Established Supportive Resilient
Promoting the growth of insurance in Africa

African Reinsurance Corporation (South Africa) Ltd
Tel: +(27) 11 484 3764 +(27) 11 484 1970 +(27) 11 484 1606
Fax: +(27) 11 484 1001 email: africare@africare.co.za

AFRICAN REINSURANCE CORPORATION ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

ANNUAL REPORT & ACCOUNTS

2015

Prepared by Glen Peters, B Compt., under the supervision of Ibrahim Ibisomi,
BSc (Hons) Econs, LL B (Hons), MBF, FCA, General Manager, Finance and Administration
These financial statements have been audited in compliance with section 30 of the
South African Companies Act 71 of 2008

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

AFRICAN REINSURANCE CORPORATION – NETWORK IN AFRICA

Regional Offices

CASABLANCA
33 Boulevard Moulay Youssef
PO Box 7556
Casablanca, Morocco
Tel: +212-2 22 43 77 00
Fax: +212-2 22 43 77 29
Email: casablanca@africa-re.com

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Nairobi, Kenya
Tel: +254-20 2970000
Fax: +254-20 2970666
+254-20 2970776
Email: nairobi@africa-re.com

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20 BP 1623
Abidjan 20, Côde d'Ivoire
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Fax: +225 22 40 44 82
Email: abidjan@africa-re.com

WEST AFRICA REGIONAL OFFICE
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Lagos, Nigeria
Tel: +234-1 461 6820/28
Fax: +234-1 280 0074
Email: info@africa-re.com

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Plot No. 1149, Masaken
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Heliopolis, 11361
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Tel: +20 2 22685668
Fax: +20 2 22685667
Email: cairo@africa-re.com

MAURITIUS
11th Floor, One Cybercity,
Ebéne, Mauritius
Tel: +230 454 7074
Fax: +230 454 7067
Email: p.louis@africa-re.com

Subsidiaries

AFRICAN REINSURANCE CORP.
(SOUTH AFRICA) LTD
Africa Re Place
10 Sherborne Road, Parktown 2193
PO Box 3013, Houghton 2041,
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Fax: +27 11 484 1001
Email: africare@africare.co.za

AFRICA RETAKAFUL
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Plot No. 1149, Masaken
Sheraton,
Heliopolis, 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
Mobile: +251 922122473
Email: addisababa@africa-re.com

African Reinsurance Corporation (South Africa) Limited - Annual Report & Accounts **2015**

African Reinsurance Corporation (South Africa) Limited
Annual Report

for the year ended 31 December 2015

Audited

Prepared by Glen Peters, B Compt., under the supervision of Ibrahim Ibisomi, BSc (Hons) Econs., LL B (Hons), MBF, FCA General Manager, Finance and Administration

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 2015

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 2015, 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
17 March 2016

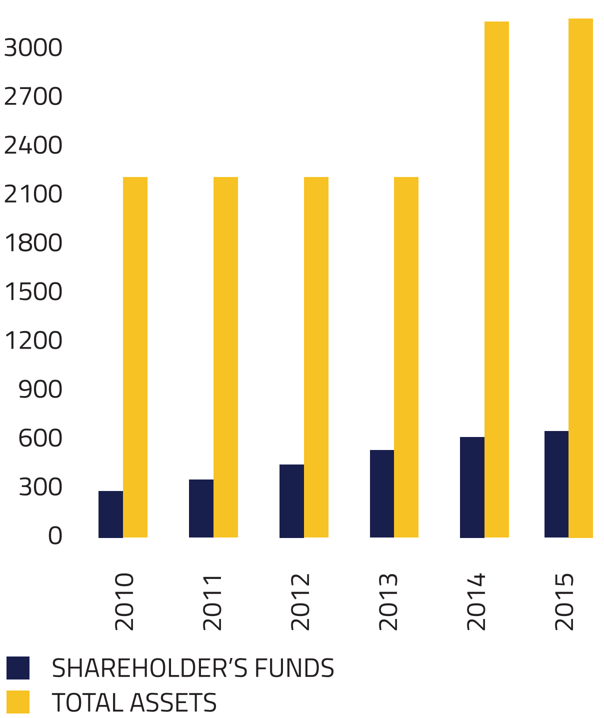
Financial highlights

for the year ended 31 December 2015

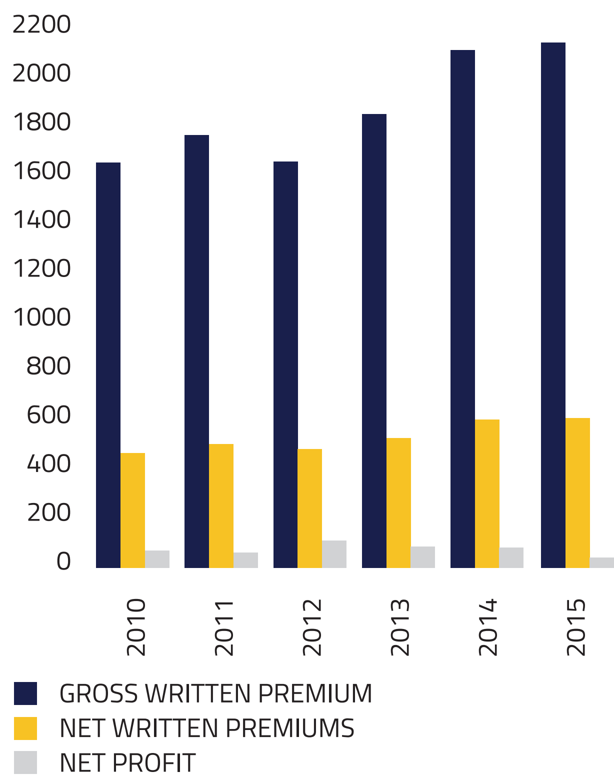
In R'000	2015	2014	2013	2012	2011
RESULTS					
GROSS WRITTEN PREMIUMS	**2 163 137**	2 146 143	1 879 305	1 687 667	1 785 810
NET WRITTEN PREMIUMS	**626 491**	622 780	548 255	489 379	517 017
NET EARNED PREMIUMS	**628 034**	630 232	557 814	479 796	512 821
NET PROFIT	**34 607**	76 604	83 526	108 120	66 613
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	**656 410**	621 803	545 199	461 673	353 553
TOTAL ASSETS	**3 347 577**	3 223 906	2 978 400	2 968 992	2 688 195
INTERNATIONAL SOLVENCY MARGIN[N1]	**105%**	100%	99%	94%	68%

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

FINANCIAL POSITION 2010 - 2015
In Rand' Million



RESULTS 2010 - 2015
In Rand' Million



Chairman and executive management statement

for the year ended 31 December 2015

It is our singular honour and privilege to as usual present the annual financial statements of African Reinsurance Corporation (South Africa) Limited ("the Company" or "Africa Re (SA)") for the year ended 31 December 2015 on behalf of the Board of Directors. The year 2015, which represented the second year of the Company's current five-year strategic plan 2014 – 2018, was particularly remarkable as a year characterised by many significant and often contrasting events for both the Company and its main market, South Africa.

Growth remained muted in the Southern Africa sub-regional market served by the Company, with the leading economy and income contributor South Africa recording an estimated 1.2% GDP growth in 2015 (down from the 1.8% growth recorded in the preceding year). The low GDP growth was traceable to the continued slowdown in the demand for the country's major commodity exports, depressed consumer spending in the domestic economy and a massive drought that was recorded as the worst in many decades. The country also recorded social unrest from an unexpected sector: students staged countrywide protests against fee increases and outsourced labour prices in higher institutions, with devastating impact on virtually every sector of the economy as a representation of the restive nature of the populace. While power supply recorded improvement in the second half of the year, the load-shedding programme already caused supply disruptions and reduced confidence in the economy. On its part, the weak Rand was a major cause of inflation that also limited the benefits of the fall in global crude oil prices.

The performance of the Rand in value terms is a barometer for measuring the performance of the larger economy. Analysts have indicated that the 55% depreciation in the value of the Rand since mid-2011 is attributable to both external and domestic factors. The external factors, which are calculated to have accounted for 60% of the depreciation, include relative gains in the value of the US dollar itself as well as risk and commodity price effects. On the domestic front, policy inconsistency, negativities around corruption and waste, low business confidence, strained power supply and disruptive labour relations have been identified as the leading factors. On this basis, there thus are both controllable and uncontrollable factors at play for the dim in overall performance of the economy. However, as we indicated in previous reports, reviving the economy and accelerating GDP growth is a key policy challenge that must be addressed by both government and key economic players in order for the country to tackle the persisting problems of high unemployment, widespread poverty and income distribution inequalities that threaten social stability and sustainability in the long term. It is therefore pleasing to note the current engagement and policy dialogue between government and big business. We urge that this be extended to small business and labour in order to promote true national dialogue and rapprochement that is critical to returning the country back to a path of sustainable and inclusive development.

On its part, the insurance sector has fared slightly better than the national economy with modest growth in premium and improved claims environment noticeable in the early reports by leading players. Market loss events have moderated below the catastrophic levels recorded in 2012 and 2013, while large losses have also happily reduced in number and scale below the levels witnessed in 2014. However, improved underwriting performance has been matched with reduced investment returns on the back of, again, both domestic and global factors. While slow growth in China and still-low growth in Europe – South Africa's largest trading and investment partners – have meant constrained performance by listed entities, a dramatic and unexpected twist in the headship of the country's finance portfolio, when some changes in the macro-economic policy setters were made in late 2015, resulted in substantial unrealised value losses running into several billions of Rand in the capital market. As net investors in the market, these reduced the net returns for many industry players including Africa Re SA at the end of the year. Happily, the reversal of some of these decisions has brought some breather and the capital market appears to be on a recovery path again in early 2016.

ARCSA Board and Management's response to the difficult economic and operating environment that has been prevalent over the past five years has been the carefully crafted 2014–2018 strategic plan followed by its meticulous but flexible implementation, a close monitoring and appropriate interventionist measures on poor performing segments of the business, maintenance of strong capital and financial credit rating, improvement in internal governance and risk management practices, enhancement of human and material resources as well as a sustained drive for profitable and sustainable growth.

Specifically, the Board examined in detail, supported and authorised Management initiatives at cancelling substantial books of business on account of sustained poor performance spanning several years. Overall, there is now a more customer-centric approach to the business and we trust these measures will boost the confidence and improve the patronage of our loyal clients.

Chairman executive management statement

for the year ended 31 December 2015 *(Continued)*

In the remainder of the southern Africa region served by the Company and up to the larger African regional level, economic growth has also been constrained by the weakening demand for commodities while the insurance sector continues to suffer from low levels of penetration and density. Still the rest of the continent, with its overall higher levels of GDP and insurance premium growth, presents substantial growth opportunities for the highly capitalised and forward-looking insurance companies in South Africa in the wake of an increasingly saturated, intensely competitive and closely regulated domestic industry. As a core member of the Africa Re Group, the Company is able to support South African insurers in their expansionist strategy into the rest of the African continent, while at the same time consciously guarding against accumulation risks.

Against this background, the Company recorded another mixed performance in 2015. Despite the cancellation of the poor-performing treaties referred to above but through the sustained careful execution of its growth strategy under the current strategic plan, the Company was able to marginally grow its gross written premium over the level attained in 2014. This demonstrates the continued level of trust and confidence in the Company's security by its clients. Better still, with the benefits of the cancelled treaties coming through as well as the improved claims environment, the Company recorded a reduced level of incurred underwriting loss compared to the preceding year. In contrast, however, the Company recorded a much lower investment performance in 2015 compared to 2014 on the back of substantial unrealised value losses on its equity and bonds portfolio recorded at the tail end of the year. Overall, return on equity fell to nearly 6% (2014 – 14%) which however further strengthened the Company's solvency and capital base. The Board remains supportive of Management's efforts at improving the underwriting and investment performance for an effective management and utilisation of the Company's capital as well as its financial and other resources.

Gross written premium for the year under review was R2,163 million compared to R2,146 million recorded in 2014, representing a growth of R17 million (or 1%). Similarly, the Company recorded a R3.7 million (or 1%) increase in its net written premium, from R623 million in 2014 to R626 million in 2015. The Company has thus sustained its premium growth trajectory with the gross and net written premiums of 2015 higher than the previous record levels attained in 2014 despite the measure taken during 2015 to voluntarily cancel certain treaties that yielded substantial premiums in previous years.

Apart from the cancelled poor-performing portfolio, the Company experienced an improved claims environment during the year as there were fewer cases of substantial, largely weather-related loss events compared to the preceding three years. In view of this, net incurred claims reduced to R457 million from the R489 million recorded in 2014. Further benefits from the cancelled treaties are expected by way of improved claims ratios on the remaining book of business. The Board and Management will continue to implement appropriate measures and support industry-wide initiatives aimed at improving claims experience within the ambit of the law.

Both gross and net commission expenses increased by 3% and 5%, respectively, to reflect the marginal growth in written premium as well as the change in the business portfolio mix away from motor business that traditionally incurs lower commission. Gross and net commission expenses amounted to R584 million (2014: R565 million) and R122 million (2014: R116 million), respectively. There was no change in the rate of overriding commission received from the retrocessionaire compared to the preceding year. On its part, Management expenses rose by 20% from the R75 million incurred in 2014 to R90 million in 2015, which was adversely affected by inflation and Rand weakness but also reflects the Company's sustained investment in human and material resources to support growth, improve client service and meet the increasing regulatory compliance obligations. Overall, in line with the remedial actions taken and partly as a result of the improved claims environment, the Company recorded a lower net underwriting loss in 2015 compared to the preceding year. It is expected that this improvement will be sustained into the future for the Company to record positive underwriting margins as drivers of its overall performance going forward.

Net investment income fell substantially by 44% in 2015 compared to 2014. There was an all-round improvement in the income earned on fixed and call deposits as a result of the increases in the base interest rates decided upon by the South Africa Reserve Bank during the year. However, equity and bond instruments recorded substantial unrealised value losses as a result of both economic and political factors especially the unexpected change in the Minister of Finance in December 2015 locally, and the relative turmoil in world capital markets beginning with the Chinese stock market in mid-2015. Consequently, the Company recorded a net investment income of R83 million in 2015 compared to the R148 million earned in 2014.

Chairman executive management statement

for the year ended 31 December 2015 *(Continued)*

While the Board remains satisfied with the performance of the asset managers, it will continue to steer the Company's investment activities to relatively secure instruments as well as to competitive and stable returns. The continued positive performance of the asset managers was also confirmed by an independent review of their activities undertaken during the year.

Profit before tax for the year under review was R41 million compared to the R98 million recorded in 2014. Accrued income tax expense charged to the income statement for the period was R7 million (2014: R22 million) resulting in an after tax profit of nearly R35 million compared to the R77 million recorded in 2014. The Board views this significant drop in net profit after tax with all seriousness and, while acknowledging that it has come on the back of a difficult and largely uncontrollable economic and operating environment, is committed to driving for improved performance in the years ahead.

The Board and Management remain confident that the South African economy has recovered from the recession experienced in 2009 although the GDP growth rate that continues to reduce remains inadequate to meet the country's development aspirations, especially if the problems of unemployment, income disparity and poverty are to be effectively tackled. The vulnerability of the economy to both internal and external shocks has continued to prevent stronger growth. Indeed, the events of December 2015 bear testimony to the sensitivity of the economy to domestic politics and policies, while the low prices and weak demand for the country's main commodity exports have neutralised the ability of the weak Rand to propel export-led growth. Current account deficit continues to widen as a result of slowed export growth in the wake of soaring imports. The labour environment was less frosty during 2015 but remains volatile. In spite of these, the Board is confident that the South African economy remains strong and resilient, has the infrastructure base and will attract the required investment and other growth impetus in order to sustain the Company's operations in the long term.
Although the government has announced ceilings on recurrent expenditure, its commitment to infrastructure spending and a gradual implementation of the National Development Plan for the purpose of stimulating GDP growth continues to be emphasised. The country's tourism sector appears to be picking up on the back of the reversal of certain counter-productive measuresa introduced in 2014. This may well lead to further growth in FDI inflows.
The remaining countries of the sub-region have also been taking appropriate measures to stimulate their economies and enhance their growth prospects to higher levels, although a lot really depends on the performance of the South African economy. The Board and Management are therefore convinced that the Company's future remains bright and full of opportunities for sustained growth in the leading, emerging-market economy in which it is located as well as in the rest of the sub-region served by the Company.

As has been advised in our recent previous reports, the South African insurance landscape is undergoing regulatory reforms that will make it achieve Solvency II equivalence. Designed to enhance policyholder protection through risk-based capital and stronger governance standards, the Solvency Assessment and Management (SAM) programme is now in its implementation phase pending the enactment of new primary legislation.
This implementation phase that started in mid-2014 continued with some vigour during 2015. The Financial Services Board (FSB) reported satisfactory compliance by insurance and reinsurance companies with all of the implementing measures rolled out during the year, especially the comprehensive parallel run and the mock but mandatory Own Risk and Solvency Assessment (ORSA) exercise. The Board is pleased to report that Africa Re SA has continued to fully meet all compulsory and voluntary implementing and test measures that have been requested under the new framework since it started in 2009. The Company also participated in all industry-led initiatives relating to the design of the regulatory framework as well as to comments on the draft primary legislation.

The Board therefore has the confidence that the Company is substantially ready to fully comply with the requirements of the new framework upon its rescheduled final commencement date of 1 January 2017. The Board will ensure that appropriate attention is paid to the information technology system change requirements for a smooth implementation of the new regulatory framework. As previously reported, the Board has continued to support Management in ensuring that the Company's record of absolute regulatory compliance remains unbroken and the Board will therefore provide the required leadership to ensure the full and successful implementation of the new regime once rolled out.
All required measures and resources to achieve this objective will be duly authorised by the Board.

Chairman executive management statement

for the year ended 31 December 2015 *(Continued)*

The Company undertook its first stand-alone rating exercise by Standard & Poor's 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 this rating was reaffirmed in 2015 thus lending credence to the sustained strength of the Company's capital, governance and risk management standards as well as other resources and systems. 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 is unwavering in its commitment to ensure 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 and the Short-Term Insurance Act 1998 as amended. The Board of Directors met three times with all serving Directors present at each meeting.

B H Kamara	-	(Non-executive Chairman)
C Karekezi	-	(Non-executive Deputy Chairman)
A F W Peters	-	(Independent, Non-executive Director)
E N Amadiume	-	(Non-executive Director)
P Pettersen	-	(Independent, Non-executive Director)
H M Kumsa	-	(Independent, Non-executive Director)
S Mzimela	-	(Independent, Non-executive Director)
D N De Vos	-	(Managing Director)
I A Ibisomi	-	(Executive Director)

In line with the requirements of the FSB on governance and risk management, the Board has appointed A F W Peters as Lead Independent Director with effect from 1 January 2016. Allan has been a pioneer independent director of the Company and enjoys the support and confidence of all his colleagues in this new role.
The Audit Committee under the chairmanship of A F W Peters met twice during the course of the 2015 financial year. 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 has further constituted an Administration and Human Resources Committee under the chairmanship of C Karekezi, a Risk and Underwriting Committee under the chairmanship of P Pettersen, a Nominations and Governance Committee under the chairmanship of B H Kamara as well as a new 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.

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 wish to extend our sincere appreciation to all staff for all their valued efforts and commitment to the company

Bakary H Kamara
Chairman

Daryl De Vos
Managing Director

Board of Directors, Executive Management


Daryl N De Vos
Managing Director


Bakary H Kamara
Non-executive Chairman


Corneille Karekezi
Non-executive Deputy Chairman


Ibrahim A Ibisomi
Executive Director


Alan F W Peters
Independent, Non-executive Director


Phillip Pettersen
Independent, Non-executive Director


John Izegbu
General Manager of Operations


Elizabeth N Amadiume
Non-executive Director


Siza Mzimela
Independent, Non-executive Director


Haile M Kumsa
Independent, Non-executive Director

The Africa Re South Africa Team - Photographed inside their offices in Parktown, Johannesburg.

Directors' responsibility for the financial statements

for the year ended 31 December 2015

The directors are responsible for the preparation and fair presentation of the annual financial statements of African Reinsurance Corporation (South Africa) Limited, comprising the statement of financial position at 31 December 2015, 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, were approved by the board of directors on 17 March 2016 and signed on their behalf by:

Bakary H Kamara
Chairman

Daryl De Vos
Managing Director

Report by the Audit Committee

for the year ended 31 December 2015

The Audit Committee is pleased to present this report on its activities for 2015 to the Board and to the Shareholder.

The Audit Committee discharged its responsibilities unhindered during the year and was able to confirm the effectiveness and adequacy of the Company's system of financial accounting, internal controls, statutory and regulatory compliance, and financial reporting. The Committee is also satisfied with the progress being made to formalize and enhance the system of internal controls. 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 twice during the year with all members in attendance. Apart from its members, the Committee's meetings are also regularly attended on its invitation by the Managing Director, the General Manager Finance & Administration, the General Manager Operations as well as by internal and external audit personnel. Based on the internal auditor's three-year audit plan the Committee ensured the enhancement of internal audit personnel and visits during the year. The internal auditor attended and presented his report at the Committee's meeting held in October 2015. The internal and external audit personnel have unrestricted access to the Committee and to its chairperson.

The Audit Committee reviewed the terms of engagement of KPMG Inc. as external auditor 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. On this basis, the Committee has recommended KPMG Inc. for reappointment as external auditor for 2016.

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:

- A F W Peters
  Independent non-executive Director (Chairman)
- E N Amadiume
  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 2015.

For and on behalf of the Audit Committee:

Allan F W Peters
Chairman
17 March 2016

Report by the Social and Ethics Committee

for the year ended 31 December 2015

The Social and Ethics Committee is pleased to present this report on its activities for 2015 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 implementation of the statutory requirements has therefore not posed any difficulty for the Company.

The Committee has a Charter that complies with the Companies Act and King III requirements and that is approved by the Board of Directors. 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
- 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 approved its workplan and reconfirmed the existing structures and documents relevant to its work. At the request of the Committee, the annual Wellness Day was held in which all employees who were available on the day participated. The Committee utilised the verification report on the Company's BBBEE status obtained in the previous year to guide the Company's activities in order to improve on its compliance. Also during the year, the Company saw to the establishment of a fraud line, drafted a stakeholder engagement framework and drove the development of a formal Sustainability Policy that the Board approved for the Company.

The Social and Ethics Committee met three times during the year with all members in attendance. Apart from its members, the Committee's meetings can be attended by other personnel on the invitation of the Committee, who may be required to assist the Committee in its work. This invitation has been extended to only one staff person to date. 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)
- Daryl De Vos
  Managing Director (Member)
- Ibrahim Ibisomi
  Executive Director (Member)
- Delia Wood
  Manager, Treaty (Member)
- Sarah Matlabe
  Claims Officer (Member)

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 2015. 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:

S Mzimela

Sizakele Mzimela
Chairperson
17 March 2016

Directors' report

for the year ended 31 December 2015

The Directors are pleased to present the directors' report of the Company for the year ended 31 December 2015.

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. 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 2015 amounts to R656.4 million (2014: R621.8 million). Net technical liabilities under insurance contracts at 31 December 2015 amount to R343.7 million (2014: R336.6 million).

Statement of comprehensive income

Total profit and comprehensive income for the year is R34.6 million (2014: R76.6 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 (2014: Nil).

Directors

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)
- 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
- Daryl De Vos
  Managing Director
- Ibrahim Ibisomi
  Executive Director (Nigerian)

Company Secretary

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

Auditor

KPMG Inc. were 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
17 March 2016

Independent auditor's report

To the Shareholder of African Reinsurance Corporation (South Africa) Limited

We have audited the financial statements of African Reinsurance Corporation (South Africa) Limited, which comprise the statement of financial position at 31 December 2015, and the statements of profit or loss and other 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, as set out on pages 14 to 51.

Directors' Responsibility for the Financial Statements
The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and 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.

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

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

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

Opinion
In our opinion, these financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation (South Africa) Limited at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other Reports Required by the Companies Act
As part of our audit of the financial statements for the year ended 31 December 2015, we have read the Declaration by company secretary, Financial highlights, Chairman and executive management statement, Directors' responsibility for the financial statements, Directors' Report, the report by the Audit Committee, Report by the social and ethics committee and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on Other Legal and Regulatory Requirements
In terms of the Independent Regulatory Board for Auditors Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of African Reinsurance Corporation South Africa Limited for 12 years

KPMG Inc.
Registered Auditor

Per Mark Danckwerts
Chartered Accountant (SA)
Registered Auditor
Director
26 April 2016

KPMG Crescent
85 Empire Road
Parktown
South Africa, 2193

Statement of financial position

for the year ended 31 December 2015

	Note	2015 R'000	2014 R'000
Assets			
Equipment	*6*	**3 997**	5 067
Intangible assets	*7*	**9**	16
Financial assets	*8*	**2 223 467**	2 174 975
- Held-to-maturity instruments at amortised cost		**1 110 253**	1 094 067
- Instruments at fair value through profit or loss		**1 113 214**	1 080 908
Technical assets under insurance contracts	*9*	**856 204**	840 780
- Retroceded outstanding claims reserve		**714 960**	695 651
- Retroceded unearned premium reserve		**106 027**	109 629
- Deferred acquisition costs		**35 217**	35 500
Amounts due from companies on reinsurance accounts	*10*	**226 499**	174 109
Deposits retained by ceding companies	*11*	**378**	141
Accounts receivable		**23 154**	21 221
Current income tax asset	*18*	**9 422**	4 536
Cash and cash equivalents	*12*	**4 447**	3 061
Total assets		**3 347 577**	3 223 906
Equity			
Share capital and share premium	*13*	**80 300**	80 300
Contingency reserve		**51 702**	51 702
Retained earnings		**524 408**	489 801
Total equity attributable to equity holders of the company		**656 410**	621 803
Liabilities			
Technical liabilities under insurance contracts	*9*	**1 199 859**	1 177 358
- Gross outstanding claims reserve		**1 020 031**	992 067
- Gross unearned premium reserve		**151 467**	156 612
- Deferred retrocession commission income		**28 361**	28 679
Amounts due to companies on reinsurance accounts	*14*	**65 454**	31 164
Deposits due to retrocessionaire	*15*	**1 247 697**	1 241 975
Amount due to holding company		**139 727**	108 411
Other provisions and accruals	*16*	**17 277**	9 409
Deferred tax liability	*17*	**21 153**	33 786
Total liabilities		**2 691 167**	2 602 103
Total equity and liabilities		**3 347 577**	3 223 906

Statement of comprehensive income

for the year ended 31 December 2015

	Note	2015 R'000	2014 R'000
Gross written premiums		**2 163 137**	2 146 143
Retroceded written premiums		**(1 536 646)**	(1 523 363)
Net written premiums		**626 491**	622 780
Change in gross unearned premium reserve		**5 145**	24 839
Change in retroceded unearned premium reserve		**(3 602)**	(17 387)
Net earned premiums		**628 034**	630 232
Net investment income		**82 947**	147 562
Dividend income		**16 097**	15 287
Interest income on investments		**119 453**	108 397
Interest expense on investments		**(25 194)**	(22 115)
Net realised gain on disposal of investments		**23 317**	22 422
Net unrealised gain on investments		**(44 975)**	28 756
Investment management expenses		**(5 751)**	(5 185)
Total net income		**710 981**	777 794
Gross claims paid		**1 496 585**	1 510 867
Retroceded claims received		**(1 047 794)**	(1 057 722)
Change in gross provision for outstanding claims		**27 964**	118 201
Change in retroceded provision for outstanding claims		**(19 309)**	(82 157)
Net incurred claims		**457 446**	489 189
Net commission incurred	*19*	**122 261**	115 709
Management expenses		**89 919**	74 624
Total technical expenses		**669 626**	679 522
Net profit before taxation	*20*	**41 355**	98 272
Taxation	*21*	**(6 748)**	(21 668)
Total profit and comprehensive income for the year		**34 607**	76 604

Statement of changes in equity

for the year ended 31 December 2015

	Share capital and share premium	Contingency reserve	Retained earnings	Total
	R'000	R'000	R'000	R'000
Balance as at 1 January 2014	80 300	51 702	413 197	545 199
Comprehensive income for the year			76 604	76 604
Balance as at 31 December 2014	**80 300**	**51 702**	**489 801**	**621 803**
Comprehensive income for the year			**34 607**	**34 607**
Balance as at 31 December 2015	**80 300**	**51 702**	**524 408**	**656 410**

Statement of cash flows

for the year ended 31 December 2015

	Note	2015 R'000	2014 R'000
Cash flows from operating activities			
Cash (utilised)/generated by operations	25.1	**(8 410)**	75 742
Interest expense		**(25 194)**	(22 115)
Taxation (paid)/received	25.2	**(24 267)**	5 651
Net cash (outflow)/inflow from operating activities		**(57 871)**	59 278
Cash flows from investment activities			
Net purchases and disposals of equipment and intangible assets		**(392)**	(828)
Net purchases of investments		**(70 150)**	(175 824)
Interest received net of investment management fees		**113 702**	103 212
Dividends received		**16 097**	15 287
Net cash inflow/(outflow) from investment activities		**59 257**	(58 153)
Net increase in cash and cash equivalents		**1 386**	1 125
Cash and cash equivalents at the beginning of the year		**3 061**	1 936
Cash and cash equivalents at the end of the year		**4 447**	3 061

Categories of assets and liabilities

for the year ended 31 December 2015

	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 2015								
Assets								
Equipment	*6*					3 997	3 997	
Intangible assets	*7*					9	9	
Financial assets	*8*	**1 113 214**	**1 110 253**				**2 223 467**	**1 274 709**
Listed bonds		489 860	120 985				610 845	115 845
Listed ordinary shares		453 758					453 758	
Money market funds		169 596					169 596	169 596
Fixed and call deposits			989 268				989 268	989 268
Technical assets under insurance contracts	*9*					**856 204**	**856 204**	**792 612**
Retroceded outstanding claims reserve						714 960	714 960	651 368
Retroceded unearned premium reserve						106 027	106 027	106 027
Deferred acquisition costs						35 217	35 217	35 217
Amounts due from companies on reinsurance accounts	*10*			226 499			226 499	226 499
Deposits retained by ceding companies	*11*			378			378	378
Accounts receivable				23 154			23 154	23 154
Current income tax asset	*18*					9 422	9 422	9 422
Cash and cash equivalents	*12*			4 447			4 447	4 447
Total assets		**1 113 214**	**1 110 253**	**254 478**		**869 632**	**3 347 577**	**2 331 221**

Categories of assets and liabilities

for the year ended 31 December 2015 *(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								
Liabilities								
Technical liabilities under insurance contracts	*9*					**1 199 859**	**1 199 859**	**1 087 448**
Gross outstanding claims reserve						1 020 031	1 020 031	907 620
Gross unearned premium reserve						151 467	151 467	151 467
Deferred retrocession commission revenue						28 361	28 361	28 361
Amounts due to companies on reinsurance accounts	*14*				65 454		65 454	65 454
Deposits due to retrocessionaire	*15*				1 247 697		1 247 697	1 247 697
Amount due to holding company					139 727		139 727	139 727
Other provisions and accruals	*16*				13 441	3 836	17 277	17 277
Creditors and accruals					13 441		13 441	13 441
Accrual for leave pay						3 836	3 836	3 836
Deferred tax liability	*17*					21 153	21 153	
Total liabilities					**1 466 319**	**1 224 848**	**2 691 167**	**2 557 603**

Categories of assets and liabilities

for the year ended 31 December 2015 *(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 2014								
Assets								
Equipment	*6*					5 067	5 067	
Intangible assets						16	16	
Financial assets	*8*	1 080 908	1094 067				2 174 975	1 202 035
Listed bonds		476 660	113 983				590 643	58 400
Listed ordinary shares		440 697					440 697	
Money market funds		163 551					163 551	163 551
Fixed and call deposits			980 084				980 084	980 084
Technical assets under insurance contracts	*9*					840 780	840 780	662 346
Retroceded outstanding claims reserve						695 651	695 651	517 217
Retroceded unearned premium reserve						109 629	109 629	109 629
Deferred acquisition costs						35 500	35 500	35 500
Amounts due from companies on reinsurance accounts	*10*			174 109			174 109	174 109
Deposits retained by ceding companies	*11*			141			141	141
Accounts receivable				21 221			21 221	21 221
Current income tax asset	*18*					4 536	4 536	4 536
Cash and cash equivalents	*12*			3 061			3 061	3 061
Total assets		**1 080 908**	**1 094 067**	**198 532**		**850 399**	**3 223 906**	**2 067 449**

Categories of assets and liabilities

for the year ended 31 December 2015 *(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								
Liabilities								
Technical liabilities under insurance contracts	*9*					1 177 358	1 177 358	922 893
Gross outstanding claims reserve						992 067	992 067	737 602
Gross unearned premium reserve						156 612	156 612	156 612
Deferred retrocession commission revenue						28 679	28 679	28 679
Amounts due to companies on reinsurance accounts	*14*				31 164		31 164	31 164
Deposits due to retrocessionaire	*15*				1 241 975		1 241 975	1 241 975
Amount due to holding company					108 411		108 411	108 411
Other provisions and accruals	*16*				6 538	2 871	9 409	9 409
Creditors and accruals					6 538	-	6 538	6 538
Accrual for leave pay						2 871	2 871	2 871
Deferred tax liability	*17*					33 786	33 786	
Total liabilities					**1 388 088**	**1 214 015**	**2 602 103**	**2 313 852**

Notes to the financial statements

for the year ended 31 December 2015

1. General information

Africa Re (SA) 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 its headquarters in Nigeria.

The financial statements were authorised for issue by the directors on 17 March 2016.

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. 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 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 accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects current and future years.

(c) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder 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.

Notes to the financial statements

for the year ended 31 December 2015 *(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 is 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 insured 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 balance sheet 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 reserve 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 except where there is a particularly long period from the claim incident to settlement in which case outstanding claims are discounted using a discount rate that best reflects the current assessment of the time value of money and associated risks. 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 2015 *(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 above).

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 2015 *(Continued)*

2. Accounting policies *(continued)*

(e) Contingency reserve

A contingency reserve was provided for in terms of the Short-term Insurance Act, 1998, and represented 10% of gross written premium less approved reinsurance (as defined in the Act). The reserve is 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 due to the change in legislation whereby capital requirements are determined in terms of Board Notice 169 issued by the Financial Services Board.

(f) 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.

(g) 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.

(h) 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.

(i) 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 profit or loss in the period in which the difference occurs.

(j) 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. 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.

(k) 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.

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

2. Accounting policies *(continued)*

(l) 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.

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.

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 measured at fair value and subsequently measured at amortised cost.

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

2. Accounting policies *(continued)*

(m) 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. 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.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the impairment account. The amount of the reversal is recognised in the statement of comprehensive income.

(n) 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.

(o) 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.

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

2. Accounting policies *(continued)*

(0) Taxation *(continued)*

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.

(p) 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.

(q) Standards and interpretations issued not effective

At the date of authorisation of these financial statements the following standards and interpretations were in issue, but not yet effective.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will have a significant impact on the company, which will include changes in the measurement bases of the company's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the company.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application. Early adoption is permitted.

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements.

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

4. Accounting estimates and judgements

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

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

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).

Insurance contract estimates

As a result of the time delay experienced by reinsurers in the receipt of bordereau or treaty account statements from their cedants, they are required to estimate insurance results where bordereau or treaty account statements have not yet been received.

In the calculation of these estimates, cognisance is taken of the past performance of the treaty adjusted by the relevant current information. A well-developed pipeline policy has been applied in the calculation of these estimates and its maturity over the years has resulted in it producing robust results.

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 R3.7mil (2014:R4.0mil) and an increase to equity of R2.6mil (2014: R2.9mil)

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 business, but mainly focuses on the property and motor sectors where cover is provided to protect the insured's material property and possible business interruption following defined loss events. The most significant portion of the business is written on a treaty basis. These risks are accepted proportionally and non-proportionally.

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.

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

5. Risk management objectives and policies *(continued)*

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

b) Premium pricing adequacy risk

This is the risk that premiums relating to current and past periods will not be sufficient to fund liabilities arising from that business. With regard to the adequacy of premiums, 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 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 Inspection which in turn reports its findings to both Executive Management and the Audit 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 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.

To reduce the risk of inadequate reserving, the Company takes a conservative view in estimating unreported losses due to the limited past experience.

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 R7.4mil (2014:R6.6mil), the effect on Equity is R5.4mil (2014: 4.7mil)

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

5. Risk management objectives and policies *(continued)*

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

(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.

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. All assets and liabilities are held in Rand and the Company is not exposed to any significant currency exchange risk.

(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, 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.

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

5. Risk management objectives and policies *(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 R45.4 million (2014: R44.1 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 2015 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 2015						
Equity	315.7	453.8	Market price	10%	32.7	45.4
Bonds at fair value	512.8	489.9	Interest rate movement	5%	17.6	24.5
Bonds at amortised cost	121.0	121.0	Interest rate movement	5%	4.4	6.0
Money market unit trusts	169.6	169.6	Market price	5%	6.1	8.5
Fixed deposit	989.3	989.3	Interest rate movement	5%	35.6	49.5
December 2014						
Equity	290.0	440.7	Market price	10%	31.7	44.1
Bonds at fair value	468.4	476.7	Interest rate movement	5%	17.2	23.8
Bonds at amortised cost	114.0	114.0	Interest rate movement	5%	4.1	5.7
Money market unit trusts	164.2	163.6	Market price	5%	5.9	8.2
Fixed deposit	980.0	980.0	Interest rate movement	5%	35.3	49.0

** 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 R24.5 million (2014: R23.8 million) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R49.5 million (2014: R49.0 million).

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

5. Risk management objectives and policies *(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, based on Standard & Poor's, Moody's, Fitch and AM Best local currency credit ratings at the end of the year, is presented in the table below:

December 2015	AAA to AA R'm	A+ to A R'm	BBB+ to BBB- R'm	Not indicated R'm	**Total** R'm
Financial assets	465.3	225.6	1 010.3	68.5	**1 769.7**
Insurance receivables				226.5	**226.5**
Insurance deposits				0.4	**0.4**
Accounts receivable				23.2	**23.2**
Cash and cash equivalents		4.4			**4.4**
Total	**465.3**	**230.0**	**1 010 .3**	**318.6**	**2 024.2**
December 2014					
Financial assets	175.4	836.3	681.0	41.5	**1 734.2**
Insurance receivables				174.1	**174.1**
Insurance deposits				0.1	**0.1**
Accounts receivable				21.2	**21.2**
Cash and cash equivalents		3.1			**3.1**
Total	**175.4**	**839.4**	**681.0**	**236.9**	**1 932.7**

Aging analysis of insurance receivables

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

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

5. Risk management objectives and policies *(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 maturities of the Company's assets and liabilities at the end of the year are analysed in the table below:

December 2015	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	4.4					4.4
Fixed and call deposit		989.3				989.3
Money market funds	169.6					169.6
Debt securities		115.8	54.4	14.3	426.2	610.7
Equities	453.8					453.8
Insurance contracts assets		651.4	134.3	30.3	40.2	856.2
Amounts due from companies on reinsurance accounts		226.5				226.5
Deposits retained by ceding companies		0.4				0.4
Accounts receivable		23.2				23.2
Total financial and insurance assets	**627.8**	**2 006.6**	**188.7**	**44.6**	**466.4**	**3 334.1**
Liability maturities						
Insurance contracts liabilities		907.5	191.7	43.4	57.3	1 199.9
Reinsurance account balance		65.5				65.5
Reinsurance deposits		1 247.7				1 247.7
Due to holding company		139.7				139.7
Other provision and accruals		17.3				17.3
Total financial and insurance liabilities		**2 377.7**	**191.7**	**43.4**	**57.3**	**2 670.1**
Net maturities	**627.8**	**(371.1)**	**(3.0)**	**1.2**	**409.1**	**664.0**

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

5. Risk management objectives and policies *(continued)*

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

(d) Liquidity risk *(continued)*

December 2014	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	3.1					3.1
Fixed and call deposit		980.0				980.0
Money market funds	163.6					163.6
Debt securities		58.5	33.7	87.5	410.9	590.6
Equities	440.7					440.7
Insurance contracts assets		662.3	111.8	27.3	39.4	840.8
Amounts due from companies on reinsurance accounts		174.1				174.1
Deposits retained by ceding companies		0.1				0.1
Accounts receivable		21.2				21.2
Total financial and insurance assets	607.4	1896.2	145.5	114.8	450.3	3 214.2
Liability maturities						
Insurance contracts liabilities		922.9	159.3	39.0	56.2	1 177.4
Reinsurance account balance		31.2				31.2
Reinsurance deposits		1 242.0				1 242.0
Due to holding company		108.4				108.4
Other provision and accruals		6.5				6.5
Total financial and insurance liabilities		2 311.0	159.3	39.0	56.2	2 565.5
Net maturities	607.4	(414.8)	(13.8)	75.8	394.1	648.7

(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 2015 *(Continued)*

6.	**Equipment**	**2015 R'000**	**2014 R'000**
	Cost		
	Motor vehicles	**694**	694
	Computer equipment	**1 665**	2 009
	Office equipment	**522**	737
	Furniture & fittings	**5 923**	6 280
		8 804	9 720
	Accumulated depreciation		
	Motor vehicles	**558**	424
	Computer equipment	**1 213**	1 387
	Office equipment	**495**	553
	Furniture & fittings	**2 541**	2 289
		4 807	4 653
	Carrying values		
	Motor vehicles	**136**	270
	Computer equipment	**452**	622
	Office equipment	**27**	184
	Furniture & fittings	**3 382**	3 991
		3 997	5 067
	Reconciliation of carrying values		
	Opening balance	**5 067**	5 693
	Additions	**464**	810
	Disposals	**(72)**	
	Depreciation	**(1 462)**	(1 436)
	Closing balance	**3 997**	5 067
	Motor vehicles		
	Net carrying value at beginning of year	**270**	404
	Depreciation	**(134)**	(1 34)
	Net carrying value at end of year	**136**	270

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

6.	**Equipment** *(Continued)*	**2015 R'000**	**2014 R'000**
	Computer equipment		
	Net carrying value at beginning of year	**622**	714
	Additions	**318**	328
	Disposals	**(4)**	-
	Depreciation	**(484)**	(420)
	Net carrying value at end of year	**452**	622
	Office equipment		
	Net carrying value at beginning of year	**184**	340
	Additions	**(6)**	-
	Depreciation	**(151)**	(156)
	Net carrying value at end of year	**27**	184
	Furniture & fittings		
	Net carrying value at beginning of year	**3 991**	4 235
	Additions	**146**	482
	Disposals	**(62)**	-
	Depreciation	**(693)**	(726)
	Net carrying value at end of year	**3 382**	3 991
7.	**Intangible assets**		
	Computer software - purchased		
	Cost		
	Opening balance	**600**	582
	Disposals	**(202)**	-
	Additions	**-**	18
	Closing balance	**398**	600
	Accumulated amortisation		
	Opening balance	**584**	582
	Amortisation – software in use	**(202)**	-
	Disposals	**7**	2
	Closing balance	**389**	584
	Net carrying value	**9**	16

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

8.	**Financial assets**	**2015 R'000**	2014 R'000
	Held-to-maturity instruments at amortised cost		
	Fixed and call deposits	**989 268**	980 084
	Listed bonds	**120 985**	113 983
		1 110 253	1 094 067
	Instruments at fair value through profit or loss		
	Listed instruments		
	– bonds	**489 860**	476 660
	– equities	**453 758**	440 697
	– money market funds	**169 596**	163 551
		1 113 214	1 080 908
	Total financial assets	**2 223 467**	2 174 975
	Fair value of the held-to-maturity instruments		
	Fixed and call deposits	**989 268**	980 084
	Listed bonds	**114 164**	115 099
		1 103 432	1 095 183
	Cost of instruments disclosed at fair value through profit or loss		
	Bonds	**512 796**	468 429
	Equities	**315 722**	289 978
	Money market funds	**169 596**	164 228
		998 114	922 632

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

Maturity period at 31 December 2014	**Effective Interest rate %**	Market Value R'000
On demand	5.50% to 6.00%	**169 596**
Within 1 year	6.15% to 7.80%	**989 268**
1 to 3 years	5.83% to 8.68%	**253 799**
3 to 7 years	7.00% to 9.56%	**131 033**
7 to 12 years	8.01% to 8.32%	**207 915**
>12 years	8.20% to 8.70%	**18 098**
		1 769 709

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

8. Financial assets *(continued)*

Maturity period at 31 December 2013	Effective Interest rate %	Market Value R'000
On demand	4.75% to 5.50%	163 551
Within 1 year	5.90% to 6.49%	1 095 929
1 to 3 years	6.16% to 9.39%	46 191
3 to 7 years	6.89% to 8.68%	185 867
7 to 12 years	8.11% to 8.69%	242 740
		1 734 278

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.

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

8. Financial assets *(continued)*

Fair values of financial assets and liabilities *(continued)*

Analysis of instruments at fair value
Financial assets

December 2015	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Designated at fair value through profit or loss	**943 618**	**169 596**	**-**	**1 113 214**
December 2014				
Designated at fair value through profit or loss	917 357	163 551	-	1 080 908

Investments and securities
The fair values of investments and securities designated at fair value through profit or loss are based on bid prices. For unlisted investments and securities, fair values are determined using valuation techniques that refer as far as possible to observable market data.

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.

9. Technical assets and liabilities under insurance contracts

	2015 R'000	2014 R'000
Technical liabilities		
-Gross claims reported but not yet settled	**772 093**	772 418
-Gross claims incurred but not reported	**247 938**	219 649
-Gross unearned premium provision	**151 467**	156 612
-Deferred retrocession commission income	**28 361**	28 679
	1 199 859	1 177 358
Technical assets		
-Retrocessionaire's share of claims reported but not yet settled	**541 404**	541 896
-Retrocessionaire's share of claims incurred but not reported	**173 556**	153 755
-Retrocessionaire's share of unearned premium provision	**106 027**	109 629
-Deferred acquisition costs	**35 217**	35 500
	856 204	840 780
Net technical liabilities		
-Claims reported but not yet settled	**230 689**	230 522
-Claims incurred but not reported	**74 382**	65 894
-Unearned premium provision	**45 440**	46 983
-Deferred acquisition costs	**(6 856)**	(6 821)
	343 655	336 578

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

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

9.1 Movements in technical assets and liabilities under insurance contracts

Outstanding claims	**2015 Gross R'000**	**2015 Reinsurance R'000**	**2015 Net R'000**
Claims reported but not yet settled	**772 418**	**541 896**	**230 522**
Claims incurred but not reported	**219 649**	**153 755**	**65 894**
Total outstanding at beginning of year	**992 067**	**695 651**	**296 416**
Movement in outstanding claims	**27 964**	**19 309**	**8 655**
-arising from current year claims	**339 107**	**237 375**	**101 732**
-arising from prior period claims	**(311 143)**	**(218 066)**	**(93 077)**
Total at end of year	**1 020 031**	**714 960**	**305 071**
Notified claims	**772 093**	**541 404**	**230 689**
Incurred but not reported	**247 938**	**173 556**	**74 382**
Total at end of year	**1 020 031**	**714 960**	**305 071**

	2014 Gross R'000	2014 Reinsurance R'000	2014 Net R'000
Claims reported but not yet settled	669 186	470 218	198 968
Claims incurred but not reported	204 680	143 276	61 404
Total outstanding at beginning of year	873 866	613 494	260 372
Movement in outstanding claims	118 201	82 157	36 044
-arising from current year claims	394 925	276 448	118 477
-arising from prior period claims	(276 724)	(194 291)	(82 433)
Total at end of year	992 067	695 651	296 416
Notified claims	772 418	541 896	230 522
Incurred but not reported	219 649	153 755	65 894
Total at end of year	992 067	695 651	296 416

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

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

9.1 Movements in technical assets and liabilities under insurance contracts

Gross claims settlement development run-off results for the last five years

	2011 R'000	2012 R'000	2013 R'000	2014 R'000	2015 R'000
Claim settlement for each year:					
- first year	253 690	438 949	467 121	582 143	**456 268**
- one year later	385 661	584 614	676 459	**763 626**	
- two years later	227 255	172 742	**177 295**		
Provision for gross outstanding claims after two years run-off	109 387	113 080	133 949	320 103	339 107
- three years later	42 928	**40 898**			
- four years later	**33 263**				
Provision for gross outstanding claims at year end	55 950	76 413	133 949	320 103	339 107
Claim development run-off result at year end	**(22 754)**	**(4 231)**	-	-	-

Unearned premium provision	**2015** **Gross** **R'000**	 **Reinsurance** **R'000**	 **Net** **R'000**
At the beginning of year	**156 612**	**109 629**	**46 983**
Premiums written during the year	**2 163 137**	**1 536 646**	**626 491**
Premiums earned during the year	**(2 168 282)**	**(1 540 248)**	**(628 034)**
Total at end of year	**151 467**	**106 027**	**45 440**

	2014 Gross R'00	 Reinsurance R'000	 Net R'000
At the beginning of year	181 451	127 016	54 435
Premiums written during the year	2 146 143	1 523 363	622 780
Premiums earned during the year	(2 170 982)	(1 540 750)	(630 232)
Total at end of year	156 612	109 629	46 983

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

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

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

9.1 Movements in technical assets and liabilities under insurance contracts

Deferred acquisition costs	**2015**		
	Gross R'000	**Reinsurance R'000**	**Net R'000**
At the beginning of year	**35 500**	**28 679**	**6 821**
Acquisition costs paid during the year	**584 156**	**461 860**	**122 296**
Acquisition costs incurred during the year	**(584 439)**	**(462 178)**	**(122 261)**
At the end of year	**35 217**	**28 361**	**6 856**

	2014		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	44 028	34 623	9 405
Acquisition costs paid during the year	556 669	443 544	113 125
Acquisition costs incurred during the year	(565 197)	(449 488)	(115 709)
At the end of year	35 500	28 679	6 821

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.

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

		2015 R'000	2014 R'000
10.	**Amounts due from companies on reinsurance accounts**		
	Amounts due from ceding companies	**226 499**	174 109
		226 499	174 109
11.	**Deposits retained by ceding companies**		
	At beginning of year	**141**	136
	New deposits retained	**237**	5
	At the end of year	**378**	141
12.	**Cash and cash equivalents**		
	Cash on hand	**44**	53
	Current bank account balances	**4 403**	3 008
		4 447	3 061

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

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

		2015 R'000	2014 R'000
13.	**Share capital and share premium**		
	Share capital	**-***	-*
	Share premium	**80 300**	80 300
		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	**1 453**	12 061
	Amounts due to retrocessionaire	**64 001**	19 103
		65 454	31 164
15.	**Deposits due to retrocessionaire**		
	At beginning of year	**1 241 975**	1 108 810
	New deposits retained	**1 247 697**	1 241 975
	Deposits released	**(1 241 975)**	(1 108 810)
	At the end of the year	**1 247 697**	1 241 975

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

16. Other provisions and accruals

	2015 R'000	2014 R'000
Other creditors and accruals	**13 441**	6 538
Accrual for leave pay	**3 836**	2 871
	17 277	9 409

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

		2014 R'000
Opening balance	**33 786**	27 268
Current year	**(12 633)**	6 518
Closing balance	**21 153**	33 786
The net deferred tax liability balance at the end of the period comprises:		
– capital allowance	**141**	109
– provisions	**(1 073)**	(803)
– unrealised gains on revaluation of investments	**22 085**	34 480
	21 153	33 786

18. Current income tax asset

The current income tax asset of R9.4 million (2014: R4.5 million) represents the amount of income taxes payable in the current year less provisional tax payments made.

19. Commission paid and received

		2014 R'000
Gross commission and brokerage paid	**584 156**	556 669
Gross deferred acquisition costs	**283**	8 528
Commission incurred	**584 439**	565 197
Commission earned	**(462 178)**	(449 488)
Retrocession commission and brokerage received	**(408 916)**	(389 714)
Retroceded overriding commission received	**(52 944)**	(53 830)
Retroceded deferred commission revenue	**(199)**	(5 970)
Retroceded deferred overriding commission revenue	**(119)**	26
Net commission incurred	**122 261**	115 709

Notes to the financial statements

for the year ended 31 December 2015 *(Continued)*

		2015 R'000	2014 R'000
20.	**Profit before taxation**		
	Profit before taxation is arrived at after charging the following items:		
	Auditor's remuneration:	**1 307**	1 540
	- for audit services in the current year	**1 700**	1 540
	- over provision in prior years	**(393)**	-
	Consultancy fees	**1 406**	1 371
	Depreciation	**1 462**	1 436
	Loss/(gain) on disposal of equipment	**12**	(2)
	Amortisation	**7**	2
	Directors remuneration	**9 940**	9 343
	Executive – for services rendered	**5 876**	5 207
	Non executive – for services as directors	**4 064**	4 136
	Lease payments	**2521**	2 571
	Secretarial fees	**135**	125
	Staff costs including contribution to pension fund, UIF, SDL and allowances	**30 205**	20 382
	Number of staff: 39 (2014: 35)		
21.	**Taxation**		
	South African normal taxation – current year		
	Corporate tax	**19 381**	15 150
	Deferred tax	**(12 633)**	6 518
		6 748	21 668
	Tax rate reconciliation	**%**	%
	Effective tax rate	**16.3**	22.0
	Exempt income	**10.9**	4.4
	Disallowed expenses	**(0.7)**	(0.3)
	Capital gains tax	**1.5**	1.9
	South African standard corporate tax rate	**28.0**	28.0

Notes to the financial statements

for the year ended 31 December 2015 *(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	2015	2014
		R	R
Bakary Kamara	Non-executive Chairman	**708 987**	708 987
Corneille Karekezi	Non-executive Deputy Chairman	**638 089**	638 089
Allan F W Peters	Independent, non-executive Director	**567 190**	567 190
Elizabeth Amadiume	Non-executive Director	**531 740**	531 740
Phillip Pettersen	Independent, non-executive Director	**567 190**	567 190
Haile M Kumsa	Independent, non-executive Director	**531 740**	531 740
Sizakele Mzimela	Independent, non-executive Director	**519 924**	590 822
Daryl De Vos	Managing Director	**3 770 203**	3 377 361
Ibrahim Ibisomi	Executive Director	**2 105 793**	1 829 188

Prescribed officers

Apart from Mr Daryl De Vos who served as Managing Director and Mr Ibrahim Ibisomi who served as an Executive Director, the only other prescribed officer of the Company together with the remuneration paid for services rendered to the Company during the year was as follows:

	2015	2014
	R	R
John C Izegbu – General Manager Operations	**2 160 302**	1 829 188

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 2015 *(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	**2015 R'000**	**2014 R'000**
Assets		
Retroceded outstanding claims provision	**714 960**	695 651
Retroceded unearned premium provision	**106 027**	109 629
Liabilities		
Deferred retrocession commission revenue	**(28 361)**	(28 679)
Deposits due to retrocessionaire	**(1 247 697)**	(1 241 975)
Amounts due to companies on reinsurance accounts	**(64 001)**	(19 103)
Amount due to holding company	**(139 727)**	(108 411)
Net liabilities	**(658 799)**	(592 888)
Statement of comprehensive income		
Retroceded premiums	**(1 534 347)**	(1 523 363)
Retrocessionaire's share of provision for unearned premiums	**(3 602)**	(17 387)
Retroceded claims received	**1 047 794**	1 057 723
Retrocessionaire's share of provision for outstanding claims	**19 309**	82 157
Retrocessionaire's share of net commission incurred	**462 075**	449 488
Interest expense	**(25 194)**	(22 115)
Management expenses	**(34 348)**	(29 987)

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

Statement of financial position	**2015 R'000**	2014 R'000
Liabilities		
Other creditors and accruals	**4 696**	2 347
Statement of comprehensive income		
Management expenses	**(2 347)**	(2 347)

Notes to the financial statements

for the year ended 31 December 2015 *(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 R1 806 868 (2014: R1 470 069).

24. Operating lease commitments

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

	2015 R'000	2014 R'000
– less than one year	**104**	146
– between one and five years	**87**	48
	191	194

25. Notes to the cash flow statement

		2015 R'000	2014 R'000
25.1	Reconciliation of cash generated/(utilised) by operations		
	Profit before taxation	**41 355**	98 272
	Adjusted for :		
	- depreciation and amortisation	**1 469**	1 438
	- investment income net of management fees	**(108 141)**	(169 677)
	- interest expenses	**25 194**	22 115
	- net unearned premium reserve net of deferred acquisition costs	**(1 578)**	(4 868)
	Cash generated/(utilised) by changes in working capital	**33 291**	128 462
	Net amounts due from companies on reinsurance accounts	**(18 100)**	(69 875)
	Deposits retained by ceding companies	**(237)**	(5)
	Accounts receivable	**(1 933)**	669
	Amount due to holding company	**31 316**	28 136
	Other provision and accruals	**7 868**	328
	Deposits due to retrocessionaire	**5 722**	133 165
	Net outstanding claims reserve	**8 655**	36 044
		(8 410)	75 742
25.2	Reconciliation of taxation received/(paid)		
	Balance recoverable at the beginning of the period	**4 536**	25 337
	Current tax charge in profit or loss	**(19 381)**	(15 150)
	Balance recoverable at the end of the period	**(9 422)**	(4 536)
	Taxation received/(paid)	**(24 267)**	5 651

Notes to the financial statements

for the year ended 31 December 2015 *(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.

26.2 **Dividends**

The Directors are conscious of on-going regulatory changes under the Solvency Assessment and Management project of the Financial Services Board, with potential impact on the capital requirements of insurance industry practitioners 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 despite the excellent results achieved during the year.

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.