

**SAXUM INSURANCE LIMITED (IN LIQUIDATION)
MASTER'S REFERENCE: G1076/2016**

REPORT by the Joint Liquidators, Harry Kaplan of First City Katleho, Nurjehan Abdool Gafaar Omar of Khammissa Attorneys, Welcome Norman Jacobs of Mayibuye Trust and Bethuel Billyboy Mahlatsi of Van Rooyen-Fisher Trustees to be submitted in terms of Section 402 of the Companies Act No.61, of 1973, as amended, at the Statutory Second Meeting of Creditors, Members and Contributories, convened to be held before the Presiding Officer at the Master in Johannesburg on **Thursday, 23 February 2017 at 10h00.**

ORDERS OF THE COURT AND MEETINGS

Saxum Insurance Limited (herein after referred to as the "Company"), was provisionally Liquidated on the 20 October 2016 and finally Liquidated by Order of the Gauteng Local Division, Johannesburg on 17 November 2016. The Joint Liquidators were provisionally appointed on 25 November 2016 and finally appointed on 6 December 2016 by the Master of the High Court, Johannesburg, in terms of his Final Certificate of Appointment dated 6 December 2017.

Claims 1 to 628 was submitted for proof at the Statutory First Meeting of Creditors, held before the Presiding Officer at the Master in Johannesburg on 21 November 2016 at 10h00

STATUTORY INFORMATION:

REGISTRATION NUMBER: 2004/011845/06

REGISTERED HEAD OFFICE: MUA Building
2nd Floor
26 Sturdee Avenue
Rosebank, Johannesburg
Gauteng Province

PRINCIPAL PLACE OF BUSINESS: MUA Building
2nd Floor
26 Sturdee Avenue
Rosebank, Johannesburg
Gauteng Province

DIRECTOR/S: **Executive Director:**
Jurg Alexander Johan Schalch
ID No: 611027 5168 087

Non-executive Directors:

Robert William Killops
ID No: 3708105067081

Keith Ian Vennell
ID No: 6307265028087

Martin Hankins
ID No: 6908175002086

SHARES:

Eton Holdings & Investments (Pty) Ltd (registration number: 2002/016098/07) owns 100% of the shares in Saxum Insurance Limited

REQUESTS BY THE LIQUIDATOR:

1. The Liquidators would be obliged if any creditor who has not yet lodged a claim, and wishes to lodge a claim, would do so at the aforesaid Second Meeting.
2. Any creditor who has any information which could in any way assist the Liquidator in the further administration of the Estate is requested to contact him, particularly in relation to allegations regarding disposition of any assets or granting to any creditor any undue preference.

LIQUIDATOR'S REPORT

I am now to report more fully in terms of Section 402 of the Companies Act, No.61, of 1973, as amended, as follows.

SECTION 402(a): ASSETS AND LIABILITIES

According to information that was received from the Directors and employees of the company it would seem that the financial position of the estate is as follows:

ASSETS	NOTES	
Petty Cash		4 426
Balances with banks		19 567 591
Outstanding premiums	1	12 373 651
Technical insurance assets	2.1	108 055 691
Reinsurers share of unearned premium provision		6 319 913
Deferred acquisition costs		824 914
Outstanding claims recoverable from reinsurers		95 409 344
Reinsurers share of provision for IBNR		5 501 519
Debtors	3	65 880 602
Salvages recoverable on items scrapped	3.1	5 945 069
Insurance debit balances		19 495 257
Claims control accounts	3.2	18 333 018
Claims control account PICL	3.3	676 427
Client balances SASRIA	3.4	485 812

Reinsurers debit balances	3.5.	22 125 000
Accounts receivable		18 315 277
Sundry debtors	3.6	15 085 539
Advance to AIU	3.7	2 000 000
Deposits	3.8	138 281
Staff loans		3 500
Accrued RI broker rebate fees	3.9	1 087 956
Movable assets	4	1 159 784
TOTAL ASSETS		207 041 744
LIABILITIES		
Insurance technical liabilities	2.2	-125 495 870
Unearned premium provision		-4 412 085
Deferred acquisition costs		-1 186 456
Outstanding claims		-113 646 360
Provision for claims incurred but not reported (IBNR)		-6 250 970
Due to insurers & reinsurers	5	-25 727 794
Reinsurance est salvages and recoveries	5.1	-3 945 069
Insurance credit balances	5.2	-653 616
Reinsurers credit balances	5.3	-21 129 109
Reinsurance deposits	6	-73 893 376
Premium reserve deposits	6.1	-39 013 639
Loss reserve deposits	6.2	-34 879 736
Accounts payable	7	-3 710 896
Prov for leave pay		-355 828
Int accrued foreign deposits	7.1	-790 580
Sundry creditors		-2 564 489
Salary creditors		-0
Sundry creditors		-0
Suspense technical		-706 202
Deposits held	7.2	-55 510
VAT		-1 802 777
TOTAL LIABILITIES (excl subordinated loans)		-228 627 936
NET ASSET VALUE		-21 786 191
Shareholders funds per TB		34 776 792
Prov for bad debts		(12 990 601)
		21 786 191

NOTES:**1. OUTSTANDING PREMIUMS:**

These amounts are recoverable from third party brokers who recovered premiums on behalf of the Company. The Liquidators should be able to recover these amounts;

2. TECHNICAL INSURANCE ASSETS AND LIABILITIES:

These arise from the nature of the insurers activities which involve selling policies to clients (often for periods longer than one month), paying commission on these policies and then paying claims when clients suffer losses.

For every technical liability there is a corresponding technical asset.

2.1. The technical ASSETS accordingly include.

Reinsurer's share of unearned premium provision: The amount of the UPR (see below under "Liabilities" for more information regarding UPR's) is reinsured with one or more reinsurers and a certain percentage as specified in the reinsurance agreement can be claimed from the reinsurer.

Deferred Acquisition Cost (DAC): This is a cost that represents the cost of acquiring a new client and which is then deferred over the duration of the insurance contract. Acquisition costs are all costs directly related to acquiring insurance accounts, ex. Commissions paid to agents, brokerage fees paid to brokers, etc. The acquisition costs are incurred as a premium that is written, but earned and expensed over the term of the policy. The unearned portion is capitalized and recognized as an asset, because all acquisition costs are 100% earned and expensed at the inception of the policy. The "unexpired" portion of the cost is carried forward in an intangible asset called the "deferred acquisition cost" (DAC). The unexpired portion of the commission paid, is recoverable when the policy is cancelled.

Outstanding claims recoverable from reinsurers: The amount of the outstanding claims is reinsured with one or more reinsurers and a certain percentage as specified in the reinsurance agreement can be claimed from the reinsurer.

Kindly take note that the Liquidators are currently assessing the position regarding the amounts recoverable from reinsurers in this regard and negotiations are ongoing. Due to the complexity and technicality, same has not yet been finalized. A further report in this regard will follow in due course.

Reinsurer's share of provision for IBNR: The amount of the IBNR is reinsured with one or more reinsurers and a certain percentage as specified in the reinsurance agreement can be claimed from the reinsurer.

2.2. The technical LIABILITIES accordingly include:

Unearned Premium Reserve/Provision (UPR): This amount shows the total amount of premiums written but not yet earned. It therefore corresponds to the time period remaining on an insurance policy. The unearned premiums are proportionate to the unexpired portion of the insurance and it is a liability because it must be paid back upon cancellation of the policy, or in this case it is a claim against the estate.

Deferred Acquisition Cost (DAC): Acquisition costs are all costs directly related to acquiring insurance accounts, ex. Commissions paid to agents, brokerage fees paid to brokers, etc. Over time the acquisition costs are recognized as an expense that reduces the DAC asset.

Outstanding Claims: When the insurer becomes aware of a claim, the amount of the claim is included as an outstanding claim.

IBNR: Insurers are also required to recognize (as a provision) claims which have already occurred but not yet been advised to them. These claims are referred to as "incurred but not reported" (IBNR).

3. **DEBTORS**

3.1. **Salvages recoverable on items scrapped**

These amounts represent the estimated value of the salvages of cars that were written off. The wrecks can be sold by the Liquidators to recover this amount.

3.2. **Claims control accounts**

Probably only $\pm 40\%$ of this amount is recoverable

3.3. **Claims control account PICL**

Probably only $\pm 40\%$ of this amount is recoverable

3.4. **Client balances SASRIA**

The recovery of this amount is doubtful.

3.5. **Reinsurers debit balances**

This amount represents amounts that are recoverable from various Reinsurers based on claims that were processed and finalized prior to the liquidation.

3.6. **Sundry debtors**

Probably only $\pm 30\%$ of this amount is recoverable

3.7. **Advance to AIU**

The recovery of this amount is doubtful.

3.8. **Deposits**

This amount represents deposits paid on rental agreements of the Saxum Business premises. The Liquidators will recover these as and when the contracts expire.

3.9. **Accrued RI broker rebate fees**

Fees are paid to reinsurance brokers. Some of these brokers give a rebate on these fees. Probably $\pm 50\%$ of this amount is recoverable.

4. **MOVABLE ASSETS:**

The fixed assets represents office furniture and equipment, as well as company vehicles, which are reflected at an estimated value. The Liquidators attached these assets and are in the process of obtaining an independent valuation of these assets.

5. **DUE TO INSURERS & REINSURERS**

5.1. **Reinsurance estimated salvages and recoveries**

The Reinsurers cover 70% of the loss of the vehicles that are written off. Once the wrecks are sold as per 3.1. above, 70% of these proceeds must be paid to the Reinsurers.

5.2. Insurance credit balances

These amounts are premiums that are still payable to insurers.

5.3. Reinsurance credit balances

In terms of reinsurance agreements, the Company must pay a portion of the premiums received for insurance, to the reinsurers. This amount represents the amount of the premiums that are still payable to the reinsurers.

6. REINSURANCE DEPOSITS

6.1. Premium reserve deposits

Premium reserves are an arrangement where a portion of the reinsurance premiums payable is retained by the Company as security for the fulfilment of the reinsurer's obligations under the treaty. These deposits reflect the portion (40%) of the premiums that were retained by the Company.

6.2. Loss reserve deposits

A loss reserve deposit is intended to cover the reinsurer's share of outstanding losses. Normally the loss reserve is 100% of the value of outstanding losses. These deposits therefore reflect the amount retained by the Company to cover the reinsurer's share of outstanding losses.

7. ACCOUNTS PAYABLE

7.1. Interest accrued foreign deposits

This amount represents interest that accrued in the deposits held in terms of 6. above and is payable to the reinsurers.

7.2. Deposits held

This amount represents deposits that were paid by sub-lessees of the Company's premises in KZN.

SECTION 402(b): CAUSES OF THE FAILURE OF THE COMPANY

The full details of the reason and causes for the failure of the Company and the subsequent liquidation thereof, can be found in the Founding Affidavit to the Application for Liquidation. What follows, is a brief summary of the events that lead to the liquidation of the Company.

The Company carried on business as a short-term insurer. In terms of the Financial Services Board Act, every short-term insurer must submit certain statutory returns to the Registrar's office relating to its business as prescribed from time to time. These consist of audited annual returns and unaudited quarterly returns. Short-term insurers who experience financial soundness problems and do not meet the asset spreading requirements, the Registrar will require the insurer to submit monthly returns regarding its financial position.

A short-term insurer is also required to maintain its business in a financially sound condition by having assets, providing for its liabilities and capital adequacy requirement and generally conducting its business so as to be in a position to meet its liabilities and capital adequacy requirements.

The company encountered financial soundness problems and the Financial Services Board (FSB) requested monthly reports on its financial soundness position. The company was also

required to inject additional capital into the business on more than one occasion. The financial soundness problems however, became more acute. The company submitted an application for a subordinated loan from Eton Holdings (Pty) Ltd (100% shareholder in the Company) and this resolved the Company's financially unsound position.

Because of an increase in claims that were submitted, the Company's auditors issued a notification during 2016 that the Company was in a financially unsound position. Despite receiving the opportunity to rectify the financially unsound position by injecting capital, the shareholders were unable to do so by the return date of the Registrar of Short-Term Insurance's notice.

The Registrar then prohibited the Company from to carry on any new short-term insurance business.

The Chief Financial Officer thereafter informed the Registrar of the Company's insolvent position. The shareholders of Eton Holdings furnished the Registrar with a Special Resolution (signed by shareholders of 70% of the shares in Eton Holdings) to bring an application for the voluntary liquidation of the Company. The Registrar started with the liquidation papers. The Registrar also received a letter from the Executive Chairman of the Company stating that the Company did not have sufficient cash resources to continue paying claims or to meet the on-going obligations of the Company. The Company therefore requested the Registrar to bring an Application for the Liquidation of the Company.

The Registrar therefore applied for the Liquidation of the Company.

SECTION 402(c): OFFENCES AND CONTRAVENTIONS

The Liquidators are investigating the transactions of the Company and will if necessary submit a report to the Master in terms of Section 400(2); they have not done so as yet.

SECTION 402(d): PERSONAL LIABILITIES OF DIRECTORS

At this stage it is unclear whether the directors are personally liable for the debts of the Company.

SECTION 402(e): LEGAL PROCEEDINGS PENDING OR THREATENED

There are various pending matters herein. The Liquidators are trying to establish the full extent thereof and will proceed with a further report should they deem same necessary.

SECTION 402(f): FURTHER ENQUIRIES

At this stage no further formal enquiries are being arranged. However, should the Liquidators deem it necessary, the Master's or the Court's consent to proceed with an enquiry, will be applied for at a later stage.

SECTION 402(g): ACCOUNTING RECORDS

The accounting records of the Company are in order. Full accounting records were provided to the Liquidators.

SECTION 402(h): PROGRESS AND DIVIDEND PROSPECTS

1. Following on legal advice, the Liquidators launched an application, on an urgent basis, for the extension of our limited powers as provisional liquidators. An order extending our powers was granted in the Gauteng Division of the High Court in Johannesburg on Friday, 18 November 2016.
2. Staff members of Saxum Insurance Limited have been employed by the Liquidators in terms of a Fixed Term Staff Contract. These contracts expire at the end of February 2017 and have been extended for a period of three months.
3. The staff members were employed so that they can assist the Liquidators in processing all the outstanding insurance claims as same is necessary to unlock any reinsurance benefits to the benefit of all claimants. The processing of these claims will take approximately 4 months to finalize;
4. The Liquidators are engaging with various potential purchasers in order to sell the business and a further report in this regard will follow in due course.
5. We confirm that at this stage there appears to be **no danger of contribution** levied against proved creditors.

SECTION 402(i): FURTHER BUSINESS

Draft Resolutions are submitted with this report and creditors are requested to consider the adoption thereof to enable us to bring the winding up of the estate to a conclusion and strong recommendation is made to consider my report carefully and to adopt the resolutions.

GENERAL

1. Security with Shackleton Risk Management has been lodged with the Master of the High Court at a premium cost of R10,000,000.00 (SAF903569GTG) from 31 October 2016 to 31 October 2017.
2. Creditors are requested to adopt these Resolutions to enable the administration of the Company in liquidation to continue.
3. The Liquidators request that all the creditors and claimants regularly refer to the website www.saxuminsurance.com for circulars that are uploaded with detailed progress reports and that contain important information and advises creditors and claimants on what need to be done from their side.

Dated at on this day of FEBRUARY 2017.

H. KAPLAN
Co-Liquidator

Dated at on this day of FEBRUARY 2017.

N.A.G. OMAR
Co-Liquidator

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Dated at Morningside..... on this 17th day of FEBRUARY 2017.



H. KAPLAN
Co-Liquidator

Dated at on this day of FEBRUARY 2017.

N.A.G. OMAR
Co-Liquidator

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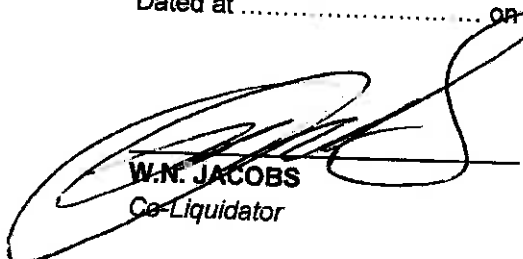
H. KAPLAN
Co-Liquidator

Dated at PRETORIA on this 21st day of FEBRUARY 2017.



N.A.G. OMAR
Co-Liquidator

Dated at on this day of FEBRUARY 2017.



W.N. JACOBS
Co-Liquidator

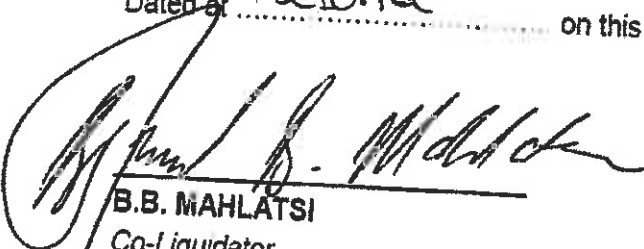
Dated at on this day of FEBRUARY 2017.

B.B. MAHLATSI
Co-Liquidator

Dated at on this day of FEBRUARY 2017.

W.N. JACOBS
Co-Liquidator

Dated at Pretoria on this 01 day of FEBRUARY 2017.



B.B. MAHLATSI
Co-Liquidator