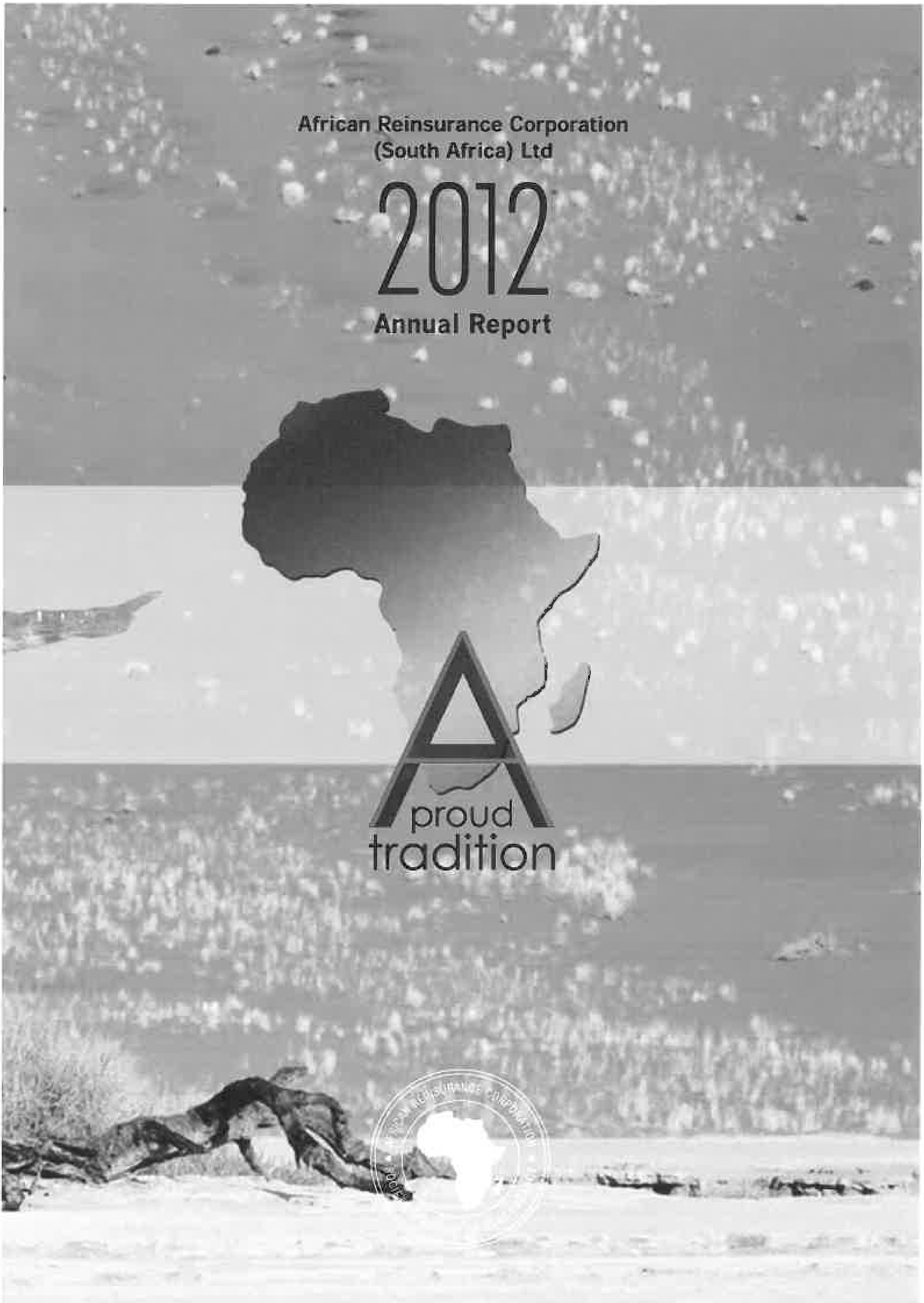
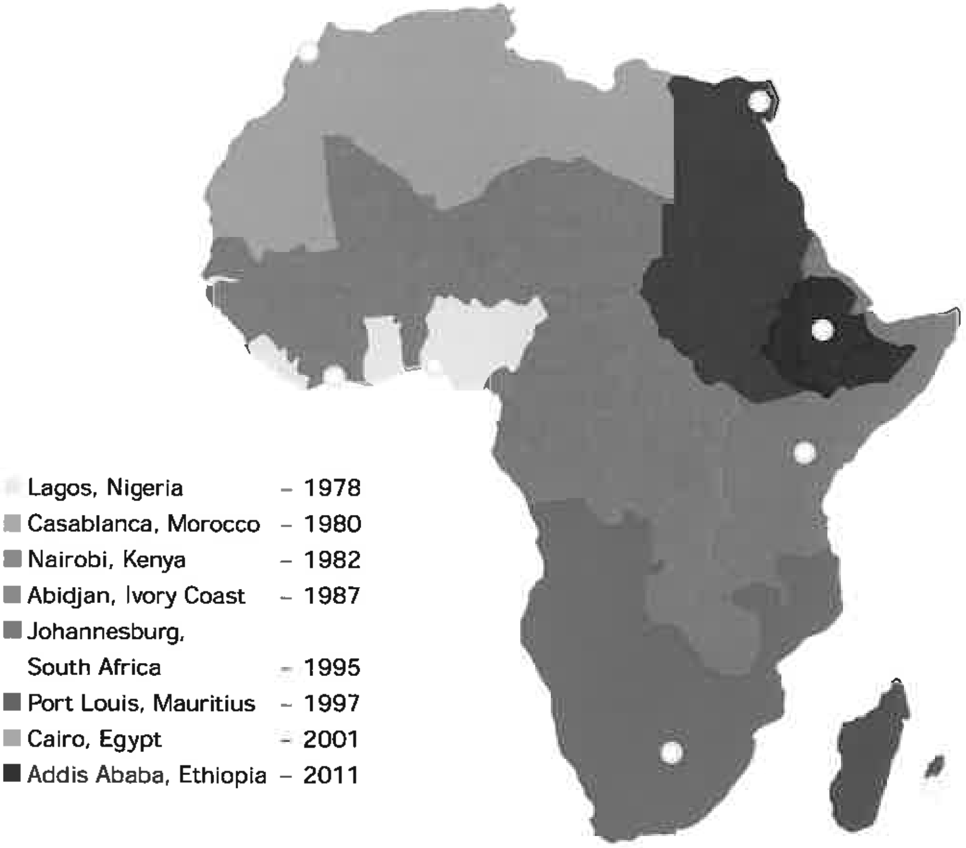
African Reinsurance Corporation
(South Africa) Ltd

2012
Annual Report





Striding towards the future – a proud moment in Africa Re's growth

AFRICAN REINSURANCE CORPORATION – NETWORK IN AFRICA

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African Reinsurance Corporation (South Africa) Limited

Annual Report

for the year ended 31 December 2012

Audited

Prepared under the supervision of
Ibrahim Ibisomi, BSc (Hons) Econs., LL B (Hons), MBF, FCA
General Manager, Finance and Administration

African Reinsurance Corporation (South Africa) Limited

(Reg. No. 2003/031630/06)

Annual Report for the year ended 31 December 2012

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Declaration by company secretary

In my capacity as Company Secretary, I hereby confirm and certify, in terms of the Companies Act, 2008, as amended, that for the year ended 31 December 2012, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

Ibrahim Ibisomi
Secretary

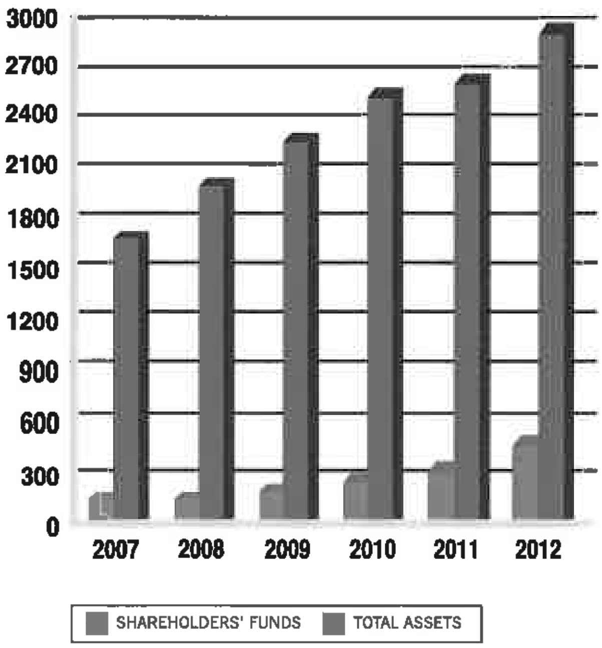
14 March 2013

for the year ended 31 December 2012

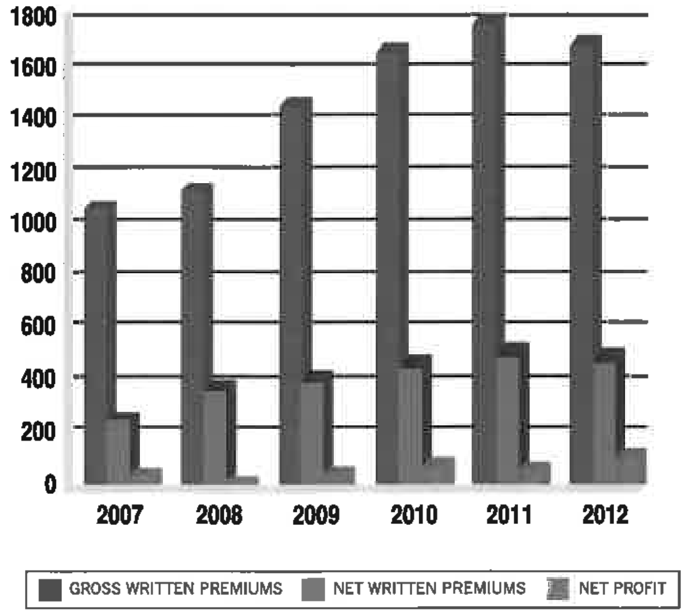
In R'000	2012	2011	2010	2009	2008
RESULTS					
GROSS WRITTEN PREMIUMS	**1 687 667**	1 785 810	1 671 976	1 468 527	1 140 547
NET WRITTEN PREMIUMS	**489 379**	517 017	480 965	420 974	377 991
NET EARNED PREMIUMS	**479 796**	512 821	489 205	421 800	373 899
NET PROFIT	**108 120**	66 613	73 659	43 081	6 309
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	**461 673**	353 553	286 940	213 281	170 200
TOTAL ASSETS	**2 968 992**	2 688 195	2 516 782	2 244 508	1 991 576
INTERNATIONAL SOLVENCY MARGIN[N1]	**94%**	68%	60%	51%	45%

[N1] International solvency margin is calculated as the net assets expressed as a percentage of the net written premium.

FINANCIAL POSITION 2007 – 2012
in Rand' Million



RESULTS 2007 – 2012
in Rand' Million



Chairman and executive management statement

On behalf of the Board of Directors, it is a privilege for us to as usual present the annual financial statements of African Reinsurance Corporation (South Africa) Limited ("Africa Re (SA)") for the year ended 31 December 2012, which represents the company's ninth year in business as an incorporated entity.

The year 2012 would go down in history as one of those years when the insurance sector fulfilled its role as a stabilising economic agent in South Africa, having been met with substantial fire and weather-related claims events running into billions of Rand. This came despite the still-sluggish growth in the economy: GDP growth in 2012 came in at a disappointing 2.1% thus making the country record an annual average GDP growth of 2.1% over the last five years. The economies of the Southern Africa region in which the company operates face significant challenges especially in the areas of growth, employment, poverty and inequality. A modest growth rate for the leading economy in this region is therefore quite dismal and inadequate to meet these challenges. It is thus pleasing to note the determination of the government of South Africa to stimulate growth through significant infrastructure spending in the near term.

The global economy did not fare much better either. The sovereign debt crisis in Europe continued unabated with negligible – and in some cases, negative – GDP growth in consequence. The US economy recorded improved but somewhat epileptic growth whose impact on the rest of the world was limited by the reduced rates of growth in China and most emerging markets. The political hot spots, especially in the Middle East and Asia, remained restive with debilitating effect on their respective economies and further dragging down of the global economic growth.

On the insurance front, although not at the same scale as in 2011, the industry again witnessed several catastrophic losses around the globe with an unfavourable impact on reinsurance rates. These losses emanated from such events as the active American hurricane season (notably hurricane Sandy that cost between US$20 billion and US$25 billion in total insured losses), the Australian wildfires and floods, severe drought and storms in many areas across the globe, and the increasingly worsening cold spell in Europe and North America. Indeed, insured losses in the United States alone reportedly passed the US$140 billion mark in 2012. Nearer home, severe weather activity in South Africa resulting in floods and storms, as well as fire losses, also cost the South African insurance industry more than R2.5 billion.

Against this background, the company was able to deliver what again was a mixed performance but this year comprising weak underwriting results and significantly better investment returns.

The company's focus on improving its underwriting performance through a number of initiatives continued unabated during the year but only managed to insulate the company significantly against picking proportionate shares in the catastrophic losses recorded by the market. For the first time in the company's short but chequered history, gross written premium recorded a modest reduction of some 5.5% while net written premium similarly fell by 5.4%. During 2012, as a result of the catastrophic market losses, net core underwriting performance before commissions and management expenses deteriorated to a marginal net loss situation. Management has committed to ensuring that the company's portfolio is effectively well-balanced against substantial sectoral losses while keeping the company market-competitive in its business terms.

Despite the near 40-year lowest interest rate regime that prevailed during the year, the capital markets rebounded substantially to post excellent returns on bonds and equities. Aided by additional fund allocations to these instruments in late 2011, the company benefitted handsomely from the positive turnaround in the capital market. As a result, investment income grew impressively during 2012.

As in the previous few years now, competition (especially from foreign reinsurers) and soft market cycles (accentuated through rate-cutting) also continued to impact on performance during 2012. However, the strengthening brand, increased market acceptance, improved client service especially through prompt and hands-on attention to claims, and sustained marketing initiatives have continued to enable the company to selectively write several new accounts while also cleaning the portfolio of any loss-making business that defies other corrective measures.

Gross written premiums for the year under review was R1,688 million compared to R1,786 million recorded in 2011. This represents a R98 million (or 5.5%) reduction in the gross written premiums recorded in the previous year. Similarly, the company recorded a R28 million (or 5.43%) reduction in its net written premium, from R517 million in 2011 to R489 million in 2012.

In line with the reduced level of premium and coupled with some change in the product mix of the company's portfolio as well as an improved overrider commission arrangement with the retrocessionaire, net commission incurred improved by R13 million (13%) from R100 million in 2011 to R87 million in 2012. The company continued to invest in human and material resources to support its growing business needs and to chart the course of complying with emerging regulatory requirements. Still, in the absence of any collection challenges as experienced in 2011, management expenses improved in 2012 by R16 million (26%) – down to R46 million from the R62 million incurred in the preceding year. Overall, largely as a result of the deteriorated claims environment, the company posted a noticeable decline in its core underwriting performance in 2012 compared to 2011.

Net investment income rose significantly as a result of the improved performance of the capital market, nearly doubling from the R79 million earned in 2011 to R155 million in 2012. The Board had directed the appointment of additional asset managers and the allocation of substantial new funds to these managers towards the end of 2011. This led to the accretion of new funds to bond and equity investments that, with the enhanced returns from these instruments, directly yielded substantial additional investment income compared to the low yield offered by bank deposits. The Board will continue to steer the company's investment activities to relatively secure instruments and competitive returns.

Profit before tax for the year under review was R145 million compared to the R93 million recorded in 2011. Accrued income tax expense charged to the income statement for the period was R37 million (2011: R27 million) resulting in an after tax profit of R108 million compared to R67 million in 2011. This represents the highest level of overall net return recorded by the company since inception.

We are confident that the South African economy has climbed out of the recession experienced in 2009 and that it will now improve its growth trajectory especially with the commencement of the conscious and gradual implementation of the widely acclaimed National Development Plan. This is sure to bode well not just for the insurance industry but for the entire country. This should also benefit the rest of the region in the medium term given the relative interdependence among the respective economies. Furthermore, the country boasts of world-class infrastructure and services that will continue to attract international capital seeking higher returns outside of the developed world. The country's membership of the grouping of the key emerging-market economies of Brazil, Russia, India and China from 2011 provides additional potential and a somewhat unique platform for improved economic growth. The Board and Management are therefore convinced that the company's future remains bright and filled with many opportunities for sustained growth in the leading, emerging-market economy in which it operates.

We acknowledge the progress being made towards a new principles-based regulatory regime in South Africa. Termed Solvency Assessment and Management (SAM), this new statutory supervision mode is patterned after the Solvency II arrangement in Europe with a revised target date of January 2016 for its full implementation but with a number of interim measures, impact studies and parallel runs prior to that date. The company has to date participated actively in its many activities, structures, questionnaires, surveys and tests, as well as complied with all its interim requirements. The Board is committed to ensuring that the company as always meets all statutory requirements even under the emerging new dispensation and will therefore authorise all required measures and resources to achieve this aim.

We remain grateful to all of our valued partners, cedants and intermediaries who have continued to show confidence in Africa Re (SA) and the African Reinsurance Corporation Group as a whole which is reflected in the sustained growth of the company's income over the years.

Chairman and executive management statement – *continued*

Our thanks also go to our colleagues on the Board, who continue to assist in their effective oversight of the development of the company.

Towards the tail end of the year, the African Reinsurance Corporation Group purchased a multi-million Rand office building for the company's exclusive use. This is in line with the Group's philosophy of investing solidly in its host countries and is an important vote of confidence in the South African economy. The company is sure to benefit from this development in the years ahead as clients and other stakeholders would appreciate its evident permanence in and commitment to the South African insurance landscape. The Board appreciates this development and has tasked Management with reciprocating this gesture with improved performance to justify this vote of confidence.

During the year, the shareholder reconstituted the composition of the Board and its Committees in order to allow for a full compliance with the applicable requirements of the Companies Act 2008. The Board of Directors met three times with all serving directors present at each meeting. The directors who served during the year were:

B H Kamara	– (Non-executive Chairman)
C Karekezi	– (Non-executive Deputy Chairman)
A F W Peters	– (Independent, Non-executive Director)
E N Amadiume	– (Non-executive Director)
K Gatabaki	– (Independent, Non-executive Director – retired 12 July 2012)
P Pettersen	– (Independent, Non-executive Director – appointed 31 July 2012)
S Mabaso-Koyana	– (Independent, Non-executive Director – appointed 31 July 2012)
D N De Vos	– (Managing Director)

On its part, the Audit and Risk Committee under the Chairmanship of A F W Peters met twice during the course of the financial year just completed. In attendance at these meetings were the Committee members, members of Executive Management and the External Auditors. The Group deputy director of internal audit attended one of the meetings but his counterpart in technical inspection could not attend due to scheduling challenges. The Committee's report is separately included on page 8 of these financial statements.

Corporate Social Investment continues to be one of our priorities and Africa Re (SA) regularly sets aside funds for the promotion and development of education and training through the Turning Point Home and the Liberty Life JSE Investment Challenge. The company also seeks out worthy individuals and causes and provides ongoing support to a number of these initiatives.

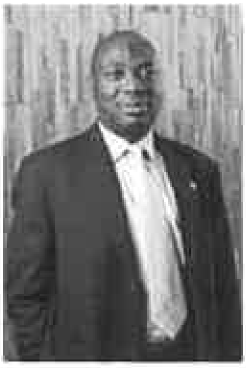
Our employees are undoubtedly our most important resource and we believe that each and every staff member contributes meaningfully towards the development of Africa Re (SA). The company in turn provides support to the self-development initiatives of staff through which a number of employees have achieved important milestones in their academic and professional pursuits. We will continue to develop a conducive and supportive environment where each employee is able to reach their full potential and to share in the success of our business.

In this regard, Africa Re (SA) will continue to strive to attract, develop and retain the very best people focussing on the right rewards and incentives whilst allowing staff to achieve a balance between both personal and professional capabilities. We wish to extend our sincere appreciation to all staff for all their valued efforts and commitment to the company.

Bakary H Kamara
Chairman

Daryl De Vos
Managing Director

Board of Directors, Executive Management and Staff

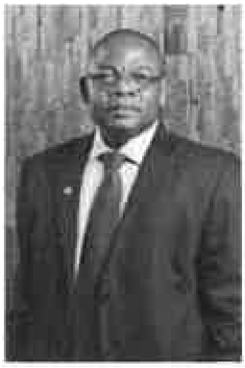


Ibrahim Ibisomi
General Manager,
Finance & Admin

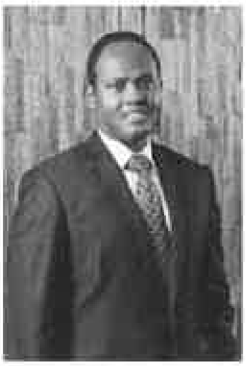
Allan F W Peters
Independent,
Non-Executive Director

Elizabeth N Amadiume
Non-Executive Director

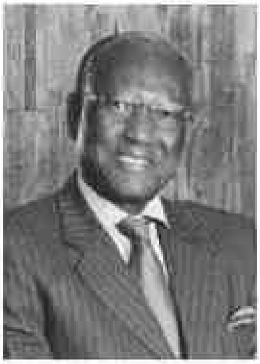
Phillip Pettersen
Independent,
Non-Executive Director



John Izegbu
General Manager,
Operations



Corneille Karekezi
Non-Executive Deputy
Chairman



Bakary H Kamara
Non-Executive Chairman

Daryl N De Vos
Managing Director

Sindi Mabaso-Koyana
Independent,
Non-Executive Director

The Africa Re South Africa team – photographed outside the new office premises in Parktown.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the annual financial statements of African Reinsurance Corporation (South Africa) Limited, comprising the statement of financial position at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary information included in these financial statements.

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

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

Approval of annual financial statements

The annual financial statements of African Reinsurance Corporation (South Africa) Limited, as identified in the first paragraph, were approved by the board of directors on 14 March 2013 and signed on their behalf by:

Bakary H Kamara
Chairman

Daryl De Vos
Managing Director

Report by the Audit and Risk Committee

The Audit and Risk Committee is pleased to present this report on its activities for 2012 to the Board and to the Shareholder.

The Audit and Risk Committee discharged its responsibilities unhindered during the year and was able to confirm the effectiveness and adequacy of the company's system of financial accounting, internal controls, statutory and regulatory compliance, risk management and financial reporting. The Committee reviewed reports presented by Management as well as by the internal and external audit functions and was satisfied with explanations provided on its observations.

The Audit and Risk Committee met twice during the year with only one absence recorded by one member in one of the meetings. Apart from its members, the Committee's meetings are also regularly attended on its invitation by the Managing Director, the General Manager Finance & Administration, the General Manager Operations as well as by internal and external audit personnel. The technical inspector could not, however, attend any of the meetings of the Committee held during 2012 but the Committee nonetheless considered his reports satisfactorily. The internal and external audit personnel have unrestricted access to the Committee and to its chairperson.

The Audit and Risk Committee reviewed the terms of engagement of KPMG Inc. as external auditors and was satisfied with their independence as well as the adequacy of the audit procedures applied in their audit of the company's financial statements together with their judgement thereon and the recommendations contained in their management letter. On this basis, the Committee has recommended KPMG Inc.
for reappointment as external auditors for 2013.

During the year, following the reconstitution of the Board, the Committee's membership was expanded to now fully comply with the requirements of the Companies Act 2008. The composition of the Committee during the year was as follows:

A F W Peters	–	independent non-executive Director (Chairman)
E N Amadiume	–	non-executive Director (Member)
K Gatabaki	–	independent non-executive Director (Member), retired 12 July 2012
P Pettersen	–	independent non-executive Director (Member), appointed 31 July 2012
S Mabaso-Koyana	–	independent non-executive Director (Member), appointed 31 July 2012

Members of the Committee are satisfied with the processes followed, resources in place and assurances obtained in relation to the financial management of the company. We believe that the accounting practices are effective and would therefore recommend the approval of these audited financial statements for the year ended 31 December 2012.

For and on behalf of the Audit and Risk Committee:

Allan F W Peters
Chairman, Audit and Risk Committee
14 March 2013

Directors' Report

The directors are pleased to present the directors' report of the company for the year ended 31 December 2012.

Business

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

Share capital

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

Statement of financial position

The company's shareholder funds represented by share capital and share premium, contingency reserve and retained earnings as at 31 December 2012 amounts to R461.7 million (2011: R353.6 million). Net technical liabilities under insurance contracts at 31 December 2012 amount to R326.3 million (2011: R308.8 million).

Statement of comprehensive income

Total profit and comprehensive income for the year is R108.1 million (2011: R66.6 million). The results for the year are presented in the accompanying statement of comprehensive income and notes to the accounts and require no further amplification.

Holding company

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

Dividend

The directors did not declare or pay a dividend during the year (2011: R0).

Directors

The directors who served the company during the year were:

Bakary H Kamara	Non-executive Chairman (Mauritanian)
Daryl De Vos	Executive Director
Allan F W Peters	Independent non-executive Director (British)
Corneille Karekezi	Non-executive Director (Rwandese)
Elizabeth Amadiume	Non-executive Director (Nigerian)
Kung'u Gatabaki	Independent non-executive Director (Kenyan) (retired 12 July 2012)
Phillip Pettersen	Independent non-executive Director (appointed 31 July 2012)
Sindisiwe Mabaso-Koyana	Independent non-executive Director (appointed 31 July 2012)

Directors' Report – *continued*

Secretary

Ibrahim Ibisomi

Africa Re Place
10 Sherborne Road
Parktown
2193

PO Box 3013
Houghton
2041

Auditors

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

Report of the Independent Auditor

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

We have audited the financial statements of African Reinsurance Corporation (South Africa) Limited, which comprise the statement of financial position at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 13 to 55.

Directors' Responsibility for the Financial Statements
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, these financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation (South Africa) Limited at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Report of the Independent Auditor – *continued*

Other

As part of our audit of the financial statements for the year ended 31 December 2012, we have read the Directors' Report, the report by the Audit committee and the certification by the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc.
Registered Auditor

Malherbe

Per Antoinette Malherbe
Chartered Accountant (SA)
Registered Auditor
Director
22 May 2013

KPMG Crescent
85 Empire Road
Parktown
South Africa, 2193

Statement of financial position

	Note	2012 R'000	2011 R'000
Assets			
Equipment	6	589	941
Intangible assets	7	36	106
Financial assets	8	**1 969 998**	1 719 228
– Held-to-maturity instruments at amortised cost		**1 061 542**	1 026 875
– Instruments at fair value through profit or loss		**908 456**	692 353
Technical assets under insurance contracts	9	**861 782**	810 495
– Retroceded outstanding claims reserve		**655 047**	642 687
– Retroceded unearned premium reserve		**149 318**	126 959
– Deferred acquisition costs		**57 417**	40 849
Amounts due from companies on reinsurance accounts	10	**105 458**	115 217
Deposits retained by ceding companies	11	**134**	37 499
Accounts receivable		**7 308**	299
Current income tax asset	18	**19 380**	4 115
Cash and cash equivalents	12	**4 307**	295
Total assets		**2 968 992**	2 688 195
Equity			
Share capital and share premium	13	**80 300**	80 300
Contingency reserve		**51 702**	51 702
Retained earnings		**329 671**	221 551
Total equity attributable to equity holders of the company		**461 673**	353 553
Liabilities			
Technical liabilities under insurance contracts	9	**1 188 064**	1 119 298
– Gross outstanding claims reserve		**930 074**	906 170
– Gross unearned premium reserve		**213 312**	181 370
– Deferred retrocession commission income		**44 678**	31 758
Amounts due to companies on reinsurance accounts	14	**145 100**	69 942
Deposits due to retrocessionaire	15	**1 092 147**	1 085 330
Amount due to holding company		**55 454**	45 218
Other provisions and accruals	16	**4 264**	8 360
Deferred tax liability	17	**22 290**	6 494
Total liabilities		**2 507 319**	2 334 642
Total equity and liabilities		**2 968 992**	2 688 195

Statement of comprehensive income

	Note	2012 R'000	2011 R'000
Gross written premiums		**1 687 667**	1 785 810
Retroceded written premiums		**(1 198 288)**	(1 268 793)
Net written premiums		**489 379**	517 017
Change in gross unearned premium reserve		**(31 942)**	(13 981)
Change in retroceded unearned premium reserve		**22 359**	9 785
Net earned premiums		**479 796**	512 821
Net investment income		**154 600**	79 035
Dividend income		**11 091**	5 857
Interest income on investments		**92 521**	88 884
Interest expense on investments		**(22 669)**	(18 220)
Net realised gain on disposal of investments		**18 364**	4 194
Net unrealised gain on investments		**59 135**	178
Investment management expenses		**(3 842)**	(1 858)
Total net income		**634 396**	**591 856**
Gross claims paid		**1 157 269**	1 109 198
Retroceded claims received		**(812 619)**	(780 524)
Change in gross provision for outstanding claims		**23 903**	12 859
Change in retroceded provision for oustanding claims		**(12 360)**	(4 576)
Net incurred claims		**356 193**	336 957
Net commission incurred	*19*	**86 836**	99 957
Management expenses		**46 316**	61 685
Total technical expenses		**489 345**	498 599
Net profit before taxation	*20*	**145 051**	93 257
Taxation	*21*	**(36 931)**	(26 644)
Total profit and comprehensive income for the year		**108 120**	66 613

Statement of changes in equity

	Share capital and share premium R'000	Contingency reserve R'000	Retained earnings R'000	Total R'000
Balance as at 1 January 2011	80 300	48 136	158 504	286 940
Comprehensive income for the year			66 613	66 613
Transfer to contingency reserve		3 566	(3 566)	–
Balance as at 31 December 2011	**80 300**	**51 702**	**221 551**	**353 553**
Comprehensive income for the year			**108 120**	**108 120**
Balance as at 31 December 2012	**80 300**	**51 702**	**329 671**	**461 673**

Statement of cash flows

	Note	2012 R'000	2011 R'000
Cash flows from operating activities			
Cash generated by operations	*25.1*	**136 623**	160 568
Interest expense		**(22 669)**	(18 220)
Taxation paid	*25.2*	**(36 400)**	(26 035)
Net cash inflow from operating activities		**77 554**	116 313
Cash flows from investment activities			
Net purchases and disposals of equipment and intangible assets		**(41)**	(135)
Net purchases of investments		**(173 271)**	(218 913)
Interest received net of investment management fees		**88 679**	87 026
Dividends received		**11 091**	5 857
Net cash outflow from investment activities		**(73 542)**	(126 165)
Net (decrease)/increase in cash and cash equivalents		**4 012**	(9 852)
Cash and cash equivalents at the beginning of the year		**295**	10 147
Cash and cash equivalents at the end of the year		**4 307**	295

Categories of assets and liabilities

R'000 December 2012	*Notes*	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial instruments	Total
Assets							
Equipment	*6*					589	589
Intangible assets	*7*					36	36
Financial assets	*8*	**908 457**	**1 061 542**				**1 969 998**
Listed bonds		404 815	97 874				502 689
Listed equities		348 553					348 553
Money market funds		155 088					155 088
Fixed and call deposits			963 668				963 668
Technical assets under insurance contracts	*9*					**861 782**	**861 782**
Retroceded outstanding claims reserve						655 047	655 047
Retroceded unearned premium reserve						149 318	149 318
Deferred acquisition costs						57 417	57 417
Amounts due from companies on reinsurance accounts	*10*			105 458			105 458
Deposits retained by ceding companies	*11*			134			134
Accounts receivable				7 308			7 308
Current income tax asset	*18*					19 380	19 380
Cash and cash equivalents	*12*			4 307			4 307
Total assets		**908 457**	**1 061 541**	**117 207**		**881 787**	**2 968 992**

Categories of assets and liabilities – *continued*

	Notes	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial instruments	Total
R'000							
Liabilities							
Technical liabilites under insurance contracts	*9*					**1 188 064**	**1 188 064**
Gross outstanding claims reserve						930 074	930 074
Gross unearned premium reserve						213 312	213 312
Deferred retrocession commission revenue						44 678	44 678
Amounts due to companies on reinsurance accounts	*14*				145 100		145 100
Deposits due to retrocessionaire	*15*				1 092 147		1 092 147
Amount due to holding company					55 454		55 454
Other provisions and accruals	*16*				**2 163**	**2 101**	**4 264**
Creditors and accruals					**2 163**	–	**2 163**
Accrual for leave pay						**2 101**	**2 101**
Deferred tax liability	*17*					22 290	22 290
Total liabilities					**1 294 864**	**1 212 455**	**2 507 319**

Categories of assets and liabilities – *continued*

R'000	Notes	Designated upon initial recognition at fair value through profit or loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial instruments	Total
December 2011							
Assets							
Equipment	6					941	941
Intangible assets	7					106	106
Financial assets	8	**692 353**	**1 026 875**				**1 719 228**
Listed bonds		317 465	92 985				410 450
Listed equities		253 968					253 968
Money market funds		120 920					120 920
Fixed and call deposits			933 890				933 890
Technical assets under insurance contracts	9					**810 495**	**810 495**
Retroceded outstanding claims reserve						642 687	642 687
Retroceded unearned premium reserve						126 959	126 959
Deferred acquisition costs						40 849	40 849
Amounts due from companies on reinsurance accounts	10			115 217			115 217
Deposits retained by ceding companies	11			37 499			37 499
Accounts receivable				299			299
Current income tax asset	18					4 115	4 115
Cash and cash equivalents	12			295			295
Total assets		**692 353**	**1 026 875**	**153 310**		**815 657**	**2 688 195**

Categories of assets and liabilities – *continued*

Notes		Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial instruments	Total
R'000							
Liabilities							
Technical liabilites under insurance contracts	9					**1 119 298**	**1 119 298**
Gross outstanding claims reserve						906 170	906 170
Gross unearned premium reserve						181 370	181 370
Deferred retrocession commission revenue						31 758	31 758
Amounts due to companies on reinsurance accounts	*14*				69 942		69 942
Deposits due to retrocessionaire	*15*				1 085 330		1 085 330
Amount due to holding company					45 218		45 218
Other provisions and accruals	*16*				**2 255**	**6 105**	**8 360**
Creditors and accruals					2 255	4 451	6 706
Accruals						1 654	1 654
Deferred tax liability	*17*					6 494	6 494
Total liabilities					**1 202 745**	**1 131 897**	**2 334 642**

Notes to the financial statements

1. General information

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

The financial statements were authorised for issue by the directors on 14 March 2013.

2. Accounting policies

(a) Statement of compliance

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

(b) Basis for preparation

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

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

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

2. Accounting policies *(continued)*

(c) Classification of insurance contracts

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

(d) Recognition and measurement of insurance contracts

Insurance business is accounted for on an annual basis.

Insurance premiums

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

Unearned premiums provision for insurance contracts

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

2. Accounting policies *(continued)*

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

Claims arising from insurance contracts

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

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

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

Unexpired risk provision for insurance contracts

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

2. Accounting policies *(continued)*

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

Liability adequacy test

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

Reinsurance contracts and assets

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

Premiums retroceded and benefits reimbursed in respect of retrocession contracts are disclosed in the statement of comprehensive income and the statement of financial position on a gross basis. Amounts recoverable under the retrocession contracts are recognised in the same year as the related claims.

2. Accounting policies *(continued)*

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

Reinsurance contracts and assets *(continued)*

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

Deferred acquisition costs

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

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

The proportion of acquisition costs that correspond to the unearned premiums are deferred and amortised on a pro rata basis over the contract term. Assumptions of anticipated premiums are made at the inception or acquisition of the contracts and are consistently applied over the expected duration of the contracts.

Commission income

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

(e) Contingency reserve

A contingency reserve was provided for in terms of the Short-term Insurance Act, 1998, and represented 10% of gross written premium less approved reinsurance (as defined in the Act). The reserve was treated as a separate component of shareholder equity in the statement of financial position and transfers to or from the reserve as an appropriation in the statement of changes in equity. No adjustment has been made to the reserve for the 2012 financial year due to the change in legislation whereby capital requirements are determined in terms of Board Notice 169 issued by the Financial Services Board.

(f) Operating lease payment

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the lease period.

2. Accounting policies *(continued)*

(g) Employee benefits under defined contribution plan

The Company contributes to a defined contribution pension plan for all its employees. The Company's obligations for the contributions to the defined contribution pension plan for its employees are recognised as an expense in profit or loss as incurred.

(h) Foreign currencies transactions

Transactions in foreign currencies are converted at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Rand at the exchange rate ruling at that date. Foreign exchange differences arising on translations are recognised in profit or loss in the period in which the difference occurs.

(i) Equipment

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

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

The depreciation method, residual value and useful life, if not insignificant, is reassessed annually at each reporting period. Where the carrying amount of an asset is greater than its estimated recoverable amount being, higher of value in use and fair value less costs to sell, impairment losses are recognised to write down the value of the asset to its recoverable amount.

Gains and losses on disposal of equipment are determined by reference to sales proceeds and their carrying amounts at the date of sale and are recognised in profit or loss.

(j) Intangible assets

Intangible assets consist of purchased software. Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful life of intangible assets. The estimated useful life of intangible assets is 3 years.

(k) Financial instruments

Investments

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

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

2. Accounting policies *(continued)*

(k) Financial instruments *(continued)*

Investments *(continued)*

Purchases of financial assets are recognised on the trade date, which is when the company commits to purchase the assets. 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.

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

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

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

The Company derecognises an asset:
- when the contractual rights to the cash flows from the asset expire;
- where there is a transfer of contractual rights to receive cash flows on the asset in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred; or
- where the Company retains the contractual right to the cash flows from these assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all of the risks and benefits associated with the assets.

Where the Company retains substantially all the risks and rewards of ownership of the financial asset, the Company continues to recognise the asset.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Other receivables

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

Trade and other payables

Trade and other payables are measured at amortised cost.

Deposits retained on reinsurance ceded

Deposits retained on reinsurance ceded are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits and are initially measured at fair value and subsequently measured at amortised cost.

2. Accounting policies *(continued)*

(l) Impairment of non-financial assets

The carrying amounts of the company's assets are reviewed at the reporting date to determine whether there is any indication of impairment. If any such indication exists, the carrying value of the asset is reduced to the estimated recoverable amount by means of an impairment charge to profit or loss. The recoverable amount is the higher of its fair value less the cost to sell and its value in use.

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

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

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that such loss event (or events) has (or have) an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial assets is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or a delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the recognition of those assets, although the decrease may not be identified with the individual financial assets in the Company. This may include adverse changes in the payment status of issuers or debtors in the Company, or national or local economic conditions that correlate with defaults on the assets of the Company.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounting at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment account and the amount of the loss is recognised in the statement of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the impairment account. The amount of the reversal is recognised in the statement of comprehensive income.

(m) Provisions

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

(n) Taxation

Income tax for the period includes both current and deferred taxation. Normal income and deferred taxes are determined using taxation rates that have been enacted or substantively enacted by the reporting date.

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

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

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

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

Amendments to IFRS 7 Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities

The amendments contain new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position; or are subject to enforceable master netting arrangements or similar agreements. The Company applies offsetting in the financial statements and will be required to provide additional disclosures in this regard. This amendment is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities

The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment will result in the Company no longer offsetting two of its master netting arrangements. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

IFRS 9 Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The Company will adopt this standard for the financial year commencing 1 January 2015. The adoption of IFRS 9 (2010) is expected to have an impact on the Company's financial assets but not on its liabilities.

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2012 and the comparative information presented in these financial statements.

4. Accounting estimates and judgements

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

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

Policyholder claims for insurance contracts

The Company's estimates for reported and unreported losses and the resulting provisions and related retrocession receivables are reviewed and updated regularly to take into account new information to determine the most accurate estimates at the time of reporting. Adjustments resulting from this review are reported in profit or loss in the period the adjustments are made. The process relies on the basic assumption that past experience adjusted for effects of current developments and likely trends, is an appropriate basis for predicting future events. Estimation of claims provision is a complex process and significant uncertainty exists as to the ultimate settlement of claim liabilities (refer to note 9).

Insurance contract estimates

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

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

5. Risk management of insurance contracts and financial instruments

5.1 Insurance contracts

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

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

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

5.2 Insurance risk management objectives and policies for mitigating risks

(a) Introduction

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

(b) Premium pricing adequacy risk

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

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

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

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

(c) Event exposure and concentration risk

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

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

(d) Claims development or reserving risk

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

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

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

(e) Reinsurance risk

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

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

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

5.3 Financial risk management objectives and policies for mitigating risks

(a) Introduction

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

(b) Market risk

Market risk is the risk of change in the fair value or future cash flows of financial instruments because of changes in market conditions and prices of those financial instruments. Market risk comprises currency risk, interest rate risk and other price risk which include equity market price risk.

(i) Currency exchange risk

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

(ii) Interest rate risk

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

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

(iii) Equity price risk

The Company is exposed to market price risk through fluctuation of the value of financial instruments due to changes in their market prices. Equity price risk can be described as the risk of changes in the fair value of equity financial instruments due to changes in market conditions and prices of these instruments. The Company's investments in marketable securities are stated at fair value and are therefore susceptible to changes in market prices.

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

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

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

(iv) Market risk sensitivity analysis

The Company conducts sensitivity analyses to estimate the possible effect of movements in the market prices of its equity financial instruments on the fair values of those instruments. All the Company's equity financial instruments are listed on the Johannesburg Stock Exchange. The Company's bonds are listed on the Bond Exchange of South Africa. The sensitivity analysis on market price movement of equity financial instruments indicates that a change of 10% on the Johannesburg Stock Exchange index would result in a change in fair value of those financial instruments and profit before tax of R34.9 million (2011: R25.4 million). The sensitivity analysis of the effects of movements in market prices and interest rates on the Company's financial assets and liabilities in millions as at 31 December 2012 are presented in the table below:

Asset class	Cost R'm	Market Value R'm	Risk Factor	% change	Impact on equity* R'm	Impact on profit or loss R'm
December 2012						
Equity	272.4	348.6	Market price	10%	25.1	34.9
Bonds at fair value	380.9	404.8	Interest rate movement	5%	43.9	61.0
Bonds at amortised cost	97.9	97.9	Interest rate movement	5%	3.5	4.9
Money market unit trusts	154.8	155.1	Market price	5%	5.6	7.8
Fixed deposit	963.7	963.7	Interest rate movement	5%	27.5	38.2
December 2011						
Equity	220.9	254.0	Market price	10%	18.2	25.4
Bonds at fair value	310.0	317.5	Interest rate movement	5%	30.9	42.9
Bonds at amortised cost	93.0	93.0	Interest rate movement	5%	3.4	4.7
Money market unit trusts	120.2	120.9	Market price	5%	4.3	6.0
Fixed deposit	933.9	933.9	Interest rate movement	5%	33.6	46.7

* assumed tax rate of 28% has been used

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

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

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

The Company also conducts sensitivity analyses to estimate the possible effect of movements of interest rates on the fair value of interest rate bearing financial instruments and cash flows relating to those instruments. The sensitivity analysis of the effect on interest rates movement indicates that a change of 5% in interest rates would change the value of fixed income investments and profit before tax by R61.0 million (2011: R42.9 million) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R38.2 million (2011: R46.7 million).

(c) Credit risk

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

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

Except for one retrocession contract which is not significant, retrocessionaires' share of insurance liabilities classified as reinsurance assets in the financial statements are fully secured by deposits withheld by the Company. This is in accordance with the regulatory solvency requirements and the retrocession agreements.

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

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

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each class of financial and reinsurance assets in the statement of financial position. The analysis of the credit exposure and credit quality of the Company's financial assets, based on Standard & Poor's, Moody's, Fitch and AM Best local currency credit ratings at the end of the year, is presented in the table on page 36:

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

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

(c) Credit risk *(continued)*

	AAA to AA R'm	A+ to A R'm	BBB+ to BBB R'm	Not indicated R'm	Total R'm
December 2012					
Financial assets	189.4	821.0	511.4	99.6	**1 621.4**
Insurance receivables				105.5	**105.5**
Insurance deposits				0.1	**0.1**
Accounts receivable				7.3	**7.3**
Cash and cash equivalents		4.3			**4.3**
Total	**189.4**	**825.3**	**511.4**	**212.5**	**1 738.6**
December 2011					
Financial assets	206.8	25.5	1 112.0	120.9	1 465.2
Insurance receivables				115.2	115.2
Insurance deposits				37.5	37.5
Accounts receivable				0.3	0.3
Cash and cash equivalents		0.3			0.3
Total	206.8	25.8	1 112.0	273.9	1 618.5

Ageing analysis of insurance receivables

There are no individually significant balances that are past due older than 12 months. The carrying amount of reinsurance receivables was reviewed at the reporting date and there was no indication of impairment. The Company does not hold collateral against any of its financial assets.

(d) Liquidity risk

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

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

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

(d) Liquidity risk *(continued)*

Maturity profile of financial and insurance assets and liabilities

A distinction is drawn between insurance and shareholders' funds. The overall philosophy governing the investment of insurance funds is driven by liquidity considerations and a strong emphasis on capital preservation. Most of the Company's investments are held in readily realisable investments in line with the short-tail nature of the Company's business. The maturity profile of investments will approximate the average term of operational liabilities. The maturity of the Company's financial assets and liabilities are based on contractual cash flows while the Company's insurance assets and liabilities are based on expected cash flows. The maturities of the Company's assets and liabilities at the end of the year are analysed in the table below:

December 2012	On demand R'm	1 Year R'm	2 Year R'm	3 Year R'm	>4 Year R'm	Total R'm
Asset maturities						
Cash and cash equivalents	4.3					4.3
Fixed and call deposits		963.7				963.7
Money market funds		155.1				155.1
Debt securities		32.5	26.9	59.1	384.2	502.7
Equities	348.6					348.6
Insurance contracts assets		646.3	145.9	44.2	25.4	861.8
Amounts due from companies on reinsurance accounts		105.5				105.5
Deposits retained by ceding companies		0.1				0.1
Accounts receivable		7.3				7.3
Total financial and insurance assets	**352.9**	**1 910.5**	**172.8**	**103.3**	**409.6**	**2 949.1**
Liability maturities						
Insurance contracts liabilities		882.2	207.1	62.7	36.1	1 188.1
Reinsurance account balance		145.1				145.1
Reinsurance deposits		1 092.1				1 092.1
Due to holding company		55.5				55.5
Other provisions and accruals		4.3				4.3
Total financial and insurance liabilities		**2 179.2**	**207.1**	**62.7**	**36.1**	**2 485.1**
Net maturities	**352.9**	**(268.7)**	**(34.3)**	**40.6**	**373.5**	**464.0**

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

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

(d) Liquidity risk *(continued)*

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

December 2011	On demand R'm	1 Year R'm	2 Year R'm	3 Year R'm	>4 Year R'm	Total R'm
Asset maturites						
Cash and cash equivalents	0.3					0.3
Fixed and call deposit		933.9				933.9
Money market funds		120.9				120.9
Debt securities		17.9	13.0	72.7	306.9	410.5
Equities	254.0					254.0
Insurance contracts assets		599.1	143.2	43.3	24.9	810.5
Amounts due from companies on reinsurance accounts		115.2				115.2
Deposits retained by ceding companies		37.5				37.5
Accounts receivable		0.3				0.3
Total financial and insurance assets	**254.3**	**1 824.8**	**156.2**	**116.0**	**331.8**	**2 683.1**
Liability maturities						
Insurance contracts liabilities		821.3	201.8	61.1	35.1	1 119.3
Reinsurance account balance		69.9				69.9
Reinsurance deposits		1 085.3				1 085.3
Due to holding company		45.2				45.2
Other provision and accruals		8.4				8.4
Total financial and insurance liabilities		**2 030.1**	**201.8**	**61.1**	**35.1**	**2 328.1**
Net maturities	**254.3**	**(205.3)**	**(45.6)**	**54.9**	**296.7**	**355.0**

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

The company's categories and classes of financial assets and financial liabilities are included on pages 17 to 20.

6. Equipment	2012 R'000	2011 R'000
Cost		
Motor vehicles	**546**	548
Computer equipment	**774**	734
Office equipment	**268**	268
Furniture & fittings	**1 381**	1 380
	2 969	2 930
Accumulated depreciation		
Motor vehicles	**542**	446
Computer equipment	**672**	567
Office equipment	**267**	263
Furniture & fittings	**899**	713
	2 380	1 989
Carrying values		
Motor vehicles	**4**	102
Computer equipment	**102**	167
Office equipment	**1**	5
Furniture & fittings	**482**	667
	589	941
Reconciliation of carrying values		
Opening balance	**941**	1 652
Additions	**41**	156
Disposals	**–**	(472)
Depreciation	**(393)**	(395)
Closing balance	**589**	941

6. Equipment (continued)	2012 R'000	2011 R'000
Motor vehicles		
Net carrying value at beginning of year	102	673
Additions	–	–
Disposal	–	(472)
Depreciation	(98)	(99)
Net carrying value at end of year	4	102
Computer equipment		
Net carrying value at beginning of year	167	183
Additions	41	101
Disposals	–	–
Depreciation	(106)	(117)
Net carrying value at end of year	102	167
Office equipment		
Net carrying value at beginning of year	5	13
Additions	–	–
Depreciation	(4)	(8)
Net carrying value at end of year	1	5
Furniture & fittings		
Net carrying value at beginning of year	667	783
Additions	–	55
Depreciation	(185)	(171)
Net carrying value at end of year	482	667

7. Intangible assets

Computer software		
Cost		
Opening balance	582	483
Acquisitions – purchased software	–	99
Closing balance	582	582
Accumulated amortisation		
Opening balance	476	406
Amortisation – software in use	70	70
Closing balance	546	476
Net carrying value	36	106

8.

Financial assets	2012 R'000	2011 R'000
Held-to-maturity instruments at amortised cost		
Fixed and call deposits	**963 668**	933 890
Listed bonds	**97 874**	92 985
	1 061 542	1 026 875
Instruments at fair value through profit or loss		
Listed instruments		
– bonds	**404 815**	317 465
– equities	**348 553**	253 968
– money market funds	**155 088**	120 920
	908 456	692 353
Total financial assets	**1 969 998**	1 719 228
Fair value of the held-to-maturity instruments		
Fixed and call deposits	**963 667**	933 890
Listed bonds	**106 040**	93 182
	1 069 707	1 027 072
Cost of instruments disclosed at fair value through profit or loss		
Bonds	**380 858**	309 961
Equities	**272 410**	220 880
Money market funds	**154 845**	120 236
	808 113	651 077

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

Maturity period At 31 December 2012	Effective interest rate %	Market value R'000
On demand	5.63% to 5.87%	**155 088**
Within 1 year	4.75% to 5.30%	**963 667**
1 to 3 years	9.17% to 10.80%	**123 068**
3 to 7 years	7.17% to 9.39%	**166 326**
7 to 12 years	7.73% to 8.56%	**142 703**
>12 years	2.31% to 8.84%	**70 593**
		1 621 445

8. **Financial assets** *(continued)*

Maturity period At 31 December 2011	Effective interest rate %	Market value R'000
On demand	5.63% to 5.87%	120 920
Within 1 year	5.00% to 5.80%	933 890
1 to 3 years	1.50% to 10.80%	161 949
3 to 7 years	7.02% to 9.39%	132 330
7 to 12 years	2.19% to 8.28%	103 057
>12 years	2.31% to 8.84%	13 114
		1 465 260

Fair values of financial assets and liabilities

Determination of fair value

Fair values are determined according to the following hierarchy based on the requirements in IFRS 7 'Financial Instruments: Disclosures'

- Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.
- Level 2 – valuation techniques using observable inputs: financial assets and liabilities with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.
- Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, a valuation technique is used.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid / offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets, which in certain circumstances includes using quotations from independent third parties such as brokers and pricing services, and offer prices for liabilities.

In general none of the carrying amounts of financial assets carried at amortised cost have a fair value significantly different to their carrying amounts. Such assets are primarily comprised of variable–rate financial assets that re-price as interest rates change, short-term deposits or current assets.

8. Financial assets *(continued)*

Fair values of financial assets and liabilities *(continued)*

Analysis of instruments at fair value

Financial assets

December 2012	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Designated at fair value through profit or loss	**753 368**	**155 088**	**-**	**908 456**
December 2011				
Designated at fair value through profit or loss	571 433	120 920	-	692 353

Investments and securities

The fair values of investments and securities designated at fair value through profit or loss are based on bid prices. For unlisted investments and securities, fair values are determined using valuation techniques that refer as far as possible to observable market data (see above).

Other financial assets and liabilities

The fair values of other financial assets and liabilities are reasonably approximated by the carrying amounts reflected in the statement of financial position.

9. Technical assets and liabilities under insurance contracts	2012 R'000	2011 R'000
Technical liabilities		
- Gross claims reported but not yet settled	**737 015**	580 986
- Gross claims incurred but not reported	**193 059**	325 184
- Gross unearned premium provision	**213 312**	181 370
- Deferred retrocession commission income	**44 678**	31 758
	1 188 064	1 119 298
Technical assets		
- Retrocessionaire's share of claims reported but not yet settled	**519 906**	414 689
- Retrocessionaire's share of claims incurred but not reported	**135 141**	227 998
- Retrocessionaire's share of unearned premium provision	**149 318**	126 959
- Deferred acquisition costs	**57 417**	40 849
	861 782	810 495
Net technical liabilities		
- Claims reported but not yet settled	**217 109**	166 297
- Claims incurred but not reported	**57 918**	97 186
- Unearned premium provision	**63 994**	54 411
- Deferred acquisition costs	**(12 739)**	(9 091)
	326 282	308 803

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

9.1 Movements in technical assets and liabilities under insurance contracts

Outstanding claims

	2012		
	Gross R'000	Reinsurance R'000	Net R'000
Claims reported but not yet settled	**580 986**	**414 689**	**166 297**
Claims incurred but not reported	**325 184**	**227 998**	**97 186**
Total outstanding at beginning of year	**906 170**	**642 687**	**263 483**
Movement in outstanding claims	**23 904**	**12 360**	**11 544**
-arising from current year claims	**325 841**	**228 089**	**97 752**
-arising from prior period claims	**(301 937)**	**(215 729)**	**(86 208)**
Total at end of year	**930 074**	**655 047**	**275 027**
Notified claims	**737 015**	**519 906**	**217 109**
Incurred but not reported	**193 059**	**135 141**	**57 918**
Total at end of year	**930 074**	**655 047**	**275 027**

	2011		
	Gross R'000	Reinsurance R'000	Net R'000
Claims reported but not yet settled	592 566	426 784	165 782
Claims incurred but not reported	300 745	211 327	89 418
Total outstanding at beginning of year	893 311	638 111	255 200
Movement in outstanding claims	12 859	4 576	8 283
-arising from current year claims	89 459	62 621	26 838
-arising from prior period claims	(76 600)	(58 045)	(18 555)
Total at end of year	906 170	642 687	263 483
Notified claims	580 986	414 689	166 297
Incurred but not reported	325 184	227 998	97 186
Total at end of year	906 170	642 687	263 483

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

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

Gross claims settlement development run-off results for the last five years

	2008 R'000	2009 R'000	2010 R'000	2011 R'000	2012 R'000
Claim settlement for each year:					
- first year	210 834	385 542	374 629	253 690	438 949
- one year later	444 427	363 391	595 973	385 661	
- two years later	133 352	109 895	232 826		
Provision for gross outstanding claims after two years run-off	103 683	271 420	295 037	283 259	325 841
- three years later	46 594	33 875			
- four years later	15 328				
Provision for gross outstanding claims at year end	56 024	84 823	96 474	304 823	325 841
Claim development run-off result at year end	**(14 263)**	**152 722**	**-**	**-**	**-**

Unearned premium provision

	2012 Gross R'000	**2012 Reinsurance R'000**	**2012 Net R'000**
At the beginning of year	**181 370**	**126 959**	**54 411**
Premiums written during the year	**1 687 667**	**1 198 288**	**489 379**
Premiums earned during the year	**(1 655 725)**	**(1 175 929)**	**(479 796)**
Total at end of year	**213 312**	**149 318**	**63 994**

	2011 Gross R'000	2011 Reinsurance R'000	2011 Net R'000
At the beginning of year	167 389	117 174	50 215
Premiums written during the year	1 785 810	1 268 793	517 017
Premiums earned during the year	(1 771 829)	(1 259 008)	(512 821)
Total at end of year	181 370	126 959	54 411

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

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

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

Deferred acquisition costs		2012	
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	**40 849**	**31 758**	**9 091**
Acquisition costs paid during the year	**413 731**	**323 247**	**90 484**
Transferred to costs incurred during the year	**(397 163)**	**(310 327)**	**(86 836)**
At the end of year	**57 417**	**44 678**	**12 739**

		2011	
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	39 499	30 584	8 915
Acquisition costs paid during the year	437 464	337 331	100 133
Transferred to costs incurred during the year	(436 114)	(336 157)	(99 957)
At the end of year	40 849	31 758	9 091

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

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

Estimates and outstanding claims

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

Unearned premium provision

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

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

Notes to the financial statements – *continued*

		2012 R'000	2011 R'000
10.	**Amounts due from companies on reinsurance accounts**		
	Amounts due from ceding companies	**105 458**	115 217
		105 458	115 217
11.	**Deposits retained by ceding companies**		
	At beginning of year	**37 499**	40 466
	New deposits retained	**134**	37 499
	Deposits released	**(37 499)**	(40 466)
	At the end of year	**134**	37 499
12.	**Cash and cash equivalents**		
	Cash on hand	**13**	21
	Current bank account balances	**4 294**	274
		4 307	295

	2012 R'000	2011 R'000
13. Share capital and share premium		
Share capital	–*	–*
Share premium	80 300	80 300
	80 300	80 300
Authorised		
7 ordinary shares of R0,01 each	–*	–*
Issued		
7 ordinary shares of R0,01 each	–*	–*

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

* less than R1 000

	2012 R'000	2011 R'000
14. Amounts due to companies on reinsurance accounts		
Amounts due to ceding companies	11 901	15 019
Amounts due to retrocessionaire	133 199	54 923
	145 100	69 942
15. Deposits due to retrocessionaire		
At beginning of year	1 085 330	963 732
New deposits retained	1 092 147	1 085 330
Deposits released	(1 085 330)	(963 732)
At the end of the year	1 092 147	1 085 330

16. Other provisions and accruals

	2012 R'000	2011 R'000
VAT payable	–	4 451
Other creditors and accruals	2 163	2 255
Accrual for leave pay	2 101	1 602
Lease commitments	–	52
	4 264	8 360

Accrual for leave pay is calculated based on the number of days leave due to employees multiplied by their cost to company. The maturity profile of the provision is dependent on the utilisation of leave days by the employees or any resignations.

17. Deferred tax liability

	2012 R'000	2011 R'000
Opening balance	6 494	4 403
Current year	15 796	2 091
Closing balance	22 290	6 494
The net deferred tax liability balance at the end of the period comprises:		
– capital allowance	25	371
– provisions	(588)	(463)
– unrealised gains on revaluation of investments	22 853	6 586
	22 290	6 494

18. Current income tax asset

The current income tax asset of R19.4 million (2011: R4.1 million) represents the amount of income taxes payable in the current year less provisional tax payments made.

19. Commission paid and received

	2012 R'000	2011 R'000
Gross commission and brokerage paid	413 731	437 464
Gross deferred acquisition costs	(16 568)	(1 350)
Commission incurred	397 163	436 114
Commission earned	(310 327)	(336 157)
Retrocession commission and brokerage received	(289 774)	(306 123)
Retroceded overriding commission received	(33 473)	(31 208)
Retroceded deferred commission revenue	11 608	942
Retroceded deferred overriding commission revenue	1 312	232
Net commission incurred	86 836	99 957

20. Profit before taxation	2012 R'000	2011 R'000
Profit before taxation is arrived at after charging the following items:		
Auditors remuneration:		
– for audit services in the current year	**1 272**	1 200
Consultancy fees	**1 780**	1 197
Depreciation	**393**	395
Net loss on disposal of equipment	**–**	(352)
Amortisation	**70**	70
Directors remuneration	**4 271**	4 777
Executive – for services rendered	**2 854**	3 677
Non executive – for services as directors	**1 417**	1 100
Lease payments	**897**	853
Secretarial fees	**68**	77
Staff costs including contribution to pension fund, UIF, SDL and allowances	**19 344**	16 301
Number of staff	**32**	30

21. Taxation

South African normal taxation – current year		
Corporate tax	**21 135**	24 553
Deferred tax	**15 796**	2 091
- current year	**15 796**	(387)
- prior year	**–**	2 478
	36 931	26 644
Tax rate reconciliation	**%**	**%**
Effective tax rate	**26.5**	28.6
Exempt income	**2.1**	1.7
Disallowed expenses	**(0.1)**	(0.1)
Capital gains tax	**(0.5)**	(2.2)
South African standard corporate tax rate	**28.0**	28.0

22. Related party transactions

Remuneration of directors and prescribed officers

Directors

The Directors who served during the year together with the respective gross remunerations paid to them for services rendered to the company are as follows:

Name	Status	2012	2011
		R	R
Bakary Kamara	Non-executive Chairman	**400,002**	350,880
Corneille Karekezi	Non-executive Deputy Chairman	**256,591**	175,780
Allan F W Peters	Independent, non-executive Director	**256,591**	225,080
Kung'u Gatabaki	Independent, non-executive Director (Retired 12 July 2012)	**115,763**	174,080
Elizabeth Amadiume	Non-executive Director	**198,451**	174,080
Phillip Pettersen	Independent, non-executive Director (Appointed 31 July 2012)	**106,913**	–
Sindisiwi Mabaso-Koyana	Independent, non-executive Director (Appointed 31 July 2012)	**82,688**	–
Daryl De Vos	Managing Director	**2,853,838**	2,261,423

Prescribed officers

Apart from Mr Daryl De Vos who served as Managing Director during the year, the other prescribed officers of the Company together with the remuneration paid to them for services rendered to the Company during the year are as follows:

	2012	2011
	R	R
Ibrahim Ibisomi – General Manager Finance & Administration	**1,493,838**	1,329,364
John C Izegbu – General Manager Operations	**1,493,838**	1,144,986

Holding company

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

22. Related party transactions – *continued*

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

Statement of financial position	2012 R'000	2011 R'000
Assets		
Technical assets under insurance contracts	**804 365**	763 306
Liabilities		
Deferred retrocession commission revenue	**(44 678)**	(31 768)
Deposits due to retrocessionaire	**(1 092 147)**	(1 085 330)
Amounts due to companies on reinsurance accounts	**(133 199)**	(54 923)
Amount due to holding company	**(55 454)**	(45 218)
Net liabilities	**(521 113)**	(453 933)

Statement of comprehensive income		
Retroceded premiums	**(1 198 288)**	(1 268 793)
Retrocessionaire's share of provision for unearned premiums	**22 359**	9 785
Retroceded claims received	**812 619**	780 524
Retrocessionaire's share of provision for outstanding claims	**12 360**	4 576
Retrocessionaire's share of net commission incurred	**310 327**	336 157
Interest expense	**(22 669)**	(18 220)
Management expenses	**(9 152)**	(17 500)

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

23. Retirement benefits costs

The Company contributes to a defined contribution pension plan for all its employees.
The Company's contributions to the defined contribution pension plan for its employees during the period were R1 294 624 (2011: R1 020 175).

24. Operating lease commitments

The Company leases photocopiers, fax equipment, office premises and an uninterrupted power supply. The minimum non-cancellable operating lease payments are payable as follows:

	2012 R'000	2011 R'000
– less than one year	**58**	613
– between one and five years	**88**	–
	146	613

25.	Notes to the cash flow statement	2012 R'000	2011 R'000
25.1	**Reconciliation of cash generated by operations**		
	Profit before taxation	**145 051**	93 257
	Adjusted for :		
	– depreciation and amortisation	**463**	465
	– net loss/ (profit) on disposal of equipment	**–**	352
	– investment income net of management fees	**(177 269)**	(97 255)
	– interest expenses	**22 669**	18 220
	– net unearned premium reserve net of deferred acquisition costs	**5 935**	4 020
	Cash generated by changes in working capital	**139 774**	141 509
	Amounts due from companies on reinsurance accounts	**84 917**	(6 870)
	Deposits retained by ceding companies	**37 365**	2 967
	Accounts receivable	**(7 009)**	131
	Amount due to holding company	**10 236**	11 741
	Other provisions and accruals	**(4 096)**	3 659
	Deposits due to retrocessionaire	**6 817**	121 598
	Net outstanding claims reserve	**11 544**	8 283
		136 623	160 568
25.2	**Reconciliation of taxation paid**		
	Balance recoverable at the beginning of the period	**4 115**	2 633
	Current tax charge in profit or loss	**(21 135)**	(24 553)
	Balance recoverable at the end of the period	**(19 380)**	(4 115)
	Taxation paid	**(36 400)**	(26 035)

26. Other Matters

26.1 Business activities

The Company is duly licensed by the Financial Services Board to undertake the business of non-life reinsurance under the Short Term Insurance Act Number 53 of 1998 as amended. The Company has conducted its business with due regard to, and in accordance with, the provisions of the Act and the Directors are not aware of any actions or activities in contravention of the prevailing legislation.

26. Other Matters – *continued*

26.2 Dividends

The Directors are conscious of on-going regulatory changes under the Solvency Assessment and Management project of the Financial Services Board, with potential impact on the capital requirements of insurance industry practitioners the nature and extent of which is difficult to ascertain at this time. The Directors have therefore decided not to recommend the payment of dividends despite the excellent results achieved during the year.

26.3 Going concern

The Directors are confident that the Company will continue to operate successfully into the foreseeable future. These financial statements have therefore been prepared on a going concern basis.

26.4 Events after the reporting date

The Directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report that would warrant any changes to the financial statements or any other disclosure in this report.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