Prepared by Glen Peters, B Compt. & Senganda K. Sudadi, CPA, MBA under the supervision of
Ibrahim Ibisomi, BSc (Hons) Econs., LL B (Hons), MBF, FCA Executive Director, Finance
These financial statements have been audited in compliance with section 30 of the
South African Companies Act 71 of 2008

African Reinsurance Corporation (South Africa) Limited
Tel: +27 11 484 3764 +27 11 484 1970 +27 11 484 1606
email: arcsa@africa-re.com ▪ www.africa-re.com

AFRICAN REINSURANCE CORPORATION SOUTH AFRICA ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

2018

ANNUAL REPORT & ACCOUNTS

Africa Re SA

Established Supportive Resilient
Promoting the growth of insurance in Africa

HEAD QUARTERS, LAGOS, NIGERIA
Plot 1679 Karimu Kotun Street,
Victoria Island P.M.B. 12765
Lagos, Nigeria

Tel: +234-1 461 6820/28
Fax: +234-1 280 0074
Email: info@africa-re.com

- 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

AFRICAN REINSURANCE CORPORATION - NETWORK IN AFRICA

Regional Offices

CASABLANCA
33 Boulevard Moulay Youssef,
Casablanca, Morocco
PO Box 7556, Casablanca, Morocco

Tel: +212-2 22 43 77 00
Fax: +212-2 22 43 77 29
Email: casablanca@africa-re.com

NAIROBI
Africa Re Centre,
Hospital Road, Upper Hill
PO Box 62328-00200,
Nairobi, Kenya

Tel: +254-20 2970000
Fax: +254-20 2970666/776
Email: nairobi@africa-re.com

ABIDJAN
Rue Viviane
A24 - Cocody Ambassades
20 BP 1623
Abidjan 20, Côte d'Ivoire

Tel: +225 22 40 44 80/1
Fax: +225 22 40 44 82
Email: abidjane@africa-re.com

WEST AFRICA REGIONAL OFFICE
Plot 1679 Karimu Kotun Street,
Victoria Island P.M.B. 12765
Lagos, Nigeria

Tel: +234-1 461 6820/28
Fax: +234-1 280 0074
Email: info@africa-re.com

CAIRO
7 ElKhalily Str, Plot No. 1149,
Masaken, Sheraton,
Helipolis, 11361, Cairo, Egypt

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

MAURITIUS
11th Floor, One Cybercity,
Ebène, Mauritius

Tel: +230 454 7074
Fax: +230 454 7067
Email: p.louis@africa-re.com

Subsidiaries

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

Tel: +27 11 484 3764/1970/1606
Email: arcsa@africa-re.com

AFRICA RETAKAFUL
7 ElKhalily Str, Plot No. 1149,
Masaken, Sheraton,
Helipolis, 11361, Cairo, Egypt

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

Local Office

ADDIS ABABA LOCAL OFFICE
Garad Mall, 6th Floor,
Suite Number 432, Debrezeit Road,
Beklobet, Kirkos Sub City, Kebele 05
PO Box 1055, Addis Ababa, Ethiopia

Tel: +251 11 416 5803/4
Fax: +251 922122473
Email: addisababa@africa-re.com

African Reinsurance Corporation (South Africa) Limited
Annual Report

for the year ended 31 December 2018
Audited

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

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

Annual report

for the year ended 31 December 2018

Contents **Page**

Declaration by Company Secretary

In my capacity as Company Secretary, I hereby confirm and certify, in terms of the Companies Act, 2008, as amended, that for the year ended 31 December 2018, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

Ibrahim Ibisomi
Company Secretary
20 March 2019

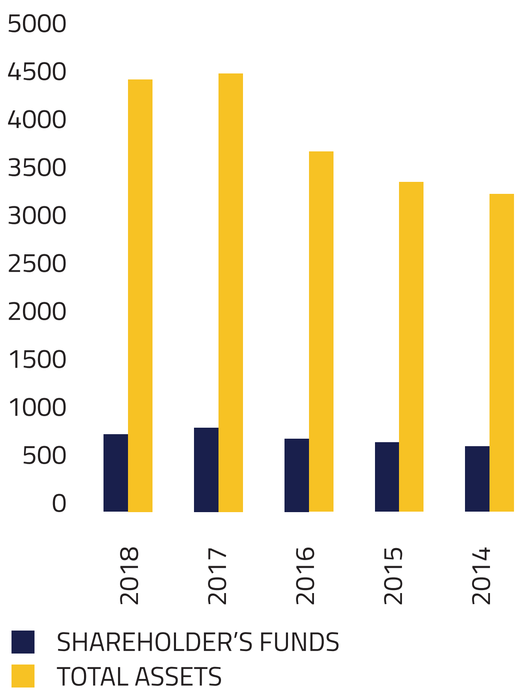
Financial highlights

for the year ended 31 December 2018

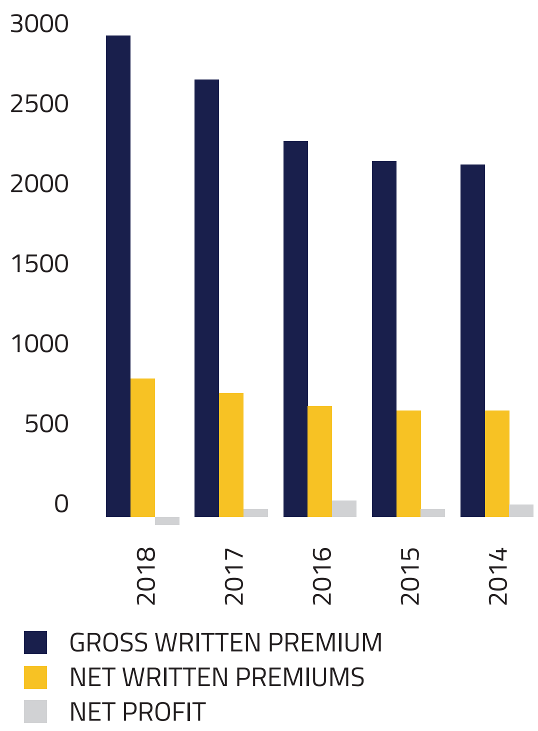
In R'000	2018	2017	2016	2015	2014
RESULTS					
GROSS WRITTEN PREMIUMS	**2 933 664**	2 663 428	2 277 434	2 163 137	2 146 143
NET WRITTEN PREMIUMS	**839 567**	753 353	661 428	626 491	622 780
NET EARNED PREMIUMS	**838 736**	745 667	651 365	628 034	630 232
NET (LOSS)/PROFIT	**(28 873)**	26 426	82 950	34 607	76 604
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	**736 913**	766 786	739 360	656 410	621 803
TOTAL ASSETS	**4 368 594**	4 474 577	3 606 274	3 347 577	3 223 906
INTERNATIONAL SOLVENCY MARGIN[N1]	**88%**	102%	112%	105%	100%

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

FINANCIAL POSITION 2014 - 2018
In Rand' Million



RESULTS 2014 - 2018
In Rand' Million



Chairman and executive management statement

for the year ended 31 December 2018

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" or "Africa Re (SA)") for the year ended 31 December 2018. The year 2018 marked the concluding year of the Company's current five-year strategic plan 2014 – 2018. The year also marked the second of the implementation of a three-year Turnaround Strategic Plan put in place in 2017 to arrest the deteriorating underwriting performance of the Company. On the external front, the implementation of the new insurance regulatory framework in South Africa was concluded with the commencement of the Insurance Act during 2018. These made the year another remarkable one for the Company that would also represent a definite precursor of a new future for the Company.

The year 2018 observed escalated trade tensions between the United States of America and China which continued all through the year. Crude oil prices have been volatile since August, reflecting supply influences, including US policy on Iranian oil exports and, more recently, fears of softening global demand. Financial conditions tightened sparking further deterioration in risk sentiment with adverse growth implications, especially given the high levels of public and private debt. A "no-deal" withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China were other political events that resulted in weakening financial market sentiment, trade policy uncertainty, and concerns about China's outlook 2018. The above-mentioned global concerns are expected to continue and could severely disrupt economic activity and according to the United Nations they may continue to inflict significant damage on the longer-term development prospects.

South Africa is still the main operating market for the Company and it thus contributed to most factors that influenced the business during the year 2018. The Insurance Act came into law which provided a legal framework for the prudential supervision of the insurance sector. The year saw the change in the regulatory environment where the Financial Sector Conduct Authority (FSCA) replaced Financial Services Board (FSB) while the banking supervision department under the South African Reserve Bank (SARB) became the Prudential Authority (PA) taking charge of the safety and soundness of banks, insurers and other financial institutions

Gross written premium for the year under review was R2,933 million compared to R2,633 million recorded in 2017, representing a growth of R300 million (11%). Similarly, the Company recorded a R86 million (or 11%) increase in its net written premium, from R753 million in 2017 to R839 million in 2018. The Company has thus sustained its premium growth trajectory with the gross and net written premiums of 2018 higher than the previous record levels attained in 2017.

In South Africa, 2018 was a fairly benign year from a large loss and catastrophe loss perspective, however, attritional losses creep from the 2017 catastrophe losses saw the company's net incurred claims amounting to R540 million recorded in 2018 decreasing from R645 million in 2017. 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.

Both gross and net commission expenses increased by 34% and 47%, respectively, largely due to additional commission applicable to Solvency Relief contract business. Gross and net commission expenses amounted to R1,008 million (2017: R752 million) and R237 million (2017: R162 million), respectively.

There was no change in the rate of overriding commission received from the retrocessionaire compared to the preceding year.

Management expenses, as in the previous year, increased by 6% from the R108 million incurred in 2017 to R114 million in the year under review, which was mainly due to inflation and planned investment in additional human and material resources to support growth, improve client service and meet the increasing regulatory compliance obligations.

Net investment income significantly plummeted by 93% from R 187 Million to R 14 Million. The 2018 performance of South African Stocks is considered the worst in a decade. The FTSE/JSE Africa All Share Index ended the year down 11 percent, its worst performance since 2008. Concerns about political dysfunction, monetary policy, inflation fears, signs of a global economic slowdown and worries about increased regulation resulted in high volatility of stock prices. The aforementioned resulted in the Company registering an unrealised loss on investments amounting to R159 Million while the company had recorded net unrealised gains on investments amounting to R 55 Million.

Chairman executive management statement

for the year ended 31 December 2018 *(Continued)*

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

The Company registered a Loss before tax for the year under review of R39 million compared to a Profit before tax of R18 million recorded in 2017. Accrued income tax credit recorded in the statement of comprehensive income for the period was R10.million (2017: R8 million) resulting in an after-tax loss of R29 million compared to the profit after tax of R26 million recorded in 2017. The Board views this significant reduction in net profit after tax with all seriousness and concern. Concerted efforts continue to ensure that the Company achieves a significant and positive underwriting performance within the next three years.

The new dawn of a principles-based and Solvency II equivalent regulatory environment in South Africa after a nine-year development process, was finally operationalised fully with the new Insurance Act 2017 becoming effective on 1 July 2018. This closely followed the constitution and commencement of the two new regulatory bodies (the Prudential Authority and the Financial Sector Conduct Authority) on 1 April 2018. Africa Re SA participated fully in all the developing and implementing measures of this new regime since the Solvency Assessment and Management (SAM) project that gave birth to this new regulatory framework started in 2009. The Company was therefore able to successfully transit into the new regime. As previously reported, all of the efforts, investments and commitment into the SAM project have been borne out of the Company's early identification with the rationale and potential benefits of a principles-based regulatory framework, despite its substantial costs. As has become tradition for the Company, the Board will continue to ensure full compliance with the new regime, given its potency to strengthen the industry to the benefit of policyholders and the entire economy.

The Company undertook its first stand-alone rating exercise by Standard & Poor's back in 2014 and achieved a rating of A- (Excellent) with a stable outlook. This we noted then as a watershed development and a reaffirmation of the Company's strength and the reliability of its security offering. The challenge lies in sustaining this high rating. The Board is thus pleased to report that, for the fifth consecutive year, this rating has been reaffirmed albeit on the back of the Parental Guarantee issued by the Africa Re Group to offset the adverse impact of the sovereign rating downgrade suffered by South Africa in 2017. Still, the reaffirmation of 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 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 of 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.

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

The Directors who served during the year were:

B H Kamara	-	(Non-executive Chairman)
C Karekezi	-	(Non-executive Deputy Chairman)
A F W Peters	-	(Lead Independent Director) (Retired 16 August 2018)
E N Amadiume	-	(IndependentNon-executive Director)
P Pettersen	-	(Independent,Non-executive Director)
H M Kumsa	-	(Independent, Non-executive Director)
S Mzimela	-	(Independent, Non-executive Director) (Appointed 16 August 2018)
F B S M Fléjou	-	(Independent, Non-executive Director)
A N Tennick	-	(Managing Director) (Appointed 2 April 2018)
S I Diomande	-	(Deputy Managing Director)
I A Ibisomi	-	(Executive Director)

Chairman executive management statement

for the year ended 31 December 2018 *(Continued)*

The Audit Committee met three times during the course of the 2018 financial year – twice under the chairmanship of A F W Peters (who retired during the year) and once under his successor F B S M Fléjou. The Committee's report is separately included elsewhere in these financial statements just as is the report of the Social and Ethics Committee under the leadership of S Mzimela. The Board's other committees are: Remuneration and Human Resources Committee under the chairmanship of C Karekezi, Risk and Underwriting Committee under the chairmanship of P Pettersen, Nominations and Governance Committee under the chairmanship of B H Kamara as well as Finance and Investment Committee under the chairmanship of C Karekezi. The Board is satisfied with the performance of all the Committees and believes that their work has greatly strengthened the effectiveness of its oversight responsibilities.

The Company recorded a key change in its Management during the year under review. The Board approved the appointment of Mr. Andy Tennick as Managing Director, to fill the vacancy created by the resignation of his predecessor. The Board welcomes Mr. Tennick and expresses its confidence in the ability of the new management team under his leadership to steer the affairs of the Company on the path of profitability and sustainable growth.

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

Corporate Social Responsibility remains a key priority for the Company. During the year, Africa Re (SA) continued its support to its adopted school, contributed bursary funds to facilitate the education of certain disadvantaged learners and provided funds for the promotion and development of education and training through the Liberty Life JSE Investment Challenge. The Company also seeks 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 and every staff member contributes meaningfully towards the development of Africa Re (SA). The Company in turn provides support to the professional and personal self-development initiatives of staff through which employees continue to record progress in their academic and professional pursuits. We will continue to develop a conducive and supportive environment where each employee is able to reach their full potential and to share in the success of our business.

In this regard, Africa Re (SA) will continue to strive to attract, develop and retain the very best talent, focussing 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.

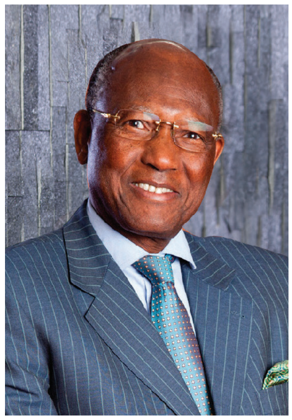
In concluding, the Board acknowledges that 2018 was a unique year for the Company, during which it recorded the worst performance to date. It has therefore focused all energy and resources into the implementation of a comprehensive turnaround strategy aimed at repositioning the Company for an improved and sustainable performance in the medium term, underpinned by pristine underwriting practices, operational efficiency and service excellence. The positive impact of this strategy is expected to begin to manifest from 2019.

Bakary H Kamara
Chairman

Andy Tennick
Managing Director

Board of Directors, Executive Management

A Tennick
Managing Director



Bakary H Kamara
Non-executive Chairman

Corneille Karekezi
Non-executive
Deputy Chairman

Sory Diomande
Deputy Managing Director

Frederic Fléjou
Independent,
Non-executive Director

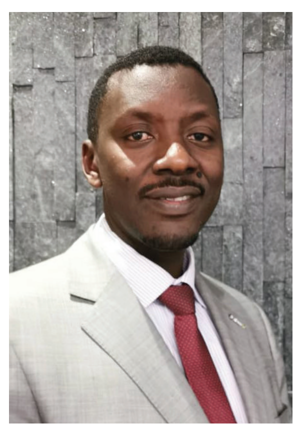
Siza Mzimela
Independent,
Non-executive Director

Phillip Pettersen
Independent,
Non-executive Director

Ibrahim A Ibisomi
Executive Director

Halle M Kumsa
Independent,
Non-executive Director

Elizabeth N Amadiume
Non-executive Director



Sudadi Senganda
General Manager, Finance
& Administration

Directors' responsibility statements

for the year ended 31 December 2018

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

The directors are responsible for the preparation and fair presentation of the annual financial statements, comprising the statement of financial position at 31 December 2018, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

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

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

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

Approval of annual financial statements

The annual financial statements of African Reinsurance Corporation (South Africa) Limited, as identified in the first paragraph above, were approved by the board of directors on 20 March 2019 and signed on their behalf by:

Bakary H Kamara
Chairman
Authorised Director

Andy Tennick
Managing Director
Authorised Director

Report by the Audit Committee

for the year ended 31 December 2018

The Audit Committee is pleased to present this report on its activities for 2018 to the Board and to the Shareholder. The Audit Committee discharged its responsibilities unhindered during the year and was able to confirm the effectiveness and adequacy of the Company's system of financial accounting, internal controls, statutory and regulatory compliance, and financial reporting. The Committee is also satisfied with the continued progress made during the year to formalize and enhance the system of internal controls, especially the formal signatures evidencing the effective operation of controls by the control owners. The Committee reviewed reports presented by Management as well as by the internal and external audit functions and was satisfied with explanations provided on its observations.

The Audit Committee met thrice during the year with all members in attendance at all the meetings. Apart from its members, the Committee's meetings are also regularly attended on its invitation by members of Executive Management, the heads of actuarial, risk management and compliance functions as well as by internal and external audit personnel. The internal auditors conducted their routine annual audit during the year and their report was well received to the Committee's satisfaction. As expected the 2018 internal audit report included a disposition of all the previous internal audit issues raised. The Committee monitored to its satisfaction the internal auditor's implementation of the approved three-year audit plan. The internal and external audit personnel have unrestricted access to the Committee and to its chairperson.

During the year, following Board decision on the periodic rotation of the external auditors, Messrs. KPMG Inc. who have served as the Company's auditors since 2004, retired from office. The Committee conveyed its appreciation for the valued services rendered by the firm over the years. Following a tender process, Messrs. Deloitte SA were appointed the new external auditors with effect from the audit of the 2018 financial year. 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 and the recommendations contained in their management letter.
During the year, the Committee bade farewell to its pioneer Chairman, Allan F W Peters, who retired from the Board of Directors after fourteen years. Allan was instrumental to development of the Committee into a functional and effective governance and control instrument as envisaged under appropriate legislation and best practice standards. The Committee would like to thank Allan for his meritorious service over the years and wishes him a healthy and restful life in retirement.

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

- A F W Peters
  Independent non-executive Director
  (Chairman – retired 16 August 2018)
- F B S M Fléjou
  Independent non-executive Director
  (Chairman – appointed 16 August 2018)
- E N Amadiume
  Independent non-executive Director (Member)
- P Pettersen
  Independent non-executive Director (Member)
- H M Kumsa
  Independent non-executive Director (Member)
- S Mzimela
  Independent non-executive Director (Member)

Members of the Committee are satisfied with the processes followed, resources in place and assurances obtained in relation to the financial management of the Company; we believe that the accounting practices are effective and would therefore recommend the approval of these audited financial statements for the year ended 31 December 2018.

For and on behalf of the Audit Committee:

F. Flej.

F. B. S. M. Fléjou
Chairman
20 March 2019

Report by the Social and Ethics Committee

for the year ended 31 December 2018

The Social and Ethics Committee is pleased to present this report on its activities for 2018 to the Board and to the Shareholder. Although the Social and Ethics Committee is a creation of the Companies Act 2008 and the King III Report, the Company as a member of the Africa Re Group has always voluntarily subscribed to the highest levels of ethics and substantial social responsibility. The continued implementation of the statutory requirements has therefore not posed any difficulty for the Company.

The Committee operates under a Charter that complies with the Companies Act and King III requirements, that is approved by the Board of Directors and that is reviewed annually. Efforts are in progress to upgrade compliance to King IV level. Copies of the Charter are available on request from the Company Secretary. The key responsibilities of the Committee, which are amplified in the 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
- Empowerment and transformation
- Environment, health and public safety
- Sustainability, social and economic development
- Regulatory and statutory compliance.

The Social and Ethics Committee discharged its responsibilities unhindered during the year. The Committee reaffirmed its purpose and the continued relevance of its Charter. It updated its workplan and reconfirmed the existing structures and documents relevant to its work, while also promoting the Company's social responsibility initiatives. Following the admission of ethical infractions on the part of the parent firm of the Company's first fraud line service provider, the Committee oversaw the replacement of that service provider with a more independent company during the year. The Committee then drove the drafting and Board approval of a formal Whistleblowing Policy during the year, the implementation of which has elicited the first whistleblowing activity subsequent to year-end.

The Committee again oversaw the holding of the annual Wellness Day for employees during the year. The Company enhanced its support for its 'adopted' primary school through the donation of essential reading materials and furniture to the school library, supplemented by joint donations from a more resourced school in the Company's neighbourhood and from the furniture supplier. The Company gratefully received a formal presentation from the Department of Trade & Industry on the new Financial Sector Charter during the year, which provided new impetus to the Company in the areas of transformation and BBBEE compliance. A new effort to achieve BBBEE compliance will be completed for 2019.

The Committee continued to play its role in the Company's adherence to sound ethics, improved communication and policy framework on health and safety matters for staff, and sustained employee assistance initiative to provide professional support to employees and their families. The Committee actively encourages gender equality and drives initiatives aimed at combating unfair discrimination and reducing corruption. Happily, no negative incidences came to the Committee's attention during the year.

The Social and Ethics Committee met three times during the year with all members in attendance. The Committee welcomed the addition of the new Managing Director to its membership. Apart from its members, the Committee's meetings are attended by other personnel on the invitation of the Committee, who may be required to assist the Committee in its work. The members of staff of the Company have unrestricted access to the Committee and to its chairperson.

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

- Sizakele Mzimela
  Independent non-executive Director (Chairperson)
- Phillip Pettersen
  Independent non-executive Director (Member)
- Andy Tennick
  Managing Director – appointed 16 August 2018
- Sory Diomande
  Deputy Managing Director – retired from the Committee on 16 August 2018
- Ibrahim Ibisomi
  Executive Director (Member)
- Sarah Matlabe
  Claims Officer (Member)
- Ncumisa Sinyanya
  Human Resources & Compliance Officer

Report by the Social and Ethics Committee

for the year ended 31 December 2018 *(Continued)*

Members of the Committee are satisfied with the Company's continued implementation of processes, resources, activities and assurances in relation to the 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 2018. The Committee will continue to fulfil its role in guiding the Company on social and ethical matters in accordance with its statutory mandate and international best practice.

For and on behalf of the Social and Ethics Committee:

Sizakele Mzimela
Chairperson
20 March 2019

Directors' report

for the year ended 31 December 2018

The Directors are pleased to present the directors' report of the Company for the year ended 31 December 2018.

Business

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

Share capital

The issued and fully-paid share capital of the Company including share premium is R80.3 million (2017 : 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 2018 amounts to R736.9 million (2017: R765.8 million). Net technical liabilities under insurance contracts at 31 December 2018 amount to R412.6 million (2017: R472.6 million).

Statement of comprehensive income

Total profit and comprehensive income for the year is a net loss of R28.9 million (2017: net profit of R26.0 million). The results for the year are presented in the accompanying statement of comprehensive income and notes to the accounts and require no further amplification.

Holding company

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

Dividend

The Directors did not declare or pay a dividend during the year (2017: Nil).

The Directors who served the Company during the year were:

- Bakary H Kamara
  Non-executive Chairman (Mauritanian)
- Corneille Karekezi
  Non-executive Deputy Chairman (Rwandese)
- Allan F W Peters
  Independent non-executive Director (British) (retired 16 August 2018)
- Elizabeth Amadiume
  Non-executive Director (Nigerian)
- Phillip Pettersen
  Independent non-executive Director
- Haile M Kumsa
  Independent non-executive Director (Ethiopian)
- Sizakele Mzimela
  Independent non-executive Director
- Frédéric B S M Fléjou
  Independent non-executive Director (French) (appointed 16 August 2018)
- Andy N Tennick
  Managing Director (appointed 2 April 2018)
- Sory Diomande
  Deputy Managing Director (Ivorian)
- Ibrahim Ibisomi
  Executive Director (Nigerian)

Company Secretary

Ibrahim Ibisomi
Africa Re Place, 10 Sherborne Road, Parktown, 2193
PO Box 3013, Houghton, 2041

Auditor

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

By order of the Board

Ibrahim Ibisomi
Company Secretary
20 March 2019

Independent auditor's report

To the Shareholders 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 14 to 52, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation (SA) Limited as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for Opinion

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

Other Information

The directors are responsible for the other information. The other information comprises Statement of Directors' Responsibility and Approval and the Directors' Report as required by the Companies Act of South Africa.

The other information does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Independent auditor's report

(Continued)

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.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

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

Deloitte & Touche

Deloitte & Touche
Harshal Kana
Partner
03 June 2019

Statement of financial position

for the year ended 31 December 2018

	Note	2018 R'000	2017 R'000
Assets			
Equipment	*6*	2 717	3 121
Intangible assets	*7*		
Financial assets	*8*	2 408 616	2 590 521
- Held-to-maturity instruments at amortised cost		1 536 380	1 135 296
- Instruments at fair value through profit or loss		872 236	1 455 225
Technical assets under insurance contracts	*9*	1 293 262	1 270 117
- Retroceded outstanding claims reserve		1 104 296	1 069 950
- Retroceded unearned premium reserves		135 154	150 675
- Gross deferred acquisition costs		53 812	49 492
Amounts due from companies on reinsurance accounts	*10*	608 599	535 723
Deposits retained by ceding companies	*11*	8 432	7 844
Accounts receivable		3 397	5 230
Current income tax asset	*18*	36 587	13 762
Cash and cash equivalents	*12*	6 984	48 259
Total assets		4 368 594	4 474 577
Equity			
Share capital and share premium	*13*	80 300	80 300
Contingency reserve		51 702	51 702
Retained earnings		604 911	633 785
Total equity attributable to equity holders of the company		736 913	765 787
Liabilities			
Technical liabilities under insurance contracts	*9*	1 705 813	1 742 721
- Gross outstanding claims reserve		1 465 121	1 488 963
- Gross unearned premium reserve		199 174	213 864
- Deferred retrocession commission revenue		41 518	39 894
Amounts due to companies on reinsurance accounts	*14*	108 277	47 811
Deposits due to retrocessionaire	*15*	1 729 481	1 661 660
Amount due to holding company		57 545	214 469
Other provisions and accruals	*16*	27 420	23 663
Deferred tax liability	*17*	3 145	18 466
Total liabilities		3 631 681	3 708 790
Total equity and liabilities		4 368 594	4 474 577

Statement of comprehensive income

for the year ended 31 December 2018

	Note	2018 R'000	2017 R'000
Gross written premiums		**2 933 664**	**2 633 428**
Retroceded written premiums		**(2 094 097)**	**(1 880 075)**
Net written premiums		**839 567**	**753 253**
Change in gross unearned premium provision		**14 691**	**(28 855)**
Change in retroceded unearned premium provision		**(15 522)**	**21 069**
Net earned premiums		**838 736**	**745 667**
Net investment income		**14 194**	**187 282**
Dividend income		**22 889**	**32 987**
Interest income on investment		**140 139**	**138 975**
Interest expense		**(38 865)**	**(45 544)**
Net realised gain on disposal of investments		**50 475**	**11 480**
Net unrealised gain/(loss) on investments		**(159 652)**	**55 268**
Exchange gain on investment		**5 718**	
Investment management expenses		**(6 510)**	**(5 884)**
Other income		**-**	**36**
Total net income		**852 930**	**932 985**
Gross claims paid		**2 229 958**	**1 887 128**
Retroceded claims received		**(1 631 169)**	**(1 362 424)**
Change in gross provision for outstanding claims		**(23 842)**	**435 508**
Change in retroceded provision for outstanding claims		**(34 345)**	**(314 605)**
Net incurred claims		**540 602**	**645 607**
Net commission incurred	*19*	**237 592**	**161 630**
Management expenses		**114 234**	**107 589**
Total technical expenses		**892 428**	**914 826**
Net profit before taxation	*20*	**(39 498)**	**18 159**
Taxation	*21*	**10 625**	**8 266**
Total (loss)/profit and comprehensive income for the year		**(28 873)**	**26 425**

Statement of changes in equity

for the year ended 31 December 2018

	Share capital and share premium	Contingency reserve	Retained earnings	Total
	R'000	**R'000**	**R'000**	**R'000**
Balance as at 1 January 2017	80 300	51 702	607 358	739 360
Comprehensive income for the year			26 426	26 426
Balance as at 31 December 2017	**80 300**	**51 702**	**633 784**	**765 786**
				-
Comprehensive income for the year		-	**(28 873)**	**(28 873)**
Balance as at 31 December 2018	**80 300**	**51 702**	**604 911**	**736 913**

Statement of cash flows

for the year ended 31 December 2018

	Note	2018 R'000	2017 R'000
Cash flows from operating activities			
Cash generated by operations	25	**(209 278)**	46 664
Interest paid		**(38 866)**	(45 544)
Taxation paid	25	**(27 521)**	
Net cash inflow from operating activities		**(275 665)**	1120
Cash flows from investment activities			
Net purchases and disposals of equipment and intangible assets		**(574)**	(1 135)
Net purchases and disposals of investments		**61 842**	(114 479)
Interest received net of investment management fees		**150 232**	128 676
Dividends received		**22 890**	32 987
Net cash inflow/(outflow) from investment activities		**234 390**	46 049
Net increase (decrease) in cash and cash equivalents		**(41 275)**	47 169
Cash and cash equivalents at the beginning of the year		**48 259**	1 090
Cash and cash equivalents at the end of the year		**6 984**	48 259

Categories of assets and liabilities

for the year ended 31 December 2018

	Notes	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
R'000								
December 2018								
Assets								
Equipment	*6*					2 717	2 717	
Intangible assets	*7*					0	0	
Financial assets	*8*	**872 236**	**1 536 380**				**2 408 616**	**1 665 720**
Listed bonds		322 998	405 540				728 538	121 667
Listed ordinaryshares		136 025					136 025	
Money market funds		413 213					413 213	413 213
Fixed and current deposits			1 130 840				1 130 840	1 130 840
Technical assets under insurance contracts	*9*	-	-	-	-	**1 293 262**	**1 293 262**	**984 059**
Retroceded outstanding claims provision						1 104 296	1 104 296	795 093
Retroceded unearned premium provision						135 154	135 154	135 154
Deferred acquisition costs						53 812	53 812	53 812
Amounts due from companies on reinsurance contracts	*10*			608 599			608 599	608 599
Deposits retained by ceding companies	*11*			8 432			8 432	8 432
Accounts receivable				3 397			3 397	3 397
Current income tax asset	*18*					36 587	36 587	36 587
Cash and cash equivalents	*12*			6 984			6 984	6 984
Total assets		**872 236**	**1 536 380**	**627 412**	**-**	**1 332 566**	**4 368 594**	**3 313 778**

Categories of assets and liabilities

for the year ended 31 December 2018 *(Continued)*

	Notes	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
R'000								
December 2018								
Liabilities								
Technical liabilities under insurance contracts	*9*					**1 705 813**	**1 705 813**	**1 295 579**
Gross outstanding claims provision						1 465 121	1 465 121	1 054 887
Gross unearned premium provision						199 174	199 174	199 174
Deferred retrocession commission income						41 518	41 518	41 518
Amounts due to companies on reinsurance accounts	*14*	-	-	-	108 277		108 277	108 277
Deposits due to retrocessionaires	*15*				1 729 481		1 729 481	1 729 481
Amount due to holding company					57 545		57 545	57 545
Other provisions and accruals	*16*	**-**	**-**	**-**	**23 696**	**3 724**	**27 420**	**27 420**
Creditors and accruals					23 696		23 696	23 696
Accrual for leave pay						3 724	3 724	3 724
Deferred tax liability						3 145	3 145	3 145
Total liabilities		**-**	**-**	**-**	**1 918 999**	**1 712 682**	**3 631 681**	**3 221 447**

Categories of assets and liabilities

for the year ended 31 December 2018 *(Continued)*

	Notes	Designated upon initial recognition at fair value through profit or loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
R'000								
December 2017								
Assets								
Equipment	*6*					3 121	3 121	
Intangible assets						-	-	
Financial assets	*8*	**1 455 225**	**1 135 296**				**2 590 521**	**1 381 986**
Listed bonds		586 451	138 289				724 740	121 100
Listed ordinary shares		604 895					604 895	
Money market funds		263 879					263 879	263 879
Fixed and call deposits			997 007				997 007	997 007
Technical assets under insurance contracts	*9*					**1 270 117**	**1 270 117**	**970 696**
Retroceded outstanding claims provision						1 069 950	1 069 950	770 528
Retroceded unearned premium provision						150 675	150 675	150 675
Deferred acquisition costs						49 492	49 492	49 492
Amounts due from companies on reinsurance accounts	*10*			535 723			535 723	535 723
Deposits retained by ceding companies	*11*			7 844			7 844	7 844
Accounts receivable				5 230			5 230	5 230
Current income tax asset	*18*					13 762	13 762	13 762
Cash and cash equivalents	*12*			48 259			48 259	48 259
Total assets		**1 455 225**	**1 135 296**	**597 056**		**1 287 000**	**4 474 577**	**2 963 500**

Categories of assets and liabilities

for the year ended 31 December 2018 *(Continued)*

	Notes	Designated upon initial recognition at fair value through profit or loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
R'000								
December 2017								
Liabilities								
Technical liabilities under insurance contracts	*9*					**1 742 721**	**1 742 721**	**1 323 921**
Gross outstanding claims provision						1 488 963	1 488 963	1 070 163
Gross unearned premium provision						213 864	213 864	213 864
Deferred retrocession commission income						39 894	39 894	39 894
Amounts due to companies on reinsurance accounts	*14*				47 811		47 811	47 811
Deposits due to retrocessionaire	*15*				1 661 660		1 661 660	1 661 660
Amount due to holding company					214 470		214 470	214 470
Other provisions and accruals	*16*				20 195	3 468	23 663	23 663
Creditors and accruals					20 195		20 195	20 195
Accrual for leave pay						3 468	3 468	3 468
Deferred tax liability	*17*					18 466	18 466	
Total liabilities					**1 944 136**	**1 764 655**	**3 708 791**	**3 271 525**

Notes to the financial statements

for the year ended 31 December 2018

1. General information

African Reinsurance Corporation (South Africa) Limited ("Africa Re (SA)", "ARCSA" 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 continent.

The Company is domiciled in Johannesburg, The Republic of South Africa at the following address:

Africa Re Place
10 Sherborne Rd.
Parktown, Johannesburg, 2193

The financial statements were authorised for issue by the directors on 20 March 2019.

2. Accounting policies

(a) Statement of compliance

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

(b) Basis for preparation

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

The preparation of financial statements in conformity with IFRSs requires management to make 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 2018 *(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 treaty business and the 365 days basis for facultative business. Where the nature of the underlying business and risk does not justify the use of the above methods, the unearned premium provision is calculated on bases relevant to the risk profile of the specific insurance contract.

Claims arising from insurance contracts

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

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

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

Notes to the financial statements

for the year ended 31 December 2018 *(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 costs of acquiring new and renewed insurance business that is primarily related to the production of that business are deferred.

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

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

Commission income

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

Notes to the financial statements

for the year ended 31 December 2018 *(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). Contingency reserve remains unrequired under the new Insurance Act, 2017 that became effective in July 2018.

(g) Operating lease payment

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases.

The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This asset or liability is not discounted. Any contingent rents are expensed in the period they are incurred.

(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 are recognised in the period in which the service is rendered and are not discounted.

(j) Foreign currency transactions

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

(k) Equipment

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

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

2. Accounting policies *(continued)*

(k) Equipment *(continued)*

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

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

(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:

- Financial instruments at fair value through profit or loss are financial assets which on initial recognition are designated by the Company as being at fair value through profit or loss.
- Held-to-maturity instruments are financial assets which on initial recognition are recognised by the Company as held-to-maturity instruments and initially valued at fair value and subsequently at amortised cost.

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

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

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

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

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.

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

2. Accounting policies *(continued)*

(m) Financial Instruments *(continued)*

Other receivables

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

Trade and other payables

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

Deposits retained on reinsurance ceded

Deposits retained on reinsurance ceded are stated at amortised cost.

Cash and cash equivalents

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

n) Impairment of non-financial assets

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

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

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

Impairment of financial assets

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

A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that such loss event (or events) has (or have) an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or a delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the recognition of those assets, although the decrease may not be identified with the individual financial assets in the Company. This may include adverse changes in the payment status of issuers or debtors in the Company, or national or local economic conditions that correlate with defaults on the assets of the Company.

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.

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

2. Accounting policies *(continued)*

(n) Impairment of non-financial assets *(continued)*

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 2018, 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 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.

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

2. Accounting policies *(continued)*

(r) Standards and interpretations issued not effective *(continued)*

- 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, as allowed by the standard, 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.

The impact of the implementation of IFRS 9 on the Company has not been determined, except for an increase in disclosure.

IFRS 16 Leases

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 leases 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 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors.

IFRS 17 Insurance Contracts

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

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

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

The standard is effective for annual periods beginning on or after 1 January 2021 and has to be applied retrospectively. The Company will work with its parent Group and its external advisors to ensure a successful implementation of this standard by the time it takes effect.

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2018 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.

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

4. Accounting estimates and judgements *(continued)*

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

Classification of insurance contracts

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

Policyholder claims for insurance contracts

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

A sensitivity analysis was performed on these estimates and a 5% increase in both premium income and claims incurred would result in an increase to profit before tax of R17.5 million (2017 : R4.1million) and an increase to equity of R12.6 million (2017 : R2.9million).

5. Risk management of insurance contracts and financial instruments

5.1 Insurance contracts

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

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

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

5.2 Insurance risk management objectives and policies for mitigating risks

(a) Introduction

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

b) Premium pricing adequacy risk

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

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

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

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

b) Premium pricing adequacy risk *(continued)*

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

Africa Re (SA) makes underwriting decisions in accordance with the 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 Risk & Underwriting Committee.

(c) Event exposure and concentration risk

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

The Group underwriting guidelines set the criteria for assessing insurance risk and exposure limits for single and portfolio risks before acceptance. In order to further minimise the insurance exposure risk to the Company's net results, Africa Re (SA) has retrocession arrangements with its holding Company, which provide protection on a proportional and non-proportional basis. This is then further protected under the Group's retrocession programme, which is largely placed into the international and Lloyd's markets.

(d) Claims development or reserving risk

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

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

The Company has performed a sensitivity analysis of a change in the estimated unreported losses by applying a further 10% to the estimate and the effect on the profit before tax is R10.3 million (2017: R8.9 million), while the effect on Equity is R7.4 million (2017: R6.4 million).

(e) Reinsurance risk

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

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

Notes to the financial statements

for the year ended 31 December 2018 *(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.

(b) Market risk

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

(i) Currency exchange risk

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

(ii) Interest rate risk

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

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

(iii) Equity price risk

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

Africa Re (SA) conducts a sensitivity analysis on the effect of changes in market prices of its equity investment to determine the maximum risk it can tolerate without adversely affecting its operating performance and financial position, and this, together with the investment guidelines determine the proportion of funds to be invested in equity instruments. The Company does not make use of financial instruments to manage this risk, but has engaged the services of investment managers with a mandate to actively trade in the marketable equity investments partly to minimise risk. The Company's maximum exposure to equity market price risk is limited to investments held in those marketable securities, 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 2018 *(Continued)*

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

5.3 Financial risk management objectives and policies for mitigating risks *(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 R13.6 million (2017: R60.5 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 2018 are presented in the table below:

Asset class	Cost R'm	Market Value R'm	Risk factor	% change	Impact on equity * R'm	Impact on profit or loss R'm
December 2018						
Equity	132,8	136,0	Market price	10%	9,8	13,6
Bonds at fair value	319,0	323,0	Interest rate movement	5%	11,6	16,1
Bonds at amortised cost	405,5	405,5	Interest rate movement	5%	14,6	20,3
Money market unit trusts	413,2	413,2	Market price	5%	14,9	20,7
Fixed deposit	1 130,8	1 130,8	Interest rate movement	5%	40,7	56,5

December 2017						
Equity	436,0	604,9	Market price	10%	43,6	60,5
Bonds at fair value	573,2	586,5	Interest rate movement	5%	21,1	29,3
Bonds at amortised cost	138,3	138,3	Interest rate movement	5%	5,0	6,9
Money market unit trusts	263,9	263,9	Market price	5%	9,5	13,2
Fixed deposit	997,0	997,0	Interest rate movement	5%	35,9	49,9

** 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 R40.76 million (2017: R35.9 million) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R56.5million (2017: R49.9 million).

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

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

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

(c) Credit risk

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

- retrocessionaire's share of insurance liabilities;
- balances 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 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 at the end of the year, is presented in the table on the page below.

December 2018	AAA to AA R'm	A+ to A R'm	BBB+ to BBB- R'm	Not indicated R'm	**Total R'm**
Financial Assets			1 223	1 050	2 273
Insurance receivables				609	609
Insurance deposits				8	8
Accounts receivable				3	3
Cash and Cash equivalents		7			7
Total	**-**	**7**	**1 223**	**1 670**	**2 900**
December 2017					
Financial Assets	23	215	1 584	164	1 986
Insurance receivables				536	536
Insurance deposits				8	8
Accounts receivable				5	5
Cash & Cash equivalents		48			48
Total	**23**	**263**	**1 584**	**713**	**2 583**

Aging analysis of insurance receivables

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

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

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

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

(d) Liquidity risk

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

Maturity profile of financial and insurance assets and liabilities

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

December 2018	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	7					7
Fixed and call deposit		1 131				1 131
Money market funds	413					413
Debt securities		309	91	191	138	729
Equities	136					136
Insurance contracts assets		922	240	56	75	1 293
Amounts due from companies on reinsurance accounts		609				609
Deposits retained by ceding companies		8				8
Accounts receivable		3				3
Total financial and insurance assets	**556**	**2 982**	**331**	**247**	**213**	**4 329**
Liability maturities						
Insurance contracts liabilities		1 216	317	74	99	1 706
Reinsurance account balance		108				108
Reinsurance deposits		1 729				1 729
Due to holding company		58				58
Other provision and accruals		27				27
Total financial and insurance liabilities	**0**	**3 138**	**317**	**74**	**99**	**3 628**
Net maturities	**556**	**(156)**	**14**	**173**	**114**	**701**

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

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

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

(d) Liquidity risk *(continued)*

Maturity profile of financial and insurance assets and liabilities *(continued)*

December 2017	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		997				997
Money market funds	264					264
Debt securities		121	11	63	530	725
Equities	605					605
Insurance contracts assets		969	190	46	65	1 270
Amounts due from companies on reinsurance accounts		536				536
Deposits retained by ceding companies		8				8
Accounts receivable		5				5
Total financial and insurance assets	**917**	**2 636**	**201**	**109**	**595**	**4 458**
Liability maturities						
Insurance contracts liabilities		1 324	265	64	90	1 743
Reinsurance account balance		48				48
Reinsurance deposits		1 661				1 661
Due to holding company		215				215
Other provision and accruals		24				24
Total financial and insurance liabilities	-	3 272	265	64	90	3 691
Net maturities	917	(636)	(64)	45	505	767

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

The company's categories and classes of financial assets and financial liabilities are included on pages 18 to 21.

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

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

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

(f) Capital management objectives, policies and approach

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

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

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

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

	2018 R'000	2017 R'000
Share capital and share premium	80 300	80 300
Contingency reserve	51 702	51 702
Retained earnings	604 911	633 785
Total equity attributable to equity holders of the company	736 913	765 787

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, Own Risk and Solvency Assessment (ORSA) is undertaken annually as risk management and business tool within the Company.

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

6. Equipment	2018 R'000	2017 R'000
Cost		
Motor vehicles	**1 430**	1 008
Computer equipment	**2 272**	2 128
Office equipment	**529**	529
Furniture & fittings	**6 021**	6 012
	10 252	**9 677**
Accumulated depreciation		
Motor vehicles	**522**	368
Computer equipment	**1929**	1 763
Office equipment	**529**	526
Furniture & fittings	**4 555**	3 899
	7 535	**6 556**
Carrying values		
Motor vehicles	**908**	640
Computer equipment	**343**	365
Office equipment	**0**	3
Furniture & fittings	**1 466**	2 113
	2 717	**3 121**
Reconciliation of carrying values		
Opening balance	**3 121**	3 138
Additions	**852**	1 135
Disposals	**(278)**	-
Depreciation	**(978)**	(1 152)
Closing balance	**2 717**	**3 121**
Motor vehicles		
Net carrying value at the beginning of the year	**640**	2
Additions	**580**	851
Disposals	**(158)**	-
Depreciation	**(154)**	(213)
Net carrying value at end of the year	**908**	**640**

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

6.	**Equipment** *(Continued)*	**2018 R'000**	**2017 R'000**
	Computer equipment		
	Net carrying value at beginning of the year	**365**	335
	Additions	**264**	284
	Disposals	**(120)**	-
	Depreciation	**(166)**	(254)
	Net carrying value at end of the year	**343**	365
	Office equipment		
	Net carrying value at beginning of the year	**3**	5
	Additions	**-**	-
	Disposals	**-**	-
	Depreciation	**(3)**	(2)
	Net carrying value at end of the year	**0**	3
	Furniture & fittings		
	Net carrying value at beginning of the year	**2 113**	2 796
	Additions	**8**	-
	Disposals	**-**	-
	Depreciation	**(656)**	(683)
	Net carrying value at end of year	**1 465**	2 113

7.	**Intangible assets**	**2018 R'000**	**2017 R'000**
	Computer software - purchased Cost		
	Opening balance	**398**	398
	Disposals	**-**	-
	Additions	**-**	-
	Closing balance	**398**	398
	Accumulated amortisation		
	Opening balance	**398**	395
	Amortisation – software in use	**0**	0
	Disposals	**0**	3
	Closing balance	**398**	398
	Net carrying value	**0**	0

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

8. Financial assets

Financial assets	2018 R'000	2017 R'000
Held-to-maturity instruments at amortised cost		
Fixed and call deposits	**1 130 840**	997 007
Listed bonds	**405 540**	138 289
	1 536 380	1 135 296
Instruments at fair value through profit or loss		
Listed instruments		
– Bonds	**322 998**	586 451
– Equities	**136 025**	604 895
– Money market funds	**413 213**	263 879
	872 236	1 455 225
Total financial assets	**2 408 616**	2 590 521
Cost of instruments disclosed at fair value through profit or loss		
Bonds	**319 046**	573 186
Equities	**132 771**	436 045
Money market funds	**413 213**	263 879
	865 030	1 273 110
Fair value of the held-to-maturity instruments		
Fixed and call deposits	**1 130 840**	997 007
Listed bonds	**416 078**	142 395
	1 546 918	1 139 402

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

Maturity period at 31 December 2018	Market Value R'000	**Effective Interest rate %**
On demand	**413 213**	6.00% to 6.75%
Within 1 year	**1 130 841**	6.5% to 8.5%
1 to 3 years	**437 567**	0.4% to 7.28%
3 to 7 years	**100 365**	2,33% to 7.90%
7 to 12 years	**23 192**	7,55% to 8.59%
>12 years	**167 414**	9.17% to 9,77%
	2 272 592	

Maturity period at 31 December 2017	Market Value R'000	**Effective Interest rate %**
On demand	**263 879**	6.00% to 6.75%
Within 1 year	**977 007**	6.5% to 8.5%
1 to 3 years	**194 682**	0.0% to 7.28%
3 to 7 years	**147 576**	2,33% to 7.90%
7 to 12 years	**26 296**	8,01% to 8.24%
>12 years	**356 186**	8.2% to 9,01%
	1 965 626	

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

8. Financial assets *(continued)*

Fair values of financial assets and liabilities

Determination of fair value
Fair values are determined according to the following hierarchy based on the requirements in IFRS 7: Financial Instruments: Disclosures

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

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

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

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

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

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

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

Analysis of instruments at fair value
Financial assets

December 2018	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Designated at fair value through profit or loss	**459 022**	**413 213**	**-**	**872 235**
December 2017				
Designated at fair value through profit or loss	1 191 346	263 879	-	1 455 225

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 2018 *(Continued)*

9.	Technical assets and liabilities under insurance contracts	2018 R'000	2017 R'000
	Technical liabilities		
	-Gross claims reported but not yet settled	**1 121 305**	1 192 804
	-Gross claims incurred but not reported	**343 817**	296 159
	-Gross unearned premium provision	**199 173**	213 864
	-Deferred retrocession commission income	**41 518**	39 894
		1 705 813	1 742 721
	Technical assets		
	-Retrocessionaire's share of claims reported but not yet settled	**863 314**	862 425
	-Retrocessionaire's share of claims incurred but not reported	**240 982**	207 525
	-Retrocessionaire's share of unearned premium provision	**135 154**	150 675
	-Deferred acquisition costs	**53 812**	49 492
		1 293 262	1 270 117
	Net technical liabilities		
	-Claims reported but not yet settled	**257 991**	330 379
	-Claims incurred but not reported	**102 834**	88 634
	-Unearned premium provision	**64 020**	63 189
	-Deferred acquisition costs	**(12 294)**	(9 598)
		412 551	472 604

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

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

9.1 Movements in technical assets and liabilities under insurance contracts

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

Outstanding claims	2017 Gross R'000	2017 Reinsurance R'000	2017 Net R'000
Claims reported but not yet settled	811 427	585 925	225 502
Claims incurred but not yet reported	242 028	169 420	72 608
Total outstanding at beginning of year	1 053 455	755 345	298 110
Movement in outstanding claims	435 508	314 605	120 903
-arising from current year claims	545 746	410 526	135 220
-arising from prior period claims	(110 238)	(95 921)	(14 317)
Total at end of year	1 488 963	1 069 950	419 013
Notified claims	1 192 804	862 425	330 379
Incurred but not reported	296 159	207 525	88 634
Total at end of year	1 488 963	1 069 950	419 013

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

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

9.1 Movements in technical assets and liabilities under insurance contracts *(continued)*

Unearned premium provision	2018		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	**213 864**	**150 675**	**63 189**
Premiums written during the year	**2 933 663**	**2 094 097**	**839 566**
Premiums earned during the year	**(2 948 354)**	**(2 109 618)**	**(838 736)**
Total at end of year	**199 173**	**135 154**	**64 020**

Unearned premium provision	2017		
	Gross R'00	Reinsurance R'000	Net R'000
At the beginning of year	185 009	129 506	55 503
Premiums written during the year	2 633 428	1 880 075	753 353
Premiums earned during the year	(2 604 573)	(1 858 906)	(745 667)
Total at end of year	213 864	150 675	63 189

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

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

	2017		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	42 492	34 276	8 216
Acquisition costs paid during the year	759 288	596 276	163 012
Acquisition costs incurred during the year	(752 288)	(590 658)	(161 630)
At the end of year	49 492	39 894	9 598

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

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

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

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

Estimates and outstanding claims

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

Unearned premium provision

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

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

		2018 R'000	2017 R'000
10.	**Amounts due from companies on reinsurance accounts**		
	Amounts due from ceding companies	**99 096**	202 587
	Amounts due from retrocessionaire	**509 503**	333 136
		608 599	535 723
11.	**Deposits retained by ceding companies**		
	At beginning of the year	**7 844**	3 149
	New deposits retained	**588**	4 695
	At the end of the year	**8 432**	7 844
12.	**Cash and cash equivalents**		
	Cash on hand	**124**	73
	Current bank account balances	**6 860**	48 186
		6 984	48 259

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

		2018 R'000	2017 R'000
13.	**Share capital and share premium**		
	Share capital	**80 300**	80 300
	Share premium	**80 300**	80 300
	Authorised		
	7 ordinary shares of R0,01 each	**-***	-*
	Issued		
	7 ordinary shares of R0,01 each	**-***	-*
	Share capital comprises of seven ordinary shares of R0.01 each of which one share was issued at a premium of R80.3 million. No changes occurred during the year.		
	* less than R1 000		
14	**Amounts due to companies on reinsurance accounts**		
	Amounts due to ceding companies	**108 277**	47 811
	Amounts due to retrocessionaire	**0**	0
		108 277	47 811
15.	**Deposits due to retrocessionaire**		
	At beginning of year	**1 661 660**	1 319 212
	New deposits retained	**1 729 481**	1 661 660
	Deposits released	**-1 661 660**	-1 319 212
	At the end of the year	**1 729 481**	1 661 660
16.	**Other provisions and accruals**		
	Other creditors and accruals	**23 696**	20 195
	Accrual for leave pay	**3 724**	3 468
		27 420	23 663
	Accrual for leave pay is calculated based on the number of days leave due to employees multiplied by their cost to company. The maturity profile of the provision is dependent on the utilisation of leave days by the employees or any resignations.		
17.	**Deferred tax liability**		
	Opening balance	**18 466**	26 098
	Current year	**(15 321)**	(7 632)
	Closing balance	**3 145**	18 466
	The net deferred tax liability balance at the end of the period comprises:		
	– capital allowance	**(84)**	(215)
	– accruals	**(1 093)**	(1 021)
	– accumulated tax loss	**-**	(20 381)
	– unrealised gains on revaluation of investments	**4 322**	40 083
		3 145	18 466

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

		2018 R'000	2017 R'000
18.	**Income tax asset**	**36 587**	13 762
19.	**Commission paid and received**		
	Gross commission and brokerage paid	**1 012 208**	759 288
	Gross deferred acquisition costs	**(4 320)**	(7 000)
	Commission incurred	**1 007 888**	752 288
	Commission earned	**(770 296)**	(590 658)
	Retrocession commission and brokerage received	**(708 831)**	(531 922)
	Retroceded overriding commission received	**(64 386)**	(64 354)
	Retroceded deferred commission revenue	**2 779**	5 046
	Retroceded deferred overriding commission revenue	**1 42**	572
	Net commission incurred	**237 592**	161 630
20.	**Profit before taxation**		
	Profit before taxation is arrived at after charging the following items:		
	HQ IT Services and Management Expenses	**45 000**	40 000
	Auditor's remuneration:	**1 810**	1 111
	- for audit services in the current year	**1 750**	1 736
	- over provision in prior years	**60**	(625)
	Consultancy fees	**2 110**	4 220
	Depreciation	**978**	1 152
	Amortisation	**0**	3
	Directors remuneration	**14 959**	15 014
	Executive – for services rendered	**9 727**	10 244
	Non executive – for services as directors	**5 232**	4 770
	Lease payments	**2 314**	2 466
	Secretarial fees	**249**	169
	Staff costs including contribution to pension fund, UIF, SDL and allowances	**34 385**	30 830
	Number of staff: 36 (2017: 36)		

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

		2018 R'000	2017 R'000
21.	**Taxation**		
	South African normal taxation – current year		
	Current tax	**4 696**	(634)
	Deferred tax	**(15 321)**	(7 632)
		10 625	(8 266)
	Tax rate reconciliation	**%**	%
	Effective tax rate	**27**	(45.5)
	Exempt income	**(16.3)**	50.9
	Disallowed expenses	**1.88**	(1.4)
	Capital gains tax	**15.46**	20.5
	Overprovision prior years	**0**	3.5
	South African standard corporate tax rate	**28.0**	28.0

The effective tax rate of -45% for 2017 included a deferred tax asset recognised as a result of the assessed loss. This deferred tax asset was utilised in the current year.

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

22. Related party transactions

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	2018	2017
		R	R
Bakary Kamara	Non-executive Chairman	**896 869**	815 335
Corneille Karekezi	Non-executive Deputy Chairman	**807 183**	733 802
Allan F W Peters	Independent, non-executive Director	**508 226**	693 035
Elizabeth Amadiume	Non-executive Director	**672 651**	611 501
Phillip Pettersen	Independent, non-executive Director	**717 495**	652 269
Haile M Kumsa	Independent, non-executive Director	**672 651**	611 501
Sizakele Mzimela	Independent, non-executive Director	**717 495**	652 269
Frédéric Fléjou	Independent non-executive Director (Appointed 16 August 2018)	**239 165**	
Daryl De Vos	Managing Director (Resigned 31 Aug 2017)		6 630 122
Andy Tennick	Managing Director (Appointed 2 April 2018)	**2 850 000**	
Sory Diomande	Deputy Managing Director	**3 539 608**	1 154 795
Ibrahim Ibisomi	Executive Director	**3 337 599**	2 459 486

Prescribed officers

Mr. Sory Diomande and Mr Ibrahim Ibisomi both served as Executive Directors during the year. Mr. Andy Tennick joined the Company and the Board as Managing Director on 2 April 2018.

Holding company

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

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

22. Related party transactions *(continued)*

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

Statement of financial position	2018 R'000	2017 R'000
Assets		
Retroceded outstanding claims provision	**1 104 296**	1 069 950
Retroceded unearned premium provision	**135 154**	150 675
Liabilities		
Deferred retrocession commission revenue	**(41 518)**	(39 894)
Deposits due to retrocessionaire	**(1 729 481)**	(1 661 660)
Amounts due to companies on reinsurance accounts	**(108 277)**	(46 396)
Amount due to holding company	**(57 545)**	(214 470)
Net liabilities	**(697 371)**	(741 795)
Statement of comprehensive income		
Retroceded premiums	**(2 094 097)**	(1 873 560)
Retrocessionaire's share of provision for unearned premiums	**(15 522)**	21 169
Retroceded claims received	**1 631 169**	1 362 424
Retrocessionaire's share of provision for outstanding claims	**34 346**	314 605
Retrocessionaire's share of net commission incurred	**770 295**	590 365
Interest expense	**(38 865)**	(45 544)
Management expenses	**(45 000)**	(40 000)

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

Statement of financial position	2018 R'000	2017 R'000
Liabilities		
Trade and other payables	**11 736**	9 389
Statement of comprehensive income		
Management expenses	**(2 347)**	(2 347)

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

23. Retirement benefits costs

The Company contributes to a defined contribution pension plan for all its employees. The Company's contributions to the defined contribution pension plan for its employees during the period were R2 076 724 (2017: R1 911 616).

24. Operating lease commitments

The Company leases photocopiers and fax equipment. The minimum non-cancellable operating Lease payments are payable as follows:

	2018 R'000	2017 R'000
– less than one year	**42**	28
– between one and five years	**21**	102
	63	130

25. Notes to the cash flow statement	2018 R'000	2017 R'000
25.1 Reconciliation of cash (utilised)/generated by operations		
Profit before taxation	**(39 498)**	18 159
Adjusted for :		
- depreciation and amortisation	**978**	1 155
- investment income net of management fees	**(53 060)**	(232 826)
- interest expenses	**38 865**	45 544
- net unearned premium provision net of deferred acquisition costs	**(1 865)**	6 304
Cash (utilised)/generated by changes in working capital	**(154 698)**	208 327
Net amounts due from companies on reinsurance accounts	**(12 410)**	(299 375)
Deposits retained by ceding companies	**(588)**	(4 695)
Accounts receivable	**1 833**	5 505
Amount due to holding company	**(156 924)**	42 090
Other provision and accruals	**3 757**	2 352
Deposits due to retrocessionaire	**67 821**	342 448
Investment contract liability	**-**	(901)
Net outstanding claims provision	**(58 187)**	120 903
	(209 278)	46 644
25.2 Reconciliation of taxation paid		
Balance recoverable at the beginning of the period	**13 762**	13 128
Current tax charge in profit or loss	**(4 696)**	634
Balance recoverable at the end of the period	**(36 587)**	(13 762)
Net Taxation paid	**(27 521)**	-

Notes to the financial statements

for the year ended 31 December 2018 *(Continued)*

26. Other Matters

26.1 **Business activities**

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

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

26.2 **Dividends**

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

26.3 **Going concern**

The Directors are confident that the Company will continue to operate successfully into the foreseeable future. These financial statements have therefore been prepared on a going concern basis.

26.4 **Events after the reporting date**

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

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