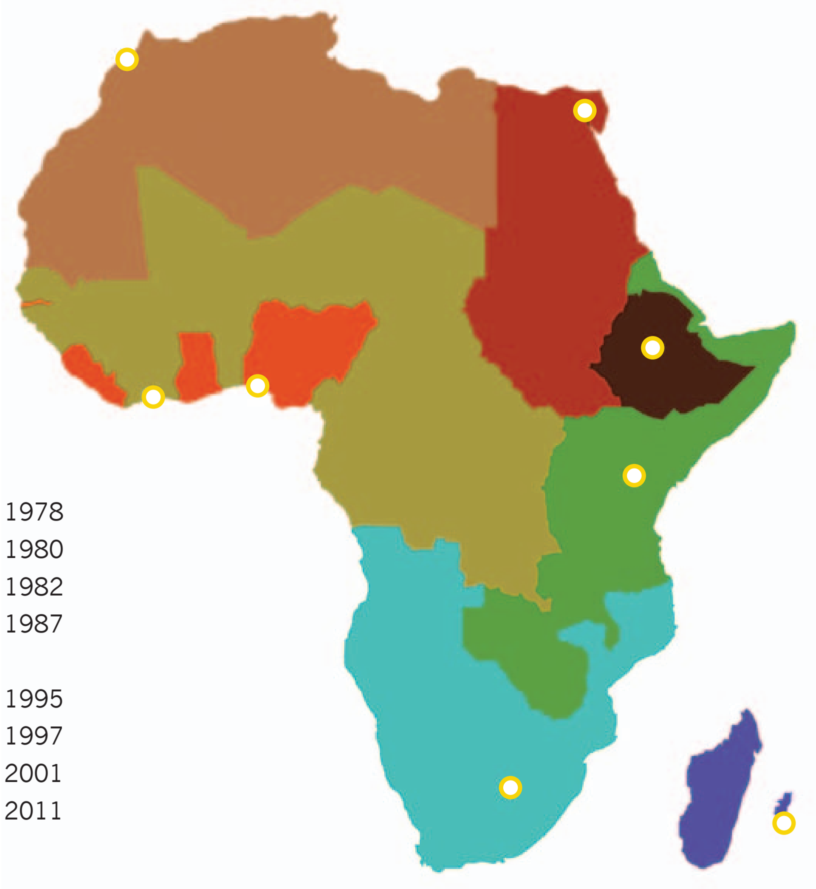
African Reinsurance Corporation (South Africa) Ltd

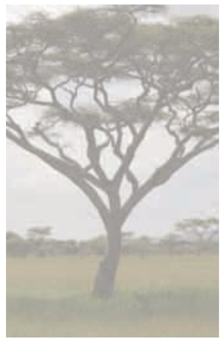
2011

Annual Report

A proud tradition



- Lagos, Nigeria – 1978
- Casablanca, Morocco – 1980
- Nairobi, Kenya – 1982
- Abidjan, Ivory Coast – 1987
- Johannesburg, South Africa – 1995
- Port Louis, Mauritius – 1997
- Cairo, Egypt – 2001
- Addis Ababa, Ethiopia – 2011



AFRICAN REINSURANCE CORPORATION – NETWORK IN AFRICA

Regional Offices

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+254-20 2730608
Email: nairobi@africa-re.com

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Fax: +225 22 40 44 82
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+234-1 261 8820
Fax: +234-1 262 6664
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Fax: +20 2 22685667
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Fax: +230 454 7067
Email: portlouis@africa-re.com

Subsidiaries

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Tel: +27 11 484 3764/1970/1606
Fax: +27 11 484 1001
Email: africare@africare.co.za

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Heliopolis, 11361
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Fax: +20 2 22685667
Email: cairo@africa-re.com

Local Office

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Kirkos Sub City, Kebele 05
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Addis Ababa, Ethiopia
Tel: +251 11 416 5803/4
Mobile: +251 922122473
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African Reinsurance Corporation (South Africa) Limited

(Reg. No. 2003/031630/06)

Annual Report for the year ended 31 December 2011

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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, 2008, as amended, that for the year ended 31 December 2011, 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

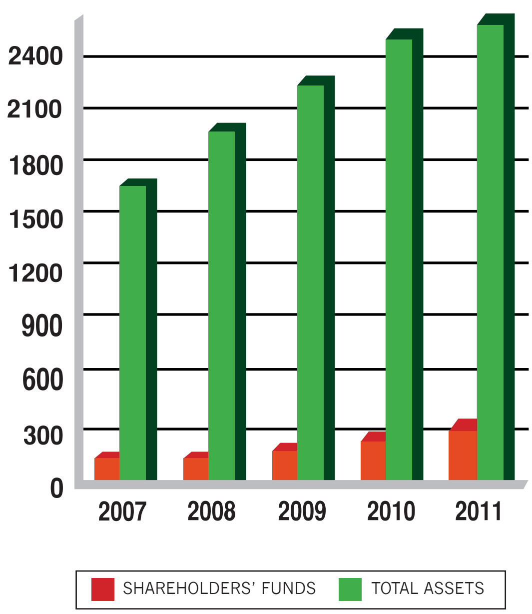
Levitt Kirson Management Services CC
Secretary

15 March 2012

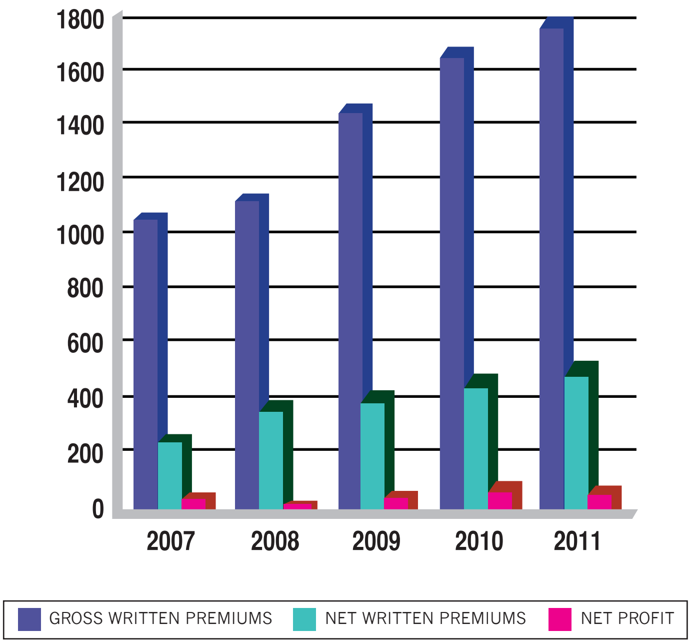
In R'000	2011	2010	2009	2008	2007
RESULTS					
GROSS WRITTEN PREMIUMS	1 785 810	1 671 976	1 468 527	1 140 547	1 067 364
NET WRITTEN PREMIUMS	517 017	480 965	420 974	377 991	253 005
NET EARNED PREMIUMS	512 821	489 205	421 800	373 899	243 034
NET PROFIT	66 613	73 659	43 081	6 309	28 267
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	353 553	286 940	213 281	170 200	173 440
TOTAL ASSETS	2 688 195	2 516 782	2 244 508	1 991 576	1 655 030
INTERNATIONAL SOLVENCY MARGIN[N1]	68%	60%	51%	45%	69%

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

FINANCIAL POSITION 2007 – 2011
in Rand Million



RESULTS 2007 – 2011
in Rand Million



Chairman and executive management statement

On behalf of the Board of Directors, we feel honoured and privileged to present the annual financial statements of African Reinsurance Corporation (South Africa) Limited (''Africa Re (SA)'') for the year ended 31 December 2011.

The year 2011 was a particularly eventful year both locally and on the global scene. This was the year in which the country hosted COP 17, the global forum for addressing climate change and protecting the environment, and adeptly delivered some ray of hope amidst the intransigence of many of the leading economies to commit to more effective reductions in greenhouse emissions. While the global political scene was dominated by regime-changing protests in the Arab world (dubbed the "Arab Spring"), the sovereign debt crisis in the Euro zone and the activities of the "Occupy Wall Street" Movement dominated economic headlines. It was also during 2011 that the United States lost its cherished AAA rating for the first time just as did many of the Euro zone countries, while there were unprecedented civil riots in many countries including the United Kingdom and Russia. The fear of Iran developing bomb-grade nuclear capability also hung over the globe like an albatross, with the tension resulting in higher oil prices. The Indian subcontinent, the Korean peninsula, Afghanistan, Iraq and other hot spots around the world remained as restive as ever. The world was simply not the same in 2011.

Apart from leading to the fall of many governments (through resignations and failure at the polls), the Euro zone sovereign debt crisis had debilitating effects on the fragile global economic recovery and was laden with the fear of contagion. Emerging market economies including South Africa suffered through the loss of market for their products and a net negative capital flight. This resulted in the weakening of the currencies of these countries, and the Rand particularly stood out as the worst-performing emerging-market currency with a loss on value of some 22% against the US Dollar in 2011 alone. However, the South African economy managed to post a positive, though lower, GDP growth of 3.1% for 2011 compared to the 3.5% recorded in 2010.

On the insurance front, the industry recorded several catastrophic losses around the globe with an unfavourable impact on reinsurance rates. These losses emanated from such events as the Japanese tsunami and the related damage to Japan's nuclear facilities, the New Zealand earthquake, the Australian and Thai floods and the unusually active American hurricane season. The cold spell in Europe and the tornadoes in America capped what was an already difficult year for the global insurance industry. Nearer home, Eskom had a blow-out in one of its power plants that cost mostly foreign insurers some R1 billion. The year also recorded some flood losses early on that were picked mainly by the direct insurers.

Against this background, the company was able to deliver what was a mixed performance comprising an improved underwriting result and weaker investment returns.

The company's focus on improving its underwriting performance through a number of initiatives yielded further handsome returns during the year. Gross written premium recorded a modest growth of some 6.8% while net written premium grew by 7.5%. During 2011, net core underwriting performance before commissions and management expenses improved by 11.5%. Management has committed to ensuring that this improved performance is sustained into the future barring any market catastrophic losses.

In the wake of the subdued performance of the financial markets, the company posted a marginal reduction of 2.4% on its net investment income for the year compared to 2010. The company's conservative investment philosophy has continued to insulate its investment income against the sustained volatility of the financial markets. To further diversify investment risks, protect the investment assets and enhance investment yield, the Board approved the appointment of additional asset managers during the year. The benefits of this initiative are expected to begin to manifest from 2012. Still, the Board will continue with its cautious investment approach in order to shield the company against any avoidable losses on its investments.

Chairman and executive management statement – *continued*

As in the previous few years now, competition and soft market cycles also continued to impact on performance during 2011. 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 business 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 R1,786 million compared to R1,672 million recorded in 2010. This represents a R114 million (or 6.8%) increase over the gross premiums recorded in the previous year. Similarly, the company recorded a R24 million (or 5%) growth in its net earned premium, from R489 million in 2010 to R513 million in 2011.

Management expenses rose on the back of the enhancement of the company's human and material resources to meet its growing business needs, from R41.1 million in 2010 to R61.7 million in 2011. Still, the company posted a substantial improvement in its core underwriting performance.

Net investment income fell by 2.4% from the R81.0 million recorded in 2010 to R79.0 million in 2011. The investment income performance for the year under review did not match the growth in investment assets as a result of the relapse of the financial markets into subdued performance during the year on the back of the sovereign debt crisis of the Euro zone.

Profit before tax for the year under review was R93.3 million compared to R96.2 million recorded in 2010. Accrued income tax expense charged to the income statement for the period was R26.6 million (2010: R22.5 million) resulting in an after tax profit of R66.6 million compared to R73.7 million in 2010.

We remain confident that the South African economy will consolidate its recovery and continue to post higher real growth on the back of the renewed commitment of the government to fund new socio-economic infrastructure projects in its bid to promote economic growth, generate employment and alleviate poverty. With its relatively stable and tested investment climate, internationally traded currency and sophisticated financial system, the country remains well-positioned to anchor accelerated growth across the continent despite the increasing competition from other investment destinations in Africa. The country's membership of the grouping of the key emerging-market economies of Brazil, Russia, India and China from 2011 should also provide a 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.

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 African Reinsurance Corporation Group as a whole which is reflected in the sustained growth of the company's income over the past twelve months.

Sincere appreciation goes to our pioneer Managing Director, Paul Douglas Ray, who retired in the course of 2011 after serving the company for close to eight years and the Group for close to twelve years. Paul it was who oversaw the transformation of the erstwhile local representative office of the Corporation to a full-fledged locally incorporated successful business that the company is today. His energy, professionalism and astute leadership skills have combined to make the company a respected and leading provider of reinsurance services in this very competitive market. He undoubtedly served the Group diligently and led the company competently to now rank among the top three locally-incorporated reinsurers in South Africa. While wishing Paul and his wife Stephanie well in retirement, we are glad that Paul has agreed to make his valued experience available to the company by accepting to serve as Management Consultant through which he drives the company's implementation of the new Solvency Assessment and Management regulatory regime.

Chairman and executive management statement – *continued*

It has been a pleasant experience working with Paul and we trust that his services on this new calling will continue to benefit the company and be cherished by all stakeholders.

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, except for one absence at the July meeting:

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)
P D Ray	–	(Managing Director – retired 30 June 2011)
D N De Vos	–	(Managing Director – appointed 1 July 2011)

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 internal audit personnel could not attend the meetings this year due to changes in Group internal audit personnel. The Committee's report is separately included elsewhere in 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 other initiatives.

Our employees are undoubtedly our most important resource and we believe that each and every staff member has contributed 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.

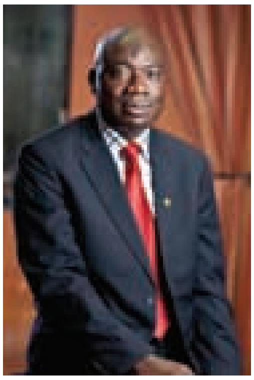
In this regard, Africa Re (SA) will continue to strive to attract, develop and retain the very best people focussing on the right rewards and incentives whilst allowing staff to achieve a balance between both personal and professional capabilities.

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

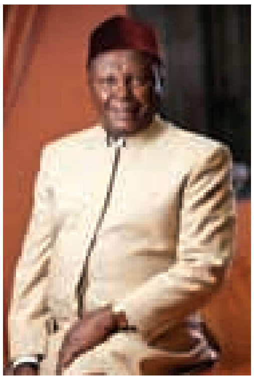
Board of Directors and Executive Management



Ibrahim Ibisomi
General Manager, Finance & Administration

Allan F W Peters
Non-Executive Director

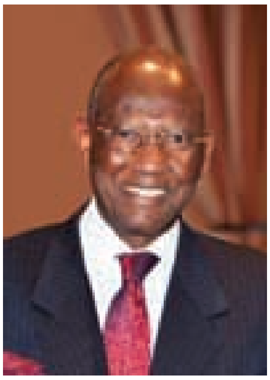
Elizabeth N Amadiume
Non-Executive Director



Kung'u Gatabaki
Non-Executive Director

John Izegbu
General Manager, Operations

Corneille Karekezi
Deputy Chairman



Bakary H Kamara
– Chairman

Daryl N De Vos
Managing Director

Paul D Ray
Managing Director (Retired)

Members of the Board and Executive Management pose for a photograph during the Board meeting held on 15 March 2012.

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 2011, 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 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 15 March 2012 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 2011 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 no absence recorded by any of its members. Apart from its members, the Audit and Risk Committee's meetings are also regularly attended on its invitation by the Managing Director, the erstwhile Deputy Managing Director, the General Manager Finance & Administration, the General Manager Operations as well as by internal and external audit personnel. The new internal audit personnel could not, however, attend meetings of the Committee held during 2011 but the Committee nonetheless considered their reports satisfactorily. The internal and external audit functionaries have unrestricted access to the Committee's chairperson.

The Audit and Risk 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 2012.

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 2011.

For and on behalf of the Audit and Risk Committee:

A F W Peters
Chairman, Audit and Risk Committee

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 2011, 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 52.

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 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 2011, 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
30 April 2012

KPMG Crescent
85 Empire Road
Parktown
South Africa, 2193

Directors' Report

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 2011.

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, statutory contingency reserve and retained earnings as at 31 December 2011 amounts to R353.6 million (2010: R286.9 million). Net technical liabilities under insurance contracts at 31 December 2011 amount to R308.8 million (2010: R296.5 million).

Statement of comprehensive income

Total profit and comprehensive income for the year is R66.6 million (2010: R73.7 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.

Directors

The directors who served the company during the year were:

Bakary H Kamara	Non-executive Chairman (Mauritanian)
Paul D Ray	Executive Director (retired 30 June 2011)
Daryl De Vos	Executive Director (appointed 1 July 2011)
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)

Directors' Report – *continued*

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

	Note	2011 R'000	2010 R'000
Assets			
Equipment	6	941	1 652
Intangible assets	7	106	77
Financial assets	8	**1 719 228**	1 495 943
– Held-to-maturity instruments at amortised cost		**1 026 875**	1 115 685
– Instruments at fair value through profit or loss		**692 353**	380 258
Technical assets under insurance contracts	9	**810 495**	794 784
– Retroceded outstanding claims reserve		**642 687**	638 111
– Retroceded unearned premium reserve		**126 959**	117 174
– Deferred acquisition costs		**40 849**	39 499
Amounts due from companies on reinsurance accounts	10	**115 217**	170 650
Deposits retained by ceding companies	11	**37 499**	40 466
Accounts receivable		**299**	430
Current income tax asset	18	**4 115**	2 633
Cash and cash equivalents	12	**295**	10 147
Total assets		**2 688 195**	2 516 782
Equity			
Share capital and share premium	13	**80 300**	80 300
Contingency reserve		**51 702**	48 136
Retained earnings		**221 551**	158 504
Total equity attributable to equity holders of the company		**353 553**	286 940
Liabilities			
Technical liabilities under insurance contracts	9	**1 119 298**	1 091 284
– Gross outstanding claims reserve		**906 170**	893 311
– Gross unearned premium reserve		**181 370**	167 389
– Deferred retrocession commission income		**31 758**	30 584
Amounts due to companies on reinsurance accounts	14	**69 942**	132 245
Deposits due to retrocessionaire	15	**1 085 330**	963 732
Amount due to holding company		**45 218**	33 477
Other provisions and accruals	16	**8 360**	4 701
Deferred tax liability	17	**6 494**	4 403
Total liabilities		**2 334 642**	2 229 842
Total equity and liabilities		**2 688 195**	2 516 782

Statement of comprehensive income

	Note	2011 R'000	2010 R'000
Gross written premiums		**1 785 810**	1 671 976
Retroceded written premiums		**(1 268 793)**	(1 191 011)
Net written premiums		**517 017**	480 965
Change in gross unearned premium reserve		**(13 981)**	28 030
Change in retroceded unearned premium reserve		**9 785**	(19 790)
Net earned premiums		**512 821**	489 205
Net investment income		**79 035**	81 015
Dividend income		**5 857**	3 469
Interest income on investments		**88 884**	92 334
Interest expense on investments		**(18 220)**	(32 512)
Net realised gain/(loss) on disposal of investments		**4 194**	(1 174)
Net unrealised gain on investments		**178**	20 265
Investment management expenses		**(1 858)**	(1 367)
Total net income		**591 856**	570 220
Gross claims paid		**1 109 198**	981 345
Retroceded claims received		**(780 524)**	(690 908)
Change in gross provision for outstanding claims		**12 859**	122 078
Change in retroceded provision for oustanding claims		**(4 576)**	(81 000)
Net incurred claims		**336 957**	331 515
Net commission incurred	*19*	**99 957**	101 396
Management expenses		**61 685**	41 140
Total technical expenses		**498 599**	474 051
Net profit before taxation	*20*	**93 257**	96 169
Taxation	*21*	**(26 644)**	(22 510)
Total profit and comprehensive income for the year		**66 613**	73 659

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 2010	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**
Profit 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**

Statement of cash flows

	Note	2011 R'000	2010 R'000
Cash flows from operating activities			
Cash generated by operations	*25.1*	**160 568**	213 401
Interest expense		**(18 220)**	(32 512)
Taxation paid	*25.2*	**(26 035)**	(19 495)
Net cash inflow from operating activities		**116 313**	161 394
Cash flows from investment activities			
Net purchases and disposals of equipment and intangible assets		**(135)**	(902)
Net purchases of investments		**(218 913)**	(249 230)
Interest received net of investment management fees		**87 026**	90 967
Dividends received		**5 857**	3 469
Net cash outflow from investment activities		**(126 165)**	(155 696)
Net (decrease)/increase in cash and cash equivalents		**(9 852)**	5 698
Cash and cash equivalents at the beginning of the year		**10 147**	4 449
Cash and cash equivalents at the end of the year		**295**	10 147

Categories of financial assets and financial liabilities

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 ordinary shares		253 968					253 968
Listed preference shares		–					–
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		**692 648**	**1 026 875**	**153 015**		**815 657**	**2 688 195**

Categories of financial assets and financial 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
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
Provisions						1 654	1 654
Deferred tax liability	*17*					6 494	6 494
Total liabilities					**1 202 745**	**1 131 897**	**2 334 642**

Categories of financial assets and financial 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							
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					**794 784**	**794 784**
Retroceded outstanding claims reserve						638 111	638 111
Retroceded unearned premium reserve						117 174	117 174
Deferred acquisition costs						39 499	39 499
Amounts due from companies on reinsurance accounts	10			170 650			170 650
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**	**211 546**		**799 146**	**2 516 782**

Categories of financial assets and financial 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
Liabilities							
Technical liabilites under insurance contracts	*9*					**1 091 284**	**1 091 284**
Gross outstanding claims reserve						893 311	893 311
Gross unearned premium reserve						167 389	167 389
Deferred retrocession commission revenue						30 584	30 584
Amounts due to companies on reinsurance accounts	*14*				132 245		132 245
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					**1 131 415**	**1 098 427**	**2 229 842**

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 15 March 2012.

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 financial statements – *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 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 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.

Notes to the financial statements – *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 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.

Notes to the financial statements – *continued*

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 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 profit or loss on a straight-line basis over the lease period.

Notes to the financial statements – *continued*

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 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 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.

Notes to the financial statements – *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 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.

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 measured at fair value.

Notes to the financial statements – *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 profit or loss. The recoverable amount is the higher of its fair value less the cost to sell price 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 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

A number of new standards, amendments to standards and interpretations that have been issued are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these financial statements. None of these standards or interpretation are expected to impact materially on the preparation and presentation of the financial statements of Africa Re (SA).

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2011 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.

Notes to the financial statements – *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 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 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 financial statements – *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 financial statements – *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 R25.4 million (2010: R11.7 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 2011 are presented in the table below:

Asset class	Cost R'm	Market Value R'm	Risk Vactor	% change	Impact on equity* R'm	Impact on profit or loss R'm
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
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	1023.9	Interest rate movement	5%	36.9	51.2

* assumed tax rate of 28% has been used

Notes to the financial statements – *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 rates movement indicates that a change of 5% in interest rates would change the value of fixed income investments and profit before tax by R42.9 million (2010: R26.7 million) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R46.7 million (2010: R51.2 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 34:

Notes to the financial statements – *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 R'm	A+ to A R'm	BBB+ to BBB R'm	Not indicated R'm	**Total** R'm
December 2011					
Financial assets	206.8	25.5	1112.0	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**
December 2010					
Financial assets	241.0	623.4	501.5		1 365.9
Insurance receivables				170.7	170.7
Insurance deposits				40.5	40.5
Accounts receivable				0.4	0.4
Cash and cash equivalents		10.1			10.1
Total	241.0	633.5	501.5	211.6	1 587.6

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.

Notes to the financial statements – *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 2011	On demand R'm	1 Year R'm	2 Year R'm	3 Year R'm	>4 Year R'm	Total R'm
Assets maturities						
Cash and cash equivalents	0.3					0.3
Fixed and call deposits		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 provisions 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**

Notes to the financial statements – *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 2010	On demand R'm	1 Year R'm	2 Year R'm	3 Year R'm	>4 Year R'm	Total R'm
Assets maturities						
Cash and cash equivalents	10.1					10.1
Fixed and call deposits		1 023.9				1 023.9
Money market funds		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		562.9	140.4	30.4	61.1	794.8
Amounts due from companies on reinsurance accounts		170.7				170.7
Deposits retained by ceding companies		40.5				40.5
Accounts receivable		0.4				0.4
Total financial and insurance assets	**140.2**	**1 890.4**	**145.3**	**31.5**	**305.0**	**2 512.4**
Liability maturities						
Insurance contracts liabilities		773.1	192.6	41.8	83.8	1 091.3
Reinsurance account balance		132.2				132.2
Reinsurance deposits		963.7				963.7
Due to holding company		33.5				33.5
Other provisions and accruals		4.7				4.7
Total financial and insurance liabilities		**1 907.2**	**192.6**	**41.8**	**83.8**	**2 225.4**
Net maturities	**140.2**	**(16.8)**	**(47.3)**	**(10.3)**	**221.2**	**287.0**

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

The company's categories and classes of financial assets and financial liabilities are included in the categories of financial assets and financial liabilities on pages 16 to 19.

Notes to the financial statements – *continued*

6. Equipment	2011 R'000	2010 R'000
Cost		
Motor vehicles	**548**	1 178
Computer equipment	**734**	632
Office equipment	**268**	268
Furniture & fittings	**1 380**	1 326
	2 930	3 404
Accumulated depreciation		
Motor vehicles	**446**	505
Computer equipment	**567**	449
Office equipment	**263**	255
Furniture & fittings	**713**	543
	1 989	1 752
Carrying values		
Motor vehicles	**102**	673
Computer equipment	**167**	183
Office equipment	**5**	13
Furniture & fittings	**667**	783
	941	1 652
Reconciliation of carrying values		
Opening balance	**1 652**	1 273
Additions	**156**	1 015
Disposals	**(472)**	(38)
Depreciation	**(395)**	(598)
Closing balance	**941**	1 652

Notes to the financial statements – *continued*

Equipment (continued)	**2011 R'000**	2010 R'000
Motor vehicles		
Net carrying value at beginning of year	**673**	400
Additions	**–**	630
Disposal	**(472)**	(38)
Depreciation	**(99)**	(319)
Net carrying value at end of year	**102**	673
Computer equipment		
Net carrying value at beginning of year	**183**	120
Additions	**101**	151
Disposals	**–**	–
Depreciation	**(117)**	(88)
Net carrying value at end of year	**167**	183
Office equipment		
Net carrying value at beginning of year	**13**	35
Additions	**–**	10
Depreciation	**(8)**	(32)
Net carrying value at end of year	**5**	13
Furniture & fittings		
Net carrying value at beginning of year	**783**	718
Additions	**55**	224
Depreciation	**(171)**	(159)
Net carrying value at end of year	**667**	783

7. Intangible assets

Computer software		
Cost		
Opening balance	**483**	446
Acquisitions – purchased software	**99**	37
Closing balance	**582**	483
Accumulated amortisation		
Opening balance	**406**	313
Amortisation – software in use	**70**	93
Closing balance	**476**	406
Net carrying value	**106**	77

Notes to the financial statements – *continued*

8.

Financial assets	2011 R'000	2010 R'000
Held-to-maturity instruments at amortised cost		
Fixed and call deposits	933 890	1 023 939
Listed bonds	92 985	91 746
	1 026 875	1 115 685
Instruments at fair value through profit and loss		
Listed instruments		
– bonds	317 465	158 197
– equities	253 968	127 211
– preference shares	–	2 852
– money market funds	120 920	91 998
	692 353	380 258
Total financial assets	1 719 228	1 495 943
Fair value of the held-to-maturity instruments		
Fixed and call deposits	933 890	1 023 939
Listed bonds	93 182	88 010
	1 027 072	1 111 949
Cost of instruments disclosed at fair value through profit and loss		
Bonds	309 961	157 196
Equities	220 880	83 124
Preference shares	–	12 150
Money market funds	120 236	91 287
	651 077	343 757

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

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

Notes to the financial statements – *continued*

8. Financial assets *(continued)*

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

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.

Notes to the financial statements – *continued*

8. Financial assets *(continued)*

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

Analysis of instruments at fair value

Financial assets

December 2011	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Designated at fair value through profit or loss	**571 433**	**120 920**	**–**	**692 353**
Cash and cash equivalents	**–**	**295**	**–**	**295**
December 2010				
Designated at fair value through profit or loss	288 260	91 998	–	380 258
Cash and cash equivalents	–	10 147	–	10 147

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 financial statements – *continued*

9. Technical assets and liabilities under insurance contracts	2011 R'000	2010 R'000
Technical liabilities		
- Gross claims reported but not yet settled	**580 986**	592 566
- Gross claims incurred but not reported	**325 184**	300 745
- Gross unearned premium provision	**181 370**	167 389
- Deferred retrocession commission income	**31 758**	30 584
	1 119 298	1 091 284
Technical assets		
- Retrocessionaire's share of claims reported but not yet settled	**414 689**	426 784
- Retrocessionaire's share of claims incurred but not reported	**227 998**	211 327
- Retrocessionaire's share of unearned premium provision	**126 959**	117 174
- Deferred acquisition costs	**40 849**	39 499
	810 495	794 784
Net technical liabilities		
- Claims reported but not yet settled	**166 297**	165 782
- Claims incurred but not reported	**97 186**	89 418
- Unearned premium provision	**54 411**	50 215
- Deferred acquisition costs	**(9 091)**	(8 915)
	308 803	296 500

Notes to the financial statements – *continued*

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

9.1 Movements in technical assets and liabilities under insurance contracts

Outstanding claims

	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**

	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	122 078	81 000	41 078
– arising from current year claims	295 694	206 985	88 709
– arising from prior period claims	(173 616)	(125 985)	(47 631)
Total at end of year	893 311	638 111	255 200
Notified claims	592 566	426 784	165 782
Incurred but not reported	300 745	211 327	89 418
Total at end of year	893 311	638 111	255 200

Notes to the financial statements – *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

	2007 R'000	2008 R'000	2009 R'000	2010 R'000	2011 R'000
Claim settlement for each year:					
· First year	241 506	210 834	385 542	374 629	253 690
· one year later	407 086	444 427	363 391	595 973	
· two years later	207 728	133 352	109 895		
Provision for gross outstanding claims after two years run-off	199 756	103 683	271 420	295 037	283 259
· three years later	70 390	46 594			
· four years later	78 605				
Provision for gross outstanding claims at year end	80 314	88 671	105 186	295 037	283 259
Claim development run-off result at year end	**(29 553)**	**(31 582)**	**–**	**–**	**–**

Unearned premium provision

	2011		
	Gross R'000	**Reinsurance R'000**	**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**

	2010		
	Gross R'000	Reinsurance R'000	Net R'000
At the 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

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

Notes to the financial statements – *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

	2011 Gross R'000	2011 Reinsurance R'000	2011 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**

	2010 Gross R'000	2010 Reinsurance R'000	2010 Net R'000
At the 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 the end of year	39 499	30 584	8 915

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*

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

9.2 Short-term insurance contracts – assumptions, change in assumptions and sensitivity *(continued)*

Reclassification of prior period amount

Through the continuous improvement of the reserving methodology, pipelining and reserving on a specific program was reconsidered. The comparative was restated at a gross amount of R96.9 million (retrocession effect of R67.83 million). This has been previously recognised as claims paid and has been subsequently reclassified as IBNR.

	2011 R'000	2010 R'000
10. Amounts due from companies on reinsurance accounts		
Amounts due from ceding companies	**115 217**	170 650
Amounts due from retrocessionaire	**–**	–
	115 217	170 650
11. Deposits retained by ceding companies		
At beginning of year	**40 466**	45 274
New deposits retained	**37 499**	40 466
Deposits released	**(40 466)**	(45 274)
At the end of year	**37 499**	40 466
12. Cash and cash equivalents		
Cash on hand	**21**	32
Current bank account balances	**274**	10 115
	295	10 147

Notes to the financial statements – *continued*

		2011 R'000	2010 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		
14.	**Amounts due to companies on reinsurance accounts**		
	Amounts due to ceding companies	**15 019**	124 874
	Amounts due to retrocessionaire	**54 923**	7 371
		69 942	132 245
15.	**Deposits due to retrocessionaire**		
	At beginning of year	**963 732**	872 859
	New deposits retained	**1 085 330**	963 732
	Deposits released	**(963 732)**	(872 859)
	At the end of the year	**1 085 330**	963 732

Notes to the financial statements – *continued*

16. Other provisions and accruals	2011 R'000	2010 R'000
VAT payable	**4 451**	1 523
Other creditors and accruals	**2 255**	1 961
Accrual for leave pay	**1 602**	1 165
Lease commitments	**52**	52
	8 360	4 701

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	2011 R'000	2010 R'000
Opening balance	**4 403**	1 796
Current year	**2 091**	2 607
Closing balance	**6 494**	4 403
The net deferred tax liability balance at the end of the period comprises:		
– capital allowance	**371**	354
– provisions	**(463)**	(341)
– unrealised gains on revaluation of investments	**6 586**	4 390
	6 494	4 403

18. Current income tax asset

The current income tax asset of R4.1 million (2010: R2.6 million) represents the amount of income taxes payable in the current year less provisional tax payments made.

19. Commission paid and received	2011 R'000	2010 R'000
Gross commission and brokerage paid	**437 464**	430 088
Gross deferred acquisition costs	**(1 350)**	8 630
Commission incurred	**436 114**	438 718
Commission earned	**(336 157)**	(337 322)
Retrocession commission and brokerage received	**(306 123)**	(301 481)
Retroceded overriding commission received	**(31 208)**	(29 267)
Retroceded deferred commission revenue	**942**	(6 082)
Retroceded deferred overriding commission revenue	**232**	(492)
Net commission incurred	**99 957**	101 396

Notes to the financial statements – *continued*

20. Profit before taxation

Profit before taxation	2011 R,000	2010 R'000
Profit before taxation is arrived at after charging the following items:		
Auditors' remuneration:		
– for audit services	**1 200**	1 301
current year	**1 200**	1 101
prior year's underprovision	**–**	200
Consultancy fees	**1 197**	1 093
Depreciation	**395**	598
Net (loss)/ profit on disposal of equipment	**(352)**	112
Amortisation	**70**	93
Directors remuneration	**4 777**	2 953
Executive – for services rendered	**3 677**	2 331
Non executive – for services as directors	**1 100**	622
Lease payments	**853**	719
Secretarial fees	**77**	70
Staff costs including contribution to pension fund, UIF, SDL and allowances	**16 301**	12 566
Number of staff	**30**	28

21. Taxation

South African normal taxation – current year		
Corporate tax	**24 553**	19 903
Deferred tax	**2 091**	2 607
- current year	**(387)**	2 607
- prior year	**2 478**	–
	26 644	22 510

Tax rate reconciliation	**%**	%
Effective tax rate	**28.6**	23.4
Exempt income	**1.7**	1.0
Disallowed expenses	**(0.1)**	(0.1)
Capital gains tax	**(2.2)**	3.7
South African standard corporate tax rate	**28.0**	28.0

Notes to the financial statements – *continued*

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	2011	2010
		R	R
Bakary Kamara	Non-executive Chairman	350,880	165,000
Corneille Karekezi	Non-executive Deputy Chairman	175,780	82,500
Allan F W Peters	Independent, non-executive Director	225,080	143,000
Kung'u Gatabaki	Independent, non-executive Director	174,080	115,500
Elizabeth Amadiume	Non-executive Director	174,080	115,500
Paul D Ray	Managing Director – *retired 30 June 2011*	1,415,619	2,330,769
Daryl De Vos	Managing Director – *appointed 1 July 2011*	2,261,423	1,960,974

Prescribed officers

Apart from Messrs. Paul Ray and Daryl De Vos who served in succession 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:

	2011	2010
	R	R
Ibrahim Ibisomi – General Manager Finance & Administration	1,329,364	1,101,410
John C Izegbu – General Manager Operations	1,144,986	847,537

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.

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

Statement of financial position	2011 R'000	2010 R'000
Assets		
Technical assets under insurance contracts	**763 306**	748 944
Amounts due from companies on reinsurance accounts	**–**	–
	763 306	748 944
Liabilities		
Deferred retrocession commission revenue	**(31 768)**	(27 649)
Deposits due to retrocessionaire	**(1 085 330)**	(963 732)
Amounts due to companies on reinsurance accounts	**(54 923)**	(7 371)
Amount due to holding company	**(45 218)**	(33 477)
Net liabilities	**(453 933)**	(283 285)

Notes to the financial statements – *continued*

22. Related party transactions *(continued)*	2011 R'000	2010 R'000
Statement of comprehensive income		
Retroceded premiums	**1 268 793**	1 190 614
Retrocessionaire's share of provision for unearned premiums	**9 785**	(19 663)
Retroceded claims received	**780 524**	690 839
Retrocessionaire's share of provision for outstanding claims	**4 576**	81 950
Retrocessionaire's share of net commission incurred	**336 157**	330 740
Interest expense	**(18 220)**	(32 512)
Management expenses	**(17 500)**	(15 000)

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 020 175 (2010: R826 531).

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:

	2011 R'000	2010 R'000
– less than one year	**613**	1 231
– between one and five years	**–**	109
	613	1 340

Notes to the financial statements – *continued*

25.	Notes to the cash flow statement	2011 R'000	2010 R'000
25.1	**Reconciliation of cash generated by operations**		
	Profit before taxation	**93 257**	96 169
	Adjusted for :		
	– depreciation and amortisation	**465**	691
	– net loss/ (profit) on disposal of equipment	**352**	(112)
	– investment income net of management fees	**(97 255)**	(113 527)
	– interest expenses	**18 220**	32 512
	– net unearned premium reserve net of deferred acquisition costs	**4 020**	(6 187)
	Cash generated by changes in working capital	**141 509**	203 855
	Amounts due from companies on reinsurance accounts	**(6 870)**	57 142
	Deposits retained by ceding companies	**2 967**	4 808
	Accounts receivable	**131**	(292)
	Amount due to holding company	**11 741**	12 893
	Other provisions and accruals	**3 659**	(2 647)
	Deposits due to retrocessionaire	**121 598**	90 873
	Net outstanding claims reserve	**8 283**	41 078
		160 568	213 401
25.2	**Reconciliation of taxation paid**		
	Balance recoverable at the beginning of the period	**2 633**	3 041
	Current tax charge in profit or loss	**(24 553)**	(19 903)
	Balance recoverable at the end of the period	**(4 115)**	(2 633)
	Taxation paid	**(26 035)**	(19 495)

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