

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:

<i>Fully paid shares</i>	2010	2009
Indirect beneficial – PC Rörich	17,382	–
Indirect non-beneficial	1,000	1,000
Breakdown: Indirect non-beneficial		
<i>Shareholder</i>		
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		Company	
		2010 R'000	2009 R'000	2010 R'000	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		Company	
		2010 R'000	2009 R'000	2010 R'000	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 R'000	2009 R'000	2010 R'000	2009 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		Company	
		2010 R'000	2009 R'000	2010 R'000	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					
<i>Acquisitions</i>					
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)
<i>Proceeds on disposals</i>					
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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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 365th 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).

Notes to the annual financial statements continued

for the year ended 31 December 2010

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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

1. General information (continued)

1.8 Land, buildings and equipment (continued)

Depreciation is provided on a straight-line basis:

<i>Item</i>	<i>Average useful life</i>
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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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				
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				
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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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

Notes to the annual financial statements continued

for the year ended 31 December 2010

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)

	Commercial R'000	Personal R'000	Total insurance R'000
Segment assets			
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)

	2010 R'000	2009 R'000
Reconciliation of revenue, underwriting results, assets and liabilities		
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:

	SA R'000	Foreign subsidiary R'000	Total R'000
Year ended 31 December 2010			
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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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

Notes to the annual financial statements continued

for the year ended 31 December 2010

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				Carrying value R'000
	AAA R'000	AA R'000	A R'000	Not rated 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

Notes to the annual financial statements continued

for the year ended 31 December 2010

3. Risks (continued)

Concentration of credit risk (continued)

Company	Credit rating				Carrying value R'000
	AAA R'000	AA R'000	A R'000	Not rated 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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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:

Group	5% increase		5% decrease	
	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:

- disability event;
- health event; or
- death event,

contemplated in the contract as a risk, occurs.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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.



Notes to the annual financial statements continued

for the year ended 31 December 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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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

Group	2010			2009		
	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			2009		
	Cost R'000	Accumulated impairment R'000	Carrying value R'000	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)

There is no goodwill in the Company.

Notes to the annual financial statements continued

for the year ended 31 December 2010

6. Intangible assets	2010		Carrying value R'000	2009		Carrying value R'000
	Accumulated Cost amortisation R'000	R'000		Cost R'000	Accumulated amortisation R'000	
Group						
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

	Opening balance R'000	Additions R'000	Disposals R'000	Amortisation R'000	Total R'000
Group 2010					
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		% holding		Carrying amount		Amounts due to/ (from) holding Company	
	2010	2009	2010	2009	2010	2009	2010	2009
	R'000	R'000			R'000	R'000	R'000	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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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		Cost		Carrying value	
		2010	2009	2010 R'000	2009 R'000	2010 R'000	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		Company	
		2010 R'000	2009 R'000	2010 R'000	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				Debt	Total R'000
	Ordinary shares		Preference shares		Interest-bearing securities	
	Quoted R'000	Unquoted R'000	Quoted R'000	Unquoted R'000	Unquoted 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

Notes to the annual financial statements continued

for the year ended 31 December 2010

9. Financial instruments (continued) 9.1 Available-for-sale (continued)

Group	Ordinary shares	
	Quoted R'000	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		Total R'000
Preference shares		Interest-bearing securities		
Quoted R'000	Unquoted R'000	Unquoted 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

Notes to the annual financial statements continued

for the year ended 31 December 2010

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

	Quoted R'000	Unquoted R'000	Total R'000
2009			
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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

9. Financial instruments (continued)	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
9.2 Fair value through income				
Interest-bearing securities – unquoted				
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				
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)

Notes to the annual financial statements continued

for the year ended 31 December 2010

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	At start of the year R'000	Charged/(credited) to income R'000	equity R'000	At end of the year R'000
Year ended 31 December 2010				
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	At start of the year R'000	Charged/(credited) to income R'000	equity R'000	At end of the year R'000
Year ended 31 December 2010				
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

Notes to the annual financial statements continued

for the year ended 31 December 2010

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 %	2009 %	2008 %
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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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% R'000	-1% R'000	+1% R'000	-1% R'000	+1% R'000	-1% 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 R'000	2009 R'000	2008 R'000	2007 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 R'000	2009 R'000	2008 R'000	2007 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	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Short-term employee benefits				
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

Notes to the annual financial statements continued

for the year ended 31 December 2010

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				
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			2009		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	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

Notes to the annual financial statements continued

for the year ended 31 December 2010

13. Insurance liabilities and reinsurance assets (continued)

Company	2010			2009		
	Gross R'000	Reinsurance R'000	Net R'000	Gross R'000	Reinsurance R'000	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 Accident year	Claims paid in respect of					Prior 2006 R'000
	Total R'000	2010 R'000	2009 R'000	2008 R'000	2007 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 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 Claims gross 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 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



Notes to the annual financial statements continued

for the year ended 31 December 2010

14. Cash and cash equivalents	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	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		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Authorised 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: 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.				
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 R'000	2009 R'000	2010 R'000	2009 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 R'000	2009 R'000	2010 R'000	2009 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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

19. Trade and other payables	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	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				
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		2009		2008	
	Average exercise price in CHF per share	Options	Average exercise price in CHF per share	Options	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			
	Quoted R'000	Unquoted R'000	Total R'000
Group 2010			
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

	Quoted R'000	Unquoted R'000	Total R'000
Company 2010			
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				
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		Company	
	2010 R'000	2009 R'000	2010 R'000	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**

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

Notes to the annual financial statements continued

for the year ended 31 December 2010

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		Company	
	2010 R'000	2009 R'000	2010 R'000	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)

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 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:				
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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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.				
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	Incentive		Pension	Other*	Total
	R'000	Short-term R'000	Long-term R'000	R'000	R'000	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.

Notes to the annual financial statements continued

for the year ended 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.

Notes to the annual financial statements continued

for the year ended 31 December 2010

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 Zurich'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

Occupational level	Grade	Total	African			Coloured		
			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: ZAE000094496

("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;



Notice to shareholders continued

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;

Notice to shareholders continued

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