097	567,051	37,115	7,738	18,840
2007	2,324,727	–	1,859,267	427,168	14,299	23,993
2006	1,925,603	–	–	1,542,268	343,749	39,586
2005	1,610,116	–	–	–	1,247,915	362,201
2004	2,727,841	–	–	–	–	2,727,841
Cumulative payments to date	11,454,128	2,235,097	2,426,318	2,006,551	1,613,701	3,172,461

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
12. Insurance liabilities and reinsurance assets				
Technical provisions				
<i>Liabilities arising from insurance contracts</i>				
Outstanding claims	978,140	839,755	895,654	786,450
Claims incurred but not reported	292,843	234,592	266,244	218,027
Outstanding claims, including claims incurred but not reported	1,270,983	1,074,347	1,161,898	1,004,477
Unearned premiums	920,104	818,723	725,601	648,572
Liabilities arising from insurance contracts	2,191,087	1,893,070	1,887,499	1,653,049
Technical assets				
<i>Assets arising from reinsurance contracts</i>				
Outstanding claims	297,731	267,680	293,649	259,249
Claims incurred but not reported	49,717	34,678	43,607	33,486
Outstanding claims, including claims incurred but not reported	347,448	302,358	337,256	292,735
Unearned premiums	193,399	179,570	180,078	169,001
Assets arising from insurance contracts	540,847	481,928	517,334	461,736
Net liabilities				
Outstanding claims	680,409	572,075	602,005	527,201
Claims incurred but not reported	243,126	199,914	222,637	184,541
Outstanding claims, including claims incurred but not reported	923,535	771,989	824,642	711,742
Unearned premiums	726,705	639,153	545,523	479,571
	1,650,240	1,411,142	1,370,165	1,191,313

All of the above balances are current.

Notes to the annual financial statements continued

for the year ended 31 December 2008

12. Insurance liabilities and reinsurance assets (continued)

The movements for the year are summarised below:

	Gross R'000	Group Reinsurance R'000	Net R'000	Gross R'000	Company Reinsurance R'000	Net R'000
<i>Outstanding claims, including claims incurred but not reported</i>						
Year ended 31 December 2007						
Balance at beginning of the year	1,034,143	(388,296)	645,847	924,995	(325,247)	599,748
Change in gross provision for outstanding claims	54,068	62,035	116,103	79,482	32,512	111,994
Net insurance claims expensed during the year	2,867,178	(271,384)	2,595,794	2,730,116	(293,395)	2,436,721
Less: Claims paid 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	1,004,477	(292,735)	711,742
Year ended 31 December 2008						
Balance at beginning of the year	1,074,347	(302,358)	771,989	1,004,477	(292,735)	711,742
Change in gross provision for outstanding claims	191,271	(42,929)	148,342	171,674	(45,228)	126,446
Net insurance claims expensed during the year	3,532,513	(446,210)	3,086,303	3,434,613	(442,326)	2,992,287
Less: Claims paid during the year	(3,341,242)	403,281	(2,937,961)	(3,262,939)	397,098	(2,865,841)
Less: Exchange rate movement	1,201	(246)	955	–	–	–
Other movements	4,164	(1,915)	2,249	(14,253)	707	(13,546)
Balance at end of the year	1,270,983	(347,448)	923,535	1,161,898	(337,256)	824,642

	Gross R'000	Group Reinsurance R'000	Net R'000	Gross R'000	Company Reinsurance R'000	Net R'000
<i>Unearned premium</i>						
Year ended 31 December 2007						
Balance at beginning of the year	876,091	(217,319)	658,772	647,945	(186,270)	461,675
Change in provision for unearned premium	(17,100)	16,794	(306)	627	17,269	17,896
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)	–	–	–
Other movements	(8,768)	10,695	1,927	–	–	–
Balance at end of the year	818,723	(179,570)	639,153	648,572	(169,001)	479,571
Year ended 31 December 2008						
Balance at beginning of the year	818,723	(179,569)	639,154	648,572	(169,001)	479,571
Change in provision for unearned premium	89,358	(16,783)	72,575	78,281	(11,077)	67,204
Premiums written during the year	5,316,490	(1,127,520)	4,188,970	4,834,688	(794,274)	4,040,414
Less: Premiums earned during the year	(5,227,132)	1,110,737	(4,116,395)	(4,756,407)	783,197	(3,973,210)
Less: Exchange rate movement	2,727	(401)	2,326	–	–	–
Less: Other movements	9,296	3,354	12,650	(1,252)	–	(1,252)
Balance at end of the year	920,104	(193,399)	726,705	725,601	(180,078)	545,523

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for the year ended 31 December 2008

Note	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
13. Intangible assets				
Computer software	13.1	4,745	–	2,381
Goodwill	13.2	4,004	–	–
Deferred acquisition costs	13.3	122,407	113,127	110,103
		131,156	113,127	102,680
All intangible assets are non-current except for deferred acquisition costs which are current.				
13.1 Computer software				
Cost				
At beginning of the year		–	–	–
Additions		8,927	–	2,832
At end of the year		8,927	–	2,832
Accumulated depreciation				
At beginning of the year		–	–	–
Depreciation charge for the year		4,182	–	451
At end of the year		4,182	–	451
Carrying amount				
At beginning of the year		–	–	–
At end of the year		4,745	–	2,381
13.2 Goodwill				
Cost and carrying amount				
At beginning of the year		–	–	–
Acquisition		4,004	–	–
At end of the year		4,004	–	–
Goodwill arose on the acquisition of a subsidiary in the current year. (Refer to note 8.2.)				
13.3 Deferred acquisition costs				
At beginning of the year		113,127	98,736	102,680
Acquisition cost raised during the year		775,243	632,996	737,980
Acquisition cost incurred		(765,963)	(618,605)	(730,557)
At end of the year		122,407	113,127	110,103

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
14. Current taxation asset and current taxation liability				
Current taxation asset				
Amounts due from taxation authorities	77,381	70,083	76,873	62,910
Current taxation liability				
Amounts due to taxation authorities	10,586	13,197	–	–
15. Cash and cash equivalents				
Cash at bank and on hand	121,372	167,611	20,032	126,426
Short-term bank deposits*	676,657	410,106	115,000	122,730
Other short-term highly liquid investments	325,781	523,921	193,127	114,237
	1,123,810	1,101,638	328,159	363,393

* The effective interest rate on short-term bank deposits with a duration of less than three months is between 9.75% and 12.13% per annum (2007: 8.60% and 10.60%). The effective interest rate on current accounts at the balance sheet date was between 9.75% and 10.25% per annum (2007: 7.25% and 9.25%).

Included in the cash and cash equivalents is an amount of R24,002 (2007: R324,100) held in Zimbabwe. Due to foreign exchange regulations in Zimbabwe these funds are not freely transferable.

	Group			Company		
	2008 R'000	2007 R'000	2006 R'000	2008 R'000	2007 R'000	2006 R'000
16. Share capital						
Authorised						
13,207,360 (2007: 13,207,360) ordinary shares of 25 cents each	3,302	3,302	3,302	3,302	3,302	3,302
Issued						
12,179,500 (2007: 12,179,500) ordinary shares of 25 cents each, all are fully paid	3,045	3,045	3,045	3,045	3,045	3,045

The 1,027,860 (2007: 1,027,860) unissued ordinary shares are under the control of the Directors until the next Annual General Meeting.

Notes to the annual financial statements continued

for the year ended 31 December 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
17. Share premium				
Balance at beginning and end of the year	1,605	1,605	1,605	1,605
18. Revaluation reserves (non-distributable reserves)				
Movements in the revaluation reserve for available-for-sale reserves were as follows:				
At beginning of the year	368,705	434,474	376,411	420,880
Revaluation – gross	(135,900)	55,609	(135,900)	55,002
Impairment losses	21,050	–	21,050	–
Revaluation – tax	26,694	(11,591)	26,694	(11,591)
Net gains transferred to income statement on disposal	(98,342)	(87,880)	(98,342)	(87,880)
Deferred taxation on disposal	10,066	–	10,066	–
Translation of foreign subsidiaries	8,767	(21,907)	–	–
At end of the year	201,040	368,705	199,979	376,411

19. Share-based payment reserve

19.1 Transaction with Royal Bafokeng Nation

In 2005 an agreement was entered into between SA Fire House Limited (SAFH), the Group's holding company, and Royal Bafokeng Holdings, a black economic empowerment (BEE) partner, whereby SAFH sold 10% of its shareholding in Zurich Insurance Company South Africa Limited (ZICSA). The agreement provided for the sale of options at R96 (market price of R195 on grant date). IFRIC 11 requires the application of IFRS 2 to granted options. The impact on the Group is summarised below:

(a) Put option granted to the BEE partner

The BEE partner was granted an option to repurchase all of the 10% shareholding in ZICSA. This option was exercisable through a written notice to the company over a three-year period from grant date 13 April 2005 and expired during 2008.

The sale of shares and the put option are treated as a compound instrument (with an equity and liability portion) as the BEE partner had the option on settlement. An independent professional was engaged to determine the fair value of this compound instrument, with a residual equity component of R76 million.

As the benefits of the transaction, being BEE credentials, are enjoyed by ZICSA, IFRS 2 required the recognition of the R76 million in equity with a corresponding debit to expense in profit and loss. As this interpretation is applied retrospectively, the expense has been recognised as a restatement of opening retained earnings at 1 January 2007.

(b) Call option granted to the BEE partner to purchase further shares

The BEE partner was also granted an option to purchase a further 14.9% of the shareholding in ZICSA. An independent professional was engaged to determine the fair value of this option, estimated at R69 million.

As the benefits of the transaction, being BEE credentials, are enjoyed by ZICSA, the R69 million has been recognised in equity with a corresponding debit to expense in profit and loss. As this interpretation is applied retrospectively, the expense has been recognised as a restatement of opening retained earnings at 1 January 2007.

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Share-based payment reserve				
Put option granted to BEE partner on 10% shares sold	76,226	76,226	76,226	76,226
Call option granted to BEE partner on 14.9% shares	69,001	69,001	69,001	69,001
	145,227	145,227	145,227	145,227

19.2 Long-term performance share plan

Zurich Financial Services (ZFS) operates long-term incentive plans for selected executives. These plans comprise the allocation of a target number of share grants and/or share option grants with the vesting of these share and option grants being subject to the achievement of specific financial performance goals. The liability is accounted for in accounts payable and accrued expenses.

	Number of ZFS shares vested	Share price (CHF)	Exchange rate	Value R'000
The following shares vested during 2007:				
3 April 2007	1,179	355.8	1ZAR: 0.5868CHF	2,461
The following shares vested during 2008:				
3 April 2008	1,428	302.4	1ZAR: 0.1266CHF	3,411
Total outstanding shares at 31 December 2007	6,885			
Total outstanding shares at 31 December 2008	8,313			

20. 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:

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Deferred income tax assets	(21,682)	(14,302)	(21,052)	(14,302)
Deferred income tax liabilities	46,592	91,958	46,327	91,690
	24,910	77,656	25,275	77,388

Notes to the annual financial statements continued

for the year ended 31 December 2008

20. Deferred taxation (continued)

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

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
At beginning of the year	77,656	99,451	77,388	66,328
Movement during the year attributable to temporary differences	(52,746)	(21,795)	(52,113)	11,060
Credited to income statement	(13,019)	(533)	(13,030)	(531)
Credited to equity on unrealised investment revaluations	(39,727)	(21,262)	(39,083)	11,591
At end of the year	24,910	77,656	25,275	77,388

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

	At start of year R'000	Charged/(credited) to income R'000	Charged/(credited) to equity R'000	At end of year R'000
Group				
Year ended 31 December 2008				
Property and equipment:				
Accelerated tax	(647)	(1,446)	–	(2,093)
Fair value movements on:				
Available-for-sale investments	(63,413)	–	39,087	(24,326)
Investments at fair value through income	750	(753)	–	(3)
Other provisions	–	9,597	–	9,597
Employee benefits:				
Surplus plans	(27,897)	7,726	–	(20,171)
Post-retirement health benefit	5,043	15	–	5,058
Leave pay and bonus accrual	6,623	(2,021)	–	4,602
Others	–	–	640	640
Deferred lease	1,885	(99)	–	1,786
Deferred income tax (liability)/asset in balance sheet	(77,656)	13,019	39,727	(24,910)
Year ended 31 December 2007				
Property and equipment:				
Accelerated tax	(2,479)	5	1,827	(647)
Fair value movements on:				
Available-for-sale investments	(82,848)	–	19,435	(63,413)
Investments at fair value through income	(2,714)	3,464	–	750
Employee benefits:				
Surplus plans	(28,485)	589	–	(27,896)
Post-retirement health benefit	10,336	(5,294)	–	5,042
Leave pay and bonus accrual	4,854	1,769	–	6,623
Deferred lease	1,885	–	–	1,885
Deferred income tax (liability)/asset in balance sheet	(99,451)	533	21,262	(77,656)

	At start of year R'000	Charged/(credited) to income R'000	Charged/(credited) to equity R'000	At end of year R'000
Company				
Year ended 31 December 2008				
Property and equipment:				
Accelerated tax	(647)	(1,446)	–	(2,093)
Fair value movements on:				
Available-for-sale investments	(63,146)	–	39,083	(24,063)
Investments at fair value through income	751	(751)	–	–
Other provisions	–	9,597	–	9,597
Employee benefits:				
Surplus plans	(27,897)	7,726	–	(20,171)
Post-retirement health benefit	5,043	14	–	5,057
Leave pay and bonus accrual	6,623	(2,021)	–	4,602
Deferred lease	1,885	(89)	–	1,796
Deferred income tax (liability)/asset in balance sheet	(77,388)	13,030	39,083	(25,275)
Year ended 31 December 2007				
Property and equipment:				
Accelerated tax	(652)	5	–	(647)
Fair value movements on:				
Available-for-sale investments	(51,553)	–	(11,591)	(63,144)
Investments at fair value through income	(2,714)	3,465	–	751
Employee benefits:				
Surplus plans	(28,485)	589	–	(27,896)
Post-retirement health benefit	10,337	(5,295)	–	5,042
Leave pay and bonus accrual	4,854	1,767	–	6,621
Deferred lease	1,885	–	–	1,885
Deferred income tax (liability)/asset in balance sheet	(66,328)	531	(11,591)	(77,388)

Notes to the annual financial statements continued

for the year ended 31 December 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
21. Accounts payable and accrued expenses				
Trade payables and accrued expenses	97,452	97,505	77,912	97,439
Agents and due to reinsurers	667,670	291,904	600,229	289,227
Other payables	299,749	273,698	36,215	36,621
	1,064,871	663,107	714,356	423,287
Comprising:				
Non-current	6,413	6,500	6,413	6,500
Current	1,058,458	656,607	707,943	416,787
	1,064,871	663,107	714,356	423,287
22. Provisions				
At beginning of the year	22,837	16,737	22,837	16,737
Charged to income statement – Additional provisions	3,622	6,100	3,600	6,100
Utilised during the year	(10,000)	–	(10,000)	–
At end of the year	16,459	22,837	16,437	22,837
Provisions comprise:				
Employee benefits – leave pay provision	16,459	22,837	16,437	22,837
23. Deferred reinsurance commission				
At beginning of the year	35,263	34,270	33,696	34,270
Reinsurance commission raised	114,781	114,959	108,706	95,592
Less: Reinsurance commission incurred	(123,938)	(113,966)	(117,615)	(96,166)
At end of the year	26,106	35,263	24,787	33,696

	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	2008 R'000	2008 R'000	2008 R'000	2007 R'000	2007 R'000	2007 R'000
24. Investment income						
Group						
Financial assets at fair value through income						
Debt instruments – interest received	46,624	–	46,624	47,550	–	47,550
Available-for-sale financial assets						
– Equity instruments – dividends received	20,626	19,959	40,585	18,314	8,106	26,420
– Fixed-interest investments – interest received	–	44,095	44,095	–	31,427	31,427
Loans and receivables	86,739	693	87,432	44,643	–	44,643
Cash and cash equivalents – interest received	95,017	–	95,017	86,119	–	86,119
Total for the year	249,006	64,747	313,753	196,626	39,533	236,159
Company						
Financial assets at fair value through income						
Debt instruments – interest received	46,624	–	46,624	47,550	–	47,550
Available-for-sale financial assets						
– Equity instruments – dividends received	20,626	14,108	34,734	18,314	7,893	26,207
– Fixed-interest investments – interest received	–	44,095	44,095	–	31,427	31,427
Loans and receivables	47,141	693	47,834	44,643	–	44,643
Cash and cash equivalents – interest received	37,726	–	37,726	28,588	–	28,588
Dividends from subsidiaries	–	2,000	2,000	–	10,000	10,000
Total for the year	152,117	60,896	213,013	139,095	49,320	188,415

Notes to the annual financial statements continued

for the year ended 31 December 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
25. Net fair value losses on assets held at fair value through income				
Government and other approved securities				
Unrealised net fair value losses	–	(14,119)	–	(14,119)
Realised losses on disposal of bonds	(20,041)	(9,720)	(20,041)	(9,720)
Total for the year	(20,041)	(23,839)	(20,041)	(23,839)
26. Net realised gains				
Net realised gains on disposal on financial assets – available-for-sale	98,342	92,014	98,342	95,309
Investment properties	–	2,498	–	–
Total for the year	98,342	94,512	98,342	95,309
27. Administrative and other operating expenses – by nature				
Made up as follows:	548,749	440,648	522,091	400,105
Employee expenses				
– Salaries and wages	200,965	200,999	190,569	191,307
– Medical aid	16,966	16,102	16,339	15,569
– Pension fund expenses	424	(2,245)	(500)	(2,990)
– Provident fund expenses	196	229	170	209
– Share-based remuneration	14,761	–	14,761	–
IT expenses	64,487	66,008	63,008	64,630
Marketing expenses	18,557	39,676	17,054	39,019
Depreciation expenses				
– Motor vehicles	5,600	5,518	5,445	5,232
– Furniture	1,549	1,078	1,353	1,029
– Office equipment	460	310	193	289
– Computer equipment and systems	10,619	9,739	4,050	8,340
– Buildings	124	–	–	–
– Leasehold improvements	523	–	227	–
Intangibles amortisation	4,182	–	451	–
Administration expenses	182,776	81,915	185,108	59,358
Audit remuneration				
– Fees for audit	3,646	3,203	2,402	2,050
– Other services	1,711	398	1,711	298
Surplus on disposal of property and equipment	(2,483)	(816)	(2,272)	(1,397)
Operating leases rentals	23,686	18,534	22,022	17,162
Less: Claims handling expenses	(111,338)	(90,889)	(111,338)	(90,889)
Total expenses	437,411	349,759	410,753	309,216

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
28. Income tax expense				
South African and foreign taxation				
Current taxation				
– Current year normal tax	60,921	103,447	45,003	80,758
– Prior year underprovision	3,693	18,559	4,858	18,559
	64,614	122,006	49,861	99,317
Deferred taxation				
– Current year	(13,018)	2,877	(13,030)	2,877
– Prior year underprovision	–	(3,410)	–	(3,410)
Withholding tax	116	–	116	–
Secondary tax on companies	5,126	8,655	5,126	8,655
	56,838	130,128	42,073	107,439
Reconciliation of taxation				
South African normal taxation at statutory tax rate of 28% (2007: 29%)	74,843	125,200	56,286	106,063
Foreign subsidiary tax rate difference	(1,235)	–	–	–
Adjusted for:				
– Change in rate of taxation	(500)	–	(491)	–
– Prior year underprovision	3,693	15,149	4,858	15,149
– Exempt income	(40,735)	(38,730)	(38,927)	(32,995)
– Capital gains tax	10,066	9,552	10,066	9,552
– Disallowed expenses	5,464	10,060	5,039	773
– Secondary tax on companies	5,126	8,655	5,126	8,655
– Withholding tax in foreign subsidiary	116	242	116	242
Taxation charge in income statement	56,838	130,128	42,073	107,439

Notes to the annual financial statements continued

for the year ended 31 December 2008

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
29. Cash generated from operations				
Profit before tax	267,295	421,160	201,018	365,733
Adjustment for:				
Depreciation and amortisation	23,365	16,645	11,719	14,890
Foreign exchange adjustments	(7,081)	(5,967)	–	–
(Profit)/loss on disposal of:				
– Property and equipment	(2,483)	816	(2,272)	1,397
– Investment property	–	(2,498)	–	–
Net capital gains and impairments on financial assets	(57,251)	(82,294)	(57,251)	(85,589)
Interest paid	39,599	10,564	–	10,564
Investment income before investment expense	(313,753)	(304,333)	(213,013)	(259,885)
Other non-cash items	21,348	(24,205)	12,463	(24,205)
Underwriting activities				
– Increase/(decrease) in liabilities for insurance contracts, gross	298,017	(27,606)	234,450	48,481
– (Decrease)/increase in amounts recoverable from reinsurers	(58,919)	123,686	(55,598)	81,409
– Deferred acquisition costs	(9,280)	(14,391)	(7,423)	(3,944)
– (Decrease)/increase in reinsurance commission	(9,157)	993	(8,909)	(574)
Movement in working capital				
– Due by agents and other insurance companies	(49,644)	(287,093)	(1,543)	(101,316)
– Other receivables	161,590	75,749	128,911	45,788
– (Decrease)/increase in amounts due to cell shareholders	(13,861)	83,691	–	–
– (Decrease)/increase in other payables	(34,756)	138,390	(39,917)	(62,156)
– Intangible assets – software purchases	(8,927)	–	(2,832)	–
	246,102	123,307	199,803	30,593
30. Taxation paid				
Net balance at beginning of the year	56,886	19,781	62,910	31,645
Current taxation and secondary tax on companies charged to the income statement (note 28)	(69,857)	(130,660)	(55,103)	(107,972)
Less: Net balance at end of the year	(66,795)	(56,886)	(76,873)	(62,910)
Total paid during the year	(79,766)	(167,765)	(69,066)	(139,237)

31. Related-party transactions

The Company is controlled by SA Fire House Limited (incorporated in South Africa), which directly and indirectly owns 73.6% (2007: 73.6%) of the Company's shares. The ultimate holding company is Zurich Financial Services Limited (incorporated in Switzerland).

A list of affiliated companies is set out on pages 124 and 125.

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
The following significant transactions were carried out with related parties during the year:				
Zurich Financial Services (Switzerland)[^]				
Sale of services – IT services	15,407	8,536	15,407	8,536
Sale of services – other services	22,626	–	22,626	–
Purchase of insurance contracts – gross reinsurance premiums	187,740	76,960	187,740	76,960
Claims expense	70,539	17,202	70,539	17,202
Other related parties				
Sale of reinsurance contracts – gross reinsurance premiums	25,882	18,026	25,882	18,026
Reinsurance commission expense – gross	–	–	4,839	3,636
Reinsurance claims paid	–	–	5,399	6,970
Sale of services – IT services	1,476	1,476	1,476	1,476
Sale of services – management fees	1,200	1,200	1,200	1,200
Sale of services – other services	6,060	7,341	6,060	7,341
The following significant amounts were owing by/(to) related parties at end of the year:				
Parent company receivables*	6,442	34,927	6,442	34,927
Subsidiary companies' receivables [#]	–	–	5,718	2,536
Associate companies' payables	–	–	577	577
Zurich Financial Services (Switzerland) [^]	26,626	26,359	26,626	26,359

* The parent company receivable is interest free and repayable on demand.

[#] Amounts owing by/(to) subsidiary and associate companies are set out in the "Affiliated companies" note to the financial statements. The balances arise from normal operational funding requirement and are interest free and repayable on demand.

[^] Zurich Financial Services Group is the ultimate holding company.

All related-party transactions are carried out on an arm's length basis.

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	2008 R'000	2007 R'000
32. Directors' emoluments		
Executive Directors		
NV Beyers		
Basic salary	1,575	1,500
Bonus	133	125
Other material benefits*	581	241
Post-employment benefits**	236	209
Share-based payments	247	465
Total	2,772	2,540
DM Burton (resigned as a Director on 31 May 2008)		
Basic salary	306	691
Bonus	65	59
Other material benefits*	49	207
Post-employment benefits**	46	98
Share-based payments	147	107
Total	613	1,162
CN Zungu (resigned as a Director on 31 May 2008)		
Basic salary	292	662
Bonus	59	56
Other material benefits*	61	227
Post-employment benefits**	44	94
Share-based payments	136	122
Total	592	1,161
Total Executive Directors	3,977	4,863
Non-Executive Directors		
Directors' fees paid to the following Non-Executive Directors:		
JPG de Rauville	546	398
PT Martin	–	70
SG Morris	407	267
DS Phiri	181	180
A Paas [#]	–	40
MN Mbekeni	242	41
DD Mokgatle	301	24
JPM Deiss [#]	215	18
CJ Cron [#]	179	83
Total Non-Executive Directors	2,071	1,121
Total	6,048	5,984

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.

	2008 R'000	2007 R'000
All key management personnel (including Non-Executive Directors)		
Basic salary	4,069	2,715
Bonus	388	239
Other material benefits*	2,153	579
Pension scheme contributions	723	428
Profit sharing	285	–
Total other key management personnel	7,618	3,961

Key management personnel are persons having authority for planning, directing and controlling the activities of the Group, directly or indirectly. This includes Executive and Non-Executive Directors.

* Includes company car, medical aid, housing allowance and club subscriptions – material benefits.

** Includes post-retirement medical aid benefits.

Payments made directly to Zurich Financial Services.

	Group		Company	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
33. Commitments				
Capital commitments				
Contracted for at the balance sheet date but not yet incurred:				
Property and equipment	48,068	24,814	48,068	24,814
Intangible assets	15,563	12,000	15,563	12,000
	63,631	36,814	63,631	36,814
Capital commitments in terms of vehicles, furniture, office equipment and computer systems will be funded from existing resources.				
Operating lease commitments				
The future minimum lease payments under non-cancellable operating leases are as follows:				
Not later than one year	36,014	18,418	35,551	18,418
Later than one year and no later than five years	132,059	141,515	130,677	141,515
Later than five years	364,551	524,728	364,551	524,728
	532,624	684,661	530,779	684,661

34. Contingency

The Company is currently undergoing a VAT inspection by the revenue authorities following the submission of an application for a VAT refund impacting mainly reinsurance recoveries. On the completion of the inspection, any adjustments required to the statement of insurance liabilities and insurance assets will be booked in the 2009 financial year.