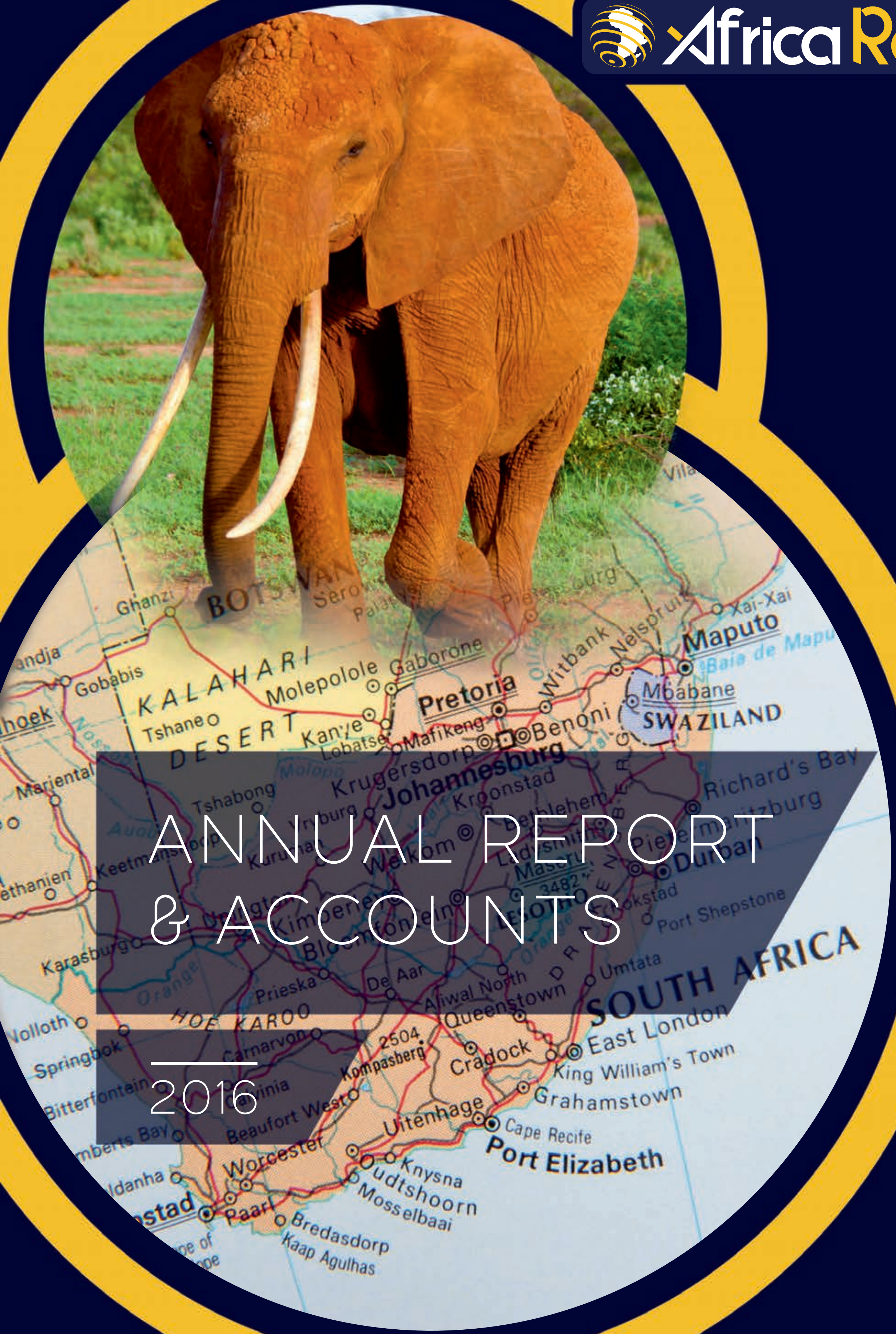

ANNUAL REPORT & ACCOUNTS

2016

Prepared by Glen Peters, B. Compt., under the supervision of
Ibrahim Ibisomi, B.Sc. (Hons), LL B (Hons), MBF, FCA, Executive Director.
These Financial Statements have been audited in compliance with
Section 30 of the South African Companies Act 71 of 2008.

- 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

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33 Boulevard Moulay Youssef
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Fax: +212-2 22 43 77 29
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+254-20 2970776
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Email: p.louis@africa-re.com

Subsidiaries

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Fax: +27 11 484 1001
Email: africare@africare.co.za

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Heliopolis, 11361
Cairo, Egypt
Tel: +20 2 22685668
Fax: +20 2 22685667
Email: cairo@africa-re.com

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Kirkos Sub City, Kebele 05
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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

for the year ended 31 December 2016

Audited

Prepared by Glen Peters, B. Compt., under the supervision of
Ibrahim Ibisomi, B.Sc. (Hons), LL B (Hons), MBF, FCA, Executive Director

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 2016

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 2016, 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
16 March 2017

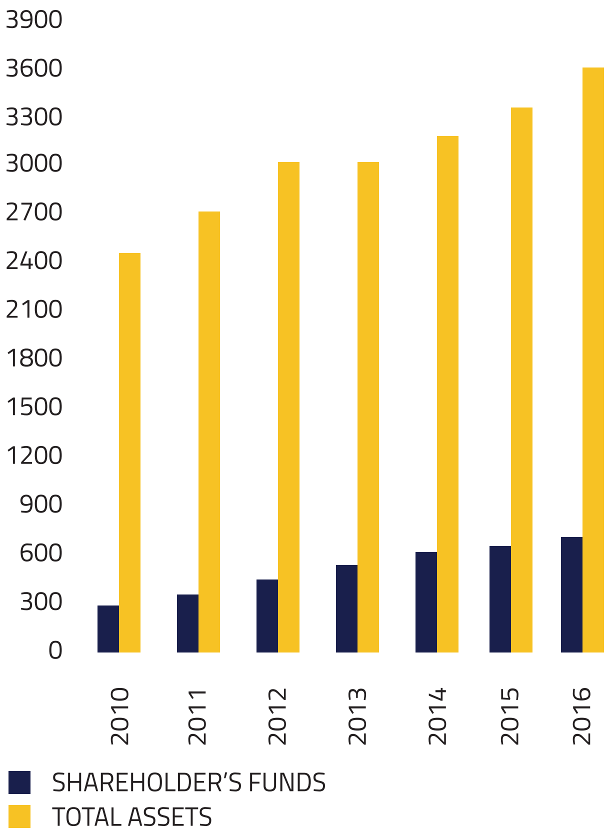
Financial highlights

for the year ended 31 December 2016

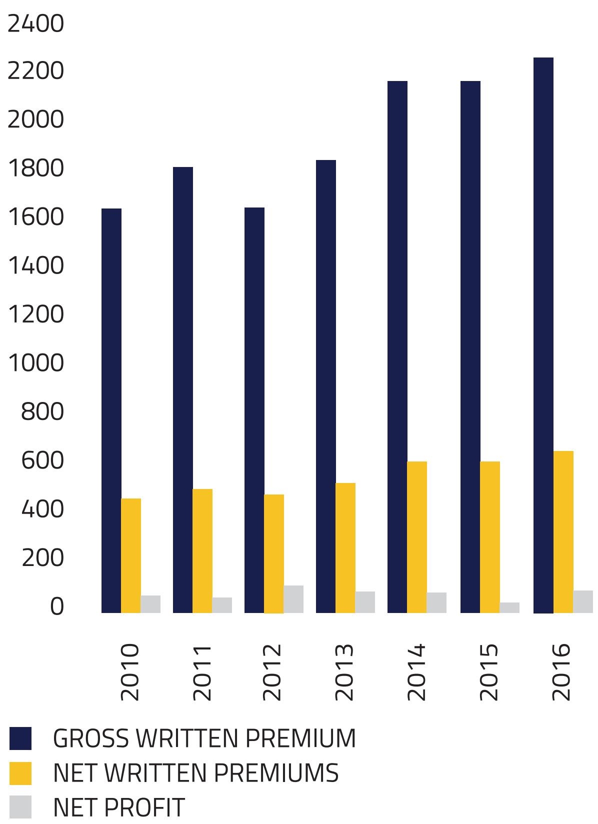
In R'000	2016	2015	2014	2013	2012
RESULTS					
GROSS WRITTEN PREMIUMS	**2 277 434**	2 163 137	2 146 143	1 879 305	1 687 667
NET WRITTEN PREMIUMS	**661 428**	626 491	622 780	548 255	489 379
NET EARNED PREMIUMS	**651 365**	628 034	630 232	557 814	479 796
NET PROFIT	**82 950**	34 607	76 604	83 526	108 120
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	**739 360**	656 410	621 803	545 199	461 673
TOTAL ASSETS	**3 606 274**	3 347 577	3 223 906	2 978 400	2 968 992
INTERNATIONAL SOLVENCY MARGIN[N1]	**112%**	105%	100%	99%	94%

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

FINANCIAL POSITION 2010 - 2016
In Rand' Million



RESULTS 2010 - 2016
In Rand' Million



Chairman and executive management statement

for the year ended 31 December 2016

On behalf of the Board of Directors, we again have the honour and privilege to present the annual financial statements of African Reinsurance Corporation (South Africa) Limited ("the Company" or "Africa Re (SA)") for the year ended 31 December 2016. The year 2016 marked the third year of the Company's current five-year strategic plan 2014 – 2018 and was filled with epochal events across the globe and within the markets served by the Company, most of which impacted the operations, fortunes and overall performance of the Company.

On the global scene, 2016 was a year like no other. The world witnessed the surprising, if not shocking, outcomes of the 'Brexit' referendum and the United States presidential elections, both of which are capable of significantly altering world geopolitical and economic settings and inter-relationships rather drastically, and the consequences of which are still unpredictable. The restiveness in the wider Middle East region continued unabated during the year with sustained impact on world crude oil supply, save for the re-entry of Iran into the market. Still, the OPEC cartel of oil producing nations managed a production quota agreement that pushed up crude prices albeit well below their historical highs. Of course, the refugee crisis arising from the many wars in North Africa and the Middle East continued unabated, further dragging down the low economic growth in Europe and threatening the already fragile social harmony. As if these were not enough, terrorists struck time after time in several European countries including France, Germany and Belgium while weather remained a constant influencer of socio-economic activities around the world.

On the economic front, the global economy continued to record low growth that varied from region to region. Global GDP growth came out below 2%, driven by the economies of the developed world (including the United States) as well as several leading emerging economies that recorded GDP growth below 2% while China underperformed itself at about 4%. This impacted negatively on the growth recorded by many African countries including South Africa and other countries in which the Company operates, most of which suffered diminished demand and weak prices for their leading export commodities. The growth challenge around the world definitely requires new impetus that we hope will merit the attention and commitment of world leaders and the global development finance institutions in order to arrest the deteriorating standards of living and widespread poverty as well as to achieve the United Nations' sustainable development goals (SDGs) by their target date of 2030.

Nearer home, the year 2016 was no less eventful in the countries in which the Company operates. In South Africa, important judgments, reports and electoral outcomes were delivered by the Constitutional Court, the Public Protector and even the South African electorate in the municipal elections. The peace and political reconciliation process continued in Lesotho while there was general calm in the rest of the Southern Africa sub-region.

In specific terms, South Africa remained the dominant operating market for the Company while the other economies of Southern Africa in which the company operated continued to be substantially tied to the South African economy. The disappointing GDP growth of only 0.3% recorded by South Africa for 2016 therefore had a telling reflection on the economies of the other countries in the sub-region. The 0.3% growth recorded by the South African economy marked a continuation of the downward trend since the recovery from the 2009 economic recession and compares dismally with the 1.3% growth of 2015 and the 1.8% growth recorded in 2014.

The poor GDP performance continued to be impacted by generally low commodity prices and a strengthening Rand that permeated the year, low consumer and producer confidence, widespread drought leading to eight of the country's nine provinces being declared as disaster zones during most of 2016, substantial divestment and reduced activity in the mining and quarrying sector, as well as the potential of a dreaded ratings downgrade that persisted throughout the year. This situation was not helped by the continued volatility of the currency (despite that, overall, it strengthened against the US Dollar by some 12% through the year), the student protests against fee increases that turned violent at some point, the slow pace of fiscal consolidation, the continued weakness and poor performance of state enterprises in vital sectors of the economy together with the political and legal challenges foisted on the respected Minister of Finance. Inflation also ticked up above the target range of 3% - 6% to settle at 6.8% at the end of the year.

On the positive side, some key South African political and judicial institutions demonstrated strength and reaffirmed the efficacy of the constitutional democratic framework operating in the country through landmark decisions and reports that buoyed the confidence of economic agents including the rating agencies. Even the electorate delivered some strong message to the ruling party in the outcome of the local elections that held peacefully in August 2016. Power supply stabilised all through the year albeit reduced demand as a result of lower levels of industrial activity may have played a role.

Chairman executive management statement

for the year ended 31 December 2016 *(Continued)*

There was relative industrial harmony across the economy with no disruptive labour strikes worthy of note. The money and capital markets also stabilised after the politically-induced turmoil recorded in December 2015. Global crude prices rose during the year but minimally fed through into domestic inflation on the back of the relatively stronger Rand.

Undoubtedly worrisome for every role player in the South African political and economic landscape are the persistently high levels of poverty, unemployment and income equalities that reflect no significant progress in the efforts to build and achieve financial inclusion and comprehensive economic development. This does not bode well for sustainable social harmony and enduring peace that are a fundamental bedrock for beneficial growth and development. We reiterate our call for the leadership in both government and business to engage constructively in building consensus on the measures required to effectively tackle these issues and challenges (poverty, unemployment and income inequalities) in the interest of the country and its people. Consensus is one important basis for eliciting maximum and faithful implementation of any agreed measures and this is why we would posit it as the prime target to meet. We urge government to provide the required leadership in this process while also addressing its primary responsibility of building the enabling environment through policy certainty, elimination of all forms of waste, provision of security and socio-economic infrastructure and strengthening of the rule of law. Business on its part needs to buy into the imperative for promoting meaningful transformation that will enhance economic inclusiveness and equitable wealth distribution.

The insurance sector fared slightly better than the national economy in terms of the modest growth achieved in premium and investment income but had to contend with a deteriorated claims environment. Market loss events that were relatively mild in 2015 were more pronounced in 2016 during which several large and catastrophic losses costing billions of Rand were recorded with debilitating impact across the industry. This contributed to most of the industry recording an underwriting loss in the year under review.

Happily, however, the decline in underwriting performance across the industry has been matched with improved investment returns on the back of contrasting but overall positive domestic and global factors. While slow growth in China and still-low growth in Europe – South Africa's largest trading and investment partners – that continued all through 2016 have constrained returns on equity investment instruments, improved interest rates and higher government borrowing have enhanced returns on deposit and bond investments. There was also noticeable recovery from the dismally low levels into which the financial markets sunk in December 2015 as well as from the shocks emanating from the Chinese market turmoil of January 2016. As net investors in the market, these benefited many insurers and reinsurers including Africa Re (SA) through improved investment yields at the end of the year.

The Company's Board and Management have continued to address the challenges posed by the difficult economic and operating environment through a faithful implementation of the 2014–2018 strategic plan, following its mid-term review undertaken during 2016. Measures have also been taken to review and remedy the underperforming components of the Company's portfolio while enhancing the human, material and financial resources available for executing the business and other activities of the Company. The Board has been supportive of management initiatives to position the Company and its business in a customer-centric manner in order to attract and retain the desired nature and level of business unto the Company's portfolio. The Company's capital was also maintained at strong and adequate levels appropriate for its operations. We have every confidence that these measures will continue to improve the Company's overall performance and generate the desired results for all stakeholders.

Against this background, the Company recorded another mixed but generally improved performance in 2016. Despite the voluntary cancellation of a good volume of treaties and the intense competition from especially non-resident reinsurers but through the sustained careful execution of its growth strategy under the current strategic plan, the Company was able to further grow its gross written premium over the level attained in 2015. This is a mark of the continued level of trust and confidence in the Company's security by its clients. Furthermore, with the benefits of the cancelled treaties coming through, moderated by the deteriorated claims environment, the Company recorded a marginal improvement in its incurred loss ratio compared to the preceding year, which yielded a lower level of net underwriting loss. In addition, the Company recorded a much higher investment performance in 2016 compared to 2015 on the back of certain improvements in the financial markets, especially higher interest rates and stronger bond yields. Overall, return on equity rose to nearly 13% (2015 – 6%), which further strengthened the Company's solvency and capital base.

Chairman executive management statement

for the year ended 31 December 2016 *(Continued)*

The Board remains supportive of Management's efforts at improving the underwriting and investment performance in reward 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 R2.277 million compared to R2.163 million recorded in 2015, representing a growth of R114 million (or 5%). Similarly, the Company recorded a R35 million (or 6%) increase in its net written premium, from R626 million in 2015 to R661 million in 2016. The Company has thus sustained its premium growth trajectory with the gross and net written premiums of 2016 higher than the previous record levels attained in 2015 despite the continued voluntary cancelation of certain treaties that yielded substantial premiums in previous years.

The South African insurance industry experienced an unusually high number of large and catastrophe losses during 2016 from which the Company picked its share as a major reinsurer in the market. However, the Company's claims experience was moderated by the positive impact of the poor-performing treaty programmes that were cancelled over the past two years. This resulted in a marginal increase in the net incurred claims from R457 million recorded in 2015 to R460 million in 2016. The Company was happy to have met its obligations to its clients on account of the many large and catastrophe losses they suffered in just one year, which is the key justification the clients have for buying reinsurance to cushion the effect of substantial losses. The Board and Management will continue to implement appropriate measures to meet its claims obligations for the benefit of its clients while also working to stabilise the Company's earnings.

Both gross and net commission expenses increased by 6% and 7%, respectively, largely a reflection of the growth in written premium. Gross and net commission expenses amounted to R621 million (2015: R584 million) and R131 million (2015: R122 million), respectively. There was no change in the rate of overriding commission received from the retrocessionaire compared to the preceding year.

Management expenses similarly rose by 6% from the R90 million incurred in 2015 to R96 million in 2016, which was mainly due to inflation and the Company's sustained investment in human and material resources to support growth, improve client service and meet the increasing regulatory compliance obligations.

Overall, despite the deteriorated claims environment on account of the large and catastrophe losses, the positive impact of the poor-performing treaties that were cancelled together with other remedial measures taken by the Company have resulted in a slight improvement of the underwriting results. Thus, the Company recorded a lower net underwriting loss in 2016 compared to the preceding year. It is expected that this improvement will be carried into the future for the Company to record positive underwriting margins to drive its overall performance on a sustainable basis going forward.

Net investment income rose substantially by 77% in 2016 compared to 2015. Interest income and value gains on bond instruments rose substantially on the back of substantial improvement in the financial markets after the sudden dip suffered in December 2015. There was also an all-round improvement in the income earned on fixed and call deposits as a result of the full impact of the increases in the base interest rates decided upon by the South Africa Reserve Bank since November 2015. Money market instrument yields also benefited from the interest rate increases. However, equity instruments recorded substantial unrealised value losses as a result of the poor performance of the equity segment of the Johannesburg Stock Exchange reflected in the flat JSE All-Share Index between December 2015 and December 2016. The turmoil in the Chinese stock market witnessed early in 2016, which affected other major stock markets around the world including the JSE, also played a part in the poor returns on equity investments.

Consequently, the Company recorded a net investment income of R147 million in 2016 compared to the R83 million earned in 2015. The Board remains satisfied with the performance of the asset managers but 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. An Asset-Liability Management model has been approved to drive the Company's investment strategy on a more objective basis. It is anticipated that this will further improve the yield on the Company's investments for every level of risks.

Profit before tax for the year under review was R112 million compared to the R41 million recorded in 2015. Accrued income tax expense charged to the income statement for the period was R29 million (2015: R7 million) resulting in an after tax profit of nearly R83 million compared to the approximately R35 million recorded in 2015.

Chairman executive management statement

for the year ended 31 December 2016 *(Continued)*

The Board views this significant increase in net profit after tax with some sense of satisfaction despite the fact that it was driven primarily by improved investment performance. A good part of the higher level of profit has been the fact that the underwriting performance also improved on the back of the positive impact of the remedial measures taken to improve the Company's business portfolio. With this level of performance, we believe the Company stands on a stronger footing to face the challenges in the difficult operating environment and effectively fulfil its obligations to its stakeholders.

The Board and Management share the optimism of most analysts who posit that the economies of South Africa in particular and Southern Africa in general are poised for stronger growth in 2017. Commodity prices are expected to tick up while demand for these commodities should be stronger on the back of the expected improvement in economic recovery in China and the sub-region's other trading partners. There is similar optimism around global economic recovery with the expected level of fiscal stimulus to propel economic growth in the developed and other leading emerging-market economies, especially in the United States and China, respectively. All these lend credence to the Board's confidence that the Company's future is bright and that there will continue to be opportunities that the Company will tap into in its operating markets that will enable it achieve sustainable growth in the foreseeable future.

The South African insurance regulatory platform has been set on the path of becoming Solvency II equivalent through the careful design and meticulous but gradual implementation of a risk-based regulation and supervision framework. Dubbed 'Solvency Assessment and Management' (SAM), the project to achieve this new regime started in 2009 and has reached its final lap, which is the enactment of the enabling primary legislation. The draft legislation is currently with the Parliament and is expected to be enacted in the course of 2017.

Having participated fully and successfully in all the stages of the development and implementation of the new regulatory framework, the Board has every confidence that the Company is substantially ready to fully comply with the requirements of the new framework when it eventually commences formally. So far, the Company undertook all voluntary and mandatory submissions required of it under the process of developing the new framework. Happily, all the submissions show the adequacy of the Company's capital, governance structure and risk management practices.

The Board will ensure that the required changes to the Company's information technology system resources are made in order to achieve 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 formally rolled out. All required measures and resources to achieve this objective will be duly examined and promptly authorised by the Board.

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, for the third consecutive year, this rating has been reaffirmed thus lending credence to the sustained strength of the Company's capital, governance and risk management standards as well as its work processes, 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 remain focused and committed to ensuring the sustenance and future enhancement of this highly regarded security rating.

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

During the year, the composition of the Board and its Committees remained in full compliance with the applicable requirements of the Companies Act 2008 and the Short-Term Insurance Act 1998 as amended. The Board of Directors met three times with all serving Directors present at each meeting, including by teleconference on two occasions, to accommodate a Director on each occasion.

Chairman executive management statement

for the year ended 31 December 2016 *(Continued)*

The Directors who served during the year were:

B H Kamara	-	(Non-executive Chairman)
C Karekezi	-	(Non-executive Deputy Chairman)
A F W Peters	-	(Lead Independent Director)
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)

The Audit Committee under the chairmanship of A F W Peters met thrice during the course of the 2016 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's other committees are: Remuneration and Human Resources Committee under the chairmanship of C Karekezi, Risk and Underwriting Committee under the chairmanship of P Pettersen, Nominations and Governance Committee under the chairmanship of B H Kamara as well as Finance and Investment Committee under the chairmanship of C Karekezi. The Board is satisfied with the performance of all the Committees and believes that their work has greatly strengthened the effectiveness of its oversight responsibilities.

Corporate Social Responsibility continues to be a key priority for the Company. During the year, Africa Re (SA) donated essential learning materials to equip the library in its adopted school, contributed bursary funds to facilitate the education of certain disadvantaged learners and provided funds for the promotion and development of education and training through the Liberty Life JSE Investment Challenge. The Company also seeks out worthy individuals and causes and provides ongoing support to a number of these initiatives.

Our employees are undoubtedly our most important resource and we believe that each and every staff member contributes meaningfully towards the development of Africa Re (SA). The Company in turn provides support to the self-development initiatives of staff through which a number of employees have achieved important milestones in their academic and professional pursuits. We will continue to develop a conducive and supportive environment where each employee is able to reach their full potential and to share in the success of our business.

In this regard, Africa Re (SA) will continue to strive to attract, develop and retain the very best talent focussing on the right rewards and incentives whilst allowing staff to achieve a balance between both personal and professional capabilities.

We 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 and 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

Elizabeth N Amadiume
Non-executive Director

Siza Mzimela
Independent, Non-executive Director

John Izegbu
General Manager, Operations

Allan F W Peters
Lead Indepedent Director

Phillip Pettersen
Independent, Non-executive Director

Haile M Kumsa
Independent, Non-executive Director

Sory Diomande
Incoming Deputy Managing Director

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

Directors' responsibility for the financial statements

for the year ended 31 December 2016

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 2016, 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 16 March 2017 and signed on their behalf

Bakary H Kamara
Chairman
Authorised Director

Daryl De Vos
Managing Director
Authorised Director

Report by the Audit Committee

for the year ended 31 December 2016

The Audit Committee is pleased to present this report on its activities for 2016 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 three times 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. The internal auditors conducted their routine annual audit during the year but were unfortunately unable to follow up on its presentation to the Committee before the retirement of the erstwhile head of internal audit. It is expected that their 2016 report will therefore be the starting point for the new head of internal audit who would also be required to develop a new three-year audit plan. 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 2017.

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
  Lead Independent 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 2016.

For and on behalf of the Audit Committee:

Allan F W Peters
Chairman
16 March 2017

Report by the Social and Ethics Committee

for the year ended 31 December 2016

The Social and Ethics Committee is pleased to present this report on its activities for 2016 to the Board and to the Shareholder. Although the Social and Ethics Committee is a creation of the Companies Act 2008 and the King III Report, the Company as a member of the Africa Re Group has always voluntarily subscribed to the highest levels of ethics and substantial social responsibility. The continued implementation of the statutory requirements has therefore not posed any difficulty for the Company.

The Committee 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 updated its workplan and reconfirmed the existing structures and documents relevant to its work, while also promoting the Company's social responsibility initiatives. The Company maintained the fraud line and held the annual Wellness Day for employees during the year. The Company also enhanced its support for its 'adopted' primary school through the donation of essential reading materials to the school library. The Committee continued to use the verification report on the Company's BBBEE status obtained in 2014 to guide the Company's activities in order to improve on its compliance and satisfactory progress was made during the year. During the year, the Committee championed the development of a formal Protection of Private Information Policy that the Board approved for the Company.

The Social and Ethics Committee met three times during the year with all members in attendance, except for one absence that did not prejudice the quorum during one of the meetings. Apart from its members, the Committee's meetings are attended by other personnel on the invitation of the Committee, who may be required to assist the Committee in its work.

This invitation has been extended to only one staff member to date, in the person of Ms. Ncumisa Sinyanya, the HR/Compliance Officer, who has proved to be a key resource person for the Committee. 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
  Senior 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 for the year ended 31 December 2016. The Committee will continue to fulfil its role in guiding the Company on social and ethical matters in accordance with its statutory mandate and international best practice.

For and on behalf of the Social and Ethics Committee:

Sizakele Mzimela
Chairperson
16 March 2017

Directors' report

for the year ended 31 December 2016

The Directors are pleased to present the directors' report of the Company for the year ended 31 December 2016.

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 (2015: 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 2016 amounts to R739.4 million (2015: R656.4 million). Net technical liabilities under insurance contracts at 31 December 2016 amount to R345.4 million (2015: R343.7 million).

Statement of comprehensive income
Total profit and comprehensive income for the year is R83.0 million (2015: R34.6 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 (2015: 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. was appointed the statutory auditor of the company and have expressed their willingness to continue in office.

By order of the Board

Ibrahim Ibisomi
Company Secretary
16 March 2017

Independent auditor's report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of African Reinsurance Corporation (South Africa) Limited set out on pages 16 to 54, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation (South Africa) Limited as at 31 December 2016, 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.

Basis for Opinion

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

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa and the Directors' Responsibility Statement, report by the Social and Ethics Committee and the Chairman and Executive Management Statement. Other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent auditor's report

(Continued)

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
  Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements
In terms of the IRBA 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 13 years.

KPMG Inc.
Registered Auditor

Per Antoinette Malherbe
Chartered Accountant (SA)
Registered Auditor
Director
19 May 2017

85 Empire Road
Parktown
2193

Statement of financial position

for the year ended 31 December 2016

	Note	2016 R'000	2015 R'000
Assets			
Equipment	*6*	**3 138**	**3 997**
Intangible assets	*7*	**3**	**9**
Financial assets	*8*	**2 404 879**	**2 223 467**
- Held-to-maturity instruments at amortised cost		**1 178 219**	**1 110 253**
- Instruments at fair value through profit or loss		**1 226 660**	**1 113 214**
Technical assets under insurance contracts	*9*	**927 343**	**856 204**
- Retroceded outstanding claims reserve		**755 345**	**714 960**
- Retroceded unearned premium reserve		**129 506**	**106 027**
- Deferred acquisition costs		**42 492**	**35 217**
Amounts due from companies on reinsurance accounts	*10*	**242 809**	**226 499**
Deposits retained by ceding companies	*11*	**3 149**	**378**
Accounts receivable		**10 735**	**23 154**
Current income tax asset	*18*	**13 128**	**9 422**
Cash and cash equivalents	*12*	**1 090**	**4 447**
Total assets		**3 606 274**	**3 347 577**
Equity			
Share capital and share premium	*13*	**80 300**	**80 300**
Contingency reserve		**51 702**	**51 702**
Retained earnings		**607 358**	**524 408**
Total equity attributable to equity holders of the company		**739 360**	**656 410**
Liabilities			
Technical liabilities under insurance contracts	*9*	**1 272 740**	**1 199 859**
- Gross outstanding claims reserve		**1 053 455**	**1 020 031**
- Gross unearned premium reserve		**185 009**	**151 467**
- Deferred retrocession commission income		**34 276**	**28 361**
Investment contract liability		**901**	**-**
Amounts due to companies on reinsurance accounts	*14*	**54 272**	**65 454**
Deposits due to retrocessionaire	*15*	**1 319 212**	**1 247 697**
Amount due to holding company		**172 380**	**139 727**
Other provisions and accruals	*16*	**21 311**	**17 277**
Deferred tax liability	*17*	**26 098**	**21 153**
Total liabilities		**2 866 914**	**2 691 167**
Total equity and liabilities		**3 606 274**	**3 347 577**

Statement of comprehensive income

for the year ended 31 December 2016

	Note	2016 R'000	2015 R'000
Gross written premiums		2 277 434	2 163 137
Retroceded written premiums		(1 616 006)	(1 536 646)
Net written premiums		661 428	626 491
Change in gross unearned premium reserve		(33 542)	5 145
Change in retroceded unearned premium reserve		23 479	(3 602)
Net earned premiums		651 365	628 034
Net investment income		146 820	82 947
Dividend income		15 958	16 097
Interest income on investments		141 074	119 453
Interest expense on investments		(31 452)	(25 194)
Net realised gain on disposal of investments		17 901	23 317
Net unrealised gain on investments		9 328	(44 975)
Investment management expenses		(5 989)	(5 751)
Other income		900	-
Total net income		799 085	710 981
Gross claims paid		1 556 867	1 496 585
Retroceded claims received		(1 090 047)	(1 047 794)
Change in gross provision for outstanding claims		33 424	27 964
Change in retroceded provision for outstanding claims		(40 385)	(19 309)
Net incurred claims		459 859	457 446
Net commission incurred	*19*	131 309	122 261
Management expenses		95 728	89 919
Total technical expenses		686 896	669 626
Net profit before taxation	*20*	112 189	41 355
Taxation	*21*	(29 239)	(6 748)
Total profit and comprehensive income for the year		82 950	34 607

Statement of changes in equity

for the year ended 31 December 2016

	Share capital and share premium	Contingency reserve	Retained earnings	Total
	R'000	R'000	R'000	R'000
Balance as at 1 January 2015	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**
Comprehensive income for the year	**-**	**-**	**82 950**	**82 950**
Balance as at 31 December 2016	**80 300**	**51 702**	**607 358**	**739 360**

Statement of cash flows

for the year ended 31 December 2016

	Note	2016 R'000	2015 R'000
Cash flows from operating activities			
Cash generated/(utilised) by operations	25.1	**59 566**	**(8 410)**
Interest paid		**(31 452)**	**(25 194)**
Taxation paid	25.2	**(28 000)**	**(24 267)**
Net cash inflow/(outflow) from operating activities		**114**	**(57 871)**
Cash flows from investment activities			
Net purchases and disposals of equipment and intangible assets		**(331)**	**(392)**
Net purchases and disposals of investments		**(154 183)**	**(70 150)**
Interest received net of investment management fees		**135 085**	**113 702**
Dividends received		**15 958**	**16 097**
Net cash in (outflow)/inflow from investment activities		**(3471)**	**59 257**
Net (decrease)/increase in cash and cash equivalents		**(3 357)**	**1 386**
Cash and cash equivalents at the beginning of the year		**4 447**	**3 061**
Cash and cash equivalents at the end of the year		**1 090**	**4 447**

Categories of assets and liabilities

for the year ended 31 December 2016

	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 2016								
Assets								
Equipment	*6*					3 138	3 138	
Intangible assets	*7*					3	3	
Financial assets	*8*	**1 226 660**	**1 178 219**				**2 404 879**	**1 330 663**
Listed bonds		518 571	131 390				649 961	98 847
Listed ordinary shares		523 102					523 102	
Money market funds		184 987					184 987	184 987
Fixed and call deposits			1 046 829				1 046 829	1 046 829
Technical assets under insurance contracts	*9*					**927 343**	**927 343**	**714 887**
Retroceded outstanding claims provision						755 345	755 345	542 889
Retroceded unearned premium provision						129 506	129 506	129 506
Deferred acquisition costs						42 492	42 492	42 492
Amounts due from companies on reinsurance accounts	*10*			242 809			242 809	242 809
Deposits retained by ceding companies	*11*			3 149			3 149	3 149
Accounts receivable				10 735			10 735	10 735
Current income tax asset	*18*					13 128	13 128	13 128
Cash and cash equivalents	*12*			1 090			1 090	1 090
Total assets		**1 226 660**	**1 178 219**	**257 783**		**943 612**	**3 606 274**	**2 316 461**

Categories of assets and liabilities

for the year ended 31 December 2016 *(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*					**1 272 740**	**1 272 740**	**976 436**
Gross outstanding claims reserve						1 053 455	1 053 455	757 151
Gross unearned premium reserve						185 009	185 009	185 009
Deferred retrocession commission revenue						34 276	34 276	34 276
Investment contract liability					901		901	901
Amounts due to companies on reinsurance accounts	*14*				54 272		54 272	54 272
Deposits due to retrocessionaire	*15*				1 319 212		1 319 212	1 319 212
Amount due to holding company					172 380		172 380	139 727
Other provisions and accruals	*16*				**15 904**	**5 407**	**21 311**	**21 311**
Creditors and accruals					15 904		15 904	15 904
Accrual for leave pay						5 407	5 407	5 407
Deferred tax liability	*17*					26 098	26 098	
Total liabilities					**1 562 669**	**1 304 245**	**2 866 914**	**2 511 859**

Categories of assets and liabilities

for the year ended 31 December 2016 *(Continued)*

R'000	Notes	Designated upon initial recognition at fair value through profit or loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
December 2015								
Assets								
Equipment	*6*					3 997	3 997	
Intangible assets						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 provision						714 960	714 960	651 368
Retroceded unearned premium provision						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 2016 *(Continued)*

R'000	Notes	Designated upon initial recognition at fair value through profit or loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
Liabilities								
Technical liabilities under insurance contracts	*9*					1 199 859	1 199 859	1 087 448
Gross outstanding claims provision						1 020 031	1 020 031	907 620
Gross unearned premium provision						151 467	151 467	151 467
Deferred retrocession commission income						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**

Notes to the financial statements

for the year ended 31 December 2016

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 16 March 2017.

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

he 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 estimates are recognised prospectively.

(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, as investment contracts.

(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.

Notes to the financial statements

for the year ended 31 December 2016 *(continued)*

2. Accounting policies *(continued)*

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

Unearned premiums provision for insurance contracts

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

Claims arising from insurance contracts

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

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

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

Unexpired risk provision for insurance contracts

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

Liability adequacy test

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

Notes to the financial statements

for the year ended 31 December 2016 *(continued)*

2. Accounting policies *(continued)*

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

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.

(e) Recognition and measurement of investment contracts

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

Notes to the financial statements

for the year ended 31 December 2016 *(continued)*

2. Accounting policies *(continued)*

(f) 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.

(g) Operating lease payment

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

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

(h) Employee benefits under defined contribution plan

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

(i) Short-term employee benefits

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

(j) Foreign currencies 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.

(k) Equipment

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

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

The depreciation method, residual value and useful life, if not insignificant, is reassessed annually at each reporting period. Where the carrying amount of an asset is greater than its estimated recoverable amount being, higher of value in use and fair value less costs to sell, impairment losses are recognised to write down the value of the asset to its recoverable amount.

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

(l) Intangible assets

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

Notes to the financial statements

for the year ended 31 December 2016 *(Continued)*

2. Accounting policies *(continued)*

(m) Financial instruments

Investments

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

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

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

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

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

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

Where the financial assets are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. Fair value movements will therefore exclude the interest.

The Company derecognises an asset:

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

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

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

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.

Notes to the financial statements

for the year ended 31 December 2016 *(Continued)*

(m) Financial instruments *(continued)*

Deposits retained on reinsurance ceded

Deposits retained on reinsurance ceded are stated at amortised cost.

Cash and cash equivalents

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

(n) Impairment of non-financial assets

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

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

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

Impairment of financial assets

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

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

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. 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.

Notes to the financial statements

for the year ended 31 December 2016 *(Continued)*

2. Accounting policies *(continued)*

Impairment of financial assets *(continued)*

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.

(o) Provisions

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

(p) Taxation

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

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

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

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

(q) Share capital

Shares are classified as equity where there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of the equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

(r) Standards and interpretations issued not effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Disclosure Initiative (Amendments to IAS 7)

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The amendments apply for annual periods beginning on or after 1 January 2017 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.*

Notes to the financial statements

for the year ended 31 December 2016 *(continued)*

2. Accounting policies *(continued)*

Standards and interpretations issued not effective *(continued)*

IFRS 9 Financial Instruments *(continued)*

This standard may 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.

IFRS 16 Leases

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors.

The Company has begun assessing the potential impact on the financial statements resulting from the application of IFRS 16

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2016 and the comparative information presented in these financial statements.

4. Accounting estimates and judgements

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

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

Classification of insurance contracts

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

Policyholder claims for insurance contracts

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

Notes to the financial statements

for the year ended 31 December 2016 *(continued)*

4. Accounting estimates and judgements *(continued)*

Policyholder claims for insurance contracts *(continued)*

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 R3.9mil (2015:R3.7mil) and an increase to equity of R2.8mil (2015:R2.6mil).

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.

(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.

Notes to the financial statements

for the year ended 31 December 2016 *(continued)*

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

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

(c) Event exposure and concentration risk *(continued)*

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 R7.3mil (2015: R7.4mil), the effect on Equity is R5.3mil (2015: R5.4mil)

(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.

Notes to the financial statements

for the year ended 31 December 2016 *(continued)*

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

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

(b) Market risk *(continued)*

(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.

(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 R52.3 million (2015: R45.4). 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 2016 are presented in the table on the next page.

Notes to the financial statements

for the year ended 31 December 2016 *(continued)*

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

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

(b) Market risk *(continued)*

(iv) Market risk sensitivity analysis (continued)

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 2016						
Equity	399.4	523.1	Market price	10%	37.7	52.3
Bonds at fair value	515.6	518.6	Interest rate movement	5%	17.6	24.4
Bonds at amortised cost	129.4	131.4	Interest rate movement	5%	-	-
Money market unit trusts	185.0	185.0	Market price	5%	6.7	9.2
Fixed deposit	1046.8	1046.8	Interest rate movement	5%	37.7	52.3
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

** 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 R25.9 million (2015: R24.5 million) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R52.3 million (2015: R49.5million).

Notes to the financial statements

for the year ended 31 December 2016 *(continued)*

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

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

(c) Credit risk

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

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

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

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

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

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

December 2016	AAA to AA R'm	A+ to A R'm	BBB+ to BBB- R'm	Not indicated R'm	**Total** R'm
Financial assets	548.3	236.1	1 074.6	22.8	**1 881.8**
Insurance receivables				242.8	**242.8**
Insurance deposits				3.1	**3.1**
Accounts receivable				10.7	**10.7**
Cash and cash equivalents		1.1			**1.1**
Total	**548.3**	**237.2**	**1 074.6**	**279.4**	**2 139.5**
December 2015					
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**

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 2016 *(continued)*

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

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

(d) Liquidity risk

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

Maturity profile of financial and insurance assets and liabilities

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

December 2016	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	1.1					1.1
Fixed and call deposit		1 046.8				1 046.8
Money market funds	185.0					185.0
Debt securities		98.8	67.0	6.6	477.6	650.0
Equities	523.1					523.1
Insurance contracts assets		714.9	134.3	32.5	45.6	927.3
Amounts due from companies on reinsurance accounts		242.8				242.8
Deposits retained by ceding companies		3.1				3.1
Accounts receivable		10.7				10.7
Total financial and insurance assets	**709.2**	**2 117.1**	**201.3**	**39.1**	**523.2**	**3 589.9**
Liability maturities						
Insurance contracts liabilities		976.4	187.3	45.4	63.6	1 272.7
Reinsurance account balance		54.3				54.3
Reinsurance deposits		1 319.2				1 319.2
Due to holding company		172.4				172.4
Other provision and accruals		21.3				21.3
Total financial and insurance liabilities	**-**	**2 543.6**	**187.3**	**45.4**	**63.6**	**2 839.9**
Net maturities	**709.2**	**(426.5)**	**14**	**(6.3)**	**459.6**	**750**

Notes to the financial statements

for the year ended 31 December 2016 *(continued)*

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

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

(d) Liquidity risk *(continued)*

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

December 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**

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

The company's categories and classes of financial assets and financial liabilities are included on pages 20 to 23.

Notes to the financial statements

for the year ended 31 December 2016 *(continued)*

6. Equipment	2016 R'000	2015 R'000
Cost		
Motor vehicles	694	694
Computer equipment	1 898	1 665
Office equipment	529	522
Furniture & fittings	6 012	5 923
	9 133	8 804
Accumulated depreciation		
Motor vehicles	692	558
Computer equipment	1 563	1 213
Office equipment	524	495
Furniture & fittings	3 216	2 541
	5 995	4 807
Carrying values		
Motor vehicles	2	136
Computer equipment	335	452
Office equipment	5	27
Furniture & fittings	2 796	3 382
	3 138	3 997
Reconciliation of carrying values		
Opening balance	3 997	5 067
Additions	333	464
Disposals	(2)	(72)
Depreciation	(1 190)	(1 462)
Closing balance	3 138	3 997
Motor vehicles		
Net carrying value at beginning of year	136	270
Depreciation	(134)	(134)
Net carrying value at end of year	2	136

Notes to the financial statements

for the year ended 31 December 2016 *(Continued)*

6.	**Equipment** *(Continued)*	**2016 R'000**	**2015 R'000**
	Computer equipment		
	Net carrying value at beginning of year	452	622
	Additions	236	318
	Disposals	(2)	(4)
	Depreciation	(351)	(484)
	Net carrying value at end of year	335	452
	Office equipment		
	Net carrying value at beginning of year	27	184
	Additions	7	-
	Disposals	-	(6)
	Depreciation	(29)	(151)
	Net carrying value at end of year	5	27
	Furniture & fittings		
	Net carrying value at beginning of year	3 382	3 991
	Additions	90	146
	Disposals	-	(62)
	Depreciation	(676)	(693)
	Net carrying value at end of year	2 796	3 382
7.	**Intangible assets**		
	Computer software - purchased		
	Cost		
	Opening balance	398	600
	Additions	-	-
	Disposals	-	(202)
	Closing balance	398	398
	Accumulated amortisation		
	Opening balance	389	584
	Disposals	-	(202)
	Amortisation – software in use	6	7
	Closing balance	395	389
	Net carrying value	3	9

Notes to the financial statements

for the year ended 31 December 2016 *(Continued)*

8.

Financial assets	**2016 R'000**	2015 R'000
Held-to-maturity instruments at amortised cost		
Fixed and call deposits	1 046 829	989 268
Listed bonds	131 390	120 985
	1 178 219	1 110 253
Instruments at fair value through profit or loss		
Listed instruments		
– bonds	518 571	489 860
– equities	523 102	453 758
– money market funds	184 987	169 596
	1 226 660	1 113 214
Total financial assets	2 404 879	2 223 467
Fair value of the held-to-maturity instruments		
Fixed and call deposits	1 046 829	989 268
Listed bonds	129 405	114 164
	1 176 234	1 103 432
Cost of instruments disclosed at fair value through profit or loss		
Bonds	515 559	512 796
Equities	399 420	315 722
Money market funds	184 987	169 596
	1 099 966	998 114

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

Maturity period at 31 December 2016	**Effective Interest rate %**	Market Value R'000
On demand	6.00% to 6.75%	184 987
Within 1 year	6.35% to 8.68%	1 046 829
1 to 3 years	5.83% to 6.89%	172 439
3 to 7 years	7.00% to 8.90%	222 007
7 to 12 years	8.01% to 8.24%	103 432
>12 years	8.20% to 9.01%	152 083
		1 881 777

Notes to the financial statements

for the year ended 31 December 2016 *(Continued)*

8. **Financial assets** *(continued)*

Maturity period at 31 December 2015	**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
	8.20% to 8.70%	18 098
		1 769 709

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 2016 *(continued)*

8. Financial assets *(continued)*

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

Analysis of instruments at fair value
Financial assets

December 2016	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Designated at fair value through profit or loss	**1 041 673**	**184 987**	**-**	**1 226 660**
December 2015				
Designated at fair value through profit or loss	943 618	169 596	-	1 113 214

Investments and securities

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

Other financial assets and liabilities

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

9. Technical assets and liabilities under insurance contracts

Technical assets and liabilities under insurance contracts	2016 R'000	2015 R'000
Technical liabilities		
-Gross claims reported but not yet settled	**811 427**	**772 093**
-Gross claims incurred but not reported	**242 028**	**247 938**
-Gross unearned premium provision	**185 009**	**151 467**
-Deferred retrocession commission income	**34 276**	**28 361**
	1 272 740	**1 199 859**
Technical assets		
-Retrocessionaire's share of claims reported but not yet settled	**585 925**	**541 404**
-Retrocessionaire's share of claims incurred but not reported	**169 420**	**173 556**
-Retrocessionaire's share of unearned premium provision	**129 506**	**106 027**
-Deferred acquisition costs	**42 492**	**35 217**
	927 343	**856 204**
Net technical liabilities		
-Claims reported but not yet settled	**225 502**	**230 689**
-Claims incurred but not reported	**72 608**	**74 382**
-Unearned premium provision	**55 503**	**45 440**
-Deferred acquisition costs	**(8 216)**	**(6 856)**
	345 397	**343 655**

Notes to the financial statements

for the year ended 31 December 2016 *(Continued)*

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

9.1 Movements in technical assets and liabilities under insurance contracts

Outstanding claims	2016 Gross R'000	2016 Reinsurance R'000	2016 Net R'000
Claims reported but not yet settled	772 093	541 404	230 689
Claims incurred but not reported	247 938	173 556	74 382
Total outstanding at beginning of year	1 020 031	714 960	305 071
Movement in outstanding claims	33 424	40 385	(6 961)
-arising from current year claims	358 200	268 081	90 119
-arising from prior period claims	(324 776)	(227 696)	(97 080)
Total at end of year	1 053 455	755 345	298 110
Notified claims	811 427	585 925	225 502
Incurred but not reported	242 028	169 420	72 608
Total at end of year	1 053 455	755 345	298 110

	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

Notes to the financial statements

for the year ended 31 December 2016 *(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

	2012 R'000	2013 R'000	2014 R'000	2015 R'000	2016 R'000
Claim settlement for each year:					
- first year	438 949	467 121	582 143	456 268	**596 771**
- one year later	584 614	676 459	763 626	**605 815**	
- two years later	172 742	177 295	**219 913**		
Provision for gross outstanding claims after two years run-off	113 080	133 949	145 733	345 777	358 201
- three years later	40 898	**69 680**			
- four years later	**39 176**				
Provision for gross outstanding claims at year end	40 517	60 099	145 733	345 777	358 201
Claim development run-off result at year end	**(7 511)**	**4 170**	**-**	**-**	**-**

Unearned premium provision	**2016**		
	Gross R'000	**Reinsurance R'000**	**Net R'000**
At the beginning of year	**151 467**	**106 027**	**45 440**
Premiums written during the year	**2 277 434**	**1 616 006**	**661 428**
Premiums earned during the year	**(2 243 892)**	**(1 592 527)**	**(651 365)**
Total at end of year	**185 009**	**129 506**	**55 503**

	2015		
	Gross R'00	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

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 2016 *(Continued)*

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

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

Deferred acquisition costs	**2016 Gross R'000**	**2016 Reinsurance R'000**	**2016 Net R'000**
At the beginning of year	**35 217**	**28 361**	**6 856**
Acquisition costs paid during the year	**628 095**	**495 426**	**132 669**
Acquisition costs incurred during the year	**(620 820)**	**(489 511)**	**(131 309)**
At the end of year	**42 492**	**34 276**	**8 216**

	2015 Gross R'000	2015 Reinsurance R'000	2015 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

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 2016 *(Continued)*

		2016 R'000	2015 R'000
10.	**Amounts due from companies on reinsurance accounts**		
	Amounts due from ceding companies	**242 809**	226 499
		242 809	226 499
11.	**Deposits retained by ceding companies**		
	At beginning of year	**378**	141
	New deposits retained	**2 771**	237
	At the end of year	**3 149**	378
12.	**Cash and cash equivalents**		
	Cash on hand	**76**	44
	Current bank account balances	**1 014**	4 403
		1 090	4 447

Notes to the financial statements

for the year ended 31 December 2016 *(Continued)*

		2016 R'000	2015 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	**5 666**	1 453
	Amounts due to retrocessionaire	**48 606**	64 001
		54 272	65 454
15.	**Deposits due to retrocessionaire**		
	At beginning of year	**1 247 697**	1 241 975
	New deposits retained	**1 319 212**	1 247 697
	Deposits released	**(1 247 697)**	(1 241 975)
	At the end of the year	**1 319 212**	1 247 697

Notes to the financial statements

for the year ended 31 December 2016 *(Continued)*

16.	**Other provisions and accruals**	**2016 R'000**	**2015 R'000**
	Other creditors and accruals	**15 904**	13 441
	Accrual for leave pay	**5 407**	3 836
		21 311	17 277

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**	**2016 R'000**	**2015 R'000**
	Opening balance	**21 153**	33 786
	Current year	**4 945**	(12 633)
	Closing balance	**26 098**	21 153
	The net deferred tax liability balance at the end of the period comprises:		
	– capital allowance	**(41)**	141
	– provisions	**(1 568)**	(1 073)
	– unrealised gains on revaluation of investments	**27 707**	22 085
		26 098	21 153

18. Current income tax asset

The current income tax asset of R9.4 million (2015: R9.4 million) represents the amount of income taxes payable in the current year less provisional tax payments made.

19.	**Commission paid and received**	**2016 R'000**	**2015 R'000**
	Gross commission and brokerage paid	**628 095**	584 156
	Gross deferred acquisition costs	**(7 275)**	283
	Commission incurred	**620 820**	584 439
	Commission earned	**(489 511)**	(462 178)
	Retrocession commission and brokerage received	**(439 652)**	(408 916)
	Retroceded overriding commission received	**(55 775)**	(52 944)
	Retroceded deferred commission revenue	**5 093**	(199)
	Retroceded deferred overriding commission revenue	**823**	(119)
	Net commission incurred	**131 309**	122 261

Notes to the financial statements

for the year ended 31 December 2016 *(Continued)*

		2016 R'000	2015 R'000
20.	**Profit before taxation**		
	Profit before taxation is arrived at after charging the following items:		
	Auditor's remuneration:	**1 660**	1 307
	- for audit services in the current year	**1 600**	1 700
	- over provision in prior years	**60**	(393)
	Consultancy fees	**717**	1 406
	Depreciation	**1 190**	1 462
	Loss on disposal of equipment	**-**	12
	Amortisation	**6**	7
	Directors remuneration	**11 016**	9 940
	Executive – for services rendered	**6 246**	5 876
	Non executive – for services as directors	**4 770**	4 064
	Lease payments	**2 491**	2521
	Secretarial fees	**171**	135
	Staff costs including contribution to pension fund, UIF, SDL and allowances	**32 814**	30 205
	Number of staff: 38 (2015: 39)		
21.	**Taxation**		
	South African normal taxation – current year		
	Corporate tax	**24 294**	19 381
	Deferred tax	**4 945**	(12 633)
		29 239	6 748
	Tax rate reconciliation	**%**	%
	Effective tax rate	**26.1**	16.3
	Exempt income	**4.0**	10.9
	Disallowed expenses	**(0.2)**	(0.7)
	Capital gains tax	**(1.9)**	1.5
	South African standard corporate tax rate	**28.0**	28.0

Notes to the financial statements

for the year ended 31 December 2016 *(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	Position	2016	2015
		R	R
Bakary Kamara	Non-executive Chairman	**815 335**	708 987
Corneille Karekezi	Non-executive Deputy Chairman	**733 802**	638 089
Allan F W Peters	Independent, non-executive Director	**693 035**	567 190
Elizabeth Amadiume	Non-executive Director	**611 501**	531 740
Phillip Pettersen	Independent, non-executive Director	**652 269**	567 190
Haile M Kumsa	Independent, non-executive Director	**611 501**	531 740
Sizakele Mzimela	Independent, non-executive Director	**652 269**	567 190
Daryl De Vos	Managing Director	**3 939 359**	3 770 203
Ibrahim Ibisomi	Executive Director	**2 306 619**	2 105 793

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:

	2016	2015
	R	R
John C Izegbu – General Manager Operations	**2 338 078**	2 160 302

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 2016 *(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	2016 R'000	2015 R'000
Assets		
Retroceded outstanding claims provision	**755 345**	714 960
Retroceded unearned premium provision	**129 506**	106 027
Liabilities		
Deferred retrocession commission revenue	**(34 277)**	(28 361)
Deposits due to retrocessionaire	**(1 319 212)**	(1 247 697)
Amounts due to companies on reinsurance accounts	**(48 606)**	(64 001)
Amount due to holding company	**(172 380)**	(139 727)
Net liabilities	**(689 624)**	(658 799)
Statement of comprehensive income		
Retroceded premiums	**(1 614 032)**	(1 534 347)
Retrocessionaire's share of provision for unearned premiums	**23 479**	(3 602)
Retroceded claims received	**1 090 047**	1 047 794
Retrocessionaire's share of provision for outstanding claims	**40 385**	19 309
Retrocessionaire's share of net commission incurred	**489 511**	462 075
Interest expense	**(31 452)**	(25 194)
Management expenses	**(33 000)**	(34 348)

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

Statement of financial position	2016 R'000	2015 R'000
Liabilities		
Other creditors and accruals	**7 042**	4 696
Statement of comprehensive income		
Management expenses	**(2 347)**	(2 347)

Notes to the financial statements

for the year ended 31 December 2016 *(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 949 344 (2015: R1 806 868).

24. Operating lease commitments

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

	2016 R'000	2015 R'000
– less than one year	**65**	65
– between one and five years	**37**	37
	102	102

25.

Notes to the cash flow statement	2016 R'000	2015 R'000
25.1 Reconciliation of cash generated/(utilised) by operations		
Profit before taxation	**112 189**	41 355
Adjusted for :		
- depreciation and amortisation	**1 196**	1 469
- investment income net of management fees	**(178 272)**	(108 141)
- interest expenses	**31 452**	25 194
- net unearned premium reserve net of deferred acquisition costs	**8 703**	(1 578)
Cash generated/(utilised) by changes in working capital	**84 298**	33 291
Net amounts due from companies on reinsurance accounts	**(27 492)**	(18 100)
Deposits retained by ceding companies	**(2 771)**	(237)
Accounts receivable	**12 419**	(1 933)
Amount due to holding company	**32 653**	31 316
Other provision and accruals	**4 034**	7 868
Deposits due to retrocessionaire	**71 515**	5 722
Investment contract liability	**901**	
Net outstanding claims reserve	**(6 961)**	8 655
	59 566	(8 410)
25.2 Reconciliation of taxation (paid)/received		
Balance recoverable at the beginning of the period	**9 422**	4 536
Current tax charge in profit or loss	**(24 294)**	(19 381)
Balance recoverable at the end of the period	**(13 128)**	(9 422)
Taxation (paid)/received	**28 000**	(24 267)

Notes to the financial statements

for the year ended 31 December 2016 *(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.

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