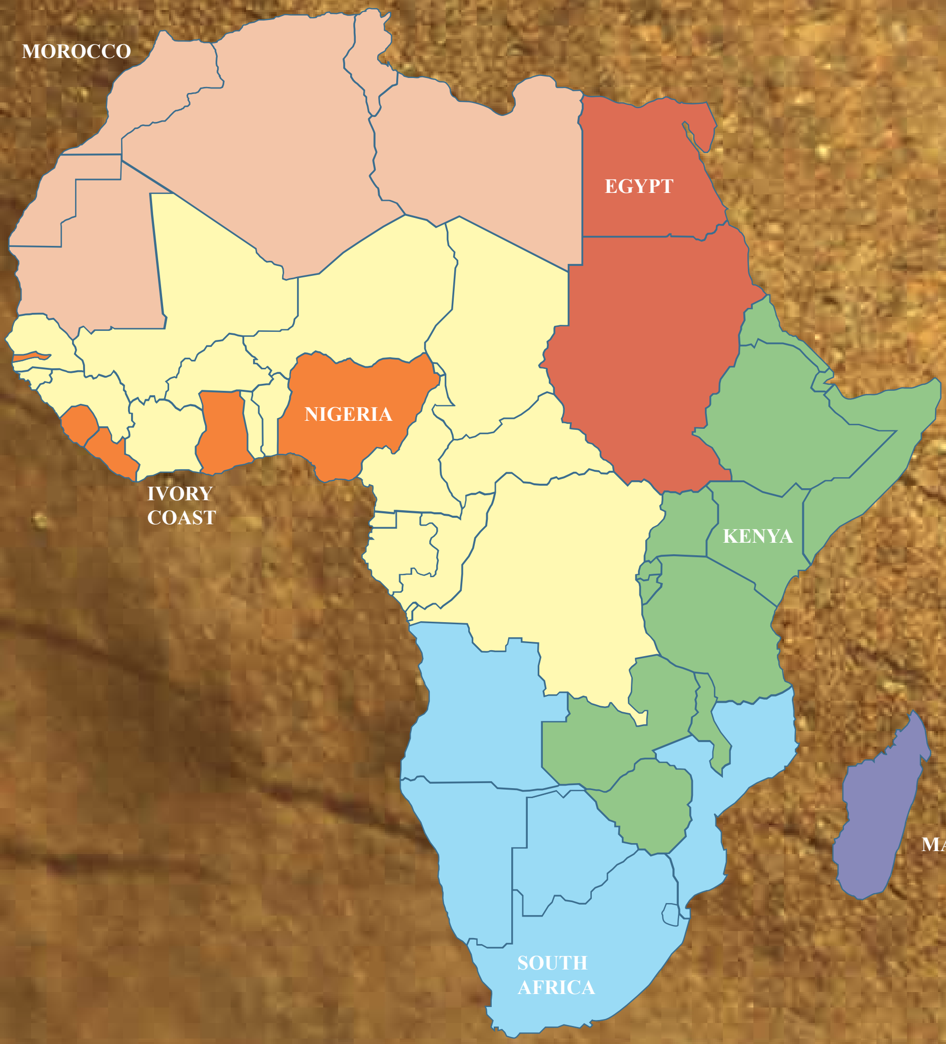
# FINANCIAL STATEMENTS

For the year ended 31 December 2009

**African Reinsurance Corporation**
**(South Africa) Limited**

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# FINANCIAL STATEMENTS
*for the year ended 31 December 2009*

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# DECLARATION BY COMPANY SECRETARY

In our capacity as Company Secretary, we hereby confirm and certify, in terms of the Companies Act, 1973, as amended, that for the year ended 31 December 2009, 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

17 June 2010

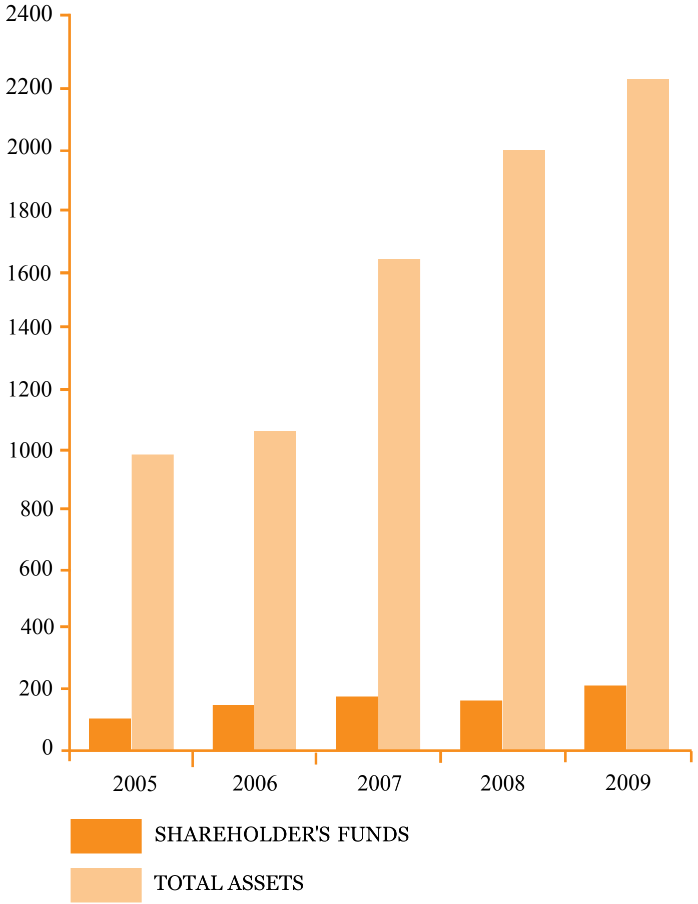
# FINANCIAL HIGHLIGHTS

*for the year ended 31 December 2009*

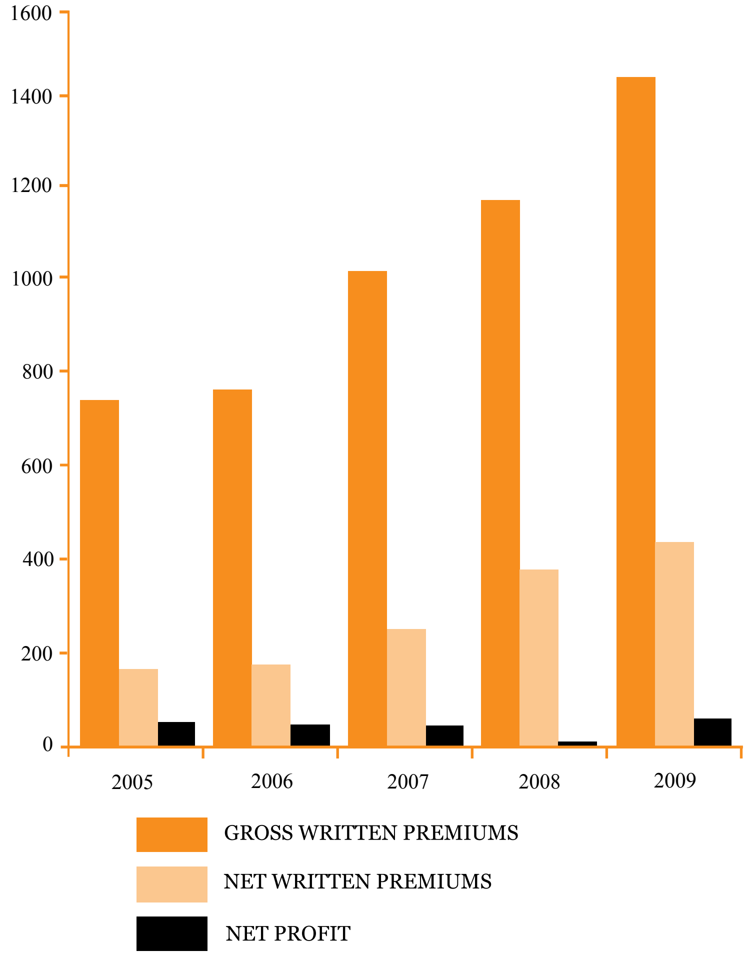
| In R'000 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **RESULTS** | | | | | |
| GROSS WRITTEN PREMIUMS | **1 468 527** | 1 140 547 | 1 067 364 | 747 445 | 725 005 |
| NET WRITTEN PREMIUMS | **420 974** | 377 991 | 253 005 | 179 387 | 173 859 |
| NET EARNED PREMIUMS | **421 800** | 373 899 | 243 034 | 169 221 | 166 756 |
| NET PROFIT | **43 081** | 6 309 | 28 267 | 29 052 | 28 899 |
| **FINANCIAL POSITION** | | | | | |
| SHAREHOLDER'S FUNDS | **213 281** | 170 200 | 173 440 | 145 173 | 116 121 |
| TOTAL ASSETS | **2 244 508** | 1 991 576 | 1 655 030 | 1 075 351 | 977 804 |
| INTERNATIONAL SOLVENCY MARGIN[N1] | **51%** | 45% | 69% | 74% | 62% |

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

**Financial position 2005 - 2009 In Rand Million**




**Results 2005 - 2009 In Rand Million**



# CHAIRMAN AND EXECUTIVE MANAGEMENT STATEMENT

*for the year ended 31 December 2009*

On behalf of the Board of Directors, it is our honour and privilege to present the annual financial statements of African Reinsurance Corporation (South Africa) Limited ("Africa Re (SA)") for the year ended 31 December 2009.

The year under review was remarkable in many respects: it marked the first in the company's second five-year planning cycle; the year came immediately after our markets suffered the worst amounts of individual market losses since the company's formation; it was the year in which our main market, South Africa, officially went into recession for the first time in nearly two decades and, quite excitingly, the Africa Re Group recorded a major rating upgrade during the year. In this mixed scenario, we are pleased to report that the company recorded its highest level of net income after tax in its six years of existence.

During the year under review, the company undertook a number of measures to improve its underwriting performance following the poor underwriting results recorded in the preceding two years on the back of the large individual market losses witnessed then. These measures significantly improved the company's underwriting results and we are confident this improved performance will be sustained into the future.

Complementing the improved underwriting performance was the higher level of investment returns achieved by the company in 2009 compared to the previous year. The dismal performance of the world's financial markets moderated during the year under review with South Africa being no exception. The company thus recorded improvements in the returns earned on its modest investments in the capital market. Similarly, the company's earnings on its money market investments grew substantially in 2009 on the back of the increased amounts invested, despite the huge decrease (by 450 basis points) in interest rates during the course of the year.

Overall, the company remains conservative in its investment policy, which has helped insulate its investments against any material losses following the volatility of the financial markets in the last two years. The Board will continue with this cautious investment approach in order to shield the company against any avoidable losses on its investments.

As in the previous year, competition and soft market cycles also continued to impact on performance during 2009. However, increased market acceptance enabled the company to selectively write several new accounts or to increase its stake in some existing business while implementing corrective measures (including outright cancellation where inevitable) on any loss-making business.

Gross written premiums for the year under review was R1 468.5 million compared to R1 140.5 million recorded in 2008. This represents a 28.8% increase over the premiums recorded in the previous year. Similarly, the company recorded a 12.8% growth in its net earned premium, from R373.9 million in 2008 to R421.8 million in 2009.

With a modest 13.5% increase in Management expenses from R27.6 million in 2008 to R31.4 million in 2009, the company was thus able to record substantial improvement in its net underwriting performance.

Net investment income for the year under review was R68.8 million compared to R47.3 million recorded in 2008 representing an increase of 45.4%. The reasonably good investment income performance for the year under review despite the substantial reduction in interest rates was due to the recovery of the equities market as well as the sustained increase in cash flows conservatively invested in less volatile instruments. The company continued to hold most of its investment funds in government bonds, fixed deposits and money market funds, with only a relatively small proportion of investment funds held in equities.

Profit before tax for the year under review was R56.7 million compared to R7.1 million recorded in 2008. Accrued income tax expense charged to the statement of comprehensive income for the period was R13.6 million compared to R0.8 million in 2008 resulting in an after tax profit of R43.1 million compared to R6.3 million in 2008.

The South African economy appears to be recovering from the recession it suffered on the back of the broader crisis in the global economy. However, this recovery process is only gradual and still seems fragile. The government and the Reserve Bank have therefore sustained the modest stimulus package provided to the economy, especially the ambitious infrastructure improvement programme. All projections now are to the effect of a positive growth in GDP compared to the negative growth recorded in 2009. The Board and Management remain confident that the company has a future filled with many opportunities for sustained growth.

# CHAIRMAN AND EXECUTIVE MANAGEMENT STATEMENT

*for the year ended 31 December 2009 (continued)*

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

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

During the year, the Board of Directors met three times and witnessed the following changes aimed at broadening expertise and strengthening the membership with the gradual rotation of pioneer directors:

B H Kamara (Non-executive Chairman)
G Musa (Non-executive Director) – resigned July 2009
A F W Peters (Non-executive Director)
C Karekezi (Non-executive Director) – appointed July 2009
E N Amadiume (Non-executive Director) – appointed July 2009
K Gatabaki (Non-executive Director) – appointed July 2009
P D Ray (Managing Director)

On behalf of the Board, we convey our appreciation to Mr. Ganiyu Musa for his meritorious service as a director of the company in its first five years of operations. We also welcome the new members to the Board with confidence in their ability to sustain the effective oversight of the company's activities.

As usual, the Audit and Risk Committee under the Chairmanship of A F W Peters met twice during the course of the financial year just completed. Also in attendance at these meetings were the Committee members, members of Executive Management as well as the Internal and External Auditors.

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

Our employees are undoubtedly our most important resource and we believe that each and every member has contributed towards the success in the development of Africa Re (SA). We will continue to develop an 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 and retain the very best people focussing on the right rewards and incentives whilst allowing staff to create a balance between both personal and professional capabilities.

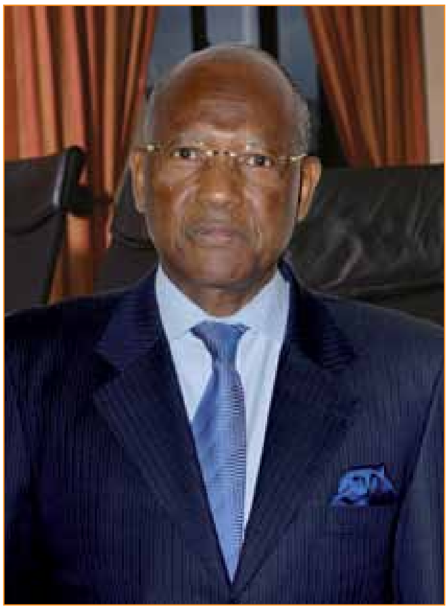
To all our staff who continue to demonstrate commitment to the company, we wish to extend sincere appreciation for all their valued efforts.

**Bakary H Kamara**
**Chairman**

**Paul D Ray**
**Managing Director**

# BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

**Allan F W Peters**
*Non-Executive Director*



**Bakary H Kamara**
*Chairman*

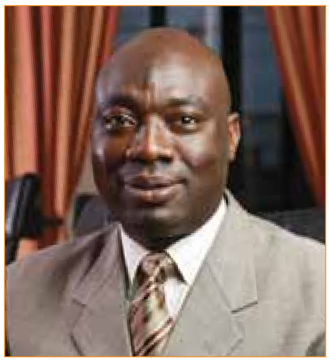
**Corneille Karekezi**
*Non-Executive Director*

**Kung'u Gatabaki**
*Non-Executive Director*

**Elizabeth N Amadiume**
*Non-Executive Director*

**Paul D Ray**
*Managing Director*

**Daryl N De Vos**
*Deputy Managing Director*



**Ibrahim Ibisomi**
*General Manager,*
*Finance & Accounts*

# DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009*

The company's directors are responsible for the preparation and fair presentation of the annual financial statements, comprising the statement of financial position at 31 December 2009, and the statement of comprehensive income, the statement of changes in equity and the statement of 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' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

The audit committee has satisfied itself on the independence and the objectivity of the external auditor by considering, inter alia, that there has been no actual or perceived threats that can unduly affect their objectivity and independence for the audit of the Company and that the external auditor provides information about its policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current plans regarding the rotation of audit partners and staff. Non-audit services were not provided by the external auditors during the year under review.

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

**Approval of the annual financial statements**

The annual financial statements were approved by the board of directors on 17 June 2010 and are signed on their behalf by:

**B H Kamara**
**Chairman**

**P D Ray**
**Managing Director**

# REPORT BY THE AUDIT COMMITTEE

*for the year ended 31 December 2009*

The Audit Committee is pleased to present this report on its activities for 2009 to the Board and to the Shareholder.

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

The Audit Committee met twice during the year with no absences recorded on any of its members and invitees. Apart from its members, the Audit Committee's meetings are also regularly attended on its invitation by the Managing Director, the Deputy Managing Director, the General Manager Finance & Accounts as well as by internal and external audit personnel. The internal and external audit functionaries have unrestricted access to the Committee's chairperson.

The Audit Committee reviewed the terms of engagement of Messrs. KPMG South Africa as external auditors and was satisfied with their independence as well as the adequacy of the audit procedures applied in their audit of the company's financial statements together with their judgment thereon and the recommendations contained in their management letter. On this basis, the Committee has recommended Messrs. KPMG South Africa for reappointment as external auditors for 2010.

During the year, following the decision to rotate and expand Board membership, the Committee witnessed the resignation of Mr. G M Musa both as a director and as a member of the Committee and welcomed the appointment of Ms. E N Amadiume and Mr. K Gatabaki as new directors and members of the Audit Committee. The Committee expresses its appreciation to Mr. Musa for the excellent service he rendered throughout his tenure as a member of the Committee.

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 2009.

For and on behalf of the Audit Committee:

**Allan F W Peters**
**Chairman**

17 June 2010

# 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 2009, and the statement of comprehensive income, the statement of changes in equity and the statement of 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 9 to 46.

*Directors' responsibility for the financial statements*

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

*Auditor's responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation (South Africa) Limited at 31 December 2009, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

**KPMG INC.**

Registered Auditor

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

**KPMG Crescent**
*85 Empire Road*
*Parktown*
*South Africa, 2193*

17 June 2010

# DIRECTORS' REPORT

*for the year ended 31 December 2009*

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 2009.

## BUSINESS

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

## SHARE CAPITAL

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

## STATEMENT OF FINANCIAL POSITION

The company's shareholder funds represented by share capital and share premium, statutory contingency reserve and retained earnings as at 31 December 2009 amounts to R213.3 million (2008: R170.2 million). Net technical liabilities under insurance contracts at 31 December 2009 amount to R261.6 million (2008: R250.4 million).

## STATEMENT OF COMPREHENSIVE INCOME

Total profit and comprehensive income for the year is R43.1 million (2008: R6.3 million). The results for the year are presented in the accompanying statement of comprehensive income and notes to the accounts and require no further amplification.

## HOLDING COMPANY

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

## DIVIDEND

The directors did not declare or pay any dividend during the year (2008: R9.6 million)

## DIRECTORS

The directors who served the company during the year were:

| | |
|---|---|
| Bakary H Kamara | Non-executive Chairman (Mauritanian) |
| Paul D Ray | Executive Director |
| Allan F W Peters | Non-executive independent Director (British) |
| Ganiyu Musa | Non-executive Director (Nigerian) – resigned July 2009 |
| Corneille Karekezi | Non-executive Director (Rwandese) – appointed July 2009 |
| Elizabeth Amadiume | Non-executive Director (Nigerian) – appointed July 2009 |
| Kung'u Gatabaki | Non-executive independent Director (Kenyan) – appointed July 2009 |

## 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

## AUDITOR

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

# STATEMENT OF FINANCIAL POSITION

*at 31 December 2009*

| | Note | 2009 R'000 | 2008 R'000 |
|---|---|---|---|
| **Assets** | | | |
| Equipment | *6* | **1 273** | 1 139 |
| Intangible assets | *7* | **133** | 157 |
| | | | |
| Financial assets | *8* | **1 227 622** | 1 074 568 |
| - Held-to-maturity instruments at amortised cost | | **897 578** | 790 792 |
| - Instruments at fair value through profit or loss | | **330 044** | 283 776 |
| | | | |
| Technical assets under insurance contracts | *9* | **742 204** | 752 979 |
| - Retroceded outstanding claims reserve | | **557 111** | 562 572 |
| - Retroceded unearned premium reserve | | **136 964** | 144 413 |
| - Deferred acquisition costs | | **48 129** | 45 994 |
| | | | |
| Amounts due from companies on reinsurance accounts | *10* | **220 374** | 135 673 |
| Deposits retained by ceding companies | *11* | **45 274** | 23 643 |
| Accounts receivable | | **138** | 477 |
| Current income tax asset | *18* | **3 041** | - |
| Cash and cash equivalents | *12* | **4 449** | 2 940 |
| **Total assets** | | **2 244 508** | 1 991 576 |
| | | | |
| **Equity** | | | |
| Share capital and share premium | *13* | **80 300** | 80 300 |
| Contingency reserve | | **42 261** | 38 122 |
| Retained earnings | | **90 720** | 51 778 |
| **Total equity attributable to equity holders of the company** | | **213 281** | 170 200 |
| | | | |
| **Liabilities** | | | |
| Technical liabilities under insurance contracts | *9* | **1 003 813** | 1 003 413 |
| - Gross outstanding claims reserve | | **771 233** | 762 483 |
| - Gross unearned premium reserve | | **195 419** | 203 694 |
| - Deferred retrocession commission income | | **37 161** | 37 236 |
| | | | |
| Amounts due to companies on reinsurance accounts | *14* | **124 827** | 49 626 |
| Deposits due to retrocessionaire | *15* | **872 859** | 757 109 |
| Amount due to holding company | | **20 584** | 5 369 |
| Other provisions and accruals | *16* | **7 348** | 3 829 |
| Deferred tax liability | *17* | **1 796** | 554 |
| Current income tax liability | *18* | **-** | 1 476 |
| | | | |
| **Total liabilities** | | **2 031 227** | 1 821 376 |
| | | | |
| **Total equity and liabilities** | | **2 244 508** | 1 991 576 |

# STATEMENT OF COMPREHENSIVE INCOME

*for the year ended 31 December 2009*

| | Note | 2009 R'000 | 2008 R'000 |
|---|---|---|---|
| Gross written premiums | | **1 468 527** | 1 140 547 |
| Retroceded written premiums | | **(1 047 553)** | (762 556) |
| **Net written premiums** | | **420 974** | 377 991 |
| Change in gross unearned premium reserves | | **8 275** | 18 487 |
| Change in retroceded unearned premium reserves | | **(7 449)** | (22 579) |
| **Net earned premiums** | | **421 800** | 373 899 |
| **Net investment income** | | **68 819** | 47 335 |
| Dividend income | | **4 591** | 3 753 |
| Interest income on investments | | **92 537** | 87 619 |
| Interest expense on investments | | **(33 784)** | (24 264) |
| Realised loss on disposal of investments | | **(1 204)** | (1 206) |
| Unrealised gain/(loss) on investments | | **7 918** | (17 270) |
| Investment management expenses | | **(1 239)** | (1 297) |
| **Total net income** | | **490 619** | 421 234 |
| Gross claims paid | | **1 077 311** | 682 751 |
| Retroceded claims received | | **(767 407)** | (498 411) |
| Change in gross provision for outstanding claims | | **8 750** | 214 482 |
| Change in retroceded provision for outstanding claims | | **5 461** | (151 317) |
| **Net incurred claims** | | **324 115** | 247 505 |
| **Net commission incurred** | *19* | **78 468** | 138 973 |
| **Management expenses** | | **31 372** | 27 636 |
| **Total technical expenses** | | **433 955** | 414 114 |
| **Net profit before taxation** | *20* | **56 664** | 7 120 |
| Taxation | *21* | **13 583** | 810 |
| **Total profit and comprehensive income for the year** | | **43 081** | 6 310 |

# STATEMENT OF CHANGES IN EQUITY

*for the year ended 31 December 2009*

| | Share capital and share premium | Contingency reserve | Retained earnings | Total |
|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 |
| Balance as at 1 January 2008 | 80 300 | 26 011 | 67 129 | 173 440 |
| Profit for the year | | | 6 310 | 6 310 |
| Transfer to contingency reserve | | 12 111 | (12 111) | - |
| Dividend | | | (9 550) | (9 550) |
| **Balance as at 31 December 2008** | **80 300** | **38 122** | **51 778** | **170 200** |
| Profit for the year | | | **43 081** | **43 081** |
| Transfer to contingency reserve | | **4 139** | **(4 139)** | **-** |
| **Balance as at 31 December 2009** | **80 300** | **42 261** | **90 720** | **213 281** |

# STATEMENT OF CASH FLOWS

*for the year ended 31 December 2009*

| | Note | 2009<br>R'000 | 2008<br>R'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated by operations | *25.1* | **103 309** | 285 809 |
| Interest expense | | **(33 784)** | (24 264) |
| Taxation paid | *25.2* | **(16 858)** | (4 678) |
| **Net cash inflow from operating activities** | | **52 667** | 256 867 |
| **Cash flows from investment activities** | | | |
| Net purchases and disposals of equipment and intangible assets | | **(707)** | (48) |
| Net purchases of investments | | **(146 340)** | (384 435) |
| Interest received net of investment management fees | | **91 298** | 86 322 |
| Dividends received | | **4 591** | 3 753 |
| **Net cash outflow from investment activities** | | **(51 158)** | (294 408) |
| **Cash flows from financing activities** | | | |
| Dividend paid | | **-** | (9 550) |
| **Net cash outflow from financing activities** | | **-** | (9 550) |
| **Net increase/(decrease) in cash and cash equivalents** | | **1 509** | (47 091) |
| **Cash and cash equivalents at the beginning of the year** | | **2 940** | 50 031 |
| **Cash and cash equivalents at the end of the year** | | **4 449** | 2 940 |

# CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

*for the year ended 31 December 2009*

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

# CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (*continued*)

*for the year ended 31 December 2009*

| | Notes | Designated upon initial recognition at fair value through profit or loss | Held-to-maturity | Loans and receivables | Financial liabilities at amortised cost | Non financial instruments | Total |
|---|---|---|---|---|---|---|---|
| **R'000** | | | | | | | |
| **Liabilities** | | | | | | | |
| Technical liabilities under insurance contracts | *9* | | | | | **1 003 813** | **1 003 813** |
| Gross outstanding claims reserve | | | | | | 771 233 | 771 233 |
| Gross unearned premium reserve | | | | | | 195 419 | 195 419 |
| Deferred retrocession commission revenue | | | | | | 37 161 | 37 161 |
| Amounts due to companies on reinsurance accounts | *14* | | | | **124 827** | | **124 827** |
| Deposits due to retrocessionaire | *15* | | | | **872 859** | | **872 859** |
| Amount due to holding company | | | | | **20 584** | | **20 584** |
| Other provisions and accruals | *16* | | | | **1 575** | **5 773** | **7 348** |
| Creditors and accruals | | | | | 1 575 | 4 741 | 6 316 |
| Provisions | | | | | | 1 032 | 1 032 |
| Deferred tax liability | *17* | | | | | **1 796** | **1 796** |
| **Total liabilities** | | | | | **1 019 845** | **1 011 382** | **2 031 227** |

# CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (*continued*)

*for the year ended 31 December 2009*

| | 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 2008** | | | | | | | |
| **Assets** | | | | | | | |
| Equipment | *6* | | | | | 1 139 | 1 139 |
| Intangible assets | *7* | | | | | 157 | 157 |
| Financial assets | *8* | **283 776** | **790 792** | | | | **1 074 568** |
| Listed bonds | | 133 386 | 55 233 | | | | 188 619 |
| Listed ordinary shares | | 62 303 | | | | | 62 303 |
| Listed preference shares | | 9 960 | | | | | 9 960 |
| Money market funds | | 78 127 | | | | | 78 127 |
| Fixed and call deposits | | | 735 559 | | | | 735 559 |
| Technical assets under insurance contracts | *9* | | | | | **752 979** | **752 979** |
| Retroceded outstanding claims reserve | | | | | | 562 572 | 562 572 |
| Retroceded unearned premium reserve | | | | | | 144 413 | 144 413 |
| Deferred acquisition costs | | | | | | 45 994 | 45 994 |
| Amounts due from companies on reinsurance accounts | *10* | | | 135 673 | | | 135 673 |
| Deposits retained by ceding companies | *11* | | | 23 643 | | | 23 643 |
| Accounts receivable | | | | 477 | | | 477 |
| Cash and cash equivalents | *12* | 2 940 | | | | | 2 940 |
| **Total assets** | | **286 716** | **790 792** | **159 793** | | **754 275** | **1 991 576** |

# CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (*continued*)

*for the year ended 31 December 2009*

| | Notes | Designated upon initial recognition at fair value through profit or loss | Held-to-maturity | Loans and receivables | Financial liabilities at amortised cost | Non financial instruments | Total |
|---|---|---|---|---|---|---|---|
| **R'000** | | | | | | | |
| **Liabilities** | | | | | | | |
| Technical liabilities under insurance contracts | 9 | | | | | **1 003 413** | **1 003 413** |
| Gross outstanding claims reserve | | | | | | 762 483 | 762 483 |
| Gross unearned premium reserve | | | | | | 203 694 | 203 694 |
| Deferred retrocession commission revenue | | | | | | **37 236** | **37 236** |
| Amounts due to companies on reinsurance accounts | 14 | | | | 49 626 | | 49 626 |
| Deposits due to retrocessionaire | 15 | | | | 757 109 | | 757 109 |
| Amount due to holding company | | | | | 5 369 | | 5 369 |
| Other provisions and accruals | 16 | | | | **1 086** | **2 743** | **3 829** |
| Creditors and accruals | | | | | 1 086 | 2 108 | 3 194 |
| Provisions | | | | | | 635 | 635 |
| Deferred tax liability | 17 | | | | | 554 | 554 |
| Current income tax liability | 18 | | | | | 1 476 | 1 476 |
| **Total liabilities** | | | | | **813 190** | **1 008 186** | **1 821 376** |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009*

## 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 17 June 2010.

## 2. Accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### (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 Standard 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.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

## 2. Accounting policies *(continued)*

## (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.

**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.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

## 2. Accounting policies *(continued)*

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

**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.

**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.

Retrocession assets include balances due from the retrocessionaires for ceded insurance business. Premiums on reinsurance assumed are recognised as income and accounted 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 year during which the policy is in force.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

## 2. Accounting policies *(continued)*

### (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.

### (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 translated 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.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

## 2. Accounting policies *(continued)*

### (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.

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

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

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

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the 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

*for the year ended 31 December 2009 (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 2009, and have not been applied in preparing these financial statements. None of these standards or interpretations are expected to impact the preparation of financial statements of Africa Re (SA).

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

## 3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2009 and the comparative information presented in these financial statements.

## 4. Accounting estimates and judgements

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

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

**Policyholder claims for insurance contracts**

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

**Insurance contract estimates**

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

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

## 5. Risk management of insurance contracts and financial instruments

### 5.1 Insurance contracts

Africa Re (SA) underwrites business both on a treaty and facultative basis in all classes of 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.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

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

## 5.2 Insurance risk management objectives and policies for mitigating risks

### (a) Introduction

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

### (b) Premium pricing adequacy risk

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

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

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

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

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

### (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.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

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

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

### (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.

### (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 R8.9 million (2008: R6.7 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 2009 are presented in the table below.

| Asset class | Cost R'm | Market Value R'm | Risk factor | % change | Impact on equity* R'm | Impact on profit or loss R'm |
|---|---|---|---|---|---|---|
| **December 2009** | | | | | | |
| Equity | 68.0 | 89.2 | Market price | 10% | 6.4 | 8.9 |
| Bonds at fair value | 146.9 | 144.5 | Interest rate movement | 5% | 18.4 | 25.5 |
| Bonds at amortised cost | 86.8 | 86.8 | Interest rate movement | 5% | 3.1 | 4.3 |
| Money market unit trusts | 84.9 | 85.5 | Market price | 5% | 3.1 | 4.3 |
| Fixed deposit | 810.8 | 810.8 | Interest rate movement | 5% | 29.2 | 40.5 |
| **December 2008** | | | | | | |
| Equity | 57.3 | 62.3 | Market price | 10% | 4.8 | 6.7 |
| Bonds at fair value | 127.2 | 133.4 | Interest rate movement | 5% | 21.2 | 29.5 |
| Bonds at amortised cost | 55.2 | 55.2 | Interest rate movement | 5% | 2.0 | 2.8 |
| Money market unit trusts | 77.2 | 78.1 | Market price | 5% | 2.8 | 3.9 |
| Fixed deposit | 735.6 | 735.6 | Interest rate movement | 5% | 26.5 | 36.8 |

* assumed tax rate of 28% has been used

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (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 on 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 R25.5 million (2008: R29.5 million) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R40.5 million (2008: R36.8 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 following table.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (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 2009** | | | | | |
| Financial assets | **177.0** | **733.6** | **216.5** | | **1 127.1** |
| Insurance receivables | | **103.6**[a] | | **116.8** | **220.4** |
| Insurance deposits | | | | **45.3** | **45.3** |
| Accounts receivable | | | | **0.1** | **0.1** |
| Cash and cash equivalents | | **4.5** | | | **4.5** |
| **Total** | **177.0** | **841.7** | **216.5** | **162.2** | **1 397.4** |
| | | | | | |
| **December 2008** | | | | | |
| Financial assets | 162.4 | 669.8 | 170.1 | | 1 002.3 |
| Insurance receivables | | 9.9[a] | 24.5 | 101.3 | 135.7 |
| Insurance deposits | | | | 23.6 | 23.6 |
| Accounts receivable | | | | 0.5 | 0.5 |
| Cash and cash equivalents | | 2.9 | | | 2.9 |
| Total | 162.4 | 682.6 | 194.6 | 125.4 | 1 165.0 |

[a] Global credit rating

**Ageing analysis of insurance receivables**

None of the insurance receivables that were past due were older than twelve 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

*for the year ended 31 December 2009 (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 2009 | 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 | 4.4 | | | | | 4.4 |
| Fixed and call deposit | | 810.8 | | | | 810.8 |
| Money market unit trusts | | 85.5 | | | | 85.5 |
| Debt securities | | 35.4 | | 4.7 | 191.1 | 231.2 |
| Preference shares | 10.9 | | | | | 10.9 |
| Equities | 89.1 | | | | | 89.1 |
| Insurance contracts assets | | 530.5 | 128.1 | 27.9 | 55.7 | 742.2 |
| Amounts due from companies on reinsurance accounts | | 220.4 | | | | 220.4 |
| Deposits retained by ceding companies | | 45.3 | | | | 45.3 |
| Accounts receivable | | 0.1 | | | | 0.1 |
| **Total financial and insurance assets** | **104.4** | **1 728.0** | **128.1** | **32.6** | **246.8** | **2 239.9** |
| **Liability maturities** | | | | | | |
| Insurance contracts liabilities | | 710.7 | 177.4 | 38.6 | 77.1 | 1 003.8 |
| Reinsurance account balance | | 124.8 | | | | 124.8 |
| Reinsurance deposits | | 872.9 | | | | 872.9 |
| Due to holding company | | 20.6 | | | | 20.6 |
| Other provision and accruals | | 6.3 | | | | 6.3 |
| **Total financial and insurance liabilities** | | **1 735.3** | **177.4** | **38.6** | **77.1** | **2 028.4** |
| **Net maturities** | **104.4** | **(7.3)** | **(49.3)** | **(6.0)** | **169.7** | **211.5** |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (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 2008 | 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 | 2.9 | | | | | 2.9 |
| Fixed and call deposit | | 735.6 | | | | 735.6 |
| Money market unit trusts | | 78.1 | | | | 78.1 |
| Debt securities | | 39.1 | 25.2 | | 124.4 | 188.7 |
| Preference shares | 10.0 | | | | | 10.0 |
| Equities | 62.3 | | | | | 62.3 |
| Insurance contracts assets | | 539.2 | 129.4 | 28.1 | 56.3 | 753.0 |
| Amounts due from companies on reinsurance accounts | | 135.7 | | | | 135.7 |
| Deposits retained by ceding companies | | 23.6 | | | | 23.6 |
| Accounts receivable | | 0.5 | | | | 0.5 |
| **Total financial and insurance assets** | 75.2 | 1 551.8 | 154.6 | 28.1 | 180.7 | 1 990.4 |
| **Liability maturities** | | | | | | |
| Insurance contracts liabilities | | 713.7 | 175.4 | 38.1 | 76.2 | 1 003.4 |
| Reinsurance account balance | | 49.6 | | | | 49.6 |
| Reinsurance deposits | | 757.1 | | | | 757.1 |
| Due to holding company | | 5.4 | | | | 5.4 |
| Other provision and accruals | | 3.2 | | | | 3.2 |
| **Total financial and insurance liabilities** | | 1 529.0 | 175.4 | 38.1 | 76.2 | 1 818.7 |
| **Net maturities** | 75.2 | 22.8 | (20.8) | (10.0) | 104.5 | 171.7 |

### (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 14 to 17.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

| 6. Equipment | 2009 R'000 | 2008 R'000 |
|---|---|---|
| **Cost** | | |
| Motor vehicles | **953** | 565 |
| Computer equipment | **481** | 452 |
| Office equipment | **258** | 244 |
| Furniture & fittings | **1 102** | 997 |
| | **2 794** | 2 258 |
| **Accumulated depreciation** | | |
| Motor vehicles | **553** | 314 |
| Computer equipment | **361** | 388 |
| Office equipment | **223** | 164 |
| Furniture & fittings | **384** | 253 |
| | **1 521** | 1 119 |
| **Carrying values** | | |
| Motor vehicles | **400** | 251 |
| Computer equipment | **120** | 64 |
| Office equipment | **35** | 80 |
| Furniture & fittings | **718** | 744 |
| | **1 273** | 1 139 |
| **Reconciliation of carrying values** | | |
| Opening balance | **1 139** | 1 398 |
| Additions | **654** | 49 |
| Disposals | **(3)** | - |
| Depreciation | **(517)** | (308) |
| **Closing balance** | **1 273** | **1 139** |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

| 6. | **Equipment** *(continued)* | 2009 R'000 | 2008 R'000 |
|---|---|---|---|
| | **Motor vehicles** | | |
| | Net carrying value at beginning of year | **251** | 291 |
| | Additions | **387** | - |
| | Depreciation | **(238)** | (40) |
| | Net carrying value at end of year | **400** | 251 |
| | **Computer equipment** | | |
| | Net carrying value at beginning of year | **64** | 120 |
| | Additions | **148** | 18 |
| | Disposals | **(3)** | - |
| | Depreciation | **(89)** | (74) |
| | Net carrying value at end of year | **120** | 64 |
| | **Office equipment** | | |
| | Net carrying value at beginning of year | **80** | 145 |
| | Additions | **14** | 3 |
| | Depreciation | **(59)** | (68) |
| | Net carrying value at end of year | **35** | 80 |
| | **Furniture & fittings** | | |
| | Net carrying value at beginning of year | **744** | 842 |
| | Additions | **105** | 28 |
| | Depreciation | **(131)** | (126) |
| | Net carrying value at end of year | **718** | 744 |
| 7. | **Intangible assets** | | |
| | **Computer software** | | |
| | **Cost** | | |
| | Opening balance | **372** | 372 |
| | Acquisitions – purchased software | **74** | - |
| | Closing balance | **446** | 372 |
| | **Accumulated amortisation** | | |
| | Opening balance | **215** | 114 |
| | Amortisation – software in use | **98** | 101 |
| | Closing balance | **313** | 215 |
| | **Net carrying value** | **133** | 157 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

| 8. Financial assets | 2009 R'000 | 2008 R'000 |
|---|---|---|
| **Held-to-maturity instruments at amortised cost** | | |
| Fixed and call deposits | **810 766** | 735 559 |
| Listed bonds and treasury bills | **86 812** | 55 233 |
| | **897 578** | 790 792 |
| **Instruments at fair value through profit and loss** | | |
| Listed instruments | | |
| – bonds | **144 491** | 133 386 |
| – equities | **89 160** | 62 303 |
| – preference shares | **10 892** | 9 960 |
| – money market funds | **85 501** | 78 127 |
| | **330 044** | 283 776 |
| **Total financial assets** | **1 227 622** | 1 074 568 |
| | | |
| **Fair value of the held-to-maturity instruments** | | |
| Fixed and call deposits | **810 766** | 735 559 |
| Listed bonds and treasury bills | **82 954** | 54 758 |
| | **893 720** | 790 317 |
| | | |
| **Cost of instruments disclosed at fair value through profit and loss** | | |
| Bonds | **146 910** | 127 226 |
| Equities | **68 015** | 57 264 |
| Preference shares | **11 695** | 12 111 |
| Money market funds | **84 891** | 77 164 |
| | **311 511** | 273 765 |

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

| Maturity period | Effective interest rate % | Market value R'000 |
|---|---|---|
| **At 31 December 2009** | | |
| On demand | 9.80% to 11.00% | **96 392** |
| Within 1 year | 7.41% to 7.65% | **846 173** |
| 1 to 3 years | 10.80% | **4 731** |
| 3 to 7 years | 7.80% to 8.66% | **172 775** |
| 7 to 12 years | 8.56% to 9.14% | **18 391** |
| | | **1 138 462** |
| **At 31 December 2008** | | |
| On demand | 12.27% to 12.48% | 88 087 |
| Within 1 year | 11.97% to 12.30% | 774 649 |
| 1 to 3 years | 7.41% to 7.48% | 25 177 |
| 3 to 7 years | 8.26% to 8.66% | 45 719 |
| 7 to 12 years | 8.12% to 8.29% | 78 633 |
| | | 1 012 265 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

## 8. Financial assets *(continued)*

**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.

**Analysis of instruments at fair value**

| Financial assets | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 | Total R'000 |
|---|---|---|---|---|
| **December 2009** | | | | |
| Designated at fair value through profit or loss | **244 543** | **85 501** | **-** | **330 044** |
| Cash and cash equivalents | **4 449** | **-** | **-** | **4 449** |
| December 2008 | | | | |
| Designated at fair value through profit or loss | 205 649 | 78 127 | - | 283 776 |
| Cash and cash equivalents | 2 940 | - | - | 2 940 |

Investments and securities

The fair values of investments and securities designated at fair value through profit and 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

*for the year ended 31 December 2009 (continued)*

| 9. Technical assets and liabilities under insurance contracts | 2009 R'000 | 2008 R'000 |
|---|---|---|
| **Technical liabilities** | | |
| -Gross claims reported but not yet settled | **602 892** | 569 137 |
| -Gross claims incurred but not reported | **168 341** | 193 346 |
| -Gross unearned premium provision | **195 419** | 203 694 |
| -Deferred retrocession commission income | **37 161** | 37 236 |
| | **1 003 813** | 1 003 413 |
| **Technical assets** | | |
| -Retrocessionaire's share of claims reported but not yet settled | **438 670** | 423 034 |
| -Retrocessionaire's share of claims incurred but not reported | **118 441** | 139 538 |
| -Retrocessionaire's share of unearned premium provision | **136 964** | 144 413 |
| -Deferred acquisition costs | **48 129** | 45 994 |
| | **742 204** | 752 979 |
| **Net technical liabilities** | | |
| -Claims reported but not yet settled | **164 222** | 146 103 |
| -Claims incurred but not reported | **49 900** | 53 808 |
| -Unearned premium provision | **58 455** | 59 281 |
| -Deferred acquisition costs | **(10 968)** | (8 758) |
| | **261 609** | 250 434 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

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

### 9.1. Movements in technical assets and liabilities under insurance contracts

**Outsanding Claims**

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

| | 2008 | | |
|---|---|---|---|
| | Gross R'000 | Reinsurance R'000 | Net R'000 |
| Claims reported but not yet settled | 379 965 | 285 051 | 94 914 |
| Claims incurred but not reported | 168 036 | 126 204 | 41 832 |
| Total outstanding at beginning of year | 548 001 | 411 255 | 136 746 |
| Movement in outstanding claims | 214 482 | 151 317 | 63 165 |
| -arising from current year claims | 226 352 | 159 199 | 67 153 |
| -arising from prior period claims | (11 870) | (7 882) | (3 988) |
| Total at end of year | 762 483 | 562 572 | 199 911 |
| Notified claims | 569 137 | 423 034 | 146 103 |
| Incurred but not reported | 193 346 | 139 538 | 53 808 |
| Total at end of year | 762 483 | 562 572 | 199 911 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (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**

| | 2005<br>R'000 | 2006<br>R'000 | 2007<br>R'000 | 2008<br>R'000 | 2009<br>R'000 |
|---|---|---|---|---|---|
| Claim settlement for each year: | | | | | |
| - First year | 130 623 | 112 300 | 241 506 | 210 834 | 385 542 |
| - one year later | 201 048 | 239 748 | 407 086 | 444 427 | |
| - two years later | 41 041 | 64 850 | 207 728 | | |
| Provision for gross outstanding claims after two years run-off | 42 859 | 80 550 | 199 756 | 232 878 | 231 768 |
| - three years later | 987 | 36 892 | | | |
| - four years later | 8 850 | | | | |
| Provision for gross outstanding claims at year end | 41 797 | 49 837 | 199 756 | 232 878 | 231 768 |
| **Claim development run-off result at year end** | **(8 775)** | **(6 179)** | **-** | **-** | **-** |

**Unearned premium provision**

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

| | 2008<br>Gross<br>R'000 | <br>Reinsurance<br>R'000 | <br>Net<br>R'000 |
|---|---|---|---|
| At the beginning of year | 222 181 | 166 992 | 55 189 |
| Premiums written during the year | 1 140 547 | 762 556 | 377 991 |
| Premiums earned during the year | (1 159 034) | (785 135) | (373 899) |
| Total at end of year | 203 694 | 144 413 | 59 281 |

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

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (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**

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

| | 2008 | | |
|---|---|---|---|
| | Gross<br>R'000 | Reinsurance<br>R'000 | Net<br>R'000 |
| At the beginning of year | 50 619 | 42 203 | 8 416 |
| Acquisition costs paid during the year | 329 144 | 189 829 | 139 315 |
| Transferred to costs incurred during the year | (333 769) | (194 796) | (138 973) |
| At the end of year | 45 994 | 37 236 | 8 758 |

### 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

*for the year ended 31 December 2009 (continued)*

| | | 2009 R'000 | 2008 R'000 |
|---|---|---|---|
| **10.** | **Amounts due from companies on reinsurance accounts** | | |
| | Amounts due from ceding companies | **116 752** | 111 174 |
| | Amounts due from retrocessionaire | **103 622** | 24 499 |
| | | **220 374** | 135 673 |
| **11.** | **Deposits retained by ceding companies** | | |
| | At beginning of year | **23 643** | 79 747 |
| | New deposits retained | **45 274** | 23 643 |
| | Deposits released | **(23 643)** | (79 747) |
| | **At the end of year** | **45 274** | 23 643 |
| **12.** | **Cash and cash equivalents** | | |
| | Cash on hand | **21** | 21 |
| | Current bank account balances | **4 428** | 2 919 |
| | | **4 449** | 2 940 |
| **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** | | |
| | Amount due to ceding companies | **124 827** | 47 372 |
| | Amount due to retrocessionaire | **-** | 2 254 |
| | | **124 827** | 49 626 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

| 15. Deposits due to retrocessionaire | 2009 R'000 | 2008 R'000 |
|---|---|---|
| At beginning of year | **757 109** | 618 930 |
| New deposits retained | **872 859** | 757 109 |
| Deposits released | **(757 109)** | (618 930) |
| At the end of the year | **872 859** | 757 109 |

**16. Other provisions and accruals**

| | 2009 R'000 | 2008 R'000 |
|---|---|---|
| **Creditors and accruals** | | |
| VAT payable | **4 741** | 2 108 |
| Other creditors and accruals | **1 575** | 1 086 |
| | **6 316** | 3 194 |
| **Provisions** | | |
| Opening balance | **635** | 391 |
| Accrued leave | **519** | 371 |
| Lease commitments | **116** | 20 |
| Provision utilised | **(358)** | (374) |
| Accrued leave | **(358)** | (371) |
| Lease commitments | **-** | (3) |
| Provision created | **755** | 618 |
| Accrued leave | **695** | 519 |
| Lease commitment | **60** | 99 |
| Closing balance | **1 032** | 635 |
| Accrued leave | **856** | 519 |
| Lease commitments | **176** | 116 |
| **Total other provisions and accruals at end of year** | **7 348** | 3 829 |

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

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

| 17. **Deferred tax liability** | **2009 R'000** | **2008 R'000** |
|---|---|---|
| **Opening balance** | **554** | 5 309 |
| Change in tax rate | **-** | (53) |
| Current year | **1 242** | (4 702) |
| **Closing balance** | **1 796** | 554 |
| | | |
| The net deferred tax liability balance at the end of the period comprises: | | |
| – capital allowance | **374** | 289 |
| – provisions | **(289)** | (181) |
| – unrealised gains on revaluation of investments | **1 711** | 446 |
| | **1 796** | 554 |

## 18. Current income tax asset/liability

The current income tax asset of R3.0 million (2008: liability R1.5 million) represents the amount of income taxes payable in the current year less provisional tax payments made.

| 19. **Commission paid and received** | **2009 R'000** | **2008 R'000** |
|---|---|---|
| Gross commission and brokerage paid | **351 346** | 329 144 |
| Gross deferred acquisition costs | **(2 135)** | 4 625 |
| Commission incurred | **349 211** | 333 769 |
| | | |
| Commission earned | **(270 743)** | (194 796) |
| Retrocession commission and brokerage received | **(246 011)** | (170 568) |
| Retroceded overriding commission received | **(24 657)** | (19 261) |
| Retroceded deferred commission revenue | **517** | (1 711) |
| Retroceded deferred overriding commission revenue | **(592)** | (3 256) |
| | | |
| Net commission incurred | **78 468** | 138 973 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

| 20. | Profit before taxation | 2009<br>R'000 | 2008<br>R'000 |
|---|---|---|---|
| | **Profit before taxation is arrived at after charging the following items:** | | |
| | Auditors remuneration: | | |
| | – for audit services | **1 326** | 779 |
| | current year | **1 050** | 757 |
| | prior years underprovision | **276** | 22 |
| | Consultancy fees | **152** | 335 |
| | Depreciation | **517** | 308 |
| | Profit on disposal of equipment | **18** | - |
| | Amortisation | **98** | 101 |
| | Directors remuneration | **2 010** | 2 010 |
| | Executive – for services rendered | **1 865** | 1 625 |
| | Non executive – for services as directors | **490** | 385 |
| | Lease payments | **787** | 771 |
| | Secretarial fees | **92** | 57 |
| | Staff costs including contribution to pension fund, UIF, SDL and allowances | **9 283** | 7 682 |
| | Number of staff | **21** | 18 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

| 21. Taxation | 2009 R'000 | 2008 R'000 |
|---|---|---|
| **South African normal taxation** | | |
| Corporate tax - current year | **12 341** | 5 566 |
| - Deferred tax – current year | **1 242** | (4 756) |
| | **13 583** | 810 |
| **Tax rate reconciliation** | **%** | **%** |
| Effective tax rate | **24.0** | 11.4 |
| Exempt income | **2.3** | 14.8 |
| Disallowed expenses | **(0.4)** | (1.7) |
| Capital gains tax | **2.1** | 3.5 |
| South African standard corporate tax rate | **28.0** | 28.0 |

## 22. Related party transactions

**Holding company**

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

**Key management**

The managing director, the deputy managing director and the general manager finance and accounts are considered the key members of management. Their total remuneration for the year is R4.6 million (2008: R3.8 million).

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

| | 2009 R'000 | 2008 R'000 |
|---|---|---|
| **Statement of financial position** | | |
| **Assets** | | |
| Technical assets under insurance contracts | **686 658** | 698 717 |
| Amounts due from companies on reinsurance accounts | **102 121** | 24 499 |
| | **788 779** | 723 216 |
| **Liabilities** | | |
| Deferred retrocession commission revenue | **(33 721)** | (37 223) |
| Deposits due to retrocessionaire | **(872 859)** | (757 109) |
| Amount due to holding company | **(20 584)** | (5 371) |
| **Net liabilities** | **(138 385)** | (76 487) |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

| 22. Related party transactions (continued) | 2009 R'000 | 2008 R'000 |
|---|---|---|
| **Statement of comprehensive income** | | |
| Retroceded premiums | **(1 047 553)** | (759 324) |
| Retrocessionaire's share of provision for unearned premiums | **(7 449)** | (21 279) |
| Retroceded claims received | **764 306** | 497 698 |
| Retrocessionaire's share of provision for outstanding claims | **(4 609)** | 144 194 |
| Retrocessionaire's share of net commission incurred | **270 627** | 194 397 |
| Interest expense | **(33 784)** | (24 264) |
| Management expenses | **(12 000)** | (11 566) |

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 R573 157 (2008: R447 084).

**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:

| | 2009 R'000 | 2008 R'000 |
|---|---|---|
| – less than one year | **790** | 613 |
| – between one and five years | **1 182** | 1 962 |
| | **1 972** | 2 575 |

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2009 (continued)*

| 25. | Notes to the cash flow statement | 2009 R'000 | 2008 R'000 |
|---|---|---|---|
| 25.1. | **Reconciliation of cash generated by operations** | | |
| | Profit before taxation | **56 664** | 7 120 |
| | Adjusted for : | | |
| | - depreciation and amortisation | **615** | 408 |
| | - profit on disposal of equipment | **(18)** | - |
| | - investment income net of management fees | **(102 603)** | (71 599) |
| | - interest expenses | **33 784** | 24 264 |
| | - net unearned premium reserve net of deferred acquisition costs | **(3 036)** | 3 750 |
| | Cash generated by changes in working capital | **117 903** | 321 866 |
| | Amounts due from companies on reinsurance accounts | **(9 500)** | 82 218 |
| | Deposits retained by ceding companies | **(21 631)** | 56 104 |
| | Accounts receivable | **339** | (373) |
| | Amount due to holding company | **15 215** | (12 240) |
| | Other provision and accruals | **3 519** | (5 187) |
| | Deposits due to retrocessionaire | **115 750** | 138 179 |
| | Net outstanding claims reserve | **14 211** | 63 165 |
| | | **103 309** | 285 809 |
| 25.2. | **Reconciliation of taxation paid** | | |
| | Balance payable at the beginning of the period | **(1 476)** | (589) |
| | Current tax charged in the income statement | **(12 341)** | (5 565) |
| | Balance (recoverable)/payable at the end of the period | **(3 041)** | 1 476 |
| | Taxation paid | **(16 858)** | (4 678) |

# NOTES

# NOTES

*fostering the development of the insurance and reinsurance industry in Africa*

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