ZURICH®

Zurich Insurance Company South Africa Limited

# Annual Report 2010

Our aspiration is “to be the leading empowered insurer in our chosen markets”

Customer Centricity • Profitable Growth • Operational Excellence • People

ZURICH®

# Contents

# Zurich Financial Services Group at a glance

**We are a leading global insurer.**

Founded in 1872, the Zurich Financial Services Group is headquartered in Zurich, Switzerland. We are a leading multi-line insurance provider with a global network of subsidiaries and offices in Europe, North America, Latin America, Asia-Pacific, the Middle East and Africa, as well as other markets. We offer a wide range of General Insurance and Life Insurance products and services for individuals, small businesses, mid-sized and large companies as well as multinational corporations.

Divided into three main segments – General Insurance, Global Life and Farmers – the Group employs about 60,000 people serving customers in more than 170 countries.

**General Insurance** is the largest of our three segments. Across General Insurance, we leverage the strength of a globally integrated platform – one which includes underwriting, claims, product management, distribution management, risk engineering, reinsurance and customer relationship services – to make an array of risk management tools available to our customers. We continually refine our understanding of the risks our customers face and, through this practice, generate new insights that we feed back into our underwriting process. This business model maximises value and efficiency for our existing customers and gives us a strong strategic foundation for selecting new markets and acquiring new business.

**Global Life** offers a broad range of life insurance, investments, savings and pension propositions to individuals and companies across the world. Life Insurance is managed globally while remaining focused on local customer and distributor needs. Our strategic focus is on customer groups and three distribution channels that benefit from our global reach. Our customer groups consist of retail customers, internationally mobile expatriates, corporate customers and private banking clients. We reach the majority of our retail customers through three main distribution channels – Zurich agents, independent financial advisers/brokers and banks. Customers and distributors of Global Life products look to Zurich to deliver when it really matters, which, in the case of life insurance or pensions, could be far into the future, making the long history and financial strength of Zurich a key part of Global Life's proposition.

**Farmers** is our third business segment. Through Farmers we also manage the personal lines and small business insurance sold in the United States by the Farmers Exchanges, which we do not own. Counting all insurance sold through the Farmers Insurance Group – which includes not only insurance sold under the Farmers brand, but also Foremost, Bristol West and 21st Century, the direct auto insurer – makes Zurich the third-largest personal lines insurer[1] in the US.

1 *As measured by the Farmers Exchanges' and AIG US Personal Auto Group's combined direct written premium in the US personal lines business for 2007, resulting in an overall market share of 7.6%.*

# 2010 performance overview

Our Group strategy is built to maintain top-tier financial results under any market conditions. In 2010 we successfully retained a clear focus on underlying profit. Our performance highlights include:

- business operating profit (BOP) of US$4.9 billion, a decrease of 13%. BOP return on equity[2] after tax of 12.9%;
- net income of US$3.4 billion, a decrease of 13%. Return on equity of 11.4%;
- total Group business volumes, comprising gross written premiums, policy fees, insurance deposits and management fees, of US$67.7 billion, a decrease of 3% but unchanged on a local currency basis;
- return on Group investments through the income statement of 4.1%, up 90 basis points; and
- shareholders' equity of US$32.0 billion, an increase of 9%. Solvency I ratio up 48 percentage points to 243%[3].

*2 Return on equity calculated on common shareholders' equity.*

*3 Taking into account the proposed 2010 dividend.*

# Zurich South Africa

**Our aspiration is "to be the leading empowered insurer in our chosen markets."**

Zurich South Africa is a short-term insurance company headquartered in Johannesburg and listed on the JSE Limited. Our two main shareholders, Zurich Financial Services Limited and Royal Bafokeng Finance Limited, effectively hold 84.05% of the equity. The remaining shareholding comprises a number of other minority shareholders.

We currently employ approximately 737 people and provide insurance products and services to meet the needs of individual, commercial and corporate customers. We have a network of sales areas and a series of service outlets across the country. Subsidiaries are based locally, as well as in Botswana. We also have investments in Mauritius and Swaziland.

For our commercial and corporate customers, we offer a range of insurance solutions, including specialty lines of business such as engineering, marine and risk financing. In addition, we provide tailored products for specific industry trades. For individual customers, we offer personal motor and home insurance, as well as bespoke products to cater for specialist areas of cover.

With effect from 1 January 2011, our local South African operation moved to form part of our newly created Middle East and Africa division of the Zurich Financial Services Group. With South Africa representing the largest business unit within this region, there will be significant benefits flowing from this membership, including the further strengthening of our propositions and services delivery for our customers.

## Our ambition

We have a clear and bold aspiration 'to be the leading empowered insurer in our chosen markets'.

## Our business strategy

We will maintain a clear focus around the four core areas that underpin the delivery of our growth aspirations and strategic repositioning in the market:

- **Enhancing customer centricity** – placing the customer at the heart of our decision-making.
- **Delivering profitable growth** – identifying new and existing opportunities to increase our market share.
- **Growing our people** – developing expertise and knowledge to share with our customers.
- **Embedding operational excellence** – delivering superior customer service throughout our business.

By aligning our business priorities to these four areas, we will build on the solid foundations achieved in 2010, growing our organisation profitably whilst at the same time ensuring we are able to meet our customers' current and future needs.

## Our markets

We aspire to be a market leader known for our innovative thinking and for developing products and services that meet a rapidly changing African economy. As a result, in addition to taking a renewed and refreshed approach to our existing markets, we are exploring potential new market segments and distribution opportunities where we are able to create an enhanced focus on our customers and demonstrate market leadership in these selected segments.

## Our brand

Our unique position in South Africa, as a global insurer with a strong local market presence, allows us to bring significant benefit to our customers and their communities. We are able to leverage the strength of the wider Zurich Group to support our local expertise and service delivery. From sharing products and propositions, through to delivery of risk management and claims expertise, we have the ability to draw on our global network of specialists to provide the products and services that our customers value most, underpinned by the strength and stability of the Zurich brand and reputation.

Our customers and shareholders can have confidence that we are committed to developing our business from strength to strength and our relationship with the Royal Bafokeng Nation demonstrates the importance we place on working in partnership with other organisations to support the development of our local communities.

## Our business model

During 2010 we transformed our organisation to ensure we put in place a strong platform from which to pursue our future growth aspirations. With customer centricity at the centre of our new model, we increased the scale and intensity of our market facing activity, whilst ensuring the governance and control that our customers expect, remains firmly in place. This has allowed us to deploy a single unified Personal and Commercial Lines sales team with responsibility for securing new growth opportunities and strengthening market relationships, alongside a new market underwriting function, which has overall accountability for risk selection and pricing – an approach that is fundamental to our future profitable growth.

Providing service excellence is at the top of our agenda and our market propositions are supported by an underwriting and claims service proposition that is enhanced on a regular basis to ensure our customers have access to specialist decision-makers where and when required.

## Our people

To fulfil our aspiration 'to be the leading empowered insurer in our chosen markets' we are embedding a high-performance culture throughout the organisation to ensure we keep the development of our talent foremost. To be recognised as industry thought leaders and experts in our field, we acknowledge the importance of realising our people's potential and we have robust talent development, performance management and career development programmes in place. This enables us to enhance and develop the skills and capabilities we need to be recognised as the employer of choice within our industry.

# Letter from the Chairman and Chief Executive Officer

**Our financial results confirm we are moving in the right direction.**

*Dear Shareholders, Customers and Employees*

Following the global financial crisis of the last two years, it is encouraging to note the insurance industry worldwide is starting to show signs of recovery, with emerging commodity-rich countries such as South Africa in a better position than most to lead the way out of the recent recession.

Whilst there is a more positive economic outlook, customers are becoming more sophisticated in their buying behaviours. As a result, the competition for market share continues and this, combined with escalating claims trends and increasing legislative and regulatory requirements, has kept pressure firmly on insurers for the past 12 months.

For our parent company, Zurich Financial Services Limited, the focus has been on protecting underlying profitability even at the expense of overall growth. With a new General Insurance strategy developed in the last quarter of 2010, the outlook is very promising and the move to place Zurich South Africa into the Middle East and Africa region means there will be significant benefits for our local organisation in 2011 and beyond.

Moving closer to home, we have been on our own journey during 2010, having successfully reshaped our entire business during the course of the year. Whilst 2010 was a tough and challenging period for our employees, customers, brokers and shareholders alike, our financial results confirm we are moving in the right direction, creating a strong platform for profitable growth and taking a step closer to realising our aspiration of becoming the leading empowered insurer in our chosen markets.

Our Combined Ratio, the key indicator of performance for any insurance company, shows significant improvement from the prior year and our underwriting result reflects a healthy profit of R95 million, in comparison with our performance in 2009 where we posted a loss of R191 million. The General Insurance result, which includes attributable investment income, increased to R190 million from an R85 million loss in 2009. Our financial position and cash flows remain sound, with the international solvency ratio, at 51.6%, remaining within the target range as set by the Board. All year-on-year comparisons are on a normalised basis for 2009.

Whilst our gross premium declined by 14%, this was predominantly as a result of deliberate action taken to cancel underperforming books of business in order to protect profitability. We will continue to take action in this area, where required, in 2011.

To achieve a turnaround of this nature is a significant achievement and we have come a long way in 2010 – but we recognise this is only the start of the journey – to quote the media "the sleeping giant (Zurich) has awakened". Now we must demonstrate the hunger, tenacity and focus in the marketplace that will enable us to build on these results and continue to deliver sustainable profitable growth.

In 2011 we are looking to take the organisation to a new level with resolute focus around the four key areas that underpin our strategy – enhancing customer centricity, delivering profitable growth, growing our people and embedding operational excellence. We will identify new and existing opportunities to seize market share and reposition ourselves strategically.

Our multisegment business strategy places a clear focus on identifying both customer and market opportunities that will support the organisation's growth aspirations. In essence, we will focus on our existing markets and on new areas in which we can build our footprint and become a top-tier player. We will use our expertise and insight in these areas to create an indepth understanding of our customers' risks, translating this knowledge into delivery of tailored propositions and solutions that meet their current and future needs. With our new business model in place, our visibility and intensity of market focus is vastly increased. From risk selection and pricing, through to the products we provide and the customer service we deliver – all of these components combine to bring the power of Zurich to the market, providing a long-term commitment to our broker partners and customers.

In December 2010 we announced our strategic partnership with Aquarius Underwriting Managers who brought their significant book of high net worth business along with other niche domestic and commercial products to the Company. With the wealth of knowledge and experience in the insurance sector that the two companies bring, we are confident the partnership will present exciting growth opportunities in 2011.

In addition, we have confirmed our strategic alliance with Standard Bank South Africa. This alliance will enable the bank to provide a range of new insurance solutions to commercial business customers. Standard Bank has a long-standing market reputation and we are delighted to be working alongside them. With their customer relationship management experience and broad distribution coverage, combined with our underwriting and reinsurance expertise we will be able to deliver solutions that meet customer needs, both now and in the future.

Our number one business priority for 2011 is the enhancement of our service offering across our claims and underwriting functions. Towards the end of 2010, we experienced a number of challenges with our new claims platform that affected our customers and brokers. As we enter the new year, we are, however, pleased to confirm that these areas have been resolved and we are now able to turn our attention to refining our service offering further to create a market-leading differentiated service proposition.

With consumer protection an ongoing regulatory concern and the Treating Customers Fairly concept hitting the headlines, focus on the customer will be paramount for insurers during 2011 and beyond. The companies that maintain their lead will be those who are able to demonstrate the customer is genuinely placed at the centre of organisational thinking and that the ethos of customer centricity is embedded throughout the core business functions. Zurich South Africa is in a strong position to take a leading industry role in this area, leveraging off the Zurich UK model which is recognised as industry best practice, whilst retaining customer centricity as a fundamental cornerstone of the Company's strategy.

Alongside our core business activities, we will continue to embed a high-performance culture throughout the organisation. We have robust plans in place to develop the talent within the Company and our performance management measures and career development programmes will enable us to continually enhance and develop the skills and capabilities of our most valuable asset – our people.

We continue to take our commitment to social economic development extremely seriously. Our aspiration to be the leading empowered insurer in our chosen markets not only permeates our core business operation, but also reflects in our commitment to contribute to the sustainable development of African society.

During 2010 we supported a number of initiatives, including our participation in MaAfrika Tikkun's community project which operates in Diepsloot, north of Johannesburg, and which focuses on uplifting disadvantaged communities with emphasis on the support of orphans, vulnerable children and their families.

Alongside this programme, we continue to develop our relationship with our shareholder, Royal Bafokeng Holdings, and this extends far beyond the financial aspects of the shareholding arrangement. We support a number of existing social programmes including a mobile library, the Tapologo HIV/Aids Hospice and the Phokeng Trauma Centre for victims of crime and sexual abuse. During the course of 2011 we will look into new opportunities to support the upliftment of literacy and numerical skills within the Bafokeng communities.

With 2010 now firmly behind us, we would like to acknowledge the contribution of our employees, Board members and executive team in supporting the successful turnaround of the Company. During the year Steve Phiri and Stefan Mäder resigned as Directors and we would like to thank them for their valuable contribution. We have an exciting year ahead of us. Zurich South Africa is the leading global local insurer in the South African market and we will now take action to seize market share and take our business to a new level.

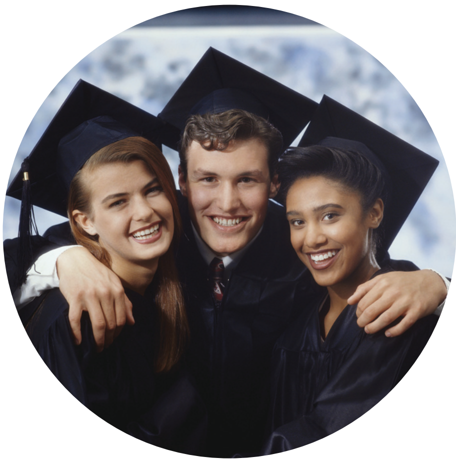
**Gerard de Rauville**
*Chairman*

**Guy Munnoch**
*Chief Executive Officer*

# Supplementary income statement

| | Year ended 31 December | Normalised | | |
|---|---|---|---|---|
| | **2010** | 2009 | 2009 | % |
| | **R'000** | R'000 | R'000 | change |
| Gross written insurance premium | **4,632,362** | 5,463,662 | 5,404,362 | (14%) |
| Insurance premium ceded to reinsurers | **(978,900)** | (1,136,621) | (1,139,621) | |
| **Net written insurance premium** | **3,653,462** | 4,327,041 | 4,264,741 | (14%) |
| Net insurance premium earned | **3,713,765** | 4,324,562 | 4,265,262 | (13%) |
| Net insurance claims | **(2,576,852)** | (3,390,043) | (3,670,143) | |
| Net commission incurred | **(579,134)** | (672,310) | (672,310) | |
| Administrative and other operating expenses | **(462,956)** | (452,758) | (486,958) | |
| **Net underwriting result** | **94,823** | (190,549) | (564,149) | 117% |
| Attributable investment income | **95,418** | 105,821 | 105,821 | (10%) |
| **General insurance result** | **190,241** | (84,728) | (458,328) | 142% |
| Impairments on available-for-sale financial assets | **(11,998)** | (1,539) | (1,539) | |
| Employee benefits surplus | **105,552** | – | – | |
| Non-technical expenses | **(223,325)** | (20,987) | (50,087) | |
| Other investment income | **130,059** | 121,073 | 121,073 | 7% |
| Investment expenses | **(4,939)** | (4,824) | (4,824) | |
| Net realised gains on disposal of investments | **6,809** | 108,631 | 108,631 | |
| **Profit/(loss) before tax** | **192,399** | 117,626 | (285,074) | |
| Income tax (expense)/ credit | **(47,982)** | (12,247) | 100,509 | |
| **Profit/(loss) after tax** | **144,417** | 105,379 | (184,565) | 178% |

# Corporate social investment



**We have a clear vision to make a tangible, positive difference.**

Zurich South Africa supports projects and initiatives that underpin our commitment to the communities within which we operate. Across our core business practices, our propositions and services and in our engagement with our local communities we proactively consider and address social, environmental and governance issues that are of concern to our stakeholders. Being a responsible sustainable company is therefore essential to how we do business.

Our aspiration 'to be the leading empowered insurer in our chosen markets' not only permeates our core business operation, but also reflects our commitment to contribute to the sustainable development of African society.

## Our BEE status

We take our BEE commitments extremely seriously and in 2010 we were ranked as a Level 4 contributor with maximum rating for our social economic development, enterprise development and ownership pillars. We have in place a robust transformation agenda that will take us towards our aspiration of becoming a Level 1 contributor over the next three years.

## Our community investment

We continually review and seek to improve our substantial contribution to social welfare. Some examples of the initiatives we supported in 2010 are reflected below.

We continued to provide funding and hands-on support and participation in MaAfrika Tikkun's community project which operates in Diepsloot, north of Johannesburg. This non-governmental organisation was founded in 1994 soon after South Africa's first democratic elections and focuses on uplifting previously disadvantaged communities with an emphasis on the support of orphans, vulnerable children and their families.

Alongside this programme, we supported a number of Royal Bafokeng social programmes including a mobile library, the Tapologo Hospice and Phokeng Trauma Centre for victims of crime and sexual abuse.

Given the low literacy rates in these particular regions, it is hoped that the mobile library will help to instil the culture of reading in primary school learners. Altogether 39 schools benefit from the library, with the measurable deliverables being an improved quality of teaching in maths and science, an increased pass rate in maths and science at Grade 9 and 12 levels, and improved reading and writing skills amongst primary school learners.

The Tapologo Hospice aims to assist families and communities to care for people affected and infected by HIV/Aids. In 2010 the organisation provided support to 425 orphans and vulnerable children and the Hospice admitted 338 people. The services provided include psychological support, assistance with accessing basic services and material resources and assistance with establishing income-generating projects. Through this project, we seek to ensure that each child is provided with a meal every day, as well as life skills and educational material, assistance with homework and psychological support.

The Phokeng Trauma Centre endeavours to provide a one-stop rape and trauma support centre for victims and survivors of crime and sexual assault. Trauma counselling, psycho-education, court preparation services, material assistance and medication are provided to approximately 50 people per month.

Another key area we support is the Royal Bafokeng Nation's youth development programme. Sport is a key element in the Royal Bafokeng's master plan for socio-economic development and, as a result, Royal Bafokeng Sports (RBS) started operating in January 2007 as a subsidiary of Royal Bafokeng Holdings, with the prime mandate to generate financial and social returns from the development of the Royal Bafokeng Nation's sporting assets.

Continuing our support of tertiary institutions, we once again provided financial assistance to three universities – University of Cape Town, University of KwaZulu-Natal and University of the Witwatersrand – operating in the major centres where we have a presence. These universities, who have been supported for many years, channel the funds to their bursary department in support of previously disadvantaged students.

## Our propositions and services

We are committed to leveraging our global network of experts to ensure we develop products and propositions that are accessible to the breadth of the African population. In particular, we have commenced a number of initiatives in 2010 targeting lower-income families, starting with the provision of funeral insurance for these individuals before seeking to develop further affordable products offerings in 2011.

## Our environment

We continue to commit to environmental and conservation activities and, in particular, our sponsorship of the Endangered Wildlife Trust's Birds of Prey Working Group has now been ongoing for around 17 years.

In total, Zurich South Africa contributed over R7.8 million in 2010 towards community investment and environmental projects and, going into 2011, we are looking to develop and refine our programme of activity further.

Our strong partnership with Royal Bafokeng Holdings has created opportunities to identify proactively areas that require development with respect to education standards, ensuring that we can tailor literacy and maths programmes that will make a sustainable and positive difference to communities. In addition, our association with MaAfrika Tikkun is aligned perfectly, enabling us to develop individuals within families, and families within communities.

By creating focus and channelling both money and time into a number of core initiatives, Zurich South Africa can tangibly demonstrate that as an organisation we are genuinely embracing the spirit of socio-economic development – not just paying lip service – by having a clear vision to make a tangible, positive difference.

# Board of Directors

## Executive Directors

**Guy Munnoch (58)**

**Chief Executive Officer**
BSc (Hons), MDA
Joined and appointed to the Board in 2009

**Pieter Bezuidenhout (50)**

**Chief Financial Officer**
BCompt (Hons), CA (SA)
CISA, HCiL
Joined and appointed to the Board in 2009

## Non-Executive Directors

**Joseph Deiss (65)**

**Director**
Lic Rer Pol Dr Rer Pol
Habilitation Dr HC
Appointed to the Board in 2007

**Saad Mered (44)**

**Director**
Juris Doctor, BA
Appointed to the Board in 2010

**Pieter Rörich (42)**

**Director**
BCom (Hons), CA (SA)
Appointed to the Board in 2010

# Independent Non-Executive Directors

**Gerard de Rauville (69)**

Chairman

CA (SA)

Appointed to the Board in 1983 and as Chairman in 2007

**Mandiza Mbekeni (43)**

Director

BA (Law), LLB

Appointed to the Board in 2007

**Dolly Mokgatle (54)**

Director

BProc, LLB, HDip (Tax Law)

Appointed to the Board in 2007

**Stuart Morris (65)**

Director

BCom, CA (SA)

Appointed to the Board in 2005

# Executive Committee

**Guy Munnoch (58)**
**Chief Executive Officer**

BSc (Hons), MDA
Joined in 2009

**Pieter Bezuidenhout (50)**
**Chief Financial Officer**

BCompt (Hons), CA (SA), CISA, HCIL
Joined in 2009

**Dennis Burton (62)**
**Head of Broker Relations**

ACII
Joined in 1986. Appointed Executive Director in 2005; General Manager: Commercial in 2008; Head of Sales and Distribution in 2010; and Head of Broker Relations in 2011

**Dylan Garnett (34)**
**Chief Operating Officer**

BSc (Hons), BCom (Hons)
Joined in 2007 as Chief Administration Officer. Appointed Chief Operating Officer in 2009

**Chris Grieve (50)**
**Head of Sales and Market Underwriting**

Joined in 2010 as Head of Market Underwriting. Appointed Head of Sales and Market Underwriting in 2011

**Sharon Hough (36)**
**Chief Marketing Officer**

BA (Hons)
Joined in 2010 as Chief Marketing Officer

**George Kostopoulos (42)**
**General Counsel and Head of Compliance**

BA, BProc
Joined in 2010 as General Counsel and Head of Compliance

**Christo Schmidt (39)**
**Chief Underwriting Officer**

BCom, FIA
Joined in 2003. Appointed Chief Underwriting Officer in 2008

**Mosidi Shomang (43)**
**Chief Claims Officer**

BA (Hons), MBL
Joined in 2009 as General Manager: Claims. Appointed Chief Claims Officer in 2010

**Clifford Zungu (54)**
**Head of People Management**

BCom
Joined in 2000. Appointed Executive Director in 2005; General Manager: People Management in 2008; and Head of People Management in 2010

# Corporate governance

## Corporate governance statement

Zurich South Africa ("the Company") has long acknowledged that good corporate governance is an integral part of its business operations and that it is a result of collective responsibility and shared accountability. The Company fully supports and is committed to complying with the JSE Limited (JSE) Listings Requirements and the King II Report on Corporate Governance, in terms of which its shareholders and stakeholders are assured that the Company is being managed ethically and in compliance with legislation and best practices.

Day-to-day responsibility for corporate governance is overseen by management which regularly reports to the various committees of the Board. The Chairman of the Board of Directors and the Chairman of the Audit Committee play an active role in the corporate governance issues faced by the Company through regular interaction with Executive Directors, executive management and other interested parties where necessary.

The JSE Listings Requirements require the Company to disclose its compliance with the King Code and explain any areas of non-compliance. The King Code is a set of guidelines on best practice in corporate governance aimed at promoting the highest standards of governance in South Africa. Zurich complies with all material aspects of the King Code.

**We have long acknowledged that good corporate governance is an integral part of our business operations.**

## Composition of Board and Board committees

| | | | | | | Committees | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Nationality | Executive | Non-Executive | Independent | Board | Audit | ALMIC | Remuneration | Nominations | Transformation |
| JPG de Rauville | Chairman | | | √ | √ | C | | C | | C | |
| GRC Munnoch | Chief Executive Officer | B | √ | | | √ | | √ | | √ | √ |
| P Bezuidenhout | Chief Financial Officer | | √ | | | √ | | √ | | | √ |
| MN Mbekeni | | | | √ | √ | √ | √ * | | | | C |
| DD Mokgatle | | | | √ | √ | √ | √ | | √ # | | |
| SG Morris | | | | √ | √ | √ | C | | C | √ | |
| CJ Cron | Resigned 24 February 2010 | U | | √ Z | | √ | | | √ | √ | |
| JPM Deiss | | S | | √ Z | | √ | √ | √ | | | |
| S Mäder | Resigned 27 October 2010 | S | | √ Z | | √ | | | √ | √ + | |
| S Mered | Appointed 27 October 2010 | U | | √ Z | | √ | | | √ | | |
| PC Rörich | Appointed 1 September 2010 | | | √ R | | √ | | √ | √ | | √ |
| DS Phiri | Resigned 5 May 2010 | | | √ R | | √ | | | √ | √ | √ |
| AB Fischer | Not a Board member | S | | | | | | √ Z | | | |
| R Niemann | Not a Board member | S | | | | | | | √ Z | | |
| G Kettaneh | Not a Board member | | | | | | | | | | √ R |
| KP Seopela | Not a Board member | | | | | | | | | | √ R |
| C Schmidt | Not a Board member | | | | | | | √ | | | |
| E Mwandembwe | Not a Board member | S | | | | | | √ | | | |
| D Garnett | Not a Board member | | | | | | | | | | √ |
| S Hough | Not a Board member | B | | | | | | | | | √ |

* *Appointed on 26 October 2010*
\# *Appointed on 24 February 2010*
\+ *Appointed from 24 February 2010 to 27 October 2010*
C *Chairman*
Z *Zurich Financial Services Representative*
R *Royal Bafokeng Finance (Pty) Limited Representative*
B *British*
U *American*
S *Swiss*

# Board of Directors

## Composition

There is a clear procedure for appointments to the Board. Such appointments are formal and transparent and a matter for the Board as a whole. There is a clear division of responsibility to ensure a balance of power, such that no one individual has unfettered powers of decision-making. At 31 December 2010 the Board comprised seven Non-Executive and two Executive Directors who, with their experience, knowledge and skill, add to the successful operation of the Company. Four of the Non-Executive Directors are independent.

## Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer are separate.

The Chairman, JPG de Rauville, provides firm and objective leadership to the Board of Directors. The Chairman presides over Directors' and shareholders' meetings and ensures the smooth functioning of the Board in the interest of good governance.

The Chief Executive Officer, GRC Munnoch, provides leadership to the Executive Committee in running the business and coordinates proposals developed by the Executive Committee for consideration by the Board.

## Shareholder representation

Shareholder representation is reflected on pages 130 to 131.

## Functions

As the Board is ultimately accountable and responsible for the performance and affairs of the Company, it is the Board's responsibility to adopt strategic plans, monitor operational performance and management, ensure that an effective risk management strategy is in place and ensure compliance with applicable legislation by the Company.

The role and responsibility of the Board is recorded in the Board Charter as amended.

## Meetings

The Board of Directors meets quarterly for ordinary business and ad hoc as and when necessary. Prior to the meetings, all Board members receive a comprehensive Board pack with all the relevant documents for Board members to study in order to make informed decisions at the meetings.

### Attendance register 2010

| | 14 Jan† | 24 Feb | 5 May | 1 Sept | 27 Oct |
|---|---|---|---|---|---|
| JPG de Rauville | √ | √ | √ | √ | √ |
| GRC Munnoch | √ | √ | √ | √ | √ |
| P Bezuidenhout | √ | √ | √ | √ | √ |
| CJ Cron# | X | – | – | – | – |
| JPM Deiss | √ | √ | √ | √ | X |
| S Mäder# | √ | X | √ | √ | √ |
| MN Mbekeni | √ | √ | √ | √ | √ |
| S Mered* | – | – | – | – | – |
| DD Mokgatle | √ | √ | √ | √ | √ |
| SG Morris | √ | √ | √ | √ | √ |
| DS Phiri# | √ | √ | √ | – | – |
| PC Rörich* | – | – | – | √ | √ |

† *Special Board meeting*

### Legend
√ *Present*
X *Absent*
– *Not applicable*

### # Resignations
CJ Cron resigned on 24 February 2010
S Mäder resigned on 27 October 2010
DS Phiri resigned on 5 May 2010

### * New appointments
S Mered appointed on 27 October 2010
PC Rörich appointed on 1 September 2010

## Executive Committee

The Executive Committee ("Exco") assists the Chief Executive Officer, to whom the daily operations have been delegated by the Board, to efficiently and effectively manage the Zurich Group of Companies ("the Group") and to enforce the strategic plans as approved by the Board.

The Exco consists of two Executive Directors and eight Executive Members who represent the main business and operational units in the Company.

The main objective of the Exco is to assist the Chief Executive Officer to guide and control the overall direction of the business of the Group and to act as a medium of communication and coordination between the various business units. As the Exco members attend the Board meetings, direct reporting and feedback is given to the Board of Directors.

Exco meetings are held weekly.

## Board committees

### Audit Committee

#### Function

The objective of the Audit Committee is to assist the Board in discharging its duties relating to the safeguarding of assets, operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.

The responsibilities include, *inter alia,* the review of the full year's financial statements prior to the submission to the Board. The committee ensures that the annual financial statements of Zurich and the subsidiary companies are a true and fair presentation of the financial position at year-end. The reporting on the results of the operations, changes in equity and cash flows for the year-end are all prepared in accordance with the International Financial Reporting Standards (IFRS).

The Audit Committee operates in accordance with a written charter authorised by the Board.

The functions of the committee include, *inter alia,* the following:

– Monitor corporate risk assessment processes.
– Review internal control systems.
– Oversee the performance of the internal audit function.
– Review internal and external audit reports to ensure that, where major deficiencies or breakdown in controls and procedures have been identified, appropriate and prompt remedial action is instituted.
– Review the nomination, appointment, independence, performance and remuneration of the external auditor.
– Review theft and fraud and monitor procedures designed to ensure that the Company's fraud control plans are being implemented.
– Review compliance with taxation responsibilities, legal, regulatory and industry code responsibilities.

### Meetings

The Audit Committee meets quarterly with the internal and external auditors and management to review the effectiveness of internal controls. All the members are financially literate and no relationships exist that could interfere with the members' independence from management.

The Chief Executive Officer, Chief Financial Officer as well as management representation attend the Audit Committee meetings.

### Attendance register 2010

| | 22 Feb | 4 May | 31 Aug | 26 Oct |
|---|---|---|---|---|
| SG Morris | √ | √ | √ | √ |
| DD Mokgatle | √ | √ | √ | X |
| JPM Deiss | √ | √ | √ | X |
| MN Mbekeni | – | – | – | √ |

### Legend

√ *Present*
X *Absent*
– *Not applicable*

## Remuneration Committee

The Directors endorse and are of the opinion that the Group adheres to the Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance for South Africa (King II), with one exception. The Remuneration Committee consists of four Non-Executive Directors of whom two are independent, whereas King II requires a majority of Independent Non-Executive Directors. The composition of this committee considered the representation of Zurich Financial Services and Royal Bafokeng Finance.

### Functions

The Remuneration Committee is there to establish a transparent procedure to determine the policy and approach the Company should follow with regard to remuneration and the determination of the remuneration packages for the Directors and Senior Executives, taking cognisance of market-related packages, skill, experience and to avoid potential conflicts of interest.

The financial statements include the details of Executive and Non-Executive Directors' earnings and other benefits in accordance with the requirements of the Companies Act 1973 and the JSE Listings Requirements. For details of Directors' emoluments, refer to pages 127 and 128 of this report.

### Meetings

The committee meets when necessary and such meetings are normally held on the same day as Board meetings.

## Asset/Liability Management Investment Committee

### Functions

The objective of the committee is to ensure that appropriate and timely decisions are taken with regard to the investment of Company funds, management of assets relative to liabilities and reviewing the relationship between assets and liabilities. The committee sets the guidelines and principles for the Company to follow and takes advice where appropriate from outside investment professionals.

### Meetings

The committee meets quarterly, with a direct reporting function to the Board.

## Transformation Committee

### Functions

The purpose of the Transformation Committee is as follows:

- Adopt the Company's transformation strategy.
- Help set or review the annual action plans and other steps for advancing these strategies, which includes defining proposals and project plans.
- Monitor and measure progress in executing on the strategy and each year's action plan.
- Monitor the money spent by the Company on transformation projects as approved by the Board of Directors.
- Serve as a regular platform for discussing, coordinating and advancing the work in areas of each of the various functions represented on the committee.
- Serve as a sounding or consultative forum for specific corporate responsibility issues.
- Advise and consult appropriate specific decision-makers or as otherwise directed by the Board.

### Meetings

The committee meets quarterly, with a direct reporting function to the Board.

## Nominations Committee

### Functions

The Company has established a Nominations Committee, which makes recommendations to the Board on all new Board appointments. This committee reviews the balance and effectiveness of the Board. In addition, it identifies the skills needed and individuals who might best be able to provide such skills. The Nominations Committee is a mechanism for ensuring that the Board remains effective and focused.

### Meetings

The Nominations Committee consists of not less than three Directors appointed by the Board, the majority of whom are Independent Non-Executive Directors. Meetings are held when deemed appropriate, with the committee meeting at least once a year.

### Risk and Control Committee

The Risk and Control Committee comprises members of the Executive Committee, Group Audit, Risk Management and Legal and Compliance. The committee meets quarterly and reports to the Audit Committee.

The Risk and Control Committee has the duty of identifying corporate accountability and associated risks in terms of management and reporting. The committee enforces risk control policies and strategies and has an accompanying evaluation function.

The committee monitors external developments relating to its functions, identifies if any emerging or prospective impacts exist and deals with them appropriately.

## Accounting and auditing

### External Audit

The external auditors, PricewaterhouseCoopers, are responsible for reporting on whether the financial statements are fairly presented in conformity with IFRS. The external auditors offer reasonable, but not absolute, assurance on the accuracy of financial disclosures. The preparation of the financial statements is the responsibility of management.

Consultation occurs between external and internal auditors to effect an efficient audit process. The Audit Committee sets the principles for recommending the use of the external auditors for non-audit services.

The following non-auditing service was provided by the Group's external audit firm:

- VAT consulting.

### Group Audit

The function of the Group Audit Department is to provide independent, objective assurance and consulting services designed to add value and improve Zurich's operations. It helps Zurich to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Group Audit is independent from management and is staffed by qualified and experienced individuals, with the head of the department reporting directly to the Global Head of Audit and the local Audit Committee. Group Audit submits reports to and attends the Audit Committee meetings.

The scope of work of the Group Audit Department is to determine whether the organisation's network of risk management, control and governance processes, as designed and represented by management, is adequate and functions effectively.

Group Audit liaises closely with the external auditors in the planning, execution and communication of the results of their work.

## Directors' responsibility

The Directors acknowledge their responsibility for the preparation of the annual financial statements, adherence to applicable accounting policies and standards and the presentation of related information that fairly presents the state of affairs and the results of the Company, as well as for the effectiveness of risk management and the internal control environment.

## Going concern

Based on the annual financial statements as set out on pages 30 to 131, the Directors have every reason to believe that the Company has adequate resources in place to continue operations for the foreseeable future.

## Code of Business Conduct

The Company has a formal Code of Business Conduct, which incorporates a Code of Ethics. The Code applies throughout the Group and ensures that best business practices are applied on a constant basis. The Code is distributed to all employees of the Company and its subsidiaries and prescribes the ethical standards required of employees in their interaction with one another and all stakeholders.

The Company also subscribes to the Industry Code of Conduct and Ethics, which was published by the South African Insurance Association during 2002.

## Communication

Communication to the public and to shareholders embodies the principles of balanced reporting, clarity and openness. Positive and negative aspects of both financial and non-financial information are provided.

The Board encourages shareholders to attend its forthcoming Annual General Meeting, the notice of which is contained in this annual report. This provides opportunities for shareholders to ask questions of the Board.

## Disclosure

The annual report deals adequately with disclosures pertaining to financial statements, auditors' responsibility, accounting records, internal control, risk management, accounting policies, adherence to accounting standards, going-concern issues and adherence to codes of governance as well as the JSE Listings Requirements.

# Regulatory environment

Consumer protection was at the forefront of the regulatory developments during 2010 and looks set to remain at the top of the agenda for some time to come. Following the Consumer Protection Act that was released at the end of 2009, the Financial Services Board (FSB) swiftly followed this up through the issue of a discussion paper focused on Treating Customers Fairly (TCF).

The purpose of the TCF principles is to raise standards in the way financial services firms carry on their business ensuring that customers are respected through every stage of the interaction. From the production of transparent marketing material, through to simple product development and clear advice, organisations will have to ensure they can demonstrate that they are consistently treating their customers fairly through the process.

For South Africa, TCF heralds a major cultural paradigm shift in how the financial services industry operates and it will be a significant focal point moving forward into 2011. The principles cover and impact a wide scope of business activities and organisations will need to start revisiting their approach to areas such as staff training, complaint handling and product awareness and understanding if they are to stay ahead of the game.

Alongside the area of consumer protection, companies will also have to revise business practices to contend with, among others, the new Companies Act of 1973, as amended, insurance regulations including Financial Advisory and Intermediary Services (FAIS) regulations and data protection laws.

The FSB also plans to introduce a new risk-based regulatory regime, referred to as Solvency Assessment and Management (SAM). This approach will require insurers to maintain adequate capital for the risks they take. It will also look at the quality of risk management practices including control and will require additional risk disclosure to shareholders and the regulator.

To ensure we are in a strong position to respond to the increasing level of regulation and legislation, we enhanced our Compliance function during 2010, bringing on board two new roles to ensure that we have the necessary rigour around our approach and implementation. In addition, we recognise the important role we play in keeping our customers informed of changes that may impact them or their businesses.

Our compliance risks are managed through internal policies and processes, which include legal, regulatory and other technical requirements relevant to the business. As always, we seek to bring the highest standard of compliance, best practice to all our operations, both locally and across the border. For 2010, this included a robust internal and external Audit programme that continues to be driven alongside our independent Audit Committee, to ensure our governance framework is fully adhered to.

With respect to BEE, as mentioned on page 10 of this report, we achieved a Level 4 BEE Rating in terms of the DTI Codes of Good Practice for the 2010 financial year and in 2011 will continue with initiatives to achieve our vision of becoming the leading empowered insurer in our chosen markets.

# Directors' responsibility and approval of annual financial statements

**To the members of Zurich Insurance Company South Africa Limited**

The Directors are required by the South African Companies Act, 1973, as amended, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the Directors' responsibility to ensure that the financial statements fairly present the state of affairs of the Company and the Group as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards (IFRS). The external auditors are responsible for independently reviewing and reporting on the financial statements.

The financial statements set out in this report have been prepared by management in accordance with IFRS and in the manner required by the Companies Act in South Africa. They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates.

The Company and Group complies with the recommendations of the code of corporate practices and conduct included in the King Committee's Report on Corporate Governance.

The Company's and the Group's internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of their assets. Such controls are based on established written policies and procedures which are monitored through the Company and the Group and all employees are required to maintain the highest ethical standards in ensuring that the Company's and the Group's business practices are conducted in a manner which in all reasonable circumstances is above reproach.

The Audit Committee, which has been operating for a number of years and which comprises Non-Executive Directors, meets periodically with management and both the internal and external auditors to review the financial statements, accounting policies and the systems and procedures in respect of the production of management information, business risk management and internal controls. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, systems and procedures has occurred during the year under review.

In light of the current financial position, the Directors are satisfied that the Company and the Group is a going concern and have continued to adopt the going-concern basis in preparing the financial statements. The Group's external auditors, PricewaterhouseCoopers Inc., have audited the financial statements and their unqualified report appears on page 29. This statement concurs with the Directors statements on internal financial controls and going concern.

The Company and Group annual financial statements which are set out on pages 30 to 131 were, in accordance with their responsibilities, approved by the Board of Directors on 26 January 2011 and are signed on its behalf by:

JPG de Rauville
*Chairman*

GRC Munnoch
*Chief Executive Officer*

Johannesburg
26 January 2011

# Audit Committee report

The Audit Committee has been constituted in accordance with applicable legislation and regulations. The committee consists of three Independent Non-Executive and one Non-Executive Director as required by the Group Governance principles. Four Audit Committee meetings were held during the year at which the members fulfilled their functions as prescribed by the Companies Act of South Africa. A detailed report on the activities of the committee is contained in the Corporate governance section of the annual report.

In terms of the JSE Listings Requirements, the committee is required to consider the appropriateness of the expertise and experience of the Financial Director of the Company. In respect of this requirement and for the year under review and the following year, the committee is satisfied that P Bezuidenhout, the Financial Director, possesses the appropriate expertise and experience to fulfil his responsibilities in this position.

**SG Morris**
*Chairman*
*Audit Committee*

Johannesburg
26 January 2011

# Certificate by Group Company Secretary

In terms of section 268G (d) of the Companies Act, 61 of 1973, as amended, I certify that:

- the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act, 1973; and
- all such returns are true, correct and up to date.

**G Kostopoulos**
*Group Company Secretary*

Johannesburg
26 January 2011

# Independent auditor's report

**To the members of Zurich Insurance Company South Africa Limited**

We have audited the Group annual financial statements and annual financial statements of Zurich Insurance Company South Africa Limited, which comprise the consolidated and separate statements of financial position as at 31 December 2010, and the consolidated and separate statements of financial performance, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the Directors' report, as set out on pages 30 to 131.

## Directors' responsibility for the financial statements

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

## Auditor's responsibility

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

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

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Zurich Insurance Company South Africa Limited as at 31 December 2010, and its consolidated and separate financial performance and its consolidated and separate 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.

PricewaterhouseCoopers Inc.
Director: AG Taylor
Registered Auditor

Johannesburg
31 January 2011

# Directors' report

On 26 January 2011 the Directors approved the accompanying financial statements set out on pages 30 to 131 and take pleasure in presenting their report.

**1. Review of activities**

Nature of business

The Company conducts all classes of short-term insurance business and offers premium collection services in the Republic of South Africa, and through its operations in Botswana. Details of investments in subsidiaries and associated companies are set out in notes 7 and 8.

**2. Share capital**

The Company's share capital remained unchanged at 12,179,500 issued shares and 13,207,360 authorised shares with a par value of 25 cents each.

**3. Operations in 2010**

3.1 Premium income

The Group's gross premiums for the year totalled R4,632 million (2009: R5,404 million). After deducting reinsurance premiums of R979 million (2009: R1,140 million), net premiums amounted to R3,653 million (2009: R4,265 million).

3.2 Underwriting results

The Group's underwriting result for the year was a profit of R94.8 million compared to a loss of R564 million in the previous year.

3.3 Contingency reserve

As required by the regulatory authorities in South Africa and Botswana, the Group's contingency reserve now stands at R375 million (2009: R414 million).

3.4 Investment income

The Group's dividends and interest income amounted to R241 million for the year (2009: R259 million), whilst the realised and unrealised surplus on available-for-sale financial assets amounted to R7 million (2009: R109 million).

**4. Profits**

| Group | **2010 R'000** | 2009 R'000 |
|---|---|---|
| Profit/(loss) before tax | **192** | (285) |
| Tax | | |
| – Deferred | **(48)** | 101 |
| – STC | **–** | (1) |
| Profit/(loss) after tax | **144** | (185) |

**5. Directors**

The Directors of the Company during the year and to the date of this report are as follows:

| Name | Changes |
|---|---|
| JPG de Rauville | |
| GRC Munnoch | |
| P Bezuidenhout | |
| S Mäder | Resigned 27 October 2010 |
| S Mered | Appointed 27 October 2010 |
| CJ Cron | Resigned 24 February 2010 |
| JPM Deiss | |
| MN Mbekeni | |
| DD Mokgatle | |
| SG Morris | |
| DS Phiri | Resigned 5 May 2010 |
| PC Rörich | Appointed 1 September 2010 |

Full details of the Directors and Executive Management are set out on pages 12 to 14.

# Directors' report continued

**6. Directors' shareholding**

The aggregate shareholding of Directors of the Company is as follows:

| *Fully paid shares* | **2010** | 2009 |
|---|---|---|
| Indirect beneficial – PC Rörich | **17,382** | – |
| Indirect non-beneficial | **1,000** | 1,000 |
| **Breakdown: Indirect non-beneficial** | | |
| *Shareholder* | | |
| GRC Munnoch | **100** | – |
| SG Morris | **100** | 200 |
| NV Beyers | **–** | 200 |
| JPM Deiss | **100** | 100 |
| S Mäder | **–** | – |
| PC Rörich | **100** | – |
| P Bezuidenhout | **200** | – |
| JPG de Rauville | **100** | 100 |
| S Mered | **100** | – |
| CJ Cron | **–** | 100 |
| MN Mbekeni | **100** | 100 |
| DD Mokgatle | **100** | 100 |
| DS Phiri | **–** | 100 |
| **Total** | **1,000** | 1,000 |

The above interests changed between the end of the prior financial year-end and current financial year-end:

| Transferor | Transferee | Number of shares |
|---|---|---|
| SG Morris | GRC Munnoch | 100 |
| NV Beyers | P Bezuidenhout | 200 |
| CJ Cron | S Mäder | 100 |
| DS Phiri | PC Rörich | 100 |
| S Mäder | S Mered | 100 |

**7. Secretary**

The Group Company Secretary is G Kostopoulos.

Business address

Zurich Insurance Company South Africa Limited
15 Marshall Street
Ferreirasdorp
Johannesburg
2001

Postal address

PO Box 61489
Marshalltown
2107

**8. Holding and ultimate holding company**

The immediate holding company is SA Fire House Limited, incorporated in South Africa, which directly and indirectly owns 58.95% (2009: 73.6%) of the issued and fully paid share capital of the Company. The ultimate holding company is Zurich Financial Services Limited, incorporated in Switzerland.

**9. Special resolutions passed**

A special resolution was passed on 5 May 2010 giving general authority to the Directors to repurchase issued shares in the Company, to purchase shares in the Company's holding company and permitting a subsidiary of the Company to purchase shares in the Company, subject to the limitations as in the notice to the meeting.

**10. Events after the reporting period**

The Directors are not aware of any significant matter or circumstance arising since the end of the financial year.

# Statement of financial position

as at 31 December 2010

| | Note | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Land, buildings and equipment | 4 | **112,690** | 127,719 | **107,389** | 118,325 |
| Goodwill | 5 | **–** | 2,002 | **–** | – |
| Intangible assets | 6 | **53,519** | 17,779 | **45,168** | 9,675 |
| Investments in subsidiaries | 7 | **–** | – | **58,569** | 65,482 |
| Investments in associates | 8 | **4,560** | 1,151 | **3,752** | 522 |
| Financial instruments | 9 | **3,036,859** | 2,779,066 | **2,714,511** | 2,378,334 |
| – Available-for-sale | 9.1 | **1,664,568** | 1,530,588 | **1,403,799** | 1,187,626 |
| – At fair value through income | 9.2 | **406,868** | 381,010 | **406,868** | 381,010 |
| – Loans and receivables | 9.3 | **965,423** | 867,468 | **903,844** | 809,698 |
| Deferred taxation asset | 10 | **18,468** | 75,199 | **15,794** | 73,691 |
| Prepayment | 11.1 | **134,544** | 47,703 | **134,544** | 47,703 |
| Deferred acquisition costs | 12 | **102,192** | 121,408 | **88,734** | 107,917 |
| Reinsurance assets | 13 | **970,283** | 716,568 | **819,100** | 671,781 |
| – Reinsurance outstanding claims | 13 | **759,161** | 486,690 | **645,639** | 467,610 |
| – Reinsurance unearned premiums | 13 | **211,122** | 229,878 | **173,461** | 204,171 |
| Income tax asset | | **26,355** | 114,050 | **21,949** | 111,342 |
| Cash and cash equivalents | 14 | **1,072,454** | 1,032,696 | **679,608** | 524,119 |
| Total assets | | **5,531,924** | 5,035,341 | **4,689,118** | 4,108,891 |
| **Equity and liabilities** | | | | | |
| Equity | | | | | |
| Share capital | 15 | **4,650** | 4,650 | **4,650** | 4,650 |
| Translation reserve | | **(36,908)** | (31,662) | **–** | – |
| Revaluation reserve | 16 | **293,941** | 208,605 | **293,941** | 208,482 |
| Statutory contingency reserve | | **375,365** | 414,174 | **347,448** | 407,016 |
| Retained income | | **1,246,779** | 1,063,553 | **1,145,222** | 902,003 |
| Non-controlling interest | | **–** | 2,859 | **–** | – |
| Total equity | | **1,883,827** | 1,662,179 | **1,791,261** | 1,522,151 |
| Liabilities | | | | | |
| Retirement benefit obligation | 11.2 | **41,494** | 31,272 | **41,317** | 31,250 |
| Financial liabilities held at amortised cost | 17 | **281,597** | 320,375 | **–** | – |
| Insurance liabilities | 13 | **2,447,738** | 2,298,714 | **2,169,072** | 2,173,768 |
| – Gross outstanding claims | 13 | **1,691,964** | 1,458,202 | **1,549,936** | 1,436,569 |
| – Gross unearned premiums | 13 | **755,774** | 840,512 | **619,136** | 737,199 |
| Deferred reinsurance commission | 18 | **17,264** | 26,496 | **15,739** | 24,887 |
| Current tax payable | | **–** | 8,386 | **–** | – |
| Trade and other payables | 19 | **838,848** | 687,919 | **650,573** | 356,835 |
| Provisions | 19.1 | **21,156** | – | **21,156** | – |
| Total liabilities | | **3,648,097** | 3,373,162 | **2,897,857** | 2,586,740 |
| Total equity and liabilities | | **5,531,924** | 5,035,341 | **4,689,118** | 4,108,891 |

# Statement of financial performance

for the year ended 31 December 2010

| | Note | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|---|
| Gross written insurance premium | 13 | **4,632,362** | 5,404,362 | **4,212,214** | 4,991,623 |
| Insurance premium ceded to reinsurers | 13 | **(978,900)** | (1,139,621) | **(737,736)** | (920,564) |
| **Net written insurance premium** | | **3,653,462** | 4,264,741 | **3,474,478** | 4,071,059 |
| Change in unearned premium | | | | | |
| – Gross amount | 13 | **73,738** | (36,553) | **118,063** | (13,272) |
| – Reinsurers' share | 13 | **(13,435)** | 37,074 | **(30,710)** | 25,791 |
| **Net insurance premium earned** | 13 | **3,713,765** | 4,265,262 | **3,561,831** | 4,083,578 |
| Reinsurance commission earned | 18 | **168,526** | 137,380 | **137,134** | 130,387 |
| Investment income | 20 | **240,696** | 258,667 | **283,331** | 273,943 |
| Employee benefits surplus | 11.1 | **105,552** | – | **105,552** | – |
| Other income | | **5,747** | 28,007 | **1,200** | 1,200 |
| Net realised gains on available-for-sale financial assets | 21 | **6,809** | 108,631 | **6,809** | 108,631 |
| **Net income** | | **4,241,095** | 4,797,947 | **4,095,857** | 4,597,739 |
| – Gross amount paid | 13 | **(3,269,131)** | (3,905,335) | **(2,968,357)** | (3,739,099) |
| – Reinsurers' share paid | 13 | **654,764** | 370,835 | **414,262** | 349,351 |
| – Gross amount change in provision | 13 | **(237,035)** | (270,344) | **(113,368)** | (283,828) |
| – Reinsurers' share of change in provision | 13 | **274,550** | 134,701 | **178,030** | 158,069 |
| **Net insurance claims** | 13 | **(2,576,852)** | (3,670,143) | **(2,489,433)** | (3,515,507) |
| Acquisition costs | 12 | **(747,659)** | (809,691) | **(689,507)** | (773,599) |
| Impairment of available-for-sale financial assets | 22 | **(11,998)** | (1,539) | **(11,998)** | (1,539) |
| Administrative and other operating expenses | 23 | **(692,029)** | (565,052) | **(660,459)** | (495,619) |
| Investment expenses | | **(4,939)** | (4,824) | **(4,666)** | (3,628) |
| **Expenses** | | **(1,456,625)** | (1,381,106) | **(1,366,630)** | (1,274,385) |
| **Profit/(loss) from operating activities** | | **207,618** | (253,302) | **239,794** | (192,153) |
| Finance costs | 24 | **(13,511)** | (31,772) | **(13,511)** | (7,536) |
| Share of (loss)/income in associates | | **(1,708)** | – | **233** | – |
| **Profit/(loss) before taxation** | | **192,399** | (285,074) | **226,516** | (199,689) |
| Income tax (expense)/credit | 25 | **(47,982)** | 100,509 | **(42,865)** | 99,418 |
| **Profit/(loss) for the year** | | **144,417** | (184,565) | **183,651** | (100,271) |
| **Earnings per share (cents)** | | | | | |
| Basic and diluted (cents) | 26 | **1,186** | (1,515) | **–** | – |

# Statement of comprehensive income

for the year ended 31 December 2010

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **Profit/(loss) for the year** | **144,417** | (184,565) | **183,651** | (100,271) |
| **Other comprehensive income** | | | | |
| Exchange differences on translating foreign operations | **(5,246)** | – | **–** | – |
| Net realised gain on available-for-sale financial assets | **(6,809)** | (108,631) | **(6,809)** | (108,631) |
| Impairment losses transferred to statement of financial performance | **11,998** | 1,539 | **11,998** | 1,539 |
| Unrealised gains on available-for-sale assets | **94,060** | 116,978 | **94,183** | 116,978 |
| Income taxation relating to components of other comprehensive income | **(13,913)** | (2,321) | **(13,913)** | (1,383) |
| **Other comprehensive income net of tax** | **80,090** | 7,565 | **85,459** | 8,503 |
| **Total comprehensive income for the year** | **224,507** | (177,000) | **269,110** | (91,768) |
| Total comprehensive income attributable to: | | | | |
| Shareholders of the Company | **224,507** | (177,000) | **269,110** | (91,768) |

# Statement of cash flows

for the year ended 31 December 2010

| | Note | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash utilised in operations | 27 | **(125,972)** | (117,151) | **12,299** | (29,681) |
| Interest income | | **218,577** | 230,848 | **179,774** | 241,177 |
| Dividends received | | **22,119** | 27,819 | **103,557** | 32,766 |
| Finance costs | | **(13,511)** | (31,772) | **(13,511)** | (7,536) |
| Tax received/(paid) | 28 | **74,410** | (48,107) | **90,513** | (35,402) |
| **Net cash from operating activities** | | **175,623** | 61,637 | **372,632** | 201,324 |
| **Cash flows from investing activities** | | | | | |
| *Acquisitions* | | | | | |
| Investments in associates/subsidiaries | | **(3,752)** | – | **(3,761)** | – |
| Financial assets at fair value through income | | **(25,858)** | (34,065) | **(25,858)** | (34,065) |
| Available-for-sale financial assets | | **(198,325)** | (217,865) | **(190,391)** | (77,558) |
| Land, buildings, equipment and intangible assets | | **(72,881)** | (95,457) | **(68,686)** | (87,348) |
| *Proceeds on disposals* | | | | | |
| Available-for-sale financial assets | | **146,280** | 198,790 | **56,280** | 198,790 |
| Financial assets at fair value through income | | **–** | 2,157 | **–** | 2,157 |
| Land, buildings, equipment and intangible assets | | **18,671** | 10,740 | **15,273** | 9,711 |
| **Net cash (paid)/received from investing activities** | | **(135,865)** | (135,700) | **(217,143)** | 11,687 |
| **Cash flows from financing activities** | | | | | |
| Dividends paid | | **–** | (17,051) | **–** | (17,051) |
| **Net cash from financing activities** | | **–** | (17,051) | **–** | (17,051) |
| **Total cash movement for the year** | | **39,758** | (91,114) | **155,489** | 195,960 |
| Cash at beginning of the year | | **1,032,696** | 1,123,810 | **524,119** | 328,159 |
| **Total cash at end of the year** | 14 | **1,072,454** | 1,032,696 | **679,608** | 524,119 |

# Statement of changes in equity

for the year ended 31 December 2010

| | Share capital R'000 | Share premium R'000 | Revaluation reserve R'000 |
|---|---|---|---|
| **Group** | | | |
| **Balance at 31 December 2008** | 3,045 | 1,605 | 201,040 |
| Movement through the statement of comprehensive income | – | – | 7,565 |
| Dividends paid | – | – | – |
| Transfer (from)/to statutory contingency reserve | – | – | – |
| Translation of foreign subsidiaries | – | – | – |
| Share-based payment reserve | – | – | – |
| Non-controlling interest | – | – | – |
| **Balance at 31 December 2009** | **3,045** | **1,605** | **208,605** |
| Movement through the statement of comprehensive income | **–** | **–** | **85,336** |
| Transfer (from)/to statutory contingency reserve | **–** | **–** | **–** |
| Non-controlling interest | **–** | **–** | **–** |
| **Balance at 31 December 2010** | **3,045** | **1,605** | **293,941** |

| | Share capital R'000 | Share premium R'000 |
|---|---|---|
| **Company** | | |
| **Balance at 31 December 2008** | 3,045 | 1,605 |
| Movement through the statement of comprehensive income | – | – |
| Dividends paid | – | – |
| Share-based payment reserve | – | – |
| Transfer (from)/to statutory contingency reserve | – | – |
| **Balance at 31 December 2009** | **3,045** | **1,605** |
| Movement through the statement of comprehensive income | **–** | **–** |
| Transfer (from)/to statutory contingency reserve | **–** | **–** |
| **Balance at 31 December 2010** | **3,045** | **1,605** |

| | Share-based payment reserve R'000 | Translation reserve R'000 | Statutory contingency reserve R'000 | Retained profit R'000 | Total R'000 | Non-controlling interest R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | 145,227 | (22,763) | 425,059 | 1,100,249 | 1,853,462 | 3,362 | 1,856,824 |
| | – | – | – | (184,565) | (177,000) | – | (177,000) |
| | – | – | – | (17,142) | (17,142) | – | (17,142) |
| | – | – | (10,885) | 10,885 | – | – | – |
| | – | (8,899) | – | 8,899 | – | – | – |
| | (145,227) | – | – | 145,227 | – | – | – |
| | – | – | – | – | – | (503) | (503) |
| | **–** | **(31,662)** | **414,174** | **1,063,553** | **1,659,320** | **2,859** | **1,662,179** |
| | **–** | **(5,246)** | **–** | **144,417** | **224,507** | **–** | **224,507** |
| | **–** | **–** | **(38,809)** | **38,809** | **–** | **–** | **–** |
| | **–** | **–** | **–** | **–** | **–** | **(2,859)** | **(2,859)** |
| | **–** | **(36,908)** | **375,365** | **1,246,779** | **1,883,827** | – | **1,883,827** |

| | Revaluation reserve R'000 | Share-based payment reserve R'000 | Statutory contingency reserve R'000 | Retained profit R'000 | Total equity R'000 |
|---|---|---|---|---|---|
| | | | | | |
| | 199,979 | 145,227 | 404,042 | 877,072 | 1,630,970 |
| | 8,503 | – | – | (100,271) | (91,768) |
| | – | – | – | (17,051) | (17,051) |
| | – | (145,227) | – | 145,227 | – |
| | – | – | 2,974 | (2,974) | – |
| | **208,482** | **–** | **407,016** | **902,003** | **1,522,151** |
| | **85,459** | **–** | **–** | **183,651** | **269,110** |
| | **–** | **–** | **(59,568)** | **59,568** | **–** |
| | **293,941** | **–** | **347,448** | **1,145,222** | **1,791,261** |

# Notes to the annual financial statements

for the year ended 31 December 2010

## 1. General information

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

The Company is incorporated and domiciled in the Republic of South Africa and is listed on the JSE Limited in South Africa. The address of its registered office is: 15 Marshall Street, Ferreirasdorp, Johannesburg, 2001, South Africa.

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

The financial statements were authorised for issue on 26 January 2011 by the Board of Directors. The entity's owners or others do not have the power to amend the financial statements after issue.

### 1.1 Summary of significant accounting policies

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

### 1.2 Basis of presentation

These annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared under the historical-cost convention except where otherwise stated in the accounting policies below.

All amounts are shown in rand thousands, rounded to the nearest thousand rand, unless otherwise stated, with the consequence that the rounded amounts may not add to the rounded total in all cases.

The preparation of financial statements, in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in note 1.24.

### 1.3 New standards and amendments

*New and amended standards adopted by the Group*

*The following new standard and amendment to standards are mandatory for the first time for the financial year beginning January 2010:*

IFRS 3 (revised), *Business combinations,* and consequential amendments to IAS 27, *Consolidated and separate financial statements*, IAS 28, *Investments in associates* are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (revised), requires the effect of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses.

*The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 2010 but are not currently relevant to the Group:*

IFRIC 17, *Distribution of non-cash assets to owners*. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders as a distribution of reserves or as dividend.

IFRIC 18, *Transfers of assets from customers.*

IFRIC 9, *Reassessment of embedded derivatives,* and IAS 39, *Financial instruments: Recognition and measurement*. This requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category.

IFRIC 16, *Hedges of a net investment in a foreign operation*. This amendment states that a qualifying hedge instrument may be held by any entity within the Group.

IAS 1 (amendment), *Presentation of financial statements*. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.

IAS 36 (amendment), *Impairment of assets*. The amendment clarifies that the largest cash-generating unit which goodwill should be allocated for the purposes of impairment is an operating segment.

IFRS 2 (amendment), *Group cash-settled share-based payment transactions*. This amendment expands on the guidance in IFRIC 11 on the classification of group arrangements.

IFRS 5 (amendment), *Non-current assets held for sale and discontinued operations*. This amendment specifies the disclosures required for non-current assets.

*The following new standards and amendments to standards are issued, but not effective for the financial year beginning January 2010 and not early adopted:*

IFRS 9, *Financial instruments*. This is the first step in the replacement of IAS 39. IFRS 9 introduces new requirements for classifying and measuring financial assets. There will no longer be the fair value and available-for-sale classifications; all unrealised gains will be recorded through the statement of financial performance giving less volatility in shareholders' equity but more in the profit and loss. Loans and receivables will be recorded at amortised cost accounting for expected future credit losses. This standard is not applicable until January 2013 but is available for early adoption, which the Group has not done.

IAS 24 (revised), *Related party disclosures*. This standard supersedes IAS 24. It clarifies and simplifies the definition of a related party. The Group will apply this standard from 1 January 2011. When this standard is applied, the Group and parent will need to disclose any transactions between its subsidiaries and its associates. The Group is currently putting systems in place to capture the necessary information.

Classification of rights issues (amendment to IAS 32). The amendment applies to annual periods beginning on or after February 2010. This amendment addresses the accounting of a rights issue that is denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are classified as equity, regardless of the currency in which the exercise price is denominated. This standard is not expected to have any impact on the Company and Group's financial statements.

IFRIC 19, *Extinguishing financial liabilities with equity instruments*. This clarifies the accounting when the terms of a financial liability are renegotiated and they result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability (debt for equity swap). It is not expected to have any impact on the Company and Group's financial statements.

**1. General information (continued)**

1.3 New standards and amendments (continued)

*Prepayments of a minimum funding requirement* (amendment to IFRIC 14). Without this amendment, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued. It is not expected to have any impact on the Company and Group's financial statements.

1.4 Basis of consolidation

Subsidiaries

The consolidated annual financial statements include the Company and its subsidiaries.

Subsidiaries are all entities (including special-purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The Group uses the purchase method to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the costs of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of financial performance.

Subsidiaries are consolidated from the date on which control is transferred to the Group (effective date of acquisition) and are no longer included from the date that control ceases (effective date of disposal). Investments in subsidiaries are measured at cost less provision for impairment in the Company's separate financial statements.

Intragroup transactions, balances and unrealised gains on intragroup transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions and non-controlling interest

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interest are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit and loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### Associated companies

Associated companies are those entities over which the Company and Group has significant influence, but not control, over the financial and operating policies. This is generally indicated by a voting right in the entity of between 20% and 50%.

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of financial performance, and its share of post-acquisition movements in the statement of comprehensive income of the associate is recognised in the statement of comprehensive income of the Group. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

### Business combinations

The Group accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Contingent consideration is included in the cost of the business combination at fair value as at the date of acquisition. Subsequent changes to the assets, liabilities or equity which arise as a result of the contingent consideration are not effected against goodwill, unless they are valid measurement period adjustments.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3, *Business Combinations,* are recognised at their fair values at acquisition date, except for non-current assets (or disposal group) that are classified as held-for-sale in accordance with IFRS 5, *Non-current Assets Held For Sale and Discontinued Operations*, which are recognised at fair value less costs to sell.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the Group assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for Group purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interest arising from a business combination is measured either at their share of the fair value of the assets and liabilities of the acquiree or at fair value. The treatment is not an accounting policy choice but is selected for each individual business combination, and disclosed in the note for business combinations.

In cases where the Group held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

**1. General information (continued)**

1.4 Basis of consolidation (continued)

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

1.5 Foreign currencies

Functional and presentation currency

Items included in the annual financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated annual financial statements are presented in South African Rands, which is the Company's and Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance.

Foreign exchange gains and losses are presented in administrative and other operating expenses in the statement of financial performance. Translation differences related to changes in amortised cost are recognised in profit and loss, while other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in the statement of financial performance. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in comprehensive income.

1.6 Classification of insurance contracts

The Group issues contracts that assume the transfer of insurance risk. Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder, are classified as insurance contracts. Such contracts may also transfer finance risk.

Structured insurance and risk financing solutions

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

*Cell captive business*

A cell captive is a contractual arrangement entered into between the insurer and the cell shareholder whereby the risks and rewards associated with certain insurance activities accrue to the cell shareholder. Cell captive insurers allow the cell owners to purchase 'A' ordinary shares in the registered insurance company which undertakes the professional insurance and financial management of the cell. The terms and conditions of the cell are governed by the shareholders' agreement.

There are two types of cell captive arrangements:

- First party: risks that are being insured relate to the cell shareholder's own operations or operations within the cell shareholder's group of companies. Zurich Risk Financing SA Limited does not currently have first-party cell captive arrangements.
- Captive insurers: the cell owner provides the opportunity to its own customer base to buy branded insurance products. The cell is the principal to the insurance contract, although the business is underwritten for the benefit of the cell shareholder.

Cell captive business is deemed to meet the definition of a special-purpose entity due to the cell shareholder's rights to obtain the majority of the future economic benefits of the cell's insurance activities. Therefore there is no impact on the Company's net profit after tax from underwriting and investments results of insurance contracts underwritten in cell arrangements. The cell owner does not compensate the insurer for losses made on insurance business written in the owner's cell. This is credit risk. The cell shareholder's agreement meets the definition of a reinsurance contract in terms of IFRS 4. The insurer passes significant insurance risk, in respect of the policies issued to insurers, on to the cell shareholder. The cell shareholder is ultimately responsible for all claims in respect of the policies issued by the insurer. In addition, stand-alone structured insurance contracts are written apart from cells. Where risks are not transferred, deposit accounting is used to account for these policies.

## 1.7 Recognition and measurement of insurance contracts

### Gross written insurance premium

Insurance premium comprises the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Revenue from gross written insurance premiums includes adjustments to premiums written in prior accounting periods and is shown before deduction of commission payable, and excludes value-added tax.

Premiums received under cell captive business are included in gross written insurance premium in the statement of financial performance. These premiums are subsequently ceded or reinsured to insurance cells and are reflected as such in the statement of financial performance.

Premiums are earned from the date the risk attaches, over the indemnity period based on the pattern of risks underwritten.

### Unearned insurance premiums

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

Unearned premiums are calculated using the $365^{th}$ method.

### Claims

Claims paid during the financial year together with the movement in the provision for outstanding claims are recognised in the statement of financial performance. The provision for outstanding claims comprises the Group's estimate of the undiscounted ultimate cost of settling all claims incurred but unpaid at the statement of financial position date, whether reported or not, and related claims handling expenses. Related anticipated reinsurance recoveries are disclosed separately as assets. These estimated reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for claims incurred but not reported.

Claims paid and the movement in the provision for outstanding claims under cell captive business are provided for as above. These claims are reinsured to insurance cells and are reflected as such in the statement of financial performance.

### Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (ie salvage). The Group might also have the right to pursue third parties for the payment of some or all costs (ie subrogation).

**1. General information (continued)**

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

Estimates of salvage recoveries and subrogation are not included as an allowance in the measurement of the insurance liability for claims. Salvage property and subrogation reimbursements are included in loans and receivables. An impairment test is performed each year-end on these balances.

### Liability adequacy test

The unexpired risk provision meets the criteria of the liability adequacy test required by IFRS 4 and therefore a detailed liability adequacy test has not been performed. A provision should be made for unexpired risks where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The need for an unexpired risk provision has been considered separately by reference to classes of business that are managed together, after taking into account the relevant investment returns.

### Reinsurance

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss exposure. Reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (ie financial reinsurance) are accounted for as financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as assets. These assets comprise commissions due from and claims recoverable from reinsurers and the expected recoverable claims and benefits arising in consequence of expected gross claims payable and IBNR. Amounts recoverable from and due to reinsurers are measured in accordance with the terms of each reinsurance contract. Premiums payable to reinsurers for reinsurance contracts are recognised as a liability when due. The respective net amounts due to/from reinsurers are treated either as loans and receivables or as accounts payable. The reinsurer's share of expected claims and IBNR are treated as an insurance asset.

Outward reinsurance premiums are recognised as an expense in the period to which they relate. The reinsurer's share of unearned premium is calculated using the 365th method.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and that there is a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses are recognised in the statement of financial performance. The Group gathers the objective evidence that a reinsurance receivable is impaired using the same process adopted for financial assets at amortised cost. The impairment loss is also calculated using the same method used for these financial assets.

### Insurance receivables and payables

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

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of financial performance. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets at amortised cost. The impairment loss is also calculated using the same method used for financial assets at amortised cost.

### Reinsurance commission revenue

Reinsurance commission received on new or renewal contracts is deferred and recognised in the statement of financial performance over the period of the related direct insurance or reinsurance business assumed.

### Deferred acquisition costs (DAC)

Direct incremental costs of acquiring new contracts and renewing existing contracts are capitalised. Deferred acquisition costs are amortised on a pro rata basis over the contract term as premium is earned. All other costs are recognised as expenses when incurred.

## 1.8 Land, buildings and equipment

### Land and buildings

Land and buildings are shown at fair value, based on a valuation performed by an external independent appraiser every five years, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of financial performance during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve. Decreases that offset previous increases of the same asset are charged against reserves through other comprehensive income. All of these items are taken to equity through the statement of comprehensive income; all other decreases are charged to the statement of financial performance. At each revaluation date, the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost, net of any related deferred income tax, is transferred from the revaluation surplus to retained earnings.

Land is not depreciated.

### Equipment

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

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

**1. General information (continued)**

1.8 Land, buildings and equipment (continued)

Depreciation is provided on a straight-line basis:

| *Item* | *Average useful life* |
|---|---|
| Buildings | 40 years |
| Furniture and fixtures | 5 – 10 years |
| Motor vehicles | 3 – 5 years |
| Office equipment | 3 – 5 years |
| Computer equipment | 3 – 5 years |
| Leasehold improvements | 5 – 10 years |

The residual values and useful lives of equipment are reviewed at each statement of financial position date and adjusted accordingly. The accounting policy in regard to the impairment is described in note 1.11. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Disposals

Gains and losses on disposals, which are included in operating profit, are determined by comparing the proceeds with the carrying amounts. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings in the statement of comprehensive income.

1.9 Financial instruments

The Group's financial assets are classified into three categories, depending on the purpose for which the assets have been acquired. The categories are: financial assets at fair value through income, available-for-sale financial assets, and loans and receivables.

Management determines the classification of its investments at initial recognition depending on the purpose for which the investments were acquired and re-evaluates this at every reporting date, except for those designated at fair value through income.

Classification

*Financial assets at fair value through income*

Financial assets at fair value through income are split into financial assets held for trading and those designated at fair value through income at inception by the Group. Financial assets are designated as fair value through income at inception if they are held to match insurance liabilities held at fair value through income, or if they are managed and their performance is evaluated on a fair value basis.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated in this category or not classified into any other category. They are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity, changes in interest rates or market conditions.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that the Group may have designated as held at fair value through income or available-for-sale. Interest-bearing staff housing loans and other loans are included in this category.

Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

*Recognition and measurement*
Purchases and sales of financial assets are recognised on the trade date, which is the date of commitment to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Financial assets are initially measured at fair value plus, in the case of all financial assets not at fair value through income, transaction costs that are directly attributable to their acquisition. In the case of financial assets at fair value through income, transaction costs are expensed in the statement of financial performance.

After initial recognition, the Group subsequently measures financial assets at fair value through income and available-for-sale financial assets at fair value, without any deduction for transaction costs it may incur on disposal. The fair value of quoted investments is their quoted bid prices at the statement of financial position date.

For unlisted investments, the Group establishes fair values by using valuation techniques. These include the use of recent arm's length market transactions, references to another instrument that is substantially the same, discounted cash flow analysis and option-pricing models making maximum use of market inputs. If the fair value of equity instruments cannot be reliably measured, they are measured at cost.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through income category are included in the statement of financial performance in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale are recognised in other comprehensive income. When available-for-sale securities are sold or impaired, the accumulated fair value adjustments are included in the statement of financial performance as net realised gains/losses in financial assets.

The fair value of quoted investments are based on current bid prices. If the market for the financial asset is not active, the Group establishes fair value by using valuation techniques. These include recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option-pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The fair value of unit trusts is measured at their repurchase price.

Loans and receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through income, are included in the statement of financial performance in the period in which they arise.

**1. General information (continued)**

1.9 Financial instruments (continued)

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in the statement of comprehensive income. When available-for-sale financial assets are sold or impaired, the cumulative gains or losses previously recognised in other comprehensive income are recognised in the statement of financial performance. Unrealised gains and losses exclude interest or dividend income.

Changes in fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences on the amortised cost of monetary securities are recognised in income. Translation differences on non-monetary securities are recognised in the statement of comprehensive income. Unrealised gains or losses on monetary and non-monetary securities classified as available-for-sale are recognised in the statement of comprehensive income.

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

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 45 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at amortised cost.

Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

## 1.10 Intangible assets

### Goodwill

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

Goodwill is allocated to the cash-generating business unit it relates to for the purposes of impairment testing.

### Computer software

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use.
- Management intends to complete the software product and use or sell it.
- There is an ability to use or sell the software product.
- It can be demonstrated how the software product will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

Computer software recognised as assets are amortised over their estimated useful lives, which do not exceed five years.

## 1.11 Impairment

### Financial assets at amortised cost

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such evidence exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the statement of financial performance.

A financial asset or group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, where that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as a default or delinquency in payments.
- It becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the Group; or
  - national or local economic conditions that correlate with defaults on the assets in the Group.

**1. General information (continued)**

1.11 Impairment (continued)

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

The Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The recoverable amount of the Group's loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (ie the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. The amount of any loss is included in the statement of financial performance.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Financial assets available-for-sale

The Group evaluates available-for-sale financial assets for impairment when there has been a significant or prolonged decline in the fair value below its cost. Available-for-sale assets are impaired when the evidence indicates that the decline is permanent in nature.

A 50% decline in fair value since acquisition, or a 20% decline in the prior 12 months is deemed significant. Further evidence used to determine if the decline is permanent includes market capitalisation, net asset value and market analyst predictions.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current value, less any impairment loss previously recognised in profit and loss, is transferred from equity to profit and loss. Reversals in respect of equities classified as available-for-sale are not recognised through the statement of financial performance.

Non-financial assets

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

The recoverable amount is the greater of an asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### 1.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

### 1.13 Financial liabilities

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

#### Financial liabilities held at amortised cost

Financial liabilities are initially recognised at the fair value plus any transaction costs and are subsequently remeasured at amortised cost.

The financial liability due to cell shareholders represents cells' funds in respect of the insurance business conducted in the cell structure. The premiums and claims relating to primary cells where no risk is transferred are excluded from the statement of financial performance and accounted for directly as part of the liability. The premiums and claims payments relating to contracts in third-party cells are included in the statement of financial performance but as the third-party cell is the reinsurer, the net result is accounted for as part of the financial liability.

The value of the amount due to cells is the consideration received for 'A' class ordinary shares plus the accumulated funds in respect of business conducted in the cells plus the investment return allocated to the surplus funds in the cells, which is determined in accordance with the investment mandate with the cell.

Other income is disclosed separately.

Financial liabilities are derecognised when they are legally extinguished.

### 1.14 Cash and cash equivalents

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

### 1.15 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction to the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

Where any Group company purchases the Company's equity share capital (treasury shares) the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to the shareholders of the Company.

Where such shares are subsequently sold, reissued or otherwise disposed, any consideration received is included in equity attributable to the Company's shareholders net of any directly attributable incremental transaction costs and the related income tax effects.

**1. General information (continued)**

### 1.16 Statutory contingency reserve

Transfers to and from the reserve are taken directly to and from distributable reserves.

#### South African Group companies

The statutory contingency reserve balance is calculated as 10% of net written premium in terms of the South African Short-term Insurance Act, 1998.

#### Botswana

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

### 1.17 Leases

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are recognised in the statement of financial performance on a straight-line basis over the term of the lease.

### 1.18 Revenue

The accounting policy in relation to revenue from insurance contracts is disclosed in note 1.7.

Revenue comprises the fair value for services, net of value-added tax, after eliminating revenue within the Group. Revenue is recognised as follows:

#### Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit and loss, are included within investment income and finance charges in the statement of financial performance using the effective interest rate method.

#### Dividends

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

#### Fee income

Revenue arising from management and other related services offered by the Group for cell captive business, and sale of other services, is recognised in the period in which the service is rendered.

#### Rendering of services

Revenue arising from asset management and other related services offered by the Group is recognised over the period in which the services are rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of contracts.

### 1.19 Taxation

The tax expense comprises current and deferred tax, and secondary tax on companies. Income tax is recognised in the statement of financial performance except to the extent that it relates to items recognised in the statement of comprehensive income, in which case the related income tax is also recognised in the statement of comprehensive income.

### Current tax

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

### Deferred tax

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor tax profit or loss, it is not accounted for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Secondary tax on companies

Secondary tax on companies that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend. Where there is an unutilised secondary tax credit, it is carried forward and applied to the secondary tax liability when this arises.

## 1.20 Employee benefits

The Group operates both defined-benefit and defined-contribution pension schemes. A defined-benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined-contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions on a defined-contribution fund if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current and prior periods.

The asset recognised in the consolidated statement of financial position in respect of the defined-benefit pension plan is the value of the fund which was outsourced to Metropolitan Life with effect from December 2010. Plan assets exclude any insurance contracts issued by the Group. The defined-benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined-benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in income.

# Notes to the annual financial statements continued

for the year ended 31 December 2010

**1. General information (continued)**

**1.20 Employee benefits (continued)**

**Defined-contribution pension plan**

Contributions to defined-contribution pension plans are recognised as an employee benefit expense in the statement of financial performance as they become due. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The Group has no further obligation for benefits once the payment has been made. All employees in service are members of the defined-contribution plan.

**Defined-benefit pension plan**

None of the employees in service are members of the defined-benefit pension plan. All members of this plan are pensioners and therefore in run-off. As of December 2010 the fund was outsourced to Metropolitan Life.

**Post-retirement medical aid benefits**

The Group provides post-retirement healthcare benefits to their pensioners. The entitlement to the post-retirement healthcare benefits is conditional on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment using the projected unit credit method, similar to the defined-benefit pension plan. A total of 12 (2009: 23) employees in service are members of this plan which is in run-off.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the expected average remaining working lives of the related employees. Independent qualified actuaries value these obligations annually.

**Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related services. This consists of leave pay. The Company's liability for employees' accrued annual leave entitlement at the statement of financial position date is recognised as an expense accrual.

**Share-based compensation**

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each statement of financial position date the Group revises its estimates of the number of options that are expected to vest, based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

**Profitsharing and bonus plans**

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

## 1.21 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

## 1.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividend is approved by the shareholders.

## 1.23 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a current legally enforceable right to offset the amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

## 1.24 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts to the assets and liabilities with the next financial year are addressed below:

*Insurance liabilities*

The Group is required to establish provisions for payment of losses and loss adjustment expenses that arise from the Group's general insurance products. These provisions represent the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the statement of financial position date. The Group establishes its provisions by product line, type and extent of coverage and year of occurrence. Loss provisions fall into two categories: provisions for reported losses and provisions for losses incurred but not reported (IBNR). Additionally, provisions are held for loss adjustment expenses, which contain the estimated legal and other expenses expected to be incurred to finalise the settlement of the losses.

The Group's provisions for reported losses and loss adjustment expenses are based on estimates of future payments to settle reported general insurance claims. The Group bases such estimates on the facts available at the time the provisions are established. The Group generally establishes these provisions on an undiscounted basis to recognise the estimated costs of bringing pending claims to final settlement, taking into account inflation, as well as other factors that can influence the amount of provisions required, some of which are subjective and some of which are dependent on future events. In determining the level of provisions, the Group considers historical trends and patterns of loss payments, pending levels of unpaid claims and types of coverage. In addition, court decisions, economic conditions and public attitudes may affect the ultimate cost of settlement and, as a result, the Group's estimation of provisions, between the reporting and final settlement of a claim, circumstances may change, which would result in changes to established provisions. Items such as changes in law and interpretations of relevant case law, results of litigation, changes in medical costs, as well as costs of vehicle and home repair materials and labour rates can substantially impact ultimate settlement costs. Accordingly, the Group reviews and re-evaluates claims and provisions on a regular basis. Amounts ultimately paid for losses and loss adjustment expenses can vary significantly from the level of provisions originally set.

**1. General information (continued)**

**1.24 Critical accounting estimates and judgements (continued)**

The Group establishes IBNR provisions, on an undiscounted basis, to recognise the estimated cost of losses for events which have already occurred but which have not yet been notified. These provisions are established to recognise the estimated costs required to bring claims for these not yet reported losses to final settlement. As these losses have not yet been reported, the Group relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The Group also uses reported claim trends, claim severities, exposure growth, and other factors in estimating its IBNR provisions. The Group revises these provisions as additional information becomes available and as claims are actually reported.

The Group uses a number of accepted actuarial methods to estimate and evaluate the amount of provisions recorded. The nature of the claim being provisioned for and the geographic location of the claim influence the techniques used by the Group's actuaries.

The key assumptions for each class of business are:

*Provision range*

The Mack (Bootstrap) method was used to derive a full predictive distribution for IBNR claims, to gain a better understanding of the variability of the net IBNR provision.

*Assumption changes*

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

*Sensitivity analysis*

If the provisions for incurred claims change by 10%, the impact on net income after tax is as follows:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Increase 10% R'000** | **Decrease 10% R'000** | Increase 10% R'000 | Decrease 10% R'000 |
| **Group**<br>Outstanding claims | | | | |
| – Net income after taxation | **(62,917)** | **62,917** | (67,743) | 67,743 |
| IBNR | | | | |
| – Net income after taxation | **(30,364)** | **30,364** | (29,408) | 29,408 |
| **Company**<br>Outstanding claims | | | | |
| – Net income after taxation | **(62,041)** | **62,041** | (69,991) | 69,991 |
| IBNR | | | | |
| – Net income after taxation | **(28,389)** | **28,389** | (26,905) | 26,905 |

*Employee obligation*
The Group operates a post-employment medical plan. In assessing the liability for this plan, critical judgements include estimates of mortality rates, disability, early retirement, discount rates, expected long-term rates of return on plan assets, future salary increases and future pension increases/decreases in long-term healthcare costs. The assumptions could differ from actual results due to changing economic conditions, higher or lower withdrawal rates or changes in the life spans of the participants. These differences may result in variability of pension income or expenses recorded in future years.

Refer to note 11 for further information on employee benefits.

### Critical judgements in applying the entity's accounting policies

*Fair value of financial assets*
Certain of the Group's assets are recorded at fair value on the statement of financial position. Fair value determinations for financial assets and liabilities are based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable, fair value is based on either internal valuation models or management estimates of amounts that could be realised under current market conditions. Fair values of certain financial instruments are determined using pricing models that consider, among other factors, contractual and market prices; correlations; yield curves; credit spreads; volatility factors; and prepayment rates of the underlying positions. The use of different pricing models and assumptions could lead to different estimates of fair value. Refer to note 3.

*Allowance for impairment on receivables*
At each statement of financial position date management considers each debtor to determine if it is recoverable, or whether its recovery is doubtful. Each debtor is assessed individually and a provision is made for those where indications exist that recovery is uncertain or where clear evidence exists that the outstanding amount will not be recovered. Refer to note 9.

**2. Segment information**

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. All operating segments used by management meet the definition of a reportable segment under IFRS 8. An operating segment is a component of an entity: a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); b) whose operating results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance; and c) for which discrete financial information is available.

The Group's insurance activities are organised into lines of business, based on the types of policies underwritten. The underwriting results of the Group, by line of business, are reviewed by the Chief Executive Officer (CEO) and Executive Management on a monthly basis, and hence form the basis for the determination of reportable segments.

| Lines of business | Property R'000 | Transport R'000 | Motor R'000 |
|---|---|---|---|
| **Year ended 31 December 2010** | | | |
| Gross written insurance premium | **1,634,330** | **170,825** | **2,152,051** |
| Insurance premium ceded to reinsurers | **(619,408)** | **(40,458)** | **(100,378)** |
| Net change in unearned premium | **13,142** | **8,447** | **28,194** |
| Net insurance premium earned | **1,028,064** | **138,814** | **2,079,867** |
| Reinsurance commission earned | **103,054** | **6,982** | **25,686** |
| Segmental income | **1,131,118** | **145,796** | **2,105,553** |
| Net insurance claims | **721,343** | **84,719** | **1,484,843** |
| Acquisition costs | **304,673** | **32,222** | **282,800** |
| Technical expenses | **169,346** | **14,133** | **225,546** |
| Segmental expenses | **1,195,362** | **131,074** | **1,993,189** |
| Segmental underwriting results | **(64,244)** | **14,722** | **112,364** |
| **Year ended 31 December 2009** | | | |
| Gross written insurance premium | 1,784,433 | 195,025 | 2,593,873 |
| Insurance premium ceded to reinsurers | (646,212) | (46,168) | (138,481) |
| Net change in unearned premium | (10,156) | 4,985 | 27,010 |
| Net insurance premium earned | 1,128,065 | 153,842 | 2,482,402 |
| Reinsurance commission earned | 93,692 | 8,455 | 7,868 |
| Segmental income | 1,221,757 | 162,297 | 2,490,270 |
| Net insurance claims | 893,041 | 104,517 | 2,231,354 |
| Acquisition costs | 326,798 | 35,763 | 327,675 |
| Technical expenses | 155,513 | 17,748 | 216,050 |
| Segmental expenses | 1,375,352 | 158,028 | 2,775,079 |
| Segmental underwriting results | (153,595) | 4,269 | (284,809) |

The measurement of the profits or losses of the reportable segments is done in the same manner, and in a manner consistent with those of the Group as a whole, as presented in the consolidated annual financial statements. Each reporting segment's profit or loss is determined on the basis of directly attributable income and expenses at a policy level. This is consistent with the measurement of the reportable segments' profits or losses, and assets and liabilities in the prior accounting period.

Transactions between segments are carried out at arm's length. No intersegment transactions took place in 2009 or 2010. No transactions occurred between reportable segments and all revenue disclosed in the segmental analysis is from external customers.

The amounts provided to the CEO and Board of Directors with respect to total assets and liabilities are measured in a manner consistent with that of the annual financial statements. These are allocated based on the operations of the segment.

| | Engineering R'000 | Guarantee R'000 | Liability R'000 | Accident and Health R'000 | Miscellaneous R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| | | | | | | |
| | **384,088** | **513** | **113,322** | **177,233** | **–** | **4,632,362** |
| | **(99,527)** | **(147)** | **(32,998)** | **(85,984)** | **–** | **(978,900)** |
| | **24,970** | **(28,367)** | **13,785** | **132** | **–** | **60,303** |
| | **309,531** | **(28,001)** | **94,109** | **91,381** | **–** | **3,713,765** |
| | **25,996** | **(4)** | **5,347** | **1,465** | **–** | **168,526** |
| | **335,527** | **(28,005)** | **99,456** | **92,846** | **–** | **3,882,291** |
| | **155,461** | **39,525** | **77,689** | **13,272** | **–** | **2,576,852** |
| | **76,440** | **27** | **19,267** | **32,230** | **–** | **747,659** |
| | **41,681** | **(33)** | **10,808** | **1,476** | **–** | **462,957** |
| | **273,582** | **39,519** | **107,764** | **46,978** | **–** | **3,787,468** |
| | **61,945** | **(67,524)** | **(8,308)** | **45,868** | **–** | **94,823** |
| | | | | | | |
| | 557,137 | (12,942) | 111,313 | 175,295 | 228 | 5,404,362 |
| | (220,075) | 14,763 | (22,018) | (83,452) | 2,002 | (1,139,621) |
| | 2,048 | (27,865) | 9,379 | (21,188) | 16,308 | 521 |
| | 339,110 | (26,044) | 98,674 | 70,655 | 18,558 | 4,265,262 |
| | 26,301 | (10) | 5,379 | 12,003 | (16,308) | 137,380 |
| | 365,411 | (26,054) | 104,053 | 82,658 | 2,250 | 4,402,642 |
| | 272,874 | 66,473 | 68,203 | 31,438 | 2,243 | 3,670,143 |
| | 86,022 | (5) | 20,098 | 29,647 | (16,307) | 809,691 |
| | 46,517 | 4,714 | 8,872 | 21,227 | 16,316 | 486,957 |
| | 405,413 | 71,182 | 97,173 | 82,312 | 2,252 | 4,966,791 |
| | (40,002) | (97,236) | 6,880 | 346 | (2) | (564,149) |

# Notes to the annual financial statements continued

for the year ended 31 December 2010

## 2. Segment information (continued)

| | Property R'000 | Transport R'000 | Motor R'000 |
|---|---|---|---|
| **Year ended 31 December 2010** | | | |
| **Segment assets** | | | |
| Loans and receivables | **300,220** | **29,986** | **414,170** |
| Reinsurance assets | **745,382** | **31,683** | **15,110** |
| Deferred acquisition costs | **108,678** | **(8,215)** | **6,664** |
| Total segment assets | **1,154,280** | **53,454** | **435,944** |
| **Segment liabilities** | | | |
| Insurance liabilities | **1,054,391** | **103,674** | **734,078** |
| Deferred reinsurance commission | **35,759** | **(8,582)** | **115** |
| Trade payables | **193,295** | **13,294** | **14,658** |
| Total segment liabilities | **1,283,445** | **108,386** | **748,851** |
| **Year ended 31 December 2009** | | | |
| **Segment assets** | | | |
| Loans and receivables | 260,227 | 28,032 | 414,936 |
| Reinsurance assets | 523,364 | 57,868 | 32,979 |
| Deferred acquisition costs | 115,736 | (6,746) | 11,107 |
| Total segment assets | 899,327 | 79,154 | 459,022 |
| **Segment liabilities** | | | |
| Insurance liabilities | 637,809 | 60,818 | 862,124 |
| Deferred reinsurance commission | 39,173 | (8,486) | 344 |
| Trade payables | 156,617 | 12,940 | 19,587 |
| Total segment liabilities | 833,599 | 65,272 | 882,055 |

| | Engineering R'000 | Guarantee R'000 | Liability R'000 | Accident and Health R'000 | Miscellaneous R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
| | **83,872** | **3** | **19,914** | **30,917** | **–** | **879,082** |
| | **39,208** | **13,210** | **34,332** | **91,358** | **–** | **970,283** |
| | **(2,080)** | **(105)** | **95** | **(2,845)** | **–** | **102,192** |
| | **121,000** | **13,108** | **54,341** | **119,430** | **–** | **1,951,557** |
| | | | | | | |
| | **242,970** | **(140,491)** | **352,088** | **101,028** | **–** | **2,447,738** |
| | **(10,112)** | **(38)** | **2,785** | **(2,663)** | **–** | **17,264** |
| | **19,941** | **144,334** | **8,972** | **2,572** | **–** | **397,066** |
| | **252,799** | **3,805** | **363,845** | **100,937** | **–** | **2,862,068** |
| | | | | | | |
| | | | | | | |
| | 80,115 | – | 16,000 | 28,268 | 493 | 828,071 |
| | 30,084 | 13,539 | 57,123 | 11,911 | (10,300) | 716,568 |
| | 3,499 | (75) | 420 | (2,533) | – | 121,408 |
| | 113,698 | 13,464 | 73,543 | 37,646 | (9,807) | 1,666,047 |
| | | | | | | |
| | 261,947 | 71,942 | 359,001 | 45,142 | (69) | 2,298,714 |
| | (4,667) | (53) | 2,864 | (2,678) | (1) | 26,496 |
| | 30,959 | – | 8,630 | 1,945 | 457,241 | 687,919 |
| | 288,239 | 71,889 | 370,495 | 44,409 | 457,171 | 3,013,129 |

## 2. Segment information (continued)

| Market segment | Commercial R'000 | Personal R'000 | Total insurance R'000 |
|---|---|---|---|
| Year ended 31 December 2010 | | | |
| Gross written insurance premium | **3,453,042** | **1,179,320** | **4,632,362** |
| Insurance premium ceded to reinsurers | **(941,657)** | **(37,243)** | **(978,900)** |
| Net change in provision for unearned premium | **54,495** | **5,808** | **60,303** |
| Net insurance premium earned | **2,565,880** | **1,147,885** | **3,713,765** |
| Reinsurance commission earned | **159,807** | **8,719** | **168,526** |
| Segmental income | **2,725,687** | **1,156,604** | **3,882,291** |
| Net insurance claims | **1,785,980** | **790,872** | **2,576,852** |
| Acquisition costs | **544,799** | **202,860** | **747,659** |
| Administration and other operating expenses | **326,939** | **136,018** | **462,957** |
| Segmental expenses | **2,657,718** | **1,129,750** | **3,787,468** |
| Segmental underwriting results | **67,969** | **26,854** | **94,823** |
| Year ended 31 December 2009 | | | |
| Gross written insurance premium | 3,841,311 | 1,563,051 | 5,404,362 |
| Insurance premium ceded to reinsurers | (1,098,851) | (40,770) | (1,139,621) |
| Net change in provision for unearned premium | 16,651 | (16,130) | 521 |
| Net insurance premium earned | 2,759,111 | 1,506,151 | 4,265,262 |
| Reinsurance commission earned | 86,771 | 50,609 | 137,380 |
| Segmental income | 2,845,882 | 1,556,760 | 4,402,642 |
| Net insurance claims | 2,329,076 | 1,341,067 | 3,670,143 |
| Acquisition costs | 511,411 | 298,280 | 809,691 |
| Administration and other operating expenses | 330,304 | 156,653 | 486,957 |
| Segmental expenses | 3,170,791 | 1,796,000 | 4,966,791 |
| Segmental underwriting results | (324,909) | (239,240) | (564,149) |

| Segment assets | Commercial R'000 | Personal R'000 | Total insurance R'000 |
|---|---|---|---|
| Year ended 31 December 2010 | | | |
| Loans and receivables | **632,619** | **246,463** | **879,082** |
| Reinsurance assets | **775,908** | **194,375** | **970,283** |
| – Reinsurance outstanding claims | **623,977** | **135,184** | **759,161** |
| – Reinsurance unearned premiums | **151,931** | **59,191** | **211,122** |
| Deferred acquisition costs | **73,541** | **28,651** | **102,192** |
| Total segment assets | **1,482,068** | **469,489** | **1,951,557** |
| Segment liabilities | | | |
| Insurance liabilities | **1,853,272** | **594,466** | **2,447,738** |
| – Outstanding claims | **1,309,008** | **382,956** | **1,691,964** |
| – Unearned premiums | **544,264** | **211,510** | **755,774** |
| Deferred reinsurance commission | **12,433** | **4,831** | **17,264** |
| Trade and other payables | **285,944** | **111,122** | **397,066** |
| Total segment liabilities | **2,151,649** | **710,419** | **2,862,068** |
| Year ended 31 December 2009 | | | |
| Segment assets | | | |
| Loans and receivables | 828,071 | – | 828,071 |
| Reinsurance assets | 682,745 | 33,823 | 716,568 |
| – Reinsurance outstanding claims | 452,872 | 33,818 | 486,690 |
| – Reinsurance unearned premiums | 229,873 | 5 | 229,878 |
| Deferred acquisition costs | 121,220 | 188 | 121,408 |
| Total segment assets | 1,632,036 | 34,011 | 1,666,047 |
| Segment liabilities | | | |
| Insurance liabilities | 2,045,772 | 252,942 | 2,298,714 |
| – Outstanding claims | 1,205,698 | 252,504 | 1,458,202 |
| – Unearned premiums | 840,074 | 438 | 840,512 |
| Deferred reinsurance commission | 26,495 | 1 | 26,496 |
| Trade and other payables | 687,919 | – | 687,919 |
| Total segment liabilities | 2,760,186 | 252,943 | 3,013,129 |

# Notes to the annual financial statements continued

for the year ended 31 December 2010

## 2. Segment information (continued)

| Reconciliation of revenue, underwriting results, assets and liabilities | 2010 R'000 | 2009 R'000 |
|---|---|---|
| **Revenue** | | |
| Gross written insurance premium per segment report | **4,632,362** | 5,404,362 |
| Gross written insurance premium per statement of financial performance | **4,632,362** | 5,404,362 |
| Underwriting results | | |
| Underwriting results per segment report | **94,823** | (564,149) |
| Investment income | **240,696** | 258,667 |
| Employee benefits surplus | **105,552** | – |
| Other income | **5,747** | 28,007 |
| Net realised gains on disposal of available-for-sale assets | **6,809** | 108,631 |
| Impairment of available-for-sale financial assets | **(11,998)** | (1,539) |
| Administrative and other expenses (excluding underwriting expenses) | **(229,072)** | (78,095) |
| Investment expenses | **(4,939)** | (4,824) |
| Finance costs | **(13,511)** | (31,772) |
| Share of loss of associates | **(1,708)** | – |
| Profit/(loss) before tax per statement of financial performance | **192,399** | (285,074) |
| **Assets** | | |
| Total assets per reporting segments | **1,951,557** | 1,666,047 |
| Land, buildings and equipment | **112,690** | 127,719 |
| Intangible assets | **53,519** | 19,781 |
| Investments in associates | **4,560** | 1,151 |
| Available-for-sale financial assets | **1,664,568** | 1,530,588 |
| Financial assets at fair value through income | **406,868** | 381,010 |
| Unallocated loans and receivables | **86,341** | 39,397 |
| Deferred taxation asset | **18,468** | 75,199 |
| Prepayment | **134,544** | 47,703 |
| Income tax assets | **26,355** | 114,050 |
| Cash and cash equivalents | **1,072,454** | 1,032,696 |
| Total assets per statement of financial position | **5,531,924** | 5,035,341 |
| **Liabilities** | | |
| Total liabilities per reporting segments | **2,862,068** | 3,013,129 |
| Retirement benefit obligation | **41,494** | 31,272 |
| Financial liabilities: held at amortised cost | **281,597** | 320,375 |
| Current tax payable | **–** | 8,386 |
| Unallocated trade and other payables | **462,938** | – |
| Total liabilities per statement of financial position | **3,648,097** | 3,373,162 |

All items above are not directly insurance related.

### Geographical segmentation

The Company is domiciled in South Africa. The Group's revenue, profit, assets and liabilities arising from transactions with external customers are as follows:

| Year ended 31 December 2010 | SA R'000 | Foreign subsidiary R'000 | Total R'000 |
|---|---|---|---|
| Gross insurance premium revenue | **4,418,382** | **213,980** | **4,632,362** |
| Total assets | **5,319,854** | **212,070** | **5,531,924** |
| Total liabilities | **3,506,656** | **141,441** | **3,648,097** |
| Total depreciation | **24,648** | **520** | **25,168** |
| Profit before tax | **133,187** | **59,212** | **192,399** |
| Profit after tax | **89,799** | **54,618** | **144,417** |
| **Year ended 31 December 2009** | | | |
| Gross insurance premium revenue | 5,194,682 | 209,680 | 5,404,362 |
| Total assets | 4,778,122 | 257,219 | 5,035,341 |
| Total liabilities | 3,220,602 | 152,560 | 3,373,162 |
| Total depreciation | 26,016 | 1,944 | 27,960 |
| Profit before tax | (323,775) | 38,701 | (285,074) |
| Profit after tax | (214,876) | 30,311 | (184,565) |

Revenue is allocated based on the country in which the insurance contracts are issued.

## 3. Risks

The purpose of risk management is to promptly identify, measure, manage, report and monitor risks that affect the achievement of the Group's strategic, operational and financial objectives. The Group's objectives are to:

- protect the capital base by monitoring that risks are not taken beyond the Group's risk-taking capacity;
- enhance value creation and contribute to an optimal risk-return profile by providing the basis for an efficient capital deployment;
- support the Group's decision-making process by providing consistent, reliable and timely risk information; and
- protect the Group's reputation and brand by promoting a sound culture of risk awareness.

The Group has a governance process with clear responsibilities for risk taking, managing, monitoring and reporting. The Group articulates the roles and responsibilities for risk management throughout the organisation. The Zurich Group Risk Policy supports this process and is updated regularly to reflect new insights and changes in the Group's environment.

The Group regularly reports on its risk profile and risk issues to the holding company. Risk management is not only embedded in the business but is also aligned with the Group's strategic and operational planning process. The Group identifies and evaluates the probability of a risk scenario occurring, as well as the severity of the consequences should it occur, and consequently develops, implements and monitors the appropriate improvement actions.

**3. Risks (continued)**

In addition to this qualitative approach, the Group regularly measures and quantifies material risks to which it is exposed. Its risk models provide key input into the strategic planning process as they allow an assessment as to whether the risk profile is in line with the risk capacity of the Group and within the risk tolerance.

Through these processes, responsibilities and policies, a culture of disciplined risk taking is embedded across the Group. The Group continuously takes risks, for which it expects an adequate return. This approach requires sound judgement and accepts that certain risks can and will materialise in the future.

The Board of Directors has the responsibility for the Group's risk management. The Risk and Control Committee serves as a focal point for oversight regarding the Group's risk management, in particular the Group's risk capacity, including agreed limits, the measurement of adherence to agreed risk capacities and the Group's risk capacity in relation to anticipated capital levels.

The Chief Executive Officer (CEO) oversees the Group's performance with regard to risk management, strategic, financial and business policy issues of Group-wide relevance. The Group Finance and Risk and Control Committees report regularly to the CEO and make recommendations on significant risk-related issues.

In order to enable a consistent, systematic and disciplined approach to risk management, the Group categorises the main risks as follows:

### Capital risk management

The Group's capital management strategy is to maximise long-term shareholder value by optimising capital allocation while managing the statement of financial position in accordance with regulatory, solvency and rating agency requirements. The Group endeavours to manage its capital such that the Group and all of its regulated entities are adequately capitalised according to the respective regulatory capital adequacy requirements.

The Group's objectives when managing capital are:

- to comply with the insurance capital requirements required by the regulators of the insurance markets where the Group operates. The Group manages its capital so as to maintain an international solvency ratio* of 40% to 50%;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk;
- to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value;
- to manage its capital structure and make adjustments to it, in light of changes in economic conditions; and
- to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

* *International solvency ratio is equity/net written premium.*

In each country in which the Group operates, the local insurance regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the year. The Group is subject to insurance solvency regulations in all the territories in which it issues insurance contracts. The Group has embedded in its Asset/Liability Management Framework the necessary tests to ensure continuous and full compliance with such regulations and it has complied with all the local solvency regulations during the year under review.

### Financial risk

The Group is exposed to financial risks through its financial assets, financial liabilities, reinsurance assets and insurance contract liabilities. The key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The significant risks are the following:

- Credit risk.
- Liquidity risk.
- Market risk.

These risks arise from open positions in interest rates, currency and securities, all of which are exposed to general and specific market movements.

The Group manages these positions through an Assets/Liability Management Investment Committee (ALMIC) that has been formed to achieve investment returns in excess of its obligations under insurance contracts. This committee is charged with local oversight of the invested assets of the portfolios and the management of the asset liability mismatch risk and its related decisions. The committee manages assets relative to the liabilities and reviews the relationship between assets and liabilities on a quarterly basis. The Group produces reports at portfolio, legal entity and asset and liability class level that are circulated to the committee members. The notes below explain how financial risks are managed based on the categories utilised in the Group's Asset/Liability Management Framework. In particular, the Asset/Liability Management Framework requires the management of interest rate risk, market price risk and liquidity risk at the portfolio level. Credit risk is managed on a Group basis.

The Group has not changed the processes used to manage its risks from previous periods, although these have been enhanced through the appointment of a Group Risk Manager reporting directly to executive management.

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

### Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. Maintaining sufficient available liquid assets to meet the Group's obligations as they fall due is an important part of the Group's financial management practice.

The Group is exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts. The Board sets limits on the minimum proportion of maturing funds to be available to meet such calls to cover claims at unexpected levels of demand. Where the Group is unable to fund current commitments from premium revenue, investments can be liquidated that will match the commitment.

# Notes to the annual financial statements continued

for the year ended 31 December 2010

**3. Risks (continued)**

The table below shows a maturity profile of financial liabilities and assets:

| Group | No maturity profile R'000 | Within 3 months R'000 | Between 3 and 12 months R'000 | More than 12 months R'000 | Carrying value R'000 |
|---|---|---|---|---|---|
| At 31 December 2010 | | | | | |
| Contractual cash flows | | | | | |
| Investments in associates | **4,560** | **–** | **–** | **–** | **4,560** |
| Financial instruments | **616,368** | **976,983** | **359,169** | **1,084,339** | **3,036,859** |
| Trade and other payables | **–** | **(860,004)** | **–** | **–** | **(860,004)** |
| Cash and cash equivalents | **–** | **1,072,454** | **–** | **–** | **1,072,454** |
| Financial liabilities held at amortised cost | **–** | **(281,597)** | **–** | **–** | **(281,597)** |
| Expected cash flows (undiscounted) | | | | | |
| Insurance liabilities | **–** | **(2,447,738)** | **–** | **–** | **(2,447,738)** |
| Reinsurance assets | **–** | **970,283** | **–** | **–** | **970,283** |
| Total | **620,928** | **(569,619)** | **359,169** | **1,084,339** | **1,494,817** |
| At 31 December 2009 | | | | | |
| Contractual cash flows | | | | | |
| Investments in associates | – | – | – | 1,151 | 1,151 |
| Financial instruments | – | 1,108,820 | 456,445 | 1,213,801 | 2,779,066 |
| Trade and other payables | – | (687,919) | – | – | (687,919) |
| Cash and cash equivalents | – | 1,032,696 | – | – | 1,032,696 |
| Financial liabilities held at amortised cost | – | (320,375) | – | – | (320,375) |
| Expected cash flows (undiscounted) | | | | | |
| Insurance liabilities | – | (2,298,714) | – | – | (2,298,714) |
| Reinsurance assets | – | 716,568 | – | – | 716,568 |
| Total | – | (448,924) | 456,445 | 1,214,952 | 1,222,473 |

| Company | No maturity profile R'000 | Within 3 months R'000 | Between 3 and 12 months R'000 | More than 12 months R'000 | Carrying value R'000 |
|---|---|---|---|---|---|
| At 31 December 2010 | | | | | |
| Contractual cash flows | | | | | |
| Investments in subsidiaries | **58,569** | **–** | **–** | **–** | **58,569** |
| Investments in associates | **3,752** | **–** | **–** | **–** | **3,752** |
| Financial instruments | **613,933** | **912,770** | **180,683** | **1,007,125** | **2,714,511** |
| Trade and other payables | **–** | **(671,729)** | **–** | **–** | **(671,729)** |
| Cash and cash equivalents | **–** | **679,608** | **–** | **–** | **679,608** |
| Expected cash flows (undiscounted) | | | | | |
| Insurance liabilities | **–** | **(2,169,072)** | **–** | **–** | **(2,169,072)** |
| Reinsurance assets | **–** | **819,100** | **–** | **–** | **819,100** |
| Total | **676,254** | **(429,323)** | **180,683** | **1,007,125** | **1,434,739** |
| At 31 December 2009 | | | | | |
| Contractual cash flows | | | | | |
| Investments in subsidiaries | – | – | – | 65,482 | 65,482 |
| Investments in associates | – | – | – | 522 | 522 |
| Financial instruments | – | 1,050,960 | 281,445 | 1,045,929 | 2,378,334 |
| Trade and other payables | – | (356,835) | – | – | (356,835) |
| Cash and cash equivalents | – | 524,119 | – | – | 524,119 |
| Expected cash flows (undiscounted) | | | | | |
| Insurance liabilities | – | (2,173,768) | – | – | (2,173,768) |
| Reinsurance assets | – | 671,781 | – | – | 671,781 |
| Total | – | (283,743) | 281,445 | 1,111,933 | 1,109,635 |

### Currency risk

The Group is subject to foreign exchange risk as a result of the translation of companies that have a functional currency different from the presentation currency of the Group.

Currency risk is the risk of loss resulting from changes in exchange rates. The Group's presentational currency is the South African Rand, therefore any transactions in different currencies give rise to currency risk.

The Group does not underwrite any business in other currencies, other than through operating subsidiaries, nor does the Company invest in any assets in other currencies.

**3. Risks (continued)**

**Currency risk (continued)**

Foreign exchange risk arises from recognition of assets and liabilities held by a subsidiary operating in Botswana, in Pula, which is the Company's operational currency.

The operating results of the Botswana subsidiary are translated in the Group's financial statement at the average rates prevailing during the period.

The equity investments in Botswana are translated into South African Rands using the foreign currency exchange rate at the financial statements period-end date.

| Botswana | **2010 '000** | 2009 '000 |
|---|---|---|
| Net income after tax in local currency (Pula) | **P51,642** | P27,760 |
| Translated into South African Rands (Rand) | **R54,704** | R32,068 |

On the local statement of financial position there is a risk that a currency mismatch may lead to fluctuations in a net asset value, either through income or directly through equity. The Group does not take speculative positions on foreign currency market movements. The monetary currency risk is considered immaterial.

| | **December 2010** | December 2009 |
|---|---|---|
| Conversion rate 1 Pula: ZAR | | |
| Average | **1.0593** | 1.155175 |
| Closing rate | **1.0205** | 1.1026 |

Assets and liabilities are denominated in foreign currencies in the statement of financial position.

The impact on strengthening/weakening of the Pula:

| Group | 5% increase in Rand/Pula R'000 | 5% decrease in Rand/Pula R'000 |
|---|---|---|
| Impact on net assets at 31 December 2010 | **3,111** | **(3,111)** |
| Impact on net assets at 31 December 2009 | 5,770 | (5,770) |
| Impact on net assets at 31 December 2008 | 2,396 | (2,396) |
| Impact on profit after taxation at 31 December 2010 | **2,735** | **(2,735)** |
| Impact on profit after taxation at 31 December 2009 | 1,852 | (1,852) |
| Impact on profit after taxation at 31 December 2008 | 1,894 | (1,894) |

**Fair value hierarchy**

At December 2010 investments classified as Level 1 in the Group comprise approximately 25% of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include equity securities. These are valued using the market price at year-end.

At December 2010 investments classified as Level 2 in the Group comprise approximately 75% of financial assets measured at fair value on a recurring basis. These include government securities and certain corporate debt securities, such as private fixed maturities. As market quotes generally are readily available or accessible for these securities, their fair value measures are determined utilising relevant information generated by market transactions involving comparable securities. These are often based on model pricing techniques that effectively discount prospective cash flows to present value using appropriate sector-adjusted credit spreads commensurate with the security duration, also taking into consideration issuer-specific credit quality and liquidity. These valuation methodologies have been agreed upon by the Board of Directors.

Observable inputs generally used to measure the fair value of securities classified as Level 2 include interest rates, broker dealer quotes, benchmark securities, bids, offers and reference data.

At December 2010 there were no investments classified as Level 3 in the Group. Determinations to classify fair value measures in Level 3 of the valuation hierarchy are generally based on the significant unobservable factors to the overall fair value measurements based on the understanding of the market, including use of internally generated assumptions about input a market participant would use to price the security.

The following table presents the Company's and Group's assets and liabilities at 31 December 2010:

| Group | | | | |
|---|---|---|---|---|
| 31 December 2010 | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | |
| – Available-for-sale | **508,918** | **1,155,650** | **–** | **1,664,568** |
| – At fair value through income | **–** | **406,868** | **–** | **406,868** |
| Total assets | **508,918** | **1,562,518** | **–** | **2,071,436** |
| 31 December 2009 | | | | |
| **Assets** | | | | |
| – Available-for-sale | 439,507 | 1,091,081 | – | 1,530,588 |
| – At fair value through income | – | 381,010 | – | 381,010 |
| Total assets | 439,507 | 1,472,091 | – | 1,911,598 |
| Company | | | | |
| 31 December 2010 | | | | |
| **Assets** | | | | |
| – Available-for-sale | **508,918** | **894,881** | **–** | **1,403,799** |
| – At fair value through income | **–** | **406,868** | **–** | **406,868** |
| Total assets | **508,918** | **1,301,749** | **–** | **1,810,667** |
| 31 December 2009 | | | | |
| **Assets** | | | | |
| – Available-for-sale | 439,507 | 748,119 | – | 1,187,626 |
| – At fair value through income | – | 381,010 | – | 381,010 |
| Total assets | 439,507 | 1,129,129 | – | 1,568,636 |

**3. Risks (continued)**

## Market risk

Market risk is the risk of an adverse effect on the market value or cash flows of the Group's surpluses. The Group's surplus is the difference of the Group's investments and liabilities. Fluctuation risk drivers resulting in market risk include currency risk, interest rate risk and price risk.

The Group manages the market risk of assets relative to its liabilities on an economic basis. It strives to maximise the economic risk-adjusted excess return of assets relative to the liability benchmark taking into account the Group's current risk appetite as well as local regulatory constraints.

The Group has policies and limits to manage market risk. Strategic asset allocation is aligned to the Group's risk-taking capacity. The Group centralised management of certain asset classes to control aggregation of risk, provide a consistent approach to constructing portfolios and selecting external asset managers. The Group diversifies the portfolios, investments and asset managers. The Group regularly measures and manages market risk exposure, having established limits on concentration in investments by single issuers and certain asset classes as well as on asset/liability mismatches and limit investments that are illiquid. ALMIC reviews and monitors the Group's strategic asset allocation and its tactical boundaries and monitors the Group's asset/liability exposure.

Risk assessment includes quantification of the contributions to financial market risks from major risk drivers. The economic effect of potential extreme market moves is regularly examined and considered when setting the asset allocation.

Building on established processes the Group has increased the frequency of risk and solvency reporting as a basis to take corrective actions more quickly, if required. Possible contingency measures, which might become necessary in a further worsening market environment, are prepared accordingly.

## Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of the yield curve. The Group is exposed to interest rate risk from debt securities, provisions for insurance contracts, employee benefits and loans and receivables. Changes in interest rates affect the Group's available-for-sale debt securities through periodic recognition of changes in their fair values through equity, and instruments held at fair value through profit and loss. The Group is also exposed to fluctuations in interest rates in so far as they impact the amount of fee income earned, if the fee income is dependent on the valuation of the asset base.

The Group does not have any borrowings. Exposure to interest rate risk is therefore limited to the Group's investments in fixed and floating rate instruments such as government and other interest-bearing securities, as well as cash on deposit. The risk is furthermore limited by regular trading of the portfolio, providing diversification in terms of yield profiles. When the Group earns fees based on assets under management, any change in interest rates may have an effect on these assets and therefore impact the fees to the Group.

The Group's management monitors the sensitivity of reported interest rate movements on a regular basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 100 basis points in all yield curves of financial assets and financial liabilities.

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

Limitations of the analysis:

- The sensitivity analysis does not take into account actions that might be taken to mitigate losses, as the Group uses an active strategy to manage these risks. This strategy may involve changing the asset allocation, for example through selling and buying assets.
- The sensitivities show the effects to a change of certain risk factors, while other assumptions remain unchanged.
- The stock market scenarios assume a concurrent movement of all stock markets.
- The sensitivities are reasonably possible as of the statement of financial position date, but do not indicate a probability of such events occurring in the future and do not necessarily represent our view of expected future market changes, nor are they stress scenarios as additionally used by management.

The table below shows the estimated impact of a one percentage point increase/decrease in fair values of these financial instruments:

| | 1% increase | | 1% decrease | |
|---|---|---|---|---|
| | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| **Group** | | | | |
| **Financial assets** | | | | |
| Debt securities | **(6,819)** | (6,270) | **6,819** | 6,270 |
| Equity | **(5,089)** | (4,395) | **5,089** | 4,395 |
| **Company** | | | | |
| **Financial assets** | | | | |
| Debt securities | **(6,819)** | (6,270) | **6,819** | 6,270 |
| Equity | **(5,089)** | (4,395) | **5,089** | 4,395 |

### Credit risk

Credit risk is the risk associated with a loss or potential loss from counterparts failing to fulfil their financial obligations. The Group's exposure to credit risk is derived from the following main areas:

- Debt securities.
- Reinsurance assets.
- Loans and receivables.

The Group manages individual exposures as well as concentrations of credit risk. The Group's objective in managing credit risk exposure is to maintain it within parameters that reflect the strategic objectives and Group risk tolerance. Sources of credit risk are assessed and monitored, and the Group has policies to manage the specific risks within the various subcategories of credit risk. To assess counterparty credit risk, the Group uses the ratings assigned by external rating agencies, qualified third parties such as asset managers and internal rating assessments using available public information.

The Group has increased the frequency of analysing credit risk and reporting as a basis to take corrective actions more quickly if required.

Credit risk in terms of direct insurance customers is mitigated by the fact that where premiums are not paid to the Group, the Group is not obliged to act in terms of the policy. There is no collateral held on the investments and loans and receivables.

# Notes to the annual financial statements continued

for the year ended 31 December 2010

**3. Risks (continued)**

**Concentration of credit risk**

The Group monitors and limits credit exposure to individual counterparty and related counterparties by reference to the aggregated exposure across the various types of credit risk for that counterparty. The Group's exposure is aggregated to include reinsurance assets, investments and certain insurance products, including cell captives in its cell captive subsidiary.

Individual operating units maintain records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where this exists and where counterparties of the Group are liable for both receivables and payables. Intermediaries with whom the Group has a business relationship are in possession of the necessary guarantees for protection against the Group's credit risk.

A significant amount of the insurance business is written through intermediaries. These intermediaries are closely monitored through the loss ratios on the business they write. If the loss ratio is unsatisfactory, appropriate remedial action is taken. There are currently around 1,500 intermediaries and credit risk is widely spread. In addition, these intermediaries are members of the Intermediate Guarantee Facility, which protects the Group and the insured.

The table below shows the maximum exposure to credit risk before collateral held or other credit enhancements:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| Financial instrument | | | | |
| – Interest-bearing securities | **1,048,199** | 993,512 | **789,866** | 653,113 |
| – At fair value through income | **406,868** | 381,010 | **406,868** | 381,010 |
| – Loans and receivables | **965,423** | 867,468 | **903,844** | 809,698 |
| Cash and cash equivalents | **1,072,454** | 1,032,696 | **679,608** | 524,119 |
| Total assets bearing credit risk | **3,492,944** | 3,274,686 | **2,780,186** | 2,367,940 |

No collateral is held for financial assets.

The above table represents a worst case scenario of credit risk exposure to the Group and Company at December 2010 and 2009.

There is no major credit concentration in reinsurance assets.

The Company and Group only deposits cash with registered banks with high-quality credit standings.

The following table provides information regarding the aggregated credit risk exposure for financial assets with external credit ratings as at year-end:

| Group | Credit rating AAA R'000 | AA R'000 | A R'000 | Not rated R'000 | Carrying value R'000 |
|---|---|---|---|---|---|
| 2010 | | | | | |
| Financial instruments | | | | | |
| – Available-for-sale | **304,098** | **571,992** | **155,032** | **17,077** | **1,048,199** |
| – At fair value through income | **–** | **296,926** | **101,696** | **8,246** | **406,868** |
| – Loans and receivables | **–** | **–** | **–** | **965,423** | **965,423** |
| Cash and cash equivalents | **184,579** | **887,875** | **–** | **–** | **1,072,454** |
| Total | **488,677** | **1,756,793** | **256,728** | **990,746** | **3,492,944** |
| 2009 | | | | | |
| Financial instruments | | | | | |
| – Available-for-sale | 89,610 | 409,635 | 494,267 | – | 993,512 |
| – At fair value through income | – | – | 381,010 | – | 381,010 |
| – Loans and receivables | – | – | – | 867,468 | 867,468 |
| Cash and cash equivalents | 194,214 | 834,410 | 4,072 | – | 1,032,696 |
| Total | 283,824 | 1,244,045 | 879,349 | 867,468 | 3,274,686 |

**3. Risks (continued)**

Concentration of credit risk (continued)

| Company | AAA R'000 | Credit rating AA R'000 | A R'000 | Not rated R'000 | Carrying value R'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Financial instruments | | | | | |
| – Available-for-sale | **289,548** | **330,842** | **155,032** | **14,444** | **789,866** |
| – At fair value through income | **–** | **296,926** | **101,686** | **8,256** | **406,868** |
| – Loans and receivables | **–** | **–** | **–** | **903,844** | **903,844** |
| Cash and cash equivalents | **97,239** | **582,369** | **–** | **–** | **679,608** |
| Total | **386,787** | **1,210,137** | **256,718** | **926,544** | **2,780,186** |
| 2009 | | | | | |
| Financial instruments | | | | | |
| – Available-for-sale | 54,710 | 269,635 | 17,065 | 311,703 | 653,113 |
| – At fair value through income | – | – | 381,010 | – | 381,010 |
| – Loans and receivables | – | – | – | 809,698 | 809,698 |
| Cash and cash equivalents | 67,405 | 452,642 | 4,072 | – | 524,119 |
| Total | 122,115 | 722,277 | 402,147 | 1,121,401 | 2,367,940 |

The assets analysed above are based on external credit ratings obtained from various reputable external rating agencies.

The rating scales are based on long-term investment horizons under the following broad investment grade definitions:

- AAA – the financial instrument is judged to be of the highest quality, with minimal credit risk. The instrument is reliable and stable.
- AA – the financial instrument is judged to be of a high quality and has a low credit risk.
- A – the financial instrument is considered upper medium grade and is subject to a low credit risk. Situations can affect the issuers' financial soundness more adversely than those rated AAA or AA.

The Group's investment policy prohibits speculative grade investments, unless specifically authorised and exceptional circumstances apply. The Group identifies and implements appropriate corrective action on investments expected to be downgraded to below investment grade.

### Credit risk relating to reinsurance assets

The Group cedes insurance risk through proportional, non-proportional and specific risk reinsurance treaties. While these cessions mitigate insurance risk, the recoverable from reinsurers and receivables arising from ceded reinsurance exposes the Group to credit risk. The Group only cedes new business to authorised reinsurers with sound ratings.

Reinsurance does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an ongoing basis. Treaties are negotiated annually with the creditworthiness of reinsurers considered prior to renewal. However, if the reinsurer is liquidated or the rating downgraded during the year, the Group has the option to cancel and replace the reinsurance participant.

### Loans and receivables

The Group's credit risk exposure to receivables from third-party agents, brokers and other intermediaries arises where they collect premiums from customers on our behalf, or pay claims to customers for the Group. Receivables from ceded reinsurance form part of the reinsurance assets and are managed accordingly. The Group has policies and standards to manage and monitor credit risk from intermediaries. Additionally, the Group requires intermediaries to satisfy minimum requirements in terms of capitalisation, reputation and experience as well as providing short-dated credit terms. Past due but not impaired receivables are regarded as unsecured.

Financial assets, cash and cash equivalents and investments are placed with high credit-rated financial institutions and are managed by investment managers. The Group has policies that limit the credit exposure to any one financial institution. The ALMIC regularly reviews the investments on the basis of total asset security and minimised risk to the Group. The relationship with cell shareholders is managed through a shareholder agreement. The agreement determines the obligation to restore any deficit in a cell. The risk is managed by assessments of potential cell shareholders to meet their responsibilities and obligations in terms of the agreement.

### Analysis of financial assets

The table below shows the age of the financial assets which are past due but not impaired and any financial assets that are impaired:

| **Group** | Debt securities R'000 | Loans and receivables R'000 | Other financial assets R'000 | Total R'000 |
|---|---|---|---|---|
| 2010 | | | | |
| Financial instruments | | | | |
| Neither past due nor impaired | **1,455,067** | **899,399** | **2,243,737** | **4,598,203** |
| Past due but not impaired* | **–** | **66,024** | **–** | **66,024** |
| – Over 90 days | **–** | **66,024** | **–** | **66,024** |
| Financial assets impaired | **(11,998)** | **–** | **–** | **(11,998)** |
| – Impairment allowances | **(11,998)** | **–** | **–** | **(11,998)** |
| Net carrying value | **1,443,069** | **965,423** | **2,243,737** | **4,652,229** |

* *Loans and receivables over 90 days are recoverable.*

**3. Risks (continued)**

Analysis of financial assets (continued)

| **Group** | Debt securities R'000 | Loans and receivables R'000 | Other financial assets R'000 | Total R'000 |
|---|---|---|---|---|
| 2009 | | | | |
| Financial instruments | | | | |
| Neither past due nor impaired | 1,376,061 | 854,424 | 1,748,849 | 3,979,334 |
| Past due but not impaired* | – | 25,944 | 415 | 26,359 |
| – Over 90 days | – | 25,944 | 415 | 26,359 |
| Financial assets impaired | (1,539) | (12,900) | – | (14,439) |
| – Impairment allowances | (1,539) | (12,900) | – | (14,439) |
| Net carrying value | 1,374,522 | 867,468 | 1,749,264 | 3,991,254 |
| **Company** | | | | |
| **2010** | | | | |
| Financial instruments | | | | |
| Neither past due nor impaired | **1,196,734** | **837,820** | **1,498,708** | **3,533,262** |
| Past due but not impaired* | **–** | **66,024** | **–** | **66,024** |
| – Over 90 days | **–** | **66,024** | **–** | **66,024** |
| Financial assets impaired | **(11,998)** | **–** | **–** | **(11,998)** |
| – Impairment allowances | **(11,998)** | **–** | **–** | **(11,998)** |
| Net carrying value | **1,184,736** | **903,844** | **1,498,708** | **3,587,288** |
| 2009 | | | | |
| Financial instruments | | | | |
| Neither past due nor impaired | 1,035,662 | 796,654 | 1,195,900 | 3,028,216 |
| Past due but not impaired* | – | 25,944 | – | 25,944 |
| – Over 90 days | – | 25,944 | – | 25,944 |
| Financial assets impaired | (1,539) | (12,900) | – | (14,439) |
| – Impairment allowances | (1,539) | (12,900) | – | (14,439) |
| Net carrying value | 1,034,123 | 809,698 | 1,195,900 | 3,039,721 |

* *Loans and receivables over 90 days are recoverable.*

### Price risk

The Group is subject to price risk due to daily changes in the market values of its equity and debt securities portfolios. The Group's objectives are to earn competitive relative returns by investing in a diverse portfolio of high-quality, liquid securities. Portfolios held are actively managed. The portfolios are diversified across industries, and the concentration in any one company or industry is limited by parameters established by management and statutory requirements.

At 31 December 2010 the Group and Company's listed equities are recorded at fair value of R508 million (2009: R439 million).

The table below shows the sensitivity of a 5% increase/decrease in average share prices at year-end:

| | 5% increase | | 5% decrease | |
|---|---|---|---|---|
| **Group** | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| Movement in equity | **25,445** | 21,975 | **(25,445)** | (21,975) |
| **Company** | | | | |
| Movement in equity | **25,445** | 21,975 | **(25,445)** | (21,975) |

No effect on statement of financial position as any profits on sale of shares net of tax will flow directly through the statement of comprehensive income.

### Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claims. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The Group underwrites risks that natural persons, corporate or other entities wish to transfer to an insurer. Such risks include the perils around property, transport, motor, engineering, guarantee, liability, accident and health and miscellaneous that may give rise to an uncertain insurable event. As such, the Group is exposed to uncertainty surrounding the timing and severity of claims under insurance contracts. The principal risk is that the frequency and/or severity of claims are greater than expected. Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated and experienced in prior periods.

The Group underwrites primarily short tail risk, that is insurance under which claims are typically settled within one year of the occurrence of the events giving rise to the claims, and risks that are long tail in nature represent an insignificant portion of the Group's insurance portfolio. Consequently, whilst the Group may experience variations in its claims patterns from one year to the next, the Group's exposure at any time to insurance contracts issued more than one year before the statement of financial position date is limited.

The Group carefully evaluates all retention of risks in terms of statistical and underwriting disciplines, as well as specific and limited Board mandates for each insurance programme. The policies underwritten by the Group are as follows:

### Accident and Health policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if a:
a) disability event;
b) health event; or
c) death event,
contemplated in the contract as a risk, occurs.

**3. Risks (continued)**

### Engineering policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event contemplated in the contract as a risk relating to:

a) the possession, use or ownership of machinery or equipment, other than a motor vehicle, in the carrying on of a business;

b) the erection of buildings or other structures or the undertaking of other works; or

c) the installation of machinery or equipment,

occurs.

### Guarantee policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event, contemplated in the policy as a risk relating to the failure of a person to discharge an obligation, occurs.

### Liability policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the incurring of a liability, other than as part of a policy relating to a risk more specifically contemplated under another policy, occurs.

### Motor policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a motor vehicle, occurs.

### Property policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the use, ownership, loss of or damage to movable or immovable property, occurs.

### Transportation policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed, occurs.

### Miscellaneous policy

Means a contract in terms of which, in return for a premium, the Group undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to any matter not otherwise defined in the above policies, occurs.

### Group schemes

As part of its product offering, the Group underwrites group schemes, which are third-party intermediaries who sell their own branded insurance products. The underwriting mandates are defined for each group scheme for all types of products that can be written by the same scheme. A claims mandate may also be specified for each group scheme specifying the claims settlement limit up to which the group schemes can process and settle claims for each class of insurance. The group scheme receives a specified commission percentage for each type of product sold. All underwriting profits or losses on this business are for the Group account for almost all of these schemes.

### Cell captive business

The Group underwrites cell captive business through a dedicated subsidiary. These policies expose the Group to limited risk only and include profit participation measures to promote good risk management amongst the insured. The cell captives are created through shareholders' agreements and a cell owner is allocated the positive return from the underwriting and investment activities in its cell. The cell owner is accountable for any losses that arise in its cell. The Group is exposed to credit risk if a deficit arises in a cell and the cell owner does not refund the deficit in its cell and as such the Group, on a monthly basis, monitors each cell's performance. These cell captives are special-purpose vehicles through which the cell owners provide insurance to third parties.

### Limiting exposure to insurance risk

The Group limits its exposure to insurance risk through setting a clearly defined underwriting strategy and limits, adopting appropriate risk assessment techniques using a variety of reserving and modelling methods to address the various insurance risks inherent in the business, and the ceding insurance risks through proportional, non-proportional and specific risk insurance treaties. The Group centrally manages reinsurance treaties. Each of these risk management aspects is dealt with in more detail.

### Underwriting strategy and limits and policies for mitigating insurance risk

The Group's underwriting strategy seeks diversity to ensure a balanced portfolio of insurance risks. The strategy also aims to establish a sufficiently large portfolio of risks to reduce the variability of the outcome. To this end the Group underwrites a wide variety of risks spread across personal and commercial policyholders, which includes the underwriting of risks in niche markets with favourable claims expectations. Using gross written insurance premium as an indicator, the table below illustrates the Group's distribution of risks underwritten:

| | **2010** % | 2009 % |
|---|---|---|
| Accident and Health | **4** | 3 |
| Engineering | **8** | 10 |
| Guarantee | **1** | 1 |
| Liability | **2** | 1 |
| Motor | **46** | 48 |
| Property | **35** | 33 |
| Transport | **4** | 4 |
| **Total** | **100** | 100 |

* *Miscellaneous line of business represents less than 1% of total business for 2009. There are no miscellaneous lines of business in 2010.*

**3. Risks (continued)**

**Underwriting strategy and limits and policies for mitigating insurance risk (continued)**

Using gross written insurance premium as an indicator, the Group's insurance portfolio is divided between personal and commercial (all insured other than natural persons) risks as follows:

| | **2010 %** | 2009 % |
|---|---|---|
| Commercial/Corporate | **74.5** | 71.2 |
| Personal | **25.5** | 28.8 |
| Total | **100** | 100 |

On an annual basis the Group prepares an underwriting budget that is based on the underwriting strategy to be followed in the next three years. The underwriting strategy is updated for changes in the underwriting results of the Group and the industry, the Group's available risk capital and available reinsurance capacity as well as existing concentrations of insurance risk.

The underwriting strategy is cascaded down to individual underwriters through underwriting authorities that set out the limits that any one underwriter can write by line size, class of business and territory in order to enforce appropriate risk selection within the Group's portfolio. Underwriters are also provided with clear pricing guidelines. Management review and periodic internal audits ensure that the underwriters operate within the set limits.

The ability to adjust premiums, either on a monthly or an annual basis, also allows the Group to mitigate the risk of underwriting losses by the timely addressing of adverse loss ratios, both in terms of different classes of business and in terms of different portfolios or customers. The incidence of fraud is reduced by robust claims-handling processes and regular review of these processes and the related claims payments. Actuarial assumptions and risk profiling were introduced in 2008 to price the premiums for the Group's personal lines motor book.

On a monthly basis the underwriting results for group schemes are monitored against predetermined budgets. In the event that a group scheme does not deliver underwriting results within accepted parameters, corrective measures are implemented, including the possible cancellation of arrangements going forward.

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

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

The Group mitigates the insurance and credit risk brought about by the cell captive business through carefully selecting all new cell owners, calling for risk capital from the cell owners when needed and by actively participating in the risk management structures of each cell.

## Risk assessment

The Group seeks to optimise shareholder value by achieving its return on equity goals. Doing so necessitates a prudent, stable underwriting philosophy that aims to take advantage of its competitive strengths while avoiding risk with disruptive volatility. At the core of the Group's underwriting is a robust governance process.

A fundamental component of managing our risks is underwriting discipline. We set appropriate pricing guidelines with a focus on consistent technical pricing across the organisation. Technical reviews confirm whether underwriters perform within the authorities and adhere to the Group's underwriting policies.

General insurance provisions represent a risk to the Group as actual losses emerging on claims provisions may be higher than anticipated. Because of this uncertainty these provisions are regularly measured, reviewed and monitored.

The Group adopts a standard process before accepting any proposed insurance risk. Some of the factors considered during the underwriting stage include the following:

- Past loss experience associated with the proposed risk.
- Insurable interest.
- Probability of ruin.
- Level of loss mitigation procedures adopted by the proposed insured.
- Location of the proposed risk.
- Past and proposed rating terms of the risk.
- Scope and terms of cover considered.
- Results of surveys completed, where applicable.
- Possible exclusions that may be applied to the policy or risks insured.
- Availability of reinsurance for risks above acceptable thresholds.

## Reinsurance strategy

On an annual basis, the Executive of the Group determines the reinsurance parameters for the Group for the ensuing year. The parameters are set taking into account business information available to the Group, including input from the parent group and in consultation with reinsurance brokers.

The Group has extensive proportional and non-proportional treaty and facultative reinsurance programmes that are aimed at reducing the volatility of the Group's underwriting results and protecting its capital through a combination of treaty and facultative contracts. The reinsurance programme reduces the Group's exposure in each of its classes of business to levels that are acceptable to management in terms of the Group's insurance risk appetite.

In addition, the Group purchases catastrophe reinsurance to protect itself from accumulation losses. The level of catastrophe reinsurance purchased is based on the Group's estimation of its expected losses from low-frequency, high-severity loss events.

## Concentration of insurance risks

The Group's largest portfolio of insurance risks consists of the motor risks that it underwrites, as can be seen by the distribution of premium income. The concentration of motor risks is managed by different levels of diversification mainly through the types of vehicles that are underwritten and the geographical areas in which the risks are situated, with single risks spread across all areas of the country.

# Notes to the annual financial statements continued

for the year ended 31 December 2010

**3. Risks (continued)**

Concentration of insurance risks (continued)

Motor risks are accepted and rated based on a number of different rating factors. Different premium levels for different geographical areas enhance diversification and the loss experience in different areas is closely monitored with ratings appropriately adjusted as and when required. Whilst exposure is higher in certain areas, the Group is satisfied that these exposures are managed in the context of the entire portfolio and the exposure to risks associated with single events, such as hailstorms, in specific areas are thereby mitigated.

Perils such as storms, floods, earthquakes, fires, explosions and rising crime levels will occur on a regional basis, meaning that the Group has to manage its geographical risk dispersion carefully. The Group determines an aggregate exposure that it is prepared to accept in each region. The actual aggregate exposure per region is compared periodically to the limit and the underwriting strategy is amended where required.

The Group underwrites a significant number of group or scheme business which has the effect of concentrating the risk underwritten. These group schemes are monitored on an ongoing basis and, where necessary, remedial action is taken.

The Group adheres to underwriting principles that limit its exposure to any one insured. Many of our business classes are protected by surplus treaties where our maximum loss retention varies between R2 million and R25 million. The reinsurance treaties vary according to the maximum loss that can be accepted. Any risk with a potential loss in excess of this is covered by facultative reinsurance. Excess of loss cover is also used for business classes covered by treaties, and this further limits our retention to any one insured. The exception to this is for transport and motor business covered by excess of loss treaty risks which limits our retention to R3 million for any one loss for these classes. Catastrophe cover protects the Group against an accumulation of claims, where cover is R2.1 billion with an excess of R20 million net of reinsurance claims. The Group's estimate of its gross exposure to an earthquake or severe weather-related event, net of reinsurance, is R2 billion.

Sensitivity to insurance risk

The frequency and severity of claims can be affected by several factors. Changes in economic conditions such as exchange rates could impact claim levels. Driver behaviour and road conditions also impact motor claims experience. Crime levels impact claim experience for many lines of business. Weather conditions can have a significant impact on aggregate claims experience.

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

The following table shows the sensitivity of net income after taxation and the sensitivity of net assets, using the Group's income tax rate, as a result of adverse/growth developments in the net loss ratio by 1%. Such an increase could arise from higher frequency of the occurrence of the insured events or from an increase in the severity of resulting claims or from a combination of frequency and severity.

Following the table below, with each additional percentage point in the loss ratio, the net income after taxation will move by 1%.

| Group | 2010 R'000 | 2009 R'000 |
|---|---|---|
| Increase of 1% in net loss ratio | | |
| – Net income after taxation | **(37,640)** | (40,635) |
| Decrease of 1% in net loss ratio | | |
| – Net income after taxation | **36,636** | 40,635 |
| **Company** | | |
| Increase of 1% in net loss ratio | | |
| – Net income after taxation | **(35,904)** | (37,206) |
| Decrease of 1% in net loss ratio | | |
| – Net income after taxation | **35,332** | 37,206 |

The impact on loss or profit after taxation described above does not take account of changes in other variables, as they are considered to be less material.

The Group has the right to reprice the risk on renewal of the policy. It can also impose deductibles and reject fraudulent claims. At year-end 2010 the Group believes that its liabilities for claims are adequate, however, changes to climate and crime rates in the country may produce a higher frequency and severity of claims than currently expected.

The Group enters into reinsurance agreements to spread the insurance risk and minimise the effect of underwriting losses, which agreements are entered into only with approved reinsurers as listed by Zurich Financial Services Limited, the Group's ultimate parent company. The reinsurers agree to reimburse the Group when a claim is paid under a risk that is reinsured. The Group, however, remains liable to its policyholders regardless of whether the reinsurers honour their obligations in terms of the reinsurance agreements.

The credit risk arising from the reinsurance transactions is managed by monitoring the following:

- The independent credit ratings of all existing or new reinsurers are monitored prior to entering into reinsurance transactions. For the 2010 and 2009 reinsurance programme, the Group's cession to reinsurers with a Standard and Poor's rating of BBB+ or below or where the reinsurers are not rated is less than 10% of the total programme.

**3. Risks (continued)**

**Sensitivity to insurance risk (continued)**

The table below shows the largest reinsurers with their credit ratings and security held by the Group. The security is held in the form of deposits or irrevocable bank guarantees:

| | Standard and Poor's rating | Security held for the specific reinsurer R'000 |
|---|---|---|
| **At 31 December 2010** | | |
| Africa Re | **A-** | **–** |
| Everest Re (USA) | **A+** | **89,000** |
| Munich Re (South Africa) | **A+** | **–** |
| R+V Ruckversicherung (Germany) | **NR*** | **44,300** |
| Zurich Group Companies | **AA-** | **–** |
| **At 31 December 2009** | | |
| Africa Re | NR* | – |
| Everest Re (USA) | A+ | 78,100 |
| Munich Re (South Africa) | A | – |
| R+V Ruckversicherung (Germany) | A+ | 41,500 |
| Swiss Re (South Africa) | A | – |
| Swiss Re International | A | – |
| Zurich Group Companies | AA+ | – |

* *NR – Not rated.*

**Operational risk**

Generally, all business activities contain some aspects of operational risk.

The Group has established a comprehensive framework to identify, assess, quantify, mitigate and report on operational risks within the organisation. As part of this process, operational risks are identified for our key business areas and are qualitatively assessed. Plans are established to mitigate risks identified and assessed above certain thresholds. Any resulting plans for improvement actions are documented and tracked on an ongoing basis.

In addition to the operational risk assessments, loss events above a threshold determined by policy are documented and evaluated in a Group-wide data base. Where needed, improvement actions are put in place to avoid recurrence of such operational loss events.

The Group has put specific processes and systems in place to focus on high-priority operational matters such as outsourcing, information technology and managing business continuity. A key task is keeping our business continuity plans up-to-date, with an emphasis on recovery from unexpected events such as natural catastrophes and the possibility of a pandemic.

The Group continues to strengthen the consistency, documentation and assessment of our internal controls for significant processes. Although primarily focused on important controls for financial reporting, this effort also includes related operational and compliance controls.

### Risks to our reputation and strategic risks

As with operational risk, every risk type has potential consequences for the Group's reputation. Effectively managing each type of risk helps us reduce the threats to our reputation. The Group preserves its reputation by adhering to all applicable laws and regulations, and by following the core values and principles of the Group, which include, among others, integrity and good business practice.

Strategic business decisions by nature involve risks. The Group reduces these risks through its risk assessment processes and tools. Executive committees regularly assess key strategic risk scenarios for the Group as a whole.

### Legal risk

Legal risk is the risk that the Group may be exposed to contractual obligations which have not been provided for. The risk arises from the uncertainty of the enforceability, through legal or judicial processes, of the obligations of its customers and counterparties, including contractual provisions intended to reduce credit and product exposure. The Group reduces these risks through its risk assessment processes and tools. Executive committees regularly assess legal risk scenarios for the Group as a whole.

## 4. Land, buildings and equipment

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| **Group** | **Cost R'000** | **Accumulated depreciation R'000** | **Carrying value R'000** | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 |
| Land and buildings | **3,680** | **(574)** | **3,106** | 6,186 | – | 6,186 |
| Leasehold property | **36,428** | **(6,607)** | **29,821** | 34,870 | (2,938) | 31,932 |
| Office equipment | **9,548** | **(5,852)** | **3,696** | 10,398 | (5,730) | 4,668 |
| Furniture and fixtures | **26,666** | **(9,381)** | **17,285** | 38,344 | (16,010) | 22,334 |
| Motor vehicles | **36,196** | **(9,903)** | **26,293** | 51,316 | (13,252) | 38,064 |
| Computer equipment | **125,794** | **(93,305)** | **32,489** | 118,511 | (93,976) | 24,535 |
| Total | **238,312** | **(125,622)** | **112,690** | 259,625 | (131,906) | 127,719 |
| **Company** | | | | | | |
| Leasehold property | **35,681** | **(5,861)** | **29,820** | 34,123 | (2,378) | 31,745 |
| Office equipment | **9,056** | **(5,472)** | **3,584** | 9,891 | (5,434) | 4,457 |
| Furniture and fixtures | **24,824** | **(8,750)** | **16,074** | 36,280 | (15,688) | 20,592 |
| Motor vehicles | **35,238** | **(9,673)** | **25,565** | 50,169 | (12,978) | 37,191 |
| Computer equipment | **124,876** | **(92,530)** | **32,346** | 113,461 | (89,121) | 24,340 |
| Total | **229,675** | **(122,286)** | **107,389** | 243,924 | (125,599) | 118,325 |

# Notes to the annual financial statements continued

for the year ended 31 December 2010

**4. Land, buildings and equipment (continued)**

Reconciliation of land, buildings and equipment

| Group 2010 | Opening balance R'000 | Additions R'000 | Disposals R'000 | Revaluations and other adjustments R'000 | Foreign exchange movements R'000 | Depreciation R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| Land and buildings | **6,186** | **–** | **–** | **(2,207)** | **(779)** | **(94)** | **3,106** |
| Leasehold property | **31,932** | **4,689** | **(3,000)** | **–** | **–** | **(3,800)** | **29,821** |
| Office equipment | **4,668** | **920** | **(3)** | **9** | **(2)** | **(1,896)** | **3,696** |
| Furniture and fixtures | **22,334** | **1,282** | **(957)** | **(156)** | **(153)** | **(5,065)** | **17,285** |
| Motor vehicles | **38,064** | **5,425** | **(12,373)** | **(21)** | **(58)** | **(4,744)** | **26,293** |
| Computer equipment | **24,535** | **17,577** | **(116)** | **5** | **57** | **(9,569)** | **32,489** |
| Total | **127,719** | **29,893** | **(16,449)** | **(2,370)** | **(935)** | **(25,168)** | **112,690** |
| Group 2009 | | | | | | | |
| Land and buildings | 4,719 | 548 | (918) | 2,401 | (895) | 331 | 6,186 |
| Leasehold property | 5,759 | 28,588 | – | – | – | (2,415) | 31,932 |
| Office equipment | 480 | 5,280 | (15) | – | 11 | (1,088) | 4,668 |
| Furniture and fixtures | 9,107 | 18,583 | (1,693) | – | (67) | (3,596) | 22,334 |
| Motor vehicles | 45,133 | 14,234 | (11,618) | – | (49) | (9,636) | 38,064 |
| Computer equipment | 20,498 | 11,850 | (26) | – | 42 | (7,829) | 24,535 |
| Total | 85,696 | 79,083 | (14,270) | 2,401 | (958) | (24,233) | 127,719 |

| Company 2010 | Opening balance R'000 | Additions R'000 | Disposals and other adjustments R'000 | Depreciation R'000 | Total R'000 |
|---|---|---|---|---|---|
| Leasehold property | **31,745** | **4,690** | **(3,002)** | **(3,613)** | **29,820** |
| Office equipment | **4,457** | **887** | **7** | **(1,767)** | **3,584** |
| Furniture and fixtures | **20,592** | **1,280** | **(968)** | **(4,830)** | **16,074** |
| Motor vehicles | **37,191** | **5,184** | **(12,227)** | **(4,583)** | **25,565** |
| Computer equipment | **24,340** | **17,577** | **(110)** | **(9,461)** | **32,346** |
| Total | **118,325** | **29,618** | **(16,300)** | **(24,254)** | **107,389** |

| Company 2009 | Opening balance R'000 | Additions R'000 | Disposals and other adjustments R'000 | Depreciation R'000 | Total R'000 |
|---|---|---|---|---|---|
| Leasehold property | 5,308 | 28,588 | – | (2,151) | 31,745 |
| Office equipment | 170 | 5,240 | (3) | (950) | 4,457 |
| Furniture and fixtures | 7,579 | 18,058 | (1,706) | (3,339) | 20,592 |
| Motor vehicles | 44,108 | 13,899 | (11,340) | (9,476) | 37,191 |
| Computer equipment | 20,227 | 11,851 | 11 | (7,749) | 24,340 |
| **Total** | 77,392 | 77,636 | (13,038) | (23,665) | 118,325 |

Land and buildings comprise Plot 54479, Fairgrounds Office Park, Gaborone, Botswana.

The building is revalued by Knight Frank Botswana, an independent valuator, every five years. The latest valuation was performed at 31 December 2008, and the next valuation will be performed at 31 December 2013.

All land and buildings are considered to be a non-current asset.

Depreciation expenses are included in administrative and other operating expenses in the statement of financial performance. Refer to note 23.

All equipment is considered to be non-current.

## 5. Goodwill

| Group | **2010** Cost R'000 | Accumulated impairment R'000 | Carrying value R'000 | 2009 Cost R'000 | Accumulated impairment R'000 | Carrying value R'000 |
|---|---|---|---|---|---|---|
| Goodwill | – | – | – | 2,002 | – | 2,002 |

Reconciliation of goodwill

| 2010 | **Opening balance R'000** | **Disposals through business combinations R'000** | **Total R'000** |
|---|---|---|---|
| Goodwill | **2,002** | **(2,002)** | **–** |

| 2009 | Opening balance R'000 | Transfers R'000 | Total R'000 |
|---|---|---|---|
| Goodwill | 4,004 | (2,002) | 2,002 |

There is no goodwill in the Company.

## 6. Intangible assets

| Group | 2010 Cost R'000 | 2010 Accumulated amortisation R'000 | 2010 Carrying value R'000 | 2009 Cost R'000 | 2009 Accumulated amortisation R'000 | 2009 Carrying value R'000 |
|---|---|---|---|---|---|---|
| Computer software | **62,563** | **(9,044)** | **53,519** | 25,167 | (7,388) | 17,779 |
| Company | | | | | | |
| Computer software | **49,834** | **(4,666)** | **45,168** | 12,410 | (2,735) | 9,675 |

Reconciliation of intangible assets

| Group 2010 | Opening balance R'000 | Additions R'000 | Disposals R'000 | Amortisation R'000 | Total R'000 |
|---|---|---|---|---|---|
| Computer software | **17,779** | **42,987** | **(719)** | **(6,528)** | **53,519** |
| Group 2009 | | | | | |
| Computer software | 4,745 | 16,374 | (67) | (3,273) | 17,779 |
| Company 2010 | | | | | |
| Computer software | **9,675** | **39,068** | **(686)** | **(2,889)** | **45,168** |
| Company 2009 | | | | | |
| Computer software | 2,381 | 9,712 | (67) | (2,351) | 9,675 |

## 7. Investments in subsidiaries

| Name of company | Issued capital 2010 R'000 | Issued capital 2009 R'000 | % holding 2010 | % holding 2009 | Carrying amount 2010 R'000 | Carrying amount 2009 R'000 | Amounts due to/(from) holding Company 2010 R'000 | Amounts due to/(from) holding Company 2009 R'000 |
|---|---|---|---|---|---|---|---|---|
| Zurich Insurance Company Botswana Limited (incorporated in Botswana) | **14,425** | 14,425 | **100** | 100 | **14,359** | 14,359 | **272** | 6,354 |
| Eagle Insurance Company Limited (incorporated in Zimbabwe) | **711** | 711 | **49** | 49 | **1,151** | 1,151 | **130** | 59 |
| Zurich Risk Financing SA Limited | **10,000** | 10,000 | **100** | 100 | **25,000** | 25,000 | **658** | – |
| Zurich Life SA Limited | **–** | – | **100** | 100 | **10,000** | 10,000 | **(962)** | 212 |
| African General Insurance Limited* | **–** | 1 | **–** | 99 | **–** | 6,922 | **–** | (88) |
| Escape Premium Collection (Pty) Limited | **1,000** | 1,000 | **100** | 100 | **1,000** | 1,000 | **512** | – |
| Zurich Legal Expenses Underwriting Managers SA (Pty) Limited | **1** | 1 | **100** | 100 | **4,459** | 4,450 | **(1,747)** | – |
| Goldrush Investments (Pty) Limited | **–** | – | **100** | 100 | **2,600** | 2,600 | **(5,384)** | – |
| Total | | | | | **58,569** | 65,482 | | |

* *The company was deregistered in 2010.*

The carrying amounts of subsidiaries are shown net of impairment losses.

## 8. Investments in associates

| Group | 2010 R'000 | 2009 R'000 |
|---|---|---|
| At beginning of the year | **1,151** | 743 |
| Cost of investments | **3,752** | – |
| Share of loss | **(1,708)** | – |
| Impairments | **1,365** | (2,919) |
| Transferred to/(from) investment in subsidiaries | **–** | 3,327 |
| **Balance at end of the year** | **4,560** | 1,151 |

**Company**

| Name of company | Listed/unlisted | % holding 2010 | % holding 2009 | Cost 2010 R'000 | Cost 2009 R'000 | Carrying value 2010 R'000 | Carrying value 2009 R'000 |
|---|---|---|---|---|---|---|---|
| BnB Sure (Pty) Limited | Unlisted | **–** | 20 | **–** | 253 | **–** | 253 |
| IDI Technology Solutions (Pty) Limited | Unlisted | **37** | 37 | **–** | – | **–** | – |
| Liquid Underwriting Managers (Pty) Limited# | Unlisted | **–** | 30 | **–** | 269 | **–** | 269 |
| South African Nuclear Pool Administrators (Pty) Limited | Unlisted | **25** | – | ***** | – | **–** | – |
| Aquarius Underwriting Managers | Unlisted | **30** | – | **3,752** | – | **3,752** | – |
| Zurich Aviation Underwriting Managers SA (Pty) Limited | Unlisted | **50** | 50 | ***** | * | **–** | – |
| **Total** | | | | **3,752** | 522 | **3,752** | 522 |

* *Cost less than R1,000.*

\# *Associates sold during 2010.*

All investments in associates are considered non-current assets.

## 9. Financial instruments

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

| | Note | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|---|
| Available-for-sale | 9.1 | **1664,568** | 1,530,588 | **1,403,799** | 1,187,626 |
| Fair value through income | 9.2 | **406,868** | 381,010 | **406,868** | 381,010 |
| Loans and receivables | 9.3 | **965,423** | 867,468 | **903,844** | 809,698 |
| Cash and cash equivalents | 14 | **1,072,454** | 1,032,696 | **679,608** | 524,119 |
| Financial liabilities held at amortised cost | 17 | **(281,597)** | (320,375) | **–** | – |
| Trade and other payables | 19 | **(838,848)** | (687,919) | **(650,573)** | (356,835) |
| **Total** | | **2,988,868** | 2,803,468 | **2,743,546** | 2,545,618 |

### 9.1 Available-for-sale

| Group | Equity – Ordinary shares Quoted R'000 | Equity – Ordinary shares Unquoted R'000 | Equity – Preference shares Quoted R'000 | Equity – Preference shares Unquoted R'000 | Debt – Interest-bearing securities Unquoted R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| At 31 December 2008 | 447,011 | 11,446 | 8,014 | 62,497 | 853,205 | 1,382,173 |
| Purchases | 53,998 | 3,560 | – | 20,000 | 140,307 | 217,865 |
| Disposals | | | | | | |
| – Cost | (90,161) | – | – | – | – | (90,161) |
| – Revaluation relating to disposals | (108,629) | – | – | – | – | (108,629) |
| Fair value net gains (excluding net realised gains) | 128,498 | – | 776 | 66 | – | 129,340 |
| **Balance at 31 December 2009** | **430,717** | **15,006** | **8,790** | **82,563** | **993,512** | **1,530,588** |
| Purchases | **9,347** | **9** | **–** | **10,000** | **178,415** | **197,771** |
| Disposals | | | | | | |
| – Cost | **–** | **–** | **–** | **–** | **(140,000)** | **(140,000)** |
| – Revaluation relating to disposals | **–** | **–** | **–** | **–** | **(6,280)** | **(6,280)** |
| Impairments | **(11,998)** | **–** | **–** | **–** | **–** | **(11,998)** |
| Corporate transactions | **554** | **–** | **–** | **–** | **–** | **554** |
| Foreign exchange | **–** | **–** | **–** | **(127)** | **–** | **(127)** |
| Fair value net gains (excluding net realised gains) | **70,778** | **–** | **730** | **–** | **22,552** | **94,060** |
| **Balance at 31 December 2010** | **499,398** | **15,015** | **9,520** | **92,436** | **1,048,199** | **1,664,568** |

**9. Financial instruments (continued)**

9.1 Available-for-sale (continued)

| Group | Ordinary shares Quoted R'000 | Ordinary shares Unquoted R'000 |
|---|---|---|
| **At 31 December 2010** | | |
| At cost | **236,138** | **15,015** |
| Cumulative fair value gains/(losses) | **263,260** | **–** |
| **Total** | **499,398** | **15,015** |
| **At 31 December 2009** | | |
| At cost | 226,237 | 15,006 |
| Cumulative fair value gains/(losses) | 204,480 | – |
| **Total** | 430,717 | 15,006 |
| **Company** | | |
| At 31 December 2008 | 447,011 | 11,446 |
| Purchases | 53,998 | 3,560 |
| Disposals | | |
| – Cost | (90,161) | – |
| – Revaluation relating to disposals | (108,629) | – |
| Fair value net gains (excluding net realised gains) | 128,498 | – |
| **Balance at 31 December 2009** | **430,717** | **15,006** |
| Purchases | **9,347** | **9** |
| Disposals | | |
| – Cost | **–** | **–** |
| – Revaluation relating to disposals | **–** | **–** |
| Impairments | **(11,998)** | **–** |
| Corporate transactions | **554** | **–** |
| Fair value net gains (excluding net realised gains) | **70,778** | **–** |
| **Balance at 31 December 2010** | **499,398** | **15,015** |
| **At 31 December 2010** | | |
| At cost | **234,267** | **15,015** |
| Cumulative fair value gains/(losses) | **265,131** | **–** |
| **Total** | **499,398** | **15,015** |
| At 31 December 2009 | | |
| At cost | 224,366 | 15,006 |
| Cumulative fair value gains/(losses) | 206,351 | – |
| **Total** | 430,717 | 15,006 |

| Equity | | Debt | |
|---|---|---|---|
| Preference shares | | Interest-bearing securities | |
| Quoted R'000 | Unquoted R'000 | Unquoted R'000 | Total R'000 |
| | | | |
| **9,773** | **92,270** | **1,013,809** | **1,367,405** |
| **(253)** | **166** | **34,390** | **297,163** |
| **9,520** | **92,436** | **1,048,199** | **1,664,568** |
| | | | |
| 9,773 | 82,270 | 975,394 | 1,308,680 |
| (983) | 293 | 18,118 | 221,908 |
| 8,790 | 82,563 | 993,512 | 1,530,588 |
| | | | |
| 8,014 | 60,000 | 678,050 | 1,204,521 |
| – | 20,000 | – | 77,558 |
| | | | |
| – | – | – | (90,161) |
| – | – | – | (108,629) |
| 776 | – | (24,937) | 104,337 |
| **8,790** | **80,000** | **653,113** | **1,187,626** |
| **–** | **10,000** | **170,481** | **189,837** |
| | | | |
| **–** | **–** | **(50,000)** | **(50,000)** |
| **–** | **–** | **(6,280)** | **(6,280)** |
| **–** | **–** | **–** | **(11,998)** |
| **–** | **–** | **–** | **554** |
| **730** | **–** | **22,552** | **94,060** |
| **9,520** | **90,000** | **789,866** | **1,403,799** |
| | | | |
| **9,520** | **90,000** | **773,594** | **1,122,396** |
| **–** | **–** | **16,272** | **281,403** |
| **9,520** | **90,000** | **789,866** | **1,403,799** |
| | | | |
| 9,773 | 80,000 | 653,113 | 982,258 |
| (983) | – | – | 205,368 |
| 8,790 | 80,000 | 653,113 | 1,187,626 |

**9. Financial instruments (continued)**

9.1 Available-for-sale (continued)

Concentration of financial instruments

Available-for-sale equity securities

| 2010 | Quoted R'000 | Unquoted R'000 | Total R'000 |
|---|---|---|---|
| Automobiles and parts | **667** | **–** | **667** |
| Mining | **103,957** | **–** | **103,957** |
| Oil and gas | **35,192** | **–** | **35,192** |
| Construction | **12,168** | **–** | **12,168** |
| Banks | **73,257** | **–** | **73,257** |
| Insurance | **79,115** | **–** | **79,115** |
| Retail and consumer | **73,896** | **–** | **73,896** |
| Industrial | **28,669** | **–** | **28,669** |
| Technology and telecommunications | **6,006** | **–** | **6,006** |
| Healthcare | **3,653** | **–** | **3,653** |
| Other, including preference shares | **92,338** | **105,015** | **197,353** |
| Total Company | **508,918** | **105,015** | **613,933** |
| Banks and insurance | **–** | **2,436** | **2,436** |
| Total Group | **508,918** | **107,451** | **616,369** |
| Interest-bearing securities and unit trusts | | | |
| Fixed-interest unit trusts | **–** | **409,861** | **409,861** |
| Money market and other funds | **–** | **380,005** | **380,005** |
| Total Company | **–** | **789,866** | **789,866** |
| Fixed-interest unit trusts | **–** | **108,333** | **108,333** |
| Money market and other funds | **–** | **150,000** | **150,000** |
| Total Group | **–** | **1,048,199** | **1,048,199** |

| 2009 | Quoted R'000 | Unquoted R'000 | Total R'000 |
|---|---|---|---|
| Automobiles and parts | 17,098 | – | 17,098 |
| Mining | 93,211 | – | 93,211 |
| Oil and gas | 35,304 | – | 35,304 |
| Construction | 9,990 | – | 9,990 |
| Banks | 1,061 | – | 1,061 |
| Insurance | 154,377 | – | 154,377 |
| Retail and consumer | 52,945 | – | 52,945 |
| Industrial | 14,312 | – | 14,312 |
| Technology and telecommunications | 6,150 | – | 6,150 |
| Healthcare | 2,541 | – | 2,541 |
| Other, including preference shares | 52,518 | 95,006 | 147,524 |
| **Total Company** | 439,507 | 95,006 | 534,513 |
| Banks and insurance | – | 2,563 | 2,563 |
| **Total Group** | 439,507 | 97,569 | 537,076 |
| **Interest-bearing securities and unit trusts** | | | |
| Fixed-interest unit trusts | – | 311,803 | 311,803 |
| Money market and other funds | – | 341,310 | 341,310 |
| **Total Company** | – | 653,113 | 653,113 |
| Fixed-interest unit trusts | – | 165,399 | 165,399 |
| Money market and other funds | – | 175,000 | 175,000 |
| **Total Group** | – | 993,512 | 993,512 |

A register of investments is available for inspection at the registered office of the Company.

**9. Financial instruments (continued)**

**9.2 Fair value through income**

| Interest-bearing securities – unquoted | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| At beginning of the year | **381,010** | 349,102 | **381,010** | 349,102 |
| Purchases | **25,858** | 34,065 | **25,858** | 34,065 |
| Disposals (sales and redemptions) | **–** | (2,157) | **–** | (2,157) |
| Balance at end of the year | **406,868** | 381,010 | **406,868** | 381,010 |

**9.3 Loans and receivables**

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Due from agents, brokers and other intermediaries/(gross) | **807,410** | 778,309 | **757,513** | 721,462 |
| Due from reinsurers/(gross) | **35,142** | 14,550 | **35,425** | 4,729 |
| Other loans and receivables | | | | |
| – Value-added tax | **52,848** | 1,776 | **51,790** | – |
| – Mortgages and other advances | **323** | 432 | **323** | 432 |
| – Other loans and receivables | **24,382** | 26,820 | **6,890** | 28,287 |
| – Receivables from Zurich South Africa Group entities | **–** | – | **6,521** | 9,207 |
| – Receivables from related parties | **3,322** | 4,700 | **3,386** | 4,700 |
| – Salvage recoveries | **37,564** | 37,073 | **37,564** | 37,073 |
| – Deferred for share-based payments expenses | **4,432** | 3,808 | **4,432** | 3,808 |
| Balance at end of the year | **965,423** | 867,468 | **903,844** | 809,698 |
| **Comprises:** | | | | |
| Current | **948,748** | 867,468 | **887,170** | 809,698 |
| Non-current | **16,675** | – | **16,674** | – |

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The Group does not hold any collateral as security.

## 10. Deferred taxation

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| Deferred income tax assets | **(208,788)** | (116,347) | **(206,114)** | (114,839) |
| – Deferred tax asset to be recovered after more than 12 months | **(163,635)** | (13,687) | **(161,862)** | (13,687) |
| – Deferred tax asset to be recovered within 12 months | **(45,153)** | (102,660) | **(44,252)** | (101,152) |
| Deferred income tax liabilities | **190,320** | 41,148 | **190,320** | 41,148 |
| – Deferred tax liability to be recovered after more than 12 months | **190,320** | 41,148 | **190,320** | 41,148 |
| – Deferred tax liability to be recovered within 12 months | **–** | – | **–** | – |
| Total net deferred income tax | **(18,468)** | (75,199) | **(15,794)** | (73,691) |
| The gross movement in the deferred income tax account is as follows: | | | | |
| At beginning of the year | **(75,199)** | 24,910 | **(73,691)** | 25,275 |
| Movement during the year attributable to temporary differences | **56,731** | (100,109) | **57,897** | (98,966) |
| Debited/(credited) to statement of financial performance | **42,818** | (101,493) | **43,984** | (100,350) |
| Credited to equity on unrealised investment revaluations | **13,913** | 1,384 | **13,913** | 1,384 |
| Balance at end of the year | **(18,468)** | (75,199) | **(15,794)** | (73,691) |

**10. Deferred taxation (continued)**

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

**Group**

| Year ended 31 December 2010 | At start of the year R'000 | Charged/(credited) to income R'000 | Charged/(credited) to equity R'000 | At end of the year R'000 |
|---|---|---|---|---|
| Land, buildings and equipment: | | | | |
| Accelerated tax | **(2,093)** | **2,093** | **–** | **–** |
| Fair value movements on: | | | | |
| Available-for-sale investments | **(25,710)** | **–** | **(13,913)** | **(39,623)** |
| Investments at fair value through income | **(3)** | **3** | **–** | **–** |
| Other provisions | **11,380** | **(11,380)** | **–** | **–** |
| Assessed loss | **97,277** | **(63,831)** | **–** | **33,446** |
| Employee benefits: | | | | |
| Surplus plans | **(18,882)** | **18,882** | **–** | **–** |
| Post-retirement health benefit | **4,876** | **298** | **–** | **5,174** |
| Leave pay and bonus accrual | **3,875** | **2,520** | **–** | **6,395** |
| Structuring provisions | **–** | **5,924** | **–** | **5,924** |
| Deferred lease | **4,479** | **2,673** | **–** | **7,152** |
| Deferred income tax (liability)/asset in the statement of financial position | **75,199** | **(42,818)** | **(13,913)** | **18,468** |
| **Year ended 31 December 2009** | | | | |
| Land, buildings and equipment: | | | | |
| Accelerated tax | (2,093) | – | – | (2,093) |
| Fair value movements on: | | | | |
| Available-for-sale investments | (24,326) | – | (1,384) | (25,710) |
| Investments at fair value through income | (3) | – | – | (3) |
| Other provisions | 9,597 | 1,143 | – | 10,740 |
| Assessed loss | – | 97,277 | – | 97,277 |
| Employee benefits: | | | | |
| Surplus plans | (20,171) | 1,289 | – | (18,882) |
| Post-retirement health benefit | 5,058 | (182) | – | 4,876 |
| Leave pay and bonus accrual | 4,602 | (727) | – | 3,875 |
| Others | 640 | – | – | 640 |
| Deferred lease | 1,786 | 2,693 | – | 4,479 |
| Deferred income tax (liability)/asset in the statement of financial position | (24,910) | 101,493 | (1,384) | 75,199 |

| Company<br><br>Year ended 31 December 2010 | At start of the year R'000 | Charged/(credited) to income R'000 | equity R'000 | At end of the year R'000 |
|---|---|---|---|---|
| Land, buildings and equipment: | | | | |
| Accelerated tax | **(2,093)** | **2,093** | **–** | **–** |
| Fair value movements on: | | | | |
| Available-for-sale investments | **(25,447)** | **–** | **(13,913)** | **(39,360)** |
| Other provisions | **9,597** | **(9,597)** | **–** | **–** |
| Assessed loss | **97,277** | **(66,768)** | **–** | **30,509** |
| Employee benefits: | | | | |
| Surplus plans | **(18,882)** | **18,882** | **–** | **–** |
| Post-retirement health benefit | **4,875** | **299** | **–** | **5,174** |
| Leave pay and bonus accrual | **3,875** | **2,520** | **–** | **6,395** |
| Structuring provision | **–** | **5,924** | **–** | **5,924** |
| Deferred lease | **4,489** | **2,663** | **–** | **7,152** |
| **Deferred income tax (liability)/asset in the statement of financial position** | **73,691** | **(43,984)** | **(13,913)** | **15,794** |
| **Year ended 31 December 2009** | | | | |
| Land, buildings and equipment: | | | | |
| Accelerated tax | (2,093) | – | – | (2,093) |
| Fair value movements on: | | | | |
| Available-for-sale investments | (24,063) | – | (1,384) | (25,447) |
| Other provisions | 9,597 | – | – | 9,597 |
| Assessed loss | – | 97,277 | – | 97,277 |
| Employee benefits: | | | | |
| Surplus plans | (20,171) | 1,289 | – | (18,882) |
| Post-retirement health benefit | 5,057 | (182) | – | 4,875 |
| Leave pay and bonus accrual | 4,602 | (727) | – | 3,875 |
| Deferred lease | 1,796 | 2,693 | – | 4,489 |
| **Deferred income tax (liability)/asset in the statement of financial position** | (25,275) | 100,350 | (1,384) | 73,691 |

No deferred tax has been provided on the investment in subsidiaries as the Group has the ability to control the reversal of the temporary difference and it is not possible that the temporary difference will reverse in future.

# Notes to the annual financial statements continued

for the year ended 31 December 2010

**11. Prepayments (employee benefits) – Company and Group**

11.1 Prepayment (employee benefit surplus)

Defined-benefit pension fund

With effect from 1 May 2007 all active defined-benefit members converted to the defined-contribution benefit structure. The Fund's pensioners that became entitled to pension benefits prior to 1 May 2007 were the only remaining defined-benefit liability in the Fund until they were outsourced to Metropolitan Life with effect from 1 December 2010.

The remaining surplus has been allocated to the defined-contribution scheme as an employers' contribution holiday.

The Company operates a defined-benefit pension fund ("the Fund"). The Fund is governed by the Pension Funds Act, 1965. The Fund had 760 (2009: 993) active members at the date of outsourcing the Fund, and no pensioners (2008: 297).

The most recent actuarial valuations were carried out at 31 December 2010, based on information at the end of November 2010. Following the pensioner outsourcing, the Fund no longer has any defined-benefit liabilities. No valuation is therefore required for the following years.

Information prior to 2007 is not available as no actuarial valuations took place previously.

The amounts recognised in the statement of financial position in respect of the Fund are as follows:

| | **2010 R'000** | 2009 R'000 | 2008 R'000 | 2007 R'000 |
|---|---|---|---|---|
| Fair value of plan assets | **134,544** | 508,248 | 471,073 | 600,752 |
| Present value of funded obligations | **–** | (460,545) | (399,033) | (504,556) |
| Balance at end of the year | **134,544** | 47,703 | 72,040 | 96,196 |
| Comprising: | | | | |
| Non-current | **108,555** | 23,366 | 47,884 | 63,940 |
| Current | **25,989** | 24,337 | 24,156 | 32,256 |

As a result of the approval of the Fund's surplus apportionment exercise, the Company accounts for the amount allocated to the Employer Surplus Account in terms of this apportionment exercise. In terms of the Pension Funds Act, 1965, the surplus may not be returned to the Company, but may be used to meet any post-retirement employee obligation.

Movements/changes in the present value of the funded obligation are as follows:

| | **2010 R'000** | 2009 R'000 | 2008 R'000 | 2007 R'000 |
|---|---|---|---|---|
| At beginning of the year | **460,545** | 399,033 | 504,556 | 601,083 |
| Benefits paid | **(22,844)** | (23,839) | (22,112) | (111,518) |
| Interest cost | **16,688** | 32,150 | 22,247 | 67,926 |
| Contributions by plan participants | **–** | – | – | 11,204 |
| Current service costs | **–** | – | – | 22,408 |
| Plan amendments | **–** | – | – | (172,148) |
| Payments on conversion to defined contribution | **–** | – | (6,985) | – |
| Settlements (transferred to Metropolitan Life) | **(362,443)** | – | – | – |
| Curtailments (allocated to Employer Surplus Account) | **(105,552)** | – | – | – |
| Actuarial (gain)/loss | **13,606** | 53,201 | (98,673) | 85,601 |
| **Balance at end of the year** | **–** | 460,545 | 399,033 | 504,556 |

Movements/changes in the fair value of plan assets are as follows:

| | **2010 R'000** | 2009 R'000 | 2008 R'000 | 2007 R'000 |
|---|---|---|---|---|
| At beginning of the year | **508,248** | 471,073 | 600,752 | 1,062,558 |
| Benefit paid | **(22,844)** | (23,839) | (22,112) | (111,518) |
| Funding for defined-contribution scheme | **–** | – | (25,200) | (4,501) |
| Expected return on plan assets | **25,989** | 41,383 | 51,406 | 85,569 |
| Payments on conversion to defined-contribution settlements | **–** | – | – | (505,628) |
| Contributions by employer | **(26,899)** | (29,541) | – | 10,744 |
| Contributions by plan participants | **–** | – | – | 6,703 |
| Actuarial gain/(loss) | **12,493** | 49,172 | (133,773) | 56,825 |
| Settlements (transferred to Metropolitan Life) | **(362,443)** | – | – | – |
| **Balance at end of the year** | **134,544** | 508,248 | 471,073 | 600,752 |

**11. Prepayments (employee benefits) – Company and Group (continued)**

**11.1 Prepayment (employee benefit surplus) (continued)**

The major categories of plan assets, and the expected rate of return at the end of the reporting period for each category, are as follows:

| | **2010** | **%** | 2009 | % | 2008 | % | 2007 | % |
|---|---|---|---|---|---|---|---|---|
| Local equities | **57,781** | **43** | 235,999 | 46 | 261,858 | 56 | 369,809 | 62 |
| Local bonds | **21,138** | **16** | 108,959 | 21 | 29,642 | 6 | 54,530 | 9 |
| Local property | **2,527** | **2** | 8,904 | 2 | 10,117 | 2 | – | – |
| Local cash | **32,545** | **24** | 90,851 | 18 | 54,593 | 12 | 55,234 | 9 |
| Foreign investments | **20,553** | **15** | 63,535 | 13 | 114,863 | 24 | 121,179 | 20 |
| Total | **134,544** | **100** | 508,248 | 100 | 471,073 | 100 | 600,752 | 100 |

The amounts recognised in the statement of financial performance in respect of the defined-benefit plan are as follows:

| | **2010 R'000** | 2009 R'000 | 2008 R'000 | 2007 R'000 |
|---|---|---|---|---|
| Current service cost | **–** | – | – | 7,163 |
| Interest cost | **16,688** | 32,150 | 40,979 | 43,436 |
| Expected return on plan assets | **(25,989)** | (41,383) | (51,406) | (59,848) |
| Actuarial gains and losses | **–** | 9,233 | 9,383 | 28,654 |
| Contribution expenses/past-service costs | **–** | 24,337 | 25,200 | 4,501 |
| Effect of curtailment or settlement | **(105,552)** | – | – | (43,659) |
| **Net deficit/(surplus) for the year per the statement of financial performance** | **(114,853)** | 24,337 | 24,156 | (19,753) |

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

| | **2010* %** | 2009 % | 2008 % | 2007 % |
|---|---|---|---|---|
| Discount rate | **–** | 9.2 | 8.3 | 8.3 |
| Inflation | **–** | 5.0 | 5.0 | 5.0 |
| Expected return on plan assets | **–** | 9.4 | 9.3 | 8.9 |
| Future pension increases | **–** | 5.2 | 4.3 | 4.3 |

* *No assumptions at 31 December 2010 as this is no longer an employee benefit, and no actuarial valuation performed once the Fund was outsourced.*

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

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

No actuarial valuation assumptions are required for the current year following the pensioner outsourcing. The Fund is now a pure defined-contribution pension fund and no longer has any defined-benefit liabilities.

### Sensitivity results

It is important to treat the results of the valuation with a degree of caution, as they are sensitive to the assumptions used. The valuation results set out above are based on a number of assumptions. The value of the liability could vary, depending on the extent to which actual experience differs from the assumptions adopted.

No sensitivity is necessary as any variation would be incorporated into the discretionary apportionment value.

### Pension funds of foreign subsidiaries

Foreign subsidiaries have defined-contribution plans under which fixed contributions are paid into a separate entity, and will have no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employee benefits relating to employee service in current or prior periods. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs.

## 11.2 Retirement benefit obligation

### Post-retirement medical aid benefits

The Company operates a post-employment healthcare for pensioners and qualifying employees, which is administered by Discovery Health (Pty) Limited. The nature of the benefit is for pension fund members to receive a 50% subsidy of medical scheme contributions. There are currently 12 in-service members (2009: 23) and 43 (2009: 39) continuation members.

The most recent actuarial valuation was carried out in terms of IAS 19, *Employee Benefits,* as at 31 December 2010. The next actuarial valuation will take place as at 31 December 2011. The actuarial valuation method used to value the liabilities is the Projected Unit Credit Method prescribed by IAS 19. Future benefits valued are projected using specific actuarial assumptions and the liability for in-service members is accrued over expected working lifetime.

The following principal actuarial assumptions were used:

| | **2010**<br>**%** | 2009<br>% | 2008<br>% |
|---|---|---|---|
| Discount rate | **8.3** | 9.5 | 9.3 |
| Healthcare inflation rate | **7.0** | 8.0 | 8.0 |
| CPI inflation | **5.0** | 6.0 | 6.0 |
| Average retirement age (years) | **63** | 63 | 63 |
| Membership discontinued at retirement and death-in-service | **5.0** | 5.0 | 5.0 |

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

**11. Prepayments (employee benefits) – Company and Group (continued)**

11.2 Retirement benefit obligation (continued)

Sensitivity results

It is important to treat the results of the valuation with a degree of caution, as they are sensitive to the assumptions used. The valuation results set out below are based on a number of assumptions. The value of the liability could turn out to be overstated or understated, depending on the extent to which actual experience differs from the assumptions adopted.

| | **2010** | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | **+1%** | **–1%** | +1% | –1% | +1% | –1% |
| | **R'000** | **R'000** | R'000 | R'000 | R'000 | R'000 |
| – Current service cost plus interest cost % change (Healthcare cost inflation) | **1,860** | **1,467** | 2,078 | 1,616 | 2,191 | 1,650 |
| – Accrued liability % change (Healthcare cost inflation) | **20,636** | **16,663** | 19,552 | 15,624 | 20,714 | 15,943 |
| – Discount rate on the accrued liability % change | **16,629** | **20,717** | 15,598 | 19,622 | 15,905 | 20,808 |

The amount recognised in the balance sheet in respect of the retirement benefit obligation is as follows:

| | **2010** | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| | **R'000** | R'000 | R'000 | R'000 |
| Present value of unfunded obligations | **18,476** | 17,409 | 18,060 | 17,338 |
| Comprising: | | | | |
| Non-current | **17,403** | 16,336 | 16,947 | 16,269 |
| Current | **1,073** | 1,073 | 1,113 | 1,069 |

Changes in the present value of the retirement obligation are as follows:

| | **2010** | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| | **R'000** | R'000 | R'000 | R'000 |
| At beginning of the year | **17,409** | 18,060 | 17,388 | 47,403 |
| Current service cost | **228** | 239 | 236 | 1,759 |
| Interest cost | **1,597** | 1,650 | 1,442 | 2,975 |
| Benefits paid | **(1,118)** | (1,035) | (949) | (897) |
| Actuarial (gains)/losses | **360** | (1,505) | (57) | 262 |
| Losses on curtailments | **–** | – | – | (34,114) |
| Balance at end of the year | **18,476** | 17,409 | 18,060 | 17,388 |

The amounts recognised in the statement of financial performance are as follows:

| | **2010 R'000** | 2009 R'000 | 2008 R'000 | 2007 R'000 |
|---|---|---|---|---|
| Current service cost | **228** | 239 | 236 | 1,759 |
| Interest cost | **1,597** | 1,650 | 1,442 | 2,975 |
| Employee benefit payments | **(1,118)** | (1,035) | (949) | (897) |
| Actuarial loss | **360** | (1,505) | (57) | 262 |
| Total for the year | **1,067** | (651) | 672 | 4,099 |

The charge for the year is included in administrative and other operating expenses in the statement of financial performance as part of staff costs.

| | Group | | Company | |
|---|---|---|---|---|
| **Short-term employee benefits** | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| **Leave pay** | | | | |
| Opening balance | **13,863** | 16,459 | **13,841** | 16,437 |
| Utilised: | | | | |
| – Over/underprovision | **–** | (4,396) | **–** | (4,396) |
| – Current provision | **155** | 1,800 | **–** | 1,800 |
| Balance at end of the year | **14,018** | 13,863 | **13,841** | 13,841 |
| **Bonus provision** | | | | |
| Opening balance | **–** | – | **–** | – |
| – Current provision | **9,000** | – | **9,000** | – |
| Closing balance | **9,000** | – | **9,000** | – |
| Post-retirement medical aid benefits | **18,476** | 17,409 | **18,476** | 17,409 |
| Short-term employee benefit | **23,018** | 13,863 | **22,841** | 13,841 |
| Total retirement benefit surplus | **41,494** | 31,272 | **41,317** | 31,250 |

**12. Deferred acquisition costs**

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| At beginning of the year | **121,408** | 122,407 | **107,917** | 110,103 |
| Acquisition cost deferred | **729,486** | 808,692 | **670,324** | 771,413 |
| Acquisition cost expensed | **(747,659)** | (809,691) | **(689,507)** | (773,599) |
| Foreign exchange | **(1,043)** | – | **–** | – |
| Balance at end of the year | **102,192** | 121,408 | **88,734** | 107,917 |

Deferred acquisition costs are considered to be current assets.

**13. Insurance liabilities and reinsurance assets**

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| Technical provisions | | | | |
| Liabilities arising from insurance contracts | | | | |
| Outstanding claims | **1,251,759** | 1,102,565 | **1,167,705** | 1,106,427 |
| Claims incurred but not reported | **440,205** | 355,636 | **382,231** | 330,142 |
| Outstanding claims, including claims incurred but not reported | **1,691,964** | 1,458,202 | **1,549,936** | 1,436,569 |
| Unearned premiums | **755,774** | 840,512 | **619,136** | 737,199 |
| Liabilities arising from insurance contracts | **2,447,738** | 2,298,714 | **2,169,072** | 2,173,768 |
| Technical assets | | | | |
| Assets arising from insurance contracts | | | | |
| Outstanding claims | **622,594** | 425,137 | **547,293** | 406,519 |
| Claims incurred but not reported | **136,567** | 61,553 | **98,346** | 61,091 |
| Outstanding claims, including claims incurred but not reported | **759,161** | 486,690 | **645,639** | 467,610 |
| Unearned premiums | **211,122** | 229,878 | **173,461** | 204,171 |
| Assets arising from insurance contracts | **970,283** | 716,568 | **819,100** | 671,781 |

Outstanding claims, including claims incurred but not reported

| Group | 2010 Gross R'000 | 2010 Reinsurance R'000 | 2010 Net R'000 | 2009 Gross R'000 | 2009 Reinsurance R'000 | 2009 Net R'000 |
|---|---|---|---|---|---|---|
| Balance at beginning of the year | **1,458,202** | **(486,690)** | **971,512** | 1,270,983 | (347,448) | 923,535 |
| Change in gross provision for outstanding claims | **237,035** | **(274,550)** | **(37,515)** | 270,344 | (134,701) | 135,643 |
| Net insurance claims expensed during the year | **3,506,166** | **(929,314)** | **2,576,852** | 4,175,679 | (505,536) | 3,670,143 |
| Claims paid during the year | **(3,269,131)** | **654,764** | **(2,614,367)** | (3,905,335) | 370,835 | (3,534,500) |
| Exchange rate movement | **(3,273)** | **2,079** | **(1,195)** | 28 | (273) | (245) |
| Other movements | **–** | **–** | **–** | (83,153) | (4,268) | (87,421) |
| **Balance at end of the year** | **1,691,964** | **(759,161)** | **932,802** | 1,458,202 | (486,690) | 971,512 |
| **Company** | | | | | | |
| Balance at beginning of the year | **1,436,569** | **(467,610)** | **968,959** | 1,161,898 | (337,256) | 824,642 |
| Change in gross provision for outstanding claims | **113,368** | **(178,030)** | **(64,662)** | 283,828 | (158,069) | 125,759 |
| Net insurance claims expensed during the year | **3,081,725** | **(592,292)** | **2,489,433** | 4,022,927 | (507,420) | 3,515,507 |
| Claims paid during the year | **(2,968,357)** | **414,262** | **(2,554,095)** | (3,739,099) | 349,351 | (3,389,748) |
| Other movements | **–** | **–** | **–** | (9,157) | 27,715 | 18,558 |
| **Balance at end of the year** | **1,549,936** | **(645,639)** | **904,297** | 1,436,569 | (467,610) | 968,959 |
| **Unearned premium** **Group** | | | | | | |
| Balance at beginning of the year | **840,512** | **(229,878)** | **610,634** | 920,104 | (193,399) | 726,705 |
| Change in provision for unearned premium | **(73,738)** | **13,435** | **(60,303)** | 36,553 | (37,074) | (521) |
| Premiums written during the year | **4,632,362** | **(978,900)** | **3,653,462** | 5,404,362 | (1,139,621) | 4,264,741 |
| Premiums earned during the year | **(4,706,100)** | **992,335** | **(3,713,765)** | (5,367,809) | 1,102,547 | (4,265,262) |
| Exchange rate movement | **(7,347)** | **1,668** | **(5,679)** | – | – | – |
| Other movements | **(3,653)** | **3,653** | **–** | (116,145) | 595 | (115,550) |
| **Balance at end of the year** | **755,774** | **(211,122)** | **544,652** | 840,512 | (229,878) | 610,634 |

## 13. Insurance liabilities and reinsurance assets (continued)

| Company | 2010 Gross R'000 | 2010 Reinsurance R'000 | 2010 Net R'000 | 2009 Gross R'000 | 2009 Reinsurance R'000 | 2009 Net R'000 |
|---|---|---|---|---|---|---|
| Balance at beginning of the year | **737,199** | **(204,171)** | **533,028** | 725,601 | (180,078) | 545,523 |
| Change in provision for unearned premium | **(118,063)** | **30,710** | **(87,353)** | 13,272 | (25,791) | (12,519) |
| Premiums written during the year | **4,212,214** | **(737,736)** | **3,474,478** | 4,991,623 | (920,564) | 4,071,059 |
| Premiums earned during the year | **(4,330,277)** | **768,446** | **(3,561,831)** | (4,978,351) | 894,773 | (4,083,578) |
| Other movements | **–** | **–** | **–** | (1,674) | 1,698 | 24 |
| **Balance at end of the year** | **619,136** | **(173,461)** | **445,675** | 737,199 | (204,171) | 533,028 |

### Claims development tables

The development of claims liabilities provides a measure of the ability to estimate the ultimate value of claims. The Group underwrites only a small proportion of long tail risks and consequently the uncertainty about the amount and timing of claim payments a year after the loss event is limited. Regular estimates of claims run off savings are performed in reviewing the adequacy of the claims provisions and corrective action is taken where necessary. The Group's experience is that runoff savings are positive but not significant in terms of the Group's results. Claims development tables are reviewed by management on a regular basis and the sufficiency of the claims provisions are ratified by the statutory actuary.

The presentation of the claims development table is based on the actual date of the event that caused the claim (accident year basis). The claims development table represents the development of actual claims paid for continuing operations for 2010 and 2009:

Group

| Gross claims<br>Accident year | Claims paid in respect of Total R'000 | 2010 R'000 | 2009 R'000 | 2008 R'000 | 2007 R'000 | Prior 2006 R'000 |
|---|---|---|---|---|---|---|
| 2010 | 3,269,131 | 2,269,476 | 694,218 | 65,052 | 20,429 | 219,956 |
| 2009 | 3,905,335 | – | 3,061,828 | 698,526 | 53,864 | 91,117 |
| 2008 | 3,341,242 | – | – | 2,580,584 | 671,645 | 89,013 |
| 2007 | 2,506,890 | – | – | – | 1,942,767 | 564,123 |
| 2006 and prior | 3,955,191 | – | – | – | – | 3,955,191 |
| Cumulative payments to date | 16,977,789 | 2,269,476 | 3,756,046 | 3,344,162 | 2,688,705 | 4,919,400 |

| **Net claims**<br>Accident year | Claims paid in respect of Total R'000 | 2010 R'000 | 2009 R'000 | 2008 R'000 | 2007 R'000 | Prior 2006 R'000 |
|---|---|---|---|---|---|---|
| 2010 | 2,614,367 | 1,991,393 | 545,498 | 42,405 | 14,471 | 20,600 |
| 2009 | 3,534,500 | – | 2,826,683 | 604,291 | 43,218 | 60,308 |
| 2008 | 2,937,961 | – | – | 2,293,972 | 567,045 | 76,944 |
| 2007 | 2,198,161 | – | – | – | 1,801,657 | 396,504 |
| 2006 and prior | 3,533,719 | – | – | – | – | 3,533,719 |
| **Cumulative payments to date** | 14,818,708 | 1,991,393 | 3,372,181 | 2,940,668 | 2,426,391 | 4,088,075 |
| **Company**<br>**Claims gross**<br>Accident year | | | | | | |
| 2010 | 2,968,357 | 2,170,854 | 694,218 | 65,052 | 20,429 | 17,804 |
| 2009 | 3,739,099 | – | 2,943,241 | 698,526 | 53,864 | 43,468 |
| 2008 | 3,262,939 | – | – | 2,506,814 | 672,645 | 83,480 |
| 2007 | 2,506,890 | – | – | – | 1,873,153 | 633,737 |
| 2006 and prior | 3,955,191 | – | – | – | – | 3,955,191 |
| **Cumulative payments to date** | 16,432,476 | 2,170,854 | 3,637,459 | 3,270,392 | 2,620,091 | 4,733,680 |
| **Net claims**<br>Accident year | | | | | | |
| 2010 | 2,554,095 | 1,934,962 | 545,498 | 42,405 | 14,471 | 16,759 |
| 2009 | 3,389,748 | – | 2,708,555 | 604,291 | 43,218 | 33,684 |
| 2008 | 2,851,640 | – | – | 2,220,904 | 567,045 | 63,691 |
| 2007 | 2,198,161 | – | – | – | 1,732,620 | 465,541 |
| 2006 and prior | 3,533,719 | – | – | – | – | 3,533,719 |
| **Cumulative payments to date** | 14,527,363 | 1,934,962 | 3,254,053 | 2,867,600 | 2,357,354 | 4,113,394 |

## 14. Cash and cash equivalents

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Cash at bank and on hand | **369,172** | 387,125 | **310,098** | 168,872 |
| Short-term bank deposits | **502,938** | 215,911 | **337,736** | – |
| Other short-term highly liquid investments | **200,344** | 429,660 | **31,774** | 355,247 |
| Balance at end of the year | **1,072,454** | 1,032,696 | **679,608** | 524,119 |

The effective interest rate on short-term bank deposits with a duration of less than three months is between 5.35% and 5.5% per annum (2009: 5.25% and 6.85%). The effective interest rate on current accounts at the statement of financial position date was between 4.75% and 5% per annum (2009: 5.25% and 6.85%).

Cash and cash equivalents are considered to be current assets.

## 15. Share capital

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| **Authorised**<br>13,207,360 (2009: 13,207,360) ordinary shares of 25 cents each | **3,302** | 3,302 | **3,302** | 3,302 |
| **Reconciliation of number of shares issued:**<br>12,179,500 (2009: 12,179,500) ordinary shares of 25 cents each, all are fully paid | **3,045** | 3,045 | **3,045** | 3,045 |
| The 1,027,860 (2009: 1,027,860) unissued ordinary shares are under the control of the Directors until the next Annual General Meeting.<br><br>**Issued** | | | | |
| Ordinary | **3,045** | 3,045 | **3,045** | 3,045 |
| Share premium | **1,605** | 1,605 | **1,605** | 1,605 |
| Balance at end of the year | **4,650** | 4,650 | **4,650** | 4,650 |

## 16. Revaluation reserve

Movements in the revaluation reserve for available-for-sale reserves were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **R'000** | R'000 | **R'000** | R'000 |
| At beginning of the year | **208,605** | 201,040 | **208,482** | 199,979 |
| Revaluation – gross | **94,060** | 116,978 | **94,183** | 116,978 |
| Impairment losses transferred to statement of financial performance | **11,998** | 1,539 | **11,998** | 1,539 |
| Net gains transferred to statement of financial performance on disposal | **(6,809)** | (108,631) | **(6,809)** | (108,631) |
| Deferred taxation | **(13,913)** | (2,321) | **(13,913)** | (1,383) |
| Balance at end of the year | **293,941** | 208,605 | **293,941** | 208,482 |

## 17. Financial liabilities held at amortised cost

| | | | | |
|---|---|---|---|---|
| Cell shareholders' interest | **281,597** | 320,375 | **–** | – |

Financial liabilities held at amortised cost are current liabilities due to the amounts being due to the cell shareholders on demand.

The amount due to cell shareholders relates to Zurich Risk Financing SA Limited and Zurich Life SA Limited. The carrying value is based on amortised cost and is the amount due to the cell shareholders.

## 18. Deferred reinsurance commission

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **R'000** | R'000 | **R'000** | R'000 |
| At beginning of the year | **26,496** | 26,106 | **24,887** | 24,787 |
| Reinsurance commission raised | **159,415** | 137,770 | **127,986** | 130,487 |
| Reinsurance commission earned | **(168,526)** | (137,380) | **(137,134)** | (130,387) |
| Foreign exchange | **(121)** | – | **–** | – |
| Balance at end of the year | **17,264** | 26,496 | **15,739** | 24,887 |

Deferred reinsurance commission is considered to be current liabilities.

## 19. Trade and other payables

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Trade payables | **414,090** | 398,641 | **232,291** | 81,833 |
| Agents and due to reinsurers | **381,120** | 218,410 | **378,551** | 214,090 |
| Other payables | **14,508** | 38,858 | **12,277** | 30,547 |
| Deferred income | **29,130** | 32,010 | **27,454** | 30,365 |
| Balance at end of the year | **838,848** | 687,919 | **650,573** | 356,835 |
| **Comprising:** | | | | |
| Current | **813,306** | 671,888 | **625,031** | 340,804 |
| Non-current | **25,542** | 16,031 | **25,542** | 16,031 |

The fair value of trade and other payables approximates carrying value.

### 19.1 Provisions

Onerous lease provision

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Opening balance | – | – | – | – |
| Provision made during the year | **127,366** | – | **127,366** | – |
| Provision used during the year | **(106,210)** | – | **(106,210)** | – |
| Balance at end of the year | **21,156** | – | **21,156** | – |
| **Comprising:** | | | | |
| Current | **5,876** | – | **5,876** | – |
| Non-current | **15,280** | – | **15,280** | – |

During 2010 the Company underwent a restructuring. Certain lease contracts became onerous, and a provision was raised accordingly. The assumptions used in arriving at the provision are that renewal of the current leases will take place. Where the building is currently not sublet, the lease will be fully sublet after five years. A discount rate of 6% was used.

### 19.2 Share incentives

**Long-term performance share plan**

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

The exercise price of the granted options is equal to R458.94.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | **2010** Average exercise price in CHF per share | **Options** | 2009 Average exercise price in CHF per share | Options | 2008 Average exercise price in CHF per share | Options |
|---|---|---|---|---|---|---|
| At beginning of the year | **45.29** | **21,976** | 45.30 | 17,902 | – | – |
| Granted | **45.19** | **5,223** | 45.19 | 4,074 | 45.30 | 17,902 |
| Balance at end of the year | **45.29** | **27,199** | 45.29 | 21,976 | 45.30 | 17,902 |

Out of the 14,685 options outstanding (2009: 8,587), 9,954 (2009: 6,854) were exercisable. No options were exercised in 2009 or 2010.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

| | Exercise price in R per share | Number of shares **2010** | 2009 | 2008 |
|---|---|---|---|---|
| 2004 | 489.02 | **1,373** | 1,373 | 1,373 |
| 2005 | 489.02 | **2,383** | 2,383 | 2,383 |
| 2006 | 492.09 | **1,684** | 1,684 | 1,684 |
| 2007 | 498.54 | **1,534** | 1,534 | 1,534 |
| 2008 | 490.34 | **1,203** | 1,203 | 1,203 |
| 2009 | 454.25 | **410** | 410 | – |
| **2010** | **458.94** | **6,098** | **–** | **–** |
| Balance at end of the year | | **14,684** | **8,589** | **8,177** |

# Notes to the annual financial statements continued

for the year ended 31 December 2010

## 20. Investment income

| Group 2010 | Quoted R'000 | Unquoted R'000 | Total R'000 |
|---|---|---|---|
| Financial assets at fair value through income | | | |
| – Debt instruments – interest received | **–** | **29,005** | **29,005** |
| Available-for-sale financial assets | | | |
| – Equity instruments – dividends received | **11,310** | **10,809** | **22,119** |
| – Fixed-interest investments – interest received | **–** | **49,817** | **49,817** |
| Loans and receivables – interest received | **–** | **62,636** | **62,636** |
| Cash and cash equivalents – interest received | **–** | **76,305** | **76,305** |
| Property | **–** | **814** | **814** |
| Total for the year | **11,310** | **229,386** | **240,696** |
| | | | |
| Group 2009 | | | |
| Financial assets at fair value through income | | | |
| – Debt instruments – interest received | 46,366 | – | 46,366 |
| Available-for-sale financial assets | | | |
| – Equity instruments – dividends received | 20,834 | 6,985 | 27,819 |
| – Fixed-interest investments – interest received | – | 48,918 | 48,918 |
| Loans and receivables – interest received | 49,698 | – | 49,698 |
| Cash and cash equivalents – interest received | 85,866 | – | 85,866 |
| Total for the year | 202,764 | 55,903 | 258,667 |

| Company 2010 | Quoted R'000 | Unquoted R'000 | Total R'000 |
|---|---|---|---|
| Financial assets at fair value through income | | | |
| – Debt instruments – interest received | **–** | **29,005** | **29,005** |
| Available-for-sale financial assets | | | |
| – Equity instruments – dividends received | **11,310** | **10,742** | **22,052** |
| – Fixed-interest investments – interest received | **–** | **49,817** | **49,817** |
| Loans and receivables – interest received | **–** | **60,074** | **60,074** |
| Cash and cash equivalents – interest received | **–** | **40,878** | **40,878** |
| Dividends from subsidiaries | **–** | **81,505** | **81,505** |
| Total for the year | **11,310** | **272,021** | **283,331** |
| Company 2009 | | | |
| Financial assets at fair value through income | | | |
| – Debt instruments – interest received | 46,366 | – | 46,366 |
| Available-for-sale financial assets | | | |
| – Equity instruments – dividends received | 20,834 | 11,932 | 32,766 |
| – Fixed-interest investments – interest received | – | 48,918 | 48,918 |
| Loans and receivables – interest received | 50,585 | 90 | 50,675 |
| Cash and cash equivalents – interest received | 17,482 | – | 17,482 |
| Dividends from subsidiaries | 77,736 | – | 77,736 |
| Total for the year | 213,003 | 60,940 | 273,943 |

## 21. Net realised gains on available-for-sale financial assets

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| Gains on equity securities | **6,809** | 108,631 | **6,809** | 108,631 |

## 22. Impairment of available-for-sale financial assets

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Impairments | **11,998** | 1,539 | **11,998** | 1,539 |

# Notes to the annual financial statements continued

for the year ended 31 December 2010

## 23. Administration and other operating expenses

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| Remuneration | **254,370** | 273,976 | **241,460** | 260,761 |
| – Salaries and wages | **204,502** | 227,061 | **193,275** | 215,651 |
| – Medical aid | **15,482** | 13,692 | **14,833** | 12,981 |
| – Pension fund expenses | **28,626** | 28,121 | **27,601** | 27,052 |
| – Provident fund expenses | **119** | 209 | **110** | 184 |
| – Share-based remuneration | **5,641** | 4,893 | **5,641** | 4,893 |
| Research and development | **313** | 777 | **313** | 777 |
| IT expenses | **84,915** | 75,103 | **83,193** | 73,408 |
| Marketing expenses | **21,340** | 30,036 | **20,482** | 29,253 |
| Depreciation | **25,168** | 24,233 | **24,254** | 23,665 |
| Amortisation | **6,528** | 3,273 | **2,889** | 2,351 |
| Audit remuneration | **4,248** | 5,120 | **3,538** | 4,850 |
| – Fees for audit | **3,614** | 3,537 | **2,904** | 3,267 |
| – Other services | **634** | 1,583 | **634** | 1,583 |
| Surplus on disposal of property and equipment | **2,668** | 1,466 | **2,649** | 1,466 |
| Operating leases rentals | **52,112** | 42,115 | **51,319** | 42,115 |
| Restructuring and other related costs | **129,173** | – | **129,173** | – |
| Other administration expenses | **260,992** | 273,635 | **250,987** | 221,655 |
| | **841,827** | 729,734 | **810,257** | 660,301 |
| *Less:* claims handling expenses | **(149,798)** | (164,682) | **(149,798)** | (164,682) |
| Total expenses | **692,029** | 565,052 | **660,459** | 495,619 |

## 24. Finance costs

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Interest paid on loss reserves | **13,511** | – | **13,511** | – |
| Revenue authorities | **–** | 7,699 | **–** | 7,536 |
| Due to cell shareholders | **–** | 24,073 | **–** | – |
| Total for the year | **13,511** | 31,772 | **13,511** | 7,536 |

Finance costs are calculated using the effective interest rate method.

## 25. Income tax expense

| South African and foreign taxation | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Current taxation | | | | |
| – Current year normal tax | **(6,019)** | (52) | **–** | – |
| – Prior year underprovision | **–** | – | **–** | – |
| Deferred taxation | | | | |
| – Current year | **(51,911)** | 101,493 | **(43,985)** | 100,350 |
| – Prior year underprovision | **–** | (97) | **–** | (97) |
| Withholding tax | **8,828** | – | **–** | – |
| Secondary tax on companies | **1,120** | (835) | **1,120** | (835) |
| Total for the year | **(47,982)** | 100,509 | **(42,865)** | 99,418 |
| Tax rate reconciliation Rands | | | | |
| Profit before tax | **(192,399)** | 285,074 | **(226,516)** | 199,689 |
| South African normal taxation at statutory tax rate of 28% | **(53,872)** | 79,820 | **(63,424)** | 55,913 |
| Foreign subsidiary tax rate difference | **1,776** | 2,446 | **–** | – |
| Adjusted for: | | | | |
| – Change in rate of taxation | **–** | – | **–** | – |
| – Permanent differences | **3,350** | 4,179 | **3,350** | 3,073 |
| – Exempt income | **5,863** | 5,605 | **31,136** | 30,940 |
| – Capital gains tax | **392** | 12,986 | **392** | 12,986 |
| – Disallowed expenses | **(15,439)** | (3,595) | **(15,439)** | (2,562) |
| – Secondary tax on companies | **1,120** | (835) | **1,120** | (835) |
| – Withholding tax in foreign subsidiary | **8,828** | (97) | **–** | (97) |
| Total for the year | **(47,982)** | 100,509 | **(42,865)** | 99,418 |

## 26. Basic and diluted earnings and dividend per share

| | Gross 2010 R'000 | Net 2010 R'000 | Gross 2009 R'000 | Net 2009 R'000 |
|---|---|---|---|---|
| **Basic and diluted earnings per share** | | | | |
| Profit/(loss) attributable to ordinary equity holders of the Company | **–** | **144,417** | – | (184,565) |
| **Earnings per share (cents)** | **–** | **1,186** | – | (1,515) |
| **Headline earnings is determined as follows:** | | | | |
| Profit/(loss) attributable to ordinary equity holders of the Company | **–** | **144,417** | – | (184,565) |
| Gains on disposal of equipment | **2,668** | **2,294** | 1,466 | 1,260 |
| Gains on disposal of available-for-sale financial assets and impairment losses | **5,189** | **4,463** | (107,091) | (90,157) |
| Headline earnings | **7,857** | **151,174** | (105,625) | (273,462) |
| **Headline earnings per share (cents)** | **–** | **1,241** | – | (2,245) |

The calculation of earnings per share and headline earnings per share is based on 12,179,500 (2009: 12,179,500) fully paid shares in issue.

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

## 27. Cash used in operations

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Profit before tax | **192,399** | (285,074) | **226,516** | (199,689) |
| Adjustment for: | | | | |
| Depreciation and amortisation | **31,696** | 27,506 | **27,143** | 26,016 |
| Foreign exchange adjustments | **(5,093)** | 82 | **–** | – |
| (Profit)/loss on disposal of: | | | | |
| – Property and equipment | **2,668** | 1,466 | **2,649** | 1,466 |
| – Subsidiaries and associates | **–** | – | **918** | – |
| Impairment of goodwill | **–** | 2,002 | **–** | – |
| Impairment of investment in deregistered subsidiaries | **–** | – | **6,526** | 6,526 |
| Impairment of available-for-sale financial instruments | **11,998** | – | **11,998** | – |
| Net capital gains and impairments on financial assets | **–** | (110,170) | **–** | (110,170) |
| Interest paid | **13,511** | 31,772 | **13,511** | 7,536 |
| Investment income | **(240,696)** | (258,667) | **(283,331)** | (273,943) |
| Other non-cash items | **(73,100)** | 18,728 | **(72,400)** | 39,305 |
| Underwriting activities: | | | | |
| – Increase/(decrease) in liabilities for insurance contracts, gross | **149,024** | 107,627 | **(4,695)** | 286,269 |
| – (Decrease)/increase in amounts recoverable from reinsurers | **(253,715)** | (175,721) | **(147,319)** | (154,447) |
| – Deferred acquisition costs | **19,216** | 999 | **19,183** | 2,186 |
| – Deferred reinsurance commission | **(9,232)** | 390 | **(9,148)** | 100 |
| Movement in working capital: | | | | |
| – Due by agents and other insurance companies | **(108,872)** | 165,977 | **96,397** | 131,808 |
| – Other receivables | **197,509** | 183,646 | **(6,635)** | 141,028 |
| – Due to cell shareholders | **(38,778)** | 62,268 | – | – |
| – Other payables | **(14,507)** | 110,018 | **130,986** | 66,328 |
| Cash used in operations | **(125,972)** | (117,151) | **12,299** | (29,681) |

## 28. Taxation received/(paid)

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Balance at beginning of the year | **105,664** | 66,795 | **111,342** | 76,873 |
| Current tax and STC for the year recognised in statement of financial performance | **(4,899)** | (9,238) | **1,120** | (933) |
| Balance at end of the year | **(26,355)** | (105,664) | **(21,949)** | (111,342) |
| Total paid during the year | **74,410** | (48,107) | **90,513** | (35,402) |

## 29. Related-party transactions

| | |
|---|---|
| Ultimate holding company | Zurich Financial Services Limited |
| Holding company | SA Fire House Limited |

### Major shareholders

The Group is controlled by SA Fire House Limited (incorporated in South Africa), which owns 58.95% (2009: 73.6%) of the Company's shares. Altogether 25.1% of the shares are owned by Royal Bafokeng Finance Limited. The remaining 15.95% of the shares are widely held. The ultimate parent of the Group is Zurich Financial Services Limited (incorporated in Switzerland).

A list of subsidiary and associate companies is set out on pages 93 to 94.

### Transactions with related parties

The following transactions were carried out with related parties. No bad debt writeoffs or doubtful debt provisions were required during the year in respect of balances owing by related parties, except for the loss-making associates.

### (a) Parent companies

The Group earns recurring revenue from the sale of certain software developments to its parent group. The Group recovers certain expenditure from and pays certain fees to its parent company. This is disclosed below:

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Revenue from the sale of IT services (UK) | **7,049** | 10,823 | **7,049** | 10,823 |
| Other recoverable expenses (Zurich Financial Services Limited) | **9,947** | 16,974 | **9,947** | 16,974 |
| Amount owed by/(to) SA Fire House Limited | **59** | (4,550) | **59** | (4,550) |
| Management fee paid to head office | **(65,395)** | – | **(65,395)** | – |

### (b) Subsidiary companies

During 2010 the Company entered into reinsurance contracts with and earned income from the provision of IT and management services to subsidiary companies. Outstanding balances do not bear interest and are repayable on demand.

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **Botswana** | | | | |
| Gross premium income | **–** | – | **34,925** | 32,770 |
| Claims paid | **–** | – | **(9,445)** | (20,020) |
| Commissions earned | **–** | – | **(6,286)** | (5,912) |
| Current account | **–** | – | **(153)** | (716) |
| Reinsurance treaty account | **–** | – | **160** | 6,151 |
| **Risk finance** | | | | |
| Management fees received | **–** | – | **1,200** | 1,200 |
| Reinsurance due from holding company | **–** | – | **32,134** | 66,650 |
| Reinsurance paid | **–** | – | **6,551** | 68,400 |
| **Escape** | | | | |
| Purchase of software | **–** | – | **920** | 6,040 |
| Purchase of other services | **–** | – | **5,191** | 5,247 |

**(c) Associate companies**

Loans to associate companies are long-term in nature. They are interest free.

**(d) Key management personnel**

Key management personnel are the following:
Key management personnel of the Company and Group, including Executive Directors, have received the following benefits from the Group:

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Short-term employee benefits | **11,633** | 11,706 | **9,945** | 11,706 |
| Post-employment benefits | **1,180** | 1,371 | **1,180** | 1,371 |

Directors' emoluments are set out in note 30.

No loans were extended to key management personnel in 2010 or 2009, and there are no outstanding amounts at 31 December 2010.

All key management personnel, including Directors of the Company, have notified the Company that they did not have material interests in any contract or business which could have given rise to a conflict of interest.

**29. Related-party transactions (continued)**

Certain employees have short-term insurance contracts with the Group in their private capacity. These contracts are available to all employees at rates which apply to all personnel.

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| Premiums earned | **10,757** | 7,216 | **10,738** | 7,182 |
| Claims incurred | **9,606** | 8,284 | **9,604** | 8,278 |

**(e) Other related parties**

The Company obtains reinsurance cover from other Zurich Financial Services group companies. Balances outstanding are interest free and are settled in accordance with the agreements with each party.

| | Group 2010 R'000 | Group 2009 R'000 | Company 2010 R'000 | Company 2009 R'000 |
|---|---|---|---|---|
| Premiums ceded | **155,473** | 163,671 | **155,473** | 163,671 |
| Facultative | **104,197** | 112,213 | **104,197** | 112,213 |
| Treaty | **51,276** | 51,458 | **51,276** | 51,458 |
| Claims recovered | **67,108** | 62,914 | **67,108** | 62,914 |
| Facultative | **32,721** | 28,434 | **32,721** | 28,434 |
| Treaty | **34,387** | 34,480 | **34,387** | 34,480 |
| Commission received | **16,266** | 19,325 | **16,266** | 19,325 |
| Facultative | **6,618** | 8,718 | **6,618** | 8,718 |
| Treaty | **9,648** | 10,607 | **9,648** | 10,607 |
| Net balance owing to Zurich Financial Services group companies at the end of the year | **23,846** | 27,696 | **23,846** | 27,696 |
| Facultative | **21,644** | 26,948 | **21,644** | 26,948 |
| Treaty | **2,202** | 748 | **2,202** | 748 |

The Company operates a defined-benefit and a defined-contribution pension plan (the Funds). There were no transactions between the Company and these plans during the financial year. The Funds provide benefits to both Company and subsidiary company employees.

## 30. Directors' emoluments

### Executive Directors

| 2010 | Salaries R'000 | Incentive Short-term R'000 | Incentive Long-term R'000 | Pension R'000 | Other* R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| GRC Munnoch (CEO) | **1,521** | **–** | **173** | **–** | **1,835** | **3,529** |
| P Bezuidenhout (CFO) | **1,478** | **–** | **–** | **173** | **–** | **1,651** |
| Total Executive Directors | **2,999** | **–** | **173** | **173** | **1,835** | **5,180** |
| **2009** | | | | | | |
| GRC Munnoch (CEO) (appointed 1 October 2009) | 625 | – | – | – | – | 625 |
| P Bezuidenhout (CFO) (appointed 17 June 2009) | 1,013 | – | – | 112 | – | 1,125 |
| NV Beyers (CEO) (retired 30 September 2009) | 1,773 | 144 | 284 | 238 | – | 2,439 |
| Total Executive Directors | 3,411 | 144 | 284 | 350 | – | 4,189 |

* *Fees are paid by Zurich Financial Services Limited.*

All salaries were for services rendered as Directors of the Group.

Fees are paid to Directors as Directors of subsidiaries.

No loans were given to Directors in 2010 or 2009 and there were no outstanding balances due to Directors at 31 December 2010.

**30. Directors' emoluments (continued)**

**Non-executive**

Directors' fees paid to the following Non-Executive Directors:

| | 2010 R'000 | 2009 R'000 |
|---|---|---|
| JPG de Rauville | **660** | 612 |
| CJ Cron (resigned 24 February 2010)* | **–** | – |
| JPM Deiss* | **–** | – |
| C Dill (resigned 18 August 2009)* | **–** | – |
| MN Mbekeni | **259** | 264 |
| DD Mokgatle | **311** | 302 |
| SG Morris | **485** | 403 |
| DS Phiri (resigned 5 May 2010)* | **–** | 197 |
| S Mäder (appointed 19 August 2009)* (resigned 27 October 2010) | **–** | – |
| S Mered (appointed 27 October 2010)* | **–** | – |
| PC Rörich (appointed 1 September 2010)* | **178** | – |
| Total Non-Executive Directors | **1,893** | 1,778 |

The above emoluments have been paid by Zurich Insurance Company South Africa Limited. Details of the Directors' shareholdings are set out in the Directors' report.

Key management personnel compensation is disclosed in Related-party transactions, note 29.

* *Payments made directly to the employer of the Director and not the individual concerned.*

**31. Commitments**

**Capital commitments**

Capital expenditure contracted for at the statement of financial position date but not yet incurred is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| Contractual commitments approved: | | | | |
| Property and equipment | **14,441** | 99,363 | **14,441** | 99,363 |
| Intangible assets | **16,484** | 22,924 | **16,484** | 14,810 |
| Total | **30,925** | 122,287 | **30,925** | 114,173 |

Capital commitments in terms of motor vehicles, furniture, office equipment and computer systems will be funded from existing resources.

There are no capital commitments that have not been approved.

### Operating lease commitments

The Group leases various buildings and office equipment under non-cancellable operating lease agreement. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payments due are:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 R'000** | 2009 R'000 | **2010 R'000** | 2009 R'000 |
| Not later than one year | **32,961** | 44,672 | **32,241** | 44,239 |
| Later than one year but not later than five years | **138,315** | 169,276 | **137,895** | 168,520 |
| Later than five years | **300,823** | 386,486 | **300,823** | 386,486 |
| Total | **472,099** | 600,434 | **470,959** | 599,245 |

## 32. Contingencies

The Group, like all other insurers, is subject to litigation in the normal course of business. The Group does not believe that such litigation will have a material effect on its profit or loss and the financial condition at year-end. However, it is difficult to assess the ultimate outcome of such litigation.

## 33. Events after the statement of financial position date

No issues have arisen after the date of statement of financial position that are significant and need reporting in the annual report.

**34. Shareholder analysis**

Company: Zurich Insurance Company South Africa Limited
Register date: 31 December 2010
Issued share capital: 12,179,500

| Shareholder spread | No of shareholdings | % | No of shares | % |
|---|---|---|---|---|
| 1 – 1,000 shares | 465 | 91.36 | 81,302 | 0.67 |
| 1,001 – 10,000 shares | 19 | 3.73 | 58,516 | 0.48 |
| 10,001 – 100,000 shares | 15 | 2.95 | 413,133 | 3.39 |
| 100,001 – 1,000,000 shares | 7 | 1.38 | 1,389,664 | 11.41 |
| 1,000,001 shares and over | 3 | 0.58 | 10,236,885 | 84.05 |
| **Total** | **509** | **100.00** | **12,179,500** | **100.00** |
| **Distribution of shareholders** | | | | |
| Banks | 5 | 0.98 | 354,403 | 2.91 |
| Close corporations | 4 | 0.79 | 1,501 | 0.01 |
| Empowerment* | 2 | 0.39 | 3,057,055 | 25.10 |
| Holding company | 1 | 0.20 | 7,179,830 | 58.95 |
| Individuals | 393 | 77.21 | 142,035 | 1.17 |
| Insurance companies | 4 | 0.79 | 294,142 | 2.42 |
| Medical schemes | 1 | 0.20 | 18,802 | 0.15 |
| Mutual funds | 14 | 2.75 | 1,001,051 | 8.22 |
| Nominees and trusts | 45 | 8.84 | 16,136 | 0.13 |
| Private companies | 36 | 7.07 | 16,602 | 0.14 |
| Retirement funds | 4 | 0.78 | 97,943 | 0.80 |
| **Total** | **509** | **100.00** | **12,179,500** | **100.00** |

| Shareholder spread | No of shareholdings | % | No of shares | % |
|---|---|---|---|---|
| **Public/non-public shareholders** | | | | |
| **Non-public shareholders** | 12 | 2.36 | 10,237,885 | 84.06 |
| Directors of the company | 9 | 1.77 | 1,000 | 0.01 |
| Strategic holdings (more than 10%) | 1 | 0.20 | 7,179,830 | 58.95 |
| Empowerment* | 2 | 0.39 | 3,057,055 | 25.10 |
| **Public shareholders** | 497 | 97.64 | 1,941,615 | 15.94 |
| **Total** | **509** | **100.00** | **12,179,500** | **100.00** |

| Beneficial shareholders holding 1% or more | No of shares | % |
|---|---|---|
| SA Fire House Limited | 7,179,830 | 58.95 |
| Royal Bafokeng Nation | 3,057,055 | 25.10 |
| Old Mutual Group | 859,632 | 7.06 |
| JP Morgan (Custodian) | 353,145 | 2.90 |
| Nedbank Group | 233,635 | 1.92 |
| Santam RSA Equity Portfolio | 131,842 | 1.08 |
| **Total** | **11,815,139** | **97.01** |
| **Institutional holdings of 1% or more (Own holdings and third-party managed funds)** | | |
| Old Mutual Investment Group | 1,271,371 | 10.44 |
| JP Morgan (Custodian) | 353,145 | 2.90 |
| Santam RSA Equity Portfolio | 131,842 | 1.08 |
| **Total** | **1,756,358** | **14.42** |

* *Zurich shareholders are referred to the announcement released on SENS, dated 3 December 2009, wherein it was advised that a transaction had been concluded between Zuirch's major shareholders in terms of which SA Fire House Limited (a subsidiary of Zurich Insurance Company Limited, Switzerland) had disposed of 15.1% of the issued share capital of the Company to Royal Bafokeng Finance (Pty) Limited ("RBF") (a company wholly owned by Royal Bafokeng Holdings), increasing the shareholding of RBF in the Company to 25.1% ("the transaction"). The Company advises that the conditions precedent to the transaction were fulfilled and the transaction was implemented effective 16 February 2010.*

# Employee profile

for the year ended 31 December 2010

| | | | African | | | Coloured | | |
|---|---|---|---|---|---|---|---|---|
| **Occupational level** | Grade | Total | Male | Female | Total | Male | Female | Total |
| **Top management** | | | | | | | | |
| Chief Executive Officer | 1 | 1 | – | – | – | – | – | – |
| **Senior management** | | | | | | | | |
| Heads of major functions | 2, 3, 4 | 13 | 1 | 1 | 2 | – | – | – |
| Experienced specialists and middle management | 5, 6, 7 | 193 | 14 | 12 | 26 | 8 | 5 | 13 |
| Skilled technical and foremen | 8, 9, 10, 11 | 442 | 62 | 52 | 114 | 27 | 35 | 62 |
| Automatic decision | 12, 13, 14, 15 | 83 | 16 | 20 | 36 | – | 8 | 8 |
| Defined decision | 16 | 5 | 3 | 2 | 5 | – | – | – |
| **Total permanent** | | **737** | **96** | **87** | **183** | **35** | **48** | **83** |

| | Indian | | | White | | | Foreign nationals | | |
|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total | Male | Female | Total |
| | | | | | | | | | |
| | – | – | – | – | – | – | 1 | – | 1 |
| | | | | | | | | | |
| | 1 | – | 1 | 6 | 4 | 10 | – | – | – |
| | 18 | 12 | 30 | 65 | 54 | 119 | 4 | 1 | 5 |
| | 60 | 59 | 119 | 39 | 108 | 147 | – | – | – |
| | 3 | 18 | 21 | 2 | 16 | 18 | – | – | – |
| | – | – | – | – | – | – | – | – | – |
| | **82** | **89** | **171** | **112** | **182** | **294** | **5** | **1** | **6** |

# Notice to shareholders

**Zurich Insurance Company South Africa Limited**
(Incorporated in the Republic of South Africa)
(Registration number 1965/006764/06)
Share code: ZSA
ISIN: ZAE0000094496
("Zurich" or "the Company")

Notice is hereby given that the forty-sixth Annual General Meeting of shareholders of Zurich will be held at the offices of the Company, 15 Marshall Street, Ferreirasdorp, Johannesburg, 2001, on Wednesday, 20 April 2011 at 08:30 to consider and, if deemed fit, to pass, with or without modification, in the manner required by the Companies Act, No 61 of 1973 ("the Act"), as amended, and subject to the JSE Limited ("JSE") Listings Requirements, the following ordinary and special resolutions:

**ORDINARY BUSINESS**

1. Adoption of annual financial statements

"THAT the audited annual financial statements of the Company and the Group for the year ended 31 December 2010, together with the reports of the directors and auditors thereon, be considered and adopted."

2. Re-election of Directors

2.1 "THAT Mr SG Morris, an Independent Non-Executive Director, who retires in terms of the Company's Articles of Association ("the Articles") and being eligible has therefore offered himself for re-election as an Independent Non-Executive Director, be re-elected."

Details of Mr SG Morris BCom, CA (SA) (65):
1966 to 1999 – Chairman; Senior Partner; Deputy Chief Executive Officer; Chief Executive Officer: KPMG South Africa
1999 to 2004 – Group Financial Director: Nedcor
2005 to date – Non-Executive Director for Zurich Insurance Company South Africa Limited and other listed and unlisted companies

2.2 "THAT Dr S Mered, a Non-Executive Director, who retires in terms of the Company's Articles and being eligible has therefore offered himself for re-election as a Non-Executive Director, be re-elected."

Details of Dr S Mered Juris Doctor, BA (44):
1994 to 1998 – Management Associate; Underwriting Manager (Management Liability): American International Underwriters
1998 to 2000 – Regional Manager (Financial Institutions): AIG, INC, AIG Europe SA, France
2000 to 2001 – Vice President and Manager (Financial Lines): AIG, INC, AIG Europe SA, France
2001 to 2002 – Deputy Managing Director: AIG Pharaonic AIG Insurance Company, SAE, France
2002 to 2004 – Managing Director: AIG, Pharaonic AIG Insurance Company, SAE, Egypt
2004 to 2006 – Senior Vice President and Regional Manager (Financial Lines): AIG, AIG Europe SA, France
2006 to 2007 – Senior Vice President and Regional Manager (Commercial Lines): AIG, INC, AIG Europe SA, France
2007 to 2008 – General Manager (AIG); Entrepreneur and Board Member: AIG, INC, AIG Europe SA, France
2009 to date – Chief Executive Officer: Zurich Middle East
2010 to date – Non-Executive Director: Zurich Insurance Company South Africa Limited

2.3 "THAT Mr PC Rörich, a Non-Executive Director, who retires in terms of the Company's Articles and being eligible has therefore offered himself for re-election as a Non- Executive Director, be re-elected."

Details of Mr PC Rörich BCom (Hons), CA (SA) (42):
1994 to 1997 – Corporate Finance: Deloitte (SA)
1997 to 2001 – Equities Underwriting; Corporate Finance Advisor: Gensec Securities Limited
2001 to 2004 – Corporate Finance: Deutsche Bank
2004 to 2008 – New Business and Investor Relations; Executive Director: African Rainbow Minerals Limited
2008 to date – Strategic Investments: Royal Bafokeng Holdings
2010 to date – Non-Executive Director: Zurich Insurance Company South Africa Limited

3. Approval of appointment or reappointment of the Audit Committee
"THAT the reappointment of the Audit Committee as reflected on page 17 of this annual report, to which this Notice forms part, be approved."

4. Approval of reappointment of auditors
"THAT the reappointment of PricewaterhouseCoopers Inc. as independent auditors of the Company and AG Taylor as the individual designated auditor of the Company until the next Annual General Meeting be approved."

5. Approval of auditors' remuneration
"THAT the Directors be and are hereby authorised to fix and pay the auditors' remuneration for the year ended 31 December 2010, be approved."

**SPECIAL BUSINESS**
Shareholders will be requested to consider and, if deemed fit, to pass the following resolutions with or without amendments:

**ORDINARY RESOLUTION NUMBER 1**
*Place unissued shares under the control of the Directors.*

"RESOLVED as an ordinary resolution that 10% (ten percent) of the authorised but unissued ordinary share capital of the Company be and are hereby placed under the control and authority of the Directors of the Company until the forthcoming Annual General Meeting and that they be and are hereby authorised and empowered to allot, issue and otherwise dispose of such shares to such person or persons on such terms and conditions and at such times as they may deem fit, subject to the provisions of the Act, the Company's Articles and the JSE Listings Requirements, when applicable."

**ORDINARY RESOLUTION NUMBER 2**
*Issue unissued shares in the Company for cash.*

"RESOLVED THAT the Directors of the Company be authorised by way of a General Authority to issue all or any of the authorised but unissued shares in the capital of the Company for cash, as and when they in their discretion deem fit, subject to the Act, the Company's Articles and the JSE Listings Requirements, when applicable, and the following limitations, namely:

- that this authority shall not extend beyond 15 (fifteen) months from the date of this meeting or the date of the next Annual General Meeting, whichever is the earlier date;
- that the issue shall be to public shareholders, as defined in the JSE Listings Requirements and not to related parties;
- that a paid press release, giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one year, 5% (five percent) or more of the number of ordinary shares issued prior to the issue;

**ORDINARY RESOLUTION NUMBER 2 (continued)**

- in the aggregate in any one financial year may not exceed 8% (eight percent) of the Company's relevant number of equity securities in issue of that class (for purposes of determining the securities comprising the 8% (eight percent) number in any one year, account must be taken of the dilution effect, in the year of issue of options/convertible securities, by including the number of any equity securities which may be issued in future arising out of the issue of such options/convertible securities);
- of a particular class, will be aggregated with any securities that are compulsorily convertible into securities of that class, and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible;
- as regards the number of securities which may be issued (the 8% number), shall be based on the number of securities of that class in issue added to those that may be issued in future (arising from the conversion of options/convertible securities), at the date of such application:
  - less any securities of the class issued, or to be issued in future arising from options/convertible securities issued, during the current financial year;
  - plus any securities of that class to be issued pursuant to:
    - a rights issue which has been announced, is irrevocable and is fully underwritten; or
    - acquisition (which has had final terms announced) may be included as though they were securities in issue at the date of application;
- that, in determining the price at which an issue for shares will be made in terms of this authority, the maximum discount permitted be 10% (ten percent) of the weighted average traded price on the JSE of the shares in question over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed to by the Company's Directors and the party subscribing for the shares;
- that the equity securities which are the subject of the issue for cash must be of a class already in issue, or, where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- any issue of shares for cash will be subject to Exchange Control approval at that point in time; and
- any other requirements the JSE may have."

In terms of the Listings Requirements of the JSE, 75% (seventy-five percent) of the votes cast by shareholders present or represented by proxy at the Annual General Meeting must be cast in favour of this Ordinary Resolution for it to be approved.

**ORDINARY RESOLUTION NUMBER 3**

*Approval of Non-Executive Directors' fees*

3.1 Standard fees

"RESOLVED THAT the Company hereby approves, as a general approval, the proposed fees set out below, payable to Non-Executive Directors for their services as Directors on the Board and on the Board Committees for the period commencing 1 January 2011, as recommended by the Remuneration Committee and the Board, subject to approval by the shareholders at the Annual General Meeting, be approved."

Proposed Directors' fees with effect from 1 January 2011

| Type of fee | Existing fees | Proposed fees |
|---|---|---|
| Zurich South Africa Board | | |
| Chairman | R280,900 pa | R500,000 pa |
| Non-Executive Directors | R114,600 pa | R121,500 pa |
| Audit Committee | | |
| Chairman | R187,100 pa | R202,000 pa |
| Non-Executive Directors | R93,300 pa | R101,000 pa |
| ALMIC | | |
| Chairman | R187,100 pa | R202,000 pa |
| Non-Executive Directors | R93,300 pa | R101,000 pa |
| Other Board Committees | | |
| Chairman | R112,600 pa | R120,000 pa |
| Non-Executive Directors | R56,200 pa | R60,000 pa |

3.2 Ad hoc fees

"RESOLVED THAT the Non-Executive Directors be remunerated at an hourly rate of R2,225 for other services in addition to normal Board duties."

**SPECIAL RESOLUTION NUMBER 1**

*Authority to repurchase shares*

"RESOLVED THAT the Company hereby approves, as a general authority contemplated in sections 85 to 89 of the Act, the acquisition by the Company of its own shares, or of shares in its holding company or to permit a subsidiary of the Company to purchase shares in the Company, upon such terms and conditions and in such amounts as the Directors of the Company may determine, but subject to the provisions of the Articles, the Companies Act and the JSE Listings Requirements from time to time, subject to the following limitations:

- that this general authority shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution or the date of the next Annual General Meeting, whichever is the earlier date;
- that any such general repurchase be implemented through the order book operated by the JSE and done without prior understanding or arrangement between the Company and the counterparty;
- that a paid press release giving such details as may be required in terms of the Listings Requirements of the JSE be published when the Company or its subsidiaries have cumulatively repurchased 3% (three percent) of the initial number of shares in issue and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter;

**SPECIAL RESOLUTION NUMBER 1 (continued)**

- that the general repurchase may not in the aggregate in any one financial year exceed 20% (twenty percent) of the number of shares in the Company's issued share capital at the beginning of the financial year provided that the acquisition of shares by a subsidiary of the Company may not exceed 10% (ten percent) of the number of issued shares of the Company at the beginning of the financial year;
- that, in determining the price at which shares may be repurchased in terms of this general authority, the maximum premium permitted be 10% (ten percent) above the weighted average traded price of the shares as determined over the 5 (five) business days immediately preceding the date of the repurchase of such ordinary shares by the Company;
- that the Company or its subsidiary is not repurchasing securities during a prohibited period as defined in the JSE Listings Requirements, unless it has in place a repurchase programme where the dates and quantities of the securities to be traded during the relevant period are not fixed (not subject to variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period;
- any such general repurchase will be subject to Exchange Control approval at that point in time;
- the Company only appoints one agent to effect any general repurchase(s) on its behalf; and
- the sponsor to the Company provides a letter on the adequacy of working capital in terms of section 2.12 of the JSE Listings Requirements prior to any repurchases being implemented on the open market of the JSE.

The Directors undertake that, for a period of 12 (twelve) months following the date of the general repurchase, they will not undertake any such repurchases unless:

- the Company and the Group will, after payment for such maximum repurchase, be able to repay its debts in the ordinary course of business;
- the Company's and the Group's assets, fairly valued according to International Financial Reporting Standards and on a basis consistent with the last financial year of the Company will, after such payment, exceed the Company's and the Group's liabilities;
- the Company's and the Group's share capital and reserves will, after such payment, be adequate for ordinary business purposes; and
- the Company and the Group will, after such payments, have sufficient working capital available for ordinary business purposes.

### Reason and effect

The reason for and the effect of Special Resolution number 1 is to grant the Directors a General Authority, up to and including the date of the following Annual General Meeting of the Company, to approve the Company's purchase of shares in itself, or of shares in its holding company, or to permit a subsidiary of the Company to purchase shares in the Company, subject to the limitations set out above.

### Intention

The Board has no immediate intention to use this authority to repurchase Company shares. However, the Board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

The JSE Listings Requirements require the following disclosures, some of which are elsewhere in the annual report of which this notice forms part as set out below:

- Directors and management – pages 12 to 14;
- Major shareholders of Zurich – page 33;
- Directors' interests in securities – page 32; and
- Share capital of the Company – page 114.

### Litigation statement

The Directors are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the Group's financial position.

### Directors' responsibility statement

The Directors collectively and individually accept full responsibility for the accuracy of the information pertaining to this resolution and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by law and the JSE Listings Requirements.

### Material change

Other than the facts and developments reported on in the annual report, there have been no material changes in the financial position of Zurich and its subsidiaries since the date of signature of the audit report and the date of this notice.

**VOTING AND PROXIES**

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms must be forwarded to reach the Company's Transfer Secretaries, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001, South Africa, or posted to the Transfer Secretaries at PO Box 61051, Marshalltown, 2107, to be received by no later than 09:00 on Monday, 18 April 2011. Proxy forms should only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

On a show of hands, every member of the Company present in person or represented by proxy shall have one vote only. On a poll, every member of the Company shall have one vote for every share held in the Company by such member.

Shareholders who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their Central Securities Depository Participant or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Equity securities held by a share trust or scheme will not have their votes taken into account at the Annual General Meeting for the purposes of resolutions proposed in terms of the JSE Listings Requirements.

By order of the Board

G Kostopoulos
*Group Company Secretary*
10 March 2011

### Registered office

Zurich Insurance Company South Africa Limited
15 Marshall Street
Ferreirasdorp
Johannesburg, 2001, South Africa

### Transfer secretaries

Computershare Investor Services (Pty) Limited
70 Marshall Street
Johannesburg, 2001, South Africa

PO Box 61051, Marshalltown, 2107

# Administration

**Group Company Secretary**
G Kostopoulos
15 Marshall Street
Ferreirasdorp
Johannesburg
2001

PO Box 61489
Marshalltown
2107

**Registration number:** 1965/006764/06
**Authorised Financial Services Provider number:** 17703

**Website:** www.zurich.co.za

**Transfer Secretaries**
Computershare Investor Services (Pty) Limited
70 Marshall Street
Johannesburg
2001

**Auditors**
PricewaterhouseCoopers Inc.
Chartered Accountants (SA)
2 Elgin Road
Sunninghill
2157

**Sponsor**
RAND MERCHANT BANK (A division of FirstRand Bank Limited)
CORPORATE FINANCE
1 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton
2196

# Form of proxy

**Zurich Insurance Company South Africa Limited**
(Incorporated in the Republic of South Africa)
(Registration number 1965/006764/06)
Share code: ZSA
ISIN: ZAE0000094496
("Zurich" or "the Company")

***This form is only to be completed by certificated and own name registered dematerialised shareholders.***

Holders of dematerialised ordinary shares, other than "own name" registration, must inform their Central Securities Depository Participant (CSDP) or broker of their intention to attend the Annual General Meeting and request their CSDP or broker to issue them with the necessary authorisation to attend the Annual General Meeting in person or provide their CSDP or broker with their voting instructions should they not wish to attend the Annual General Meeting in person.

I/We ______________________________________________
[Name in block letters]

of ______________________________________________
[Address in block letters]

being a shareholder(s) of Zurich and entitled to ______________________ votes
do hereby appoint ______________________ of ______________________
or failing him/her, ______________________ of ______________________

or failing him/her, the Chairman of the Annual General Meeting, as my/our proxy(ies) to attend, speak and vote on my/our behalf at the forty-sixth Annual General Meeting of the shareholders to be held at Zurich's head office, 15 Marshall Street, Ferreirasdorp, Johannesburg, 2001, on Wednesday, 20 April 2011 at 08:30 and at any adjournment thereof, and to vote or abstain from voting as follows:

| | For | Against | Abstain |
|---|---|---|---|
| 1. Adoption of the annual financial statements | | | |
| 2. Re-election of Directors: | | | |
| 2.1 To re-elect Mr SG Morris as an Independent Non-Executive Director | | | |
| 2.2 To re-elect Mr S Mered as a Non-Executive Director | | | |
| 2.3 To re-elect Mr PC Rörich as a Non-Executive Director | | | |
| 3. Approval of appointment or reappointment of the Audit Committee | | | |
| 4. Approval of reappointment of auditors and individual designated auditor | | | |
| 5. Approval of auditors' remuneration | | | |
| **Ordinary Resolution No 1**: Place unissued shares under the control of the Directors | | | |
| **Ordinary Resolution No 2**: Issue unissued shares in the Company for cash | | | |
| **Ordinary Resolution No 3**: To sanction the proposed remuneration of the Non-Executive Directors' remuneration payable from 1 January 2011 | | | |
| **Special Resolution No 1**: Authority to repurchase shares | | | |

Signed at ______________________ on ______________________ 2011

Shareholder signature ______________________________________________

Please indicate with an 'X' in the appropriate space above how you wish your vote(s) to be cast. If you return this form, duly signed without any specific directions, the proxy will vote or abstain from voting as he/she deems fit.

A shareholder entitled to attend and vote at the abovementioned meeting is entitled to appoint a proxy (who need not be a shareholder of the Company) to attend, speak and, on a poll, to vote in his/her stead.

# Form of proxy continued

## Instructions on signing and lodging the form of proxy

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided overleaf, with or without deleting "the Chairman of the Annual General Meeting", but any such deletion must be initialled by the shareholder. Should this space be left blank, the proxy will be exercised by the Chairman of the Annual General Meeting. The person whose name appears first on the Form of Proxy and who is present at the Annual General Meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A shareholder's voting instructions to the proxy must be indicated by the insertion of an 'X', or the number of votes exercisable by that shareholder, in the appropriate spaces provided overleaf. Failure to do so will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting, as he/she thinks fit in respect of all the shareholder's exercisable votes. A shareholder or his/her proxy is not obliged to use all the votes exercisable by him/her or by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the shareholder or by his/her proxy.

3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Transfer Secretaries.

4. To be valid, the completed Forms of Proxy must be lodged with the Transfer Secretaries of the Company, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001, South Africa (PO Box 61051, Marshalltown, 2107), to reach the Company at least 48 hours before the meeting (excluding Saturdays, Sundays and public holidays).

5. Documentary evidence establishing the authority of a person signing this Form of Proxy in a representative capacity must be attached to this Form of Proxy unless previously recorded by the Transfer Secretaries or waived by the Chairman of the Annual General Meeting.

6. The completion and lodging of this Form of Proxy will not preclude the relevant shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.

7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this Form of Proxy must be initialled by the signatory(ies).

8. The Chairman of the Annual General Meeting shall be entitled to decline or accept the authority of a person signing the proxy form:
   a. under a power of attorney; or
   b. on behalf of a company

   unless his power of attorney or authority is deposited at the offices of the Company or that of the Transfer Secretaries not later than 48 hours before the meeting (excluding Saturdays, Sundays and public holidays).

Zurich Insurance Company South Africa Limited

15 Marshall Street, Ferreirasdorp
Johannesburg, South Africa
PO Box 61489, Marshalltown 2107

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