

African Reinsurance Corporation
(South Africa) Limited

Annual Report

FOR THE YEAR ENDED 31 DECEMBER 2010





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Subsidiaries

● AFRICAN REINSURANCE CORP. (South Africa) Ltd

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P.O. Box 3013, Houghton 2041,
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○ AFRICA RETAKAFUL

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Local Office

○ ADDIS ABABA LOCAL OFFICE

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ANNUAL REPORT

for the year ended 31 December 2010

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DECLARATION BY COMPANY SECRETARY

In our capacity as Company Secretary, we hereby confirm and certify, in terms of the Companies Act, 1973, as amended, that for the year ended 31 December 2010, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

Levitt Kirson

Levitt Kirson Management Services CC
Secretary

10 March 2011

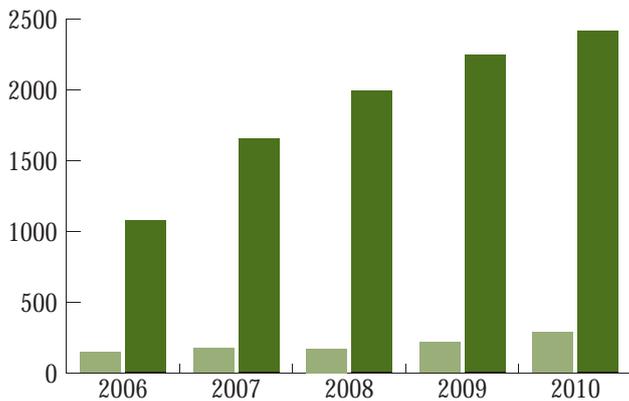
FINANCIAL HIGHLIGHTS

for the year ended 31 December 2010

In R'000	2010	2009	2008	2007	2006
RESULTS					
GROSS WRITTEN PREMIUMS	1 671 976	1 468 527	1 140 547	1 067 364	747 445
NET WRITTEN PREMIUMS	480 965	420 974	377 991	253 005	179 387
NET EARNED PREMIUMS	489 205	421 800	373 899	243 034	169 221
NET PROFIT	73 659	43 081	6 309	28 267	29 052
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	286 940	213 281	170 200	173 440	145 173
TOTAL ASSETS	2 412 511	2 244 508	1 991 576	1 655 030	1 075 351
INTERNATIONAL SOLVENCY MARGIN ^{N1}	60%	51%	45%	69%	74%

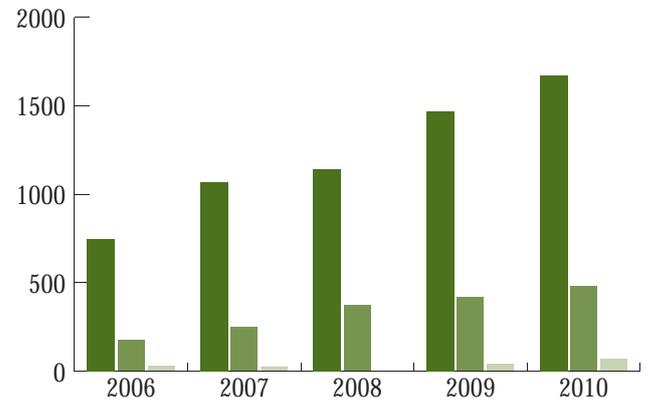
N1 International solvency margin is calculated as the net assets expressed as a percentage of the net written premium.

Financial Position 2006 - 2010 In Rand Million



SHAREHOLDER'S FUNDS
 TOTAL ASSETS

Results 2006 - 2010 In Rand Million



GROSS WRITTEN PREMIUMS
 NET WRITTEN PREMIUMS
 NET PROFIT



CHAIRMAN AND EXECUTIVE MANAGEMENT STATEMENT

for the year ended 31 December 2010

On behalf of the Board of Directors, it is again our honour and privilege to present the annual report of African Reinsurance Corporation (South Africa) Limited ("Africa Re (SA)") for the year ended 31 December 2010.

2010 marked the year in which the Soccer World Cup was hosted on African soil for the first time. It is widely acknowledged that South Africa put up a spectacular show as hosts of this global event. As if in deference to this epoch event, the insurance industry was devoid of any major or catastrophic losses on the scale witnessed just two years earlier. Similarly, the larger economy also began its march out of recession during the year, with the country posting a positive GDP growth of some 3.5% after the contraction of 1.8% recorded in 2009. Internally, the company continued with the implementation of its measures introduced to improve on its underwriting performance following the market-induced poor underwriting results recorded in 2008.

Against this background, we are pleased to report that the company recorded its highest levels of written premium, underwriting profit and net income after tax in its seven years of existence.

During the year under review, the company's focus on improving its underwriting performance through a number of initiatives started in late 2009 yielded handsome returns. It is our hope and determination to ensure that this improved performance is sustained into the future.

While the bond and equities markets yielded improved income to investors during 2010, on the back of the economy's gradual climb out of recession, the continued reduction in the market-leading repo rate by the Reserve Bank during the year limited the level of income on money market instruments. In this mixed scenario and despite the largely conservative investment policy of the company being sustained throughout the year, the company posted a substantially improved level of investment income for 2010. It is our hope that the Reserve Bank's measures to boost economic activity will now be diverted away from the mere reduction of repo rates in order not to stifle the fragile recovery of the economy.

Overall, the company remains conservative in its investment policy, which has helped insulate its investments against any material losses following the volatility of the financial markets in the last two years. The Board will continue with this cautious investment approach in order to shield the company against any avoidable losses on its investments, beginning with the appointment during 2011 of additional investment asset management firms for competitive and diversified returns.

As in the previous few years, competition and soft market cycles also continued to impact on performance during 2010. However, increased market acceptance, improved client service especially through prompt and hands-on attention to claims, and sustained marketing initiatives enabled the company to selectively write several new accounts or to increase its stake in some existing businesses while continuing to implement corrective measures (including outright cancellation where inevitable) on any loss-making business.

Gross written premiums for the year under review was R1 672 million compared to R1 469 million recorded in 2009. This represents a R203 million (or 14%) increase over the gross premiums recorded in the previous year. Similarly, the company recorded a R60 million (or 14%) growth in its net written premium, from R421 million in 2009 to R481 million in 2010.

CHAIRMAN AND EXECUTIVE MANAGEMENT STATEMENT

for the year ended 31 December 2010 (continued)

Management expenses rose on the back of the enhancement of the company's human and material resources to meet its growing business needs, from R31.4 million in 2009 to R41.1 million in 2010. Still, the company posted a substantial improvement in its net underwriting performance.

Net investment income grew by 18% from the R68.8 million recorded in 2009 to R81.0 million in 2010. The reasonably good investment income performance for the year under review despite the sustained reduction in interest rates was mainly due to the recovery of the bonds and equities markets as well as the improved cash flows conservatively invested in less volatile instruments. The company continued to hold most of its investment funds in government bonds, fixed deposits and money market funds, with only a relatively small proportion of investment funds held in equities.

Profit before tax for the year under review was R96.2 million compared to R56.7 million recorded in 2009. Accrued income tax expense charged to the statement of comprehensive income for the period was R22.5 million (2009: R13.6 million) resulting in an after tax profit of R73.7 million compared to R43.1 million in 2009.

We have confidence that the South African economy will consolidate its recovery and resume real growth on the back of the government-led measures introduced in the New Growth Plan. We consider that the country is well-placed and will therefore benefit from the consensus projection that the economies of Sub-Saharan Africa will out-perform other regional economies around the globe. It is perhaps in recognition of this that the country has been invited to join the grouping of the key emerging-market economies of Brazil, Russia, India and China from 2011. To be part of this increasingly important forum will give South Africa access to, and voice on, the major international economic growth drivers. This together with continued participation in the larger G-20 grouping will enable the country to tap into more opportunities as they arise around the world. 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 is operating.

Our sincere thanks go to all of our valued partners, cedants and intermediaries who have continued to show confidence in Africa Re (SA) and the Corporation as a whole which is reflected in the growth of the company's income over the past twelve months.

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

During the year, the Board of Directors met three times with all the members listed below in attendance:

B H Kamara (Non-executive Chairman)
A F W Peters (Independent, Non-executive Director)
C Karekezi (Non-executive Director)
E N Amadiume (Non-executive Director)
K Gatabaki (Independent, Non-executive Director)
P D Ray (Managing Director)



CHAIRMAN AND EXECUTIVE MANAGEMENT STATEMENT

for the year ended 31 December 2010 (continued)

On its part, the Audit and Risk Committee under the Chairmanship of A F W Peters also met three times during the year. Also in attendance at these meetings were the Committee members, members of Executive Management as well as the Internal and External Auditors. The Committee's report is separately included elsewhere in this annual report.

Corporate Social Investment continues to be one of our priorities and Africa Re (SA) continues to set aside funds for the promotion and development of education and training through the Turning Point Home and the Liberty Life JSE Investment Challenge and we continue to seek out worthy individuals and causes and pledge ongoing support to these initiatives.

Our employees are undoubtedly our most important resource and we believe that each and every staff member has contributed towards the success in the development of Africa Re (SA). 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.

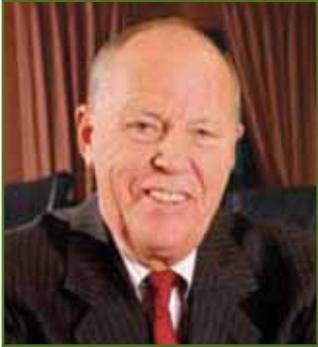
In this regard, Africa Re (SA) will continue to strive to attract, develop and retain the very best people focussing on the right rewards and incentives whilst allowing staff to achieve a balance between both personal and professional capabilities.

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

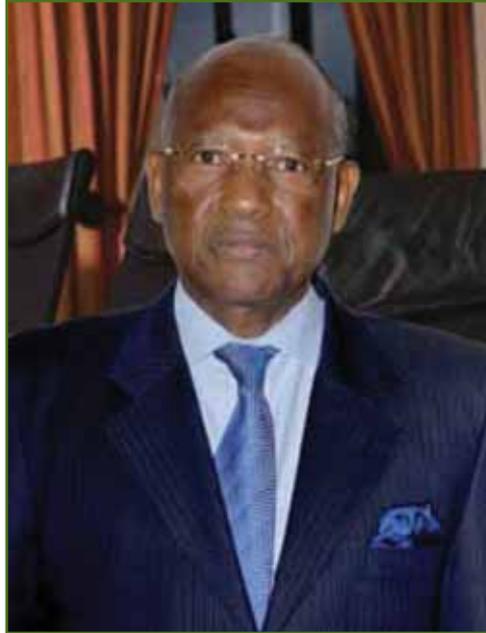
Bakary H Kamara
Chairman

Paul D Ray
Managing Director

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT



Allan F W Peters
Non-Executive Director



Bakary H Kamara
Chairman



Corneille Karekezi
Non-Executive Director



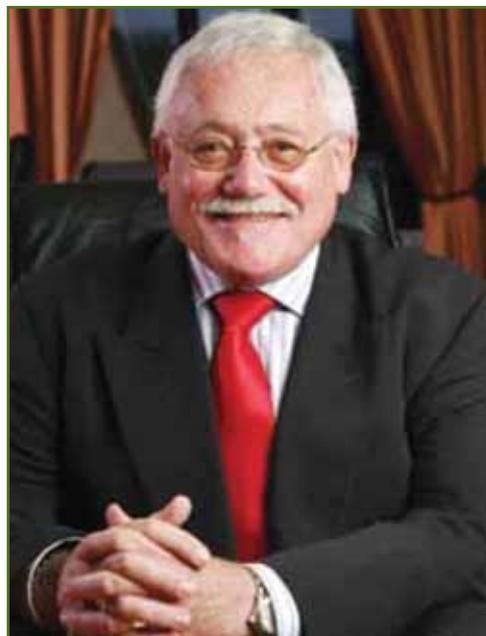
Kung'u Gatabaki
Non-Executive Director



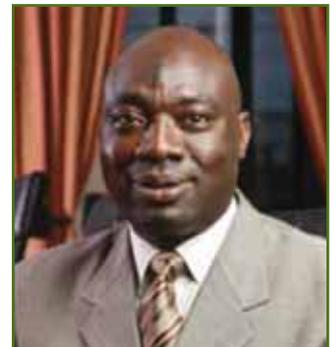
Elizabeth N Amadiume
Non-Executive Director



Daryl N De Vos
Deputy Managing Director



Paul D Ray
Managing Director



Ibrahim Ibisomi
*General Manager,
Finance & Accounts*



DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

The company's 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 2010, 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, and the directors' report, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

The directors 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.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

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

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

Approval of the annual financial statements

The annual financial statements of African Reinsurance Corporation (South Africa) Limited, as identified in the first paragraph were approved by the board of directors on 10 March 2011 and are signed on their behalf by:

B H Kamara
Chairman

P D Ray
Managing Director

REPORT BY THE AUDIT COMMITTEE

for the year ended 31 December 2010

The Audit Committee is pleased to present this report on its activities for 2010 to the Board and to the Shareholder.

The Audit 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 Committee met thrice during the year with only one absence recorded by one of its members. Apart from its members, the Audit Committee's meetings are also regularly attended on its invitation by the Managing Director, the Deputy Managing Director, the General Manager Finance & Accounts as well as by internal and external audit personnel. The internal and external audit functionaries have unrestricted access to the Committee's chairperson.

The Audit Committee reviewed the terms of engagement of Messrs. KPMG South Africa 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 judgment thereon and the recommendations contained in their management letter. On this basis, the Committee has recommended Messrs. KPMG South Africa for reappointment as external auditors for 2011.

There was no change in the composition and membership of the Committee during the year.

We 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 2010.

For and on behalf of the Audit Committee:



Allan F W Peters
Chairman
10 March 2011



REPORT OF THE INDEPENDENT AUDITOR

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

We have audited the annual financial statements of African Reinsurance Corporation (South Africa) Limited, which comprise the statement of financial position at 31 December 2010, 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, and the directors' report as set out on pages 10 to 51.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, 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 whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation (South Africa) Limited at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered Auditor

Per JD van der Sandt
Chartered Accountant (SA)
Registered Auditor
Director

KPMG Crescent
85 Empire Road
Parktown
South Africa, 2193

10 March 2011

DIRECTORS' REPORT

for the year ended 31 December 2010

The directors are pleased to present the directors' report that forms part of the financial statements of the company for the year ended 31 December 2010.

Business

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

Share capital

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

Statement of financial position

The company's shareholder funds represented by share capital and share premium, statutory contingency reserve and retained earnings as at 31 December 2010 amounts to R286.9 million (2009: R213.3 million). Net technical liabilities under insurance contracts at 31 December 2010 amount to R267.4 million (2009: R261.6 million).

Statement of comprehensive income

Total profit and comprehensive income for the year is R73.7 million (2009: R43.1 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 Nigeria.

Dividend

The directors did not declare or pay a dividend during the year.

Directors

The directors who served the company during the year were:

Bakary H Kamara	Non-executive Chairman (Mauritanian)
Paul D Ray	Executive Director
Allan F W Peters	Non-executive independent Director (British)
Corneille Karekezi	Non-executive Director (Rwandese)
Elizabeth Amadiume	Non-executive Director (Nigerian)
Kung'u Gatabaki	Non-executive independent Director (Kenyan)

Secretary

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

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

PO Box 1523, Johannesburg, 2000

Auditors

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



STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2010

	<i>Note</i>	2010 R'000	2009 R'000
Assets			
Equipment	6	1 652	1 273
Intangible assets	7	77	133
Financial assets	8	1 495 943	1 227 622
- Held-to-maturity instruments at amortised cost		1 115 685	897 578
- Instruments at fair value through profit or loss		380 258	330 044
Technical assets under insurance contracts	9	726 954	742 204
- Retroceded outstanding claims reserve		570 281	557 111
- Retroceded unearned premium reserve		117 174	136 964
- Deferred acquisition costs		39 499	48 129
Amounts due from companies on reinsurance accounts	10	134 209	220 374
Deposits retained by ceding companies	11	40 466	45 274
Accounts receivable		430	138
Current income tax asset	18	2 633	3 041
Cash and cash equivalents	12	10 147	4 449
Total assets		2 412 511	2 244 508
Equity			
Share capital and share premium	13	80 300	80 300
Contingency reserve		48 136	42 261
Retained earnings		158 504	90 720
Total equity attributable to equity holders of the company		286 940	213 281
Liabilities			
Technical liabilities under insurance contracts	9	994 384	1 003 813
- Gross outstanding claims reserve		796 411	771 233
- Gross unearned premium reserve		167 389	195 419
- Deferred retrocession commission income		30 584	37 161
Amounts due to companies on reinsurance accounts	14	124 874	124 827
Deposits due to retrocessionaire	15	963 732	872 859
Amount due to holding company		33 477	20 584
Other provisions and accruals	16	4 701	7 348
Deferred tax liability	17	4 403	1 796
Total liabilities		2 125 571	2 031 227
Total equity and liabilities		2 412 511	2 244 508

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

	<i>Note</i>	2010 R'000	2009 R'000
Gross written premiums		1 671 976	1 468 527
Retroceded written premiums		(1 191 011)	(1 047 553)
Net written premiums		480 965	420 974
Change in gross unearned premium reserve		28 030	8 275
Change in retroceded unearned premium reserve		(19 790)	(7 449)
Net earned premiums		489 205	421 800
Net investment income		81 015	68 819
Dividend income		3 469	4 591
Interest income on investments		92 334	92 537
Interest expense on investments		(32 512)	(33 784)
Realised loss on disposal of investments		(1 174)	(1 204)
Unrealised gain on investments		20 265	7 918
Investment management expenses		(1 367)	(1 239)
Total net income		570 220	490 619
Gross claims paid		1 078 245	1 077 311
Retroceded claims received		(758 738)	(767 407)
Change in gross provision for outstanding claims		25 178	8 750
Change in retroceded provision for outstanding claims		(13 170)	5 461
Net incurred claims		331 515	324 115
Net commission incurred	19	101 396	78 468
Management expenses		41 140	31 372
Total expenses		474 051	433 955
Net profit before taxation	20	96 169	56 664
Taxation	21	22 510	13 583
Total profit and comprehensive income for the year		73 659	43 081



STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	Share capital and share premium R'000	Contingency reserve R'000	Retained earnings R'000	Total R'000
Balance as at 1 January 2009	80 300	38 122	51 778	170 200
Profit for the year			43 081	43 081
Transfer to contingency reserve		4 139	(4 139)	-
Balance as at 31 December 2009	80 300	42 261	90 720	213 281
Profit for the year			73 659	73 659
Transfer to contingency reserve		5 875	(5 875)	-
Balance as at 31 December 2010	80 300	48 136	158 504	286 940

STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	<i>Note</i>	2010 R'000	2009 R'000
Cash flows from operating activities			
Cash generated by operations	25.1	213 401	103 309
Interest expense		(32 512)	(33 784)
Taxation paid	25.2	(19 495)	(16 858)
Net cash inflow from operating activities		161 394	52 667
Cash flows from investment activities			
Net purchases and disposals of equipment and intangible assets		(902)	(707)
Net purchases of investments		(249 230)	(146 340)
Interest received net of investment management fees		90 967	91 298
Dividends received		3 469	4 591
Net cash outflow from investment activities		(155 696)	(51 158)
Net increase in cash and cash equivalents		5 698	1 509
Cash and cash equivalents at the beginning of the year		4 449	2 940
Cash and cash equivalents at the end of the year		10 147	4 449



CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

for the year ended 31 December 2010

	Note	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							
December 2010							
Assets							
Equipment	6					1 652	1 652
Intangible assets	7					77	77
Financial assets	8	380 258	1 115 685				1 495 943
Listed bonds		158 197	91 746				249 943
Listed ordinary shares		117 088					117 088
Listed preference shares		12 975					12 975
Money market funds		91 998					91 998
Fixed and call deposits			1 023 939				1 023 939
Technical assets under insurance contracts	9					726 954	726 954
Retroceded outstanding claims reserve						570 281	570 281
Retroceded unearned premium reserve						117 174	117 174
Deferred acquisition costs						39 499	39 499
Amounts due from companies on reinsurance accounts	10			134 209			134 209
Deposits retained by ceding companies	11			40 466			40 466
Accounts receivable				430			430
Current income tax asset	18					2 633	2 633
Cash and cash equivalents	12	10 147					10 147
Total assets		390 405	1 115 685	175 105		731 316	2 412 511

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

for the year ended 31 December 2010 (continued)

	<i>Note</i>	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 liabilities under insurance contracts	9					994 384	994 384
Gross outstanding claims reserve						796 411	796 411
Gross unearned premium reserve						167 389	167 389
Deferred retrocession commission revenue						30 584	30 584
Amounts due to companies on reinsurance accounts	14				124 874		124 874
Deposits due to retrocessionaire	15				963 732		963 732
Amount due to holding company					33 477		33 477
Other provisions and accruals	16				1 961	2 740	4 701
Creditors and accruals					1 961	1 523	3 484
Provisions						1 217	1 217
Deferred tax liability	17					4 403	4 403
Total liabilities					1 124 044	1 001 527	2 125 571



CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

for the year ended 31 December 2010 (continued)

	Note	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							
December 2009							
Assets							
Equipment	6					1 273	1 273
Intangible assets	7					133	133
Financial assets	8	330 044	897 578				1 227 622
Listed bonds		144 491	86 812				231 303
Listed ordinary shares		89 160					89 160
Listed preference shares		10 892					10 892
Money market funds		85 501					85 501
Fixed and call deposits			810 766				810 766
Technical assets under insurance contracts	9					742 204	742 204
Retroceded outstanding claims reserve						557 111	557 111
Retroceded unearned premium reserve						136 964	136 964
Deferred acquisition costs						48 129	48 129
Amounts due from companies on reinsurance accounts	10			220 374			220 374
Deposits retained by ceding companies	11			45 274			45 274
Accounts receivable				138			138
Current income tax asset	18					3 041	3 041
Cash and cash equivalents	12	4 449					4 449
Total assets		334 493	897 578	265 786		746 651	2 244 508

CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

for the year ended 31 December 2010 (continued)

	<i>Note</i>	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 liabilities under insurance contracts	9					1 003 813	1 003 813
Gross outstanding claims reserve						771 233	771 233
Gross unearned premium reserve						195 419	195 419
Deferred retrocession commission revenue						37 161	37 161
Amounts due to companies on reinsurance accounts	14				124 827		124 827
Deposits due to retrocessionaire	15				872 859		872 859
Amount due to holding company					20 584		20 584
Other provisions and accruals	16				1 575	5 773	7 348
Creditors and accruals					1 575	4 741	6 316
Provisions						1 032	1 032
Deferred tax liability	17					1 796	1 796
Total liabilities					1 019 845	1 011 382	2 031 227



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

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 10 March 2011.

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

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 are accounted for net of value added taxation. Premiums written for the period also include adjustments to premiums written in prior accounting periods and estimates for pipeline or premium not yet advised by the insured for contracts in force at the end of the period. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Premium relating to the expired risk period is recognised as income for the period while premium relating to the unexpired risk period is recognised as a provision for unearned premium. The outward retrocession premiums relating to earned premiums are recognised as an expense in accordance with the retrocession services received. The unearned portion is disclosed as retrocessionaire's share of unearned premium provision.

Unearned premiums provision for insurance contracts

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



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

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 statement of comprehensive income 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.

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.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

2. Accounting policies (continued)

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

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 is provided for in terms of the Short-term Insurance Act, 1998, and represents 10% of gross written premium less approved reinsurance (as defined in the Act). The reserve is 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. The reserve may be utilised only with the prior permission of the Registrar of Short-term Insurance.

(f) Operating lease payment

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

(g) Employee benefits under defined contribution plan

The company contributes to a defined contribution pension plan for all its employees. The company's obligations for the contributions to the defined contribution pension plan for its employees are recognised as an expense in the statement of comprehensive income as incurred.

(h) Foreign currency 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 the statement of comprehensive income in the period in which the difference occurs.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

2. Accounting policies (continued)

(i) Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated and charged to the statement of comprehensive income 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 the statement of comprehensive income.

(j) Intangible assets

Intangible assets consist of purchased software. Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of intangible assets.

(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.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

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 the statement of comprehensive income in the period in which they arise. Where the financial assets are interest-bearing, interest calculated using the effective interest method is recognised in the statement of comprehensive income. Fair value movements will therefore exclude the interest.

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 measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits and are measured at fair value.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

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 the statement of comprehensive income. 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.

(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 at 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.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

2. Accounting policies (continued)

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

A number of new standards, amendments to standards and interpretations that have been issued are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements. None of these standards or interpretations are expected to impact materially on the preparation and presentation of the financial statements of Africa Re (SA).

3. Accounting policies

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2010 and the comparative information presented in these financial statements.

4. Accounting estimates and judgements

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

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

Policyholder claims for insurance contracts

The company's estimates for reported and unreported losses and the resulting provisions and related retrocession 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 the statement of comprehensive income 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

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 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 Central Operations and Inspection which in turn reports its findings to both Executive Management and the Audit Committee.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

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 Lloyds markets.

(d) Claims development or reserving risk

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

The determination of reserves for the ultimate claims costs is done with reference to previous 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 guarantee in accordance with the regulatory solvency requirements and the retrocession agreements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

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.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

5. Risk management objectives and policies (continued)

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

(iv) Market risk sensitivity analysis

The company conducts sensitivity analysis to estimate the possible effect of movements in the market prices of its equity financial instruments on the fair values of those instruments. All the company's equity financial instruments are listed on the Johannesburg Stock Exchange. The 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 R11.7 million (2009: R8.9 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 2010 are presented in the table below.

Asset class	Cost	Market Value	Risk factor	% change	Impact on equity *	Impact on profit or loss
	R'm	R'm			R'm	R'm
December 2010						
Equity	83.1	117.1	Market price	10%	8.4	11.7
Bonds at fair value	157.2	158.2	Interest rate movement	5%	19.2	26.7
Bonds at amortised cost	91.7	91.7	Interest rate movement	5%	3.3	4.6
Money market unit trusts	91.3	92.0	Market price	5%	3.3	4.6
Fixed deposit	1 023.9	1 023.9	Interest rate movement	5%	36.9	51.2
December 2009						
Equity	68.0	89.2	Market price	10%	6.4	8.9
Bonds at fair value	146.9	144.5	Interest rate movement	5%	18.4	25.5
Bonds at amortised cost	86.8	86.8	Interest rate movement	5%	3.1	4.3
Money market unit trusts	84.9	85.5	Market price	5%	3.1	4.3
Fixed deposit	810.8	810.8	Interest rate movement	5%	29.2	40.5

* assumed tax rate of 28% has been used

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

5. Risk management objectives and policies (continued)

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

(iv) Market risk sensitivity analysis (continued)

The company also conducts sensitivity analysis to estimate the possible effect of movements of interest rates on the fair value of interest rate bearing financial instruments and cash flows relating to those instruments. The sensitivity analysis of the effect on interest rate movement indicates that a change of 5% in interest rates would change the value of fixed income investments and profit before tax by R26.7 million (2009: R25.5 million) while a change of 5% in interest rates would change the cash flows from interest bearing fixed deposits at year end by R51.2 million (2009: R40.5 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 contract 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 contract 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.

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 below.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

5. Risk management objectives and policies (continued)

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

(c) Credit risk (continued)

	AAA to AA	A+ to A	BBB+ to BBB	Not indicated	Total
	R'm	R'm	R'm	R'm	R'm
December 2010					
Financial assets	241.0	623.4	501.5		1 365.9
Insurance receivables		60.5		73.8	134.3
Insurance deposits				40.5	40.5
Accounts receivable				0.4	0.4
Cash and cash equivalents		10.1			10.1
Total	241.0	694.0	501.5	114.7	1 551.2
December 2009					
Financial assets	177.0	733.6	216.5		1 127.1
Insurance receivables		103.6		116.8	220.4
Insurance deposits				45.3	45.3
Accounts receivable				0.1	0.1
Cash and cash equivalents		4.5			4.5
Total	177.0	841.7	216.5	162.2	1 397.4

Aging analysis of insurance receivables

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

5. Risk management objectives and policies (continued)

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

(d) Liquidity risk (continued)

Maturity profile of financial and insurance assets and liabilities

A distinction is drawn between insurance and shareholders' funds. The overall philosophy governing the investment of insurance funds is driven by liquidity considerations and a strong emphasis on capital preservation. Most of the company's investments are held in readily realisable investments in line with the short-tail nature of the company's business. The maturity profile of investments will approximate the average term of operational liabilities. The 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 2010	On demand	1 Year	2 Year	3 Year	>4 Year	Total
	R'm	R'm	R'm	R'm	R'm	R'm
Assets maturities						
Cash and cash equivalents	10.1					10.1
Fixed and call deposit		1 023.9				1 023.9
Money market unit trusts		92.0				92.0
Debt securities			4.9	1.1	243.9	249.9
Preference shares	13.0					13.0
Equities	117.1					117.1
Insurance contracts assets		519.7	125.5	27.2	54.6	727.0
Amounts due from companies on reinsurance accounts		134.2				134.2
Deposits retained by ceding companies		40.5				40.5
Accounts receivable		0.4				0.4
Total financial and insurance assets	140.2	1 810.7	130.4	28.3	298.5	2 408.1
Liability maturities						
Insurance contracts liabilities		710.7	171.7	37.3	74.7	994.4
Reinsurance account balance		124.9				124.9
Reinsurance deposits		963.7				963.7
Due to holding company		33.5				33.5
Other provision and accruals		4.7				4.7
Total financial and insurance liabilities		1 837.5	171.7	37.3	74.7	2 121.2
Net maturities	140.2	(26.8)	(41.3)	(9.0)	223.8	286.9



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

5. Risk management objectives and policies (continued)

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

(d) Liquidity risk (continued)

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

December 2009	On demand	1 Year	2 Year	3 Year	>4 Year	Total
	R'm	R'm	R'm	R'm	R'm	R'm
Assets maturities						
Cash and cash equivalents	4.4					4.4
Fixed and call deposit		810.8				810.8
Money market unit trusts		85.5				85.5
Debt securities		35.4		4.7	191.1	231.2
Preference shares	10.9					10.9
Equities	89.1					89.1
Insurance contracts assets		530.5	128.1	27.9	55.7	742.2
Amounts due from companies on reinsurance accounts		220.4				220.4
Deposits retained by ceding companies		45.3				45.3
Accounts receivable		0.1				0.1
Total financial and insurance assets	104.4	1 728.0	128.1	32.6	246.8	2 239.9
Liability maturities						
Insurance contracts liabilities		710.7	177.4	38.6	77.1	1 003.8
Reinsurance account balance		124.8				124.8
Reinsurance deposits		872.9				872.9
Due to holding company		20.6				20.6
Other provision and accruals		6.3				6.3
Total financial and insurance liabilities		1 735.3	177.4	38.6	77.1	2 028.4
Net maturities	104.4	(7.3)	(49.3)	(6.0)	169.7	211.5

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

The company's categories and classes of financial assets and financial liabilities are included in the Categories of financial assets and financial liabilities on pages 15 to 18.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

6. Equipment	2010 R'000	2009 R'000
Cost		
Motor vehicles	1 178	953
Computer equipment	632	481
Office equipment	268	258
Furniture & fittings	1 326	1 102
	3 404	2 794
Accumulated depreciation		
Motor vehicles	505	553
Computer equipment	449	361
Office equipment	255	223
Furniture & fittings	543	384
	1 752	1 521
Carrying values		
Motor vehicles	673	400
Computer equipment	183	120
Office equipment	13	35
Furniture & fittings	783	718
	1 652	1 273
Reconciliation of carrying values		
Opening balance	1 273	1 139
Additions	1 015	654
Disposals	(38)	(3)
Depreciation	(598)	(517)
Closing balance	1 652	1 273



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

6. Equipment (continued)	2010 R'000	2009 R'000
Motor vehicles		
Net carrying value at beginning of year	400	251
Additions	630	387
Disposal	(38)	-
Depreciation	(319)	(238)
Net carrying value at end of year	673	400
Computer equipment		
Net carrying value at beginning of year	120	64
Additions	151	148
Disposals	-	(3)
Depreciation	(88)	(89)
Net carrying value at end of year	183	120
Office equipment		
Net carrying value at beginning of year	35	80
Additions	10	14
Depreciation	(32)	(59)
Net carrying value at end of year	13	35
Furniture & fittings		
Net carrying value at beginning of year	718	744
Additions	224	105
Depreciation	(159)	(131)
Net carrying value at end of year	783	718
7. Intangible assets		
Computer software		
Cost		
Opening balance	446	372
Acquisitions – purchased software	37	74
Closing balance	483	446
Accumulated amortisation		
Opening balance	313	215
Amortisation – software in use	93	98
Closing balance	406	313
Net carrying value	77	133

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

8. Financial assets	2010 R'000	2009 R'000
Held-to-maturity instruments at amortised cost		
Fixed and call deposits	1 023 939	810 766
Listed bonds	91 746	86 812
	1 115 685	897 578
Instruments at fair value through profit or loss		
Listed instruments		
– bonds	158 197	144 491
– equities	117 088	89 160
– preference shares	12 975	10 892
– money market funds	91 998	85 501
	380 258	330 044
Total financial assets	1 495 943	1 227 622
Fair value of the held-to-maturity instruments measured at amortised cost		
Fixed and call deposits	1 023 939	810 766
Listed bonds	88 010	82 954
	1 111 949	893 720
Cost of instruments disclosed at fair value through profit or loss		
Bonds	157 196	146 910
Equities	83 124	68 015
Preference shares	12 150	11 695
Money market funds	91 287	84 891
	343 757	311 511

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

Maturity period At 31 December 2010	Effective interest rate %	Market value R'000
On demand	7.33% to 8.64%	104 973
Within 1 year	5.00% to 6.65%	1 023 939
1 to 3 years	9.17% to 10.80%	5 958
3 to 7 years	7.17% to 9.39%	206 983
7 to 12 years	7.73% to 8.56%	37 002
		1 378 855



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

8 Financial assets (continued)

Maturity period At 31 December 2009	Effective interest rate %	Market value R'000
On demand	9.80% to 11.00%	96 392
Within 1 year	7.41% to 7.65%	846 173
1 to 3 years	10.8%	4 731
3 to 7 years	7.80% to 8.66%	172 775
7 to 12 years	8.56% to 9.14%	18 391
		1 138 462

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 include 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

8 Financial assets (continued)

Fair values of financial assets and liabilities (continued)

Analysis of instruments at fair value

Financial assets	Level 1	Level 2	Level 3	Total
December 2010	R'000	R'000	R'000	R'000
Designated at fair value through profit or loss	288 260	91 998		380 258
Cash and cash equivalents	10 147			10 147
December 2009				
Designated at fair value through profit or loss	244 543	85 501		330 044
Cash and cash equivalents	4 449			4 449

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.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

9. Technical assets and liabilities under insurance contracts	2010 R'000	2009 R'000
Technical liabilities		
- Gross claims reported but not yet settled	592 566	602 892
- Gross claims incurred but not reported	203 845	168 341
- Gross unearned premium provision	167 389	195 419
- Deferred retrocession commission income	30 584	37 161
	994 384	1 003 813
Technical assets		
- Retrocessionaire's share of claims reported but not yet settled	426 784	438 670
- Retrocessionaire's share of claims incurred but not reported	143 497	118 441
- Retrocessionaire's share of unearned premium provision	117 174	136 964
- Deferred acquisition costs	39 499	48 129
	726 954	742 204
Net technical liabilities		
- Claims reported but not yet settled	165 782	164 222
- Claims incurred but not reported	60 348	49 900
- Unearned premium provision	50 215	58 455
- Deferred acquisition costs	(8 915)	(10 968)
	267 430	261 609

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

9 Technical assets and liabilities under insurance contracts (continued)**9.1 Movements in technical assets and liabilities under insurance contracts****Outstanding claims**

	2010		
	Gross R'000	Reinsurance R'000	Net R'000
Claims reported but not yet settled	602 892	438 670	164 222
Claims incurred but not reported	168 341	118 441	49 900
Total outstanding at beginning of year	771 233	557 111	214 122
Movement in outstanding claims	25 178	13 170	12 008
-arising from current year claims	198 794	139 155	59 639
-arising from prior period claims	(173 616)	(125 985)	(47 631)
Total at end of year	796 411	570 281	226 130
Notified claims	592 566	426 784	165 782
Incurred but not reported	203 845	143 497	60 348
Total at end of year	796 411	570 281	226 130

	2009		
	Gross R'000	Reinsurance R'000	Net R'000
Claims reported but not yet settled	569 137	423 034	146 103
Claims incurred but not reported	193 346	139 538	53 808
Total outstanding at beginning of year	762 483	562 572	199 911
Movement in outstanding claims	8 750	(5 461)	14 211
-arising from current year claims	231 768	162 237	69 531
-arising from prior period claims	(223 018)	(167 698)	(55 320)
Total at end of year	771 233	557 111	214 122
Notified claims	602 892	438 670	164 222
Incurred but not reported	168 341	118 441	49 900
Total at end of year	771 233	557 111	214 122



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

9 Technical assets and liabilities under insurance contracts (continued)

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

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

	2006	2007	2008	2009	2010
	R'000	R'000	R'000	R'000	R'000
Claim settlement for each year:					
- First year	112 300	241 506	210 834	385 542	471 529
- one year later	239 748	407 086	444 427	363 391	
- two years later	64 850	207 728	133 352		
Provision for gross outstanding claims after two years run-off	80 550	199 756	103 683	271 420	198 794
- three years later	36 892	70 390			
- four years later	1 483				
Provision for gross outstanding claims at year end	36 928	146 009	103 683	271 420	198 794
Claim development run-off result at year end	5 247	(16 643)	-	-	-

Unearned premium provision

	2010		
	Gross R'000	Reinsurance R'000	Net R'000
At beginning of year	195 419	136 964	58 455
Premiums written during the year	1 671 975	1 191 011	480 964
Premiums earned during the year	(1 700 005)	(1 210 801)	(489 204)
Total at end of year	167 389	117 174	50 215

	2009		
	Gross R'000	Reinsurance R'000	Net R'000
At beginning of year	203 694	144 413	59 281
Premiums written during the year	1 468 527	1 047 553	420 974
Premiums earned during the year	(1 476 802)	(1 055 002)	(421 800)
Total at end of year	195 419	136 964	58 455

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

9 Technical assets and liabilities under insurance contracts (continued)

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

Deferred acquisition costs

	2010		
	Gross R'000	Reinsurance R'000	Net R'000
At beginning of year	48 129	37 161	10 968
Acquisition costs paid during the year	430 088	330 745	99 343
Transferred to costs incurred during the year	(438 718)	(337 322)	(101 396)
At end of year	39 499	30 584	8 915

	2009		
	Gross R'000	Reinsurance R'000	Net R'000
At beginning of year	45 994	37 236	8 758
Acquisition costs paid during the year	351 346	270 668	80 678
Transferred to costs incurred during the year	(349 211)	(270 743)	(78 468)
At end of year	48 129	37 161	10 968

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

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

Estimates and outstanding claims

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

Unearned premium provision

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

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



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

10. Amounts due from companies on reinsurance accounts	2010 R'000	2009 R'000
Amounts due from ceding companies	73 750	116 752
Amounts due from retrocessionaire	60 459	103 622
	134 209	220 374
11. Deposits retained by ceding companies		
At beginning of year	45 274	23 643
New deposits retained	40 466	45 274
Deposits released	(45 274)	(23 643)
At end of year	40 466	45 274
12. Cash and cash equivalents		
Cash on hand	32	21
Current bank account balances	10 115	4 428
	10 147	4 449
13. Share capital and share premium		
Share capital	_*	_*
Share premium	80 300	80 300
	80 300	80 300
<i>Authorised</i>		
7 ordinary shares of R0.01 each	_*	_*
<i>Issued</i>		
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		
14. Amounts due to companies on reinsurance accounts		
Amount due to ceding companies	124 874	124 827
	124 874	124 827

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

15. Deposits due to retrocessionaire	2010 R'000	2009 R'000
At beginning of year	872 859	757 109
New deposits retained	963 732	872 859
Deposits released	(872 859)	(757 109)
At end of year	963 732	872 859
16. Other provisions and accruals		
<i>Creditors and accruals</i>		
VAT payable	1 523	4 741
Other creditors and accruals	1 961	1 575
	3 484	6 316
<i>Provisions</i>		
Opening balance	1 032	635
Accrued leave	856	519
Lease commitments	176	116
Provision utilised	(124)	(358)
Accrued leave	-	(358)
Lease commitments	(124)	-
Provision created	309	755
Accrued leave	309	695
Lease commitment	-	60
Closing balance	1 217	1 032
Accrued leave	1 165	856
Lease commitments	52	176
Total other provisions and accruals at end of year	4 701	7 348

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



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

17. Deferred tax liability	2010 R'000	2009 R'000
Opening balance	1 796	554
Current year	2 607	1 242
Closing balance	4 403	1 796
The net deferred tax liability balance at the end of the period comprises:		
– capital allowance	354	374
– provisions	(341)	(289)
– unrealised gains on revaluation of investments	4 390	1 711
	4 403	1 796

18. Current income tax asset/liability

The current income tax asset of R2.6 million (2009: R3.0 million) represents the amount of income taxes payable in the current year less provisional tax payments made.

19. Commission paid and received	2010 R'000	2009 R'000
Gross commission and brokerage paid	430 088	351 346
Gross deferred acquisition costs	8 630	(2 135)
Commission incurred	438 718	349 211
Commission earned	(337 322)	(270 743)
Retrocession commission and brokerage received	(301 481)	(246 011)
Retroceded overriding commission received	(29 267)	(24 657)
Retroceded deferred commission revenue	(6 082)	517
Retroceded deferred overriding commission revenue	(492)	(592)
Net commission incurred	101 396	78 468

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

20.	Profit before taxation	2010 R'000	2009 R'000
	Profit before taxation is arrived at after charging the following items:		
	Auditors remuneration:		
	– for audit services	1 301	1 326
	current year	1 101	1 050
	prior years underprovision	200	276
	Consultancy fees	1 093	152
	Depreciation	598	517
	Profit on disposal of equipment	112	18
	Amortisation	93	98
	Directors remuneration	2 953	2 355
	Executive – for services rendered	2 331	1 865
	Non executive – for services as directors	622	490
	Lease payments	719	787
	Secretarial fees	70	92
	Staff costs including contribution to pension fund, UIF, SDL and allowances	12 566	9 283
	Number of staff	28	21



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

21. Taxation	2010 R'000	2009 R'000
South African normal taxation – current year		
Corporate tax	19 903	12 341
Deferred tax	2 607	1 242
	22 510	13 583
Tax rate reconciliation	%	%
Effective tax rate	23.4	24.0
Exempt income	1.0	2.3
Disallowed expenses	(0.1)	(0.4)
Capital gains tax	3.7	2.1
South African standard corporate tax rate	28.0	28.0

22. Related party transactions

Holding company

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

Key management

The managing director, the deputy managing director and the general manager finance and accounts are considered the key members of management. Their total remuneration for the year is R5.4 million (2009: R4.6 million).

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

Statement of financial position	2010 R'000	2009 R'000
Assets		
Technical assets under insurance contracts	681 114	686 658
Amounts due from companies on reinsurance accounts	37 521	102 121
	718 635	788 779
Liabilities		
Deferred retrocession commission revenue	(27 649)	(33 721)
Deposits due to retrocessionaire	(963 732)	(872 859)
Amount due to holding company	(33 477)	(20 584)
Net liabilities	(306 223)	(138 385)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

22. Related party transactions <i>(continued)</i>	2010 R'000	2009 R'000
Statement of comprehensive income		
Retroceded premiums	(1 190 614)	(1 047 553)
Retrocessionaire's share of provision for unearned premiums	(19 663)	(7 449)
Retroceded claims received	758 669	764 306
Retrocessionaire's share of provision for outstanding claims	14 120	(4 609)
Retrocessionaire's share of net commission incurred	330 740	270 627
Interest expense	(32 512)	(33 784)
Management expenses	(15 000)	(12 000)

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

23. Retirement benefit 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 R826 531 (2009: R573 157).

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:

	2010 R'000	2009 R'000
– less than one year	1 231	790
– between one and five years	109	1 182
	1 340	1 972



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010 (continued)

25. Notes to the cash flow statement	2010 R'000	2009 R'000
25.1 Reconciliation of cash generated by operations		
Profit before taxation	96 169	56 664
Adjusted for :		
- depreciation and amortisation	691	615
- profit on disposal of equipment	(112)	(18)
- investment income net of management fees	(113 527)	(102 603)
- interest expenses	32 512	33 784
- net unearned premium reserve net of deferred acquisition costs	(6 187)	(3 036)
Cash generated by changes in working capital	203 855	117 903
Amounts due from companies on reinsurance accounts	86 212	(9 500)
Deposits retained by ceding companies	4 808	(21 631)
Accounts receivable	(292)	339
Amount due to holding company	12 893	15 215
Other provision and accruals	(2 647)	3 519
Deposits due to retrocessionaire	90 873	115 750
Net outstanding claims reserve	12 008	14 211
	213 401	103 309
25.2 Reconciliation of taxation paid		
Balance recoverable/(payable) at the beginning of the period	3 041	(1 476)
Current tax charge in profit or loss	(19 903)	(12 341)
Balance recoverable at the end of the period	(2 633)	(3 041)
Taxation paid	(19 495)	(16 858)

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