African Reinsurance Corporation (SA) Limited

(Registration Number 2003/031630/06)

Annual Financial Statements

for the year ended 31 December 2021

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

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

Annual report

for the year ended 31 December 2021

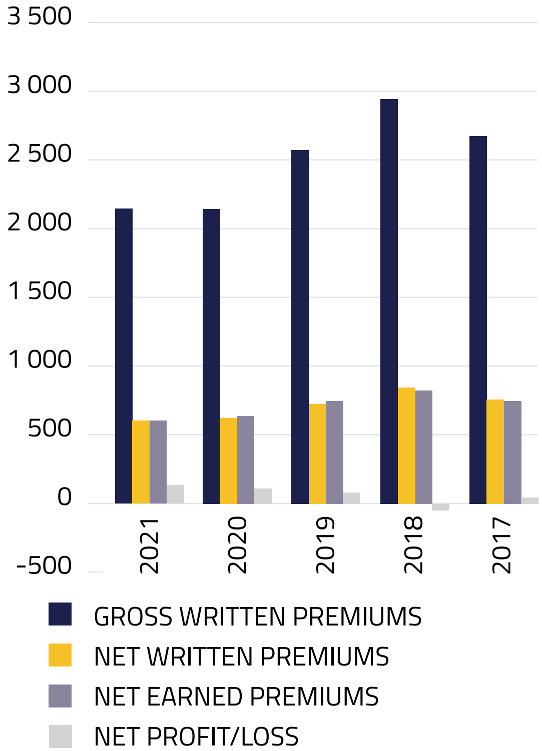
Financial highlights

for the year ended 31 December 2021

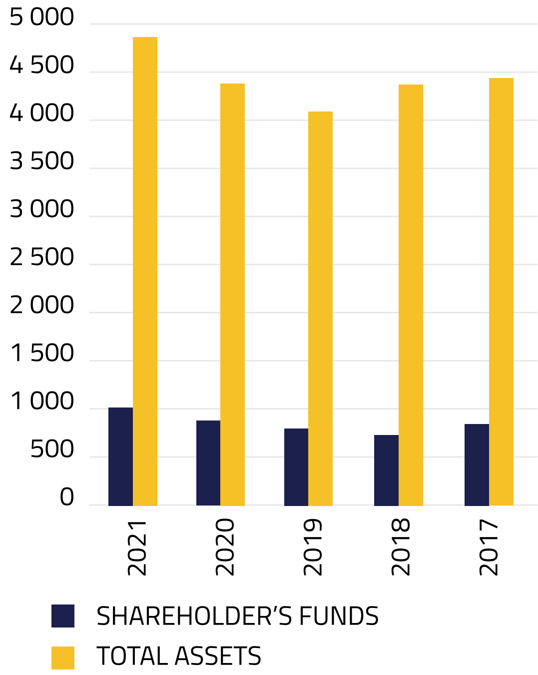
In R'000	2021	2020	2019	2018	2017
RESULTS					
GROSS WRITTEN PREMIUMS	**2,119,057**	2,120,721	2,580,722	2,933 664	2,663,428
NET WRITTEN PREMIUMS	**584,652**	586,541	717,652	839,567	753,353
NET EARNED PREMIUMS	**584,222**	589,334	732,660	838,736	745,667
NET PROFIT/(LOSS)	**81,636**	84,684	79,399	(28,873)	26,426
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	**982,632**	900,996	816,312	736,913	766,786
TOTAL ASSETS	**4,675,806**	4,393,797	4,108,869	4,368,594	4,474,577
INTERNATIONAL SOLVENCY MARGIN[N1]	**168%**	154%	114%	88%	102%

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

RESULTS 2017 - 2021
In Rand' Million



FINANCIAL POSITION 2017 - 2021
In Rand' Million



Chairman and executive management statement

for the year ended 31 December 2021

On behalf of the Board of Directors, it is our privilege to present the annual financial statements of African Reinsurance Corporation (South Africa) Limited ("the Company") for the year ended 31 December 2021. The year was eventful and remarkable in many respects with significant impact on the Company's business, on the industry as well as on the domestic and global economy. Still, we are pleased to report that the Company maintained the positive performance recorded in the similarly difficult operating environment of the previous year.

The COVID-19 pandemic dominated the news headlines for the second year running. While most economies showed signs of recovery from the lows reached in 2020, the impact on the insurance industry during 2021 manifested mostly in substantial cash payouts on the settlement of claims. The key lessons the industry learnt from the pandemic experience include an improved clarity in policy wordings.

During the year, South Africa witnessed an unprecedented spate of public riots involving looting, arson and other damages to property as well as the loss of lives. The cost of the riots to the national economy was estimated to be in excess of R50 billion. The riots also cost the insurance industry significantly, especially reinsurers who offered protection to the specialist state- owned insurer, SASRIA, that provide cover against such events. Fortunately, the Company had a disproportionately lower share of losses as a direct benefit from the impact of the portfolio de-risking, underwriting prudence and retrocession restructuring components of its Turnround strategy formulated and implemented consistently since 2018. The Turnaround Strategy continues to have a salutary impact on the Company's performance so Management has kept faith with its implementation.

Financial conditions tightened since early 2020, sparking further deterioration in risk sentiment with adverse growth implications. Economic challenges flowing from the COVID-19 pandemic persisted during the year compounded with high public and private debt levels and rising commodity prices. The domestic operating environment was challenging in 2021 but coming from a much lower base in 2020, a growth in GDP of 4.9% was recorded. This growth was driven by the mining, agriculture and manufacturing sectors. The economy continues to lag pre-pandemic levels.

National lockdown due to COVID-19 and high level of unemployment were key indices that dominated economic activity during the year. The dreaded shortfall in energy supply (dubbed "load shedding") reared its ugly head again with significant adverse impact on productivity across all sectors. The poor state of health of key state-owned enterprises did not show any sign of improvement, with virtually all of them requiring significant bail-out amounts from public funds. Tax revenue collection in 2021 declined compared to the previous period resulting from the impact of COVID-19 lockdown restrictions and an already struggling economy. None the less, the government's commitment to fiscal and structural reforms has started yielding positive outcomes where a strong fiscal performance was registered leading FitchRatings to revise its Rating Outlook on South Africa from Negative to Stable.

The Company conducted all its activities remotely during the year in order to comply with lockdown restrictions and to mitigate the spread of COVID-19 pandemic until the beginning of February 2022 when working physically from Company offices was resumed. South Africa is still the main operating market for the Company, and it thus contributed to most factors that influenced the performance of the business during the year 2021.

The Board is pleased to report that the Company delivered a strong performance for the year 2021 despite the impact of COVID-19 claims on the business and the July 2021 social unrest. Strict underwriting discipline and the full impact of the change in investment strategy implemented at the tail end of 2018 contributed to the result. Gross written premium for the year under review stabilized at R2,119 million (2020 – R2,121 million). Similarly, the Company recorded a R2 million (or 0.3%) decrease in its net written premium, from R587 million in 2020 to R585 million in 2021. The stable premium volumes are a reflection of the impact of the final stages of the implementation of the turnaround strategy embarked upon in 2018, with minimal business declines and cancellations in 2021 compared to the earlier years.

Other than COVID-19 related claims and the July 2021 Social Unrest experienced in KwaZulu Natal and some parts of Gauteng, 2021 was relatively a benign year from a claims perspective especially with the absence of natural catastrophe losses in the market for the fourth consecutive year. However, attritional losses saw the Company's net incurred claims for 2021 amounting to R317 million, which was an improvement over the R362 million incurred in 2020 – a significant improvement of 12%. Backed by its strong balance sheet and sufficient liquidity, the Company was able to comfortably meet its obligations to its clients.

Chairman and executive management statement

for the year ended 31 December 2021 *(Continued)*

The Board and Management will continue to implement appropriate measures to meet its claims obligations for the benefit of its clients while also working to stabilise the Company's earnings.

Gross commission expenses increased by 23% and net commission expenses increased by 123%. This was on account of improved performance on some Solvency Relief contract businesses which influenced the changes in both gross and net commission to R263 million (2020: R187 million) and R73 million (2020: R45 million), respectively. There has been a change in the overriding commission arrangement with the retrocessionaire compared to the preceding year and this has resulted in the decline in the overrider commission earned from R107 million recorded in 2020 to R47 million in 2021 financial year.

Management expenses decreased by 4% from the R141 million incurred in 2020 to R135 million in the year under review, which was on account of lower activities in the year due to the lockdown restrictions.

An increase in net investment income of R43 million has been recorded from R110 million in 2020 to R153 million in 2021. This impressive performance benefited from a recovering economic environment that prevailed during the year, in which the financial markets were boosted by an easing of the COVID-19-related restrictions together with an accommodative monetary and fiscal policy stance. Bonds and equity investments posted a good performance while interest-earning instruments especially fixed deposits were impacted by the lower repo rate that prevailed for the big part of the year.

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

The Company recorded a profit before tax for the year under review of R107million compared to the profit before tax of R116 million recorded in 2020. Accrued income tax expense recorded in the statement of comprehensive income for the period was R25 million (2020: R31 million) resulting in an after-tax profit of R82 million compared to the after-tax profit of R85 million recorded in 2020. Concerted efforts continue to ensure that the Company achieves a significant and positive underwriting performance.

The Board is pleased to report that, for the eighth consecutive year since its debut stand-alone rating of 2014, the Company's A- rating (with a Stable Outlook) has been reaffirmed albeit on the back of the Parental Guarantee issued by the Africa Re Group to offset the adverse impact of the sovereign rating downgrades suffered by South Africa since 2017. Still, the reaffirmation of the A- rating lends credence to the sustained strength of the Company's capital, governance and risk management standards as well as its work processes, resources and systems. More importantly, given the prospective nature of ratings, it is a vote of confidence in the Company's prospects and sustainability. We are confident that clients will continue to take good advantage of this positive international endorsement of the Company's strength and resilience as a reinsurance security provider. The Board and Management remain focused and committed to ensuring the sustenance and future enhancement of this highly regarded security rating.

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

The Board would like to pay tribute to its pioneer Chairman, Mr. Bakary Kamara, who retired from the Board on 27 August 2021 after serving meritoriously since the Company's incorporation in December 2003. The Board acknowledges his vision and doggedness that led to the establishment of the Company, his energy and drive that steered the Company successfully over the years, and the strong, purposeful and result-oriented leadership and direction that he provided to the Board throughout his term. The Board is pleased to note that he has stepped up unto the Board of Africa Re Group so he is still within reach for his much-valued and rich experience.

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

Chairman and executive management statement

for the year ended 31 December 2021 *(Continued)*

The Directors who served during the year were:

B H Kamara (Mauritanian)
Independent non-executive Chairman
(Retired 27 August 2021)

C Karekezi (Rwandese)
Non-executive Deputy Chairman
(Appointed Chairman from 15 October 2021)

P Pettersen
Independent non-executive Director
(Appointed Lead Independent Director from 15 October 2021)

H M Kumsa (Ethiopian)
Independent non-executive Director

S Mzimela
Independent non-executive Director

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

T Baloyi
Independent non-executive Director

A N Tennick
Managing Director

I A Ibisomi (Nigerian)
Executive Director

The Audit Committee under the leadership of F B S M Fléjou met three times during the course of the 2021 financial year. The Committee's report is separately included elsewhere in these financial statements just as is the report of the Social, Ethics & Transformation Committee under the leadership of S Mzimela. The Board's other committees are: Remuneration and Human Resources Committee under the chairmanship of C Karekezi, Risk and Underwriting Committee under the chairmanship of P Pettersen, Nominations and Governance Committee under the chairmanship of B H Kamara for two of the meetings and one by the new Chairman C Karekezi as well as Finance and Investment Committee under the chairmanship of T Baloyi. The Board is satisfied with the performance of all the Committees and believes that their work has greatly strengthened the effectiveness of its oversight responsibilities. The annual self-evaluation of the performance of Directors, Committees and the Board was successfully undertaken for 2021 with overall performance turning out to be commendable and areas requiring improvement have also been identified for appropriate attention.

During the year, the Board maintained the services of Deloitte & Touche South Africa as the external auditors for the Company. Similarly, with the commencement of the new Insurance Act, the Board endorsed the retention and designation of all heads of control functions, evenly spread as between two employees and two outsourced service providers. The Board will continue to ensure the independence, integrity and resourcefulness of control functionaries as a way of maintaining adequate controls over the Company's affairs. The external auditors and all control functionaries do have unfettered access to the Board directly and through the relevant Committees, with reporting and interaction on both regular and ad-hoc basis. The Board is pleased to note that the Company remained compliant with all applicable legislation throughout the year.

Corporate Social Responsibility remains a key priority for the Company. During the year, the Company continued its support to its adopted schools and, in particular, donated three printers to Lufhereng primary school to mark Mandela day. The Company bought summer and winter school uniforms (28 pupils) for the Home of Hope and has also undertaken a number of initiatives aimed at creating health awareness among the staff and the community. All this is described in greater detail in the report of the Social, Ethics & Transformation Committee. The Company continues to seek out worthy individuals and causes and provides ongoing support to a number of these initiatives.

We acknowledge that our employees are undoubtedly our most important resource and we believe that each staff member contributes meaningfully towards the development of the Company.

Chairman and executive management statement

for the year ended 31 December 2021 *(Continued)*

The Company in turn provides support to the professional and personal self-development initiatives of staff through which employees continue to record progress in their academic and professional pursuits. We will continue to develop a conducive and supportive environment where each employee is able to reach their full potential and to share in the success of our business. In this regard, the Company will continue to strive to attract, develop and retain the very best talent, focusing on the right rewards and incentives whilst allowing staff to achieve a balance between both personal and professional capabilities. We remain grateful to all staff for all their valued efforts and for their commitment to the Company.

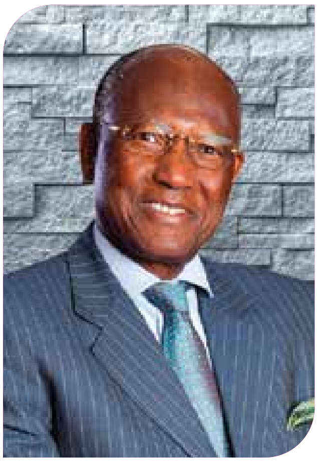
In concluding, the Board acknowledges that 2021 was another fairly good year during which the Company was able to record a remarkable performance. The performance could have been much better if not for the social unrest and COVID-19 events of the year under review. In the circumstances, the company remains focused on repositioning the Company for an improved and sustainable performance in the medium term, underpinned by standard underwriting practices, operational efficiency and service excellence. Poised for further growth and diversification, the Company applied for and was granted a composite license to enable it write Life reinsurance business, which it hopes to commence in the 2022 financial year.

Dr. Corneille Karekezi
Chairman
31 May 2022

Andrew N Tennick
Managing Director
31 May 2022

Board of Directors, Executive Management

Corneille Karekezi
Non-executive Chairman
(Appointed Chairman 15 October 2021)

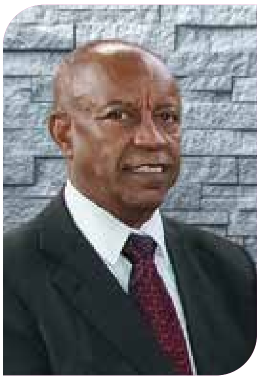


Bakary H Kamara
Independent,
Non-executive Chairman
(Retired 27 August 2021)

Phillip Pettersen
Lead Independent Director
(Appointed Lead Independent Director 15 October 2021)

Frederic Fléjou
Independent,
Non-executive Director

Sizakele Mzimela
Independent,
Non-executive Director



Haile M Kumsa
Independent,
Non-executive Director

Andrew N Tennick
Managing Director

Themba Baloyi
Independent,
Non-executive Director

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

Ibrahim A Ibisomi
Executive Director
(Retired 18 April 2022)

Sudadi K Senganda
General Manager, Finance & Administration

Directors' responsibilities and Approval

for the year ended 31 December 2021

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

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

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

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

The annual financial statements set out on pages 18 to 56, and the supplementary information set out on page 57 which have been prepared on the going concern basis, were approved by the Directors and were signed on 31 May 2022.

Dr. Corneille Karekezi
Chairman
31 May 2022

Andrew N Tennick
Managing Director
31 May 2022

Report by the Social, Ethics and Transformation Committee

for the year ended 31 December 2021

The Social, Ethics and Transformation Committee ("the Committee") is pleased to present this report on its activities for the year 2021 to the Board and to the Shareholder. Although the Committee is a creation of the Companies Act 2008 and the King III Report, the Company as a member of the Africa Re Group has always voluntarily subscribed to the highest levels of ethics and substantial social responsibility. The continued implementation of the statutory and best-practice corporate governance requirements has therefore not posed any difficulty for the Company. The Committee is also responsible for overseeing the Company's transformation journey.

The Committee operates under a Charter that complies with the Companies Act and King IV requirements, that is approved by the Board of Directors and that is reviewed annually. This Charter was updated during the year under review with no major changes. The amendments made in 2019 to sharpen the Committee's focus on Transformation and to upgrade the Committee's work to meet King IV requirements remained in place throughout the year. Copies of the Charter are available on request from the Company Secretary. The key areas of responsibility for the Committee which are amplified in the revised Charter include the following:

- Responsible corporate citizenship
- Stakeholder relations
- Social and ethical issues impacting employment, labour relations and employee welfare
- Ethics and code of conduct compliance
- Transformation, employment equity and empowerment
- Environment, health and public safety
- Sustainability, social and economic development
- Regulatory, statutory and best-practice compliance.

The Committee discharged its responsibilities unhindered during the year. The Committee reaffirmed its purpose and the continued relevance of its Charter. It updated its workplan and reconfirmed the existing structures and documents relevant to its work, while also promoting the Company's social responsibility initiatives. The Committee monitored and proposed practical steps towards the implementation of the Company's Transformation Policy and the Transformation Plan for the Company. The Committee also reviewed and monitored the Company's employment equity reports and plans. The Committee will continue to work for the practical implementation and the realisation of the key objectives of these vital documents.

The annual Wellness Day for employees could not hold during the year, due to the national lockdown imposed on account of the COVID-19 pandemic. Indeed, the lockdown prevented the execution of any of the usual programmes and projects under the Committee's mandate until late in the year, due to its very restrictive terms in the first three quarters of the year that made employees work largely from home. The Committee therefore used the opportunity to organise a focused session on Transformation, which successfully produced a number of initiatives for accelerating the pace of transformation in the Company. With the approval granted by the Board, these initiatives will be implemented from 2022. In addition, the Company organised very impactful programmes in the last four months of the year, on themes like women's health (breast and cervical cancer), men's health (prostate cancer), marking the Annual World HIV/AIDS Day, and support for a home for young girls rescued from prostitution.

In order to achieve black economic empowerment compliance as envisaged in the Transformation Plan, the Company has set minimum requirements of BBBEE compliance for its service providers, focused recruitment activities on specified target groups as well as directed spending towards skills, economic and social development of the black population. Under the guidance of the Committee, the Company has identified partner organisations for undertaking additional projects that will enhance its transformation and economic empowerment credentials. These initiatives form part of the specific programmes identified during the year and will continue to be rolled out to the extent possible under the coronavirus-imposed restrictions and fully thereafter.

While training belongs squarely to the remit of the Remuneration and Human Resources Committee of the Board, the Social, Ethics and Transformation remains pleased with the progress that the Company is making in using training to enhance its transformation credentials through the upskilling of employed and unemployed persons from designated population groups. It particularly commends the partnership with the Insurance Sector Training Authority (INSETA) through which the Company continues to provide learnership and internship

Report by the Social, Ethics and Transformation Committee

for the year ended 31 December 2021 *(Continued)*

programmes to unemployed graduates and school leavers, train middle management staff at the University of Cape Town and sponsored a number of other training and skill development programmes for employees mainly from the designated population groups. The Committee hopes for a continuation of these programmes into the foreseeable future.

The Committee continued to play its role in the Company's adherence to sound ethics, improved communication and to an appropriate policy framework on health and safety matters for staff, and sustained employee assistance initiative through ICAS to provide professional support to employees and their families. The ICAS Employee Wellness programme continued to receive employee patronage and, happily, was very helpful under the strenuous coronavirus restrictions during which it enjoyed an enhanced patronage from employees.

During 2020, the Committee oversaw the conduct of an organisational culture survey through the internal administration of survey questionnaire and external collation of its results. The results of the survey suggested the need for a deeper dive into culture and work climate issues in the Company by an external consultant. This was planned for 2021 but could not hold on account of the lockdown restrictions. The required involvement of external expertise and professional assistance will be undertaken during 2022 under the guidance of the Board. The Committee also monitored the impact of the coronavirus pandemic on the health and safety of employees together with their families. Unfortunately, the Company lost a member of staff to health complications arising from the virus during the year. The Company has therefore enhanced its measures at keeping employees safe while the pandemic persists.

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

During the year, along with the Board and other Board Committees, the Committee submitted itself to an independent performance evaluation by the Institute of Directors South Africa. The Committee was pleased with the satisfactory performance recorded and the positive remarks emanating from the exercise. It will however continue to improve on the few areas highlighted for improvement in order to effectively deliver on its important mandate.

The Committee met four times during the year with all members in attendance, including one meeting that was specifically dedicated to Transformation. Apart from its members, the Committee's meetings are regularly attended by another Director and other personnel on the invitation of the Committee, who may be required to assist the Committee in its work. The members of staff of the Company have unrestricted access to the Committee and to its chairperson.

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

Sizakele Mzimela	- Independent non-executive Director (Chairperson)
Phillip Pettersen	- Independent non-executive Director (Member)
Andy Tennick	- Managing Director (Member)
Ibrahim Ibisomi	- Executive Director (Member)
Cebisa Moshao	- Manager, Finance & Accounts (Member)
Simiso Ndlovu	- Human Resources & Compliance Officer (Member)

Members of the Committee are satisfied with the Company's continued implementation of processes, resources, activities and assurances in relation to the transformation, social responsibility, ethics, employee relations and other matters within the scope of the Committee's work; that the Committee has fulfilled its objectives; and that the requirements of the Companies Act in relation to the statutory responsibilities of the Committee have been complied with during the year ended 31 December 2021.

The Committee acknowledges that the Company's main challenge within the scope of its work lies in the achievement of transformation, which includes the attainment of compliance with relevant black economic empowerment and employment equity legislation.

Report by the Social, Ethics and Transformation Committee

for the year ended 31 December 2021 *(Continued)*

The Committee equally acknowledges the broader challenges posed by the Company's recent poor but improving performance together with its status as a wholly-owned subsidiary of a foreign multinational corporation. The Committee will continue to work within these constraints in order to overcome the identified challenges and achieve its set objectives. This will enable the Committee to continue to fulfil its role effectively in guiding the Company on transformation, social and ethical matters in accordance with its statutory mandate and international best practice.

The Committee would like to place on record its appreciation for the trust, confidence and tremendous support it enjoys from the Board of Directors and, in particular, for the special approval received from the Board on the Transformation initiatives formulated at the instance of the Committee. Special appreciation goes to Director Themba Baloyi who attended and contributed significantly during all of the Committee's meetings during the year. The Committee also appreciates Management's endurance and commitment to the development of new initiatives aimed at improving the Company's transformation credentials.

The Committee acknowledges the continued partial disbursement of the US$250,000 allocation by the Africa Re Group through its Africa Re Foundation, in support of efforts to confront the coronavirus pandemic in South Africa. It is noteworthy that the disbursements so far have been to direct and impactful efforts at fighting the virus and at limiting its devastating impact. The Committee will continue to work with the Africa Re Foundation to identify worthy causes for its intervention in all the markets served by the Company.

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

Sizakele Mzimela
Chairperson
31 May 2022

Report of the Audit Committee

for the year ended 31 December 2021

The Audit Committee is pleased to present this report on its activities for 2021 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 update the documentation and enhance the system of internal controls, especially the incremental implementation of a software-driven Compliance Strategy and Plan during the year, following the successful separation of the Compliance control function from the Risk Management function that Management successfully implemented in 2019. The Committee reviewed reports presented by Management as well as by the internal and external audit functions and was satisfied with explanations provided on its observations.

The Audit Committee met thrice during the year with all members in attendance at all the meetings. Apart from its members, the Committee's meetings are also regularly attended on its invitation by members of Executive Management, the heads of actuarial, risk management and compliance control functions as well as by internal and external audit personnel. The year 2021 represented the second under the three-year internal audit plan under which the internal auditors conducted their second routine audit exercises. Their report was received with no incidences of material breakdown in controls. During the year, the Committee received and approved a request from the internal auditors for an outsourcing of the internal audit function to a professional services firm. The process for that appointment is at the proposal assessment stage at this time. It is envisaged that, when appointed, the professional services firm will conclude the third year of the current internal audit plan and commence a new three-year risk-based internal audit plan immediately thereafter. As expected, the 2021 internal audit report included a satisfactory disposition of all the previous internal audit issues raised. The internal and external audit personnel as well as all heads of control functions have unrestricted access to the Committee and to its chairperson.

The Committee is pleased with the continued progress and valued contributions made by Messrs. Deloitte SA who were in their fourth year as external auditors in their audit of the financial statements for 2021. The Audit Committee reviewed the terms of engagement of Deloitte SA as external auditors and was satisfied with their independence as well as with the adequacy of the audit procedures applied in their audit of the Company's financial statements together with their judgment thereon as well as the recommendations contained in their management letter.

During the year, the Committee was briefed on the commencement of the implementation of the IFRS 9 and IFRS 17 financial reporting standards as a Group-wide project for the African Reinsurance Corporation Group. The Committee is pleased with the processes being followed and with the involvement of a major professional services firm as the project implementation partner. The Committee has confidence in the success of the implementation project but will continue to provide its own oversight mechanism from the Company's perspective. The Committee also noted the successful implementation of two new policy administration and financial reporting software for the Company as part of the Africa Re Group. It is expected that the new software will improve the integrity, functionality and timeliness of transaction processing, financial reporting and record keeping activities in the Company.

During the year, along with the Board and other Board Committees, the Committee submitted itself to an independent performance evaluation by the Institute of Directors South Africa. The Committee was pleased with the satisfactory performance recorded and the positive remarks emanating from the exercise. It will however continue to improve on the few areas highlighted for improvement in order to effectively deliver on its important mandate.

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

- F B S M Fléjou - Independent non-executive Director (Chairman)
- P Pettersen - Independent non-executive Director (Member)
- H M Kumsa - Independent non-executive Director (Member)
- S Mzimela - Independent non-executive Director (Member)
- T Baloyi - Independent non-executive Director (Member)

Report of the Audit Committee

for the year ended 31 December 2021 *(Continued)*

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 2021.

For and on behalf of the Audit Committee:

Frédéric B S M Fléjou
Chairperson
31 May 2022

Directors' report

for the year ended 31 December 2021

The Directors are pleased to present the Directors' report of the Company for the year ended 31 December 2021

1. **Business**

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

   Share capital

   The issued and fully paid share capital of the Company including share premium is R80.3 million (2020: 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 R80.3million.

   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 2021 amounts to R982.6 million (2020: R900.9 million). Net technical liabilities under insurance contracts at 31 December 2021 amount to R332 million (2020: R363 million).

   Statement of comprehensive income

   Total profit and comprehensive income for the year is a net profit of R81.6 million (2020: R84.7 million). The results for the year are presented in the accompanying Statement of Comprehensive Income and Notes to the Financial Statements and require no further amplification here.

   Holding company

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

2. **Dividend**

   The Directors did not declare or pay a dividend during the year (2020: Nil).

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

   - Bakary H Kamara (Mauritanian)
     Independent non-executive Chairman
     (Retired 27 August 2021)
   - Dr. Corneille Karekezi (Rwandese)
     Non-executive Deputy Chairman
     (Appointed Chairman from 15 October 2021)
   - Phillip Pettersen
     Independent non-executive Director
     (Appointed Lead Independent Director from 15 October 2021)
   - Haile M Kumsa (Ethiopian)
     Independent non-executive Director
   - Sizakele Mzimela
     Independent non-executive Director
   - Frédéric B S M Fléjou (French)
     Independent non-executive Director
   - Themba Baloyi
     Independent non-executive Director
   - Andrew N Tennick
     Managing Director
   - Ibrahim A Ibisomi (Nigerian)
     Executive Director

4. **Company Secretary**

   Ibrahim A Ibisomi
   Africa Re Place
   10 Sherborne Road
   Parktown
   Johannesburg 2193

5. **Auditor**

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

Directors' report

for the year ended 31 December 2021 *(Continued)*

6. Impact of COVID-19

During the year 2020, the World Health Organisation declared the coronavirus (COVID-19) as a global pandemic while the Government of the Republic of South Africa declared it a national disaster. The pandemic has affected virtually every aspect of individual, corporate and national life. As a result of the pandemic, directly and indirectly, global and national economies have recorded slow or negative growth while many businesses and individuals have suffered substantial financial, economic and other losses. There has been some measure of recovery during 2021.

The Directors acknowledge that the Company's operations have inevitably been affected by the impact of the pandemic. As at the time of this report the impact has been fully quantified and is included in the Company's financials. It is important to note that the Company continued to operate effectively while observing containment measures enforced in South Africa throughout the year. All business renewals undertaken by the Company during the year and up to the date of this report have been concluded without any difficulties associable with COVID-19.

The Directors are therefore confident that the Company will continue to operate as a going concern despite the potential adverse impact of COVID-19.

By order of the Board

Ibrahim A Ibisomi
Company Secretary
31 May 2022

Independent auditor's report

To the Shareholder of African Reinsurance Corporation (SA) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of African Reinsurance Corporation (SA) Limited set out on pages 18 to 56, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation (SA) Limited as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 corresponding sections of the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the document titled "African Reinsurance Corporation (SA) Limited Annual Financial Statements for the year ended 31 December 2021" which includes the Financial highlights, Chairman and executive management statement, Directors' Responsibilities and Approval, Report by the Social, Ethics and Transformation Committee, Report of the Audit Committee and Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Independent auditor's report *(Continued)*

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.

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

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

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Harshal Kana
Partner
31 May 2022
5 Magwa Crescent, Waterfall City 2090, South Africa

Statement of Financial Position

for the year ended 31 December 2021

	Notes	2021 R'000	2020 R'000
Assets			
Cash and cash equivalents	*6*	47,640	9,269
Financial assets	*7*	3,084,056	3,036,077
Held-to-maturity instruments at amortised cost		2,044,290	2,069,895
Instruments at fair value through profit or loss		1,039,766	966,182
Technical assets under insurance contracts	*8*	1,254,776	1,220,265
Retroceded outstanding claims reserve		1,087,150	1,080,200
Retroceded unearned premium reserves		123,127	100,642
Gross deferred acquisition costs		44,499	39,423
Property, Plant and Equipment	*9*	769	943
Amounts due from companies on reinsurance accounts	*10*	219,192	91,169
Accounts receivable		6,119	(633)
Deposits retained by ceding companies	*11*	63,254	28,668
Current tax asset	*12*	-	8,039
Total assets		**4,675,806**	**4,393,797**
Liabilities			
Technical liabilities under insurance contracts	*8*	1,586,782	1,583,474
Gross outstanding claims reserve		1,380,067	1,401,559
Gross unearned premium reserve		169,775	146,860
Deferred retrocession commission revenue		36,940	35,055
Deferred tax liabilities	*13*	11,050	1,802
Amounts due to companies on reinsurance accounts	*14*	55,516	67,667
Other provisions and accruals	*15*	15,291	16,822
Deposits due to retrocessionaire	*16*	1,865,551	1,728,495
Current tax liabilities	*12*	56	-
Amount due to holding company	*17*	158,928	94,541
Total liabilities		**3,693,174**	**3,492,801**
Equity			
Share capital and share premium	*18*	80,300	80,300
Retained earnings		850,630	768,994
Contingency reserve		51,702	51,702
Total equity attributable to equity holders of the company		**982,632**	**900,996**
Total equity and liabilities		**4,675,806**	**4,393,797**

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2021

	Notes	2021 R'000	2020 R'000
Gross written premiums		2,119,057	2,120,721
Retroceded written premiums		(1,534,405)	(1,534,180)
Net written premiums		**584,652**	586,541
Change in gross unearned premium provision		(22,915)	13,491
Change in retroceded unearned premium provision		22,485	(10,698)
Net earned premiums		**584,222**	589,334
Net investment income		**152,991**	110,465
Dividend income		6,336	3,176
Interest income on investment		122,057	151,676
Interest expense		(25,904)	(41,308)
Net realised gain/(loss) on disposal of investments		14,556	(3,370)
Net unrealised gain/(loss) on investments		40,991	3,122
Exchange gain/(loss) on investment		(361)	1,322
Investment management expenses		(4,684)	(4,153)
Other income		55	-
Total net income		**737,268**	**699,799**
Gross claims paid		(1,317,267)	(1,372,692)
Retroceded claims received		971,888	982,896
Change in gross provision for outstanding claims		21,492	8,828
Change in retroceded provision for outstanding claims		6,950	18,521
Net incurred claims		**(316,937)**	**(362,447)**
Net commission incurred	*19*	(178,382)	(80,071)
Management expenses		(135,251)	(141,405)
Total technical expenses		**(630,570)**	**(583,923)**
Net profit before taxation		**106,698**	**115,876**
Taxation	*20*	(25,062)	(31,192)
Total income tax expense		**(25,062)**	**(31,192)**
Profit for the year		**81,636**	**84,684**

Statement of Changes in Equity

for the year ended 31 December 2021

	Share capital and share premium	Contingency reserve	Retained earnings	Total
	R'000	**R'000**	**R'000**	**R'000**
Balance at 1 January 2020	80,300	51,702	684,310	816,312
Changes in equity				
Profit for the year	-	-	84,684	84,684
Total comprehensive income	-	-	84,684	84,684
Balance at 31 December 2020	**80,300**	**51,702**	**768,994**	**900,996**
Balance at 1 January 2021	80,300	51,702	768,994	900,996
Changes in equity				
Profit for the year	-	-	81,636	81,636
Total comprehensive income	-	-	81,636	81,636
Balance at 31 December 2021	**80,300**	**51,702**	**850,630**	**982,632**

Statement of Cash Flows

for the year ended 31 December 2021

	Notes	2021 R'000	2020 R'000
Net cash flows used in operations	*27*	**(58,801)**	**(87,568)**
Interest paid		(25,904)	(41,308)
Income taxes paid	*27*	(9,896)	(43,553)
Net cash flows used in operating activities		**(94,601)**	**(172,429)**
Cash flows from investment activities			
Net purchases and disposals of property, plant and equipment		(482)	(358)
Net purchases and disposals of investments		3,300	6,697
Interest received net of investment management fees		123,818	159,322
Dividends received		6,336	3,176
Cash flows from investing activities		132,972	**168,837**
Net increase / (decrease) in cash and cash equivalents		**38,371**	**(3,592)**
Cash and cash equivalents at the beginning of the year		9,269	12,861
Cash and cash equivalents at the end of the year	***6***	**47,640**	**9,269**

Notes to the financial statements

for the year ended 31 December 2021

1. General information

African Reinsurance Corporation (South Africa) Limited or ("the Company") is a professional reinsurer underwriting non-life insurance risks in the domestic and regional markets. The Company is a public company incorporated and domiciled in the Republic of South Africa. The Company is a wholly owned subsidiary of African Reinsurance Corporation established under the auspices of the African Union with headquarters in Nigeria and operating offices located across the African continent.

The Company is domiciled in Johannesburg.
The address of its registered office is:

Africa Re Place, 10 Sherborne Road
Parktown, Johannesburg, 2193

2. Accounting policies

(a) Statement of compliance

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

(b) Basis for preparation

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

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

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

(c) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the reinsured) by agreeing to compensate the reinsured or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder client of the reinsured or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a nonfinancial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk. Contracts that do not transfer significant insurance risk are recorded using the deposit method of accounting, as investment contracts.

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

2. Accounting policies *(continued)*

(d) Recognition and measurement of insurance contracts

Insurance business is accounted for on an annual basis.

Insurance premiums

Written premium income comprises premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of acquisition costs payable to intermediaries and other third parties and are accounted for net of value-added taxation. Premiums written for the period also include adjustments to premiums written in prior accounting periods and estimates for pipeline or premium not yet advised by the reinsured for contracts in force at the end of the period. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Premium relating to the expired risk period is recognised as income for the period while premium relating to the unexpired risk period is recognised as a provision for unearned premium. The outward retrocession premiums relating to earned premiums are recognised as an expense in accordance with the retrocession services received. The unearned portion is disclosed as retrocessionaire's share of unearned premium provision.

Unearned premiums provision for insurance contracts

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

Claims arising from insurance contracts

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

Outstanding claims comprise provisions for all the Company's estimated ultimate costs of settling all claims incurred but unpaid at the reporting date whether reported or not and related claim handling expenses. Outstanding claims that have occurred at the reporting date and have been notified to the Company by the cedants are carried at the claim amounts advised by the cedants. Outstanding claims provisions are disclosed at their carrying amounts.

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

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

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

2. Accounting policies *(continued)*

Unexpired risk provision for insurance contracts

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

Liability adequacy test

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

Reinsurance contracts and assets

The Company buys reinsurance cover in the normal course of business through retrocession contracts for the purpose of limiting its net potential loss through the diversification of its risks. Retrocession arrangements do not relieve the Company from its direct obligation to its cedants. Amounts recoverable under retrocession arrangements are assessed at each reporting date. These assets are deemed impaired if there is objective evidence, as a result of an event that occurred subsequent to its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the retrocessionaire. The carrying amounts of the assets are reduced by the impairment losses and the impairment losses are recognised in the profit or loss account for the period.

Premiums retroceded and benefits reimbursed in respect of retrocession contracts are disclosed in the statement of comprehensive income and the statement of financial position on a gross basis.

Amounts recoverable under the retrocession contracts are recognised in the same year as the related claims.

Retrocession assets include balances due from the retrocessionaires for ceded insurance business. Premiums on reinsurance assumed are recognised as income and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business. Amounts recoverable from retrocessionaires are estimated in a manner consistent with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each retrocession contract.

Deferred acquisition costs

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

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

Commission

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

Commissions paid or payable relate to the services rendered by clients in winning the business ceded to the Company (commission) or to the cumulative net profit made on such ceded business (profit commission) as provided in the underlying contracts of insurance. Such commissions are calculated in line with the provisions in the respective contracts and expensed during the business period covered in the contracts. Any such commission expenses relating to future periods are deferred over the period during which the policy is in force.

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

2. Accounting policies *(continued)*

(e) Recognition and measurement of investment contracts

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

(f) Contingency reserve

A contingency reserve was provided for in terms of the Short-Term Insurance Act, 1998 that was in force up to 30 June 2018, and represented 10% of gross written premium less approved reinsurance (as defined in the Act). The reserve was treated as a separate component of shareholder's equity in the statement of financial position and transfers to or from the reserve as an appropriation in the statement of changes in equity. No adjustment has been made to the reserve subsequent to the 2012 financial year when the requirement for a contingency reserve was abolished (following a change in legislation whereby capital requirements became determined in terms of Board Notice 169 issued by the Financial Services Board at the time). Contingency reserve remains unrequired under the new Insurance Act, 2017 that became effective in July 2018.

(g) Lease payments

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

The standard became effective on 1 January 2019. The Company continues to be compliant with the Standard as it has opted to apply the short-term lease exemption due to the nature of the lease agreement in place with its landlord, Sherborne Number Ten Parktown Investments (Pty) Ltd.

The Company has further sub-leased part of the aforementioned property on a short term lease contract that undergoes annual review. The annual sub-lease income for the year under review was R132 480 (2020: R132 480).

(h) Employee benefits under defined contribution plan

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

(i) Short-term employee benefits

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

(j) Foreign currency transactions

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

(k) Property, plant and equipment

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

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

2. Accounting policies *(continued)*

The estimated useful lives of each category of equipment are as follows:

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

The depreciation method, residual value and useful life, if not insignificant, is reassessed annually at each reporting period.

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

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

(l) Intangible assets

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

(m) Financial instruments

Investments

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

- An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.
- Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. Held-to-maturity investments are carried at amortised cost using the effective interest method less any impairment losses.

Purchases of financial assets are recognised on the trade date, which is when the Company commits to purchase the assets.

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

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

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

The Company derecognises an asset:

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

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

2. Accounting policies *(continued)*

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

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

Other receivables

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

Trade and other payables

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

Deposits retained on reinsurance ceded

Deposits retained on reinsurance ceded are stated at amortised cost.

Cash and cash equivalents

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

(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.

(o) Impairment of financial assets

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

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

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

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

2. Accounting policies *(continued)*

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

The carrying amount of the asset is reduced through the use of an impairment account and the amount of the loss is recognised in the statement of comprehensive income.

(p) 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.

(q) 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.

(r) Share capital

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

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

(s) Standards and interpretations issued not effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

IFRS 9 Financial Instruments

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

- Financial assets are to be classified and measured based on the business model for managing the financial asset and the cashflow characteristics of the financial asset. There are two measurement approaches, namely fair value and amortised cost. The financial asset is carried at amortised cost if it is the business model of the entity to hold those assets for the purpose of collecting contractual cash flows and if those cash flows comprise principal repayments and interest.

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

2. Accounting policies *(continued)*

- 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 Standard is effective for financial years commencing on or after 1 January 2018. The Company has however elected to implement it alongside the implementation of IFRS 17. The Company has not previously applied any version of IFRS 9 and the Company's activities remain predominantly insurance at annual reporting date. This is demonstrated by the percentage of liabilities connected with insurance that is 99% relative to the total amount of liabilities.

IFRS 17 Insurance Contracts

IFRS 17 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 as well as the presentation and disclosure of those contracts.

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 2023 and has to be applied retrospectively. The Company is working with its parent Group and its external advisors to ensure a successful implementation of this Standard by the time it is to come into effect.

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2021 and the comparative information presented in these financial statements.

4. Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Company's critical accounting policies, estimation methods and the application of these policies and estimation methods. The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The accuracy of the calculation of the value of premium income and claims expenses is dependent

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

4. Accounting estimates and judgements *(continued)*

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

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

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

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

Classification of insurance contracts

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

Policyholder claims for insurance contracts

The Company's estimates for reported and unreported losses and the resulting provisions and related retrocession receivables are reviewed and updated regularly to take into account new information to determine the most accurate estimates at the time of reporting. Adjustments resulting from this review are reported in profit or loss in the period the adjustments are made.

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

The process relies on the basic assumption that past experience adjusted for effects of current developments and likely trends is an appropriate basis for predicting future events. Estimation of the claims provision is a complex process and significant uncertainty exists as to the ultimate settlement of claim liabilities (refer to note 8).

A sensitivity analysis was performed on these estimates and a 5% increase in both premium income and claims incurred would result in an increase to profit before tax of R15.3 million (2020: R11.2 million) and an increase to equity of R6.4 million (2020: R6.8 million).

5. Risk management of insurance contracts and financial instruments

5.1 Insurance contracts

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

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

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

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

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

5.2 Insurance risk management objectives and policies for mitigating risks

(a) Introduction

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

(b) Premium pricing adequacy risk

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

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

The Company makes underwriting decisions in accordance with the Africa Re Group's underwriting guidelines. These guidelines set the criteria for assessing insurance risk before acceptance and approval levels for underwriting decisions. Compliance with the Group's underwriting guidelines is verified through periodic audits by the Group's Directorate of Central Operations and Special Risks, which in turn reports its findings to both Executive Management and the Board Risk & Underwriting Committee.

(c) Event exposure and concentration risk

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

(d) Claims development or reserving risk

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

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

The Company has performed a sensitivity analysis of a change in the estimated unreported losses by applying a further 10% to the estimate and the effect on the profit before tax is R16.9 million (2020: R11.6 million), while the effect on Equity is R16.9 million (2020: R9.6 million).

(e) Reinsurance risk

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

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

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

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. The key objective in managing these risks is to minimize any potential adverse impact of those risks on the Company's earnings and financial position. The Company has appropriate policies and procedures in place on all its investment activities.

(b) Market risk

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

(i) Currency exchange risk

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

(ii) Interest rate risk

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

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

(iii) Equity price risk

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

The Company conducts a sensitivity analysis on the effect of changes in market prices of its equity investment to determine the maximum risk it can tolerate without adversely affecting its operating performance and financial position, and this, together with the investment guidelines determine the proportion of funds to be invested in equity instruments. The Company does not make use of financial instruments to manage this risk but has engaged the services of investment managers with a mandate to actively trade in the marketable equity investments for market-related returns but also to minimise risk. The Company's maximum exposure to equity market price risk is limited to investments held in those marketable securities, and these securities constitute less than 10% of the Company's total investment assets.

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

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

(iv) Market risk sensitivity analysis

The Company conducts sensitivity analyses to estimate the possible effect of movements in the market prices of its equity financial instruments on the fair values of those instruments. All the Company's equity financial instruments are listed on the Johannesburg Stock Exchange.

The Company's bonds are listed on the Bond Exchange of South Africa. The sensitivity analysis on market price movement of equity financial instruments indicates that a change of 10% on the Johannesburg Stock Exchange index would result in a change in fair value of those financial instruments and profit before tax of R14.7 million (2020: R13.6 million). The sensitivity analysis of the effects of movements in market prices and interest rates on the Company's financial assets and liabilities in millions as at 31 December 2021 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 2021						
Equity	126	147	Market price	**10%**	11	**15**
Bonds at fair value	480	490	Interest rate movement	**5%**	18	**25**
Bonds at amortised cost	523	523	Interest rate movement	**5%**	19	**26**
Money market unit cost	403	403	Market price	**5%**	15	**20**
Fixed deposit	1,522	1,522	Interest rate movement	**5%**	55	**76**
December 2020						
Equity	141	136	Market price	**10%**	10	**14**
Bonds at fair value	419	424	Interest rate movement	**5%**	15	**21**
Bonds at amortised cost	477	477	Interest rate movement	**5%**	17	**24**
Money market unit cost	407	407	Market price	**5%**	15	**20**
Fixed deposit	1,593	1,593	Interest rate movement	**5%**	57	**80**

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

The Company also conducts sensitivity analyses to estimate the possible effect of movements of interest rates on the fair value of interest rate bearing financial instruments and cash flows relating to those instruments. The sensitivity analysis of the effect on interest rate movements indicates that a change of 5% in interest rates would change the value of fixed income investments and profit before tax by R57.0 million (2020: R57.4 million) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R76.1 million (2020: R79.7 million).

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

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

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

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

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

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

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

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

December 2021	AAA to AA R'm	A+ to A R'm	BBB+ to BBB- R'm	CCC R'm	Not indicated R'm	Total R'm
Financial Assets	54	11	2,981	-	39	3,084
Insurance receivables	-	-	-	-	219	219
Insurance deposits	-	-	-	-	63	63
Accounts receivable	-	-	-	-	6	6
Cash and Cash equivalents	-	-	-	-	48	48
Total	**54**	**11**	**2,981**	**-**	**375**	**3,420**
December 2020						
Financial Assets	0.3	13	2,816	1	216	3,046
Insurance receivables	-	-	-	-	91	91
Insurance deposits	-	-	-	-	29	29
Accounts receivable	-	-	-	-	1	1
Cash and Cash equivalents	-	-	-	-	9	9
Total	**0.3**	**13**	**2,816**	**1**	**346**	**3,176**

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

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

(c) Liquidity risk

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

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

Maturity profile of financial and insurance assets and liabilities

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

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

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

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

The Company's categories and classes of financial assets and financial liabilities are included on pages 53 to 56.

(e) Capital management objectives, policies and approach

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

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

The operation of the Company is also subject to regulatory requirements, such regulations not only prescribe monitoring of activities, but also impose certain restrictive provisions on capital adequacy to minimise the risk of default and insolvency to meet unforeseeable liabilities as they arise. The Company met all of these requirements throughout the financial year.

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

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

	2021 R'000	2020 R'000
Share capital and share premium	80 300	80 300
Contingency reserve	51 702	51 702
Retained earnings	850 630	768 994
Total equity attributable to equity holders of the company	**982 632**	**900 996**

In reporting financial strength, capital and solvency are measured using the rules prescribed by the Reserve Bank of South Africa. These regulatory capital measurements are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written. The Company has put in place structures and policies that ensure compliance, while Own Risk and Solvency Assessment (ORSA) is undertaken annually as risk management and business tool within the Company.

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

6. Cash and cash equivalents

6.1 Accounting policies

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially recorded at fair value and subsequently carried at amortised cost.

Cash and cash equivalents comprise:	2021 R'000	2020 R'000
Cash		
Cash on hand	139	139
Current bank account balances	47,501	9,130
Total cash	**47,640**	**9,269**

7 Financial assets	2021 R'000	2020 R'000
7.1 Held to maturity instruments at amortised cost		
Fixed and call deposits	1,521,709	1,593,190
Listed bonds	522,581	476,705
	2,044,290	**2,069,895**
Instruments at fair value through profit or loss		
Listed instruments		
- Bonds	490,077	423,669
- Equities	146,846	135,532
- Money market funds	402,843	406,981
	1,039,766	**966,182**
Total financial assets	**3,084,056**	**3,036,077**
Cost of instruments disclosed at fair value through profit or loss		
Bonds	479,455	419,266
Equities	126,254	141,488
Money market funds	402,843	406,981
	1,088,552	**967,735**
Fair value of the held-to-maturity instruments		
Fixed and call deposits	1,521,709	1,593,190
Listed bonds	530,440	514,036
	2,052,149	**2,107,226**

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

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

7. Financial assets *(continued)*

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

Maturity period at 31/12/2020	R'000	Effective Interest rate %
On demand	183,286	0.00% to 4.25%
Within 1 year	1,579,468	0.02% to 19,89%
1 to 3 years	435,369	2.75% to 18.35%
3 to 7 years	448,634	1.63% to 21.00%
7 to 12 years	151,473	0.00% to 18.63%
> 12 years	81,837	0.22% to 12.50%
	2,880,067	

Fair values of financial assets and liabilities

Determination of fair value
Fair values are determined according to the following hierarchy based on the requirements in IFRS 13: Fair Value Measurement: Disclosures

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

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

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

7. Financial assets *(continued)*

Analysis of instruments at fair value
Financial assets

December 2021	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Designated at fair value through profit or loss	**631,261**	**402,843**	**-**	**1,034,104**
December 2020				
Designated at fair value through profit or loss	559,201	406,981	-	966,182

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.

	2021 R'000	2020 R'000
8. Technical assets and liabilities under insurance contracts		
Technical liabilities		
-Gross claims reported but not yet settled	922,322	792,094
-Gross claims incurred but not reported	457,745	609,465
-Gross unearned premium provision	169,775	146,860
-Deferred retrocession commission income	36,940	35,055
	1,586,782	**1,583,474**
Technical assets		
-Retrocessionaire's share of claims reported but not yet settled	665,308	586,967
-Retrocessionaire's share of claims incurred but not reported	421,842	493,233
-Retrocessionaire's share of unearned premium provision	123,127	100,642
-Deferred acquisition costs	44,499	39,423
	1,254,776	**1,220,265**
Net technical liabilities		
-Claims reported but not yet settled	257,014	205,127
-Claims incurred but not reported	35,903	116,232
-Unearned premium provision	46,648	46,218
-Deferred acquisition costs	(7,559)	(4,368)
	332,006	**363,209**

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

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

8.1 Movements in technical assets and liabilities under insurance contracts

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

Outstanding claims	2020 Gross R'000	2020 Reinsurance R'000	2020 Net R'000
Claims reported but not yet settled	1,062,002	815,365	246,637
Claims incurred but not reported	348,386	246,315	102,071
Total outstanding at beginning of year	1,410,388	1,061,680	348,708
Movement in outstanding claims	(8,829)	18,520	(27,349)
-arising from current year claims	288,480	201,936	86,544
-arising from prior period claims	(297,309)	(183,416)	(113,893)
Total at end of year	1,401,559	1,080,200	321,359
Notified claims	792,094	586,967	205,127
Incurred but not reported	609,465	493,233	116,232
Total at end of year	**1,401,559**	**1,080,200**	**321,359**

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

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

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

Unearned premium provision	2020		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	160,351	111,341	49,010
Premiums written during the year	2,120,721	1,534,180	586,541
Premiums earned during the year	(2,134,212)	(1,544,879)	(589,333)
Total at end of year	**146,860**	**100,642**	**46,218**

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

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

Deferred acquisition costs	2020		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	44,036	38,760	5,276
Acquisition costs paid during the year	31,772	23,020	8,752
Acquisition costs incurred during the year	(36,385)	(26,725)	(9,660)
At the end of year	**39,423**	**35,055**	**4,368**

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

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

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

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

Estimates and outstanding claims

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

As a result of the COVID-19 pandemic several businesses were forced to shut down during the lockdown imposed by the government. This resulted in businesses experiencing losses from these shutdowns. The legal process on liabilities has been concluded and the quantum of the liabilities has been determined which has enabled the Company to raise adequate claims provisions at 31 December 2021. As at December 2021, the Company prudently carried reserves of R352.8m in relation to COVID-19.

The exercise to determine the COVID-19 exposure included an analysis of the possible impact of COVID-19 on the company's business. An analysis of all reinsurance contracts was performed to identify treaties which included cover for infectious diseases. Cedants with exposure under such policies were then requested to provide estimates of their business interruption exposure under optimistic, pessimistic and realistic scenarios.

The same approach used since the begin of the pandemic, in 2020 following the receipt of information as well as various discussions with Cedants, a detailed exposure Report was compiled using the optimistic, pessimistic, and realistic scenarios. ARCSA opted to adopt the realistic scenario topped up with an explicit risk margin (using the 75th percentile) to cater for the uncertainty that surrounds the quantification of the final amounts at which the COVID-19 related claims will ultimately be settled.

The Company has also performed a sensitivity analysis of a change in the estimated unreported losses by excluding COVID-19 related claims from the estimated unreported losses and this resulted in a positive effect on the profit before tax of R43 million and an additional of R17 million on tax and an increase of R26 million in profit after tax.

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 2021 *(Continued)*

9. Property, plant and equipment	Motor vehicles R'000	Fixtures and fittings R'000	Office equipment R'000	Computer equipment R'000	Total R'000
Balances at year end and movements for the year					
Balance at 1 January 2021					
At cost	1,430	6,041	537	3,338	**11,346**
Accumulated depreciation	(1,205)	(5,730)	(1,107)	(2,361)	**(10,403)**
Net book value	**225**	**311**	**(570)**	**977**	**943**
Movements for the year ended 31 December 2021					
Additions from acquisitions	-	-	44	438	**482**
Depreciation	(179)	(68)	(18)	(389)	**(655)**
Property, plant and equipment at the end of the year	**46**	**243**	**(545)**	**1,026**	**769**
Closing balance at 31 December 2021					
At cost	1,430	6,041	581	3,776	**11,828**
Accumulated depreciation	(1,384)	(5,798)	(1,125)	(2,750)	**(11,058)**
Net book value	**46**	**243**	**(545)**	**1,026**	**769**
Reconciliation for the year ended 31 December 2020					
Balance at 1 January 2020					
At cost	1,430	6,020	537	3,001	**10,988**
Accumulated depreciation	(848)	(5,202)	(530)	(2,288)	**(8,868)**
Net book value	**582**	**818**	**7**	**713**	**2,120**
Movements for the year ended 31 December 2020					
Additions from acquisitions	-	20	578	337	**935**
Depreciation	(356)	(528)	(577)	(73)	**(1,534)**
Disposal	-	(183)	-	(395)	**(578)**
Property, plant and equipment at the end of the year	**226**	**127**	**8**	**582**	**943**
Closing balance at 31 December 2020					
At cost	1,430	6,041	537	3,338	**11,346**
Accumulated depreciation	(1,205)	(5,730)	(1,107)	(2,361)	**(10,403)**
Net book value	**225**	**311**	**(570)**	**977**	**943**

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

		2021 R'000	2020 R'000
10.	**Amounts due from companies on reinsurance accounts**		
	Amounts due from ceding companies	118,141	86,602
	Amounts due from retrocessionaire	101,051	4,567
		219,192	**91,169**
	Accounts receivable		
	Accounts receivable comprise:		
	Retrocessionaires' share of claims reported but not yet settled	(2,488)	(633)
	Value added tax	8,607	-
	Total accounts receivable	**6,119**	**(633)**
11.	**Deposits retained by ceding companies**		
	At beginning of the year	28,668	19,585
	New deposits retained	34,586	9,083
	At the end of the year	**63,254**	**28,668**
12.	**Current tax assets and liabilities**		
	Current tax assets and liabilities comprise the following balances:		
	Total current tax asset per the statement of financial position	**-**	**8,039**
	Net current tax liability from all items being set off	(56)	-
	Total current tax liability per the statement of financial position	**(56)**	**-**
13.	**Deferred tax liability**		
	Opening balance	1,802	2,502
	Current year	9,248	(700)
	Closing balance	**11,050**	**1,802**
	The net deferred tax liability balance at the end of the period comprises:		
	– capital allowance	(1,196)	(1,145)
	– accruals	(1,500)	(1,685)
	– unrealised gains/(loss) on revaluation of investments	13,745	4,632
		11,050	**1,802**
14.	**Amount due to companies on reinsurance accounts**		
	Amount due to ceding companies	**55,516**	**67,667**

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

		2021 R'000	2020 R'000
15.	**Other provisions and accruals**		
	Other provisions and accruals comprise:		
	Other creditors and accruals	12,388	11,570
	Accrual for leave pay	2,903	3,469
	Value added tax	-	1,783
	Total trade and other payables	**15,291**	**16,822**
16.	**Deposits due to retrocessionaire**		
	At beginning of year	1,728,495	1,553,433
	New deposits retained	1,865,551	1,728,495
	Deposits released	(1,728,495)	(1,553,433)
	At the end of the year	**1,865,551**	**1,728,495**
17.	**Share capital and share premium**		
	Authorised and issued share capital		
	Share capital	0*	0*
	Share premium	80,300	80,300
	Authorised		
	7 ordinary shares of R0.01 each	0*	0*
	Issued		
	7 ordinary shares of R0.01 each	0*	0*

Share capital comprises of seven ordinary shares of R0.01 each of which one share was issued at a premium of R80.3 million. No changes occurred during the year.
* less than R1 000

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

		2021 R'000	2020 R'000
18.	**Commission paid and received**		
	Gross commission and brokerage paid	784,131	630,702
	Gross deferred acquisition costs	(5,078)	4,615
	Commission incurred	**779,053**	**635,317**
	Commission earned	**(600,671)**	**(555,246)**
	Retrocession commission and brokerage received	(551,359)	(444,759)
	Retroceded overriding commission received	(47,259)	(107,024)
	Retroceded deferred commission revenue	(1,266)	(3,280)
	Retroceded deferred acquisition costs	(897)	(220)
	Retroceded deferred overriding commission revenue	110	37
	Net commission incurred	**178,382**	**80,071**
19.	**Profit before taxation**		
	Profit before taxation is arrived at after charging the following items:		
	HQ IT Services and Management Expenses	**64,261**	**64,544**
	Auditor's remuneration:	**2,554**	**2,322**
	- for audit services in the current year	2,554	2,322
	Consultancy fees	3,001	3,221
	Depreciation	656	1,534
	Directors' remuneration	**14,244**	**17,577**
	Executive – for services rendered	9,296	12,345
	Non executive – for services as directors	4,948	5,232
	Lease payments	2,349	2,349
	Secretarial fees	239	216
	Staff costs including contribution to pension fund, UIF, SDL and allowances	44,286	43,639

Number of staff: 41 (2020: 41)

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

		2021 R'000	2020 R'000
20.	**Taxation**		
	Income tax recognised in profit or loss:		
	South African normal taxation current year		
	Current tax	**(23,538)**	**(31,891)**
	Deferred tax	**(9,247)**	**699**
		(32,785)	**(31,192)**
	Tax rate reconciliation	%	%
	Effective tax rate	**23**	27
	Exempt income	**1.9**	1
	Disallowed expenses	**(0.1)**	0.0
	Capital gains tax	**3**	0.1
	Other	**0**	0.4
	South African standard corporate tax rate	**28**	28

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

21. Related party

Remuneration of directors and prescribed officers

Directors

The Directors who served during the year together with the respective gross remunerations paid to them for services rendered to the Company are as follows:

Name	Status	2021	2020
		R	R
Bakary H. Kamara	Independent, Non-executive Chairman	**597,912**	896,869
Corneille Karekezi	Non-executive Deputy Chairman	**807,183**	807,193
Themba Baloyi	Independent, Non-executive Director	**717,495**	702,547
Phillip Pettersen	Independent, Non-executive Director	**717,495**	717,495
Haile M. Kumsa	Independent, Non-executive Director	**672,651**	672,651
Sizakele Mzimela	Independent, Non-executive Director	**717,495**	717,495
Frédéric Fléjou	Independent, Non-executive Director	**717,495**	717,495
Andrew N. Tennick	Managing Director	**5,223,187**	4,004,488
Ibrahim A. Ibisomi	Executive Director	**4,072,635**	3,769,135

Prescribed officers

Mr. Andrew N. Tennick and Mr. Ibrahim A. Ibisomi served as Executive Directors during the year. The only other member of the Executive who served during the year is Mr. Sudadi K. Senganda. He served the Company as General Manager, Finance & Administration. His remuneration for services rendered during the year amounted to R2 816 776 (2020 – R2 661 214).

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 2021 *(Continued)*

21. Related party *(continued)*

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

Statement of financial position	2021 R'000	2020 R'000
Assets		
Retroceded outstanding claims provision	1,087,150	1,080,200
Retroceded unearned premium provision	123,127	100,642
Liabilities		
Deferred retrocession commission revenue	(36,940)	(35,055)
Deposits due to retrocessionaire	(1,865,551)	(1,728,495)
Amounts due to companies on reinsurance accounts	(55,516)	(67,667)
Amount due to holding company	(158,928)	(94,541)
Net liabilities	**(906,658)**	**(744,916)**
Statement of comprehensive income		
Retroceded premiums	(1,534,405)	(1,534,180)
Retrocessionaire's share of provision for unearned premiums	(22,485)	(10,698)
Retroceded claims received	971,888	982,896
Retrocessionaire's share of provision for outstanding claims	(6,950)	(18,521)
Retrocessionaire's share of net commission incurred	600,671	555,249
Interest expense	(25,904)	(41,308)
Management expenses	(64,261)	(64,543)

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

Statement of financial position	2021 R'000	2020 R'000
Liabilities		
Trade and other payables	9,429	9,429
Statement of comprehensive income		
Management expenses	(2,348)	(2,348)

22. 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 814 948 (2020: R2 493 196).

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

23. Business activities

The Company is duly licensed by the Prudential Authority to undertake the business of both life and non-life reinsurance under the new Insurance Act Number 18 of 2017. Following an application submitted in 2019, the Prudential Authority with the required concurrence of the Financial Sector Conduct Authority granted the Company a variation on its licence enabling the Company to transact life reinsurance business. However, the Company was yet to commence writing life reinsurance business in the period covered by these financial statements. The Company has conducted its business with due regard to, and in accordance with, the provisions of the Act and the Directors are not aware of any actions or activities in contravention of the prevailing legislation.

24. Events after the reporting date

Management acknowledges that the Company's operations have inevitably been affected by the impact of the pandemic. As at the time of this report the impact has been fully quantified and is included in the Company's financials. All business renewals undertaken by the Company during the year and up to the date of this report have been concluded without any difficulties associable with COVID-19.

Management acknowledges that the cumulative 300bps reduction in interest rates by the South African Reserve Bank since the beginning of 2020 had a significant impact on investment income in 2021. This is offset by corresponding reductions on the interest payable on retrocession deposits. Equity markets had a good performance during the year resulting in improved investment valuations coupled with the strategically diversified bond selection and money market securities.

The Minister of Finance announced the changes in tax rate in the 2022 Budget speech held in February 2022. It is judged that this will not have any effect on the Company results for the period under review.

South Africa also experienced the wrath of nature where severe floods hit the shores of KwaZulu Natal in April of 2022. There was a significant damage to property and loss of life and the impact of this catastrophe is still being quantified. The Directors however believe this will not have an effect on the period under review.

Overall, the Directors anticipate a modest increase in premium income, improved claims experience, an improved investment income and a marginal increase in profits for the foreseeable future on account of the business getting back to normal and less COVID-19 related interruptions.

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

25. Going concern

The Directors have assessed the Company's ability to continue as a going concern as at 31 December 2021. The Directors are confident that the Company will continue to operate successfully into the foreseeable future in spite of the impact of COVID-19 as described in the preceding paragraph. These financial statements have therefore been prepared on a going concern basis.

Management has not yet observed any material impact on the business due to COVID-19. There have been no cancellations of contracts despite the spread of the virus. The Company has undertaken an exercise to assess the impact of the outbreak on its 2021 financial result and has determined that the business will remain profitable.

There has been no COVID-19 impact on the renewal of business subsequent to year-end. As the Company holds low risk investment instruments, investment returns will remain stable unless there is a further cut in the prime rate. The Company is largely equity-funded with no exposure to onerous any debt instrument and a parental guarantee is in place to provide extra resilience for the Company to continue to operate as a going concern.

26. Dividends

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

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

		2021 R'000	2020 R'000
27.	**Notes to the cash flow statement**		
	Profit for the year adjusted for:	**106,698**	**115,876**
	Investment income net of management fees	(179,257)	(150,452)
	Finance costs	25,904	41,308
	Depreciation and amortisation expense	656	1,534
	Net unearned premium provision net of deferred acquisition costs	(2,760)	(1,884)
	Change in operating assets and liabilities:	**(10,042)**	**(93,950)**
	Net amounts due from companies on reinsurance accounts	(140,174)	(295,079)
	Deposits retained by ceding companies	(34,586)	(9,083)
	Accounts receivable	(6,752)	794
	Amount due to holding company	64,387	73,103
	Other provisions and accruals	(1,531)	(11,399)
	Deposits due to retrocessionare	137,056	175,062
	Net outstanding claims provision	(28,442)	(27,348)
	Net cash flows from operations	**(58,801)**	**(87,568)**
	Income tax paid		
	Balances recoverable at the beginning of the period	8,039	38,722
	Current tax through profit or loss	(17,991)	(74,236)
	Balances recoverable at the end of the period	56	(8,039)
	Net taxation paid	**(9,896)**	**(43,553)**

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

28. Categories of assets and liabilities

For the year ended 31 December 2021

	Notes	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial instruments	Total	Current
Assets								
Property, plant and equipment	*9*					769	769	
Financial assets	*7*	1,039,766	2,044,290				3,084,056	1,950,123
Listed bonds		490,077	522,581				1,012,658	25,571
Listed ordinary shares		146,846					146,846	
Money market funds		402,843					402,843	402,843
Fixed and current deposits			1,521,709				1,521,709	1,521,709
Technical assets under insurance contracts	*8*					1,254,776	1,254,776	1,254,776
Retroceded outstanding claims provision						1,087,150	1,087,150	1,087,150
Retroceded unearned premium provision						123,127	123,127	123,127
Deferred acquisition costs						44,499	44,499	44,499
Amounts due from companies on reinsurance contracts	*10*			219,192			219,192	219,192
Deposits retained by ceding companies	*11*			63,254			63,254	63,254
Accounts receivable				6,119			6,119	6,119
Current income tax asset	*12*							
Cash and cash equivalents	*6*			47,640			47,640	47,640
Total assets		**1,039,766**	**2,044,290**	**336,205**		**1,255,545**	**4,675,806**	**3,541,104**

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

28. Categories of assets and liabilities

For the year ended 31 December 2020

	Notes	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non financial instruments	Total	Current
Assets								
Property, plant and equipment	*9*					943	943	
Financial assets	*7*	966,182	2,069,895				3,036,077	2,092,093
Listed bonds		423,669	476,705				900,374	91,922
Listed ordinary shares		135,532					135,532	
Money market funds		406,981					406,981	406,981
Fixed and current deposits			1,593,190				1,593,190	1,593,190
Technical assets under insurance contracts	*8*					1,220,265	1,220,265	1,220,265
Retroceded outstanding claims provision						1,080,200	1,080,200	756,554
Retroceded unearned premium provision						100,642	100,642	100,642
Deferred acquisition costs						39,423	39,423	39,423
Amounts due from companies on reinsurance contracts	*10*			91,169			91,169	91,169
Deposits retained by ceding companies	*11*			28,668			28,668	28,668
Accounts receivable				(633)			(633)	(633)
Current income tax asset	*12*					8,039	8,039	8,039
Cash and cash equivalents	*6*						9,269	9,269
Total assets		**966,182**	**2,069,895**	**119,204**		**1,229,247**	**4,393,797**	**3,448,870**

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

28. Categories of assets and liabilities

For the year ended 31 December 2021

	Notes	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
Liabilities								
Technical liabilities under insurance contracts	*8*					1,586,782	1,586,782	1,245,630
Gross outstanding claims provision						1,380,067	1,380,067	1,038,915
Gross unearned premium provision						169,775	169,775	169,775
Deferred retrocession commission income						36,940	36,940	36,940
Amounts due to companies on reinsurance accounts	*14*				55,516		55,516	55,516
Deposits due to retrocessionaires	*16*				1,865,551		1,865,551	1,865,551
Amount due to holding company					158,928		158,928	158,928
Other provisions and accruals	*15*				12,388	2,903	15,291	15,291
Creditors and accruals					12,388		12,388	12,388
Accrual for leave pay						2,903	2,903	2,903
Deferred tax liability	*13*					11,050	11,050	11,050
Total liabilities		**-**	**-**	**-**	**2,092,383**	**1,600,735**	**3,693,118**	**3,351,966**

Notes to the financial statements

for the year ended 31 December 2021 *(Continued)*

28. Categories of assets and liabilities

For the year ended 31 December 2020

	Notes	Designated upon initial recognition at fair value through profit or loss	Held to maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
Liabilities								
Technical liabilities under insurance contracts	*8*					1,583,474	1,583,474	1,174,334
Gross outstanding claims provision						1,401,559	1,401,559	992,419
Gross unearned premium provision						146,860	146,860	146,860
Deferred retrocession commission income						35,055	35,055	35,055
Amounts due to companies on reinsurance accounts	*14*				67,667		67,667	67,667
Deposits due to retrocessionaires	*16*				1,728,495		1,728,495	1,728,495
Amount due to holding company					94,541		94,541	94,541
Other provisions and accruals	*15*				13,353	3,469	16,822	16,822
Creditors and accruals					13,353		13,353	13,353
Accrual for leave pay						3,469	3,469	3,469
Deferred tax liability	*13*					1,802	1,802	1,802
Total liabilities		**-**	**-**	**-**	**1,904,056**	**1,588,745**	**3,492,801**	**3,083,661**

Notes to the financial statements

for the year ended 31 December 2021

Detailed Income Statement	Notes	2021 R'000	2020 R'000
Revenue			
Change in gross unearned premium provision		(22,915)	13,491
Change in retroceded unearned premium provision		22,485	(10,698)
Gross written premiums		2,119,057	2,120,721
Interest income on investment		122,057	151,676
Net unrealised gain on investments		40,991	3,122
Retroceded written premiums		(1,534,405)	(1,534,180)
Total revenue		**747,270**	**744,132**
Other income			
Exchange gain/(loss) on investments		(361)	1,322
Other income		55	-
Total other income		**(306)**	**1,322**
Other expenses			
Change in gross provision for outstanding claims		21,492	8,828
Change in retroceded provision for outstanding claims		6,950	18,521
Depreciation		(656)	(1,534)
Gross claims paid		(1,317,267)	(1,372,692)
Investment management expenses		(4,684)	(4,153)
Management expenses		(134,595)	(139,871)
Net commission incurred		(178,382)	(80,071)
Retroceded claims received		971,888	982,896
Total other expenses		**(635,252)**	**(588,073)**
Profit from operating activities		**111,710**	**157,378**
Finance income			
Dividend income		6,336	3,176
Total finance income		**6,336**	**3,176**
Finance costs			
Interest expense		(25,904)	(41,308)
Total finance costs		**(25,904)**	**(41,308)**
Profit before tax		**106,698**	**115,876**
Income tax			
Current tax	*20*	(25,062)	(31,192)
Total income tax expense		**(25,062)**	**(31,192)**
Profit for the year		**81,636**	**84,684**

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

Notes

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