ANNUAL REPORT & ACCOUNTS 2017

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- Africa Retakaful, Cairo - 2010
- Addis Ababa, Ethiopia - 2011

AFRICAN REINSURANCE CORPORATION - NETWORK IN AFRICA

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Email: arcsa@africa-re.com

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

African Reinsurance Corporation (South Africa) Limited
Annual Report

for the year ended 31 December 2017

Audited

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

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

Annual Report
for the year ended 31 December 2017

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Declaration by Company Secretary

In my capacity as Company Secretary, I hereby confirm and certify, in terms of the Companies Act, 2008, as amended, that for the year ended 31 December 2017, 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
15 March 2018

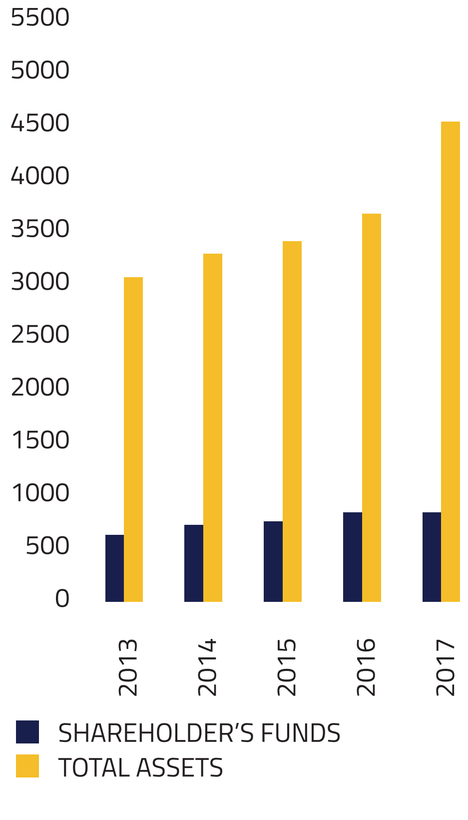
Financial highlights

for the year ended 31 December 2017

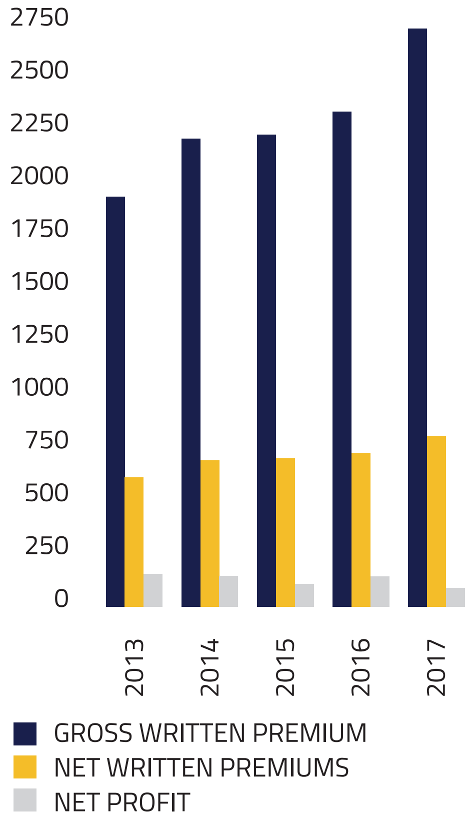
In R'000	2017	2016	2015	2014	2013
RESULTS					
GROSS WRITTEN PREMIUMS	**2 663 428**	2 277 434	2 163 137	2 146 143	1 879 305
NET WRITTEN PREMIUMS	**753 353**	661 428	626 491	622 780	548 255
NET EARNED PREMIUMS	**745 667**	651 365	628 034	630 232	557 814
NET PROFIT	**26 426**	82 950	34 607	76 604	83 526
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	**766 786**	739 360	656 410	621 803	545 199
TOTAL ASSETS	**4 474 577**	3 606 274	3 347 577	3 223 906	2 978 400
INTERNATIONAL SOLVENCY MARGIN[N1]	**102%**	112%	105%	100%	99%

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

FINANCIAL POSITION 2013 - 2017
In Rand' Million



RESULTS 2013 - 2017
In Rand' Million



Chairman and executive management statement

for the year ended 31 December 2017

On behalf of the Board of Directors, it is our singular 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 2017. The year 2017, during which the Company recorded mixed fortunes in its operations, activities and affairs at record levels while the industry at large suffered record claims events, marked the fourth year of the Company's current five-year strategic plan 2014 – 2018. The year also recorded defining events on the political scene especially in our largest market, South Africa. All of these made the year a truly remarkable one for the Company that would also represent a definite turning point for the future.

While the world awaited the consequences of the surprising outcomes of the US presidential and 'Brexit' votes of the preceding year, the world witnessed further surprises in other key political events during 2017. Worthy of mention were the French presidential and German general elections as well as the Chinese politburo decision to remove presidential term limits. These developments are bound to make the world wait a little longer for a full manifestation of the associated implications. What can be gleaned from events subsequent to year-end is that the global political arena can no longer be taken for granted nor characterised as bipolar as has been the case for some time now.

Happily, on the economic front, during 2017, global economic growth gained traction and the World Bank reported a broad-based global recovery was firmly underway as a result. Indeed, the World Bank forecasts global economic growth to edge up further to 3.1 percent in 2018 after the stronger-than-expected 2017 performance, as the recovery in investment, manufacturing, and trade continues. Growth in advanced economies is expected to moderate slightly to 2.2 percent in 2018, as central banks gradually remove their post-crisis accommodation and the upturn in investment growth stabilizes. Growth in emerging market and developing economies as a whole is projected to strengthen to 4.5 percent in 2018, as economic activity in commodity exporter-countries continues to recover amid firming prices.

Nearer home, the elective conference of the ruling party in South Africa held successfully with no adverse fallout of any significance. The outcome of the conference and the subsequent change in political leadership of the country appear to have been received positively across most economic sectors. Other scheduled political events across the Southern Africa region served by the Company, including the presidential elections in Botswana, were held successfully and conclusively. On the economic front, the economies in our markets posted improved but low growth in 2017 with South Africa recording a 1.3% GDP growth. Projections for 2018 indicate higher GDP growth on the back of improved commodity prices moderated by the increase in crude oil prices, given that the sub-region is a net importer of crude oil.

We remain confident that the broad growth challenge around the world will continue to receive appropriate attention and, indeed, elicit new initiatives by both political leaders and multilateral development finance institutions if the world is to seriously combat the widening problems of poverty, hunger, disease and unequal socio-economic opportunities and facilities around the globe. Failing this, the United Nations' sustainable development goals (SDGs) may not be achieved by their target date of 2030.

South Africa remained the dominant operating market for the Company and it was, therefore, where most of the factors contributing to the Company's performance during 2017 held sway. While the insurance sector fared slightly better than the national economy with modest premium growth and handsome investment performance from which the company benefitted, the poor claims experience in the country also adversely affected the Company's overall performance. Indeed large and catastrophe loss events recorded in South Africa in 2017 alone constituted the largest aggregate losses suffered by the industry in any single calendar year in recorded history, resulting in most of the industry recording negative underwriting results for the year.

In this scenario, the Company recorded another mixed but sadly lower overall performance in 2017. First, the Company grew its premium income to its highest level in 2017. This was achieved despite the continued rationalisation of its portfolio through voluntary cancellation of a good volume of treaties, the prevalent soft market conditions and the strong competition from especially non-resident reinsurers. The achievement follows the growth path in the Company's strategy and reflects the continued level of trust and confidence in the Company's security by its clients. However, the Company also recorded its highest volume of incurred losses in 2017. With the unusual high number and value of the large and catastrophe losses recorded in the market during the year under review, the Company's role as a reinsurer came to the fore in providing succour to its clients in meeting these large and catastrophe losses.

Chairman and executive management statement

for the year ended 31 December 2017 (Continued)

Finally, with the benefits of a resilient financial market and robust capital market both locally and internationally, the Company recorded its highest investment performance to date in 2017. Overall, the Company achieved a return on equity of close to 4% (2016 – 13%), which further strengthened the Company's solvency and capital base. This net performance has been disappointing and the Board is intensely focused at ensuring the improvement of the underwriting performance and repositioning it as the major driver of the Company's success and sustainable growth.

Gross written premium for the year under review was R2,633 million compared to R2,277 million recorded in 2016, representing a growth of R356 million (or 16%). Similarly, the Company recorded a R92 million (or 14%) increase in its net written premium, from R661 million in 2016 to R753 million in 2017. The Company has thus sustained its premium growth trajectory with the gross and net written premiums of 2017 higher than the previous record levels attained in 2016 despite the continued voluntary cancellation of certain treaties that yielded substantial premiums in previous years.

The South African insurance industry experienced an unprecedented high number of large and catastrophe losses during 2017 from which the Company picked its share as a major reinsurer in the market. This resulted in a substantial increase in the net incurred claims from R460 million recorded in 2016 to nearly R646 million in 2017. Backed by its strong balance sheet and sufficient liquidity, the Company was able to comfortably meet its obligations to its clients emanating from the many large and catastrophe losses they suffered in just one year, which is the key justification the clients have for buying reinsurance in the first place. 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 21% and 23%, respectively, largely a reflection of the growth in written premium. Gross and net commission expenses amounted to R752 million (2016: R621 million) and R162 million (2016: R131 million), respectively.

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

Management expenses similarly increased by 6% from the R96 million incurred in 2016 to R108 million in the year under review, which was mainly due to inflation and planned investment in additional human and material resources to support growth, improve client service and meet the increasing regulatory compliance obligations.

Net investment income rose substantially by 28% in 2017 compared to 2016. Interest/dividend income and value gains on bond and equity instruments rose substantially on the back of substantial improvement in the financial markets after an initial market shock in early 2017. There was also some improvement in the income earned on fixed and call deposits despite the stable interest rate environment as a result of higher volumes of invested funds.

Consequently, the Company recorded a net investment income of R187 million in 2017 compared to the R147 million earned in 2016. 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 developed with the Board's approval to drive the Company's investment strategy on a more objective basis. The model has identified potential areas for improving yields and minimising risks. When fully deployed, it is anticipated that this will further improve the yield on the Company's investments for every level of risk.

Profit before tax for the year under review was R18 million compared to the R112 million recorded in 2016. Accrued income tax credit recorded into the income statement for the period was R8 million (2016: income tax expense of R29 million) resulting in an after tax profit of R26 million compared to the approximately R83 million recorded in 2016. The Board views this significant reduction in net profit after tax with all seriousness and concern. Concerted efforts are in process to ensure that the Company achieves a significant and positive underwriting performance within the next three years.

The Board and Management share the optimism and positive sentiments recorded in South Africa and the other markets served by the Company post year-end. Global financial institutions and rating agencies have also echoed, albeit cautiously, the potential improvement in the performance of the economies of South Africa in particular and Southern Africa in general in 2018.

Chairman and executive management statement

for the year ended 31 December 2017 (Continued)

The political atmosphere appears conducive and supportive to growth. 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 among trading partners. There is continued optimism around global political stability and sustained economic recovery with the initial threat of a trade war between China and the United States reasonably and effectively contained. Rapprochement towards peace in the Korean peninsula and the lack of new crisis despite the continued restiveness in the Middle East are a welcome sign for global stability and growth. The Board therefore remains confident 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 new dawn of a principles-based and Solvency II equivalent regulatory environment in South Africa is finally upon us. With the enactment of all enabling legislation and the constitution of the relevant regulatory bodies, the formal commencement of the full implementation of the Solvency Assessment and Management (SAM) regulatory framework merely now awaits Ministerial proclamation. Happily, Africa Re SA participated fully in all the developing and implementing measures of this new regime since the start of the project in 2009. The Company is therefore substantially ready for a full and successful transition into the new regime. All of the efforts, investments and commitment into the SAM project have been borne out of the Company's early identification with the rationale and potential benefits of a principles-based regulatory framework, despite its substantial costs. As has become tradition for the Company, the Board will continue to ensure full compliance with the new regime, given its potency to strengthen the industry to the benefit of policyholders and the entire economy.

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

Still, the reaffirmation of A- rating lends credence to the sustained strength of the Company's capital, governance and risk management standards as well as its work processes, resources and systems. 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 physically three times and by teleconference once.

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 (Resigned 31 August 2017
S I Diomande	-	Deputy Managing Director (Appointed 16 August 2017)
I A Ibisomi	-	Executive Director

The Audit Committee under the chairmanship of A F W Peters met three times during the course of the 2017 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.

Chairman and executive management statement

for the year ended 31 December 2017 (Continued)

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

The Company recorded key changes in its Management during the year under review. Mr. Daryl De Vos resigned his appointment as Managing Director in August 2017 while Mr. John Izegbu retired upon attaining the mandatory retirement age in July 2017. The Board appreciates the contributions of the two gentlemen during their time with the Company and wishes them all the best for the future. Mr. Sory Diomande was appointed Deputy Managing Director of the Company in August 2017 after a successful five-year stint as Regional Director for Anglophone West Africa for Africa Re Group. Subsequent to year end, the Board also approved the appointment of Mr. Andy Tennick as Managing Director, who comes in well regarded in his nearly three decades of operating in the direct and reinsurance segments of the Southern African markets. The Board welcomes Messrs. Diomande and Tennick and trusts that their combined wealth of experience will serve the Company well at this critical point in the Company's history and performance trajectory.

As part of measures to strengthen governance and enhance the independence of its critical assurance service providers, the Board resolved to adopt a mandatory rotation of its external auditors with effect from 2018. Thus, after a partnership that has lasted since the Company formally commenced business in 2004, KPMG's appointment as external auditors will not be renewed in 2018. The Board would like to thank the firm for their services over the years.

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

We acknowledge that our employees are undoubtedly our most important resource and we believe that each and every staff member contributes meaningfully towards the development of Africa Re (SA). The Company in turn provides support to the professional and personal self-development initiatives of staff through which 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 remain grateful to all staff for all their valued efforts and for their commitment to the Company.

In concluding, the Board acknowledges that 2017 was a year like no other for the Company, with performance well below expectations. It has therefore driven the crafting and implementation of a comprehensive turnaround strategy aimed at repositioning the Company for an improved and sustainable performance in the medium term, underpinned by pristine underwriting practices, operational efficiency and service excellence. No effort will be spared in ensuring the success of this strategy.

Bakary H Kamara
Chairman

Sory I. Diomande
Deputy Managing Director

Board of Directors and Executive Management

Daryl N De Vos
Managing Director
January - August 2017

Bakary H Kamara
Non-executive Chairman

C Karekezi
Non-executive
Deputy Chairman

A Tennick
Incoming
Managing Director

Ibrahim A Ibisomi
Executive Director

Elizabeth N Amadiume
Non-executive Director

Siza Mzimela
Independent,
Non-executive Director

Sory Diomande
Deputy Managing Director

Allan F W Peters
Lead Independent
Director

Phillip Pettersen
Independent,
Non-executive Director

Halle M Kumsa
Independent,
Non-executive Director

John Izegbu
General Manager,
Operations
01 January - 24 July 2017

ARCSA Staff

ARCSA Premises

Directors' responsibility statement
for the year ended 31 December 2017

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 2017, 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 the 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 15 March 2018 and signed on their behalf by:

Bakary Kamara
Chairman
Authorised Director

Sory Diomande
Deputy Managing Director
Authorised Director

Report by the Audit Committee
for the year ended 31 December 2017

The Audit Committee is pleased to present this report on its activities for 2017 to the Board and to the Shareholder.

The Audit Committee discharged its responsibilities unhindered during the year and was able to confirm the effectiveness and adequacy of the Company's system of financial accounting, internal controls, statutory and regulatory compliance, and financial reporting. The Committee is also satisfied with the continued progress made during the year to formalize and enhance the system of internal controls. 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 only one member absent from one of the meetings. However, all reports were circulated to all members. Apart from its members, the Committee's meetings are also regularly attended on its invitation by members of Executive Management, the heads of actuarial, risk and compliance functions as well as by internal and external audit personnel. The internal auditors conducted their routine annual audit during the year and their report was well received to the Committee's satisfaction. As expected the 2017 internal audit report included a disposition of all the previous internal audit issues raised by the previous internal auditor. The Committee received and approved 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. However, the Board having resolved on rotating the Company's external auditors, KPMG will not continue as auditors for 2018. A tender process will be undertaken for the selection of new external auditors for 2018. The Committee has conveyed its appreciation of the valued services rendered by KPMG over the years.

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

- A F W Peters
  Independent non-executive Director (Chairman)
- E N Amadiume
  Non-executive Director (Member)
- P Pettersen
  Independent non-executive Director (Member)
- H M Kumsa
  Independent non-executive Director (Member)
- S Mzimela
  Independent non-executive Director (Member)

Members of the Committee are satisfied with the processes followed, resources in place and assurances obtained in relation to the financial management of the Company; we believe that the accounting practices are effective and would therefore recommend the approval of these audited financial statements for the year ended 31 December 2017.

For and on behalf of the Audit Committee:

Allan F W Peters
Chairman
15 March 2018

Report by the Social and Ethics Committee
for the year ended 31 December 2017

The Social and Ethics Committee is pleased to present this report on its activities for 2017 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. Efforts are in progress to upgrade compliance to King IV level. Copies of the Charter are available on request from the Company Secretary. The key responsibilities of the Committee which are amplified in the Charter include the following:

- Responsible corporate citizenship
- Stakeholder relations
- Social and ethical issues impacting employment, labour relations and employee welfare
- Ethics and code of conduct compliance
- Empowerment and transformation
- Environment, health and public safety
- Sustainability, social and economic development
- Regulatory and statutory compliance

The Social and Ethics Committee discharged its responsibilities unhindered during the year. The Committee reaffirmed its purpose and the continued relevance of its Charter. It updated its workplan and reconfirmed the existing structures and documents relevant to its work, while also promoting the Company's social responsibility initiatives. 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 commencement of a new BBBEE verification exercise for the Company. This will be completed during 2018.

The Committee played its role in the Company's adherence to sound ethics in its relationship with a key partner during the year. The Committee also introduced the development and implementation of a number of new policies, improved communication on health and safety matters for staff, and commenced the institution of a new employee assistance initiative to provide professional support to employees and their families. The Committee actively encourages gender equality and drives initiatives aimed at combating unfair discrimination and reducing corruption. Happily, no negative incidences came to the Committee's attention during the year.

The Social and Ethics Committee met three times during the year with all members in attendance. The Committee's membership witnessed two changes on account of resignation with immediate replacements. Apart from its members, the Committee's meetings are attended by other personnel on the invitation of the Committee, who may be required to assist the Committee in its work. The members of staff of the Company have unrestricted access to the Committee and to its chairperson.

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

- Sizakele Mzimela
Independent non-executive Director (Chairperson)
- Phillip Pettersen
Independent non-executive Director (Member)
- Daryl De Vos
Managing Director (Member)
Resigned 31 August 2017
- Sory Diomande
Acting Managing Director
Appointed 1 September 2017
- Ibrahim Ibisomi
Executive Director (Member)
- Delia Wood
Senior Manager, Treaty (Member)
Resigned 31 July 2017
- Sarah Matlabe
Claims Officer (Member)
- Ncumisa Sinyanya
Human Resources & Compliance Officer (Member)
Appointed 18 October 2017

Report by the Social and Ethics Committee
for the year ended 31 December 2017 (Continued)

Members of the Committee are satisfied with the Company's continued implementation of processes, resources, activities and assurances in relation to the social responsibility, ethics, employee relations and other matters within the scope of the Committee's work, that the Committee has fulfilled its objectives, and that the requirements of the Companies Act in relation to the statutory responsibilities of the Committee have been complied with during the year ended 31 December 2017. 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
15 March 2018

Directors' report
for the year ended 31 December 2017

The Directors are pleased to present the directors' report of the Company for the year ended 31 December 2017.

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 (2016 : 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 2017 amounts to R765.9 million (2016: R739.4 million). Net technical liabilities under insurance contracts at 31 December 2017 amount to R472.6 million (2016: R345.4 million).

Statement of comprehensive income
Total profit and comprehensive income for the year is R26.0 million (2016: R83.0 million). The results for the year are presented in the accompanying statement of comprehensive income and notes to the accounts and require no further amplification.

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

Dividend
The Directors did not declare or pay a dividend during the year (2016: Nil).

The Directors who served the Company during the year were:

- Bakary H Kamara
  Non-executive Chairman (Mauritanian)
- Corneille Karekezi
  Non-executive Deputy Chairman (Rwandese)
- Allan F W Peters
  Independent non-executive Director (British)
- 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 (Resigned 31 August 2017)
- Sory Diomande
  Deputy Managing Director (Ivorian)
  (Appointed 16 August 2017)
- 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. The board however has decided that the statutory audit be rotated every five years and therefore a new statutory auditor would be sought through a tender process. The Board conveyed its appreciation to KPMG for their services provided over the last 14 years.

By order of the Board

Ibrahim Ibisomi
Company Secretary
15 March 2018

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 ("the company") set out on pages 20 to 64, which comprise the statement of financial position as at 31 December 2017, 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 2017, 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 Report by the Audit Committee and the Declaration by Company Secretary as required by the Companies Act of South Africa and all other information included in the Annual Report. Other information does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Independent auditor's report
(Continued)

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified an unlawful act or omission committed by persons responsible for the management of African Reinsurance Corporation (South Africa) Limited which constitutes a reportable irregularity in terms of the Auditing Profession Act, and have reported the matter to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularity has been described in note 22 of the financial statements.

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 14 years.

KPMG Inc.
Registered Auditor

Malherbe

Per Antoinette Malherbe
Chartered Accountant (SA)
Registered Auditor
Director
31 May 2018

85 Empire Road
Parktown
2193

Statement of financial position
at 31 December 2017

	Note	**2017** **R'000**	2016 R'000
Assets			
Equipment	6	3 121	3 138
Intangible assets	7	-	3
Financial assets	8	2 590 521	2 404 879
- Held-to-maturity instruments at amortised cost		1 135 296	1 178 219
- Instruments at fair value through profit or loss		1 455 225	1 226 660
Technical assets under insurance contracts	9	1 270 117	927 343
- Retroceded outstanding claims provision		1 069 950	755 345
- Retroceded unearned premium provision		150 675	129 506
- Deferred acquisition costs		49 492	42 492
Amounts due from companies on reinsurance accounts	10	535 723	242 809
Deposits retained by ceding companies	11	7 844	3 149
Accounts receivable		5 230	10 735
Current income tax asset	18	13 762	13 128
Cash and cash equivalents	12	48 259	1 090
Total assets		4 474 577	3 606 274
Equity			
Share capital and share premium	13	80 300	80 300
Contingency reserve		51 702	51 702
Retained earnings		633 784	607 358
Total equity attributable to equity holders of the company		765 786	739 360
Liabilities			
Technical liabilities under insurance contracts	9	1 742 721	1 272 740
- Gross outstanding claims provision		1 488 963	1 053 455
- Gross unearned premium provision		213 864	185 009
- Deferred retrocession commission income		39 894	34 276
Investment contract liability		-	901
Amounts due to companies on reinsurance accounts	14	47 811	54 272
Deposits due to retrocessionaire	15	1 661 660	1 319 212
Amount due to holding company		214 470	172 380
Other provisions and accruals	16	23 663	21 311
Deferred tax liability	17	18 466	26 098
Total liabilities		3 708 791	2 866 914
Total equity and liabilities		4 474 577	3 606 274

Statement of comprehensive income
for the year ended 31 December 2017

	Note	2017 R'000	2016 R'000
Gross written premiums		2 633 428	2 277 434
Retroceded written premiums		(1 880 075)	(1 616 006)
Net written premiums		753 353	661 428
Change in gross unearned premium provision		(28 855)	(33 542)
Change in retroceded unearned premium provision		21 169	23 479
Net earned premiums		745 667	651 365
Net investment income		187 282	146 820
Dividend income		32 987	15 958
Interest income on investments		138 975	141 074
Interest expense		(45 544)	(31 452)
Net realised gain on disposal of investments		11 480	17 901
Net unrealised gain/(loss) on investments		55 268	9 328
Investment management expenses		(5 884)	(5 989)
Other income		36	900
Total net income		932 985	799 085
Gross claims paid		1 887 128	1 556 867
Retroceded claims received		(1 362 424)	(1 090 047)
Change in gross provision for outstanding claims		435 508	33 424
Change in retroceded provision for outstanding claims		(314 605)	(40 385)
Net incurred claims		645 607	459 859
Net commission incurred	19	161 630	131 309
Management expenses		107 589	95 728
Total technical expenses		914 825	686 896
Net profit before taxation	20	18 160	112 189
Taxation	21	8 266	(29 239)
Total profit and comprehensive income for the year		26 426	82 950

Statement of changes in equity
for the year ended 31 December 2017

	Share capital and share premium	Contingency reserve	Retained earnings	Total
	R'000	**R'000**	**R'000**	**R'000**
Balance as at 1 January 2016	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**
Comprehensive income for the year	-	-	26 426	26 426
Balance as at 31 December 2017	**80 300**	**51 702**	**633 784**	**765 786**

Statement of cash flows
for the year ended 31 December 2017

	Note	**2017 R'000**	2016 R'000
Cash flows from operating activities			
Cash generated by operations	25.1	**46 664**	59 566
Interest paid		**(45 544)**	(31 452)
Taxation paid	25.2	**-**	(28 000)
Net cash inflow from operating activities		**1 120**	114
Cash flows from investment activities			
Net purchases and disposals of equipment and intangible assets		**(1 135)**	(331)
Net purchases and disposals of investments		**(114 479)**	(136 047)
Interest received net of investment management fees		**128 676**	116 949
Dividends received		**32 987**	15 958
Net cash in inflow/(outflow) from investment activities		**46 049**	(3 471)
Net increase/(decrease) in cash and cash equivalents		**47 169**	(3 357)
Cash and cash equivalents at the beginning of the year		**1 090**	4 447
Cash and cash equivalents at the end of the year		**48 259**	1 090

Categories of assets and liabilities
for the year ended 31 December 2017

	Notes	Designated upon initial recognition at fair value through profit or loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial Instruments	Total	Current
R'000								
December 2017								
Assets								
Equipment	6					3 121	3 121	
Intangible assets	7					-	-	
Financial assets	8	**1 455 225**	**1 135 296**				**2 590 521**	**1 381 986**
Listed bonds		586 451	138 289				724 740	121 100
Listed ordinary shares		604 895					604 895	
Money market funds		263 879					263 879	263 879
Fixed and call deposits			997 007				997 007	997 007
Technical assets under insurance contracts	9					**1 270 117**	**1 270 117**	**970 696**
Retroceded outstanding claims provision						1 069 950	1 069 950	770 528
Retroceded unearned premium provision						150 675	150 675	150 676
Deferred acquisition costs						49 492	49 492	49 492
Amounts due from companies on reinsurance accounts	10			535 723			535 723	535 723
Deposits retained by ceding companies	11			7 844			7 844	7 844
Accounts receivable				5 230			5 230	5 230
Current income tax asset	18					13 762	13 762	13 762
Cash and cash equivalents	12			48 259			48 259	48 259
Total assets		**1 455 225**	**1 135 296**	**597 056**		**1 287 000**	**4 474 577**	**2 963 500**

Categories of assets and liabilities

for the year ended 31 December 2017 (continued)

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

Categories of assets and liabilities
for the year ended 31 December 2017 (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 2016								
Assets								
Equipment	6					3 138	3 138	
Intangible assets						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 2017 (Continued)

	Notes	Designated upon initial recognition at fair value through profit or loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial Instruments	Total	Current
R'000								
December 2016								
Liabilities								
Technical liabilities under insurance contracts	9					**1 272 740**	**1 272 740**	**976 436**
Gross outstanding claims provision						1 053 455	1 053 455	757 151
Gross unearned premium provision						185 009	185 009	185 009
Deferred retrocession commission income						34 276	34 276	34 276
Amounts due to companies on reinsurancece accounts	14				54 272		54 272	54 272
Deposits due to retrocessionaire	15				1 319 212		1 319 212	1 319 212
Investment contract liability					901		901	901
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**

Notes to the financial statements

for the year ended 31 December 2017

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 15 March 2018.

2. Accounting policies

a) Statement of compliance

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

(b) Basis for preparation

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis to take account of new and available information. Revisions to 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 2017 (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).

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.

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

2. Accounting policies (Continued)

d) Recognition and measurement of insurance contracts (Continued)

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.

(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.

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

2. Accounting policies (Continued)

(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.

(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.

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

2. Accounting policies (Continued)

(m) Financial instruments (Continued)

Investments (Continued)

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

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

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

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

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

Other receivables

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

Trade and other payables

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

Deposits retained on reinsurance ceded

Deposits retained on reinsurance ceded are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of less than three months and are 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

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

2. Accounting policies (Continued)

(n) Impairment of non-financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

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

(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

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

2. Accounting policies (Continued)

(q) Share capital (Continued)

costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

(r) Standards and interpretations issued not effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

IFRS 9 Financial Instruments

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

- Financial assets are to be classified and measured based on the business model for managing the financial asset and the cashflow characteristics of the financial asset. There are two measurement approaches, namely fair value and amortised cost. The financial asset is carried at amortised cost if it is the business model of the entity to hold those assets for the purpose of collecting contractual cash flows and if those cash flows comprise principal repayments and interest.
- For financial liabilities designated at fair value through profit or loss a further requirement is that all changes in the fair value of financial liabilities attributable to credit risk be transferred to other comprehensive income with no recycling through profit or loss on disposal.
- Impairments in terms of IFRS 9 will be determined based on an expected-loss model that considers the significant changes to the asset's credit risk and the expected loss that will arise in the event of default.
- IFRS 9 allows financial liabilities not held for trading to be measured at either amortised cost or fair value. If fair value is elected, then changes in the fair value as a result of changes in own credit risk should be recognised in other comprehensive income.
- The hedge accounting requirements under IFRS 9 are closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Hedge effectiveness will now be proved based on management's risk management objectives rather than the 80% to 125% band that was previously stipulated. IFRS 9 also allows for rebalancing of the hedge and the deferral of hedging costs.

The impact on the company has not been determined but is not expected to be significant, except for an increase in disclosure.

The standard is effective for financial years commencing on or after 1 January 2018.

IFRS 16 Leases

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

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

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

2. Accounting policies (Continued)

(r) Standards and interpretations issued not effective (Continued)

IFRS 17 Insurance Contracts

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

The new standard will have a significant impact on the financial statements when it is initially applied which will include changes to the measurement of insurance contracts issued and the presentation and disclosure. The company has initiated a process to determine the impact of the standard on the company's statement of financial position and performance. Until the process has been completed the company is unable to quantify the expected impact. The standard is effective for annual periods beginning on or after 1 January 2021 and has to be applied retrospectively.

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2017 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).

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 R4.1mil (2016:R3.9mil) and an increase to equity of R2.9mil (2016:R2.8mil)

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.

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

2. Accounting policies (Continued)

5. Risk management of insurance contracts and financial instruments(Continued

5.1 Insurance contracts (Continued)

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.

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.

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

2. Accounting policies (Continued)

5. Risk management of insurance contracts and financial instruments(Continued

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

(d) Claims development or reserving risk (Continued)

Although these assumptions and estimation bases are set on management's best judgement and information available at the time of reporting, estimation of claims provisions is a complex process and the ultimate claims settlement costs may differ from these estimates.

The company has performed a sensitivity analysis of a change in the estimated unreported losses by applying a further 10% to the estimate and the effect on the profit before tax is R8.9mil (2016: R7.3mil), the effect on Equity is R6.4mil (2016: R5.3mil)

(e) Reinsurance risk

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

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

5.3 Financial risk management objectives and policies for mitigating risks

(a) Introduction

Transactions in financial instruments will result in the Company assuming financial risks. These include market risk, credit risk and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the Company manages these risks.

(b) Market risk

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

(i) Currency exchange risk

Most of the Company's transactions are in Rand and currencies pegged to the Rand, which is the functional and presentation currency. All assets and liabilities are held in Rand and the Company is not exposed to any significant currency exchange risk.

(ii) Interest rate risk

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

Other than actively ensuring optimum money market rates for deposits, the Company does not make use of other financial instruments to manage this risk.

(iii) Equity price risk

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

Notes to the financial statements

for the year ended 31 December 2017 (Continued)

2. Accounting policies (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)

(iii) Equity price risk (Continued)

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 R60.5 million (2016: R52.3). 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 2017 are presented in the table below:

Asset class	Cost R'm	Market Value R'm	Risk factor	% change	Impact on equity* R'm	Impact on profit or loss R'm
December 2017						
Equity	436.0	604.9	Market price	10%	43.6	60.5
Bonds at fair value	573.2	586.5	Interest rate movement	5%	21.1	29.3
Bonds at amortised cost	138.3	138.3	Interest rate movement	5%	5.0	6.9
Money market unit trusts	263.9	263.9	Market price	5%	9.5	13.2
Fixed deposit	997.0	997.0	Interest rate movement	5%	35.9	49.9
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

* assumed tax rate of 28% has been used

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

2. Accounting policies (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)

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 R43.6mil (2016: R37.7 mil) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R37.7mil (2016: R52.3mil).

(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 2017	AAA to AA R'm	A+ to A R'm	BBB+ to BBB- R'm	Not indicated R'm	Total R'm
Financial assets	22.9	214.5	1 583.8	164.4	1 985.6
Insurance receivables				535.7	535.7
Insurance deposits				7.8	7.8
Accounts receivable				5.2	5.2
Cash and cash equivalents		48.3			48.3
Total	**22.9**	**262.8**	**1 583.8**	**713.1**	**2 582.6**
December 2016					
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**	**1074.6**	**279.4**	**2 139.5**

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

2. Accounting policies (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 (Continued)

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.

(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 2017	On demand R'm	1 Year R'm	2 Year R'm	3 Year R'm	>4 Year R'm	Total R'm
Asset maturities						
Cash and cash equivalents	48.3					48.3
Fixed and call deposit		997.0				997.0
Money market funds	263.9					263.9
Debt securities		121.1	10.6	62.9	530.1	724.7
Equities	604.9					604.9
Insurance contracts assets		969.2	190.2	46.1	64.6	1 270.1
Amounts due from companies on reinsurance accounts		535.7				535.7
Deposits retained by ceding companies		7.8				7.8
Accounts receivable		5.2				5.2
Total financial and insurance assets	**917.1**	**2 636.0**	**200.8**	**109.0**	**594.7**	**4 457.6**
Liability maturities						
Insurance contracts liabilities		1 323.9	264.7	64.1	90.0	1 742.7
Reinsurance account balance		47.8				47.8
Reinsurance deposits		1 661.7				1 661.7
Due to holding company		214.5				214.5
Other provision and accruals		23.7				23.7
Total financial and insurance liabilities	**-**	**3 271.6**	**264.7**	**64.1**	**90.0**	**3 690.4**
Net maturities	**917.1**	**(635.6)**	**(63.9)**	**44.9**	**504.7**	**767.2**

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

2. Accounting policies (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 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**	**750.0**

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

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

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

6.	Equipment	2017 R'000	2016 R'000
	Cost		
	Motor vehicles	**1 008**	694
	Computer equipment	**2 128**	1 898
	Office equipment	**529**	529
	Furniture & fittings	**6 012**	6 012
		9 677	**9 133**
	Accumulated depreciation		
	Motor vehicles	**368**	692
	Computer equipment	**1 763**	1 563
	Office equipment	**526**	524
	Furniture & fittings	**3 899**	3 216
		6 556	**5 995**
	Carrying values		
	Motor vehicles	**640**	2
	Computer equipment	**365**	335
	Office equipment	**3**	5
	Furniture & fittings	**2 113**	2 796
		3 121	**3 138**
	Reconciliation of carrying values		
	Opening balance	**3 138**	3 997
	Additions	**1 135**	333
	Disposals	**-**	(2)
	Depreciation	**(1 152)**	(1 190)
	Closing balance	**3 121**	3 138
	Motor vehicles		
	Net carrying value at beginning of year	**2**	136
	Additions	**851**	
	Depreciation	**(213)**	(134)
	Net carrying value at end of year	**640**	2

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

6. **Equipment** (Continued)	2017 R'000	2016 R'000
Computer equipment		
Net carrying value at beginning of year	**335**	452
Additions	**284**	236
Disposals	**-**	(2)
Depreciation	**(254)**	(351)
Net carrying value at end of year	**365**	335
Office equipment		
Net carrying value at beginning of year	**5**	27
Additions	**-**	7
Disposals	**-**	-
Depreciation	**(2)**	(29)
Net carrying value at end of year	**3**	5
Furniture & fittings		
Net carrying value at beginning of year	**2 796**	3 382
Additions	**-**	90
Disposals	**-**	-
Depreciation	**(683)**	(676)
Net carrying value at end of year	**2 113**	2 796

7. **Intangible assets**	2017 R'000	2016 R'000
Computer software - purchased		
Cost		
Opening balance	398	398
Additions	-	-
Disposals	-	-
Closing balance	398	398
Accumulated amortisation		
Opening balance	395	389
Disposals	-	-
Amortisation – software in use	3	6
Closing balance	398	395
Net carrying value	-	3

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

8.	Financial assets	2017 R'000	2016 R'000
	Held-to-maturity instruments at amortised cost		
	Fixed and call deposits	**997 007**	1 046 829
	Listed bonds	**138 289**	131 390
		1 135 296	1 178 219
	Instruments at fair value through profit or loss		
	Listed instruments		
	– bonds	**586 451**	518 571
	– equities	**604 895**	523 102
	– money market funds	**263 879**	184 987
		1 455 225	1 226 660
	Total financial assets	**2 590 521**	**2 404 879**
	Fair value of the held-to-maturity instruments		
	Fixed and call deposits	**997 007**	1 046 829
	Listed bonds	**142 395**	129 405
		1 139 402	1 176 234
	Cost of instruments disclosed at fair value through profit or loss		
	Bonds	**573 186**	515 559
	Equities	**436 045**	399 420
	Money market funds	**263 879**	184 987
		1 273 110	1 099 966

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

Maturity period at 31 December 2017	Effective interest rate %	Market value R'000
On demand	6.00% to 6.75%	**263 879**
Within 1 year	6.50% to 8.50%	**977 007**
1 to 3 years	0.00% to 7.28%	**194 682**
3 to 7 years	2.33% to 7.90%	**147 576**
7 to 12 years	7.55% to 8.59%	**26 296**
>12 years	9.17% to 9.77%	**356 186**
		1 965 626

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**
7 to 12 years	8.20% to 9.01%	**152 083**
		1 881 777

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

8. Financial assets (Continued)

Fair values of financial assets and liabilities

Determination of fair value
Fair values are determined according to the following hierarchy based on the requirements in IFRS 7: Financial Instruments: Disclosures
- Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.
- Level 2 – valuation techniques using observable inputs: financial assets and liabilities with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.
- Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

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

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

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

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

December 2017	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Designated at fair value through profit or loss	**1 191 346**	**263 879**	**-**	**1 455 225**
December 2016				
Designated at fair value through profit or loss	1 041 673	184 987	-	1 226 660

Investments and securities

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

Other financial assets and liabilities

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

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

9.	**Technical assets and liabilities under insurance contracts**	**2017 R'000**	2016 R'000
	Technical liabilities		
	-Gross claims reported but not yet settled	**1 192 804**	811 427
	-Gross claims incurred but not reported	**296 159**	242 028
	-Gross unearned premium provision	**213 864**	185 009
	-Deferred retrocession commission income	**39 894**	34 276
		1 742 721	1 272 740
	Technical assets		
	-Retrocessionaire's share of claims reported but not yet settled	**862 425**	585 925
	-Retrocessionaire's share of claims incurred but not reported	**207 525**	169 420
	-Retrocessionaire's share of unearned premium provision	**150 675**	129 506
	-Deferred acquisition costs	**49 492**	42 492
		1 270 117	927 343
	Net technical liabilities		
	-Claims reported but not yet settled	**330 379**	225 502
	-Claims incurred but not reported	**88 634**	72 608
	-Unearned premium provision	**63 189**	55 503
	-Deferred acquisition costs	**(9 598)**	(8 216)
		472 604	345 397

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

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

9.1 Movements in technical assets and liabilities under insurance contracts

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

	2016		
	Gross	Reinsurance	Net
	R'000	R'000	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

Notes to the financial statements

for the year ended 31 December 2017 (Continued)

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

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

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

	2013 R'000	2014 R'000	2015 R'000	2016 R'000	2017 R'000
Claim settlement for each year:					
- first year	467 121	582 143	456 268	596 771	**653 608**
- one year later	676 459	763 626	605 815	**875 832**	
- two years later	177 295	219 913	**245 065**		
Provision for gross outstanding claims after two years run-off	133 949	145 733	345 777	358 201	653 608
- three years later	69 680	**59 465**			
- four years later	**8 789**				
Provision for gross outstanding claims at year end	49 804	81 254	181 841	529 600	545 746
Claim development run-off result at year end	**5 676**	**5 014**	**-**	**-**	**-**

	2017		
Unearned premium provision	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	**185 009**	**129 506**	**55 503**
Premiums written during the year	**2 663 428**	**1 880 075**	**783 353**
Premiums earned during the year	**(2 634 573)**	**(1 858 906)**	**(775 667)**
Total at end of year	**213 864**	**150 675**	**63 189**

	2016		
Unearned premium provision	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

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 2017 (Continued)

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

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

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

	2016		
	Gross	Reinsurance	Net
Deffered aquistion costs	R'000	R'000	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

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 2017 (Continued)

		2017 R'000	2016 R'000
10.	**Amounts due from companies on reinsurance accounts**		
	Amounts due from ceding companies	**202 587**	242 809
	Amounts due from retrocessionaire	**333 136**	-
		535 723	242 809
11.	**Deposits retained by ceding companies**		
	At beginning of year	**3 149**	378
	New deposits retained	**4 695**	2 771
	At the end of year	**7 844**	3 149
12.	**Cash and cash equivalents**		
	Cash on hand	**73**	76
	Current bank account balances	**48 186**	1 014
		48 259	1 090
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	**47 811**	5 666
	Amounts due to retrocessionaire	**-**	48 606
		47 811	54 272
15.	**Deposits due to retrocessionaire**		
	At beginning of year	**1 319 212**	1 247 697
	New deposits retained	**1 661 660**	1 319 212
	Deposits released	**(1 319 212)**	(1 247 697)
	At the end of the year	**1 661 660**	1 319 212

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

		2017 R'000	2016 R'000
16.	**Other provisions and accruals**		
	Other creditors and accruals	**20 195**	15 904
	Accrual for leave pay	**3 468**	5 407
		23 663	21 311

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.

		2017 R'000	2016 R'000
17.	**Deferred tax liability**		
	Opening balance	**26 098**	21 153
	Current year	**(7 632)**	4 945
	Closing balance	**18 466**	26 098
	The net deferred tax liability balance at the end of the period comprises:		
	– capital allowance	**(215)**	(41)
	– accruals	**(1 021)**	(1 568)
	– accumulated tax loss	**(20 381)**	-
	– unrealised gains on revaluation of investments	**40 083**	27 707
		18 466	26 098

18. **Current income tax asset**

The current income tax asset of R13.8 million (2016: R9.4 million) represents the amount of income taxes payable in the current year less provisional tax payments made.

		2017 R'000	2016 R'000
19.	**Net Commission incurred**		
	Gross commission and brokerage paid	**759 288**	628 095
	Gross deferred acquisition costs	**(7 000)**	(7 275)
	Commission incurred	**752 288**	620 820
	Commission earned	**(590 658)**	(489 511)
	Retrocession commission and brokerage received	**(531 922)**	(439 652)
	Retroceded overriding commission received	**(64 354)**	(55 775)
	Retroceded deferred commission revenue	**5 046**	5 093
	Retroceded deferred overriding commission revenue	**572**	823
	Net commission incurred	**161 630**	131 309

Notes to the financial statements
for the year ended 31 December 2017 (Continued)

		2017 R'000	2016 R'000
20.	**Profit before taxation**		
	Profit before taxation is arrived at after charging the following items:		
	Auditor's remuneration:	**1 111**	1 660
	– for audit services in the current year	**1 736**	1 600
	– over provision in prior years	**(625)**	60
	Consultancy fees	**4 220**	717
	Depreciation	**1 152**	1 190
	Amortisation	**3**	6
	Directors' remuneration	**15 014**	11 016
	Executive – for services rendered	**10 244**	6 246
	Non executive – for services as directors	**4 770**	4 770
	Lease payments	**2 466**	2 491
	Secretarial fees	**169**	171
	Staff costs including contribution to pension fund, UIF, SDL and allowances	**30 830**	32 814
	Number of staff: 36 (2016: 38)		
21.	**Taxation**		
	South African normal taxation – current year		
	Current tax	**(634)**	24 294
	Deferred tax	**(7 632)**	4 945
		(8 266)	29 239
	Tax rate reconciliation	**%**	%
	Effective tax rate	**(45.5)**	26.1
	Exempt income	**50.9**	4.0
	Disallowed expenses	**(1.4)**	(0.2)
	Capital gains tax	**20.5**	(1.9)
	Overprovision prior years	**3.5**	
	South African standard corporate tax rate	**28.0**	28.0

Notes to the financial statements
for the year ended 31 December 2017 (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	2017	2016
		R	R
Bakary Kamara	Non-executive Chairman	**815 335**	815 335
Corneille Karekezi	Non-executive Deputy Chairman	**733 802**	733 802
Allan F W Peters	Independent, non-executive Director	**693 035**	693 035
Elizabeth Amadiume	Non-executive Director	**611 501**	611 501
Phillip Pettersen	Independent, non-executive Director	**652 269**	652 269
Haile M Kumsa	Independent, non-executive Director	**611 501**	611 501
Sizakele Mzimela	Independent, non-executive Director	**652 269**	652 269
Daryl De Vos	Managing Director (Resigned 31 Aug 2017)	**6 630 122**	3 939 359
Ibrahim Ibisomi	Executive Director	**2 459 486**	2 306 619
Sory Diomade	Deputy Managing Director (Appointed 16 August 2017)	**1 154 795**	-

Prescribed officers

Mr Daryl De Vos served as Managing Director until his resignation on 31 August 2017. Mr. Sory Diomande joined the Company as Deputy Managing Director in July 2017, was formally appointed unto the board on 16 August 2017 and was appointed Acting Managing Director on 19 October 2017. Mr Ibrahim Ibisomi 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:

Name	Position	2017	2016
		R	R
John C Izegbu	General Manager Operations (Retired 24 July 2017)	**1 983 493**	2 338 078

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 2017 (Continued)

22. Related party transactions (Continued)

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

Statement of financial position	2017 R'000	2016 R'000
Assets		
Retroceded outstanding claims provision	**1 069 950**	755 345
Retroceded unearned premium provision	**150 675**	129 506
Liabilities		
Deferred retrocession commission revenue	**(39 894)**	(34 277)
Deposits due to retrocessionaire	**(1 661 660)**	(1 319 212)
Amounts due to companies on reinsurance accounts	**(46 396)**	(48 606)
Amount due to holding company	**(214 470)**	(172 380)
Net liabilities	**(741 795)**	(689 624)
Statement of comprehensive income		
Retroceded premiums	**(1 873 560)**	(1 614 032)
Retrocessionaire's share of provision for unearned premiums	**21 169**	23 479
Retroceded claims received	**1 362 424**	1 090 047
Retrocessionaire's share of provision for outstanding claims	**314 605**	40 385
Retrocessionaire's share of net commission incurred	**590 365**	489 511
Interest expense	**(45 544)**	(31 452)
Management expenses	**(40 000)**	(33 000)

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

Statement of financial position	2017 R'000	2016 R'000
Liabilities		
Other creditors and accruals	**9 389**	7 042
Statement of comprehensive income		
Management expenses	**(2 347)**	(2 347)

Reportable irregularity

During the year, the Company granted a loan on commercial terms to an executive director under the terms of his contract of employment with the Company without subjecting it to Board approval initially. KPMG determined that this constitutes a breach of section 45 of the Companies Act of South Africa with regard to the approval of financial assistance to Directors by way of Board approval, and that this constitutes a reportable irregularity which has been reported by KPMG to IRBA. The financial assistance to the director of the Company was subsequently approved by way of a Board resolution on 15 March 2018 and does not affect the Company's financial soundness.

Notes to the financial statements
for the year ended 31 December 2017 (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 911 616 (2016: R1 949 344).

24. Operating lease commitments

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

	2017 R'000	2016 R'000
– less than one year	**28**	65
– between one and five years	**102**	37
	130	102

25. **Notes to the cash flow statement**	**2017 R'000**	2016 R'000
25.1 Reconciliation of cash (utilised)/generated by operations		
Profit before taxation	**18 160**	112 189
Adjusted for :		
- depreciation and amortisation	**1 155**	1 196
- investment income net of management fees	**(232 826)**	(178 272)
- interest expense	**45 544**	31 452
- net unearned premium provision net of deferred acquisition costs	**6 304**	8 703
Cash generated by changes in working capital	**208 327**	84 298
Net amounts due from companies on reinsurance accounts	**(299 375)**	(27 492)
Deposits retained by ceding companies	**(4 695)**	(2 771)
Accounts receivable	**5 505**	12 419
Amount due to holding company	**42 090**	32 653
Other provision and accruals	**2 352**	4 034
Deposits due to retrocessionaire	**342 448**	71 515
Investment contract liability	**(901)**	901
Net outstanding claims provision	**120 903**	(6 961)
	46 664	59 566
25.2 Reconciliation of taxation paid		
Balance recoverable at the beginning of the period	**13 128**	9 422
Current tax through profit or loss	**634**	(24 294)
Balance recoverable at the end of the period	**(13 762)**	(13 128)
Taxation paid	**-**	(28 000)

Notes to the financial statements
for the year ended 31 December 2017 (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.

During the year, the Board approved a formal dividend policy for the Company under which it set specific guidelines and criteria for the determination and payment of dividends.

26.3 Going concern

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

26.4 Events after the reporting date

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

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.

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