2019

ANNUAL REPORT & ACCOUNTS

AfricaRe SA

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- Casablanca, Morocco – 1980
- Nairobi, Kenya – 1982
- Abidjan, Ivory Coast – 1987
- Johannesburg, South Africa – 1995
- Ebène, Mauritius – 1997
- Cairo, Egypt – 2001
- Lagos, Nigeria – 2008
- Africa Retakaful, Cairo –2010
- Addis Ababa, Ethiopia – 2011
- Dubai, United Arab Emirates - 2020

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Addis Ababa, Ethiopia

Tel: +251 11 416 5803/4
Fax: +251 114 668570
Email: addisababa@africa-re.com

African Reinsurance Corporation (South Africa) Limited

(Registration Number 2003/031630/06)

Annual Report

for the year ended 31 December 2019

Prepared by:
Cebisa N. Moshao, CA(SA); Glen Peters, B Compt.; & Sudadi K. Senganda, CPA, MBA under the supervision of Ibrahim Ibisomi, BSc (Hons) Econs., LL B (Hons), MBF, FCA (Executive Director, Finance).

These financial statements have been audited in compliance with section 30 of the South African Companies Act 71 of 2008.

Annual report

for the year ended 31 December 2019

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Declaration by Company Secretary

In my capacity as Company Secretary, I hereby confirm and certify, in terms of the Companies Act, 2008, as amended, that for the year ended 31 December 2019, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

Ibrahim Ibisomi
Company Secretary
18 March 2020

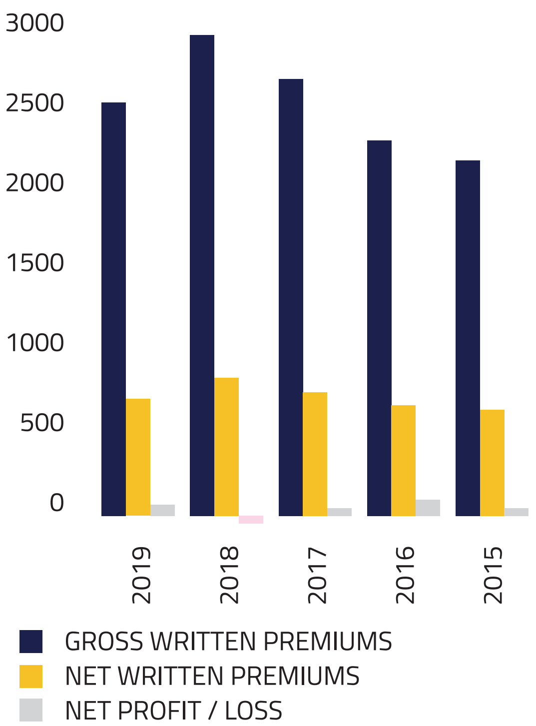
Financial highlights

for the year ended 31 December 2019

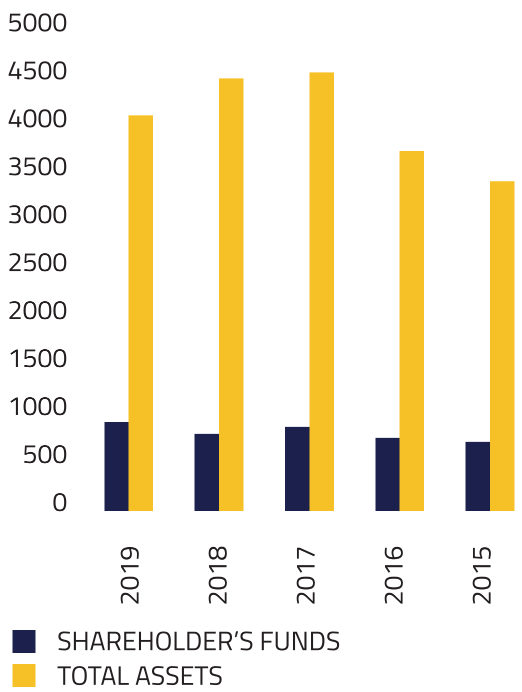
In R'000	2019	2018	2017	2016	2015
RESULTS					
GROSS WRITTEN PREMIUMS	**2 580 722**	2 933 664	2 663 428	2 277 434	2 163 137
NET WRITTEN PREMIUMS	**717 652**	839 567	753 353	661 428	626 491
NET EARNED PREMIUMS	**732 660**	838 736	745 667	651 365	628 034
NET PROFIT/(LOSS)	**79 399**	(28 873)	26 426	82 950	34 607
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	**816 312**	736 913	766 786	739 360	656 410
TOTAL ASSETS	**4 108 869**	4 368 594	4 474 577	3 606 274	3 347 577
INTERNATIONAL SOLVENCY MARGIN[N1]	**114%**	88%	102%	112%	105%

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

RESULTS 2015 - 2019
In Rand' Million



FINANCIAL POSITION 2015 - 2019
In Rand' Million



Chairman and executive management statement

for the year ended 31 December 2019

On behalf of the Board of Directors, it is our privilege to present the annual financial statements of African Reinsurance Corporation (South Africa) Limited ("the Company") for the year ended 31 December 2019. The year marked the second full year of the implementation of a three-year Turnaround Strategy formulated in 2017 to arrest the deteriorating underwriting performance of the Company. On the external front, the implementation of the new insurance regulatory framework in South Africa continues with commencement of license conversion process of existing insurance and reinsurance companies operating in South Africa as required by the Insurance Act No. 18 of 2017. This made the year another remarkable one for the Company that would also represent a definite precursor of a new future for the Company.

The year 2019 also saw the escalated trade tensions between the United States of America and China which continued for the major part of the year. Crude oil prices have been trending downward since August 2019, reflecting supply influences on the back of disagreements among the major producers, the sustained US policy restraining Iranian oil exports as part of the broader economic sanctions and, more recently, fears of softening global demand accentuated by the debilitating impact the COVID-19 pandemic is having on the global economy. Financial conditions tightened sparking further deterioration in risk sentiment with adverse growth implications, especially given the high levels of public and private debt. A "no-deal" withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China were other politico-economic events that resulted in weakening financial market sentiment, trade policy uncertainty and concerns about China's outlook for 2019.

The global concerns are expected to continue well into 2020 and could severely disrupt economic activity and, according to the United Nations, they may further inflict significant damage on the longer-term development prospects of the global economy. Indeed, it may well be that the true status of China and her influence on the global economy may have been underestimated given the impact its economic slowdown from the coronavirus pandemic (and even the spread of the virus world-wide) has had on the global economy in 2020 thus far.

The domestic operating environment was no less challenging. GDP growth remained subdued at less than 1% recorded for 2019. Low business confidence and high level of unemployment were key indices that dominated economic activity during the year. The dreaded shortfall in energy supply (dubbed "load shedding") reared its ugly head again with significant adverse impact on productivity across all sectors. The poor state of health of key state-owned enterprises did not show any sign of improvement, with virtually all of them requiring significant bail-out amounts from public funds. Tax revenue collection also remained challenging despite growing public expenditure, thus widening the deficit gap. Overall, the government's commitment to fiscal and structural reforms was not delivered, thus leading rating agencies to change the outlook on the South Africa's sovereign rating to negative in the course of the year. Moody's, the only rating agency that kept the sovereign rating above junk status at Baa3, also altered the outlook from "stable" to "negative" in November 2019. This prepared ground for the subsequent lowering of the rating to junk status in early 2020.

South Africa is still the main operating market for the Company and it thus contributed to most factors that influenced the performance of the business during the year 2019. The Insurance Act 2017 having come into force in July 2018, its implementation commenced and saw the South Africa Reserve Bank (Banking Supervision Department) transformed into the new Prudential Authority engaging operators through industry communications, field visits and bilateral meetings to lead the insurance industry through the two-year transition phase under the new Act. The key undertakings by the Prudential Authority that involved the Company were the commencement of the licence conversion process and the conduct of a field visit on governance the outcomes of which were still awaited at the time of writing this report. The year also saw the Financial Sector Conduct Authority (FSCA) that replaced Financial Services Board (FSB) starting to exercise its statutory mandate of overseeing the conduct of the financial sector.

Against this background, the Board is pleased to report that the Company delivered improved performance for the year 2019, largely on the back of a strict implementation of the Turnaround Strategy and the full impact of the change in investment strategy implemented at the tail end of 2018. Gross written premium for the year under review was R2,580 million compared to R2,933 million recorded in 2018, representing a decline of R353 million (12%). Similarly, the Company recorded a R122 million

Chairman and executive management statement

for the year ended 31 December 2019 *(Continued)*

(or 14%) decrease in its net written premium, from R839 million in 2018 to R717 million in 2019. The Company deliberately recorded a reduction in written premium due to the continued implementation of the turnaround strategy embarked upon in 2017, which included declining, cancelling or reducing exposures in a number of contracts in the business portfolio.

In South Africa, 2019 was relatively a benign year from a claims perspective especially with the absence of catastrophe losses in the market for the second consecutive year. However, attritional losses including one large loss saw the Company's net incurred claims for 2019 amounting to R430 million, which was a welcome improvement over the R540 million incurred in 2018. Backed by its strong balance sheet and sufficient liquidity, the Company was able to comfortably meet its obligations to its clients. The Board and Management will continue to implement appropriate measures to meet its claims obligations for the benefit of its clients while also working to stabilise the Company's earnings.

Gross commission expenses increased by 1% while net commission expenses decreased by 19%. Additional commission applicable to Solvency Relief contract business influenced the changes. Gross and net commission expenses amounted to R1,018 million (2018: R1,008 million) and R192 million (2018: R237 million), respectively.

There was no change in the overriding commission arranged with the retrocessionaire compared to the preceding year but due to a better underwriting loss performance mainly for the underwriting years 2018 and 2019, a substantial increase (67%) in overrider commission was recorded for the 2019 financial year.

Management expenses increased by 18% from the R114 million incurred in 2018 to R135 million in the year under review, which was mainly due to inflation and planned investment in additional human and material resources to support growth, improve client service and meet the increasing regulatory compliance obligations.

Net investment income significantly increased by over 800% from R14.4 million to R131 million. This was a direct impact of the change in the Company's investment strategy that involved a significant reduction in equity instruments in favour of interest-earning instruments especially fixed deposits. With the implementation of that change at the end of 2018, the new instruments delivered higher and more stable returns on the back of the stable interest rates that prevailed during the year.

The Company has taken action to reduce volatility of returns on investments and the Board is confident that the investment performance will be significantly more stable going forward. An Asset-Liability Management model has been developed with the Board's approval to drive the Company's investment strategy on a more objective basis. The model has identified potential areas for improving yields and minimising risks. When fully deployed, it is anticipated that this will further improve the yield on the Company's investments.

The Company recorded a profit before tax for the year under review of R107 million compared to a loss before tax of R39 million recorded in 2018. Accrued income tax expense recorded in the statement of comprehensive income for the period was R27 million (2018: credit of R10 million) resulting in an after-tax profit of R79 million compared to the after-tax loss of R29 million recorded in 2018. Concerted efforts continue to ensure that the Company achieves a significant and positive underwriting performance within the next three years.

Efforts to remain compliant with the principles-based and Solvency II equivalent regulatory environment remain high on the agenda and the Company has successfully been able to transit into the new regime. As previously reported, all the efforts, investments and commitment into the SAM project have been borne out of the Company's early identification with the rationale and potential benefits of a principles-based regulatory framework, despite its substantial costs. As has become tradition for the Company, the Board will continue to ensure full compliance with the new regime, given its potency to strengthen the industry to the benefit of policyholders and the entire economy.

The Company undertook its first stand-alone rating exercise by Standard & Poor's back in 2014 and achieved a rating of A- (Excellent) with a stable outlook. This we noted then as a watershed development and a reaffirmation of the Company's strength and the reliability of its security offering. The challenge lies in sustaining this high rating.

Chairman and executive management statement

for the year ended 31 December 2019 *(Continued)*

The Board is thus pleased to report that, for the fifth consecutive year, this rating has been reaffirmed albeit on the back of the Parental Guarantee issued by the Africa Re Group to offset the adverse impact of the sovereign rating downgrade suffered by South Africa in 2017. Still, the reaffirmation of the **A-** rating lends credence to the sustained strength of the Company's capital, governance and risk management standards as well as its work processes, resources and systems. More importantly, given the prospective nature of ratings, it is a vote of confidence in the Company's prospects and sustainability. We are confident that clients will continue to take good advantage of this positive international endorsement of the Company's strength and resilience as a reinsurance security provider. The Board and Management remain focused and committed to ensuring the sustenance and future enhancement of this highly regarded security rating.

We remain grateful to all our valued partners, cedants and intermediaries who have continued to show confidence in the Company and the African Reinsurance Corporation Group as a whole, which is reflected in the sustained growth of the Company's income over the years. Our appreciation also goes to our colleagues on the Board, who continue to assist in their effective oversight of the development and consolidation of the Company.

During the year, the composition of the Board and its Committees remained in full compliance with the applicable requirements of the Companies Act 2008, the Short-Term Insurance Act 1998 as amended, and the new Insurance Act 2017. The Board of Directors met physically three times.

The Directors who served during the year were:

B H Kamara	-	(Independent, Non-executive Chairman)
C Karekezi	-	(Non-executive Deputy Chairman)
E N Amadiume	-	(Independent Non-executive Director) (*Retired 6 August 2019)*
P Pettersen	-	(Independent, Non-executive Director)
H M Kumsa	-	(Independent, Non-executive Director)
S Mzimela	-	(Independent, Non-executive Director)
F B S M Fléjou	-	(Independent, Non-executive Director)
A N Tennick	-	(Managing Director)
S I Diomande	-	(Deputy Managing Director)
I A Ibisomi	-	(Executive Director)

The Audit Committee met three times during the course of the 2019 financial year – twice under the chairmanship of F B S M Fléjou. The Committee's report is separately included elsewhere in these financial statements just as is the report of the Social, Ethics & Transformation Committee under the leadership of S Mzimela. The Board's other committees are: Remuneration and Human Resources Committee under the chairmanship of C Karekezi, Risk and Underwriting Committee under the chairmanship of P Pettersen, Nominations and Governance Committee under the chairmanship of B H Kamara as well as Finance and Investment Committee under the chairmanship of C Karekezi. The Board is satisfied with the performance of all the Committees and believes that their work has greatly strengthened the effectiveness of its oversight responsibilities. An independent evaluation of the performance of directors, committees and the Board is scheduled for 2020 from which areas of further governance improvement are expected to be identified.

During the year, the Board maintained the services of Deloitte & Touche South Africa as the external auditors for the Company. Similarly, with the commencement of the new Insurance Act, the Board endorsed the retention and designation of all heads of control functions, evenly spread as between two employees and two outsourced service providers. The Board will continue to ensure the independence, integrity and resourcefulness of control functionaries as a way of maintaining adequate controls over the Company's affairs. The external auditors and all control functionaries do have unfettered access to the Board directly and through the relevant Committees, with reporting and interaction on both regular and ad-hoc basis.

Corporate Social Responsibility remains a key priority for the Company. During the year, the Company continued its support to its adopted school, contributed bursary funds to facilitate the education of certain disadvantaged learners and provided funds for the promotion and development of education and training through the Liberty Life JSE Investment Challenge.

Chairman and executive management statement

for the year ended 31 December 2019 *(Continued)*

Two new initiatives embarked upon during the year were the construction of modern toilet facilities in a rural school and the sponsorship of essential school needs of certain girls rescued from prostitution, as described in greater detail in the report of the Social, Ethics & Transformation Committee. The Company continues to seek out worthy individuals and causes and provides ongoing support to a number of these initiatives.

We acknowledge that our employees are undoubtedly our most important resource and we believe that each staff member contributes meaningfully towards the development of the Company. The Company in turn provides support to the professional and personal self-development initiatives of staff through which employees continue to record progress in their academic and professional pursuits. We will continue to develop a conducive and supportive environment where each employee is able to reach their full potential and to share in the success of our business.

In this regard, the Company will continue to strive to attract, develop and retain the very best talent, focusing on the right rewards and incentives whilst allowing staff to achieve a balance between both personal and professional capabilities. We remain grateful to all staff for all their valued efforts and for their commitment to the Company.

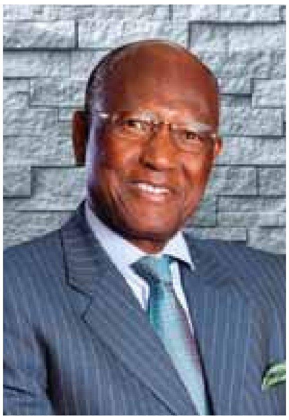
In concluding, the Board acknowledges that 2019 was a fairly good year during which the Company was able to record a remarkable improvement in its performance in line with the Turnaround Strategy formulated in 2017. It has therefore resolved to continue focusing all energy and resources into concluding the implementation of the comprehensive turnaround strategy aimed at repositioning the Company for an improved and sustainable performance in the medium term, underpinned by pristine underwriting practices, operational efficiency and service excellence.

Bakary H Kamara
Chairman

Andrew N Tennick
Managing Director

Board of Directors, Executive Management

Andrew N Tennick
Managing Director



Bakary H Kamara
Independent,
Non-executive Chairman

Corneille Karekezi
Non-executive
Deputy Chairman

Sory Diomande
Deputy Managing Director

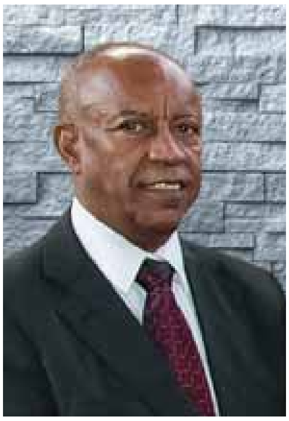
Frederic Fléjou
Independent,
Non-executive Director

Siza Mzimela
Independent,
Non-executive Director

Phillip Pettersen
Independent,
Non-executive Director

Ibrahim A Ibisomi
Executive Director

Themba Baloyi
Incoming Independent,
Non-executive Director



Haile M Kumsa
Independent,
Non-executive Director

Elizabeth N Amadiume
Independent,
Non-executive Director
(Retired 6 August 2019)

Sudadi K Senganda
General Manager, Finance
& Administration

Directors' responsibilities and Approval

for the year ended 31 December 2019

The directors of the Company are responsible for the maintenance of adequate accounting records and preparation of the annual financial statements and related information in a manner that fairly presents the state of affairs of African Reinsurance Corporation (South Africa) Limited. These annual financial statements are prepared in accordance with International Financial Reporting Standards and incorporate full and responsible disclosure in line with the accounting policies of both the Company and its parent Group which are supported by prudent judgements and estimates.

The directors are responsible for the preparation and fair presentation of the annual financial statements, comprising the statement of financial position at 31 December 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary information included in these financial statements.

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

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

Approval of annual financial statements

The annual financial statements of African Reinsurance Corporation (South Africa) Limited, as identified in the first paragraph above, were approved by the Board of Directors on 18 March 2020 and signed on its behalf by:

Bakary H Kamara
Chairman
Authorised Director

Andrew N Tennick
Managing Director
Authorised Director

Report by the Social, Ethics and Transformation Committee

for the year ended 31 December 2019

The Social, Ethics and Transformation Committee ("the Committee") is pleased to present this report on its activities for 2019 to the Board and to the Shareholder. Although the Committee is a creation of the Companies Act 2008 and the King III Report, the Company as a member of the Africa Re Group has always voluntarily subscribed to the highest levels of ethics and substantial social responsibility. The continued implementation of the statutory and best-practice corporate governance requirements has therefore not posed any difficulty for the Company.

The Committee operates under a Charter that complies with the Companies Act and King IV requirements, that is approved by the Board of Directors and that is reviewed annually. This Charter was updated during the year under review to reflect the Committee's additional focus on Transformation and to upgrade to King IV requirements. Copies of the Charter are available on request from the Company Secretary. The key responsibilities of the Committee which are amplified in the revised Charter include the following:

- Responsible corporate citizenship
- Stakeholder relations
- Social and ethical issues impacting employment, labour relations and employee welfare
- Ethics and code of conduct compliance
- Transformation, employment equity and empowerment
- Environment, health and public safety
- Sustainability, social and economic development
- Regulatory, statutory and best-practice compliance.

The Committee discharged its responsibilities unhindered during the year. The Committee reaffirmed its purpose and the continued relevance of its Charter. It updated its workplan and reconfirmed the existing structures and documents relevant to its work, while also promoting the Company's social responsibility initiatives. During the year, the Board of Directors approved a change of the Committee's name from "Social & Ethics Committee" to "Social, Ethics and Transformation Committee" in reflection of the Board's determination to bring transformation and empowerment to the front burner in the Company's activities and the Board's oversight thereof. Following this change, the Committee caused the preparation and Board approval of a formal Transformation Policy and a three-year Transformation Plan for the Company. The Committee will work to ensure the practical implementation and the achievement of the desired impact of these documents.

The Committee again oversaw the holding of the annual Wellness Day for employees during the year. The Company was unable to undertake its annual Mandela Day activities in its 'adopted' school in Soweto due to certain changes to the Committee's membership and the school's leadership team. However, the Company was able to undertake new initiatives including the funding of essential schooling materials for fifteen female learners who were rescued from child prostitution by a registered home in Johannesburg. In addition, the Company committed to the building of a modern, water-based flushing toilet facilities for a rural school in the Eastern Cape Province. This was in response to the continued incidences of the death of learners resulting from the use of pit latrine systems in many rural schools. In the area of employment equity, the Committee saw to the designation of an Employment Equity Manager for the Company and the constitution of an Employment Equity Committee as required by law. The Committee now monitors the Company's employment equity reports and plans.

In order to achieve black economic empowerment compliance as envisaged in the Transformation Plan, the Company has set minimum requirements of BBBEE compliance for its service providers, focused recruitment activities on specified target groups as well as directed spending towards skills, economic and social development of the black population. A test of the degree of success achieved under these activities will be seen when the Company submits to BBBEE verification in early 2020 for its financial year ended 31 December 2019.

The Committee continued to play its role in the Company's adherence to sound ethics, improved communication and to an appropriate policy framework on health and safety matters for staff, and sustained employee assistance initiative through ICAS to provide professional support to employees and their families. The ICAS Employee Wellness programme continued to receive employee patronage and, happily, recorded a lower level of serious or concerning issues during the year under review when compared to the preceding year. This may well be traceable to the improvement in employee work-life balance as a result of reduced overtime work and enhanced utilisation of employee vacation entitlements championed by the Committee.

Report by the Social, Ethics and Transformation Committee

for the year ended 31 December 2019 *(Continued)*

The Committee actively encourages gender equality and drives initiatives aimed at combating unfair discrimination and reducing corruption. A Whistleblower Report on the Company's inadequacies regarding recruitment processes was firmly dealt with, resulting in greater openness and adherence to formalised processes on recruitment. No other negative incidences came to the Committee's attention during the year.

The Committee met three times during the year with all members in attendance. The Committee recorded the resignation of two of its members from the services of the Company and obtained Board approval for their immediate replacement. Apart from its members, the Committee's meetings are attended by other personnel on the invitation of the Committee, who may be required to assist the Committee in its work. The members of staff of the Company have unrestricted access to the Committee and to its chairperson.

During the year, the Committee's membership remained fully compliant with the requirements of the Companies Act 2008. The composition of the Committee during the year was as follows:

Sizakele Mzimela	-	Independent non-executive Director (Chairperson)
Phillip Pettersen	-	Independent non-executive Director (Member)
Andrew Tennick	-	Managing Director (Member)
Ibrahim Ibisomi	-	Executive Director (Member)
Sarah Matlabe	-	Claims Officer (Member) - *resigned 6 August 2019*
Ncumisa Sinyanya	-	Human Resources & Compliance Officer (Member) - *resigned 15 March 2019*
Simiso Ndlovu	-	Human Resources & Compliance Officer (Member) - *appointed 12 August 2019*
Cebisa Moshao	-	Manager, Finance & Accounts (Member) - *appointed 30 October 2019*

Members of the Committee are satisfied with the Company's continued implementation of processes, resources, activities and assurances in relation to the transformation, social responsibility, ethics, employee relations and other matters within the scope of the Committee's work; that the Committee has fulfilled its objectives; and that the requirements of the Companies Act in relation to the statutory responsibilities of the Committee have been complied with during the year ended 31 December 2019.

The Committee acknowledges that the Company's main challenge within the scope of its work lies in the achievement of transformation, which includes the attainment of compliance with relevant black economic empowerment and employment equity legislation. The Committee equally acknowledges the broader challenges posed by the Company's recent poor performance together with its status as a wholly-owned subsidiary of a foreign multinational corporation. The Committee will therefore work within these constraints in order to overcome the identified challenges and achieve its set objectives. This will enable the Committee to continue to fulfil its role effectively in guiding the Company on transformation, social and ethical matters in accordance with its statutory mandate and international best practice.

The Committee would like to place on record its appreciation for the tremendous and impactful services rendered to it by Ms. Sarah Matlabe and Ms. Ncumisa Sinyanya during their time with the Committee. The Committee also welcomes Ms. Simiso Ndlovu and Ms. Cebisa Moshao into its membership and trusts that their experience, commitment and resourcefulness will benefit the work of the Committee during their tenor.

For and on behalf of the Social, Ethics and Transformation Committee:

Sizakele Mzimela
Chairperson
18 March 2020

Report of the Audit Committee

for the year ended 31 December 2019

The Audit Committee is pleased to present this report on its activities for 2019 to the Board and to the Shareholder.

The Audit Committee discharged its responsibilities unhindered during the year and was able to confirm the effectiveness and adequacy of the Company's system of financial accounting, internal controls, statutory and regulatory compliance, and financial reporting. The Committee is also satisfied with the continued progress made during the year to formalize and enhance the system of internal controls, especially the formal separation of the Compliance Control function from the Risk Management function that Management implemented during the year. The Committee reviewed reports presented by Management as well as by the internal and external audit functions and was satisfied with explanations provided on its observations.

The Audit Committee met thrice during the year with all members in attendance at all the meetings. Apart from its members, the Committee's meetings are also regularly attended on its invitation by members of Executive Management, the heads of actuarial, risk management and compliance functions as well as by internal and external audit personnel. The internal auditors conducted their routine annual audit during the year and their report was well received to the Committee's satisfaction. As expected, the 2019 internal audit report included a disposition of all the previous internal audit issues raised. The Committee monitored to its satisfaction the conclusion and effectiveness of the internal auditor's implementation of the approved three-year audit plan. A new three-year, risk-based internal audit plan covering 2020 to 2022 will be considered and approved in early 2020. The internal and external audit personnel have unrestricted access to the Committee and to its chairperson.

The Committee is pleased with the progress and valued contributions made by Deloitte SA as new external auditors in their audit of the financial statements for 2019 that marks their second year on the job. The Audit Committee reviewed the terms of engagement of Deloitte SA as external auditors and was satisfied with their independence as well as with the adequacy of the audit procedures applied in their audit of the Company's financial statements together with their judgement thereon as well as the recommendations contained in their management letter.

During the year, the Committee bade farewell to one of its members, Ms. Elizabeth Amadiume, who retired from the Board of Directors after serving for ten years. Elizabeth would be missed for her technical perspective and solutionist contributions to the Committee's work. The Committee would like to thank Elizabeth for her meritorious service over the years and wishes her a healthy and restful life in retirement.

Throughout the year, the Committee's membership remained fully compliant with the requirements of the Companies Act 2008. The composition of the Committee during the year was as follows:

- F B S M Fléjou - Independent, Non-executive Director (Chairman)
- E N Amadiume - Independent, Non-executive Director (Member) *retired 6 August 2019*
- P Pettersen - Independent, Non-executive Director (Member)
- H M Kumsa - Independent, Non-executive Director (Member)
- S Mzimela - Independent, Non-executive Director (Member)

Members of the Committee are satisfied with the processes followed, resources in place and assurances obtained in relation to the financial management of the Company; we believe that the accounting practices are effective and would therefore recommend the approval of these audited financial statements for the year ended 31 December 2019.

For and on behalf of the Audit Committee:

F. Fléjou

F. B. S. M. Fléjou
Chairman
18 March 2020

Directors' report

for the year ended 31 December 2019

The Directors are pleased to present the directors' report of the Company for the year ended 31 December 2019

1. **Business**

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

   Share capital

   The issued and fully paid share capital of the Company including share premium is R80.3 million (2018: R80.3 million). The issued share capital comprises of seven ordinary shares of R0.01 each of which one share was issued at a premium of R80.3 million.

   Statement of financial position

   The Company's shareholder funds represented by share capital and share premium, contingency reserve and retained earnings as at 31 December 2019 amounts to R816.3 million (2018: R736.9 million). Net technical liabilities under insurance contracts at 31 December 2019 amount to R392 million (2018: R412.6 million).

   Statement of comprehensive income

   Total profit and comprehensive income for the year is a net profit of R79.4 million (2018: net loss of R28.9 million). The results for the year are presented in the accompanying Statement of Comprehensive Income and Notes to the Financial Statements and require no further amplification here.

   Holding company

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

2. **Dividend**

   The Directors did not declare or pay a dividend during the year (2018: Nil).

3. **The Directors who served the Company during the year were:**

   - Bakary H Kamara (Mauritanian)
     Independent, Non-executive Chairman
   - Corneille Karekezi (Rwandese)
     Non-executive Deputy Chairman
   - Elizabeth Amadiume (Nigerian)
     Independent, Non-executive Director
     (retired 6 August 2019)
   - Phillip Pettersen
     Independent, Non-executive Director
   - Haile M Kumsa (Ethiopian)
     Independent, Non-executive Director
   - Sizakele Mzimela
     Independent, Non-executive Director
   - Frédéric B S M Fléjou (French)
     Independent, Non-executive Director
   - Andrew N Tennick
     Managing Director
   - Sory Diomande (Ivorian)
     Deputy Managing Director
   - Ibrahim Ibisomi (Nigerian)
     Executive Director

4. **Company Secretary**

   Ibrahim Ibisomi
   Africa Re Place
   10 Sherborne Road
   Parktown Johannesburg 2193

5. **Auditor**

   Deloitte & Touche South Africa was appointed the statutory auditor of the Company and have indicated their willingness to continue in office.

Directors' report

for the year ended 31 December 2019 *(Continued)*

6. Impact of COVID-19

Subsequent to year-end, the World Health Organisation declared the coronavirus (COVID-19) as a global pandemic while the Government of the Republic of South Africa declared it a national disaster. The pandemic has affected virtually every aspect of individual, corporate and national life. As a result of the pandemic, directly and indirectly, global and national economies are projected to record negative growth while many businesses and individuals are expected to suffer substantial financial, economic and other losses.

The Directors acknowledge that the Company's operations will be affected by the impact of the pandemic. However, the expected impact – both positive in the form of reduced claims on the Company's main lines of business and negative in the form of reduced premium – are not expected to result in any permanent cessation of business for the Company. As at the time of this report, the Company continued to operate effectively (including conducting successful business renewals) during the national lockdown enforced for over two months in South Africa.

An assessment of the projected impact of the pandemic shows a modest reduction in premium, an improved claims experience, a reduction in investment income and a positive but reduced profitability.

The Directors are therefore confident that the Company will continue to operate as a going concern despite the potential adverse impact of COVID-19.

By order of the Board

Ibrahim Ibisomi
Company Secretary
18 March 2020

Independent auditor's report

To the Shareholder of African Reinsurance Corporation (SA) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of African Reinsurance Corporation (SA) Limited set out on pages 16 to 54, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation (SA) Limited as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises Statement of Directors' Responsibility and Approval and the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report

(Continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte & Touche

Deloitte & Touche
Harshal Kana
Partner
29 May 2020

Statement of Financial Position

for the year ended 31 December 2019

	Note	2019 R'000	2018 R'000
Assets			
Equipment	6	2 120	2 717
Intangible assets	7	-	-
Financial assets	8	**2 441 914**	2 408 616
Held-to-maturity instruments at amortised cost		1 484 210	1 536 380
Instruments at fair value through profit or loss		957 704	872 236
Technical assets under insurance contracts	9	**1 217 057**	1 293 262
Retroceded outstanding claims reserve		1 061 680	1 104 296
Retroceded unearned premium reserves		111 341	135 154
Gross deferred acquisition costs		44 036	53 812
Amounts due from companies on reinsurance accounts	10	376 449	608 599
Accounts receivable	10	161	8 432
Deposits retained by ceding companies	11	19 585	3 397
Current income tax asset	12	38 722	36 587
Cash and cash equivalents	13	12 861	6 984
Total assets		**4 108 869**	**4 368 594**
Liabilities			
Technical liabilities under insurance contracts	9	**1 609 499**	1 705 813
Gross outstanding claims reserve		1 410 388	1 465 121
Gross unearned premium reserve		160 351	199 174
Deferred retrocession commission revenue		38 760	41 518
Deferred tax liability	14	2 502	3 145
Amounts due to companies on reinsurance accounts	15	77 466	108 277
Other provisions and accruals	16	28 221	27 421
Deposits due to retrocessionaire	17	1 553 433	1 729 481
Amount due to holding company		21 436	57 545
Total liabilities		**3 292 557**	**3 631 681**
Equity			
Share capital and share premium	18	80 300	80 300
Retained earnings		684 310	604 911
Contingency reserve		51 702	51 702
Total equity attributable to equity holders of the company		**816 312**	**736 913**
Total equity and liabilities		**4 108 869**	**4 368 594**

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2019

	Note	2019 R'000	2018 R'000
Gross written premiums		2 580 722	2 933 664
Retroceded written premiums		(1 863 070)	(2 094 097)
Net written premiums		**717 652**	839 567
Change in gross unearned premium provision		38 822	14 691
Change in retroceded unearned premium provision		(23 814)	(15 522)
Net earned premiums		**732 660**	838 736
Net investment income		**130 810**	14 194
Dividend income		5 554	22 889
Interest income on investment		182 917	140 139
Interest expense		(60 905)	(38 865)
Net realised gain on disposal of investments		11 325	50 475
Net unrealised gain/(loss) on investments		(1 736)	(159 652)
Exchange gain on investment		(2 335)	5 718
Investment management expenses		(4 010)	(6 510)
Other income		350	-
Total net income		**863 820**	**852 930**
Gross claims paid		(1 541 549)	(2 229 958)
Retroceded claims received		1 099 434	1 631 169
Change in gross provision for outstanding claims		54 733	23 842
Change in retroceded provision for outstanding claims		(42 615)	34 345
Net incurred claims		**(429 997)**	**(540 602)**
Net commission incurred	*19*	(192 178)	(237 592)
Management expenses		(134 745)	(114 234)
Total technical expenses		**(756 920)**	**(892 428)**
Net profit before taxation	*20*	**106 900**	**(39 498)**
Taxation	*21*	(27 501)	10 625
Total income tax (expense) / credit		**(27 501)**	**10 625**
Profit / (loss) for the year		**79 399**	**(28 873)**

Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital and share premium	Contingency reserve	Retained earnings	Total
	R'000	**R'000**	**R'000**	**R'000**
Balance at 1 January 2018	80 300	51 702	633 784	765 786
Changes in equity				
Loss for the year	-	-	(28 873)	(28 873)
Total comprehensive income	-	-	(28 873)	(28 873)
Balance at 31 December 2018	**80 300**	**51 702**	**604 911**	**736 913**
Balance at 1 January 2019	80 300	51 702	604 911	736 913
Changes in equity				
Profit for the year	-	-	79 399	79 399
Total comprehensive income	-	-	79 399	79 399
Balance at 31 December 2019	**80 300**	**51 702**	**684 310**	**816 312**

Statement of Cash Flows

for the year ended 31 December 2019

	Note	2019 R'000	2018 R'000
Net cash flows used in operations	27	**(60 621)**	**(209 278)**
Interest paid		(60 905)	(38 866)
Income tax paid	27	(30 280)	(27 521)
Net cash outflow into operating activities		**(151 806)**	**(275 665)**
Cash flows from investment activities			
Net purchases and disposals of equipment and intangible assets		(736)	(574)
Net purchases and disposals of investments		(2 272)	61 842
Interest received net of investment management fees		155 137	150 232
Dividends received		5 554	22 890
Cash flows from investing activities		**157 683**	**234 390**
Net increase / (decrease) in cash and cash equivalents		**5 877**	**(41 275)**
Cash and cash equivalents at the beginning of the year		6 984	48 259
Cash and cash equivalents at the end of the year	13	**12 861**	**6 984**

Notes to the financial statements

for the year ended 31 December 2019

1. General information

African Reinsurance Corporation (South Africa) Limited or ("the Company") is a professional reinsurer underwriting non-life insurance risks in the domestic and regional markets. The Company is a public company incorporated and domiciled in the Republic of South Africa. The Company is a wholly owned subsidiary of African Reinsurance Corporation established under the auspices of the African Union with headquarters in Nigeria and operating offices located across the African continent.

The Company is domiciled in Johannesburg.
The address of its registered office is:

Africa Re Place, 10 Sherborne Road
Parktown, Johannesburg, 2193

2. Accounting policies

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations issued by the International Accounting Standards Board ("IASB") that are effective at the date of reporting – except that the Company has elected to align its implementation of IFRS 9, Financial Instruments with that of IFRS 17, Insurance Contracts. The Company's year end is 31 December and it publishes comparative information for one year.

(b) Basis for preparation

The financial statements are prepared in South African Rand rounded to the nearest thousand. They are prepared on the historical cost basis except for financial assets that are stated at fair value. These financial statements are prepared on going concern basis.

The preparation of financial statements in conformity with IFRS requires Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses at the date of the financial statements and for the reporting period. The estimates and associated assumptions are based on historical experience and Management's best knowledge of current events. These are believed to be reasonable under the circumstances and as a result actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis to take account of new and available information. Revisions to estimates are recognised prospectively.

(c) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the reinsured) by agreeing to compensate the reinsured or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder client of the reinsured or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a nonfinancial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk. Contracts that do not transfer significant insurance risk are recorded using the deposit method of accounting, as investment contracts.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

2. Accounting policies *(continued)*

(d) Recognition and measurement of insurance contracts

Insurance business is accounted for on an annual basis.

Insurance premiums

Written premium income comprises premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of acquisition costs payable to intermediaries and other third parties and are accounted for net of value- added taxation. Premiums written for the period also include adjustments to premiums written in prior accounting periods and estimates for pipeline or premium not yet advised by the reinsured for contracts in force at the end of the period. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Premium relating to the expired risk period is recognised as income for the period while premium relating to the unexpired risk period is recognised as a provision for unearned premium. The outward retrocession premiums relating to earned premiums are recognised as an expense in accordance with the retrocession services received. The unearned portion is disclosed as retrocessionaire's share of unearned premium provision.

Unearned premiums provision for insurance contracts

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

Claims arising from insurance contracts

Claims incurred in respect of insurance contracts consist of claims and claims handling expenses paid during the financial year and movements in provision for outstanding claims.

Outstanding claims comprise provisions for all the Company's estimated ultimate costs of settling all claims incurred but unpaid at the reporting date whether reported or not and related claim handling expenses. Outstanding claims that have occurred at the reporting date and have been notified to the Company by the cedants are carried at the claim amounts advised by the cedants. Adequate provisions are also made for claims incurred but not reported at the reporting date using historical experience and best available information. Outstanding claims provisions are disclosed at their carrying amounts. Anticipated retrocession recoveries on outstanding claims are disclosed separately as assets.

Whilst the directors and Management consider that the gross provision for outstanding claims liabilities and the related retrocession recoveries are fairly stated on the basis of information currently available to them at the reporting date, the ultimate claims liability may vary as a result of subsequent events and information and may result in significant adjustments to the amount provided. Adjustments to the amounts of claims provision established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately if material. The methods used to determine the estimates and the estimates made are reviewed regularly to take into account new information to arrive at the most accurate estimates at the time of reporting.

Unexpired risk provision for insurance contracts

Where the expected value of claims liabilities and expenses attributable to the unexpired periods of the insurance contracts in force at the reporting date exceed the unearned premium provision relating to those contracts after deduction of any deferred acquisition costs, provision is made for unexpired risk liabilities for the estimated excess liabilities.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

2. Accounting policies *(continued)*

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (unexpired risk provision as referred to previously).

Reinsurance contracts and assets

The Company buys reinsurance cover in the normal course of business through retrocession contracts for the purpose of limiting its net potential loss through the diversification of its risks. Retrocession arrangements do not relieve the Company from its direct obligation to its cedants. Amounts recoverable under retrocession arrangements are assessed at each reporting date. These assets are deemed impaired if there is objective evidence, as a result of an event that occurred subsequent to its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the retrocessionaire. The carrying amounts of the assets are reduced by the impairment losses and the impairment losses are recognised in the profit or loss account for the period.

Premiums retroceded and benefits reimbursed in respect of retrocession contracts are disclosed in the statement of comprehensive income and the statement of financial position on a gross basis. Amounts recoverable under the retrocession contracts are recognised in the same year as the related claims.

Retrocession assets include balances due from the retrocessionaires for ceded insurance business. Premiums on reinsurance assumed are recognised as income and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business. Amounts recoverable from retrocessionaires are estimated in a manner consistent with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each retrocession contract.

Deferred acquisition costs

The proportion of acquisition costs that correspond to the unearned premiums are deferred and amortised on a pro rata basis over the contract term. Assumptions of anticipated premiums are made at the inception or acquisition of the contracts and are consistently applied over the expected duration of the contracts.

Acquisition costs comprise insurance commissions, brokerage and other related expenses arising from the conclusion of insurance contracts.

Commission

Commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies. However, when it is probable that the Company will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognised as revenue over the period during which the policy is in force.

Commissions paid or payable relate to the services rendered by clients in winning the business ceded to the Company (commission) or to the cumulative net profit made on such ceded business (profit commission) as provided in the underlying contracts of insurance. Such commissions are calculated in line with the provisions in the respective contracts and expensed during the business period covered in the contracts. Any such commission expenses relating to future periods are deferred over the period during which the policy is in force.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

2. Accounting policies *(continued)*

(e) Recognition and measurement of investment contracts

Policyholder contracts that do not transfer significant insurance risk are classified as financial liabilities. These contracts are reflected in the financial statements at fair value through profit or loss. The premiums received from these contracts are excluded from the technical result and recognised directly against the liability. Fair value gains and losses on assets supporting the liabilities are recognised directly in other comprehensive income. The results from investment contracts included in profit or loss are limited to facility and administration fees earned.

(f) Contingency reserve

A contingency reserve was provided for in terms of the Short-Term Insurance Act, 1998 that was in force up to 30 June 2018, and represented 10% of gross written premium less approved reinsurance (as defined in the Act). The reserve was treated as a separate component of shareholder's equity in the statement of financial position and transfers to or from the reserve as an appropriation in the statement of changes in equity. No adjustment has been made to the reserve subsequent to the 2012 financial year when the requirement for a contingency reserve was abolished (following a change in legislation whereby capital requirements became determined in terms of Board Notice 169 issued by the Financial Services Board at the time). Contingency reserve remains unrequired under the new Insurance Act, 2017 that became effective in July 2018.

(g) Lease payments

IFRS 16 was published in January 2017. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous Lease Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors.

The standard became effective on 1 January 2019. The Company is compliant with the Standard and has opted to apply the short- term lease exemption due to the nature of the lease agreement in place with its landlord, Sherborne Number Ten Parktown Investments (Pty) Ltd.

The Company has further sub- leased part of the aforementioned property on a short term lease contract that undergoes annual review. The annual sub-lease income for the year under review was R132 480 (2018: R132 480).

(h) Employee benefits under defined contribution plan

A defined contribution plan is a plan under which the Company and employees of the Company pay fixed contributions into a separate fund. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods. Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

(i) Short-term employee benefits

The cost of short-term employee benefits is recognised in the period in which the service is rendered and are not discounted.

(j) Foreign currency transactions

Transactions in foreign currencies are converted at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Rand at the exchange rate ruling at that date. Foreign exchange differences arising on translations are recognised in the profit or loss account in the period in which the difference occurs.

(k) Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated and charged to profit or loss on a straight-line basis over the estimated useful life of each item of equipment.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

2. Accounting policies *(continued)*

The estimated useful lives of each category of equipment are as follows:

Motor vehicles	4 years
Computer equipment	3 years
Furniture and fittings	8 years
Office equipment	3 years

The depreciation method, residual value and useful life, if not insignificant, is reassessed annually at each reporting period.

Where the carrying amount of an asset is greater than its estimated recoverable amount (being, the higher of value in use and fair value less costs to sell), impairment losses are recognised to write down the value of the asset to its recoverable amount.

Gains and losses on disposal of equipment are determined by reference to sales proceeds and their carrying amounts at the date of sale and are recognised in profit or loss.

(l) Intangible assets

Intangible assets consist of purchased software. Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful life of intangible assets. The estimated useful life of intangible assets is 3 years.

(m) Financial instruments

Investments

The Company's investments are classified into the following categories, depending on the purpose for which the assets were acquired:

- An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.
- Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. Held-to-maturity investments are carried at amortised cost using the effective interest method less any impairment losses.

Purchases of financial assets are recognised on the trade date, which is when the Company commits to purchase the assets.

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

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

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in profit or loss in the period in which they arise. Where the financial assets are interest bearing, interest calculated using the effective interest method is recognised in profit or loss. Fair value movements will therefore exclude the interest.

The Company derecognises an asset:

- when the contractual rights to the cash flows from the asset expire;
- where there is a transfer of contractual rights to receive cash flows on the asset in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred; or
- where the Company retains the contractual right to the cash flows from these assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all of the risks and benefits associated with the assets.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

2. Accounting policies *(continued)*

Where the Company retains substantially all the risks and rewards of ownership of the financial asset, the Company continues to recognise the asset.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Other receivables

Trade and other receivables are measured at amortised cost net of impairment for any amounts expected to be irrecoverable.

Trade and other payables

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

Deposits retained on reinsurance ceded

Deposits retained on reinsurance ceded are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of less than three months and are initially measured at fair value and subsequently measured at amortised cost.

(n) Impairment of non-financial assets

The carrying amounts of the Company's assets are reviewed at the reporting date to determine whether there is any indication of impairment. If any such indication exists, the carrying value of the asset is reduced to the estimated recoverable amount by means of an impairment charge to profit or loss. The recoverable amount is the higher of its fair value less the cost to sell and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset is impaired.

A financial asset is impaired and impairment losses are incurred 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 (a "loss event") and that such loss event (or events) has (or have) an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or a delinquency in payments;
- it becoming 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; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the recognition of those assets, although the decrease may not be identified with the individual financial assets in the Company. This may include Adverse changes in the payment status of issuers or debtors in the Company, or national or local economic conditions that correlate with defaults on the assets of the Company.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

2. Accounting policies *(continued)*

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. 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 discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an impairment account and the amount of the loss is recognised in the statement of comprehensive income.

(o) Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(p) Taxation

Income tax for the period includes both current and deferred taxation. Normal income and deferred taxes are determined using taxation rates that have been enacted or substantively enacted by the reporting date.

Current tax is the expected tax payable on the taxable profit for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, providing for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the reporting date are used to determine deferred tax.

Deferred tax assets are recognised for tax losses carried forward only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

(q) Share capital

Shares are classified as equity where there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of the equity instruments are shown in equity as a deduction from 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.

(r) Standards and interpretations issued not effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was issued in its entirety in July 2014. The final version of the Standard incorporates amendments to the classification and measurement guidance as well as the accounting requirements for the impairment of financial assets measured at amortised cost. These elements of the final standard are discussed in detail below:

- Financial assets are to be classified and measured based on the business model for managing the financial asset and the cashflow characteristics of the financial asset. There are two measurement approaches, namely fair value and amortised cost. The financial asset is carried at amortised cost if it is the business model of the entity to hold those assets for the purpose of collecting contractual cash flows and if those cash flows comprise principal repayments and interest.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

2. Accounting policies *(continued)*

- Financial assets are to be classified and measured based on the business model for managing the financial asset and the cashflow characteristics of the financial asset. There are two measurement approaches, namely fair value and amortised cost. The financial asset is carried at amortised cost if it is the business model of the entity to hold those assets for the purpose of collecting contractual cash flows and if those cash flows comprise principal repayments and interest.

- For financial liabilities designated at fair value through profit or loss a further requirement is that all changes in the fair value of financial liabilities attributable to credit risk be transferred to other comprehensive income with no recycling through profit or loss on disposal.

- Impairments in terms of IFRS 9 will be determined based on an expected-loss model that considers the significant changes to the asset's credit risk and the expected loss that will arise in the event of default.

- IFRS 9 allows financial liabilities not held for trading to be measured at either amortised cost or fair value. If fair value is elected, then changes in the fair value as a result of changes in own credit risk should be recognised in other comprehensive income.

The hedge accounting requirements under IFRS 9 are closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Hedge effectiveness will now be proved based on Management's risk management objectives rather than the 80% to 125% band that was previously stipulated. IFRS 9 also allows for rebalancing of the hedge and the deferral of hedging costs.

The Standard is effective for financial years commencing on or after 1 January 2018. The Company has however elected to implement it alongside the implementation of IFRS 17. The Company has not previously applied any version of IFRS 9 and the Company's activities remain predominantly insurance at annual reporting date. This is demonstrated by the percentage of liabilities connected with insurance that is 96% relative to the total amount of liabilities.

IFRS 17 Insurance Contracts

IFRS 17 supersedes IFRS 4 Insurance Contracts and aims to increase comparability and transparency about profitability. The new Standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts.

The new Standard will have a significant impact on the financial statements when it is initially applied which will include changes to the measurement of insurance contracts issued as well as the presentation and disclosure of those contracts.

The Company has initiated a process to determine the impact of the Standard on the Company's statement of financial position and performance. Until the process has been completed the Company is unable to quantify the expected impact.

The Standard is effective for annual periods beginning on or after 1 January 2023 and has to be applied retrospectively. The Company is working with its parent Group and its external advisors to ensure a successful implementation of this Standard by the time it is to come into effect.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2019 and the comparative information presented in these financial statements.

4. Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Company's critical accounting policies, estimation methods and the application of these policies and estimation methods.

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

Classification of insurance contracts

For IFRS 4, insurance risk is significant, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. If significant additional benefits would be payable in scenarios that have commercial substance, the condition is met even if the insurance event is extremely unlikely or even if the expected (i.e. the probability-weighted) present value of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows. IFRS 4 does not consider a probability weighting. These requirements are evaluated through scenario analysis at the underwriting stage to ensure that contracts are appropriately classified. Where the requirements are not fulfilled, contracts are classified as investment contracts and accounted for in terms of IAS 39.

Policyholder claims for insurance contracts

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

A sensitivity analysis was performed on these estimates and a 5% increase in both premium income and claims incurred would result in an increase to profit before tax of R14.4 million (2018: R17.5 million) and an increase to equity of R10.4 million (2018: R12.6 million).

5. Risk management of insurance contracts and financial instruments

5.1 Insurance contracts

The Company underwrites business both on a treaty and facultative bases in all classes of short-term business where risks are accepted proportionally and non-proportionally. The most significant portion of the business is written on a treaty basis.

The Company continues to strive towards writing a balanced account across all classes but limits its exposure to business of a long-tail nature thus avoiding the uncertainty regarding claims provisions for long- tail business. Most of the losses on the business written by the Company are expected to be reported within a fairly short period and as a result the bulk of the business underwritten by the Company is regarded as being short-tail in nature.

The return to the shareholder on insurance business arises from the difference between total premium income generated from cedants less amounts reserved and paid in respect of claims and expenses incurred by the Company. There is also the possibility that the shareholder may earn income from the investment of the premium income, but as losses are reported within a fairly short period, such income is limited in respect of short-tail business.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

5. Risk management of insurance contracts and financial instruments *(continued)*

5.2 Insurance risk management objectives and policies for mitigating risks

(a) Introduction

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

(b) Premium pricing adequacy risk

This is the risk that premiums relating to current and past periods will not be sufficient to fund liabilities arising from that business.

With regard to the adequacy of premiums, the Company determines the appropriateness of the rates and/or premiums charged by the leading office by carefully examining past experience with market practice, rates and the Company's return expectations. The Company does not accept or underwrite risks where the premiums are not considered adequate or commensurate to the risk.

The Company makes underwriting decisions in accordance with the Africa Re Group's underwriting guidelines. These guidelines set the criteria for assessing insurance risk before acceptance and approval levels for underwriting decisions. Compliance with the Group's underwriting guidelines is verified through periodic audits by the Group's Directorate of Central Operations and Special Risks, which in turn reports its findings to both Executive Management and the Board Risk & Underwriting Committee.

(c) Event exposure and concentration risk

The Company is exposed to large or catastrophic losses and loss accumulation from single loss events. The largest exposure to significant losses to the Company relates to losses arising from catastrophic events such as floods, storms and earthquakes. In this regard, the Company has identified that the greatest likelihood of a loss of this nature would result from an earthquake in the Gauteng region. Using international modelling tools, the Company has established that its exposure to a loss of this nature is limited to a one in-three-hundred-year event.

(d) Claims development or reserving risk

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

The determination of reserves for the ultimate claims costs is done with reference to previous years' data and past experience, adjusted with the information and data available at the time of reporting. Although these assumptions and estimation bases are set on Management's best judgement and information available at the time of reporting, estimation of claims provisions is a complex process and the ultimate claims settlement costs may differ from these estimates.

The Company has performed a sensitivity analysis of a change in the estimated unreported losses by applying a further 10% to the estimate and the effect on the profit before tax is R10.4 million (2018: R10.3 million), while the effect on Equity is R7.5 million (2018: R6.4 million).

(e) Reinsurance risk

The Company retrocedes insurance risk to limit exposure to underwriting losses and accumulation of losses through proportional and excess of loss or stop loss cover agreements. These retrocession agreements spread the risk and minimise the effect of losses.

Under the terms of the retrocession agreements, the retrocessionaires agree to reimburse their share of paid claims and acquisition costs. However, the Company remains liable to its cedants with respect to retroceded insurance liabilities if the retrocessionaires fail to meet the obligations they assume. This is a credit risk and as noted under the credit risk section, except for one retrocession contract which is not significant, the retrocessionaires' share of insurance liabilities is fully secured by deposits held by the Company in accordance with the regulatory solvency requirements and the retrocession agreements.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

5. Risk management of insurance contracts and financial instruments *(continued)*

5.3 Financial risk management objectives and policies for mitigating risks

(a) Introduction

Transactions in financial instruments will result in the Company assuming financial risks. These include market risk, credit risk and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the Company manages these risks. The key objective in managing these risks is to minimize any potential adverse impact of those risks on the Company's earnings and financial position. The Company has appropriate policies and procedures in place on all its investment activities.

(b) Market risk

Market risk is the risk of change in the fair value or future cash flows of financial instruments because of changes in market conditions and prices of those financial instruments. Market risk comprises currency risk, interest rate risk and other price risk which include equity market price risk.

(i) Currency exchange risk

Most of the Company's transactions are in Rand and currencies pegged to the Rand, which is the functional and presentation currency. Similarly, most of the Company's assets and liabilities are held in Rand and the Company is not exposed to any significant currency exchange risk. Management is confident on the adequacy of the assets held in foreign currency to meet its obligations in foreign currencies thereby minimising any exposure to adverse changes in exchange rates.

(ii) Interest rate risk

Fluctuations in interest rates impact on the value and cash flows from interest bearing assets and liabilities. The Company has no borrowings. Interest rate risk exposure is therefore limited to the Company's investments in fixed interest rate instruments such as fixed deposits, call deposits, bonds and cash and cash equivalents.

Other than actively ensuring optimum money market rates for deposits and spreading the tenor of the interest- bearing investment instruments, the Company does not make use of other financial instruments to manage this risk.

(iii) Equity price risk

The Company is exposed to market price risk through fluctuation of the value of financial instruments due to changes in their market prices. Equity price risk can be described as the risk of changes in the fair value of equity financial instruments due to changes in market conditions and prices of these instruments. The Company's investments in marketable securities are stated at fair value and are therefore susceptible to changes in market prices.

The Company conducts a sensitivity analysis on the effect of changes in market prices of its equity investment to determine the maximum risk it can tolerate without adversely affecting its operating performance and financial position, and this, together with the investment guidelines determine the proportion of funds to be invested in equity instruments. The Company does not make use of financial instruments to manage this risk, but has engaged the services of investment managers with a mandate to actively trade in the marketable equity investments for market-related returns but also to minimise risk. The Company's maximum exposure to equity market price risk is limited to investments held in those marketable securities, and these securities constitute less than 10% of the Company's total investment assets.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

5. Risk management of insurance contracts and financial instruments *(continued)*

(iv) Market risk sensitivity analysis

The Company conducts sensitivity analyses to estimate the possible effect of movements in the market prices of its equity financial instruments on the fair values of those instruments. All the Company's equity financial instruments are listed on the Johannesburg Stock Exchange.

The Company's bonds are listed on the Bond Exchange of South Africa. The sensitivity analysis on market price movement of equity financial instruments indicates that a change of 10% on the Johannesburg Stock Exchange index would result in a change in fair value of those financial instruments and profit before tax of R12.2 million (2018: R13.6 million). The sensitivity analysis of the effects of movements in market prices and interest rates on the Company's financial assets and liabilities in millions as at 31 December 2019 are presented in the table below:

Asset class	Cost R'm	Market Value R'm	Risk factor	% change	Impact on equity * R'm	Impact on profit or loss R'm
December 2019						
Equity	132.8	122,1	Market price	10%	8,8	12,2
Bonds at fair value	319,0	336,0	Interest rate movement	5%	12,1	16,8
Bonds at amortised cost	444,9	444,9	Interest rate movement	5%	16,0	22,2
Money market unit cost	499,6	499,6	Market price	5%	18,0	25,0
Fixed deposit	1039,3	1039,3	Interest rate movement	5%	37,4	52,0

December 2018						
Equity	132,8	136,0	Market price	10%	9,8	13,6
Bonds at fair value	319,0	323,0	Interest rate movement	5%	11,6	16,1
Bonds at amortised cost	405,5	405,5	Interest rate movement	5%	14,6	20,3
Money market unit cost	413,2	413,2	Market price	5%	14,9	20,7
Fixed deposit	1 130,8	1 130,8	Interest rate movement	5%	40,7	56,5

** assumed tax rate of 28% has been used*

The Company also conducts sensitivity analysis to estimate the possible effect of movements of interest rates on the fair value of interest rate bearing financial instruments and the cash flows relating to those instruments. The sensitivity analysis of the effect on interest rate movements indicates that a change of 5% in interest rates would change the value of fixed income investments and profit before tax by R37.4 million (2018: R40.76 million) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R56.5million (2018: R52 million).

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

5. Risk management of insurance contracts and financial instruments *(continued)*

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The key areas where the Company is exposed to credit risk are:

- retrocessionaire's share of insurance liabilities;
- balances and deposits due from insurers and retrocessionaire;
- amounts due from insurance contract intermediaries; and
- investments held with financial institutions.

Retrocessionaires' share of insurance liabilities classified as reinsurance assets in the financial statements are fully secured by deposits withheld by the Company. This is in accordance with the regulatory solvency requirements prevailing at the end of the reporting period and the retrocession agreements.

Management has an active credit control policy and procedures in place where balances due from cedants and retrocessionaires are monitored on an ongoing basis. There has been no default on settlement of balances due from retrocessionaires.

The fixed income investments held by the Company are issued by the South African government and are considered secure. Reputable financial institutions are used for investing and cash handling purposes within the Company's strict guidelines on investments and institution exposure limits. The probability of default is expected to be extremely low.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each class of financial and reinsurance assets in the statement of financial position. The analysis of the credit exposure and credit quality of the Company's financial assets on Standard & Poor's local currency credit ratings basis at the end of the year, is presented in the table on the page below.

December 2019	AAA to AA R'm	A+ to A R'm	BBB+ to BBB- R'm	Not indicated R'm	**Total** R'm
Financial Assets	47	1	2 388	7	2443
Insurance receivables				376	376
Insurance deposits				20	20
Accounts receivable				0	0
Cash and Cash equivalents				13	13
Total	**47**	**1**	**2 388**	**416**	**2 852**
December 2018					
Financial Assets			1 223	1 050	2 273
Insurance receivables				609	609
Insurance deposits				8	8
Accounts receivable				3	3
Cash and Cash equivalents		7			7
Total	**-**	**7**	**1 223**	**1 670**	**2 900**

Aging analysis of insurance receivables

There are no individually significant balances that are more than 12 months past due. The carrying amount of reinsurance receivables was reviewed at the reporting date and there was no indication of impairment. The Company does not hold collateral against any of its financial assets.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

5. Risk management of insurance contracts and financial instruments *(continued)*

(d) Liquidity risk

The Company is exposed to daily cash payment calls on its available cash resources arising mainly from claims. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company has set limits on the minimum proportions of assets held as short-term investments and limits on the minimum proportions of maturing funds available to meet such cash payment calls and unexpected levels of cash payment demand.

December 2019	On demand R'm	1 Year R'm	2 Year R'm	3 Year R'm	>4 Year R'm	Total R'm
Asset maturities						
Cash and cash equivalents	13					13
Fixed and call deposit		1039				1039
Money market funds	500					500
Debt securities		14	92	38	636	780
Equities	122					122
Insurance contracts assets		917	198	46	57	1217
Amounts due from companies on reinsurance accounts		376				376
Deposits retained by ceding companies		20				20
Accounts receivable						
Total financial and insurance assets	**635**	**2366**	**290**	**84**	**693**	**4067**
Liability maturities						
Insurance contracts liabilities		1204	262	61	82	1609
Reinsurance account balance		77				77
Reinsurance deposits		1554				1554
Due to holding company		22				22
Other provision and accruals		28				28
Total financial and insurance liabilities	**-**	**2885**	**262**	**61**	**82**	**3290**
Net maturities	**635**	**(519)**	**27**	**23**	**611**	**777**

Maturity profile of financial and insurance assets and liabilities

A distinction is drawn between insurance and shareholder's funds. The overall philosophy governing the investment of insurance funds is driven by liquidity considerations and a strong emphasis on capital preservation. Most of the Company's investments are held in readily realisable investments in line with the short-tail nature of the Company's business. The maturity profile of investments will approximate the average term of operational liabilities. The maturity of the Company's financial assets and liabilities are based on contractual cash flows while the Company's insurance assets and liabilities are based on expected cash flows. The Company also monitors its portfolio liquidity regularly as part of its internal control environments. The maturities of the Company's assets and liabilities at the end of the year are analysed in the table above.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

5. Risk management of insurance contracts and financial instruments *(continued)*

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

The Company's categories and classes of financial assets and financial liabilities are included on pages 51 to 54.

(f) Capital management objectives, policies and approach

The Company has put in place capital management objectives, policies and approach to managing the risks that affect its capital position namely:

- To maintain the required level of stability that ensures the security to policyholders
- To allocate capital efficiently ensuring that returns on capital employed meet the market-reasonable expectations of shareholders
- To retain financial flexibility and align the profile of assets and liabilities, taking account of risks inherent in the business while at the same time maintaining strong liquidity
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders
- To maintain strong credit ratings in order to support its business objectives and maximise shareholder value.

The operation of the Company is also subject to regulatory requirements, such regulations not only prescribe monitoring of activities, but also impose certain restrictive provisions on capital adequacy to minimise the risk of default and insolvency to meet unforeseeable liabilities as they arise. The Company met all of these requirements throughout the financial year.

The Company's assets, liabilities and risks are managed in a coordinated manner assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The Company has a number of sources of capital available to it and seeks to optimise its retention capacity. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including retrocession, as appropriate, when assessing its deployment and usage of capital. The Company manages as capital all items that are eligible to be treated as capital. The capital managed by the Company is as shown below:

	2019 R'000	2018 R'000
Share capital and share premium	80 300	80 300
Contingency reserve	51 702	51 702
Retained earnings	684 310	604 911
Total equity attributable to equity holders of the company	**816 312**	**736 913**

In reporting financial strength, capital and solvency are measured using the rules prescribed by the Prudential Authority. These regulatory capital measurements are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written. The Company has put in place structures and policies that ensure compliance, while Own Risk and Solvency Assessment (ORSA) is undertaken annually as risk management and business tool within the Company.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

Balances at year end and movements for the year

6. Property, plant and equipment	**Motor vehicles**	**Fixtures and fittings R `000**	**Office equipment R `000**	**Computer equipment R `000**	**Total R `000**
Balance at 1 January 2019					
At cost	1,430	6,021	529	2,272	**10,252**
Accumulated depreciation	(522)	(4,555)	(529)	(1,929)	**(7,535)**
Net book value	**908**	**1,466**	**-**	**343**	**2,717**
Movements for the year ended 31 December 2019					
Additions from acquisitions	-	-	8	728	**736**
Depreciation	(326)	(648)	(1)	(358)	**(1,333)**
Property, plant and equipment at the end of the year	**582**	**818**	**7**	**713**	**2,120**
Closing balance at 31 December 2019					
At cost	1,430	6,020	537	3,001	**10,988**
Accumulated depreciation	(848)	(5,202)	(530)	(2,288)	**(8,868)**
Net book value	**582**	**818**	**7**	**713**	**2,120**
Reconciliation for the year ended 31 December 2018					
Balance at 1 January 2018					
At cost	1,008	6,012	529	2,128	**9,677**
Accumulated depreciation	(368)	(3,899)	(526)	(1,763)	**(6,556)**
Net book value	**640**	**2,113**	**3**	**365**	**3,121**
Movements for the year ended 31 December 2018					
Additions from acquisitions	580	8	-	264	**852**
Depreciation	(154)	(655)	(3)	(166)	**(978)**
Disposals	(158)	-	-	(120)	**(278)**
Property, plant and equipment at the end of the year	**908**	**1,466**	**-**	**343**	**2,717**
Closing balance at 31 December 2018					
At cost	1,430	6,021	529	2,272	**10,252**
Accumulated depreciation	(522)	(4,555)	(529)	(1,929)	**(7,535)**
Net book value	**908**	**1,466**	**-**	**343**	**2,717**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

7. Intangible assets	**2019 R'000**	2018 R'000
Reconciliation of changes in intangible assets		
Computer software		
Reconciliation for the year ended 31 December 2019		
Balance at 1 January 2019		
At cost	398	**398**
Accumulated amortization	(398)	**(398)**
Net book value	-	**-**
Closing balance at 31 December 2019		
At cost	398	**398**
Accumulated amortization	(398)	**(398)**
Net book value	-	**-**
Reconciliation for the year ended 31 December 2018		
Balance at 1 January 2018		
At cost	398	**398**
Accumulated amortization	(398)	**(398)**
Net book value	-	**-**
Closing balance at 31 December 2018		
At cost	398	**398**
Accumulated amortization	(398)	**(398)**
Net book value	-	**-**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

8.	Financial assets	2019 R'000	2018 R'000
8.1	**Held to maturity instruments at amortised cost**		
	Fixed and call deposits	1 039 335	1 130 840
	Listed bonds	444 875	405 540
		1 484 210	**1 536 380**
	Instruments at fair value through profit or loss		
	Listed instruments		
	- Bonds	336 012	322 999
	- Equities	122 059	136 024
	- Money market funds	499 633	413 213
		957 704	**872 236**
	Total financial assets	**2 441 914**	**2 408 616**
	Cost of instruments disclosed at fair value through profit or loss		
	Bonds	319 046	319 046
	Equities	132 771	132 771
	Money market funds	499 633	413 213
		951 450	**865 030**
	Fair value of the held-to-maturity instruments		
	Fixed and call deposits	1 039 335	1 130 840
	Listed bonds	416 078	416 078
		1 455 413	**1 546 918**

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

Maturity period at 31/12/2019	31/12/2019	Effective Interest rate %
On demand	499 633	1,21% to 8,49%
Within 1 year	1 046 583	6,25% to 12,40%
1 to 3 years	383 118	3,09% to 19,58%
3 to 7 years	231 922	3,60% to 11,62%
7 to 12 years	106 854	2,55% to 12,25%
> 12 years	51 745	8,50% to 10,75%
	2 319 855	

Maturity period at 31/12/2018	31/12/2018	Effective Interest rate %
On demand	413 213	6,00% to 6,75%
Within 1 year	1 130 841	6.5% to 8.50%
1 to 3 years	437 567	0,4% to 7.28%
3 to 7 years	100 365	2,33% to 7.9%
7 to 12 years	23 192	7.55% to 8.59%
> 12 years	167 414	9.17% to 9.77%
	2 272 592	

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

8. Financial assets *(continued)*

Fair values of financial assets and liabilities

Determination of fair value
Fair values are determined according to the following hierarchy based on the requirements in IFRS 13: Fair Value Measurement: Disclosures

- Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.

- Level 2 – valuation techniques using observable inputs: financial assets and liabilities with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.

- Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, a valuation technique is used.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid / offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets, which in certain circumstances includes using quotations from independent third parties such as brokers and pricing services, and offer prices for liabilities.

In general, none of the carrying amounts of financial assets carried at amortised cost have a fair value significantly different to their carrying amounts. Such assets are primarily comprised of variable rate financial assets that re-price as interest rates change, short-term deposits or current assets.

Analysis of instruments at fair value
Financial assets

December 2019	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Designated at fair value through profit or loss	**458 071**	**499 633**	**-**	**957 704**
December 2018				
Designated at fair value through profit or loss	459 022	413 213	-	872 235

Investments and securities
The fair values of investments and securities designated at fair value through profit or loss are based on bid prices.

Other financial assets and liabilities
The fair values of other financial assets and liabilities are reasonably approximated by the carrying amounts reflected in the statement of financial position.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

		2019 R'000	2018 R'000
9.	**Technical assets and liabilities under insurance contracts**		
	Technical liabilities		
	-Gross claims reported but not yet settled	1 062 002	1 121 305
	-Gross claims incurred but not reported	348 386	343 816
	-Gross unearned premium provision	160 351	199 174
	-Deferred retrocession commission income	38 760	41 518
		1 609 499	**1 705 813**
	Technical assets		
	-Retrocessionaire's share of claims reported but not yet settled	815 365	863 314
	-Retrocessionaire's share of claims incurred but not reported	246 316	240 982
	-Retrocessionaire's share of unearned premium provision	111 340	135 154
	-Deferred acquisition costs	44 036	53 812
		1 217 057	**1 293 262**
	Net technical liabilities		
	-Claims reported but not yet settled	246 637	257 991
	-Claims incurred but not reported	102 070	102 834
	-Unearned premium provision	49 011	64 020
	-Deferred acquisition costs	(5 276)	(12 294)
		392 442	**412 551**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

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

9.1 Movements in technical assets and liabilities under insurance contracts

Outstanding claims	2019 Gross R'000	2019 Reinsurance R'000	2019 Net R'000
Claims reported but not yet settled	1 121 305	863 314	257 991
Claims incurred but not reported	343 816	240 982	102 834
Total outstanding at beginning of year	1 465 121	1 104 296	360 825
Movement in outstanding claims	(54 733)	(42 616)	(12 117)
-arising from current year claims	284 994	193 010	91 984
-arising from prior period claims	(339 727)	(235 626)	(104 101)
Total at end of year	1 410 388	1 061 680	348 708
Notified claims	1 062 002	815 365	246 637
Incurred but not reported	348 386	246 315	102 071
Total at end of year	**1 410 388**	**1 061 680**	**348 708**

Outstanding claims	2018 Gross R'000	2018 Reinsurance R'000	2018 Net R'000
Claims reported but not yet settled	1 192 804	862 425	330 379
Claims incurred but not reported	296 159	207 525	88 634
Total outstanding at beginning of year	1 488 963	1 069 950	419 013
Movement in outstanding claims	(23 842)	34 346	(58 188)
-arising from current year claims	511 067	356 507	154 560
-arising from prior period claims	(534 909)	(322 161)	(212 748)
Total at end of year	1 465 121	1 104 296	360 825
Notified claims	1 121 305	863 314	257 991
Incurred but not reported	343 816	240 982	102 834
Total at end of year	**1 465 121**	**1 104 296**	**360 825**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

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

Unearned premium provision	2019 Gross R'000	2019 Reinsurance R'000	2019 Net R'000
At the beginning of year	199 174	135 154	64 020
Premiums written during the year	2 580 722	1 863 070	717 652
Premiums earned during the year	(2 619 545)	(1 886 883)	(732 662)
Total at end of year	**160 351**	**111 341**	**49 010**

Unearned premium provision	2018 Gross R'000	2018 Reinsurance R'000	2018 Net R'000
At the beginning of year	213 864	150 675	63 189
Premiums written during the year	2 933 664	2 094 097	839 567
Premiums earned during the year	(2 948 354)	(2 109 618)	(838 736)
Total at end of year	**199 174**	**135 154**	**64 020**

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

Deferred acquisition costs	2019 Gross R'000	2019 Reinsurance R'000	2019 Net R'000
At the beginning of year	53 812	41 518	12 294
Acquisition costs paid during the year	1 008 469	705 985	302 484
Acquisition costs incurred during the year	(1 018 245)	(708 743)	(309 502)
At the end of year	**44 036**	**38 760**	**5 276**

Deferred acquisition costs	2018 Gross R'000	2018 Reinsurance R'000	2018 Net R'000
At the beginning of year	49 492	39 894	9 598
Acquisition costs paid during the year	1 012 208	705 101	307 107
Acquisition costs incurred during the year	(1 007 888)	(703 477)	(304 411)
At the end of year	**53 812**	**41 518**	**12 294**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

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

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

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

Estimates and outstanding claims

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

Unearned premium provision

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

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

		2019 R'000	2018 R'000
10.	**Amounts due from companies on reinsurance accounts**		
	Amounts due from ceding companies	72 435	99 096
	Amounts due from retrocessionaire	304 014	509 503
		376 449	**608 599**
	Accounts receivable comprise:		
	Retrocessionaire's share of claims reported but not yet settled	(238)	(476)
	Value added tax	429	3 873
	Total accounts receivable	**161**	**3 397**
11.	**Deposits retained by ceding companies**		
	At beginning of the year	8 432	7 844
	New deposits retained	11 153	588
	At the end of the year	**19 585**	**8 432**
12.	**Current tax assets**		
	Total current tax asset per the statement of financial position	**38 722**	**36 587**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

		2019 R'000	2018 R'000
13.	**Cash and cash equivalents**		
	Cash and cash equivalents comprise:		
	Cash		
	Cash on hand	133	124
	Current bank account balances	12 728	6 860
	Total cash	**12 861**	**6 984**
14.	**Deferred tax liability**		
	Opening balance	3 145	18 466
	Current year	(643)	(15 321)
	Closing balance	**2 502**	**3 145**
	The net deferred tax liability balance at the end of the period comprises:		
	– capital allowance	(655)	(84)
	– accruals	(776)	(1 093)
	– unrealised gains on revaluation of investments	3 933	4 322
		2 502	**3 145**
15.	**Amounts due to companies on reinsurance accounts**		
	Amounts due to ceding companies	**77 466**	**108 277**
16.	**Other provisions and accruals**		
	Other provisions and accruals comprise:		
	Other creditors and accruals	25 630	23 696
	Accrual for leave pay	2 591	3 724
	Total trade and other payables	**28 221**	**27 420**
17.	**Deposits due to retrocessionaire**		
	At beginning of year	1 729 481	1 661 660
	New deposits retained	1 553 433	1 729 481
	Deposits released	(1 729 481)	(1 661 660)
	At the end of the year	**1 553 433**	**1 729 481**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

		2019 R'000	2018 R'000
18.	**Share capital and share premium**		
	Authorised and issued share capital		
	Share capital	**80 300**	80 300
	Share premium	**80 300**	80 300
	Authorised		
	7 ordinary shares of R0.01 each	0*	0*
	Authorised		
	7 ordinary shares of R0.01 each	0*	0*

Share capital comprises of seven ordinary shares of R0.01 each of which one share was issued at a premium of R80.3 million. No changes occurred during the year.
* less than R1 000

		2019 R'000	2018 R'000
19.	**Commission paid and received**		
	Gross commission and brokerage paid	1 008 469	1 012 208
	Gross deferred acquisition costs	9 776	(4 320)
	Commission incurred	**1 018 245**	**1 007 888**
	Commission earned	**(826 067)**	**(770 296)**
	Retrocession commission and brokerage received	(713 046)	(708 831)
	Retroceded overriding commission received	(106 829)	(64 386)
	Retroceded deferred commission revenue	(8 362)	2 779
	Retroceded deferred acquisition costs	2 298	-
	Retroceded deferred overriding commission revenue	(128)	1 42
	Net commission incurred	**192 178**	**237 592**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

		2019 R'000	2018 R'000
20.	**Profit before taxation**		
	Profit before taxation is arrived at after charging the following items:		
	HQ IT Services and Management Expenses	**63 413**	**45 000**
	Auditor's remuneration:	**2 000**	**1 810**
	- for audit services in the current year	2 000	1 750
	- over provision in prior years	-	60
	Consultancy fees	2 627	2 110
	Depreciation	1 333	978
	Directors remuneration	**15 170**	**14 959**
	Executive – for services rendered	10 192	9 727
	Non executive – for services as directors	4 978	5 232
	Lease payments	2 324	2 314
	Secretarial fees	298	249
	Staff costs including contribution to pension fund, UIF, SDL and allowances	37 823	34 385

Number of staff: 37 (2018: 36)

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

21. Related party

Remuneration of directors and prescribed officers

Directors

The Directors who served during the year together with the respective gross remunerations paid to them for services rendered to the Company are as follows:

Name	Status	2019	2018
		R	R
Bakary Kamara	Independent, Non-executive Chairman	**896 869**	896 869
Corneille Karekezi	Non-executive Deputy Chairman	**807 193**	807 183
Allan F W Peters	Independent, Non-executive Director	**-**	508 226
Elizabeth Amadiume	Independent, Non-executive Director *(retired 6 August 2019)*	**448 434**	672 651
Phillip Pettersen	Independent, Non-executive Director	**717 495**	717 495
Haile M Kumsa	Independent, Non-executive Director	**672 651**	672 651
Sizakele Mzimela	Independent, Non-executive Director	**717 495**	717 495
Frédéric Fléjou	Independent, Non-executive Director	**717 495**	239 165
Andrew N Tennick	Managing Director	**3 995 122**	2 850 000
Sory Diomande	Deputy Managing Director	**3 261 293**	3 539 608
Ibrahim Ibisomi	Executive Director	**2 935 903**	3 337 599

Prescribed officers

Mr. Andrew Tennick, Mr. Sory Diomande and Mr. Ibrahim Ibisomi served as Executive Directors during the year. The only other member of the Executive who served during the year is Mr. Sudadi Senganda. He joined the Company in January 2019 as General Manager, Finance & Administration. His remuneration for services rendered during the year amounted to R1 994 296 (2018 – Nil).

Holding company

The Company conducts reinsurance business with its holding company. The holding company also charges management fees for services provided by the Group and license fees to cover the cost of insurance and accounting software used by the Company. The Company rented its premises from an associated company that is similarly wholly owned by the holding company. Transactions carried out with the holding company and with the associated company are on commercial terms and conditions no less favourable to the public.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

21. Related party transactions *(continued)*

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

Statement of financial position	2019 R'000	2018 R'000
Assets		
Retroceded outstanding claims provision	**1 061 680**	1 104 296
Retroceded unearned premium provision	**111 341**	135 154
Liabilities		
Deferred retrocession commission revenue	**(38 760)**	(41 518)
Deposits due to retrocessionaire	**(1 553 433)**	(1 729 481)
Amounts due to companies on reinsurance accounts	**(77 466)**	(108 277)
Amount due to holding company	**(21 436)**	(57 545)
Net liabilities	**(518 074)**	(697 371)
Statement of comprehensive income		
Retroceded premiums	**(1 863 070)**	(2 094 097)
Retrocessionaire's share of provision for unearned premiums	**(23 814)**	(15 522)
Retroceded claims received	**1 099 434**	1 631 169
Retrocessionaire's share of provision for outstanding claims	**(42 615)**	34 346
Retrocessionaire's share of net commission incurred	**826 069**	770 295
Interest expense	**(60 905)**	(38 865)
Management expenses	**(63 413)**	(45 000)

Details of the balance and transactions with Sherborne Number Ten Proprietary Limited an associated Company (fellow subsidiary) are as follows:

Statement of financial position	2019 R'000	2018 R'000
Liabilities		
Trade and other payables	**14 084**	11 736
Statement of comprehensive income		
Management expenses	**(2 348)**	(2 347)

22. Retirement benefits costs

The Company contributes to a defined contribution pension plan for all its employees. The Company's contributions to the defined contribution pension plan for its employees during the year amounted to R2 354 146 (2018: R2 076 724).

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

23. Business activities

The Company is duly licensed by the Financial Services Board to undertake the business of non- life reinsurance under the Short-Term Insurance Act Number 53 of 1998 as amended (the Act). The Company has conducted its business with due regard to, and in accordance with, the provisions of the Act and the Directors are not aware of any actions or activities in contravention of the prevailing legislation.

With the commencement of the new Insurance Act 18 of 2017, all companies registered under the Short-Term Insurance Act are required to have their registrations converted into licences within two years of the commencement of the new Act. During the year, the Company was invited and has submitted the required application for the conversion of its registration to a licence under the new Act to the Prudential Authority.

24. Events after the reporting date

The Directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report that would warrant any changes to the financial statements or any other disclosure in this report.

The Directors acknowledge that the coronavirus (COVID-19) declared as a global pandemic by the World Health Organisation and as a national disaster by the Government of the Republic of South Africa in early 2020 is capable of impacting the ability of the Company to realise its projected revenues in the near future. The nature and extent of that impact were not known at the time of preparing this report. The Company does not provide specialist pandemic or other contagious-disease underwriting services. Management believes that limited exposures exist in the form of business interruption, restricted access to premises, events cancellation and travel cancellations but these are insignificant in relation to the Company's overall level of operations.

As at 31 May 2020, the Company has not received any COVID-19-specific claims notification. All business renewals undertaken by the Company for the period 1 January 2020 to 31 May 2020 have been concluded without any difficulties associable with COVID-19.

The Directors acknowledge that the cumulative 275bps reduction in interest rates by the South African Reserve Bank since the beginning of 2020 would negatively impact investment income. This is offset by corresponding reductions on the interest payable on retrocession deposits. Volatile equity markets have resulted in some downward pressure on investment valuations however the investments have shown resilience mainly due to the diversification and risk profile of the investment portfolio. Management is monitoring this closely and is in the process of reviewing current asset allocations.

In assessing the potential financial impact of the COVID-19 pandemic and lockdown, management has:

- Revised the Financial Year 2020 financial forecasts to consider the increased economic uncertainty caused by the pandemic.
- Performed further stress testing on the revised Financial Year 2020 Gross Written Premium, claims, investment income and profitability forecasts to consider the impact of the pandemic

The revised Financial Year 2020 forecasts disclosed below include the following key assumptions:

- Reduction in Gross Written Premium due to lower business volumes and downward pricing pressures
- A slight decrease in claims paid and modest improvement in incurred loss ratios due to lower risk exposures resulting from lower business volumes
- Reduction in investment income due to lower interest rates
- No change to management expenses despite potential savings from the reduction in discretionary spending such as travel, marketing and consulting.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

The below table shows the results of the stress testing on the Financial Year 2020 revised forecast:

ZAR'000	COVID-19 (15% premium reduction) ZAR	COVID-19 (20% premium reduction) ZAR	COVID-19 (25% premium reduction) ZAR
Gross Written Premium	2,231,559	2,100,290	1,969,022
Net Written Premium	669,468	630,087	590,707
Net Earned Premium	666,878	627,650	588,422
Net Incurred Loss	(395,327)	(372,073)	(348,818)
Net Acquisition Expenses	(165,334)	(155,609)	(145,883)
Net Management Expenses	(162,693)	(162,693)	(162,693)
Net Underwriting Profit/(Loss)	(56,476)	(62,724)	(68,972)
Net Investment Income	94,402	89,682	84,962
Net Profit Before Tax	37,926	26,958	15,989
Net Profit After Tax	27,307	19,409	11,512

25. Going concern

The Directors are confident that the Company will continue to operate successfully into the foreseeable future in spite of the potential adverse impact of COVID-19 as described in the preceding paragraph. These financial statements have therefore been prepared on a going concern basis.

The uncertainty of the future impact of the recent COVID-19 outbreak on the Company has been considered as part of the Company's adoption of the going concern basis. Thus far, Management have not yet observed any material impact on the business due to COVID-19. There have been no cancellations of contracts despite the reported spread of COVID-19. The Company has undertaken an exercise to simulate the impact of the outbreak on its 2020 financial result and has determined that the business will remain profitable.

The expected impact of the pandemic on the renewal of business subsequent to year-end has been and is expected to continue to be minimal. As the Company holds low risk investment instruments, the effect on returns will therefore be minimal with the most notable effect being from the decrease in interest rates as a result of the reduction in prime rate. The Company is largely equity-funded with no exposure to any onerous debt instrument and a parental guarantee is in place to provide extra resilience for the Company to continue to operate as a going concern.

26. Dividends

The Directors are conscious of the regulatory framework under the new Insurance Act with a potential impact on the capital requirements of insurance and reinsurance companies the nature and extent of which is difficult to ascertain at this time. The Directors have therefore decided not to recommend the payment of dividends.

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

	2019 R'000	2018 R'000
27. Notes to the cash flow statement		
Profit / (loss) for the year adjusted for:	**106 888**	**(39 498)**
Investment income net of management fees	(191 715)	(53 060)
Finance costs	60 905	38 865
Depreciation and amortisation expense	1 333	978
Net unearned premium provision net of deferred acquisition costs	(7 990)	(1 865)
Change in operating assets and liabilities:	**(30 039)**	(154 698)
Net amounts due from companies on reinsurance accounts	201 339	(12 410)
Deposits retained by ceding companies	(11 153)	(588)
Accounts receivable	3 236	1 833
Amount due to holding company	(36 107)	(156 924)
Other provisions and accruals	813	3 757
Deposits due to retrocessionare	(176 048)	67 821
Net outstanding claims provision	(12 119)	(58 187)
Net cash flows from operations	**(60 621)**	**(209 278)**
Income tax paid		
Balances recoverable at the beginning of the period	36 587	13 762
Current tax through profit or loss	(28 145)	(4 696)
Balances recoverable at the end of the period	(38 722)	(36 587)
Net taxation paid	**(30 280)**	**(27 521)**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

28. Categories of assets and liabilities

	Notes	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial instruments	Total	Current
R'000								
December 2019								
Assets								
Equipment	*6*					2 120	2 120	
Intangible assets	*7*					0	0	
Financial assets	*8*	957 704	1 484 210				2 441 914	1 552 652
Listed bonds		336 012	444 875				780 887	13 684
Listed ordinary shares		122 059					122 059	
Money market funds		499 633					499 633	499 633
Fixed and current deposits			1 039 335				1 039 335	1 039 335
Technical assets under insurance contracts	*9*	-	-	-	-	1 217 057	1 217 057	911 930
Retroceded outstanding claims provision						1 061 681	1 061 681	756 554
Retroceded unearned premium provision						111 340	111 340	111 340
Deferred acquisition costs						44 036	44 036	44 036
Amounts due from companies on reinsurance contracts	*10*			376 449			376 449	376 449
Deposits retained by ceding companies	*11*			19 585			19 585	19 585
Accounts receivable				161			161	161
Current income tax asset	*12*					38 722	38 722	38 722
Cash and cash equivalents	*13*			12 861			12 861	12 861
Total assets		**957 704**	**1 484 210**	**409 056**	**-**	**1 257 899**	**4 108 869**	**2 912 360**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

28. Categories of assets and liabilities *(Continued)*

R'000	Notes	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
December 2019								
Liabilities								
Technical liabilities under insurance contracts	*9*					1 609 498	1 609 498	1 204 153
Gross outstanding claims provision						1 419 387	1 419 387	1 005 042
Gross unearned premium provision						160 351	160 351	160 351
Deferred retrocession commission income						38 760	38 760	38 760
Amounts due to companies on reinsurance accounts	*14*	-	-	-	5 031		5 031	5 031
Deposits due to retrocessionaires	*15*				1 553 433		1 553 433	1 553 433
Amount due to holding company					21 438		21 438	21 438
Other provisions and accruals	*16*	-	-	-	25 641	2 591	28 232	28 232
Creditors and accruals					25 641		25 641	25 641
Accrual for leave pay						2 591	2 591	2 591
Deferred tax liability						2 502	2 502	2 502
Total liabilities		**-**	**-**	**-**	**1 605 543**	**1 614 591**	**3 220 134**	**3 221 447**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

28. Categories of assets and liabilities *(Continued)*

	Notes	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
R'000								
December 2018								
Assets								
Equipment	*6*					2 717	2 717	
Intangible assets	*7*					0	0	
Financial assets	*8*	872 236	1 536 380				2 408 616	1 665 720
Listed bonds		322 998	405 540				728 538	121 667
Listed ordinary shares		136 025					136 025	
Money market funds		413 213					413 213	413 213
Fixed and current deposits			1 130 840				1 130 840	1 130 840
Technical assets under insurance contracts	*9*	-	-	-	-	1 293 262	1 293 262	984 059
Retroceded outstanding claims provision						1 104 296	1 104 296	795 093
Retroceded unearned premium provision						135 154	135 154	135 154
Deferred acquisition costs						53 812	53 812	53 812
Amounts due from companies on reinsurance contracts	*10*			608 599			608 599	608 599
Deposits retained by ceding companies	*11*			8 432			8 432	8 432
Accounts receivable				3 397			3 397	3 397
Current income tax asset	*12*					36 587	36 587	36 587
Cash and cash equivalents	*13*			6 984			6 984	6 984
Total assets		**872 236**	**1 536 380**	**627 412**	**-**	**1 332 566**	**4 368 594**	**3 313 778**

Notes to the financial statements

for the year ended 31 December 2019 *(Continued)*

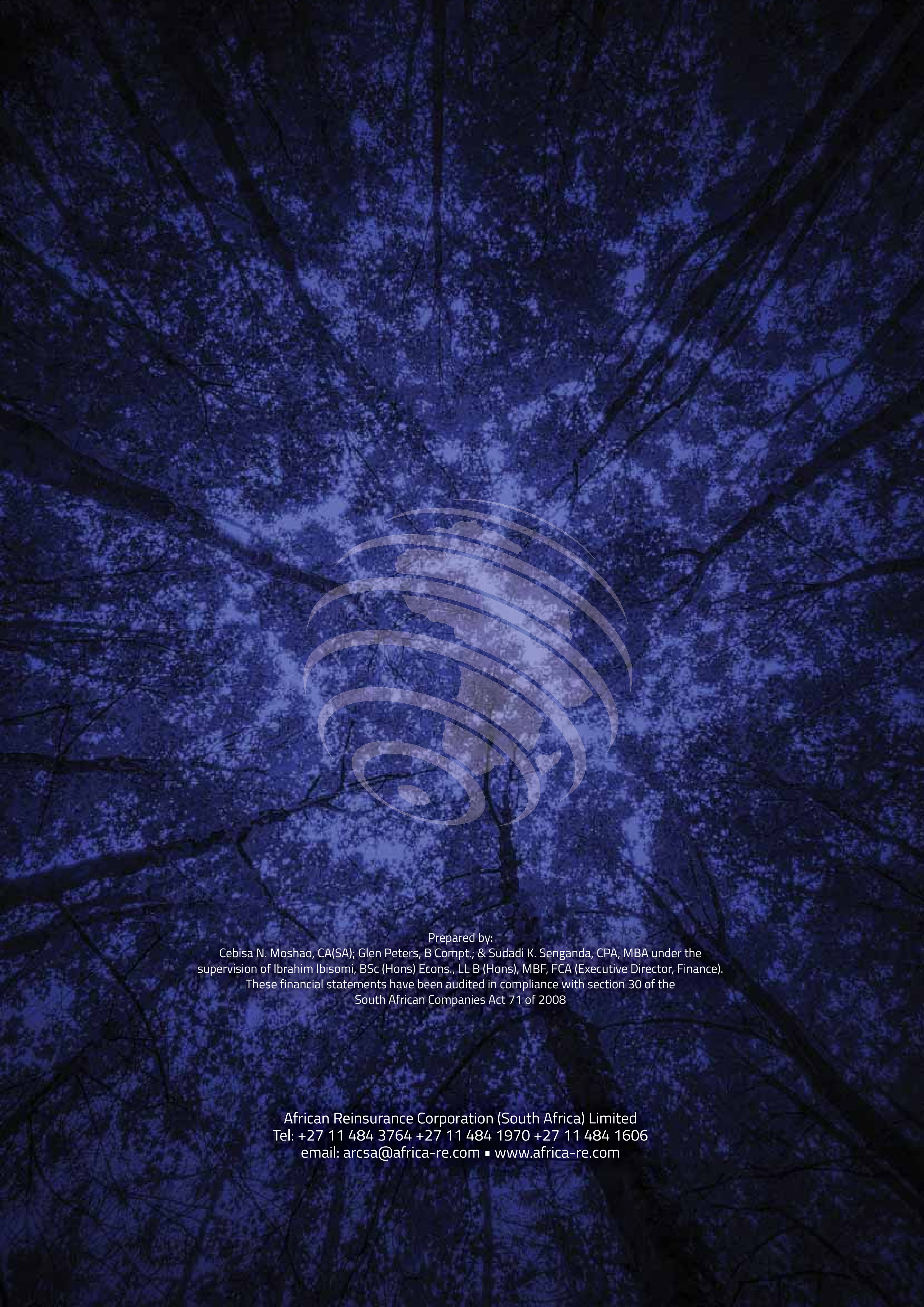
28. Categories of assets and liabilities *(Continued)*

R'000	Notes	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
December 2018								
Liabilities								
Technical liabilities under insurance contracts	*9*					1 705 813	1 705 813	1 295 579
Gross outstanding claims provision						1 465 121	1 465 121	1 054 887
Gross unearned premium provision						199 174	199 174	199 174
Deferred retrocession commission income						41 518	41 518	41 518
Amounts due to companies on reinsurance accounts	*14*	-	-	-	108 277		108 277	108 277
Deposits due to retrocessionaires	*15*				1 729 481		1 729 481	1 729 481
Amount due to holding company					57 545		57 545	57 545
Other provisions and accruals	*16*	-	-	-	23 696	3 724	27 420	27 420
Creditors and accruals					23 696		23 696	23 696
Accrual for leave pay						3 724	3 724	3 724
Deferred tax liability						3 145	3 145	3 145
Total liabilities		**-**	**-**	**-**	**1 918 999**	**1 712 681**	**3 631 680**	**3 221 447**

Detailed Income Statement

	2019 R'000	2018 R'000
Revenue		
Change in gross unearned premium provision	38 822	14 691
Change in retroceded unearned premium provision	(23 814)	(15 522)
Gross written premiums	2 580 722	2 933 664
Interest income on investment	182 917	140 139
Net unrealised gain/(loss) on investments	(1 736)	(159 652)
Retroceded written premiums	(1 863 070)	(2 094 097)
Total revenue	**913 841**	**819 223**
Other income		
Exchange gain on investments	(2 335)	5 718
Other income	350	-
Total other income	**(1 985)**	**5 718**
Other expenses		
Change in gross provision for outstanding claims	54 733	23 842
Change in retroceded provision for outstanding claims	(42 615)	34 345
Depreciation - property, plant and equipment	(1 333)	(974)
Gross claims paid	(1 541 549)	(2 229 958)
Investment management expenses	(4 010)	(6 510)
Management expenses	(133 412)	(113 260)
Net commission incurred	(192 178)	(237 592)
Retroceded claims received	1 099 434	1 631 169
Total other expenses	**(760 930)**	**(898 938)**
Profit / (loss) from operating activities	**150 927**	**(73 997)**
Net realised gain on disposal of investments	**11 325**	**50 475**
Finance income		
Dividend income	5 554	22 889
Finance costs		
Interest expense	(60 905)	(38 865)
Profit / (loss) before tax	**106 901**	**(39 498)**
Income tax		
Current tax	(27 501)	10 625
Total income tax (expense) / credit	**(27 501)**	**10 625**
Profit / (loss) for the year	**79 399**	**(28 873)**

Notes



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These financial statements have been audited in compliance with section 30 of the South African Companies Act 71 of 2008

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