Africa Re SA

2022 Annual Report & Accounts

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Promoting the growth of insurance in Africa.

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Lagos, Nigeria

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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

AFRICAN REINSURANCE CORPORATION - NETWORK OF OFFICES

Regional Offices

CASABLANCA
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Fax: +212-5 22 43 77 29
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Fax: +234-1 280 0074
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P O Box 506770,
Dubai, United Arab Emirates

Tel: +971 55 667 8534

Subsidiaries

AFRICAN REINSURANCE CORP. (SOUTH AFRICA) LTD
Africa Re Place, 10 Sherborne Road,
Parktown, 2193
PO Box 3013, Houghton, 2041,
Johannesburg, South Africa

Tel: +27 11 484 3764
Email: arcsa@africa-re.com

AFRICA RETAKAFUL
4e, 1st Settlement Service Center
New Cairo, 118865,
Cairo, Egypt

Tel: +20 2 22685668
Fax: +20 2 22685667
Email: cairo@africa-re.com

Local Office

ADDIS ABABA LOCAL OFFICE
Yeshi Building, 5th Floor
Airport Road, Bole, Kirkos Sub City,
Woreda 01, in front of Bole
Printing Enterprise,
House no. 233, P.O Box 1055,
Addis Ababa, Ethiopia

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

African Reinsurance Corporation (SA) Limited

(Registration Number 2003/031630/06)

Annual Financial Statements

for the year ended 31 December 2022

Prepared by Cebisa N Moshao, CA(SA) & Glen Peters, B Compt. under the supervision of
Sudadi K. Senganda, ACCA, MBA

These financial statements have been audited in compliance with section 30 of the South African Companies Act No. 71 of 2008.

Annual report

for the year ended 31 December 2022

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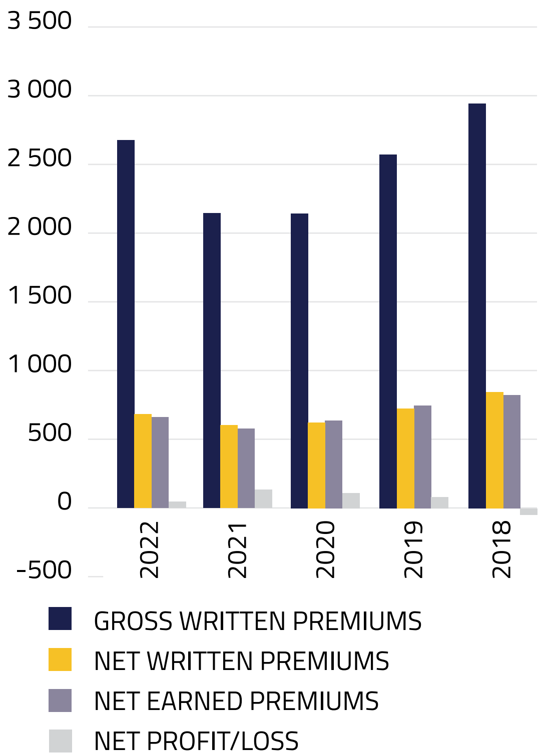
Financial highlights

for the year ended 31 December 2022

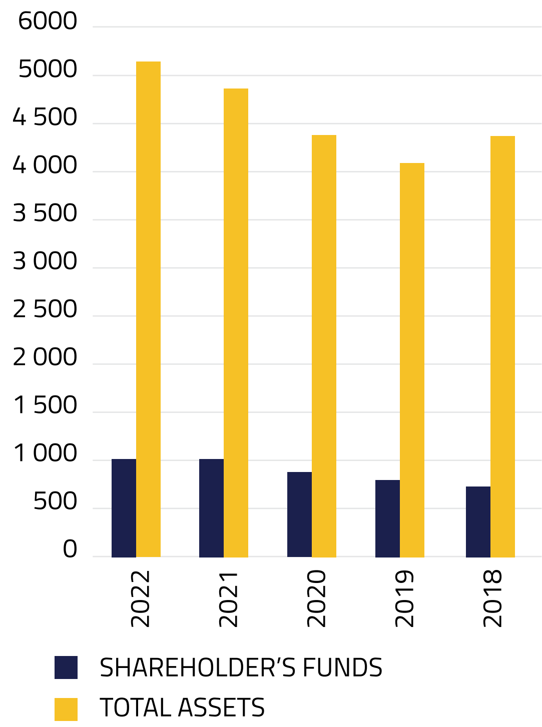
In R'000	2022	2021	2020	2019	2018
RESULTS					
GROSS WRITTEN PREMIUMS	**2,294,520**	2,119,057	2,120,721	2,580,722	2,933,664
NET WRITTEN PREMIUMS	**621,013**	584,652	586,541	717,652	839,567
NET EARNED PREMIUMS	**605,018**	584,222	589,334	732,660	838,736
NET PROFIT/(LOSS)	**46,852**	81,636	84,684	79,399	(28,873)
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	**1,029,484**	982,632	900,996	816,312	736,913
TOTAL ASSETS	**5,126,671**	4,675,806	4,393,797	4,108,869	4,368,594
INTERNATIONAL SOLVENCY MARGIN[N1]	**166%**	168%	154%	114%	88%

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

RESULTS 2018 - 2022
In Rand' Million



FINANCIAL POSITION 2018 - 2022
In Rand' Million



Chairman and executive management statement

for the year ended 31 December 2022

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 2022. The year started off positively rebounding from the pandemic induced contraction until the breakup of the war in Ukraine. The war triggered a massive shock to the domestic and global economy that was still struggling to recover from the pandemic and its impact. None the less, we are pleased to report that the Company maintained an overall positive performance recorded in the similar difficult operating environment of the previous year.

During the year, South Africa experienced the most significant natural catastrophe in its history causing an unprecedented distraction of infrastructure, lives and the economy at large. This also happened barely less than a year after the country experienced a massive social unrest that also had a significant impact on the South African economy. The cost of the Kwa Zulu floods to the national economy was estimated to be in excess of R17 billion and also significantly costed the insurance industry impacting almost all classes of business written. The Company picked a share of the losses from the floods that impacted the results for the period under review. The impact was moderated by the portfolio de-risking, underwriting prudence and retrocession restructuring components of its Turnaround strategy formulated and implemented consistently since 2018. The Turnaround Strategy continues to have a salutary impact on the Company's performance, so Management has kept faith with its implementation.

Financial conditions tightened since early 2020, sparking further deterioration in risk sentiment with adverse growth implications. Economic challenges flowing from the COVID-19 pandemic subsided during the period but the floods experienced early in the year had an immense impact on the economic performance of the year. This was further compounded with the impacts of the Russian invasion of Ukraine, high public and private debt levels and rising commodity prices. The domestic operating environment was challenging in 2022 compared to 2021, a slowdown in GDP growth moving from the 4.9% recorded in 2021 to 2.5% in 2022. This detraction in economic growth was on account the lower performance in mining, construction and manufacturing sectors. The economy continued to lag pre-pandemic levels during the year. Rising inflation levels and high level of unemployment were key indices that dominated economic activity during the year. The dreaded shortfall in energy supply (dubbed "load shedding") exacerbated the already struggling situation and had a 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 in 2022 registered an improvement compared to the previous period despite economic headwinds and electricity generation disruptions. The government's commitment to fiscal and structural reforms are yielding positive outcomes where a strong fiscal performance was registered leading S&P Global Ratings to revise its Rating Outlook on South Africa from Positive to Stable.

The Company resumed working physically from Company offices beginning of February 2022 after almost two years of conducting all its activities remotely to comply with lockdown restrictions and to mitigate the spread of COVID-19 pandemic. 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 2022.

The Board is pleased to report that the Company remained resilient and recorded a positive performance for the year 2022 despite the impact of COVID-19 claims on the business in the year and the April 2022 Kwa Zulu Natal floods. Strict underwriting discipline and the full impact of the change in investment strategy implemented at the tail end of 2018 contributed to the result. Gross written premium for the year under review improved to R2,294 million (2021 – R2,119 million). Similarly, the Company recorded a R36 million (or 6.2%) increase in its net written premium, from R585 million in 2021 to R621 million in 2022. The stable premium volumes are a reflection of the impact of the final stages of the implementation of the turnaround strategy embarked upon in 2018, with minimal business declines and cancellations in 2022 compared to the earlier years.

Chairman and executive management statement

for the year ended 31 December 2022 *(Continued)*

The loss experience, during the year under review was hugely impacted by the KwaZulu Natal floods, a significant natural catastrophe in years. COVID-19 related claims also impacted the results but to a lesser extent. Attritional losses saw the Company's net incurred claims for 2022 deteriorate to R354 million from R317 million in 2021. 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 2% and net commission expenses increased by 10% which is a deterioration Year on Year. Management expenses increased by 13% from the R135 million incurred in 2021 to R153 million in the year under review, which was on account of increased activities in the year lockdown restrictions were waived and activities resumed fully in the year under review.

An increase in net investment income of R7 million has been recorded from R153 million in 2021 to R160 million in 2022. This performance was registered in a volatile economic environment that prevailed during the year, in which the financial markets were reacting to Ukraine war and unprecedented inflation increases globally. Bonds investments posted a good performance together with interest-earning instruments especially fixed deposits as they gained from improving the repo rates that prevailed during the year. The Board remains confident that actions taken to reduce volatility of returns are yielding the desired results and the investment performance will continue to stabilize 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 Company recorded a profit before tax for the year under review of R63 million compared to the profit before tax of 107million recorded in 2021. Accrued income tax expense recorded in the statement of comprehensive income for the period was R16 million (2021: R25 million) resulting in an after-tax profit of R47 million compared to the after-tax profit of R82 million recorded in 2021. Concerted efforts remain to ensure that the Company achieves a significant and positive underwriting performance.

The Board is pleased to report that, for the Ninth consecutive year since its debut stand-alone rating of 2014, the Company's A- rating (with a Stable Outlook) 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 downgrades suffered by South Africa since 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 Africa Re (SA) and the African Reinsurance Corporation Group as a whole, which is reflected in the sustained growth of the Company's income over the 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.

The Board would like to pay tribute to Directors, Messers Phillip Pettersen and Haile-Michael Kumsa, who retired from the Board on 31 August 2022 after serving meritoriously the Company for three consecutive terms of three years each. The Board acknowledges their contribution in steering the Company successfully over the years.

During the year, the composition of the Board and its Committees remained in full compliance with the applicable requirements of the Companies Act 2008 and the Insurance Act 2017. The Board of Directors met three times.

Chairman and executive management statement

for the year ended 31 December 2022 *(Continued)*

The Directors who served during the year were:

C Karekezi (Rwandese)
Non-executive Deputy Chairman

P Pettersen
Independent non-executive Director
(Retired 31 August 2022)

H M Kumsa (Ethiopian)
Independent non-executive Director
(Retired 31 August 2022)

S Mzimela
Independent non-executive Director
(Appointed Lead Independent Director from 30 September 2022)

F B S M Fléjou (French)
Independent non-executive Director

T Baloyi
Independent non-executive Director

F Petersen-Cook
Independent non-executive Director
(Appointed 26 April 2022)

A N Tennick
Managing Director

I A Ibisomi (Nigerian)
Executive Director
(Retired 31 August 2022)

The Audit Committee met three times during the course of the 2022 financial year. The Committee's report is separately included elsewhere in these financial statements same as is the report of the Social, Ethics & Transformation Committee. The Board's other committees are Remuneration and Human Resources Committee, Risk and Underwriting Committee, Nominations and Governance Committee as well as Finance and Investment Committee. 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. The annual self-evaluation of the performance of Directors, Committees and the Board is scheduled for 2023 from which areas requiring improvement are to be identified for appropriate attention.

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. The Board is pleased to note that the Company remained compliant with all applicable legislation throughout the year.

Corporate Social Responsibility remains a key priority for the Company. During the year, the Company continued its support to its adopted schools, contributed bursary funds to facilitate the education of certain disadvantaged

Chairman and executive management statement

for the year ended 31 December 2022 *(Continued)*

learners and has also undertaken a number of initiatives aimed at creating health awareness among the staff and the community. All this is 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 quests. 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 2022 was another fairly good year during which the Company was able to record a remarkable performance. In the circumstances, the Company remains focused on repositioning itself for an improved and sustainable performance in the medium term, underpinned by standard underwriting practices, operational efficiency and service excellence.

Dr. Corneille Karekezi
Chairman
31 May 2023

Andrew N Tennick
Managing Director
31 May 2023

Board of Directors and Executive Management

Corneille Karekezi
Non-executive Chairman

Sizakele Mzimela
Lead Independent Director
(Appointed Lead Independent Director 30 September 2022)

Phillip Pettersen
Retired Lead Independent Director
(Retired 31 August 2022)

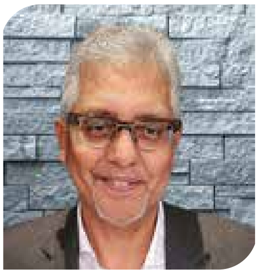
Frederic Fléjou
Independent, Non-executive Director

Themba Baloyi
Independent, Non-executive Director

Fagmeedah Petersen-Cook
Independent, Non-executive Director
(Appointed 26 April 2022)

Andrew N Tennick
Managing Director

Sere M Kaba
Incoming Independent, Non-executive Director
(Appointed 28 February 2023)



Elvin De Kock
Incoming Independent, Non-executive Director
(Appointed 28 February 2023)

Sudadi K Senganda
Incoming Executive Director
(Appointed 28 February 2023)

Ibrahim A Ibisomi
Retired Executive Director
(Retired 18 April 2022)

Haile M Kumsa
Retired Independent, Non-executive Director
(Retired 31 August 2022)

Vuyo Rankoe
General Manager, Technical Operations
(Appointed 1 August 2022)

Pranil Sharma
General Manager, Life
(Appointed 1 November 2022)

Directors' responsibilities and Approval

for the year ended 31 December 2022

The Directors are required by the Companies Act of South Africa to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements satisfy the financial reporting standards with regards to form and content and present fairly the statement of financial position, results of operations and business of the company, and explain the transactions and financial position of the business of the company at the end of the financial year. The annual financial statements are based upon appropriate accounting policies consistently applied throughout the company and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Company and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Directors have set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Company and all employees are required to maintain the highest ethical standards in ensuring the Company's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the Company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by Management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss. The going-concern basis has been adopted in preparing the financial statements. Based on forecasts and available cash resources, the Directors have no reason to believe that the Company will not be a going concern in the foreseeable future. The financial statements support the viability of the Company.

The annual financial statements set out on pages 17 to 58, and the supplementary information set out on page 59 which have been prepared on the going concern basis, were approved by the Directors and were signed on 31 May 2023.

Dr. Corneille Karekezi
Chairman
31 May 2023

Andrew N Tennick
Managing Director
31 May 2023

Report by the Social, Ethics and Transformation Committee

for the year ended 31 December 2022

The Social, Ethics and Transformation Committee ("the Committee") is pleased to present this report on its activities for the year 2022 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 undertaken tangible social responsibility initiatives. The continued implementation of the statutory and best-practice corporate governance requirements has therefore not posed any difficulty for the Company. The Committee is also responsible for overseeing the Company's transformation journey.

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 with no major changes. The amendments made in 2019 to sharpen the Committee's focus on Transformation and to upgrade the Committee's work to meet King IV requirements remained in place throughout the year. Copies of the Charter are available on request from the Company Secretary. The key areas of responsibility for 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 statutory duties and other 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. The Committee monitored and proposed practical steps towards the implementation of the Company's Transformation Policy and the Transformation Plan for the Company. Specifically, the Committee directed the Management preparation and Board approval of specific programmes that would enable the Company to achieve compliance status under the Broad-Based Black Economic Empowerment Act for the year 2022. The Committee also reviewed and monitored the Company's employment equity reports and plans. The Committee will continue to work for the practical implementation and the realisation of the key objectives of these vital documents.

After a one-year break occasioned by the Covid-19 pandemic, the annual Wellness Day for employees was held during the year, while the execution of the usual programmes and projects under the Committee's mandate resumed fully. The Committee is satisfied with the many projects that were successfully executed under its mandate both for members of staff and the larger society. As in the previous year, the Committee also held a focused session on Transformation, which monitored the implementation of agreed Transformation initiatives and produced a number of new initiatives for accelerating the pace of transformation in the Company. With the approval granted by the Board, these initiatives will continue to be implemented in the Company. In addition, the Company implemented impactful programmes in the course of the year, on themes like women's health (breast and cervical cancer), men's health (prostate cancer), marking the Annual World HIV/AIDS Day, and support for a home for young girls rescued from prostitution. During the year, the Company commenced the distribution of sanitary towels to female learners in selected schools in order to support girl-child education.

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. Under the guidance of the Committee, the Company has identified partner organisations for undertaking additional projects that will enhance its transformation and economic empowerment credentials. These initiatives form part of the specific programmes identified during the year that will continue to be implemented on a sustained basis.

Report by the Social, Ethics and Transformation Committee

for the year ended 31 December 2022 *(Continued)*

While training belongs squarely to the remit of the Remuneration and Human Resources Committee of the Board, the Social, Ethics and Transformation remains pleased with the progress that the Company is making in using training to enhance its transformation credentials through the upskilling of employed and unemployed persons from designated population groups. It particularly commends the continued partnership with the Insurance Sector Training Authority (INSETA) through which the Company continues to provide learnership and internship programmes to unemployed graduates and school leavers, train middle management staff at the University of Cape Town and sponsored a number of other training and skill development programmes for employees mainly from the designated population groups. The Committee is pleased that a learnership programme was also undertaken for unemployed youth hosted in other organisations. The Committee hopes for a continuation of these programmes into the foreseeable future.

The Committee continued to play its role in promoting 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, was very helpful under the difficult economic circumstances and energy crisis that prevailed in South Africa in 2022.

During 2020, the Committee oversaw the conduct of an organisational culture survey through the internal administration of survey questionnaire and external collation of its results. The results of the survey suggested the need for a deeper dive into culture and work climate issues in the Company by an external consultant. This was planned for 2021 but could not hold on account of the lockdown restrictions. This also did not materialise in 2022 under the prevailing remote working conditions across the Group. The Committee has been assured that the required involvement of external expertise and professional assistance will be undertaken during 2023 under the guidance of the Board. A 12-point glide path is actively being implemented in response to the results of the internal survey while working toward the appointment of the external consultant. The Company has continued to promote measures at keeping employees safe and productive in a hygienic environment.

The Committee actively encourages gender equality and drives initiatives aimed at combating unfair discrimination and reducing corruption. Whistle-blower Policy and anonymous reporting facilities are in place to encourage unfettered disclosure of any legal, policy, procedural or other ethical breaches involving staff and other stakeholders in the Company. No incidents were reported during the year.

The Committee worked on improving the few areas highlighted for improvement in the independent performance evaluation exercise conducted in 2021 by the Institute of Directors South Africa. The Committee looks forward to the next performance evaluation exercise with confidence and enthusiasm.

The Committee met four times during the year with all members in attendance, including one meeting that was specifically dedicated to Transformation. Apart from its members, the Committee's meetings are regularly attended by another director and 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 recorded substantial changes but 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)
Retired 31 August 2022

Fagmeedah Petersen-Cook
Independent non-executive Director (Member)
Appointed 26 April 2022

Andy Tennick
Managing Director (Member)

Ibrahim Ibisomi
Executive Director (Member)
Retired 18 April 2022

Report by the Social, Ethics and Transformation Committee

for the year ended 31 December 2022 *(Continued)*

Sudadi Senganda
General Manager, Finance & Admin (Member)
Appointed 31 August 2022

Cebisa Moshao
Manager, Finance & Accounts (Member)
Resigned 31 August 2022

Simiso Ndlovu
Human Resources & Compliance Officer (Member)

Tshimangadzo Ramada
Technical Accounts Officer
Appointed 31 August 2022

The Committee would like to place on record its deep appreciation to its pioneer Chairman, Mr. Phillip Pettersen, for his exemplary commitment and dedicated service to the work of the Committee. Gratitude also goes to Mr. Ibrahim Ibisomi and Ms. Cebisa Moshao for their contributions to the success of the Committee's work during their membership tenure. The Committee wishes these departing members all the best in their future endeavours. Similarly, the Committee is pleased to welcome Ms. Fagmeedah Petersen-Cook, Mr. Sudadi Senganda and Ms. Tshimangadzo Ramada into its fold and looks forward to their contributions during their tenure.

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 2022.

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 but improving performance together with its status as a wholly-owned subsidiary of a foreign multinational corporation.

The Committee will continue to 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 appreciates the trust, confidence and tremendous support it enjoys from the Board of Directors and, in particular, for the special approval received from the Board on the Transformation initiatives formulated at the instance of the Committee. Special appreciation goes to Director Themba Baloyi who attended and contributed significantly during all of the Committee's meetings during the year. The Committee also appreciates Management's endurance and commitment to the development of new initiatives aimed at improving the Company's transformation credentials. The Committee acknowledges the continued partial disbursement of the US$250,000 allocation by the Africa Re Group through its Africa Re Foundation, in support of efforts to confront the coronavirus pandemic in South Africa. It is noteworthy that the disbursements so far have been to direct and impactful efforts at fighting the virus and at limiting its devastating impact. The Committee will continue to work with the Africa Re Foundation to identify worthy causes for its intervention in all the markets served by the Company.

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

Sizakele Mzimela
Chairperson
31 May 2023

Report of the Audit Committee

for the year ended 31 December 2022

The Audit Committee is pleased to present this report on its activities for 2022 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 progress made during the year to update the documentation and enhance the system of internal controls, especially the continued incremental implementation of a software-driven Compliance Strategy and Plan during the year, following the successful separation of the Compliance control function from the Risk Management function that Management successfully implemented in 2019. The Committee reviewed reports presented by Management, by the Head of Actuarial Control function as well as by the internal and external audit functions and was satisfied with explanations provided on its observations.

The Committee met thrice during the year with all members in attendance at all the meetings, except for one absence by a member on one occasion. 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 control functions as well as by internal and external audit personnel. The year 2022 represented the third under the three-year internal audit plan during which the internal auditors successfully conducted their routine audit exercises. Their report was received with no incidences of material breakdown in controls. During the year, the process of co-sourcing of the internal audit function to a professional services firm based in South Africa reached its concluding phase. The selected firm will complement the work of the Group Internal Audit department in ensuring effective internal audit review and oversight of controls. To the Committee's satisfaction, the 2022 internal audit reports included a satisfactory disposition of the internal audit issues raised in prior years. The internal and external audit personnel as well as all heads of control functions have unrestricted access to the Committee and to its chairperson. The Committee is pleased with the continued progress and valued contributions made by Messrs. Deloitte SA who were in their fifth year as external auditors in their audit of the financial statements for 2022. 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 judgment thereon as well as the recommendations contained in their management letter.

The implementation of the IFRS 9 and IFRS 17 financial reporting standards as a Group-wide project for the African Reinsurance Corporation Group recorded major milestones during 2022, especially the selection and deployment of a tested implementation software engine. On the recommendation of the Committee, the Board constituted an Implementation Oversight Committee under the auspices of the Audit Committee to improve the involvement and oversight of the Board on the implementation process. The Oversight Committee met seven times during the year during which it reviewed progress reports on the implementation project and had its concerns satisfactorily addressed. The Committee remains confident in the success of the implementation project but will continue to monitor the implementation process from the Company's perspective. To the Committee's satisfaction, the two new policy administration and financial reporting software implemented Group-wide during 2021 delivered noticeable value for the Company during the year. It is expected that, once fully integrated and mastered by users, the new software will further improve the integrity, functionality and timeliness of transaction processing, financial reporting and record keeping activities in the Company.

Report of the Audit Committee

for the year ended 31 December 2022 *(Continued)*

The Committee was pleased with the successful transition in the CFO role that followed the retirement of the immediate past Executive Director, Finance, Mr. Ibrahim Ibisomi after thirteen years with the Company. As part of the Company's succession plan, he has been succeeded immediately by Mr. Sudadi Senganda who, prior to his appointment as Executive Director, Finance served for over three years as the General Manager, Finance & Administration. While thanking Mr. Ibisomi for his contributions and wishing him well in retirement, the Committee congratulates Mr. Senganda on his appointment and wishes him a successful tenor.

During the year, the Committee bade farewell to two of its members, Messrs. Phillip Pettersen and Haile-Michael Kumsa, who retired from the Board of Directors after serving the Board and the Committee for ten and nine years, respectively. Messrs. Pettersen and Kumsa would be missed for their broad perspectives and robust contributions to the Committee's work. The Committee would like to thank them for their meritorious service over the years and wishes them a healthy and restful life in retirement. The Committee also welcomed the appointment of Mrs. Fagmeedah Petersen-Cook as independent non-executive director and member of the Committee. The Committee is confident that her appointment will bring further diversity, fresh perspectives and added value to the work of the Committee.

Despite these significant changes recorded during the year, the Committee's membership was fully compliant with the requirements of the Companies Act 2008 throughout the year. The composition of the Committee during the year was as follows:

- F B S M Fléjou - Independent non-executive Director (Chairman)
- P Pettersen - Independent non-executive Director (Member)
  Retired 31 August 2022
- H M Kumsa - Independent non-executive Director (Member)
  Retired 31 August 2022
- S Mzimela - Independent non-executive Director (Member)
- T Baloyi - Independent non-executive Director (Member)
- F Petersen-Cook- Independent non-executive Director (Member)
  Appointed 26 April 2022

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 2022.

For and on behalf of the Audit Committee:

F. Fl-j.-

Frédéric B S M Fléjou
Chairperson
31 May 2023

Directors' report

for the year ended 31 December 2022

The Directors are pleased to present the Directors' report of the Company for the year ended 31 December 2022

1. Business

The business of the Company is that of a professional reinsurer for short-term reinsurance business. Following an application submitted in 2019, the Prudential Authority with the required concurrence of the Financial Sector Conduct Authority granted the Company a variation on its license enabling the Company to transact life reinsurance business. However, the Company was yet to commence writing life reinsurance business in the period covered by these financial statements.

The operating results and statement of financial position of the Company are fully set out in the attached financial statements and do not in our opinion require any further comment.

1.1 Share capital

The issued and fully paid share capital of the Company including share premium is R80.3 million (2021: 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 2022 amounts to R1,029.5 million (2021: R982.6 million). Net technical liabilities under insurance contracts at 31 December 2022 amount to R353 million (2021: R332 million).

Statement of comprehensive income

Total profit and comprehensive income for the year is a net profit of R46.8 million (2021: R81.6 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 (2021: Nil).

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

- Dr. Corneille Karekezi (Rwandese)
  Non-executive Deputy Chairman
- Phillip Pettersen
  Independent non-executive Director
  (Retired 31 August 2022)
- Haile M Kumsa (Ethiopian)
  Independent non-executive Director
  (Retired 31 August 2022)
- Sizakele Mzimela
  Independent non-executive Director
  (Appointed Lead Independent Director 30 September 2022)
- Frédéric B S M Fléjou (French)
  Independent non-executive Director
- Themba Baloyi
  Independent non-executive Director
- F Petersen-Cook
  Independent non-executive Director
  (Appointed 26 April 2022)
- Andrew N Tennick
  Managing Director
- Ibrahim A Ibisomi (Nigerian)
  Executive Director
  (Retired 18 April 2022)

4. Company Secretary

Ibrahim A 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.

By order of the Board

Ibrahim A Ibisomi, Company Secretary, 31 May 2023

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 17 to 58, which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in South Africa, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 the information included in the document titled "African Reinsurance Corporation (SA) Limited Annual Financial Statements for the year ended 31 December 2022" which includes the Directors' Report as required by the Companies Act of South Africa, the Financial highlights, Chairman and executive management statement, Directors' Responsibilities and Approval, Report by the Social, Ethics and Transformation Committee and Report of the Audit Committee. 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 Management and Those Charged with Governance for the Financial Statements Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

Independent auditor's report *(Continued)*

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.

Paragraph 62(b) of this Section explains that the description of the auditor's responsibility for the audit of the financial statements can be located in an Appendix to the auditor's report. Paragraph 62(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on theaudit 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 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 those charged with governance 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.

Report on Other Legal and Regulatory Requirements

Report on other legal and regulatory requirements in terms of the Independent Regulatory Board for Auditors (IRBA) Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of African Reinsurance Corporation Limited for 5 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Harshal Kana
Partner
1 June 2023
5 Magwa Crescent, Waterfall City 2090, South Africa

Statement of Financial Position

for the year ended 31 December 2022

	Notes	2022 R'000	2021 R'000
Assets			
Cash and cash equivalents	*6*	15,255	47,640
Financial assets	*7*	3,272,517	3,084,056
Held-to-maturity instruments at amortised cost		2,141,381	2,044,290
Instruments at fair value through profit or loss		1,131,136	1,039,766
Technical assets under insurance contracts	*8*	1,406,903	1,254,776
Retroceded outstanding claims reserve		1,194,891	1,087,150
Retroceded unearned premium reserves		157,788	123,127
Gross deferred acquisition costs		54,224	44,499
Property, Plant and Equipment	*9*	812	769
Amounts due from companies on reinsurance accounts	*10*	325,495	219,192
Accounts receivable	*11*	23,476	6,119
Deposits retained by ceding companies	*12*	69,605	63,254
Current tax asset	*13*	12,608	-
Total assets		**5,126,671**	**4,675,806**
Liabilities			
Technical liabilities under insurance contracts	*8*	1,759,828	1,586,782
Gross outstanding claims reserve		1,497,222	1,380,067
Gross unearned premium reserve		220,431	169,775
Deferred retrocession commission revenue		42,175	36,940
Deferred tax liabilities	*14*	7,537	11,050
Amounts due to companies on reinsurance accounts	*15*	31,595	55,516
Other provisions and accruals	*16*	16,502	15,291
Deposits due to retrocessionaire	*17*	2,064,153	1,865,551
Current tax liabilities	*13*	-	56
Amount due to holding company	*18*	217,572	158,928
Total liabilities		**4,097,187**	**3,693,174**
Equity			
Share capital and share premium	*19*	80,300	80,300
Retained earnings		897,482	850,630
Contingency reserve		51,702	51,702
Total equity attributable to equity holders of the company		**1,029,484**	**982,632**
Total equity and liabilities		**5,126,671**	**4,675,806**

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2022

	Notes	2022 R'000	2021 R'000
Gross written premiums		2,294,520	2,119,057
Retroceded written premiums		(1,673,507)	(1,534,405)
Net written premiums		**621,013**	**584,652**
Change in gross unearned premium provision		(50,656)	(22,915)
Change in retroceded unearned premium provision		34,661	22,485
Net earned premiums		**605,018**	**584,222**
Net investment income		**160,245**	**152,991**
Dividend income		5,994	6,336
Interest income on investment		159,564	122,057
Interest expense		(32,856)	(25,904)
Net realised gain/(loss) on disposal of investments		12,053	14,556
Net unrealised gain/(loss) on investments		(16,869)	40,991
Exchange gain/(loss) on investment		37,406	(361)
Investment management expenses		(5,047)	(4,684)
Other income		333	55
Total net income		**765,596**	**737,268**
Gross claims paid		(1,397,612)	(1,317,267)
Retroceded claims received		1,053,465	971,888
Change in gross provision for outstanding claims		(117,154)	21,492
Change in retroceded provision for outstanding claims		107,741	6,950
Net incurred claims		**(353,560)**	**(316,937)**
Net commission incurred	*20*	(195,979)	(178,382)
Management expenses		(152,707)	(135,251)
Total technical expenses		**(702,246)**	**(630,570)**
Net profit before taxation	*21*	**63,350**	**106,698**
Taxation	*22*	(16,498)	(25,062)
Total income tax expense		**(16,498)**	**(25,062)**
Profit for the year		**46,852**	**81,636**

Statement of Changes in Equity

for the year ended 31 December 2022

	Notes	Share capital and share premium	Contingency reserve	Retained earnings	Total
		R'000	R'000	R'000	R'000
Balance at 1 January 2021		80,300	51,702	768,994	900,996
Changes in equity					
Profit for the year		-	-	81,636	81,636
Total comprehensive income for the year		-	-	81,636	81,636
Balance at 31 December 2021		**80,300**	**51,702**	**850,630**	**982,632**
Balance at 1 January 2022		80,300	51,702	850,630	982,632
Changes in equity					
Profit for the year		-	-	46,852	46,852
Total comprehensive income for the year		-	-	46,852	46,852
Balance at 31 December 2022	*19*	**80,300**	**51,702**	**897,482**	**1,029,484**

Statement of Cash Flows

for the year ended 31 December 2022

	Notes	2022 R'000	2021 R'000
Net cash flows from / (used in) operations	*29*	**66,509**	**(58,801)**
Income taxes paid	*29*	(32,675)	(9,896)
Net cash flows from / (used in) operating activities		**33,833**	**(68,697)**
Cash flows from / (used in) investing activities			
Purchases of property, plant and equipment and intangible assets		(597)	(482)
Disposals of investments		(610,138)	(239,162)
Purchases of investments		434,648	242,462
Interest received net of investment management fees		136,731	123,818
Dividends received		5,994	6,336
*Interest paid		(32,856)	(25,904)
Cash flows from / (used in) investing activities		**(66,218)**	**107,068**
Net (decrease) / increaase in cash and cash equivalents		**(32,385)**	**38,371**
Cash and cash equivalents at the beginning of the year		47,640	9,269
Cash and cash equivalents at the end of the year	*6*	**15,255**	**47,640**

Notes to the financial statements

for the year ended 31 December 2022

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 Rd, 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 non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk. Contracts that do not transfer significant insurance risk are recorded using the deposit method of accounting, as investment contracts.

Notes to the financial statements

for the year ended 31 December 2022 *(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. Outstanding claims provisions are disclosed at their carrying amounts.

Adequate provisions are also made for claims incurred but not reported at the reporting date using historical experience and best available information. Triangulation methods are used in calculating claims incurred but not reported and is held at a 75th percentile. As a result, different levels of provisions are applicable for different classes of business and appropriateness is assessed against the Company's past claims experience. The chain ladder method which involves the analysis of historical claims development factors and the selection of the estimated development factors based on the historical pattern is used to assess the adequacy of the reserves.

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. Anticipated retrocession recoveries on outstanding claims are disclosed separately as assets.

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

2. Accounting policies *(continued)*

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

Unexpired risk provision for insurance contracts

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

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition 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 2022 *(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 continues to be compliant with the Standard as it 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 (2021: 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) Property, plant and 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 2022 *(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 2022 *(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.

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.

(n) 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 2022 *(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.
- 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

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

2. Accounting policies *(continued)*

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 99% relative to the total amount of liabilities.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is a new accounting standard for insurance contracts initially issued by IASB in May 2017 and is to replace IFRS 4 Insurance Contracts that was issued in 2005. The Standard regulates the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 is expected to provide a more granular and consistent accounting model for all insurance contracts. The Standard became effective from 1 January 2023 and is to be applied retrospectively as such the Company has not applied the Standard in preparing the financial statements under review.

Project governance and progress

The Company has put in place an IFRS 17 implementation oversight committee to provide oversight and governance over the implementation of the new standard. The Committee is comprised of Board Audit Committee, executive and senior management, head of the Internal Audit function together with staff members from various functions including finance, risk management and operations. Accounting policy papers and actuarial methodologies have been prepared to be executed upon implementation of the standard. The implementation team remains up to date, and closely monitors all technical developments from the IASB and industry to evaluate the effects of such developments and, where applicable, aligns the policy and methodology papers accordingly.

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, (Africa-Re Group), and its external advisors to ensure a successful implementation of this Standard by the time it is to come into effect.

The IFRS 17 implementation team has the below activities to be concluded during 2023;

- Refine IFRS 17 policies, methodology decisions and measurement/position papers
- Refine transition methodology, chart of accounts design and annual financial statements
- Refine remaining internal financial controls to ensure accuracy of reporting
- Finalise the management reporting format and key performance measures
- Finalise installation and operationalise the IFRS 17 calculation and reporting tool

Transition approach

The Company will apply IFRS 17 effective 1 January 2023 and based on contract review and PAA eligibility assessments, the Company has concluded that the fully retrospective approach would be appropriate for all its portfolio.

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

2. Accounting policies *(continued)*

Comparative figures for 2022 will be restated as required by the transitional provisions of IFRS 17 and any adjustments to the carrying amounts of insurance and reinsurance assets and liabilities at the date of transition (being 1 January 2022), will be recognised in the opening balance of retained earnings.

Estimated impact of adopting IFRS 17

The Company assessed the impact that the initial application of IFRS 17 will have on its financial statements. The result of this exercise estimates a range between R25 million and R90 million for the decrease in the Company's equity attributable to the parent (capital and reserves) at the transition date being 1 January 2022.

Based on the analysis of reinsurance policies written, the Company predominantly writes short-term contracts and therefore, the premium allocation approach (PAA) will be applied. The impact on the statement of comprehensive income for 2022 is in the process of being finalised and is not expected to be material.

The table below provides additional information:

Estimated decrease in the Company's equity attributable to the parent

	Lower R'000	Upper R'000
Adjustment due to IFRS 17		
▪ Reinsurance contracts	(25,000)	(90,000)
Sub-total before tax impact	(25,000)	(90,000)
Deferred tax impact	7,000	25,200
Estimated impact of IFRS 17, after tax	(18,000)	(64,800)

The above impact on equity upon implementation of IFRS 17 has been assessed based on the financial position of the Company as at 31 December 2021. The upper and lower bounds of the impact on equity have further been arrived at by allowing a 4.5% volatility in reserves before tax.

IFRS 17 Insurance contracts: Key accounting policy choices

The Company has made a number of key accounting policy choices to be applied upon implementation IFRS 17. Below is a summary of these accounting policy choices;

Classification and measurement

Based on the analysis of reinsurance contracts issued and retrocession contracts held, the Company predominantly writes short-duration non-life contracts, to which the PAA will be applied. For other contracts having a cover period greater than one year, to which GMM would normally have been applied, a PAA eligibility test was performed and it was concluded that they are eligible to PAA.

IFRS 17 establishes specific principles for the recognition and measurement of reinsurance contracts issued and retrocession contracts held, the adoption of IFRS 17 did not change the classification of Africa Re's reinsurance contracts. The Company recognises insurance revenue based on the passage of time over the expected period of service of a group of contracts. This means a uniform pattern is used over the expected period of service.

Level of aggregation

The process of defining the level of aggregation under IFRS17 can be split into three phases:

- Portfolios: Contracts which have similar risks and are managed together need to be allocated to the same IFRS 17 portfolio. IFRS 17 portfolios are created by splitting each line of business into three portfolios, i.e., proportional treaties, non- proportional treaties and facultative.

- Groups : Portfolios of insurance contracts should be segmented, based on the level of profitability at initial recognition, into a minimum of three groups of contracts: (1) onerous contracts, (2) contracts which do not have a significant possibility of becoming onerous ("resilient" contracts) and (3) "other" profitable contracts.

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

2. Accounting policies *(continued)*

For contracts measured using the PAA, it is assumed that no groups of contracts in a portfolio are onerous at initial recognition and at subsequent measurement, unless facts and circumstances indicate otherwise. Considering that PAA apply to all reinsurance contracts issued and retrocession contracts held, portfolios would not be disaggregated into profitability groups.

- Cohorts : contracts which were issued more than a year apart cannot be grouped together. Annual cohorts are constituted, based on the underwriting years of the underlying contracts.

The aggregation of retrocession contracts follows the same considerations applied to reinsurance contracts issued for setting up portfolios, groups and cohorts.

The Company uses specific segmentations for management reporting to reflect the internal methods used to administer and manage the business. These segments comprise of reinsurance lines of business such as engineering, fire, marine, life, agriculture, motor, medical, bonds & guarantees, aviation, miscellaneous, energy, oil & gas, liability, accident, etc. Each line of business is further split into portfolios based on the type of reinsurance contract namely proportional treaty, non-proportional treaty and facultative.

Under IFRS 17, the Company has decided to create IFRS 17 portfolios in line with the existing segmentation explained above.

Approach to best estimate cashflows;

Best estimate cashflows represent the current estimates of the future cash flows within the contract boundary of a group of contracts that Africa Re expects to collect from premiums and pay out for claims, benefits, and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

The estimates of future cash flows are based on a probability weighted mean of the full range of possible outcomes and are determined from the perspective of the Africa Re, provided the estimates are consistent with observable market prices for the market variables and reflect conditions existing at the measurement date. Key assumptions for Liability for Remaining Coverage (LRC) have been made and will be applied consistently.

Direct attributable expenses and acquisition costs

The measurement of fulfilment cash flows includes a systematic and rational allocation of directly attributable costs of fulfilling contracts, including especially insurance acquisition cash flows.

Insurance acquisition cash flows are allocated as a portion of premium to profit or loss (through insurance revenue) over the period of the contract on a straight-line basis.

Similar methods are consistently applied to allocate direct attributable expenses to groups of contracts based on the proportionate share of each contract to the total premium of the group of contracts.

Claims related expenses are allocated based on the number of claims expected for all groups.

Discount rates

IFRS 17 is principle-based and does not explicitly describe a methodology for calculation of appropriate discount rates. However, it does outline several conceptual principles to which the discount rates used should align.

The Company is to use a bottom-up approach where the discount rate has been determined as the risk-free yield curve with similar characteristics (e.g., duration, currency). The risk-free yield curve is then adjusted for liquidity characteristics of the underlying reinsurance contracts. The liquidity adjusted risk-free yield curve is then adjusted for other characteristics of the reinsurance contracts if necessary, such as ability to lapse contract, penalties for lapses, tax incentives, etc.

The discounting will be applied to both Liability for Remaining Coverage (LRC) and Liability for Incurred Claims (LIC) and locked-in discount rates and current discount rates will be used respectively.

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

2. Accounting policies *(continued)*

Risk adjustment for non-financial risk

The Company has considered a number of different techniques for calculating the risk adjustment for non-financial risk. The Company currently employs a stochastic reserving technique, bootstrapping and mack method, in the calculation of IFRS 4 risk margin which is determined at entity level and does not allow for diversification. When considering non-financial risks this typically represents underwriting, expense and to some degree operational risk where the operational risk is specific to the insurance contract issued. For simplification purposes the risk adjustment only considers the underwriting risks as this is inherent in the bootstrapping calculation. Allowance for diversification is still to be assessed.

The Company has tentatively elected to adopt a value-at-risk (e.g., bootstrapping) / confidence level approach as the calculations underlying this approach will always be needed (even in cases where other methods are used) due to the fact that IFRS 17 requires companies to disclose the confidence level at which the risk adjustment is calibrated.

Accounting for Foreign exchange

The Company adopts that reinsurance contracts (including the contractual service margin) with cash flows in more than one currency, will be translated using IAS 21 into its functional currency, the Rand.

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2022 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 preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The accuracy of the calculation of the value of premium income and claims expenses is dependent on the accuracy of data provided by ceding companies. Where premium income or claims expenses recognised in a particular financial period are found to have been understated or overstated as a result of inaccuracies in ceding company data received, these are corrected as soon as they are identified with the changes therein recognised in profit or loss in the statement of comprehensive income in the period the inaccuracy is identified.

This dependency on accurate and reliable client data is an inherent risk to the reinsurance industry.

In determining the value of expected amounts of premium income receivable, management considers past premium receipts, expected lapse rates and new business flows.

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.

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

4. Accounting estimates and judgements *(continued)*

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.

In 2020, the COVID-19 global pandemic had a significant impact on market conditions and the group's business. Estimates and their underlying assumptions continue to be reviewed on an ongoing basis with revisions to estimates being recognised prospectively. The Directors are content with the estimates in place to date in this regard.

In 2022 South Africa experienced another catastrophe with heavy floods hitting the shores of Kwa Zulu Natal. As a result, the Company recorded an incurred loss of R555.8m in the year under review. Adequate reserves have been determined and recorded accordingly.

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 8).

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 R38.9 million (2021: R15.3 million) and an increase to equity of R10.9 million (2021: R6.4 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.

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

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

5.2 Insurance risk management objectives and policies for mitigating risks

(a) Introduction

The key insurance risks faced by 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.

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

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

(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 R38.6 million (2021: R16.9 million), while the effect on Equity is R20.2 million (2021: R16.9 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 2022 *(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 external 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 2022 *(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 (2021: R14.7 million). The sensitivity analysis of the effects of movements in market prices and interest rates on the Company's financial assets and liabilities in millions as at 31 December 2022 are presented in the table below:

Market risk sensitivity

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 2022						
Equity	112.5	121.7	Market price	**10%**	8.8	**12.2**
Bonds at fair value	625.3	629.3	Interest rate movement	**5%**	22.7	**31.5**
Bonds at amortised cost	577.5	560.9	Interest rate movement	**5%**	20.3	**28.0**
Money market unit cost	375.4	375.4	Market price	**5%**	13.5	**18.8**
Fixed deposit	1,580.5	1,580.5	Interest rate movement	**5%**	56.9	**79.0**
December 2021						
Equity	126.3	146.8	Market price	**10%**	10.6	**14.7**
Bonds at fair value	479.8	490.1	Interest rate movement	**5%**	17.6	**24.5**
Bonds at amortised cost	522.6	522.6	Interest rate movement	**5%**	18.8	**26.1**
Money market unit cost	402.8	402.8	Market price	**5%**	14.5	**20.1**
Fixed deposit	1,521.7	1,521.7	Interest rate movement	**5%**	54.8	**76.1**

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

The Company also conducts sensitivity analyses to estimate the possible effect of movements of interest rates on the fair value of interest rate bearing financial instruments and cash flows relating to those instruments. The sensitivity analysis of the effect on interest rate movements indicates that a change of 5% in interest rates would change the value of fixed income investments and profit before tax by R76.9 million (2021: R50.7 million) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R72.2 million (2021: R76.1 million).

Notes to the financial statements

for the year ended 31 December 2022 *(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:

- retrocessionaires' 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 2022	AAA to AA R'm	A+ to A R'm	BBB+ to BBB- R'm	CCC R'm	Not indicated R'm	Total R'm
Financial assets	76	12	3,153	0	31	3,273
Insurance receivables	-	-	-	-	322	322
Insurance deposits	-	-	-	-	70	70
Accounts receivable	-	-	-	-	23	23
Cash and cash equivalents	-	-	-	-	15	15
Total	**76**	**12**	**3,153**	**0**	**462**	**3,703**
December 2021						
Financial assets	54	11	2,981	0	39	3,084
Insurance receivables	-	-	-	-	219	219
Insurance deposits	-	-	-	-	63	63
Accounts receivable	-	-	-	-	6	6
Cash and cash equivalents	-	-	-	-	48	48
Total	**54**	**11**	**2,981**	**0**	**375**	**3,420**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

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

(c) 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.

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 below.

December 2022	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	15	-	-	-	-	15
Fixed and call deposit	-	1,581	-	-	-	1,581
Money market funds	64	86	63	56	106	375
Debt securities	-	369	56	84	686	1,194
Equities	122	-	-	-	-	122
Insurance contracts assets	720	365	160	52	98	1,395
Amounts due from companies on reinsurance accounts	-	322	-	-	-	322
Deposits retained by ceding companies	-	70	-	-	-	70
Accounts receivable	-	23	-	-	-	23
Total financial and insurance assets	**921**	**2,816**	**279**	**192**	**889**	**5,098**
Liability maturities						
Insurance contracts liabilities	920	453	199	69	130	1,772
Reinsurance account balance	-	32	-	-	-	32
Reinsurance deposits	-	1,984	-	-	-	1,984
Due to holding company	-	218	-	-	-	218
Other provision and accruals	-	17	-	-	-	17
Total financial and insurance liabilities	**920**	**2,703**	**199**	**69**	**130**	**4,021**
Net maturities	**1**	**113**	**80**	**123**	**760**	**1,077**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

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

December 2021	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	48	-	-	-	-	48
Fixed and call deposit	108	1,413	-	-	-	1,521
Money market funds	106	72	57	57	111	403
Debt securities	-	26	296	47	644	1,013
Equities	147	-	-	-	-	147
Insurance contracts assets	427	518	192	56	61	1,254
Amounts due from companies on reinsurance accounts	-	219	-	-	-	219
Deposits retained by ceding companies	-	63	-	-	-	63
Accounts receivable	-	-	-	-	-	-
Total financial and insurance assets	**836**	**2,311**	**545**	**160**	**816**	**4,668**
Liability maturities						
Insurance contracts liabilities	540	655	243	71	78	1,587
Reinsurance account balance	-	56	-	-	-	56
Reinsurance deposits	-	1,886	-	-	-	1,886
Due to holding company	-	159	-	-	-	159
Other provision and accruals	-	15	-	-	-	15
Total financial and insurance liabilities	**540**	**2,751**	**243**	**71**	**78**	**3,683**
Net maturities	**296**	**(440)**	**302**	**89**	**738**	**985**

(d) 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 55 to 58.

(e) 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 the shareholder
- 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.

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

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

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:

	2022 R'000	2021 R'000
Share capital and share premium	80,300	80,300
Contingency reserve	51,702	51,702
Retained earnings	897,482	850,630
Total equity attributable to equity holders of the company	**1,029,484**	**982,632**

In reporting financial strength, capital and solvency are measured using the rules prescribed by the Reserve Bank of South Africa. 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.

6.

Cash and cash equivalents comprise:	2022 R'000	2021 R'000
Cash		
Cash on hand	11	139
Current bank account balances	15,244	47,501
Total cash	**15,255**	**47,640**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

7	Financial assets	2022 R'000	2021 R'000
7.1	**Held to maturity instruments at amortised cost**		
	Fixed and call deposits	1,580,521	1,521,709
	Listed bonds	560,860	522,581
		2,141,381	**2,044,290**
	Instruments at fair value through profit or loss		
	Listed instruments		
	- Bonds	633,997	490,077
	- Equities	121,730	146,846
	- Money market funds	375,409	402,843
		1,131,136	**1,039,766**
	Total financial assets	**3,272,517**	**3,084,056**
	Cost of instruments disclosed at fair value through profit or loss		
	Bonds	625,279	479,455
	Equities	112,497	126,254
	Money market funds	375,409	402,843
		1,113,185	**1,088,552**
	Fair value of the held-to-maturity instruments		
	Fixed and call deposits	1,580,521	1,521,709
	Listed bonds	570,212	530,440
		2,150,733	**2,052,149**

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

Maturity period at 31/12/2022	R'000	Effective Interest rate %
On demand	46,916	0.00% to 6.97%
Within 1 year	1,915,806	0.01% to 16.50%
1 to 3 years	259,027	0.00% to 21.00%
3 to 7 years	454,497	1.38% to 16.00%
7 to 12 years	192,604	2.25% to 16.38%
> 12 years	144,610	0.53% to 9.38%
	3,013,461	

Maturity period at 31/12/2021	R'000	Effective Interest rate %
On demand	213,773	0.00% to 3.60%
Within 1 year	1,556,719	0.01% to 11.01%
1 to 3 years	456,823	0.00% to 19.75%
3 to 7 years	430,747	1.63% to 21.00%
7 to 12 years	233,567	1.00% to 16.38%
> 12 years	90,395	0.12% to 0.00%
	2,982,024	

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

7. 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 2022	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Designated at fair value through profit or loss	**755,727**	**375,409**	**-**	**1,131,136**
December 2021				
Designated at fair value through profit or loss	636,923	402,843	-	1,039,766

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 2022 *(Continued)*

8. Technical assets and liabilities under insurance contracts	2022 R'000	2021 R'000
Technical liabilities		
-Gross claims reported but not yet settled	1,110,987	922,322
-Gross claims incurred but not reported	386,235	457,745
-Gross unearned premium provision	220,431	169,775
-Deferred retrocession commission income	42,175	36,940
	1,759,828	**1,586,782**
Technical assets		
-Retrocessionaires' share of claims reported but not yet settled	898,638	665,308
-Retrocessionaires' share of claims incurred but not reported	296,253	421,842
-Retrocessionaires' share of unearned premium provision	157,788	123,127
-Deferred acquisition costs	54,224	44,499
	1,406,903	**1,254,776**
Net technical liabilities		
-Claims reported but not yet settled	212,349	257,014
-Claims incurred but not reported	89,981	35,903
-Unearned premium provision	62,643	46,648
-Deferred acquisition costs	(12,049)	(7,559)
	353,924	**332,006**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

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

8.1

Outstanding claims	2022 Gross R'000	2022 Reinsurance R'000	2022 Net R'000
Claims reported but not yet settled	922,322	665,308	257,014
Claims incurred but not reported	457,745	421,842	35,903
Total outstanding at beginning of year	1,380,067	1,087,150	292,917
Movement in outstanding claims	117,155	107,741	9,414
-arising from current year claims	411,391	250,247	161,044
-arising from prior period claims	(294,236)	(142,606)	(151,631)
Total at end of year	1,497,222	1,194,891	302,331
Notified claims	1,110,987	898,638	212,349
Incurred but not reported	386,235	296,253	89,981
Total at end of year	**1,497,222**	**1,194,891**	**302,330**

Outstanding claims	2021 Gross R'000	2021 Reinsurance R'000	2021 Net R'000
Claims reported but not yet settled	792,094	586,967	205,127
Claims incurred but not reported	609,465	493,233	116,232
Total outstanding at beginning of year	1,401,559	1,080,200	321,359
Movement in outstanding claims	(21,492)	6,950	(28,442)
-arising from current year claims	240,348	166,365	73,982
-arising from prior period claims	(261,840)	(159,415)	(102,424)
Total at end of year	1,380,067	1,087,150	292,917
Notified claims	922,322	665,308	257,014
Incurred but not reported	457,745	421,842	35,903
Total at end of year	**1,380,067**	**1,087,150**	**292,917**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

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

Unearned premium provision	2022		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	169,775	123,127	46,648
Premiums written during the year	2,294,520	1,673,507	621,013
Premiums earned during the year	(2,243,864)	(1,638,846)	(605,018)
Total at end of year	**220,431**	**157,788**	**62,643**

Unearned premium provision	2021		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	146,860	100,642	46,218
Premiums written during the year	2,119,057	1,534,405	584,652
Premiums earned during the year	(2,096,142)	(1,511,920)	(584,222)
Total at end of year	**169,775**	**123,127**	**46,648**

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

Deferred acquisition costs	2022		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	44,499	36,940	7,559
Acquisition costs paid during the year	801,797	601,328	200,469
Acquisition costs incurred during the year	(792,072)	(596,093)	(195,979)
At the end of year	**54,224**	**42,175**	**12,049**

Deferred acquisition costs	2021		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	39,423	35,055	4,368
Acquisition costs paid during the year	784,129	602,556	181,573
Acquisition costs incurred during the year	(779,053)	(600,671)	(178,382)
At the end of year	**44,499**	**36,940**	**7,559**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

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

8.2 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.

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

9. Property, plant and equipment	Motor vehicles R'000	Fixtures and fittings R'000	Office equipment R'000	Computer equipment R'000	Total R'000
Balances at year end and movements for the year					
Balance at 1 January 2022					
At cost	1,430	5,857	1,159	3,381	**11,827**
Accumulated depreciation	(1,384)	(5,798)	(1,125)	(2,750)	**(11,058)**
Net book value	**46**	**59**	**34**	**631**	**769**
Movements for the year ended 31 December 2022					
Additions from acquisitions	-	-	25	572	**597**
Depreciation	(46)	(36)	(18)	(455)	**(554)**
Property, plant and equipment at the end of the year	**(0)**	**24**	**41**	**748**	**812**
Closing balance at 31 December 2022					
At cost	1,430	5,857	1,184	3,953	**12,424**
Accumulated depreciation	(1,430)	(5,834)	(1,143)	(3,205)	**(11,612)**
Net book value	**(0)**	**24**	**41**	**748**	**812**
Reconciliation for the year ended 31 December 2021					
Balance at 1 January 2021					
At cost	1,430	5,857	1,115	2,943	**11,346**
Accumulated depreciation	(1,205)	(5,730)	(1,107)	(2,361)	**(10,403)**
Net book value	**225**	**127**	**8**	**582**	**943**
Movements for the year ended 31 December 2021					
Additions from acquisitions	-	-	44	438	**482**
Depreciation	(179)	(68)	(18)	(389)	**(655)**
Property, plant and equipment at the end of the year	**46**	**59**	**34**	**631**	**769**
Closing balance at 31 December 2021					
At cost	1,430	5,857	1,159	3,381	**11,827**
Accumulated depreciation	(1,384)	(5,798)	(1,125)	(2,750)	**(11,058)**
Net book value	**46**	**59**	**34**	**631**	**769**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

		2022 R'000	2021 R'000
10.	**Amounts due from companies on reinsurance accounts**		
	Amounts due from ceding companies	115,221	118,141
	Amounts due from retrocessionaire	210,274	101,051
		325,495	**219,192**
11.	**Accounts receivable**		
	Accounts receivable comprise:		
	Retrocessionaires' share of claims reported but not yet settled	1,022	(2,488)
	Value added tax	22,454	8,607
	Total accounts receivable	**23,476**	**6,119**
12.	**Deposits retained by ceding companies**		
	At beginning of the year	63,254	28,668
	New deposits retained	6,351	34,586
	At the end of the year	**69,605**	**63,254**
13.	**Current tax assets and liabilities**		
	Current tax assets and liabilities comprise the following balances:		
	Total current tax asset per the statement of financial position	**12,608**	**-**
	Net current tax liability from all items being set off	-	(56)
	Total current tax liability per the statement of financial position	**-**	**(56)**
14.	**Deferred tax liability**		
	Opening balance	11,050	1,802
	Current year	(3,513)	9,248
	Closing balance	**7,537**	**11,050**
	The net deferred tax liability balance at the end of the period comprises:		
	– capital allowance	(1,178)	(1,196)
	– accruals	(1,252)	(1,500)
	– unrealised gains/(loss) on revaluation of investments	9,967	13,745
		7,537	**11,050**
15.	**Amount due to companies on reinsurance accounts**		
	Amount due to ceding companies	**31,595**	**55,516**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

		2022 R'000	2021 R'000
16.	**Other provisions and accruals**		
	Other provisions and accruals comprise:		
	Other creditors and accruals	14,520	12,388
	Accrual for leave pay	1,982	2,903
	Total trade and other payables	**16,502**	**15,291**
17.	**Deposits due to retrocessionaire**		
	At beginning of year	1,865,551	1,728,495
	New deposits retained	2,064,153	1,865,551
	Deposits released	(1,865,551)	(1,728,495)
	At the end of the year	**2,064,153**	**1,865,551**
18.	**Amount due to holding company**		
	Loans from group companies	217,572	158,928
	At the end of the year	**217,572**	**158,928**
19.	**Share capital and share premium**		
	Authorised and issued share capital		
	Share capital	0*	0*
	Share premium	80,300	80,300
	Authorised		
	7 ordinary shares of R0.01 each	0*	0*
	Issued		
	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

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

		2022 R'000	2021 R'000
20.	**Commission paid and received**		
	Gross commission and brokerage paid	801,796	784,131
	Gross deferred acquisition costs	(9,725)	(5,078)
	Commission incurred	**792,072**	**779,053**
	Commission earned	**(596,093)**	**(600,671)**
	Retrocession commission and brokerage received	(562,973)	(551,359)
	Retroceded overriding commission received	(38,356)	(47,259)
	Retroceded deferred commission revenue	6,821	(1,266)
	Retroceded deferred acquisition costs	-	(897)
	Retroceded deferred overriding commission revenue	(1,585)	110
	Net commission incurred	**195,979**	**178,382**
21.	**Profit before taxation**		
	Profit before taxation is arrived at after charging the following items:		
	HQ IT Services and Management Expenses	**80,830**	**64,261**
	Auditor's remuneration:	**2,084**	**2,554**
	- for audit services in the current year	2,084	2,554
	Consultancy fees	3,083	3,001
	Depreciation	554	656
	Directors' remuneration	**17,806**	**14,244**
	Executive – for services rendered	13,292	9,296
	Non executive – for services as directors	4,514	4,948
	Lease payments	2,349	2,349
	Secretarial fees	258	239
	Staff costs including contribution to pension fund, UIF, SDL and allowances	54,643	44,286

Number of staff: 43 (2021: 41)

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

		2022 R'000	2021 R'000
22.	**Taxation**		
	Income tax recognised in profit or loss:		
	South African normal taxation current year		
	Current tax	**(20,011)**	**(15,814)**
	Deferred tax	**3,513**	**(9,247)**
		(16,498)	**(25,062)**
	Tax rate reconciliation	%	%
	Effective tax rate	**27**	**23**
	Exempt income	**9**	**1.9**
	Disallowed expenses	**(1)**	**(0.1)**
	Capital gains tax	**(8)**	**3**
	Other	**-**	**0**
	South African standard corporate tax rate	**28**	**28**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

23. 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	2022	2021
		R	R
Bakary H. Kamara	Retired Independent, Non-executive Chairman	-	597,912
Corneille Karekezi	Non-executive Chairman	896,869	807,183
Themba Baloyi	Independent, Non-executive Director	717,495	717,495
Phillip Pettersen	Independent, Non-executive Director *(Retired 31 August 2022)*	508,226	717,495
Haile M. Kumsa	Independent, Non-executive Director *(Retired 31 August 2022)*	478,330	672,651
Sizakele Mzimela	Independent, Non-executive Director	732,443	717,495
Frédéric Fléjou	Independent, Non-executive Director	717,495	717,495
Fagmeedah Petersen-Cook	Independent, Non-executive Director (*Appointed 26 April 2022)*	463,382	-
Andrew N. Tennick	Managing Director	5,774,392	5,223,187
Ibrahim A. Ibisomi	Executive Director *(Retired 18 April 2022)*	1,072,263	4,072,635

Prescribed officers

Mr. Andrew Tennick and Mr. Ibrahim Ibisomi served as Executive Directors during the year. Other members of the Executive who served during the year were Mr. Sudadi Senganda who served the Company as General Manager, Finance & Administration, Vuyo Rankoe who joined on 1 August 2022 to serve the Company as General Manager, Technical Operations and Pranil Sharma who joined on 1 November 2022 to serve the Company as General Manager, Life. Their remuneration for services rendered during the year amounted to R3 205 761 (2021 – R2 816 776), R2 439 812 and R799 827 respectively.

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 on conditions no less favourable to the public.

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

23. Related party *(continued)*

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

Statement of financial position	2022 R'000	2021 R'000
Assets		
Retroceded outstanding claims provision	1,194,891	1,087,150
Retroceded unearned premium provision	157,788	123,127
Liabilities		
Deferred retrocession commission revenue	(42,175)	(36,940)
Deposits due to retrocessionaire	(2,064,153)	(1,865,551)
Amounts due to companies on reinsurance accounts	(31,595)	(55,516)
Amount due to holding company	(217,572)	(158,928)
Net liabilities	**(1,002,816)**	**(906,658)**
Statement of comprehensive income		
Retroceded premiums	(1,673,507)	(1,534,405)
Retrocessionaires' share of provision for unearned premiums	(34,661)	(22,485)
Retroceded claims received	1,053,465	971,888
Retrocessionaires' share of provision for outstanding claims	(107,741)	(6,950)
Retrocessionaires' share of net commission incurred	596,093	600,671
Interest expense	(32,856)	(25,904)
Management expenses	(80,830)	(64,261)

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

Statement of financial position	2022 R'000	2021 R'000
Liabilities		
Trade and other payables	11,988	9,429
Statement of comprehensive income		
Management expenses	(2,348)	(2,348)

24. Retirement benefits costs

The Company contributes to a defined contribution pension plan for all its employees. The Company's contributions to the defined contribution pension plan for its employees during the period were R2 999 041 (2021: R1 814 948).

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

25. Business activities

The Company is duly licensed by the Prudential Authority to undertake the business of both life and non-life reinsurance under the new Insurance Act Number 18 of 2017. Following an application submitted in 2019, the Prudential Authority with the required concurrence of the Financial Sector Conduct Authority granted the Company a variation on its licence enabling the Company to transact life reinsurance business. However, the Company was yet to commence writing life reinsurance business in the period covered by these financial statements. 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.

26. Events after the reporting date

The Directors are not aware of any material events that have occured 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.

27. Going concern

The Directors have assessed the Company's ability to continue as a going concern as at 31 December 2022. The Directors are confident that the Company will continue to operate successfully into the foreseeable future in spite of the impact of COVID-19 and Kwa Zulu Natal floods. These financial statements have therefore been prepared on a going concern basis.

28. Dividends

The Company has been relicensed as a composite reinsurer and in order to meet the expected additional capital requirements of this business, the Directors have decided not to recommend the payment of dividends.

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

29. Notes to the cash flow statement

	2022 R'000	2021 R'000
Net profit before taxation adjustments for:	**63,350**	**106,698**
Investment income net of management fees	(155,695)	(179,257)
Finance costs	32,856	25,904
Depreciation and amortisation expense	554	656
Increase/(decrease) unearned premium provision	55,891	24,800
Change in operating assets and liabilities:	**69,553**	**(37,602)**
Increase in deferred acquisition costs	(44,386)	(27,560)
Decrease in amounts due from companies on reinsurance accounts	(130,224)	(140,174)
Deposits retained by ceding companies	(6,351)	(34,586)
Accounts receivable	(17,357)	(6,752)
Amount due to holding company	58,644	64,387
Other provisions and accruals	1,211	(1,531)
Deposits due to retrocessionare	198,602	137,056
Net outstanding claims provision	9,414	(28,442)
Net cash flows from operations	**66,509**	**(58,801)**
Income tax paid		
Balances recoverable at the beginning of the period	(56)	8,039
Current tax through profit or loss	(20,011)	(17,991)
Balances recoverable at the end of the period	(12,608)	56
Net taxation paid	**(32,675)**	**(9,896)**

*In 2022, interest paid has been reclassified and moved from cashflow from operating activites to cashflows from investment activities.

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

30. Categories of assets and liabilities

For the year ended 31 December 2022

	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
Assets								
Property, plant and equipment	*9*					812	812	
Financial assets	**7**	**1,131,136**	**2,141,380**				**3,272,516**	**1,981,501**
Listed bonds		633,997	560,859				1,194,856	25,571
Listed ordinary shares		121,730					121,730	
Money market funds		375,409					375,409	375,409
Fixed and current deposits			1,580,521				1,580,521	1,580,521
Technical assets under insurance contracts	**8**	**-**	**-**	**-**	**-**	**1,406,903**	**1,406,903**	**1,406,903**
Retroceded outstanding claims provision						1,194,891	1,194,891	1,194,891
Retroceded unearned premium provision						157,788	157,788	157,788
Deferred acquisition costs						54,224	54,224	54,224
Amounts due from companies on reinsurance contracts	*10*			325,495			325,495	325,495
Deposits retained by ceding companies	*12*			69,605			69,605	69,605
Accounts receivable				23,476			23,476	23,476
Current income tax asset	*13*							
Cash and cash equivalents	*6*			15,255			15,255	15,255
Total assets		**1,131,136**	**2,141,380**	**433,831**	**-**	**1,420,323**	**5,126,671**	**3,834,843**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

30. Categories of assets and liabilities

For the year ended 31 December 2021

	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
Assets								
Property, plant and equipment	*9*					769	769	
Financial assets	**7**	**1,039,766**	**2,044,290**				**3,084,056**	**1,950,123**
Listed bonds		490,077	522,581				1,012,658	25,571
Listed ordinary shares		146,846					146,846	
Money market funds		402,843					402,843	402,843
Fixed and current deposits			1,521,709				1,521,709	1,521,709
Technical assets under insurance contracts	**8**	**-**	**-**	**-**	**-**	**1,254,776**	**1,254,776**	**1,254,776**
Retroceded outstanding claims provision						1,087,150	1,087,150	1,087,150
Retroceded unearned premium provision						123,127	123,127	123,127
Deferred acquisition costs						44,499	44,499	44,499
Amounts due from companies on reinsurance contracts	*10*			219,192			219,192	219,192
Deposits retained by ceding companies	*12*			63,254			63,254	63,254
Accounts receivable				6,119			6,119	6,119
Current income tax asset	*13*							
Cash and cash equivalents	*6*			47,640			47,640	47,640
Total assets		**1,039,766**	**2,044,290**	**336,205**	**-**	**1,255,545**	**4,675,806**	**3,541,104**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

30. Categories of assets and liabilities

For the year ended 31 December 2022

	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
Liabilities								
Technical liabilities under insurance contracts	**8**					**1,759,828**	**1,759,828**	**908,375**
Gross outstanding claims provision						1,497,222	1,497,222	645,769
Gross unearned premium provision						220,431	220,431	220,431
Deferred retrocession commission income						42,175	42,175	42,175
Amounts due to companies on reinsurance accounts	*15*	-	-	-	31,595		31,595	31,595
Deposits due to retrocessionaires	*17*				2,064,153		2,064,153	2,064,153
Amount due to holding company					217,572		217,572	217,572
Other provisions and accruals	**16**	**-**	**-**	**-**	**14,520**	**1,982**	**16,502**	**16,502**
Creditors and accruals					14,520		14,520	14,520
Accrual for leave pay						1,982	1,982	1,982
Deferred tax liability	*14*					7,537	7,537	7,537
Total liabilities		**-**	**-**	**-**	**2,327,840**	**1,769,346**	**4,097,186**	**3,245,734**

Notes to the financial statements

for the year ended 31 December 2022 *(Continued)*

30. Categories of assets and liabilities

For the year ended 31 December 2021

	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
Liabilities								
Technical liabilities under insurance contracts	**8**					**1,586,782**	**1,586,782**	**1,245,630**
Gross outstanding claims provision						1,380,067	1,380,067	1,038,915
Gross unearned premium provision						169,775	169,775	169,775
Deferred retrocession commission income						36,940	36,940	36,940
Amounts due to companies on reinsurance accounts	*15*				55,516		55,516	55,516
Deposits due to retrocessionaires	*17*				1,865,551		1,865,551	1,865,551
Amount due to holding company					158,928		158,928	158,928
Other provisions and accruals	**16**				**12,388**	**2,903**	**15,291**	**15,291**
Creditors and accruals					12,388		12,388	12,388
Accrual for leave pay						2,903	2,903	2,903
Deferred tax liability	*14*					11,050	11,050	11,050
Total liabilities		**-**	**-**	**-**	**2,092,383**	**1,600,735**	**3,693,118**	**3,351,966**

Notes to the financial statements

for the year ended 31 December 2022

Detailed Income Statement	Notes	2022 R'000	2021 R'000
Revenue			
Change in gross unearned premium provision		(50,656)	(22,915)
Change in retroceded unearned premium provision		34,661	22,485
Gross written premiums		2,294,520	2,119,057
Interest income on investment		159,564	122,057
Net unrealised gain on investments		(16,869)	40,991
Retroceded written premiums		(1,673,507)	(1,534,405)
Total revenue		**747,713**	**747,270**
Other income			
Exchange gain/(loss) on investments		37,406	(361)
Other income		333	55
Total other income		**37,739**	**(306)**
Other expenses			
Change in gross provision for outstanding claims		(117,154)	21,492
Change in retroceded provision for outstanding claims		107,741	6,950
Depreciation		(554)	(656)
Gross claims paid		(1,397,612)	(1,317,267)
Investment management expenses		(5,047)	(4,684)
Management expenses		(152,153)	(134,595)
Net commission incurred		(195,979)	(178,382)
Retroceded claims received		1,053,465	971,888
Total other expenses		**(707,293)**	**(635,252)**
Profit from operating activities		**78,159**	**111,710**
Net realised gain on disposal of investments		**12,053**	**14,556**
Finance income			
Dividend income		5,994	6,336
Total finance income		**5,994**	**6,336**
Finance costs			
Interest expense		(32,856)	(25,904)
Total finance costs		**(32,856)**	**(25,904)**
Profit before tax		**63,350**	**106,698**
Income tax			
Current tax	*22*	(16,498)	(25,062)
Total income tax expense		**(16,498)**	**(25,062)**
Profit for the year		**46,852**	**81,636**

The supplementary information presented does not form part of the annual financial statements and is unaudited