AFRICA RE

African Reinsurance Corporation

UAL REPORT & ACCOUNTS 2012

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AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
35TH ANNUAL ORDINARY MEETING
DAKAR, SENEGAL, 20TH JUNE 2013

AFRICARE/GA/37/251

AFRICAN REINSURANCE CORPORATION
SOCIETE AFRICAINE DE REASSURANCE
(AFRICA RE)

Honourable Representatives
General Assembly
African Reinsurance Corporation

Date: 20TH June 2013

In accordance with the provisions of Articles 14 and 37 of the Agreement Establishing the African Reinsurance Corporation and Article 8 of the General Regulations of the Corporation, I have the honour, on behalf of the Board of Directors, to submit to you the Annual Report and Audited Accounts of the Corporation for the period from 1st January to 31st December, 2012.

Please accept, Honourable Representatives, the assurances of my highest consideration.

MUSA S. AL NAAS
Chairman of the Board of Directors and General Assembly

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Africa Re Board of Directors

Mr Y. ETEFFA
Vice-Chairman

Mr M. EL NAAS
Chairman

Dr. A. MONEER

Mr F. DANIEL

Mr B. TÜMMERS

Mr J. BURBIDGE

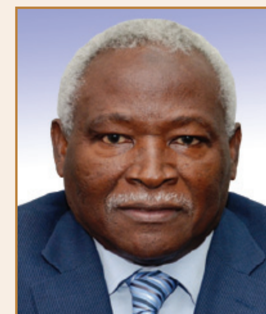
Mr B. NJAI

Mr H. BOUBRIK

Mr K. MARAMI

Mr M. DEME

Mr P. VAN PETEGHEM



Mr M. DIAW

ALTERNATE DIRECTORS

Mr Fathi S. BALA, Mr Ali AL-ASHRY, Mr M. Henri Fréderic EWELE, Mr Hilali LARBI, Mr Kamel MERAGHNI, Alj. Bala ZAKARIYAU, Mr Patrick ANDRIAMBAHINY, Mr Woldemichael ZERU, Mrs Marie-Laure AKIN-OLUGBADE .

Chairman's Statement

The 35th Annual Report of the Board of Directors presents the African Reinsurance Corporation's consolidated financial statements for the year 2012, including the statement of financial position as at 31 December 2012 and the statement of comprehensive income for the financial year. It also includes a review of the Corporation's operating environment, the report of the external auditors to the shareholders, the reports on capital management, corporate governance and enterprise risk management.

Mr M. EL NAAS
Chairman

Gross written premium for the year grew by a modest 2.61% to US$647.98 million compared to US$631.49 million in 2011. The modest growth is below the initial expectations for the period. This is mainly due to the South African subsidiary whose premium income declined by 7.42% amid adverse conditions including stiff competition, rate cutting, non-achievement of estimated premium income by some insurers following modest economic growth and an unfavourable change in reinsurance buying patterns. Other drivers of the recorded low growth are deliberate cancellation of poor performing portfolio in South Africa and Asia as well as the adverse exchange rate fluctuation in many operating currencies, including the South African rand (- 5.09%), the Kenyan shilling (- 1.18%), the Egyptian pound (- 5.53%) and the Mauritian rupee (-4.09%). Gross earned premium, after adjusting for the movement in unearned premium provision, stood at US$619.95 million compared to US$602.50 million in 2011.

Premium ceded to retrocessionnaires during the year totalled US$60.37 million, as against US$68.92 million last year. The Corporation's retrocession policy remained the same as it continued to rely mainly on XL (excess of loss) covers for the regular risks assumed, while arranging special covers in respect of the major oil and petrochemical risks accepted.

Gross claims paid during the year under review amounted to US$316.09 million compared to US$283.96 million in 2011, representing 11.31% increase, following high frequency and severity of claims in Nigeria and South Africa during the year. Consequently, the net claims ratio increased from 49.48% in 2011 to 52.11% in 2012. Adjusting for the movement in outstanding claims, including IBNR (incurred but not reported) claims, the net incurred loss ratio deteriorated slightly from 58.47% last year to 59.54% in 2012.

During the year, the Corporation initiated a forward looking and reactive budgeting approach to adapt to the new economic and commercial order of uncertainty and volatility. Hence, operating expenses and capital expenditure were well planned to keep them within acceptable levels and aligned to the volume of activity. Consequently, despite inflation in some operating locations, management expenses for the year amounted to US$30.91 million, representing a commendable slight decrease from US$31.28 million incurred in 2011.

Underwriting discipline remained our top priority and selective risk acceptance resulted in a more stable loss ratio and enabled the Corporation to post a Net Underwriting Profit (after management expenses) of US$47.02 million for the year compared to US$46.22 million in 2011. Given the low premium income growth and the higher claims experience recorded during the year, the slight growth in underwriting profit demonstrates a strong commitment to profitable underwriting.

Income from investment and other sources, including interest on reinsurance deposits and realized gains on exchange, amounted to US$49.97

million compared to US$26.28 million reported in the previous period, representing an impressive 90.19% increase. This is particularly due to the good performance of the equity markets and the fixed income instruments. Generally, the performance is also attributable to the improvement in the Corporation's financial assets which grew by 16.79% from US$870 million in 2011 to US$1,016 million in 2012 based on good performance in premium collection and additional receipt from the fourth capital increase, which accounted for 14% of the total investment income for the year.

Shareholders' funds as at 31 December 2012 stood at US$608.61 million against US$482.13 million in 2011, representing a 26.23% increase as a result of significant retained earnings from the profit of the period and fresh capital injected into the Corporation from the ongoing capital increase to be closed soon.

During the year 2012, the economic environment in Europe continued to deteriorate pointing to a rather possible prolonged recession than to the much awaited return to recovery. Downside risks in the global economy remained significant as the Eurozone struggled to address large fiscal deficit and high debt levels. Despite a stronger financial market environment and a rebound in the housing market observed in the last quarter of the year, the US economy continued to be under the spectre of "fiscal cliff".

However, despite the stagnant Eurozone (-0.4% of growth), the uncertainties of the American presidential elections and the structural fiscal problem in the US, the world economy grew by 3.2%, recording a slightly lower performance compared to the year 2011 (3.9% growth). This performance would have been worse but for the policymakers who engaged in aggressive restorative efforts which reduced the probabilities of a deep recession in the US and a break-up of the Eurozone.

As in the recent years, the world economy relied on the Emerging Markets and Developing Economies which posted a commendable 5.1% growth average in 2012 although lower than the 6.3% of 2011. China topped the chart with a 7.8% growth.

In the African continent, Sub-Saharan economies continued to grow by 4.8% in average, a relatively lower growth than the 5.3% posted in 2011, thanks to strong domestic demand, high commodity prices and resilient export growth in energy and mineral products. One-third of those economies recorded growth rates of 6% and above, while only very few posted a negative growth due to domestic socio-economic challenges. The South African economy posted a low 2.3% growth, compared to 3.5% in 2011, due to the confluence of adverse global and domestic factors, including labour unrest in the mining sector, a tense political climate and a widening deficit of the current account of the balance of payments.

The Reinsurance market performed very well in 2012, compared to the bad year of 2011 which saw an unprecedented high catastrophe activity. Strong earnings were recorded by most of the reinsurers with the results being driven by a better claim experience despite the super storm Sandy whose cost is estimated at a maximum of US$ 25 billion. With natural catastrophe losses, at half of the ones of 2011, and stable to slightly high rates, most non-life reinsurers, especially property & casualty, achieved below 100% combined ratios. Low interest rates prevailed in 2012 as well as strong capitalization with an industry solvency ratio of 118%. The long awaited hardening of the market did not happen. Rate increases were limited to lines and markets which were hit recently by high losses. General market hardening may not happen soon unless due to external triggers such as higher capital requirements, tightening of rating agency models, volatility of capital markets or simply above average losses to the reinsurance industry from catastrophes.

Africa Re, whose core market Africa is not prone to major catastrophes, recorded nevertheless some catastrophes (floods, hail and fire) in South Africa and few major losses in Nigeria. Despite that,

Gross Underwriting Result (before management expenses) amounted to US$77.93 million, almost the same as in 2011. This performance is due to the continuous efforts by Management and all production centres to focus on profitability, especially in previously loss making locations. Apart from the cancellation of many accounts due to their poor performance in the past, the low market rates in the South African and Mauritian markets added pressure on our premium income growth which was further negatively impacted by the depreciation of the major operating local currencies. The gross premium income of US$647.98 million - a 2.61% growth - and the strong profit before tax of US$97.00 million, representing a 33.79% increase compared to the highest ever net profit, testify to the soundness of our business model and to the effectiveness of our strategy. This very good performance allowed the Corporation to grow its total assets to US$1.31 billion and its capital base which, with shareholders' funds of US$608.61 million, has reached a stronger than ever international solvency ratio of 103.78%.

During the period under review, in addition to achieving a higher profitability with an average return on equity of 16.99%, the Corporation equally fulfilled its mission of developing the insurance and reinsurance industries in Africa through the provision of insurance underwriting capacity, strong reinsurance security and participation in various initiatives aimed at raising technical capacity in the markets. This role was indeed recognized by many organizations and institutions through industry awards given to the Corporation in 2012 for its contribution to the development of the African insurance industry, corporate governance and leadership, and Takaful insurance development in Africa. The pinnacle of that recognition came when the Corporation was voted the "Best Insurance Institution" during the 40th anniversary of the African Insurance Organization (AIO) in Mauritius and the "Best Regional Takaful Company" by the International Takaful Summit in London. The Corporation continued to contribute significantly to research and publication in insurance and reinsurance matters. It also offered technical training sessions to insurers and sponsored various seminars and conferences.

The enterprise risk management of the Corporation was further strengthened by introducing new systems and tools to monitor and manage different types of risks and by implementing a corporate wide business continuity management policy.

The Board of Directors held its regular three meetings during which key decisions were taken. The decisions made were technical (adoption of the retrocession programme, review of the implementation of the underwriting guidelines), financial (review of the investment policy implementation and approval of investment projects) and with regard to human resources (reinforcing the policy of attracting, recruiting and retaining highly skilled insurance and reinsurance professionals through competitive pay and motivational initiatives). More importantly, the Board embarked upon a number of initiatives aimed at considerably enhancing the standards of corporate governance throughout the Group.

The Board also pursued the 4th capital increase process which brought in additional funds amounting to US$40 million in 2012. This exercise has been a resounding success as 88.85% of the 1,000,000 issued shares have been subscribed for a total amount of US$ 145.6 million since 2010. Scheduled to be closed by June 2013, the 4th capital increase will leave the Corporation with an enviable capitalization to sustain its future growth with much needed financial strength and consequently stable or even improved ratings.

Already, the financial ratings of the Corporation were reaffirmed in 2012 by both Standard & Poor's and A.M. Best rating agencies at A – with a stable outlook. This continuous performance over the years should not be taken for granted as the remaining A rated reinsurers on the African

continent were downgraded amid socio-political and economic challenges in their core markets. We expect the Corporation to maintain its strong ratings despite the possible change in rating agency models.

The year 2012, which was the first one for the new Management team led by the Group Managing Director/Chief Executive Officer - Mr Corneille KAREKEZI, confirmed the effectiveness of the leadership of the Board in shaping the future of the Corporation.

I would like to thank the entire management committee, ably led by Mr Karekezi, and each individual staff throughout our eight locations on the continent for their dedication and hard work, which contributed to these results.

Our gratitude also goes to all our business partners, ceding companies and brokers, for their continuous support and trust.

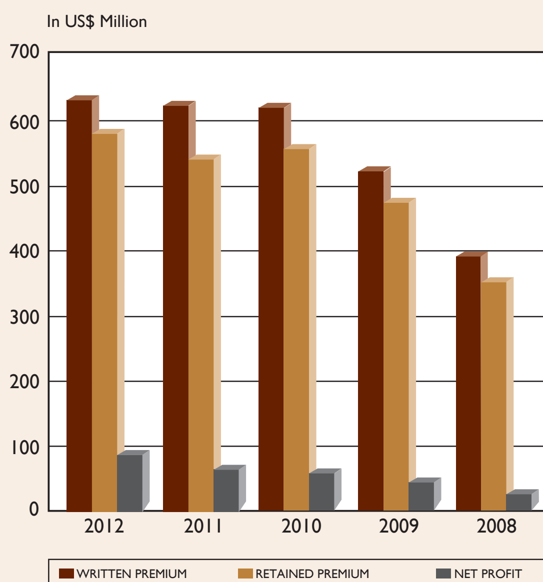
As Chairman of the Corporation for the past years, I am humbled when I look eighteen years back and see the journey we have made together with my fellow colleagues in the various Boards that I have had the privilege to lead. When I joined the Board of the Corporation as a Director in 1983, premium income was US$53 million and shareholders' funds amounted to US$3.9 million, twelve times and one hundred and fifty six times respectively lower than the current figures. The Corporation was not yet rated and its future was threatened with internal and external challenges which could have discouraged many people. I am proud to say that we believed in Africans and in Africa, a lost continent for some at that time. This year, I will retire from the Board of Directors of Africa Re with a sweet feeling of "mission accomplished", leaving behind for future generations, a leading reinsurance company in Africa and the Middle East, well rated, very profitable and well capitalized.

I thank you all.

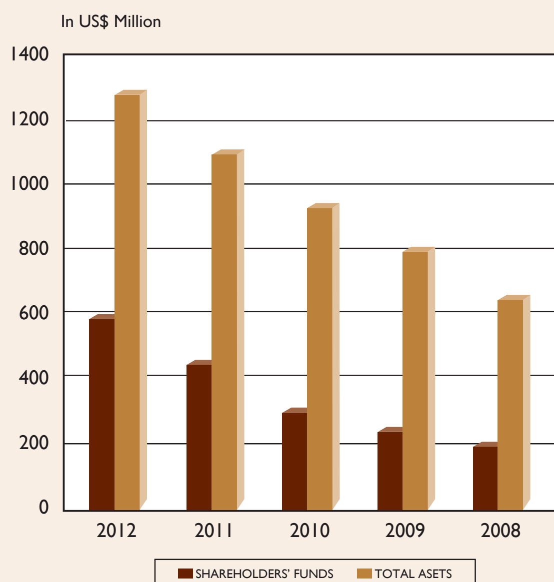
Financial Highlights

In US$ '000	2012	2011	2010	2009	2008
RESULTS					
WRITTEN PREMIUM	647,980	631,490	627,532	536,382	401, 041
RETAINED PREMIUM	586,443	554,746	569,700	487,150	365,176
EARNED PREMIUM (NET)	559,582	533,580	563,783	466,416	357,897
NET PROFIT	92,646	69,199	64,863	44,301	20,406
FINANCIAL POSITION					
SHAREHOLDERS' FUNDS	608,613	482,130	343,674	280,399	223,720
TOTAL ASSETS	1,314,306	1,137,383	958,367	836,017	686,857

RESULTS
2008 - 2012



FINANCIAL POSITION
2008 - 2012



EXECUTIVE MANAGEMENT

Mr C. KAREKEZI
Group Managing Director/CEO

Mr K. AGHOGHOVBIA
Deputy Managing Director/Chief Operating officer

CENTRAL DIRECTORS

Mr M. ALI-KOTE
Director of Administration & Human Resources

Mr I. UDUMA
Director of Internal Audit

Mr M. KANTE
Director of Information & Communication Technology

Mr S. M. KABA
Director of Technical Inspection & Enterprise Risk Management

Mr S. KONE
Director of Finance & Accounts

Mr R. BONG BEKONDO
Assistant Director, Corporate Secretariat

REGIONAL DIRECTORS AND LOCAL REPRESENTATIVE

Mrs. E. MBOGO
Regional Director, Nairobi

Mr M. KANNOU
Regional Director, Casablanca

Mrs. M. SANON
Regional Director, Mauritius

Mr O. GOUDA
Regional Director, Cairo & Managing Director, Africa Rekataful

Mr P. N'GUESSAN
Regional Director, Abidjan

Mr D. DE VOS
Managing Director, Africa Re South Africa

Mr S. DIOMANDE
Regional Director, West Africa

Mr S. BELAY
Local Representative, Addis Ababa

I. ECONOMIC & TRADE ENVIRONMENT IN 2012

Slowdown and uncertainty in the global economy persists

The global economy ended the year 2012 with a low growth rate of 3.2%, well below the 3.9% recorded in 2011. Deteriorating economic environment in Europe and fiscal imbalances in the US, coupled with slowdown in world trade flows, were major drivers of that poor performance.

Although the Eurozone's core countries were gradually dragged down by extremely weak economic conditions in its periphery, Greece being its tragic case, internal economic conditions of Italy and Spain continued to be intrinsically poor, leading to a general decline by 0.4% of the Euro Area output in 2012.

The U.S. economy improved with an impressive 2.3% growth rate amid the costliest election campaign and deadlock in the Congress over the "fiscal cliff" which eventually was reached in the early months of 2013. Much feared tax increases and spending cuts may well reduce the public deficit but could create a recession.

In general, advanced economies continued to struggle with a sluggish growth of 1.3% in 2012 with Italy, Spain and the UK recording a negative growth.

The world economy was once again pulled up by Emerging Markets and Developing Economies with a 5.1% growth compared to 6.3% in the previous year. The good performance of these countries was due to strong growth rates of China (7.8%), other Asian countries (5.7%), India (4.5%), Middle East and North Africa (5.2%) and Sub-Saharan Africa (4.8%). However, this performance was lower compared to 2011.

In 2012, progress was made in the global economic recovery and probabilities of extreme scenarios, such as deep recession in the US and break-up of the Eurozone, are lower than in the recent past. The credit of this situation goes to public policymakers who initiated aggressive measures to restore economic normalcy. Although the road may be still rough, there is much hope that the global economic output may rebound to a 3.5% growth in total output in 2013, and even to a 4.1% growth in 2014, according to the IMF World Economic Outlook released in January 2013 and entitled 'Gradual Upturn in Global Growth During 2013'.

Upholding general relatively strong performance in African Economies

Despite continuing setbacks in the global environment, Sub-Saharan Africa growth remained relatively strong in 2012 on the back of improving domestic demand, high commodity prices and resilient export growth in energy and mineral sectors. Economic growth rates of 6% and above were recorded by one-third of the countries, including Sierra Leone, Niger, Nigeria, Liberia, Côte d'Ivoire and Ghana. Few countries (Mali, Guinea-Bissau, Swaziland and The Gambia) however recorded negative growth due to domestic challenges in the socio-political and economic environment.

South Africa, the largest economy in Africa and consequently the Corporation's largest market, struggled to reach an estimated 2.3% growth, well below the 3.1% achieved in 2011. Falling export volumes, labour unrest in the mining sector, widening of budget deficits and a growing deficit in the balance of trade led to a slower growth momentum and a weaker currency. The country's sovereign credit rating was further downgraded with negative outlook by rating agencies in view of difficult socio-political environment and concerns over high unemployment (29.8% in 2011). The challenging economic situation in South Africa doubly penalized the Corporation, by drying out the facultative business pipeline as public sector spending programmes were fewer and by impacting negatively on the premium income reported in US dollars (South African rand depreciation of over 5% in 2012). This situation resulted in a loss of over US$10 million.

Although downside risks are mounting from a prolonged Eurozone crisis, a weaker growth in China and tight US fiscal policy, hope of a renewed growth momentum remains for the African continent (IMF projects 5.8% growth in 2013), based on new mineral and oil projects, improved weather conditions, expansion of investments in infrastructure, diversification and deepening of trade away from advanced economies to emerging markets as well as to intra-African markets.

Improved investment environment in equity markets and high yield bonds

The year 2012 was quite good for financial markets despite the macroeconomics and fiscal issues faced in Europe and the US, thanks to the support given by the European Central Bank and the Federal Reserve. Sustained monetary easing may continue in the face of weak growth and high unemployment in many advanced economies.

All major equity markets recorded double digit returns with US markets ending the year on a good standing, with major indices recording strong growth rates nearly up to 16%, their best performance in three years. Also, value stocks (17.7%) outperformed growth stocks (14.6%) with small cap value stocks recording the highest return for the year (18.2%).

Major African markets followed the global trend despite pockets of political unrest in Mali, DRC and Central Africa. Nigerian, Kenyan and South African stock exchanges recorded returns of 35.45% (Nigeria ASI), 39.4% (Nairobi ASI) and 13.2% (South Africa Top 40).

During the year, the Euro and UK pound strengthened by 1.54% and 4.39% respectively against the US dollar. The South African rand, the Kenyan shilling, the Mauritius rupee and the Egyptian pound weakened against the US dollar by 5.09%, 1.18%, 4.09% and 5.53% respectively. The other transactional currencies XOF, NGN, MAD strengthened by 1.54%, 3.79% and 1.30% respectively.

The global bond markets delivered healthy returns in 2012, with a positive performance across the board for the major asset classes and the eighteenth consecutive year of gains for investment grade bonds (investment-grade US bonds: 4.22%). The primary driver of bond market performance was the policy of ultra-low interest rates being pursued by the U.S. Federal Reserve (short, intermediate and long term US treasuries: 0.51%, 1.73% and 3.78%) and other major global central banks. This policy depressed yields (and supported prices) of short-term securities and government bonds. The low yields on these safer investments, in turn, caused investors to search for alternatives in the higher-risk, higher yielding segments of the market whose returns went higher up to 16.52% for the IT emerging market bonds.

With this background, the Corporation's investment income performed extremely well with an increase of 100%. The positive performance was supported by an increased liquidity resulting from the positive cash flow from operations, proceeds from the fourth capital increase, higher interest rates on African placements and HTM (held-to-maturity) bonds, as well as better return from equity markets in Africa and internationally.

As a gradual upturn is expected in 2013 and the global growth stabilizes if the recession odds are contained in the US and the Eurozone, it is expected that, despite a string of disappointing GDP growth numbers, the equities in some of the fastest growing countries will continue to outperform while low interest rates policy and monetary stimulus will continue to depress long-term bond yields. Also, due to long-term factors such as improvement in the US current-account deficit, the US Dollar will remain attractive.

Strong underwriting performance and better outlook for reinsurance market

After the terrible year 2011, which ended with underwriting losses for almost all international reinsurers, the year 2012 was relatively clement in terms of catastrophe activity. It was a perfect year if super storm Sandy did not come to remind us that natural catastrophes are here to stay. Its cost estimated between US$20 billion and US$25 billion, will be easily borne by the industry, which should be happy to close the year with only half the US$120 billion recorded in total for 2011. Also Super storm Sandy brought back on the surface the need to clarify more the aspects of scope of insurance cover and coverage limits.

Rates were generally stable in most of the territories with an improving trend in some lines of business and selected territories while buyers with good records achieved even modest rate reductions. However, this global trend should not mask the soft cycle and competitive environment observed in some markets where the Corporation operates such as South Africa and Mauritius.

The industry capital continues to be in excess as the industry can attract more capital lured by the stronger performance of 2012. The general hardening of the market will then be elusive in the current conditions of excess capital in the industry and good underwriting results of 2012. Hardening may only come from significant erosion of balance sheets after catastrophe losses or from stricter regulatory and rating requirements.

Reinsurance buying is shifting to close negotiations for customized pricing and even, as growth becomes difficult for some primary companies, to restructuring of reinsurance programmes in order to retain more. The pressure of higher capital requirements may reverse the trend in better regulated environments.

The African market has become a major attraction for all global reinsurers because of the expected growth potential of its markets. This move has already started to put pressure on profitability as aggressive marketing and abundant capacity are greater than recorded growth, even from low bottoms in terms of insurance penetration and density.

Overall profitability has been below 100% for most of the international reinsurers but above 100% in some markets with specific conditions such as stiff competition on prices combined with local high claim experience.

Despite the low expectations from the investment returns, the outlook of global reinsurance industry has been maintained by rating agencies and analysts at stable for 2013 and 2014, with an average return on equity between 8% and 9%. The industry outlook is supported by strong capital and positive trends in underwriting (gradually hardening rates) and operating, including the growing competence among industry players in risk-based thinking and management.

Solvency II implementation has been re-scheduled in Europe until at least January 2016 due to slow legislative process in finalizing the framework's details. In South Africa, where the Corporation owns a subsidiary, the course is on track. If nothing changes, the Solvency II equivalent - Solvency Assessment and Management (SAM) will be fully implemented in South Africa as early as January 2015.

Continuous improvement in the Corporation's profitability and capital strength in 2012

Despite a moderate growth of premium income (2.61%) and a slight deterioration of claims ratio (from 49.48% in 2011 to 52.11% in 2012), the Corporation maintained a slightly higher technical result (US$77.93 million) and underwriting profit (US$47.02 million) over the performance of the year 2011 (US$77.50 million and US$46.22 million). This performance was achieved despite adverse circumstances such as the depreciation of major operating currencies, rate cutting in some of our markets and change in reinsurance buying approach by some of our clients leading to lower reinsurance cessions. Underwriting discipline and focus on profitability were key components of our strategy and only premium growth and new business prospects meeting our profitability ambitions were allowed and actively sought. Hence, the combined ratio of 91.60% achieved in 2012 was almost the same with the 91.3% recorded in 2011.

With the sterling investment performance, doubling of our investment income to US$48.79 million, the Corporation had a commendable average return on equity of 16.99%, compared to 16.77% recorded in 2011.

The net profit of US$ 92.64 million, an increase of 33.88% over the US$69.19 million of the year 2011, is the highest in the Corporation's history and another milestone for the Corporation.

Finally, in terms of capitalization, and at the time of closing the 4th capital increase by rights issue, the Corporation ends the year with much stronger capitalization of US$608.61 million, 26.23% higher than 2011 (US$482.13 million). The Corporation's solvency ratio of 103.78%, compared to the global industry's solvency ratio of 118% in 2012, is an indication that we will, from now, tread a new avenue where in future growth could not only be organic but could also be through acquisitions.

OUTLOOK FOR 2013

Strong and stable profitability while deepening gains and position

In 2013, international non-life reinsurance industry will witness improved underwriting profitability due to stable growth in premium supported by a stable or recovering global economy and generally stable to slightly firmer rates, terms and conditions. Non-life represents above 95% of the Corporation's total premium income. Without a significant single loss event above US$60 billion, according to rating agencies, the outlook will remain stable as the environment is expected to be persistently characterized by low interest rates.

More of the same is expected in 2013 for our traditional markets where economies are projected to grow by 5.8% in Sub-Saharan Africa and by 3.4% in the Middle East and North Africa.

However, the Corporation's core markets situated on the African continent, above 95% of total premium, may behave differently from the international market, both in terms of rates and claims experience. During the December 2012 / January 2013 renewals, we expect in general stable rates where losses were average in 2012 and a modest rate increase where primary market and reinsurers experienced underwriting losses. Slightly hardening markets could be seen in South Africa and Mauritius if players behave logically and, moreover, if catastrophe and pick losses in commercial lines are back to prior years' average.

Without a sudden deterioration of loss ratio, the expected underwriting profit for the Corporation in 2013 may be the same as in 2012 or even slightly higher. It is hoped that investment income and stability in African currencies will enhance profitability even more.

Now that capitalization is strong and will continue to strengthen in the near future, the Corporation, which is finalizing its new Five Year Strategic Business Plan for the period 2014 – 2018, will be busy strategizing in 2013 on how to stimulate further growth in what is likely to be a more competitive and volatile environment. Issues of industry regulation, market rate trend, growth of African economies, competition and new entries in the market, internal competencies, differentiation, etc. will be at the forefront of our thinking to lay down the foundation of future successes.

II. OPERATIONS

This section reviews the Corporation's operating results for the year 2012 compared to the performance of the year 2011.

Through a network of offices in key locations on the continent, Africa Re has built enduring relationships in every insurance market in Africa. Consequently, the Corporation's proximity to clients as well as its guiding principles of distinction and best practices have given it a unique advantage to access directly widespread profitable business mainly in Africa, and to a lesser extent, Asia and the Middle East.

The Corporation operates from the following production centres:

Six regional offices

- Lagos, Nigeria: Anglophone West Africa and Pools;
- Abidjan, Côte d'Ivoire: Francophone West and Central Africa;
- Casablanca, Morocco: Maghreb;
- Cairo, Egypt: North East Africa and the Middle East;
- Nairobi, Kenya: East and part of Southern Africa; and
- Ebene, Mauritius: African Indian Ocean Islands and Asia.

Two wholly owned subsidiaries

- Johannesburg, South Africa: South Africa and neighbouring markets, handled by the subsidiary, African Reinsurance Corporation (South Africa) Limited;

- Cairo Egypt: African, Asian and Middle East Retakaful markets handled by the subsidiary Africa Takaful Reinsurance Company Limited (Egypt).

One local office
- Addis Ababa, Ethiopia.

Acceptances in the Corporation are classified along the following business lines:

- Fire & Engineering
- Accident & Motor
- Oil & Energy
- Marine & Aviation; and
- Life

The following table provides a summary of the Corporation's performance:

DESCRIPTION (US$000)	2012			2011		
	GROSS	RETRO	NET	GROSS	RETRO	NET
INCOME						
Premium (less cancellations)	647,980	(61,537)	586,443	631,490	(76,744)	(554,746)
Change in unearned premium provision	(28,031)	1,170	(26,861)	(28,988)	7,822	(21,166)
Earned premium	619,949	(60,367)	559,582	602,502	(68,922)	533,580
OUTGO						
Losses paid	316,091	(10,477)	305,614	283,962	(9,460)	274,502
Change in outstanding claims provision (incl. IBNR)	50,283	(22,702)	27,581	41,778	(4,284)	37,494
Incurred losses	366,374	(33,179)	333,195	325,740	(13,744)	311,996

Premium Income

During the year under review, the Corporation's written premium income of US$647.98 million marginally exceeded the 2011 production of US$631.49 million by 2.61%.

Development of Gross Premium

In the first eight years of the last decade, Africa Re's production income grew remarkably from US$198.12 million to US$627.53 million due essentially to the growth of the African economies. However, from 2010, the growth in premium income has been marginal, due mainly to a deliberate effort by the Corporation to cleanse its portfolio of loss-making accounts. In addition, depreciation of trading currencies, rate-cutting in many insurance markets and the slow growth in South Africa - the continent's largest market also contributed to the marginal growth.

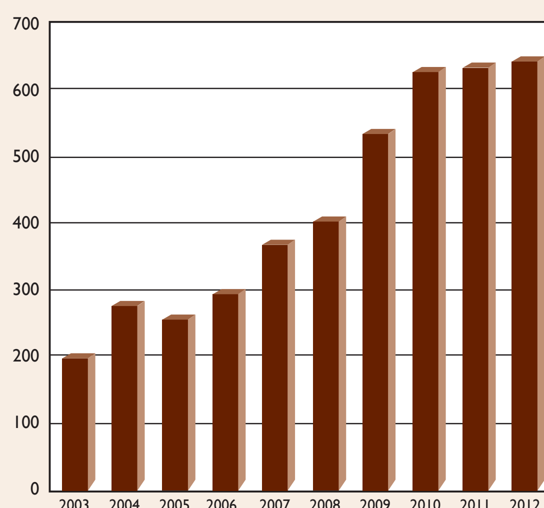
However, the African economy is set for a sustained growth in the years ahead. In sub-Saharan Africa, the growth is expected to be between 5%-6% till 2020. In fact, an IMF report recently revealed that Ethiopia, Mozambique, Tanzania, Congo, Ghana, Zambia and Nigeria are expected to expand by more than 6% per annum. The report also reveals that these countries would be among the top 10 fastest growing nations between 2011 and 2015.

Despite the political challenges in Egypt and Tunisia, North Africa's economies are expected to rebound from 2013.

Most insurance markets are deregulated, liberalised and align their regulatory frameworks to international standards, thereby creating a viable insurance industry by reinforcing its role as an effective engine of economic growth.

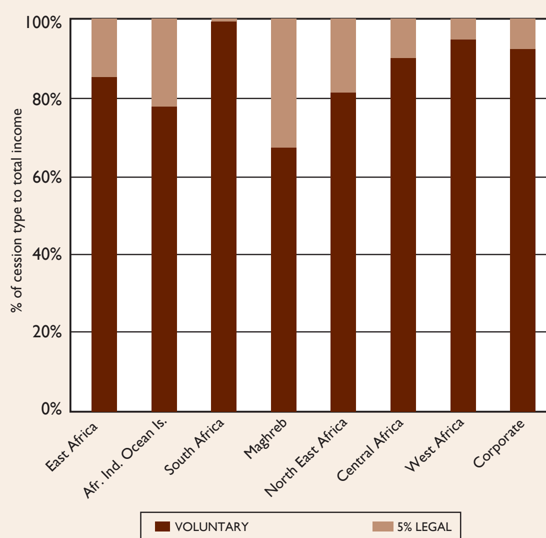
The Corporation which has reaped the benefits of the economic boom of the last decade is expected to continue to enjoy profitable results. In addition, in the face of uncertain financial markets and increasing catastrophe losses, Africa Re with its A-rating by AM Best and S & P continues to be the reinsurer of choice in the continent as insurance operators increasingly demand top securities to place their clients' business.

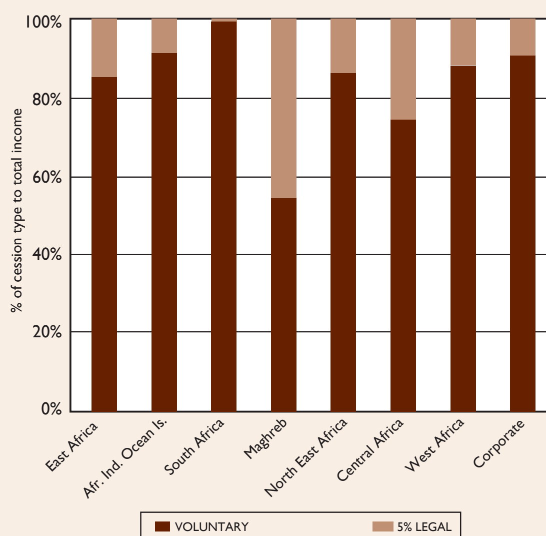
Development of Gross Premium Income in US$ millions



Voluntary Cessions

At Africa Re's formation in 1976, the right to have 5% of every reinsurance treaty emanating from member States was necessary for its survival. This was because at the time, foreign reinsurers with long ties to the continent dominated the African reinsurance landscape and could squeeze the new and untested entity out of the market. Compulsory cessions which made up 18.57% of the total premium income ten years ago, presently account for 9.40% as Africa Re has developed into an internationally recognizable brand.





GEOGRAPHICAL DISTRIBUTION

Through its network of six regional offices, two subsidiaries and a local office, Africa Re continues to accept business from Africa, Asia and the Middle East.

Southern Africa

The African Reinsurance Corporation, South Africa Ltd (ARCSA) oversees operations in Angola, Mozambique, Botswana and the rand zone from Johannesburg. Since its set-up in 2004, the subsidiary has consistently been Africa Re's highest income contributor. However, for the third year running, ARCSA's turnover has fallen from US$260.79 million (41.56%) in 2010 to US$232.10 million (36.75%) in 2011 and US$215.63 million (33.28%) of corporate premium income in 2012.

In 2011, the reduction in income was due to the 22.03% depreciation of the rand against the US dollar. A number of factors accounted for the reduced income in 2012. These include: rate-cutting due to intense competition, Management's decision to stop accepting certain risks and the 2.17% depreciation of the rand against the US dollar.

East Africa

Production from this region increased from US$94.78 million in 2011 to US$118.24 million in 2012, resulting in a growth of 24.75% and representing 18.25% of the corporate income. This performance was driven by increased voluntary acceptances in almost every class of business especially from Kenya, Ethiopia, Zambia and Tanzania. This performance was achieved despite currency fluctuations translating into a loss of US$2.23 million.

Anglophone West Africa Regional Office

The income from this region was US$102.45 million (2011: 94.66 million) in 2012, resulting in an increase of 8.23% over the 2011 figures, representing 15.81% of corporate production. The growth in 2012 was due essentially to increased acceptances from the Fire/Engineering, Accident/ Motor, Life and Marine classes which more than covered up for the loss in income from Aviation and Energy markets.

Maghreb

The income from the Maghreb increased from US$51.27 million in 2011 to US$58.40 million in 2012 due to the relative stability in the region. The gain in production income came from the Fire/ Engineering and Energy classes. The income from the Maghreb represents 9.01% of corporate totals.

North East Africa

The domestic production from the Cairo Regional Office of US$41.44 million was higher than the previous year's income by US$2.98 million despite the negative growth in the Sudanese economy. The income from North East Africa represents 6.40% of corporate production income.

Francophone West and Central Africa

The Abidjan Office is responsible for this predominantly French speaking region of West and Central Africa, which also includes Portuguese speaking Guinea Bissau and Cape Verde. The turnover reduced from US$41.97 million in 2011 to US$39.78 million this year representing 6.14% of corporate production. The main reason for the reduction in income was the non renewal of certain Energy facultative businesses.

African Indian Ocean Islands

Income from the African Indian Ocean Islands reduced slightly from US$13.93 million in 2011 to US$13.62 million in 2012 representing 2.10% of the Corporation's turnover. The slight decrease in income was due mainly to the depreciation of currencies in the region.

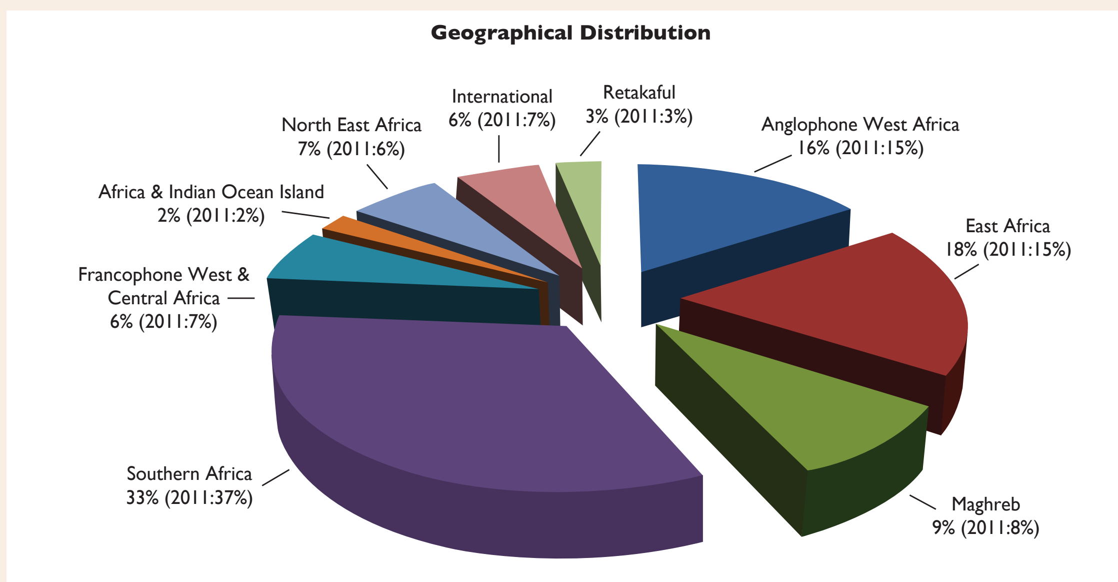
Africa Retakaful

The turnover of Africa Retakaful was US$20.51 million, an increase in income compared to last year's US$18.75 million. The Sudanese market accounted for 82.2% of the income emanating from the subsidiary.

International Business & African Pools

Africa Re's income from international business fell from US$45.03 million in 2011 to US$37.47 million in 2012. The reduction in loss-making accounts was due to the on-going policy to cleanse the international portfolio of loss making business. Thus, the Middle East production of US$20.86 million was lower than last year's by US$1.94 million, while income from Asia reduced from US$22.24 million in 2011 to US$16.61 million in 2012.

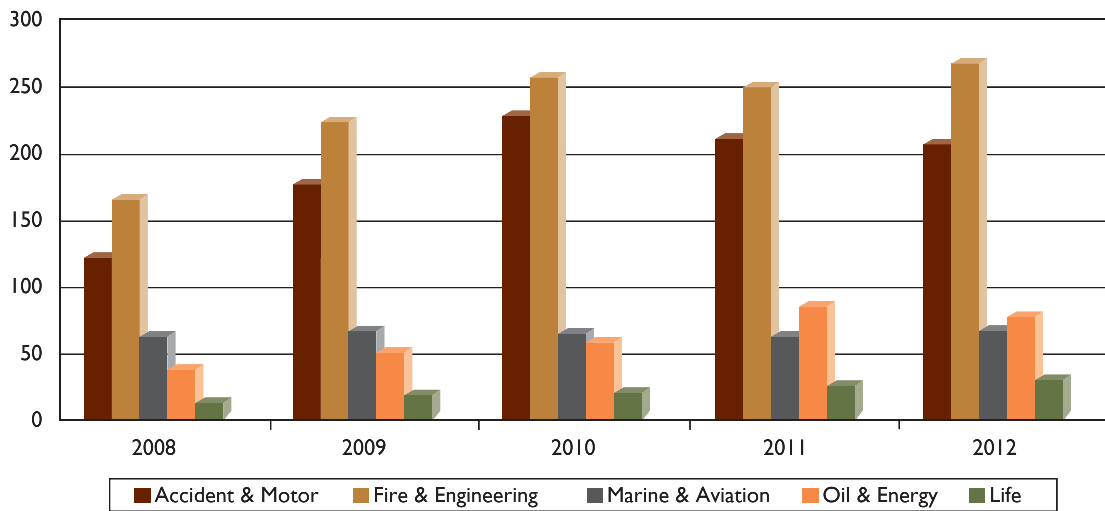
The premium income due to Africa Re from the African Oil & Energy and Aviation Pools managed by the Corporation fell from US$536,211 to US$428,452 because of reduced income from the Aviation class.



SECTORAL DISTRIBUTION

The Fire and Engineering class continued to produce the highest turnover with US$268.00 million representing 41.36% of corporate turnover as against US$248.66 million or 39.38% in 2011. This was followed by the Accident and Motor classes which stood at US$204.58 million or 31.57% of corporate income (2011: US$210.16 million or 33.28%).

For the second consecutive year, the Oil & Energy class outperformed the Marine and Aviation class with a production of US$77.92 million or 12.03% of turnover (2011: US$84.67 million or 13.41%). The reduction in income was due mainly to loss of business from Republic of Congo, Cameroon, Gabon, Equatorial Guinea, Nigeria and Sudan. The Marine and Aviation class was fourth with US$67.21 million or 10.37% (2011: US$62.47 million or 9.89%) while the Life class followed with US$30.27 million or 4.67% of corporate production (2011: US$$25.64 million or 4.06%).



TECHNICAL EXPENSES

Losses

Loss Experience by Class

The total claims paid increased from US$283.96 million in 2011 to US$316.09 million in 2012.

The claims paid ratio also increased from 44.97% in 2011 to 48.78% in 2012. Incurred losses which include movement in outstanding claims provision (US$50.28 million as against US$41.78 million in 2011), amounted to US$366.37 million (US$325.74 million in 2011).

The following table provides insight into the above mentioned indicators.

GROSS LOSS RATIO BY CLASS - FINANCIAL YEAR 2012
CURRENCY: US$M

CLASS OF BUSINESS	REGIONAL BUSINESS			INTERNATIONAL INWARD			TOTAL CORPORATE		
	Incurred Loss	Earned Premium	Loss Ratio %	Incurred Loss	Earned Premium	Loss Ratio %	Incurred Loss	Earned Premium	Loss Ratio %
Fire/Eng	147.35	235.59	62.54%	14.09	19.97	70.56%	161.44	255.57	63.17%
Accident/Motor	118.79	194.95	60.94%	4.11	6.59	62.39%	122.91	201.54	60.98%
Energy	36.87	67.41	54.71%	3.33	3.48	95.64%	40.20	70.89	56.72%
Marine & Aviation	25.72	55.02	46.75%	3.93	8.81	44.66%	29.66	63.83	46.46%
Life	12.17	28.12	43.26%	0.00	0.00	6.73%	12.17	28.12	43.26%
Total	**340.90**	**581.09**	**58.67%**	**25.47**	**38.86**	**65.55%**	**366.37**	**619.95**	**59.10%**

Loss Experience by Trading Area

The gross incurred loss ratio for the Subsidiary in South Africa increased from 61.82% in 2011 to 71.61% in 2012, while the net incurred loss ratio also increased from 63.94% to 74.16% during the same period. This resulted from a number of fire incidents and weather-related events (mainly floods and hailstorms across many regions in South Africa), as well as increase in outstanding claims reserve emanating from new major claims reported in the year under review.

The incurred gross loss ratio of the West Africa Regional Office increased from 37.23% in 2011 to 79.17% in 2012 due mainly to fire and energy losses from the Nigerian market. The net incurred claims ratio also rose from 44.34% in 2011 to 70.26% in 2012.

The incurred loss ratios (gross and net) from East Africa increased slightly from 42.30% and 43.32% respectively in 2011 to 43.39% and 44.21% in 2012.

The Maghreb region's gross and net loss ratios rose from 43.62% and 46.90% in 2011 to 54.37% and 58.25% respectively in 2012. The rise in claims ratios is explained by the increase in outstanding claims reserve emanating from major fire and cargo claims.

The incurred loss ratios of North East Africa reduced from 66.00% (net: 70.37%) in 2011 at the height of the political crisis to 56.12% (net: 60.13%) in 2012.

The gross and net incurred claims ratio of the Francophone West and Central Africa reduced significantly from 29.36% (net: 40.48%) in 2011 to 20.11% (net: 23.27%).

The gross claims experience of the African Indian Ocean Islands improved from 74.73% in 2011 to 16.28% due to the reduction in outstanding claims reserve at the end of 2012 and the strategy to exit non-profitable businesses. Hence, the net incurred claims also improved from 76.73% to 16.65% in 2012.

The incurred claims ratio of the Africa Retakaful Company which began operations in 2011 improved from a gross and net ratio of 85.82% and 90.43% to 35.30% and 36.83% respectively. The high ratios of 2011 were due to the first time application of outstanding claims and unearned premium reserves.

As a result of the policy to stop writing loss-making businesses from the Middle East and Asia, the gross and net incurred loss ratios of the international operations improved from 80.78% and 90.43% in 2011 to 65.55% and 63.52% respectively.

Commissions and Charges

During the period under review, gross commissions and charges including movement in deferred acquisition costs amounted to US$157.07 million (2011: US$151.99 million), while recoveries from retrocessionaires stood at US$8.62 million (2011: US$7.91 million). Accordingly, net commissions and charges increased from US$144.08 million in 2011 to US$148.45 million in 2012.

III. INVESTMENT INCOME

Portfolio Performance

The year 2012 was an eventful one as most global equity markets posted remarkable recoveries compared to the steep losses in 2011. Most financial markets finished the year with double digit returns despite the weak global economic growth, the continuing Eurozone crisis, the looming effects of the fiscal cliff in the United States and the pull-back in growth in China -the leading emerging market.

During the year, two major fiscal policies helped renew investors` confidence. In July, the European Central Bank (ECB) offered to make unlimited purchases of short-term bonds from the distressed Euro zone countries to help reduce their borrowing cost and in September, the Federal Reserve Bank (Fed) announced an additional monetary stimulus program tied to inflation and unemployment. These fiscal policies provided the impetus that the financial markets had been longing for.

In the United States, consumer confidence index rose to 82.7 in November, a 5-year high, before falling to 72.9 amid the uncertainty over the fiscal cliff negotiations. Various economic metrics

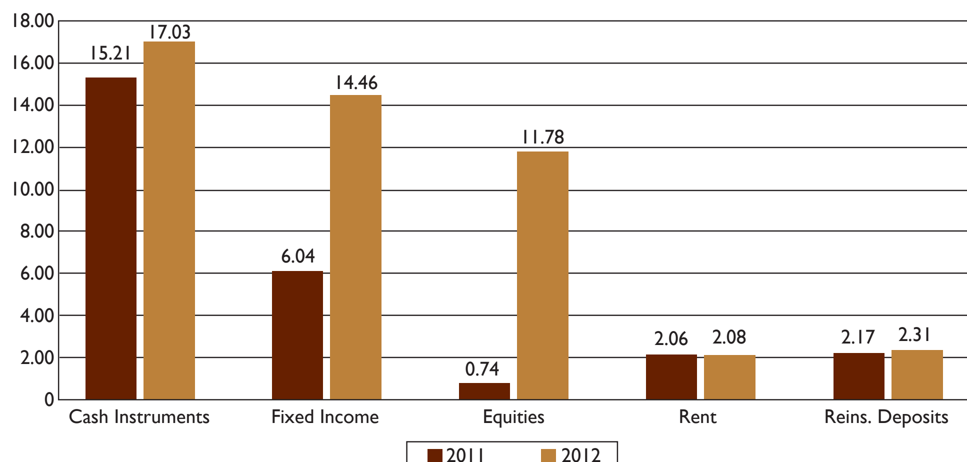
showed signs of stabilization as the US economy continues to heal with the Fed support. The S&P 500 index closed at 1,426 for the year, up 16% on a total return basis, in line with other major markets.

The emerging markets remained vulnerable to the weak economic situation in Europe but managed to display an outstanding performance in 2012 with the MSCI emerging markets equities recording 18.6% annual return partly due to the accelerated growth during the second half of the year. China's growth continues to set the pace albeit at a slower pace in 2012.

Within the Sub Saharan Africa (SSA) region, IMF estimates GDP growth rate for 2012 to be about 5%. This compares favourably to the lacklustre global growth estimated to be 3.3% for the same period. The performance of the region was largely as a result of its effort to grow internal demand and reduce overreliance on export. Major African markets followed the global trend in market performance with Nigeria ASI, Kenya ASI and South Africa Top40 recording returns of 35.45%, 39.4% and 13.2% respectively.

The Corporation was able to deploy the full US$103 million that was raised from the fourth capital increase in 2011 in its investment portfolio this year in addition to the US$40.7 million that was raised in 2012. Accordingly, the Corporation recorded a sterling increase in its total investment income plus other income by 78.69% to attain US$48.79 million compared to US$27.30 million achieved in the previous year.

The breakdown of the investment income reveals that return on cash and cash equivalents amounted to US$17.03 million compared to US$15.21 million recorded last year. There was a deliberate effort during the year to reallocate some funds from the cash instruments to fixed income instruments and it paid off as bonds and other fixed income instruments posted income of US$14.46 million compared to the US$6.04 million recorded same period last year. However, the equity portfolio, was the high flyer of the year as the Corporation posted a 1,584% increase on gains on equities to record an income of US$11.78 million versus the US$0.74 million achieved same period last year. Earnings from reinsurance deposit ofUS$2.31 million marginally outperformed last year's figure of US$2.17 million. Similarly, rental income of US$2.08 million was slightly higher than the figure for 2011 (US$2.06 million).

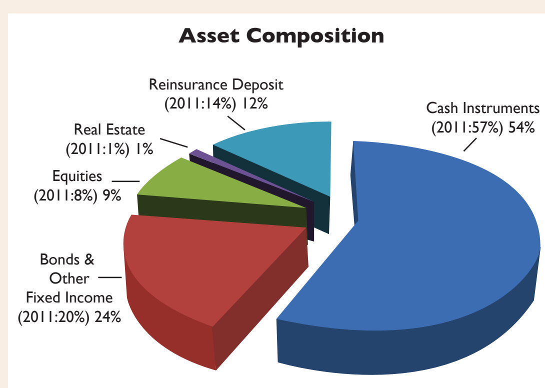


ASSET COMPOSITION

The Corporation ended the year with a total investment portfolio value of US$1,016.47 million compared to US$870.35million as at 31 December 2011. The remarkable 16.79% growth rate in the investment portfolio was attained against the backdrop of additional receipts from the fourth capital increase, operational cash flow surplus generated during the year and a splendid investment income less the currency translation loss of the South African rand that depreciated by 5.09% against the US dollar in 2012.

The investment portfolio allocation remains broadly in line with the investment policy document that seeks to offer diversification and minimization of risk while providing the needed liquidity and security.

Cash instruments continue to dominate the asset composition, accounting for 54%, 300 basis points lower than the year before (2011: 57%) and are invested primarily in treasury and other money market securities with highly-rated counterparties. Bonds and other fixed income securities follow suit at 24%, up from the 20% recorded last year while the composition of the equity portfolio moved up to 9% at the end of the year.



Long Term Investments

The Corporation continues to support the socio-economic development of Africa by, among others, allocating its long term equity investments to African entities or those contributing directly or indirectly to the growth of economic activities on the continent. During the year, the Corporation made an investment in a real estate company in South Africa (10 Sherborne Properties) and made commitments in two other African focused private equity funds. Accordingly, the Corporation's total commitment to private equity investments as at December 31, 2012 increased from US$19.06 million to US$36.30 million invested in 18 companies, made up of two (2) international development finance institutions, four (4) insurance companies, a computerization project sponsored by African Insurance Organization (AIO), a pension fund administration company, one real estate company, eight(8) privately managed equity funds and a private healthcare facility.

Cumulative disbursements in respect of the private equity portfolio increased by US$3.07 million to reach US$14.36 million (2011: US$11.29 million), primarily as a result of the real estate investment in South Africa and capital calls by CAPE III and Adlevo Capital. On a net asset basis, the portfolio was valued at US$19.86 million as at 31 December 2012 (2011: US$13.46 million) and gives a multiple of 1.38 times invested capital.

An amount of US$970,702 (2011: US$151,067) was realized as dividend payments during the year primarily from CAPE II (US$502,031) being the Corporation's share of dividends from the sale of MTN Nigeria. The CAPE II fund exited from the MTN investment and returned a capital of US$113,821.

Rental income from the Corporation's three office buildings in Lagos, Nairobi and Casablanca recorded a marginal increase of 1.0% to record US$2.08 million compared to the US$2.06 million recorded in 2011.

Equities

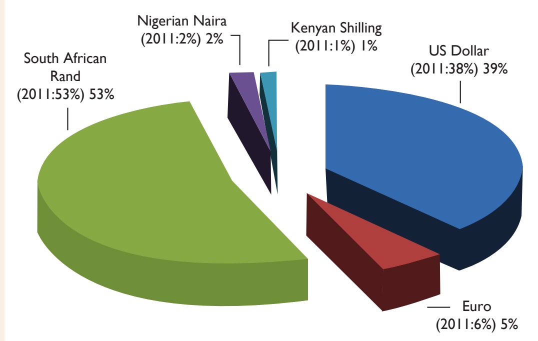
In the equity market, China's Hang Seng equity index outperformed the rest of the world with an impressive performance of 27.7% annual return. Emerging markets in general performed splendidly with 18.6% annual return coming from a -18.2% return the previous year. European equities equally bounced back from its negative returns last year to register 20.2% annual return on the DJ Euro Stoxx 50. Globally equity markets recorded double digit returns compared to the steep losses recorded in 2011.

African markets were not left out of the remarkable global equity performances. Nigeria ASI and Nairobi ASI stock exchange recorded 35.45% and 39.4% respectively. The South African market showed good standing in spite of the labour challenges earlier in the year with a performance of 13.2%.

Following the impressive recovery of the capital markets during the year, the Corporation's actively managed equity portfolio in Africa, Europe and North America produced an impressive gain of US$11.78 million, as compared to the US$0.71 million recorded in the previous year. However, dividend income for the year was flat at US$1.72 million (2011: US$1.75 million); the portfolio generated unrealized gain of US$7.74 million compared to a loss of US$0.83 million posted last year.

In all, the North American portfolio posted 15.27%, underperforming its blended benchmark index performance of 16.25%. The European portfolio produced a return of 16.51%, slightly better than its benchmark of 15.65%. The South African, Nigerian and Kenyan local currency portfolios all outperformed or matched their respective benchmarks, achieving returns of 26.9%, 35.00% and 45.31% respectively, generally outperforming or matching their respective benchmarks of 25.3%, 35.3% and 30.13%.

Currency Exposure of Active Equity Portfolio

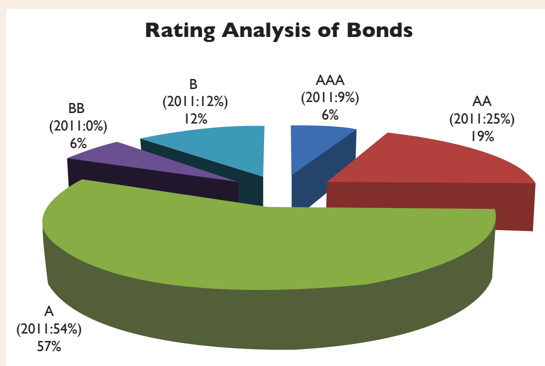


Bonds and Other Fixed Income

The global bond markets delivered healthy returns in 2012, with positive performance across the board for the major asset classes as measured by the Barclays Aggregate U.S. Bond Index. The primary driver of the bond market performance was the continuing policy of ultra-low interest rates being pursued by the U.S. Federal Reserve and other major central banks, which depressed yields and supported prices of short-term fixed income securities and government bonds. Barclays Capital International Aggregate index recorded 3.56% (2011, 5.97%) during the year while 10-year US Treasury and 3-month Treasury bill also posted yields of 4.2% and 0.08% respectively.

The composition of the bonds and fixed income securities in the investment portfolio increased by 400 basis points to 24% as part of the reallocation of the investment portfolio with a corresponding value of US$248.96 million (2011:US$177.8 million). The performance of the externally managed North American US dollar bond portfolio posted a yield of 3.38%, compared to the benchmark index return of 3.56%, while the performance of the South African rand portfolio fell short by 180 basis points of its benchmark to record 11.4%. The South Africa managed held-to-maturity portfolio recorded an average return of 12.9%.

In the light of the volatility of the current global financial market, the Corporation continues to place much emphasis on security and liquidity. Accordingly, the overall portfolio remained well diversified across sectors, issues, maturities, markets and managers. The average duration is still less than five years, while weighted average rating stood at A+. Following Standard and Poor's downgrade of U.S. Treasury securities from AAA to AA in 2011, the Corporation continues to categorize them as "AA" rated. Accordingly, the portfolio is made up of 6% AAA rated bonds, 19% AA rated bonds and 57% A rated bonds as at the end of the year compared to 9%, 25% and 54% respectively as at 2011. The non-investment grade bonds are African sovereign and corporate issues which the Corporation holds in line with its developmental mandate. Management will continue with the conscious effort to maximise the return of the portfolio with due regard to the credit quality.



Cash Instruments

Cash instrument portfolio, not surprisingly, dominates corporate investment income as it constitutes the largest asset class in the overall asset allocation. The return on this asset class was enhanced by the good performance of the global bond market, the reallocation of funds from cash and cash instruments to fixed income and the additional funds received from the 4th capital increase. Income from cash and cash instruments stood at US$17.03 million, considerably higher than the previous year's figure of US$15.21 million, notwithstanding the near zero treasury and other benchmark rates in most developed markets.

Other Operating Income

Other operating income comprises predominantly fees from the management of the African Oil & Energy and Aviation insurance pools. Fees earned during the year amounted to US$1.08 million, which is marginally higher compared to the US$1.07 million earned in 2011.

IV. RESULTS OF THE 2012 FINANCIAL YEAR

Gross written premium grew by 2.61% from US$631.49 million in 2011 to US$ 647.98 million. This performance is below the average growth projected in the corporate plan and is largely due to the fact that the Corporation's two subsidiaries and the Francophone West and Central Africa Office performed below expectation. The business environment of the South African Subsidiary, whose production accounts for 31.60% of the Group's total written premium, was characterised by slow GDP growth (+1.2%) in 2012 and stiff competition among the reinsurers of the market.

The **Corporation's retrocession** policy continues to rely on Excess of Loss programmes to protect its traditional acceptances, while purchasing additional covers for the major oil and petrochemical risks as well as other special risks.

Accordingly, **premium ceded** to retrocessionnaires on proportional and non-proportional business dropped by 12.41%, from US$68.92 million last year to US$60.37 million, representing a retention ratio of 90.50% (2011:87.85%).

Adjustment for the movement in the provision for unearned premiums, net of retrocessionnaires' share thereof, produced a **net earned premium** of US$559.58million (2011: US$533.57 million).

Gross claims paid in 2012 amounted to US$316.09 million compared to US$283.96 million in 2011, representing an increase of 11.31%.Of the total losses paid, US$10.48 million (2011:US$9.46 million) was recovered from retrocessionnaires, resulting in **net losses paid** of US$305.61 million, compared to US$274.50 million in 2011. The adjustment for the movement in the outstanding claims (including Incurred But Not Reported - IBNR) provisions resulted in a **net incurred loss** of US$333.19 million, compared to US$311.99 million in 2011, representing a **claims ratio** of 59.54% as against 58.47% in 2011. The slight deterioration in the loss ratio during the year is largely attributed to the performance of the South African Subsidiary and the Anglophone West Africa Office whose loss ratios worsened due to an increase in losses recorded during the period. The loss ratio of the other production centres improved in 2012 compared to 2011.

Management expenses for the year amounted to US$30.91 million in 2012, representing a slight drop of 1.19% compared to US$31.28 million in 2011. Management expenses reduced due to the streamlining of mission and travel expenses and general expenses at the Headquarters. On the whole, substantial savings were made during the year compared to the projections and the **management expense ratio** dropped from 5.86% in 2011 to 5.52%.

Against the backdrop of the recovery of global financial markets, **investment income** earned by the Corporation from financial investment and other sources, including interest on reinsurance deposits and fee income increased significantly by 78.69% to stand at U$48.79 million compared to US$27.30 million in 2011, mainly due to the very good performance of the equity portfolio.

Profit after tax amounted to US$92.65 million in 2012, largely as a result of the performance of financial investments mentioned above, compared to US$69.20 million in 2011, representing a 33.88% increase.

V. APPROPRIATION OF RESULTS

In furtherance of the Corporation's commitment to consolidate its financial position while providing remuneration on the capital invested in its equity, the Board recommends that the unappropriated profits be distributed as follows:

- US$46,323,206 to the general reserve in accordance with Resolution No. 4/1992;
- US$12, 666, 983.06 to be paid as dividend at the rate of US$4.5 (2011: US$3.5) per subscribed and paid-up share of US$100 par value. Shares paid by end of May 2012, within the framework of the capital increase will earn 100% dividend per share. There shall be a discounted rate for shares paid after this date.
- US$8, 000, 000 to be transferred to the reserve for loss fluctuation; and
- The balance of US$25, 656, 221.94 to be added to retained earnings

VI. CAPITAL MANAGEMENT

The Corporation ensures that its solvency and cash flows are sufficient to meet existing liabilities and future growth aspirations and to maximize reported profits. This is achieved by managing capital through a risk-based capital modelling regime under which Africa Re is required to hold a capital that reflects all the main risks to which it is exposed.

It is worth mentioning that the successful fourth capital increase improved the Corporation's solvency position in 2012 thereby ameliorating the capital adequacy ratios.

The capital needs of the Corporation are assessed with the aid of an internal risk-based capital model and external proprietary rating models.

1. Financial Strength Ratings and External Capital Adequacy

Due to its supranational nature, the Africa Re Group is not legally subject to any national regulatory constraints. However, it should be noted that its subsidiary company, African Reinsurance Corporation South Africa Ltd (ARCSA), is supervised by the Financial Services Board (FSB), the supervisory authority in South Africa. ARCSA will soon be required to comply with the new regime called Solvency Assessment and Management (SAM), which is similar to the European Solvency II and is based on economic principles that measure assets and liabilities. Solvency Assessment Management sets out requirements for governance, risk management, supervision, disclosure and transparency. Africa Re continues to follow the development of SAM in order to comply with the requirements in South Africa.

Standard & Poor's and A.M. Best rating agencies have been assigning financial strength rating, counterparty and issuer credit rating to Africa Re for more than a decade.

Africa Re's Financial Strength Ratings

Rating Agency	Financial strength rating	Counterparty/ issuer credit rating	Qualification	Outlook	Last press release/ report
Standard & Poor's	A-	A-	Excellent	Stable	June 22, 2012
A.M. Best	A-	A-	Strong	Stable	June 20, 2012

The evaluations of the rating agencies are based on a set of criteria including the assessment of our capital adequacy. The rating agencies require an annual solvency probability of 99.6%, which entails a high level of capital that can enable the Corporation to endure exceptional losses once in every 250 years. The required capital is assessed as follows in accordance with the capital models of the two rating agencies:

- **Standard & Poor's Model:** The required capital covers insurance, investment and credit risks and is assessed by applying predetermined factors to the insurance premium, technical provisions and investments. Investment and credit risks have more weight regardless of predominant insurance risks.

- **A.M. Best Model:** This model is similar to that of Standard &Poor's. The assessment is based on predetermined factors applied also to insurance premium, technical provisions and investments. With this model, investment and credit risks have less weight compared to Standard & Poor's.

As at 31- December 2012, the Corporation has a strong capitalization under the capital adequacy requirements of the two rating agencies.

Standard & Poor's affirmed the Financial Strength and the Counterparty Credit Rating of Africa Re on June 22, 2012. The rating reflects the following view by Standard & Poor's: Africa Re has a diversified **competitive position** in the African insurance markets, a **strong, stable operating performance, strong capitalization** and **adequate ERM** for risks undertaken.

A.M. Best affirmed the rating of Africa Re on June 20, 2012. According to A.M. Best, its ratings reflect Africa Re's **improving prospective risk-adjusted capitalization, strong operating performance** and established **position** in its core African markets.

2. Internal Capital Adequacy

In the in-house model, the required capital is assessed by mathematical simulation of extreme losses that the Corporation can incur due to its exposure to insurance and investment risks.

As at 31 December 2012, the shareholders' funds amount to US$608.61 million and the required capital is estimated at US$219.25 million, resulting in an internal capital adequacy of 277.6%.

VII. ENTERPRISE RISK MANAGEMENT (ERM)

Africa Re has adopted a common risk language to provide a consistent framework for the definition and categorization of risks and the organization of its Enterprise Risk Management (ERM) activities.

The ERM function supports value creation by enabling Management to deal effectively with potential future events that create uncertainty and to respond in a manner that reduces the likelihood of downside outcomes while increasing the upside. It provides the Corporation with an integrated approach of managing current and emerging risks. Consequently, the Corporation has in place a process it needs to become more anticipatory and effective at evaluating and managing the uncertainties it faces as it works towards creating sustainable value for stakeholders.

1. Risk Governance

Conscious of the key need for a formalized enterprise risk management function in the Corporation, the Management of Africa Re created a Department of Technical Inspection and ERM headed by a Central Director who is the Chief Risk Officer (CRO). The Chief Risk Officer supports managed risk taking and assumes responsibility for the overall leadership, vision and direction of the risk management function across the Corporation.

A Risk Management Committee (RMC) was set up consisting of the Central Directors and headed by the Deputy Managing Director/Chief Operating Officer. The Committee meets quarterly.

Through the current risk governance structure, the Corporation recognizes the importance of an integrated approach by assigning the Corporation-wide risk management responsibility to senior management with access to the Risk and Audit Committee of the Board.

Key Risk Management Bodies and Functions

Board of Directors			
Audit & Risk Committee of the Board			
Executive Management			
Risk Management Committee	Investment Committee	ICT Steering Committee	Special Risks Committee
Chief Risk Officer			
Risk Management function			

The African Reinsurance Corporation has also adopted the **"three lines of defence" governance framework** which operates as follows:

- ***The day-to-day risk management and management control line,*** where staff and Management have direct responsibility for the management and control of risk;

- ***The risk oversight, policy and methodologies line,*** where the concerned staff co-ordinate, facilitate and oversee the effectiveness and integrity of Africa Re's risk management framework; and

- ***The independent assurance line,*** where control departments in charge of internal audit and technical inspection and external auditors provide independent assurance across all business functions in respect of the integrity and effectiveness of the risk management framework.

The roles and responsibilities for each of these functions and parties involved in the risk management process are described in detail in the Group Risk Policy Document.

2. Risk Landscape

The risk landscape of the Corporation comprises core business risks and other risksthat are grouped and defined as follows:

Group I - Insurance risk: The risk of loss due to inherent uncertainties arising from the amount and timing of insurance liabilities.

Group 2 - Credit risk: The risk of loss arising from the counterparty failure to fulfil its obligations or to perform them in a timely manner.

Group 3 - Market risk: The risk that arises from fluctuations in values of, or income from assets, interest or exchange rates.

Group 4 - Liquidity risk: The risk that sufficient financial resources are not maintained to meet liabilities when due.

Group 5 - Operational risk: The risk of loss resulting from inadequate or failed internal processes, people, systems and external events.

Across these groups the Corporation identifies and evaluates all threats and opportunities through a systematic framework that includes the identification and assessment of those risks that directly affect and/or impede the ability to achieve its strategic and business objectives.

3. Risk Management Processes

The implementation of risk management at the operational level embraces various steps such as the identification, measurement, analysis, assessment, risk reporting and monitoring, which enable the Corporation to closely follow significant risks in each group.

Insurance, Credit, Market and Liquidity Risks

They are covered under "Management of Insurance and Financial Risks" (Pages 66 to 71).

Operational Risk

As indicated above, operational risk includes potential losses or reputational damage arising from inadequate or failed internal processes, people, systems and external events.

Within this framework, Africa Re has eight sub-categories of operational risk: people, processes, systems, external events, reputational, legal, strategic and capital adequacy. The detailed risk categorization is set out in the Corporation's Risk Policy Document and Risk Register.

Africa Re is committed to properly mitigate and manage its exposure to operational risks. Dedicated officers from production centres are responsible for overseeing the management of operational risks which arise in their area of control. The Corporation applies a centrally coordinated methodology to identify and assess risks through the use of an effective operational risk solution, an IT platform called ARC Logics.

The operational risk solution assists the Corporation in implementing the tools and techniques provided in the Group Operational Risk Policy Document: Risk and Control Self-Assessment, Internal Loss Data Capturing, Key Risk Indicators, Stress and Scenario Testing, etc. The operational risk solution is used in the Corporation's Head Office and production centres. The modules installed include the Platform, Risk & Control Assessment, Loss & Incident Recording, Control Assurance and Enterprise Reporting.

Appropriate controls and contingency plans such as Business Continuity Plans (BCP) and Disaster Recovery Plans (DRPs) are therefore in place to significantly reduce the Corporation's operational risk exposures to an acceptable level.

4. Risk Modelling

Financial Modelling

In response to the demands of the new environment by regulators and rating agencies, the global insurance industry developed Dynamic Financial Analysis (DFA) models. Africa Re pioneered the use of internal models for capital assessment and risk management purposes in Africa.

ReMetrica, a tool for building financial models of an insurance or reinsurance company developed by Aon Benfield, was acquired by Africa Re under a license agreement. ReMetrica is used for the modelling of underwriting, reserving, investment and credit risks.

The development of an Africa Re in-house model within ReMetrica is done through a graphical interface and comprises three steps: designing the structure, setting its inputs and parameters and running the model.

The main inputs and parameters relate to: written premium, earned premium, acquisition costs, attritional losses, large losses, catastrophe losses, outstanding loss reserves, retrocession and investments.

ReMetrica is used by Africa Re in different areas of decision-making including assessment of required capital, optimization of retrocession programme and strategic business decisions.

Africa Re acquired ReMetrica primarily to assess the sufficiency of shareholders' funds compared to its risk exposure as required by the Financial Services Board (FSB) in South Africa and rating agencies (A.M. Best and Standard & Poor's).

ReMetrica enables the Corporation to choose an optimum retrocession structure from various scenarios depending on their financial impact on the Corporation. Furthermore, it allows the Corporation to build different models for each business strategy. By comparing the results of different business strategies, the business portfolio can be improved. In that regard, ReMetrica has been for Africa Re a useful tool for building up a well-balanced business portfolio.

Catastrophe Modelling

Catastrophe modelling provides expected annual aggregate loss from catastrophe events which could help in developing strategies in the following areas:

- Monitoring of accumulation and pricing of original risk;
- Retrocession purchase including setting of limits and retentions depending on the risk appetite;
- Meeting the requirements of the FSB and rating agencies;

Africa Re has been monitoring annually its catastrophe exposures in African countries prone to natural perils such as South Africa, Mauritius, Kenya and Algeria. Willis and Aon Benfield have traditionally offered catastrophe modelling service, using either licensed or own models.

5. ERM Evaluation by Rating Agencies

Enterprise Risk Management in Africa Re received ratings from two top rating agencies in 2012 namely, A.M. Best and Standard &Poor's. Some excerpts from the ratings are as below:

A.M. Best: **Adequate**
"Africa Re has been developing its internal risk management procedures over the past few years and is on its way to establishing an integrated enterprise risk management (ERM) framework…Africa Re has implemented an operational risk solution that complies with Solvency II standards and business continuity plans for the South African subsidiary, the West Africa Regional Office and the Head Office"

Standard & Poor's: **Adequate for Risks Undertaken**
"ERM within Africa Re is adequate for the risks it undertakes, reflecting a limited investment risk appetite, the predominance of short-term non-life insurance, and large capital/liquidity cushions. A dedicated risk management team, headed by a Chief Risk Officer that reports directly to the Board Audit and Risk Committee, is well integrated into the day-to-day management of the business and is supported by good reporting lines and controls"

VIII. CORPORATE GOVERNANCE

1. Overview

The African Reinsurance Corporation is regulated by the Agreement Establishing the Corporation and other statutory documents.

There are various corporate governance policy documents in force which are based on international best practices. The Corporation's subsidiary in South Africa is locally incorporated and in addition complies with the applicable local corporate governance codes such as the King III report.

The Board and Management are responsible for ensuring that the Corporation applies the best practices in corporate governance that match the required minimum in modern and peer companies.

2. Corporate Governance Framework of Africa Re

The corporate governance principles and procedures of Africa Re are defined in a series of documents governing the organization and its management. They include the:

- Agreement Establishing the African Reinsurance Corporation, defining the ownership, administration and governance structure;
- Procedure for Proposing and Introducing Amendments to the Agreement;
- General By-Laws defining the General Regulations and the Rules of Procedure of the General Assembly;
- Rules of Procedure of the Board of Directors;
- Rules for Election of Directors;
- Code of Ethics, which lays down rules, behaviour and attitude to be observed by staff and Management when accomplishing their duties or acting on behalf of the Corporation.

Starting from August 2012, a thorough review of the corporate governance framework of the Corporation was conducted by a reputable consultancy firm. Observations for improvement were submitted to the Board of Directors by the firm during a one day Board seminar in November 2012. Inspiration was drawn from the South African King III Report on Corporate Governance and other global best standards in the area of the governance of major international reinsurers and major development finance institutions. The following are some of the initiatives adopted to enhance the already adequate corporate governance in place:

- New Board Charter integrating the latest best practices in board functioning;
- Separation of the "audit" function and the "risk management" function of the "Audit and Risk" Committee of the Board by the creation of two different committees namely:

- Audit and Finance Committee
- Risk Management and IT Governance Committee

• Extension of the scope of the "Remuneration" Committee of the Board, in charge of defining the compensation system of the elected Management members, to cover all other Human Resources Affairs of the Corporation. Hence the creation of the:

  - Human Resources and Remuneration Committee

• Regular formal Board Evaluation;

• Reinforcement of the Declaration of Interest by the Board Directors;

It is worth noting that the South African subsidiary adopted the same approach to integrate the new local requirements in corporate governance based on the forthcoming Solvency Assessment and Management regime, the new companies act and the new insurance regulatory requirement.

3. Shareholding and Board of Directors

3.1. Shareholding Structure as at 31 December 2012

Shareholder	Number of Shares	%
41 Member States	970,090	33.84
African Development Bank (AfDB)	240,000	8.37
101 African Insurance and Reinsurance companies	906,547	31.63
5 Non-African shareholders:		
4 Development Financial Institutions (IFC, DEG, FMO, PROPARCO) plus IRB Brasil-Re	750,000	*26.16
Total shares	**2,866,637**	**100.0**

**This percentage will not exceed the 25% threshold at the end of the ongoing capital increase.*

3.2. Authorized / Paid-Up Capital and Recent Changes in the Shareholding

The authorized capital of the Corporation amounts to US$ 500 million as at 31 December 2012 with US$ 286.6 million fully paid-up. The capital is divided into 2,866,637 shares, each with a nominal value of US$100.

The Annual General Meeting of Shareholders and the Board of Directors approved the 4th capital increase to enable the Corporation to seize business opportunities that will certainly emerge as a result of the expected rapid economic growth in its core market, the much awaited hardening of the reinsurance market following the ongoing long low cycle and the consistently strong/excellent financial rating of the Corporation that is unique in the African insurance/reinsurance industry.

The Corporation's policy consists in growing steadily the capital with retained profits and additional capital raised through increase in the equity stake of existing shareholders as well as some selected potential investors. Therefore, from an initial paid up capital of US$ 100 million in 2010, a call of the first portion of the capital of US$ 200 million was made in 2010 by issuing 1,000,000 new shares and distributing 1,000,000 bonus shares to existing shareholders. The current issued capital therefore stands at US$ 300 million.

It is expected that the current capital increase shall be closed by the end of 2013, leaving the Corporation with a strong paid up capital, shareholders' funds above US$ 608 million and an international solvency ratio of 103.78% for the first time in the recent history of the Corporation.

3.3. Board of Directors – Composition

The Board of Directors, currently chaired by Mr Musa EL NAAS, comprises 12 substantive members whose particulars are as follows as at 31 December 2012. Directors are elected for a term of three years and may be re-elected. They shall continue in office until their successors are elected.

Name & Nationality	Constituency (*)	Position in the Board & Short Biography	Current term ends in
Mr Musa EL NAAS *Libyan*	Libya: State and Companies	**Chairman, Africa Re** Currently Chairman of Alejmaa Alarabi Bank, Tripoli, Libya He holds a first degree and a Master's degree in Business Administration and another Master's degree in International Relations. He led the Libyan Insurance Company at executive level for close to two decades and has served as Chairman and director in many insurance and reinsurance companies at the national and regional levels. He has also led the Libyan Football Federation.	June 2013
Mr Yewondwossen Kumsa ETEFFA *Ethiopian*	East and Southern Africa and Sudan (12 States)	**Vice Chairman and Chairman of the Remuneration Committee, Africa Re** Currently the CEO of the Ethiopian Insurance Corporation, Addis Ababa, Ethiopia He holds a degree in Business Administration and is a chartered insurer. He was the Director of Insurance Supervision at the National Bank of Ethiopia, the financial services regulatory body in Ethiopia.	June 2014
Mr Moussa DIAW *Senegalese*	Companies of Francophone West and Central Africa plus Mauritania & Tunisia (States and Companies)	**Director and Member of the Audit and Risk Committee, Africa Re** Currently the Managing Director, Sen Re, Dakar, Senegal. He is a graduate in Economics and holds professional insurance qualifications. He has been in the current position since 1988 with a chequered professional insurance career spanning nearly four decades and multiple Board-level appointments. He holds the Senegalese national honour of the Order of the Lion.	June 2015

Name & Nationality	Constituency (*)	Position in the Board & Short Biography	Current term ends in
Mr Mamadou DEME *Senegalese*	Francophone Africa (18 States)	**Director, Africa Re** Currently the Commissioner for Insurance, Ministry of Finance, Republic of Senegal. He holds professional insurance qualifications and a Master's degree in Business Law. He serves as part-time Lecturer in Insurance.	June 2015
Mr Kamel MARAMI *Algerian*	Algeria: State and 4 companies	**Director, Africa Re** Currently the Director of Insurance, Ministry of Finance, Algeria. He is a chartered insurer and holds degrees in the fields of Economics and Finance.	June 2015
Mr Basiru NJAI *Gambian*	Anglophone West Africa (4 States and Companies) and East and Southern Africa (Companies)	**Director and Member of the Remuneration Committee, Africa Re** Currently the First Deputy Governor, Central Bank, Banjul, The Gambia He holds a first degree and two Master's degrees in the fields of Agricultural Economics, banking and finance. He oversees the financial supervision, foreign exchange, insurance and microfinance functions.	June 2014
Mr Hassan BOUBRIK *Moroccan*	Morocco: State and Companies	**Director, Africa Re** Currently the Director of Insurance & Social Welfare, Ministry of Finance & the Economy, Kingdom of Morocco He is a graduate in Finance and Actuarial Science. He is in charge of insurance supervision. He previously served as CEO of a major finance conglomerate in Morocco. Apart from his many Board positions, he is an Executive Committee member of the International Association of Insurance Supervisors (IAIS).	June 2014

Name & Nationality	Constituency (*)	Position in the Board & Short Biography	Current term ends in
Dr Adel Rabeh MONEER *Egyptian*	Egypt: State and Companies	**Director and Member of the Remuneration Committee, Africa Re** Currently the Vice Chairman and MD/CEO, Misr Insurance Holding Company, Cairo, Egypt. He holds a first degree in Commerce, Master's degree in Insurance and PhD in Insurance and Risk Management. He is the former Deputy Chairman of the Egyptian Financial Services Authority. He is a professor of Insurance and Actuarial Sciences at the University of Cairo. He has authored many scholarly publications and anchored many projects on insurance, risk management and actuarial sciences.	June 2015
Mr Fola DANIEL *Nigerian*	NIGERIA: State and Companies	**Director and Member of the Audit & Risk Committee, Africa Re** Currently the Commissioner and CEO of the National Insurance Commission, Abuja, Nigeria. He holds a diploma in Insurance & Risk Management, and is a chartered insurer and qualified management professional. He supervises the insurance industry in Nigeria prior to which he served as CEO of another reinsurance company.	June 2013
Mr Pierre VAN PETEGHEM *Belgian*	African Development Bank (AfDB)	**Director, Africa Re** Currently the Group Treasurer of the African Development Bank Group, Tunis, Tunisia He holds a first degree in Mechanical Engineering, Master's degree in Management and a PhD degree in Economics. He has extensive experience with multilateral development finance institutions.	June 2015

Name & Nationality	**Constituency (*)**	**Position in the Board & Short Biography**	**Current term ends in**
Mr Bernd TUEMMERS *German*	German Investment and Development Corporation (DEG)	**Director, Africa Re** He is a former Senior Vice President, DEG, Cologne, Germany. He holds an MBA in marketing, organization and social psychology. He is an accomplished investment manager and business administrator. He retired recently and has served on the Boards of many companies in which DEG had equity interest.	June 2015
Mr John BURBIDGE British	International Finance Corporation (IFC)	**Director and Chairman of the Audit & Risk Committee, Africa Re** He is a chartered accountant and retired business executive, having served as CEO in a number of quoted companies. He is a qualified Fellow of the Institute of Chartered Accountants in England and Wales. He currently serves as non-executive director in many quoted and unquoted companies in diverse business fields.	June 2014

(*) "States" are African member states signatories of the Agreement Establishing the Corporation while "Companies" are insurance and reinsurance companies registered in African countries.

Board seats are distributed among shareholders or group of shareholders based on their voting powers. The current Board is composed as follows:

- Nine (9) seats for Class "A" Shareholders (41 African member States, AfDB and 101 African insurance and reinsurance companies), with AfDB entitled to a permanent seat.

- Three (3) seats for Class "B" Shareholders (5 non-African shareholders :4 Development Financial Institutions (IFC, DEG, FMO, PROPARCO) plus IRB Brasil-Re)

The Board currently has two standing committees: the Audit & Risk Committee and the Management Remuneration Committee.

From 2013, the number of Board committees will rise to three: 1/ Audit & Finance, 2/ Remuneration & Human Resources and 3/ Risk Management & IT Governance.

3.4. Board of Directors – Committees

The Audit & Risk Committee comprises 3 Directors and is chaired by Mr John BURBIDGE. Other members are Mr Fola DANIEL and Mr Moussa DIAW.

The Committee assists the Board in fulfilling its oversight responsibilities relating to the integrity of the Corporation's financial statements and supervises enterprise risk management and compliance related issues. The committee also reviews the adequacy of the financial reporting

process and the efficacy of the system of internal control. In addition, it evaluates the external auditors, approves the audit plans of the Group internal audit, technical inspection, external auditors and discusses their findings. The committee meets at least twice a year.

The **Management Remuneration Committee** is chaired by the Vice Chairman of the Board, Mr Yewondwossen K. ETEFFA and comprises 3 Directors. Other members are Dr Adel Rabeh MONEER and Mr Basiru NJAI.

The Committee proposes to the Board the principles for compensating executive management and establishes performance criteria for the different members of the executive. It also reviews the conditions of service of Management on a yearly basis, guided mainly by criteria of the best employer/payer, taking into account the practice of companies of comparable rank and standing, as well as the financial means of Africa Re. The committee meets at least twice a year.

3.5. Board of Directors – Activities in 2012

The Board of directors met four (4) times in 2012. The first meeting was held in Cairo, Egypt on 9 April 2012. The second and third meetings took place in Rabat, Morocco on 19 and 21 June 2012 and the fourth was held in Lagos, Nigeria on 12 November 2012. The average attendance rate was 100% throughout the year. The meetings were attended by substantive members of the Board and, in an advisory capacity, by members of Executive Management.

4. Executive Management

The Executive Management comprises the following members as at 31/12/2012:

Name	Nationality	Function
Mr Corneille KAREKEZI	Rwandese	Group Managing Director / Chief Executive Officer
Mr Ken AGHOGHOVBIA	Nigerian	Deputy Managing Director / Chief Operating Officer

Corneille KAREKEZI, *Group Managing Director / Chief Executive Officer*

Mr Corneille KAREKEZI was appointed to this position on 1 July 2011 after a transition period of 2 years.

After serving on the Board of Africa Re from 2003 to 2005, he later joined Africa Re in July 2009 initially as the Deputy Managing Director and subsequently as Deputy Managing Director / Chief Operating Officer in 2010.

His professional career started in 1991 as Chief Accountant /Reinsurance Manager of the leading insurance company in Burundi (SOCABU s.m.), where he rose to the position of Head of the Finance Department. In 1995 he joined the leading insurance company in Rwanda (SONARWA s.a.) as Deputy Head of the Commercial & Technical Department. Since 1996, he successively headed all the Technical Departments (Motor, Fire, Accidents & Miscellaneous Risks, and Life) and was appointed Deputy Managing Director early in 2001. In February 2008, after conducting a successful strategic transformation from a state-controlled company to a private company with an equity strategic partnership, he was appointed Chief Executive Officer of SONARWA s.a.

Mr KAREKEZI holds a Bachelor's Degree in Economics (Burundi), a Master's Degree in Management (Burundi) and a Master's in Business Administration (UK). He speaks English, French and Swahili fluently and has contributed significantly to the development of the industry in Africa.

He currently sits on several Boards of continental companies and institutions. He is currently the Vice Chairman of Africa Re South Africa Ltd. (SA) and Africa Retakaful Corporation (Egypt), Chairman of Shelter Afrique, the leading pan-African housing finance company, and Member of the Executive Committee of the African Insurance Organization (AIO).

Ken AGHOGHOVBIA, *Deputy Managing Director / Chief Operating Officer of Africa Re* after 27 years in the Corporation.

Since joining the Corporation in 1985, Mr Ken AGHOGHOVBIA worked in different capacities before rising to the position of Regional Director

of the West Africa Regional Office. He was the pioneer Regional Director of this Office when it was established in 2009 and played a pivotal role in the turnaround of the fortunes of the Regional Office, African Oil and Energy Pool and the African Aviation Pool.

Mr AGHOGHOVBIA holds a Bachelor's of Science in Insurance (Nigeria) and a Master's Degree in Business Administration (Nigeria). He is an Associate (ACII) and a Fellow (FCII) of the Chartered Insurance Institute (UK).

He is a member of various regional professional committees.

Mr AGHOGHOVBIA became *Deputy Managing Director / Chief Operating Officer on 1 July 2011.*

5. General Assembly

5.1. General Assembly Meeting

The General Assembly meets at least once a year in one of the member States, usually in June.

5.2. Voting Right & Representation

In line with the Agreement Establishing the Corporation, each shareholder has one vote for any one fully paid up share. Each representative at the General Assembly is entitled to cast the votes of the shareholder or shareholders he represents. All significant decisions and matters before the Ordinary General Assembly are taken by a majority of the voting power represented at the meeting.

5.3. Statutory quorums

A quorum for any meeting of the General Assembly shall be sixty (60) per cent of the total voting power of shareholders. If a quorum is not attained, a second meeting shall be held twenty-one (21) days after the first meeting in the case of the ordinary general meetings and seven (7) days in the case of extraordinary meetings. The notice shall be sent in the latter cases within seven (7) days after the first planned meeting. The shareholders present at the second meeting shall have the right to pass valid resolutions whatever the number of shares they represent.

5.4. Convocation & Agenda of the General Assembly

Notices for convening ordinary meetings of the General Assembly shall be sent to all shareholders by registered airmail not less than six (6) weeks before the date fixed for the meeting. The notice shall contain the agenda of the meeting.

Extraordinary meetings shall be convened in writing by appropriate means of communication not less than seven (7) days before the date of the meeting. An extraordinary meeting of the General Assembly may be called by the Board of Directors, or by shareholders representing at least twenty-five per cent (25%) of the total voting power of the Corporation.

RESPONSIBILITY FOR EXTERNAL FINANCIAL REPORTING

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

Management responsibility regarding Effectiveness of Internal Controls over Financial Reporting

The management of African Reinsurance Corporation (Africa Re) are responsible for the preparation, integrity and fair presentation of its financial statements and other information presented in the Annual Report. The financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by Article 37 of the Agreement establishing African Reinsurance Corporation and as such, include amounts based on informed judgments and estimated made by Management.

The financial statements have been audited by an independent accounting firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and Committees of the Board. Management believes that all representations made to the independent auditors during the audit were valid and appropriate. The independent auditors' report accompanies the audited financial statements.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Agreement establishing the African Reinsurance Corporation, and for such controls as the directors determine are necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management believes that internal controls for external reporting , which are subject to scrutiny by Management and the internal auditors , and are revised as considered necessary, support the integrity and reliability of the external financial statements.

Key procedures that Management has established, which are designed to provide effective internal financial control within the Group include the preparation, review and Board approval of the annual financial plans that align strategic plans. Results are monitored regularly and progress reports on performance compared to plan are prepared quarterly. The system of internal controls includes written policies and procedures, proper delegation of authority, accountability through establishing responsibility and segregation of duties.

In addition, Management is developing a risk management profile that would continue to ensure effective coordination and monitoring , within the Group , of all the risk management policies approved by the Board of Directors and/or by the Executive Management such as underwriting and reserving policies , staff rules and regulations, investments policy guidelines and the accounting and financial procedures.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even a robust internal control system may not always provide complete assurance with respect to financial statements preparation. Furthermore, because of changes on circumstances, the effectiveness of internal control may vary over time

Statement of Management Responsibility

The Board of Directors of the African Reinsurance Corporation has set up an Audit and Risk Committee to monitor the internal controls and risk management practices within the Group. The committee is made up of non-executive directors who are independent of Management. It meets periodically with Management, the external auditors, internal auditors, and the technical inspectors to review their reports and ensure that they are effectively carrying out their respective responsibilities. The external auditors, internal auditors and the technical inspectors have free access to the Committee with or without the presence of Management; to discuss the adequacy of internal control over financial reporting and any other maters which they believe should be brought to the attention of the Committee.

MUSA AL NAAS
Chairman

CORNEILLE KAREKEZI
Managing Director

Group photograph of the Board of Directors and Management during the 125th meeting on 12 November 2012 in Lagos.

Deloitte.

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AFRICAN REINSURANCE CORPORATION

We have audited the accompanying consolidated financial statements of African Reinsurance Corporation set out on pages 40 to 72 which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Group and of the Corporation as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Certified Public Accountants (Kenya)

8 April 2013

Nairobi, Kenya

Partners: S. O. Onyango F. O. Aloo H. Gadhoke* N. R. Hira* B. W. Irungu I. Karim J. M. Kiarie D. M. Mbogho A. N. Muraya R. Mwaura J. Nyang'aya J. W. Wangai
* British

Consolidated Statement of Financial Position

African Reinsurance Corporation

at 31 December 2012

	Notes	2012 US$'000	2011 US$'000
Assets			
Cash and cash equivalents		432,264	369,925
Investments	4	576,367	492,421
Premium income receivable		44,506	38,782
Deferred acquisition costs	5	43,386	35,892
Reinsurance receivables	6	131,176	141,841
Retrocessionaires' share of technical provisions	7	58,089	34,217
Sundry receivables		5,699	2,827
Tax recoverable	21	2,284	510
Investment properties	8	7,835	8,007
Property and equipment	9	12,700	12,961
Total assets		**1,314,306**	**1,137,383**
Liabilities			
Sundry payables		15,342	14,852
Dividend payable	22	5,309	3,369
Reinsurance payables	10	53,573	75,869
Deferred tax	11	2,627	804
Technical provisions	12	628,842	560,359
Total liabilities		**705,693**	**655,253**
Shareholders' funds			
Retained earnings		91,228	61,450
Other reserves	13	178,269	122,343
Share premium		52,452	33,452
Share capital	14	286,664	264,885
Total shareholders' funds		**608,613**	**482,130**
Total liabilities and shareholders' equity		**1,314,306**	**1,137,383**

The financial statements on pages 40 to 72 were approved and authorised for issue by the Board of Directors of the Corporation on 8 April, 2013 and signed on its behalf by:

MUSA EL NAAS
Chairman

CORNEILLE KAREKEZI
Managing Director

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

at 31 December 2012

	Notes	2012 US$'000	2011 US$'000
Gross earned premium	15	619,949	602,502
Less: retrocession premium	15	(60,367)	(68,922)
Net earned premium	15	**559,582**	**533,580**
Investment income	16	47,661	26,214
Commissions earned under retrocession arrangements		8,616	7,914
Other operating income	17	1,124	1,088
Total income		**616,983**	**568,796**
Net claims incurred	18	(333,195)	(311,996)
Acquisition expenses	19	(157,069)	(151,994)
Administrative expenses	20	(30,910)	(31,282)
Net foreign exchange gain/(loss)		1,190	(1,025)
Profit before income tax		**96,999**	**72,499**
Taxation charge	21	(4,353)	(3,300)
Profit for the year		**92,646**	**69,199**
Other comprehensive income			
Exchange differences on translating foreign operations		1,290	(18,878)
Net fair value gain/(loss) on revaluation of available-for-sale financial assets		313	(300)
Total other comprehensive income/(loss)		**1,603**	**(19,178)**
Total comprehensive income for the year		**94,249**	**50,021**

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	Retained earnings US$ '000	Trans-lation reserve US$ '000	General reserve US$ '000	Reserve for Market Value Adjustment US$ '000	Reserve for exchange fluctuation US$ '000	Reserve for loss fluctuation US$ '000	Other total reserves US$ '000	Share premium US$ '000	Share capital US$ '000	Total
At 1 January 2012	**61,450**	**(20,689)**	**129,774**	**(236)**	**6,294**	**7,200**	**122,343**	**33,452**	**264,885**	**482,130**
Profit for the year	92,646	-	-	-	-	-	-	-	-	92,646
Other comprehensive income	-	1,290	-	313	-	-	1,603	-	-	1,603
Total comprehensive income for the year	**92,646**	**1,290**	**-**	**313**	**-**	**-**	**1,603**	**-**	**-**	**94,249**
Issue of ordinary shares	-	-	-	-	-	-	-	19,000	21,779	40,779
Dividend declared in 2011	(8,545)	-	-	-	-	-	-	-	-	(8,545)
Transfer to reserves	(54,323)	-	46,323	-	-	8,000	54,323	-	-	-
At 31 December 2012	**91,228**	**(19,399)**	**176,097**	**77**	**6,294**	**15,200**	**178,269**	**52,452**	**286,664**	**608,613**
At 1 January 2011	**31,632**	**(1,811)**	**101,721**	**64**	**6,294**	**6,400**	**112,668**	**315**	**199,059**	**343,674**
Profit for the year	69,199	-	-	-	-	-	-	-	-	69,199
Other comprehensive income	-	(18,878)	-	(300)	-	-	(19,178)	-	-	(19,178)
Total comprehensive income for the year	**69,199**	**(18,878)**	**-**	**(300)**	**-**	**-**	**(19,178)**	**-**	**-**	**50,021**
Buy-back of ordinary shares	-	-	(6,546)	-	-	-	(6,546)	-	(4,000)	(10,546)
Issue of ordinary shares	-	-	-	-	-	-	-	33,137	69,826	102,963
Dividend declared in 2010	(3,982)	-	-	-	-	-	-	-	-	(3,982)
Transfer to reserves	(35,399)	-	34,599	-	-	800	35,399	-	--	
At 31 December 2011	**61,450**	**(20,689)**	**129,774**	**(236)**	**6,294**	**7,200**	**122,343**	**33,452**	**264,885**	**482,130**

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000
Cash flows from operating activities			
Cash generated from operations	23	105,592	53,323
Income tax paid	21	(4,304)	(3,668)
Net cash from operating activities		101,288	49,655
Cash flows from investing activities			
Purchase of property and equipment	9	(1,277)	(1,428)
Purchase of investment property	8	-	(6)
Purchase of investments		(73,481)	(118,873)
Proceeds from disposal of property and equipment		32	111
Net cash used in investing activities		(74,726)	(120,196)
Cash flows from financing activities			
Proceeds of shares subscription		40,779	102,963
Buy-back of ordinary shares		-	(10,546)
Dividends paid	22	(6,605)	(3,341)
Net cash generated from in financing activities		34,174	89,076
Net increase in cash and cash equivalents		60,736	18,535
Movement in cash and cash equivalents:			
At start of year		369,925	370,568
Net increase in cash and cash equivalents		60,736	18,535
Net exchange gains/(losses) on liquid assets		1,603	(19,178)
At end of year		**432,264**	**369,925**

The accompanying notes form an integral part of these financial statements.

1. General information

The African Reinsurance Corporation was established in 1976 by member States of the African Union (formerly Organisation of African Unity) and the African Development Bank as an inter-governmental institution to:

a) mobilise financial resources from insurance and reinsurance operations;

b) invest such funds in Africa to help accelerate economic development; and

c) foster the development of the insurance and reinsurance industry in Africa by promoting the growth of national, regional and sub-regional underwriting and retention capabilities.

The Corporation is domiciled in Lagos, Nigeria at the following address:

Plot 1679, Karimu Kotun Street
Victoria Island
PMB 12765
Lagos, Nigeria

The Corporation carries out reinsurance business through its constituent offices in Abidjan, Cairo, Casablanca, Lagos, Nairobi, Port Louis, and via its wholly owned subsidiaries - African Reinsurance Corporation (South Africa) Limited, a company incorporated in the Republic of South Africa and Africa Retakaful in Egypt.

2. Accounting policies

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2012

The following new and revised IFRSs have been applied in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2011)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income item by item in the statement of changes in equity or in the notes to the financial statements. In the current year, the Corporation has chosen to present this analysis in the statement of changes in equity therefore this has not resulted to any change in presentation.
Amendments to IFRS 1 Removal of Fixed Dates for First-time Adopters	The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.
Amendments to IFRS 7 Disclosures – Transfers of Financial Assets.	The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.
Amendments to IAS 12: Deferred Tax – Recovery of Underlying Assets	The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 Investment Property

	will be recovered entirely through sale. The Corporation accounts for its investment property using the cost model and therefore this standard does not have any impact in the current year's financial statement.

(ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2012*

	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement of financial assets	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	1 January 2015
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 19, Employee Benefits (2012)	1 January 2013
IAS 27, Separate Financial Statements (2012)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2012)	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014

(c) Impact of new and relevant standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods

IFRS 9, Financial Instruments

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in

the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The directors anticipate that IFRS 9 will be adopted in the Corporation's financial statements for the annual period beginning 1 January 2015, and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Corporation's financial assets and liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detail review has been carried out.

IFRS 10, Consolidated Financial Statements

Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities.

The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under IFRS 10, control is based on whether an investor has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of the returns.

IFRS 10 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

As the impact of adoption depends on the nature of relationships between the Corporation and other entities at the date of adoption, it is not practical to quantify the impact.

IFRS 11, Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers.

IFRS 11 deals with how a joint arrangement should be classified where two or more parties have joint control. There are two types of joint arrangements under IFRS 11: joint operations and joint ventures. These two types of joint arrangements are distinguished by parties' rights and obligations under the arrangements. IFRS 11 requires retrospective application with specific transitional provisions. IFRS 11 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Corporation currently does not have any business operated under joint arrangements and the applicability of this standard depends on whether the Corporation will enter into any joint arrangements in future.

IFRS 12, Disclosure of Interests in Other Entities

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.
IFRS 12 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

As the impact of adoption depends on the nature of relationships between the Corporation and other entities at the date of adoption, it is not practical to quantify the impact.

IFRS 13, Fair Value Measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - unobservable inputs for the asset or liability.

The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be

extended by IFRS 13 to cover all assets and liabilities within its scope.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognised in the financial statements or merely disclosed) and the level in which it is classified.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 13 will be adopted in the Corporation's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

IAS 27, Separate Financial Statements (2011)

Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27, *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10, *Consolidated Financial Statements*.

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9, Financial Instruments.

The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

IAS 27 is effective for annual periods beginning on or after 1 January 2013.

As the impact of adoption depends on the nature of relationships between the Corporation and other entities at the date of adoption, it is not practical to quantify the impact.

IAS 28 Investments in Associates and Joint Ventures (2011)

This Standard supersedes IAS 28 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

IAS 28 is effective for annual periods beginning on or after 1 January 2013

As the impact of adoption depends on the nature of relationships between the Corporation and other entities at the date of adoption, it is not practical to quantify the impact.

Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosures to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation.

The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The IASB believes that these disclosures will allow financial statement users to evaluate the effect

or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

This amendment is effective for annual periods beginning on or after 1 January 2013.

The directors anticipate that this amendment will be adopted in the Corporation's financial statements for the annual period beginning 1 January 2013 and that the application will not have a significant impact on amounts reported in respect of the Corporation's financial assets and financial liabilities.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amends IAS 32 *Financial Instruments: Presentation* to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

This amendment is effective for annual periods beginning on or after 1 January 2014.

The directors anticipate that this amendment will be adopted in the Corporation's financial statements for the annual period beginning 1 January 2014 and that the application will not have a significant impact on amounts reported in respect of the Corporation's financial assets and financial liabilities.

(d) Early adoption of standards

The Corporation did not early-adopt new or amended standards in 2012.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below:

(a) Basis of preparation

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standard Board (IASB).

The financial statements are presented in United States dollars (US$'000). They have been prepared under the historical cost convention, as modified by the carrying of certain investments at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. Although estimates are determined on the basis of historical information, actuarial analyses and the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis to take account of new and available information. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

(b) Consolidation

These consolidated financial statements include the assets, liabilities and results of African Reinsurance Corporation and its wholly owned subsidiaries,African Reinsurance Corporation (South Africa) Limited, and African Retakaful.

All significant inter-company transactions and balances are eliminated on consolidation.

(c) Use of estimates in the preparation of financial statements

The preparation of the consolidated financial statements require management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amount of income and expense during the reporting period.

A significant degree of judgement has been used in the determination of the adequacy of provision for outstanding claims and claims incurred but not reported at the reporting date. In addition, the income statement includes estimates for premium, claims and charges data that were not received from ceding companies at the date of the financial statements.

These estimates are determined on the basis of historical information, actuarial analyses and other analytical techniques. Actual results could differ from these estimates.

(d) Classification of insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the ceding company or cedant) by agreeing to compensate the cedant or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

(e) Recognition and measurement of insurance contracts

Short-term insurance contracts are accounted for on an annual basis. The Group also accounts for long-term insurance contracts on an annual basis.

(i) Short-term insurance contract premium

Written premium on short-term insurance contracts comprises premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premium income for the period includes adjustments to premiums written in prior accounting periods and estimates for pipeline or premium not yet advised by the cedant for contracts in force at the end of the period. Where statements of insurance contract accounts have not been received at year-end, pipeline premiums are estimated on the basis of the latest available information. An estimate is made at the reporting date to recognise retrospective adjustments to premium or commission. Premium relating to the expired risk period is taken as earned and recognised as revenue for the period while premium relating to the unexpired risk period is treated as a provision for unearned premium.

The outward reinsurance premiums relating to earned premiums are recognised as expense in accordance with the reinsurance services received.

(ii) Unearned premiums provision for short-term insurance contracts

The portion of gross written premium on short-term insurance contracts, which is estimated to be earned in the following or subsequent years, is accounted for as 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 pro-rata basis for non-proportional 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 bases relevant to the risk profile of the insurance contract.

(iii) Claims arising from short-term insurance contracts

Claims incurred in respect of short-term insurance contracts consist of claims and claims handling expenses paid during the financial year as well as movements in provision for outstanding claims and claims incurred but not reported (IBNR). Outstanding claims comprise provisions for all the Corporation'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 Corporation by the cedants are carried at their face value. Adequate provisions are also made for claims incurred but not reported at the reporting date using historical experience and best available information. Outstanding claim provisions are disclosed at their carrying amounts and are not discounted except where there is a particularly long period from the claim incident to settlement in which case outstanding claims are discounted using a discount rate that best reflects current assessment of time value of money and associated risks. Anticipated reinsurance recoveries on claims are disclosed separately as assets.

(iv) Unexpired risk provision for short-term 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 costs, provision is made for unexpired risks for the estimated excess liabilities.

(v) Claims arising from long-term insurance contracts

Claims incurred in respect of long-term insurance contracts consist of claims arising during the year including provision for policyholder liabilities. Outstanding claims on long-term insurance contracts that have occurred at the reporting date and have been notified to the Corporation by the cedants are carried at the claim amounts advised by the cedants.

The operating surpluses or losses arising from insurance contracts are determined by regular actuarial valuation. These surpluses or losses are arrived at after taking into account the movement in actuarial liabilities under unmatured policies, provisions for profit commissions accrued and adjustments to contingency and other reserves within the policyholder liabilities.

(f) Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other expenses are treated as other repairs and maintenance costs and charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation is calculated on other property and equipment on the straight line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

- Buildings: 2% or over the lease period if less than 50 years
- Furniture, fittings and equipment: between 6.67% and 33.33%
- Motor vehicles: 25%

Asset residual values and their estimated useful lives are reviewed at each reporting date and adjusted if appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with their carrying amounts.

(g) Intangible assets

(i) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life (4 years) of the software.

External costs that are directly associated with the production of identifiable software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of four years.

(ii) Deferred acquisition costs

Acquisition costs comprise insurance commissions, brokerage and other related expenses arising from the conclusion of insurance contracts. The proportion of acquisition costs that correspond to the unearned premiums are deferred and amortised on a pro rata basis over the contract term.

(h) Investment property

Property held for long-term rental yields that is not occupied by the companies in the Group is classified as investment property.

Investment property comprises freehold land and buildings. It is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Freehold land is not depreciated. Depreciation on buildings is calculated on a straight line basis to write down the cost of each building to its residual value over a period of 50 years or the remaining lease period if the lease period of the land on which the building is located is less than 50 years.

(i) Investments

Investments comprise equity investments, fixed and floating rate instruments and deposits. At the initial recognition of an investment, management determines its classification, which is dependent on the purpose for which the investment was acquired, and re-evaluates that classification at every reporting date. Investments are classified as follows:

i) Fair value through profit or loss

An investment is classified into this category at inception if acquired principally for the purpose of selling in the short-term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking.

ii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, other than loans and receivables that the Group has the positive intention and ability to hold to maturity.

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

iv) Available-for-sale

Available-for-sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

(j) Reinsurance receivables

All amounts receivable are initially recognised at fair value.

Amounts recoverable under the retrocession contracts are recognised in the same year as the related claims and are disclosed in the income statement and statement of financial position on a gross basis.

Amounts recoverable under reinsurance

and retrocession contracts are assessed for impairment losses at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition that the Group 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 debtors.

The carrying amounts of the assets are reduced by the impairment losses and the impairment losses recognised in the profit and loss account for the period.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and deposits with financial institutions with original maturities of 90 days or less.

(l) Foreign currency translation

(i) Functional and presentation currencies

The Group's constituent offices are geographically dispersed within Africa, and it conducts its operations in several currencies. In line with IAS 21 revised, the group has selected a common currency, United States dollars, as its functional and presentation currency.

(ii) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.Translation differences on equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

b) income and expenses for each profit and loss account are translated at average exchange rates prevailing over the reporting period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

c) all resulting exchange differences are recognised in the translation reserve in equity.

(m) Leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by an entity within the group as a lessee are classified as operating leases. Payments made under operating leases are charged to income on the straight-line basis over the period of the lease.

(n) Employee benefits

Retirement benefit obligations

The Corporation operates a defined contribution retirement benefit scheme and an unfunded defined benefit service gratuity scheme for its employees. Under the defined contribution scheme, the Corporation pays fixed contributions into a separate entity.

Once the contributions have been paid, the Group retains no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to finance benefits accruing under the retirement benefit plan.

The employee's entitlements to retirement benefits under the gratuity scheme depend on the individual's years of service and terminal salary.

The Group's contributions to the defined contribution schemes are charged to the income statement in the year to which they relate.

The liability recognised in the statement of financial position in respect of the unfunded defined service gratuity scheme is the present value of the defined benefit obligation at the reporting date.

Other employee benefits

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual. Other employee benefits are recognised when they accrue to employees.

(o) Income tax

In accordance with Article 51 of the Agreement Establishing the African Reinsurance Corporation, the Corporation is not subject to tax in member States. Tax expense/(income) therefore comprises current and deferred taxes arising in South Africa in respect of the South Africa subsidiary and is computed in accordance with South African tax laws.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Subsidiary's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Subsidiary expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognised in other comprehensive income.

(p) Dividends

Dividends payable are recognised as a liability in the period in which they are approved by the shareholders.

(q) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

4. Investments

i) Investments by category

	2012 US $'000	2011 US $'000
Held to maturity		
Bank deposits	111,640	125,292
Deposits with ceding companies	124,158	118,174
Fixed rate securities held to maturity	110,175	83,302
Floating rate securities at cost	30,564	11,882
Unquoted equity investments at cost less impairment	14,052	10,989
	390,589	349,639
Fair value through profit or loss		
Fixed rate securities at fair value through profit or loss	105,063	80,637
Redeemable notes	3,157	2,400
Quoted equity investments at fair value through profit or loss	77,558	59,745
	185,778	142,782
	576,367	**492,421**

Investments held to maturity are presented in the Group's statement of financial position at their amortized costs. The fair value of the held- to- maturity assets as at 31 December, 2012 was US$ 114,203,022 (2011: US$82,464,261).

Unquoted equity investments with a cost of US$14,356,303(2011: US$11,293,257) are carried at cost less impairment of US$ 304,668 (2011 – US$ 304,668) because their fair value cannot be determined as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

ii) Weighted average effective interest rates

	2012 %	2011 %
Interest-bearing investments denominated in:		
US dollars	3.24	1.99
Euro	1.39	1.78
South African rand	8.65	5.62

iii) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of the Corporation's financial assets that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4. Investments (Continued)

	31/12/2012			
	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Financial assets at fair value through profit or loss				
Non-derivative financial assets held for trading	182,621	-	-	182,621
Available-for-sale financial assets				
Redeemable notes	3,157	-	-	3,157
Total	**185,778**	**-**	**-**	**185,778**

This represents fixed rate securities at fair value through profit or loss and quoted equity investments at fair value through profit or loss.

	31/12/2011			
	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Financial assets at fair value through profit or loss				
Non-derivative financial assets held for trading	140,382	-	-	140,382
Available-for-sale financial assets				
Redeemable notes	2,400	-	-	2,400
Total	**142,782**	**-**	**-**	**142,782**

5. Deferred Acquisition Costs

	2012 US $'000	2011 US $'000
Balance at 1 January	35,892	32,046
Exchange rate impact on opening balance	(245)	(1,078)
	35,647	30,968
Released during the year	(35,647)	(30,968)
Deferred during the year	43,386	35,892
At 31 December	**43,386**	**35,892**

6. Reinsurance receivables

	2012 US $'000	2011 US $'000
Gross receivables arising from reinsurance arrangements	149,085	154,637
Provision for impairment	(17,909)	(12,796)
	131,176	**141,841**
Comprising:		
Current portion	71,350	85,891
Non-current portion	59,826	55,950
	131,176	**141,841**

	2012 US$'000	2011 US$'000
7. Retrocessionnaires share of technical provisions		
Claims recoverable	40,277	17,575
Deferred retrocession premiums	17,812	16,642
	58,089	**34,217**
8. Investment properties		
Cost		
At 1 January	9,710	10,295
Transfer	-	(591)
Additions	-	6
At 31 December	9,710	9,710
Depreciation		
At 1 January	1,703	1,531
Charge for the year	172	172
At 31 December	1,875	1,703
Net book value	**7,835**	**8,007**
The following amounts have been recognised in statement of comprehensive income in respect of investment properties:		
Rental income (Note 16)	**2,080**	**2,059**

Investment properties represent the lettable portion of the Corporation's headquarters building in Lagos as well as regional office buildings in Nairobi and Casablanca.

At 17 April 2012, the market value of the headquarters building was estimated at US$ 45.531 million (net book value: US$ 6.586 million) based on a valuation by Knight Frank, a firm of Estate Surveyors.

At 1 April 2012, the market value of the Casablanca regional office building was estimated at US$ 4.831 million (net book value: US$ 3.756 million) based on a valuation by Elodie Cantarel SARL, a firm of Estate Surveyors.

At 24 May 2012, the market value of the Nairobi regional office building was estimated at US$ 8.13 million (net book value: US$ 2.358 million) based on a valuation by Knight Frank, a firm of Estate Surveyors.

9 Properties and equipment

	Assets under construction US$'000	Buildings & freehold land US$'000	Fittings & equip-ment US$'000	Motor vehicles US$'000	Total US$'000
Year ended 31 December 2012:					
Net book value at 1 January 2012	**2,249**	**7,562**	**2,692**	**458**	**12,961**
Transfer from assets under construction	(1,195)	-	1,195	-	-
Additions	330	38	768	141	1,277
	1,384	7,600	4,655	599	14,238
Disposals (Cost)	-	-	(95)	(54)	(149)
Disposals (Accumulated depreciation)	-	-	86	54	140
Depreciation	-	(161)	(1,155)	(213)	(1,529)
Net book value at 31 December 2012	**1,384**	**7,439**	**3,491**	**386**	**12,700**
Comprising:					
Cost	1,384	9,440	12,921	1,331	25,076
Accumulated depreciation	-	(2,001)	(9,430)	(945)	(12,376)
	1,384	**7,439**	**3,491**	**386**	**12,700**
Year ended 31 December 2011:					
Net book value at 1 January 2011	**1,134**	**7,917**	**2,742**	**555**	**12,348**
Reclassification/transfer from assets under construction	821	(215)	(78)	45	573
Additions	294	20	905	209	1,428
	2,249	**7,722**	**3,569**	**809**	**14,349**
Disposals (Cost)	-	-	(87)	(193)	(280)
Disposals (Accumulated depreciation)	-	-	86	77	163
Depreciation	-	(160)	(876)	(235)	(1,271)
Net book value at 31 December 2011	**2,249**	**7,562**	**2,692**	**458**	**12,961**
Comprising:					
Cost	2,249	9,402	11,053	1,244	23,948
Accumulated depreciation	-	(1,840)	(8,361)	(786)	(10,987)
	2,249	**7,562**	**2,692**	**458**	**12,961**

Included in buildings and freehold land is a total amount of US$3,951,596 (2011:US$4,043,875) representing the carrying amount of the owner-occupied part of the Group's headquarters building in Lagos and regional office buildings in Nairobi and Casablanca. The assets under construction represent fixed assets in progress.

10. Reinsurance payables

	2012 US$'000	2011 US$'000
Payables under reinsurance arrangements	39,793	54,176
Payables under retrocession arrangements	13,780	21,693
	53,573	**75,869**

11. Deferred tax

Deferred tax is calculated in full using the liability method and applying a principal tax rate of 29%. The movement on the deferred tax account is as follows:

	2012 US$'000	2011 US$'000
At 1 January	804	666
Charged to profit or loss (Note 21)	1,823	138
At 31 December	**2,627**	**804**

Deferred tax assets, liabilities and deferred tax charge/(credit) in the financial statements are attributable to the following items:

	01.01.12 US $'000	Charged to P/L US $'000	31.12.12 US $'000	31.12.11 US $'000
Properties and equipment	(11)	(55)	(66)	46
Unrealised gain on revaluation of investments	815	1,917	2,732	879
Exchange rate impact on opening balance	(39)	-	(39)	(121)
Net deferred tax liability	**765**	**1,862**	**2,627**	**804**

12. Technical provisions

i) Analysis of outstanding balances

	2012 US$'000	2011 US$'000
Provision for reported claims	399,227	357,065
Provision for claims incurred but not reported	64,558	61,875
Cumulative translation reserve	(11,890)	(8,586)
Total outstanding claims	451,895	410,354
Provision for unearned premiums	176,947	150,005
	628,842	**560,359**
Comprising:		
- current portion	332,025	273,011
- non-current portion	296,817	287,348
	628,842	**560,359**

ii) Analysis of outstanding claims reserve development

U/W YR	2002 US$'000	2003 US$'000	2004 US$'000	2005 US$'000	2006 US$'000	2007 US$'000	2008 US$'000	2009 US$'000	2010 US$'000	2011 US$'000	2012 US$'000
Gross outstanding claims reserve	64,604	134,312	135,573	148,915	137,391	184,340	179,076	209,347	261,164	273,011	332,025
Gross paid (Cumulative):											
1 year later	25,796	36,866	48,968	51,265	61,065	82,410	121,336	116,271	107,963	51,856	
2 years later	39,360	89,911	70,452	67,657	92,138	129,566	167,922	152,433	160,851		
3 years later	43,875	101,200	77,164	76,434	108,658	153,827	188,457	167,914			
4 years later	45,887	104,722	83,147	83,881	115,327	169,617	195,335				
5 years later	47,394	108,481	87,641	87,836	120,486	175,680					
6 years later	54,201	110,214	90,263	90,633	121,199						
7 years later	56,506	111,236	91,596	92,953							
8 years later	57,852	111,932	93,168								
9 years later	58,249	112,491									
10 years later	58,724										
Re-estimated as of:											
Closed year	64,604	134,312	135,573	148,915	137,391	184,340	179,076	209,347	261,164	273,011	332,025
1 year later	71,092	131,985	128,836	102,876	117,432	174,442	212,563	204,840	130,291	133,668	
2 years later	74,086	132,575	114,114	136,360	137,660	205,816	213,216	193,863	215,433		
3 years later	70,714	137,471	132,279	120,260	143,870	203,417	205,401	212,347			
4 years later	65,032	144,008	111,528	124,345	139,407	192,482	224,140				
5 years later	79,765	137,500	112,969	116,445	137,316	192,446					
6 years later	70,005	139,522	109,417	101,320	35,838						
7 years later	71,670	137,469	99,287	105,155							
8 years later	69,045	118,375	99,018								
9 years later	62,797	117,802									
10 years later	62,754										
Gross redundancy/ (deficiency)	1,850	16,510	36,555	43,760	1,553	(8,106)	(45,064)	(3,001)	45,731	139,343	

13. Other reserves

	2012 US$'000	2011 US$'000
General reserve	176,097	129,774
Reserve for exchange fluctuation	6,294	6,294
Reserve for loss fluctuation	15,200	7,200
Reserve for market value adjustment	77	(236)
Translation reserve	(19,399)	(20,689)
	178,269	**122,343**

(i) General reserve
An amount equivalent to 50% of the net profit for each year is set aside as a general reserve in accordance with General Assembly resolution number 4/1992.

(ii) Reserve for exchange fluctuation
The reserve for exchange fluctuation represents an amount set aside by the Directors from the profits for each year to cushion the effects of adverse movements in exchange rates in the countries of operation.

(iii) Reserve for loss fluctuation
The reserve for loss fluctuation represents an amount over and above the outstanding claims provision set aside by the directors from the profits of each year to moderate the effects of possible fluctuation in losses in future years.

(iv) Translation reserve
The translation reserve represents the unrealised exchange gains or losses arising from translation of the corporation's assets and liabilities from the various functional currencies to the corporation's presentation currency at each reporting date.

(v) Reserve for Market Value Adjustment
The reserve for market value adjustment represents the unrealised gain or loss arising from the changes in the fair value of the financial assets classified as available for sale.

Movements in the other reserves are shown in the statement of changes in equity on page 42.

14. Share capital

	2012 Number	2011 Number
Authorised share capital	**5,000,000**	**5,000,000**
Issued and fully paid	**2,866,637**	**2,648,851**
	US$'000	**US$'000**
Issued and fully paid at 31 December	286,664	264,885
Nominal value per share	$100	$100

The movement in issued and fully paid share capital is as below:

	2012 USD '000'	2011 USD '000'
Balance as at 1 January	264,885	199,059
Buy-back of ordinary shares	-	(4,000)
Issue of ordinary shares	21,779	69,826
Balance as at 31 December	**286,664**	**264,885**

15. Earned premium

The premium income of the group can be analyzed into the main classes of business as shown below:

	2012			2011		
	Gross US$'000	Retro-cession US$'000	Net US$'000	Gross US$'000	Retro-cession US$'000	Net US$'000
Fire and accident	477,269	(20,518)	456,751	467,185	(25,762)	441,423
Marine and aviation	114,532	(34,015)	80,517	111,519	(38,315)	73,204
Life	28,148	(5,834)	22,314	23,798	(4,845)	18,953
	619,949	**(60,367)**	**559,582**	**602,502**	**(68,922)**	**533,580**

16. Investment income

	2012 US $'000	2011 US $'000
Interest income – held to maturity	22,775	17,294
Interest – fair value through profit or loss	5,135	3,609
Interest on reinsurance deposits	2,313	2,167
Rental income	2,080	2,059
Dividends from equity investments	2,690	1,747
Realized gain on investments	3,031	392
Fair value gains/(loss) from investments at fair value through profit or loss	10,465	(547)
Management fees	(828)	(507)
	47,661	**26,214**

17. Other operating income

	2012 US $'000	2011 US $'000
Fee income	1,082	1,073
Gain/(loss) on disposal of property and equipment	23	(6)
Sundry income	19	21
	1,124	**1,088**

18. Claims incurred

	2012 Gross US$'000	2012 Retro-cession US$'000	2012 Net US$'000	2011 Gross US$'000	2011 Retro-cession US$'000	2011 Net US$'000
Claims incurred by principal class of business						
Fire and Accident	295,171	(8,084)	287,087	275,669	(6,064)	269,605
Marine and Aviation	59,024	(22,797)	36,227	39,729	(5,046)	34,683
Life	12,179	(2,298)	9,881	10,342	(2,634)	7,708
Total	**366,374**	**(33,179)**	**333,195**	**325,740**	**(13,744)**	**311,996**

19. Acquisition costs

	2012 US $'000	2011 US $'000
Commission paid	145,527	138,253
Charges paid	18,868	20,708
Movement in deferred acquisition cost	(7,326)	(6,967)
	157,069	**151,994**

20. Administrative expenses

	2012 US $'000	2011 US $'000
Staff costs	19,116	18,468
Auditors' remuneration	262	239
Depreciation on properties and equipment	1,529	1,271
Depreciation on investment property	172	172
Impairment charge on reinsurance receivables	2,449	3,424
Operating lease rentals	418	397
Repairs and maintenance expenditure	1,091	660
Consultancy fees	926	653
Travel costs and allowances	677	804
General Assembly and Board of Directors' meetings	1,098	1,011
Electricity and water	(418)	1,137
Insurance	790	481
Communication expenses	383	476
Advertisement and entertainment	422	430
Training and subscriptions	521	421
Medical	475	362
Computer and technical	350	284
Transport and maintenance	149	148
Bank charges and other fees	270	238
Office	166	135
Legal	38	46
Donations	26	25
	30,910	**31,282**

Staff costs include retirement benefit costs amounting to US$2,464,907 (2011: US$2,307,546).

21. Taxation

In accordance with Article 51 of the Agreement Establishing the African Reinsurance Corporation, the Corporation is not subject to tax in member States. The tax charged in the financial statements relates to only the subsidiary company's profit, which is computed in accordance with the income tax rules applicable in the Republic of South Africa.

Tax charged in the financial statements is made up of :

	2012 US$'000	2011 US$'000
Current income tax	2,530	3,162
Deferred income tax (Note 11)	1,823	138
	4,353	**3,300**

The movement in the tax receivable account is as follows:

	2012 US$'000	2011 US$'000
At 1 January	510	4
Current tax charge for the year	(2,530)	(3,162)
Tax paid	4,304	3,668
At December	**2,284**	**510**

22. Dividends

At the Annual General Meeting (AGM) to be held on 20 June , 2013, a final dividend in respect of the year ended 31 December, 2012 of US$4.5 (2011: US$3.5) per share on 2,866,637 existing shares amounting to a total of US$12,666,983.06 (2011: US$8,544,876) is to be proposed. The dividend declared at the AGM held on 21 June 2012 was charged to shareholders' equity in these financial statements. The liability for the dividend payable on the 2012 results shall be treated as an appropriation of profit in the financial statements for the year ending 31 December 2013.

The movement in the dividends payable account is as follows:

	2012 USD '000	2011 USD '000
At 1 January	3,369	2,729
Final dividend declared	8,545	3,981
Dividends paid	(6,605)	(3,341)
At 31 December	**5,309**	**3,369**

23. Notes to the statement of cash flows

a) Reconciliation of profit before tax to cash generated from operations:

	Notes	2012 US$'000	2011 US$'000
Profit before income tax		96,999	72,499
Adjustments for:			
Depreciation on investment property	8	172	172
Depreciation on property and equipment	9	1,529	1,271
(Gain)/ loss on disposal of property and equipment		(23)	6
Change in fair value of investments		(10,465)	547
Working capital changes;			
- Premium income receivable		(5,724)	(14,434)
- Deferred acquisition costs		(7,494)	(3,846)
- Reinsurance receivables		10,665	(30,840)
- Retrocessionaires' share of technical provisions		(23,872)	(11,914)
- Sundry receivables		(2,872)	80
- Sundry payables		490	(2,537)
- Reinsurance payables		(22,296)	5,570
- Technical provisions		68,483	36,749
Cash generated from operations		**105,592**	**53,323**

b) Cash and cash equivalents

	2012 US$'000	2011 US$'000
Cash and bank balances	71,795	55,195
Bank deposits with financial institutions maturing within 90 days	360,469	314,730
Cash and cash equivalents	**432,264**	**369,925**

24. Related party transactions and balances

i) No individual shareholder has a controlling interest in the Corporation.

ii) Remuneration for key management personnel

	2012 US$'000	2011 US$'000
Directors' fees (non executive directors)	468	407
Other remuneration (elected members of management)		
- Salaries and other short term benefits	1,241	1,567
- Terminal benefits	435	1,165

25. Management of Insurance and Financial Risks

Insurance risk

The Corporation reinsures all classes of insurance business including Accident and Health, Engineering, Guarantee, Liability, Motor, Fire, Marine, Energy, Aviation, Disability and Life. The bulk of the business written is short-tail in nature.

The risk under any one insurance contract is two-fold: underwriting - the possibility that the insured event occurs, and reserving - the uncertainty of the amount of the resulting claim.

The Corporation has developed a detailed underwriting manual covering risk acceptance criteria, pricing, accumulation control, authority levels, and reinsurance protection, among others. It guides the underwriters in their acceptances, on the principles of prudence and professionalism within the overall objective of diversifying the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The priority is to ensure adherence to criteria for risk selection by maintaining high levels of experience and expertise among the underwriting staff. In addition, the Corporation has put in place a business review structure that ensures control of risk quality and conservative use of policy limits, terms and conditions. An independent Department, Technical Inspection and Enterprise Risk Management, ensures adherence to these guidelines through periodic review of each production centre's operations. The reports of the review are submitted to Management and the Audit & Risks Committee of the Board.

The Corporation enters into retrocession arrangements with reputable retrocessionaires to diversify its risks and reduce the risk of catastrophic loss on reinsurance assumed. The retrocession does not relieve the Corporation of its obligations to the ceding companies. As part of its annual renewals, the financial condition of retrocessionaires is reviewed. As a result, retrocession is placed with a select group of financially secure and experienced companies in the industry.

Financial risk

In the normal course of business the Corporation uses primary financial instruments such as cash and cash equivalents, bonds, equities and receivables and as a result is exposed to potential losses due to various market risks including changes in interest rates, equity prices and foreign currency exchange rates. The Corporation's financial management activities are guided by the financial regulations as well as the investment policy document. Detailed guidelines are provided in the accounting and administrative procedures manuals. They provide the framework for the investing activities and set specific limits and benchmarks for the acceptable levels of counter party exposure, concentration, credit risk, currency risk, liquidity risk and interest rate risk, among others.
Interest rate risk

The Corporation's exposure to interest rate changes is primarily concentrated in the actively managed fixed income portfolio, which is reported at fair value. Changes in interest rate will have an immediate impact on the Corporation's reported net income and consequently the shareholders' funds. The main objective of the fixed income portfolio is current income and price appreciation and therefore to mitigate the effect of price volatility, the portfolio has been positioned with an average duration of less than 5 years.

The table below analyses the Corporation's key financial assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2012 to the earlier of the repricing or contractual maturity date.

25. Management of Insurance and Financial Risks (continued)

At 31 December 2012 (IN US$'000)	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
FINANCIAL ASSETS							
Cash and cash equivalents	432,264	-	-	-	-	-	432,264
Reinsurance receivables	70,282	47,253	6,142	4,502	2,997	-	131,176
Investments:							
- Bank deposits	111,640	-	-	-	-	-	111,640
- Deposits with ceding companies	13,784	25,637	16,052	12,964	8,463	47,258	124,158
- Fixed rate securities at fair value	10,531	8,278	11,101	9,816	15,123	53,371	108,220
- Fixed rate securities at amortized cost	2,263	9,371	15,711	13,164	21,218	48,448	110,175
- Floating rate securities at cost	21,139	5,500	2,410	1,515	-	-	30,564
Equity investments at fair value	77,558	-	-	-	-	-	77,558
Equity investments at amortised cost	-	-	-	-	-	14,052	14,052
Total	**739,461**	**96,039**	**51,416**	**41,961**	**47,801**	**163,129**	**1,139,807**
FINANCIAL LIABILITIES							
Reinsurance payables	16,976	5,387	6,349	984	10,098	13,779	53,573
Outstanding claims	155,078	81,812	54,582	44,434	28,805	87,184	451,895
Total	**172,054**	**87,199**	**60,931**	**45,418**	**38,903**	**100,963**	**505,468**

25. Management of Insurance and Financial Risks (continued)

At 31 December 2011 (IN US$'000)	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
FINANCIAL ASSETS							
Cash and cash equivalents	369,925	-	-	-	-	-	369,925
Reinsurance receivables	85,891	36,087	6,203	5,664	5,268	2,728	141,841
Investments:							
- Bank deposits	125,292	-	-	-	-	-	125,292
- Deposits with ceding companies	14,651	28,700	16,915	9,207	8,283	40,418	118,174
- Fixed rate securities at fair value	6,492	6,523	10,408	16,497	5,666	37,451	83,037
- Fixed rate securities at amortized cost	9,776	2,263	7,451	12,699	8,720	42,393	83,302
- Floating rate securities at cost	854	500	5,517	2,390	2,621	-	11,882
Equity investments at fair value	59,745	-	-	-	-	-	59,745
Equity investments at amortised cost	-	-	-	-	-	10,989	10,989
Total	**672,626**	**74,073**	**46,494**	**46,457**	**30,558**	**133,979**	**1,004,187**
FINANCIAL LIABILITIES							
Reinsurance payables	50,811	9,049	5,665	5,066	3,772	1,506	75,869
Outstanding claims	139,779	111,058	45,360	42,007	72,150	-	410,354
Total	**190,590**	**120,107**	**51,025**	**47,073**	**75,922**	**1,506**	**486,223**

Currency risk

The Corporation maintains assets and liabilities in several currencies and thus is exposed to the risk of exchange rate movements associated with assets and liabilities matching. The Corporation does not apply hedging techniques to mitigate its currency risk but ensures the net exposure to this risk is within acceptable levels by constantly reviewing the level of mismatch. The Corporation has offices in seven locations whose currencies, in addition to its unit of account, represent approximately 95% of its business volumes. The assets and liabilities in these currencies are matched to the level desired by the group.

The Corporation transacts business with counterparties in a number of countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, South African rand, Kenyan shilling and Nigerian naira.-. However, the Corporation's primary exposure is to the South African rand. Foreign exchange risk arises from reinsurance transactions recorded in local currencies, investments in non-reporting currencies and recognised assets and liabilities in foreign Operations.

At 31 December 2012, if the South African rand had weakened/strengthened by 10% against the US dollar with all other variables held constant, the net assets for the year would have been USD5.157 million(2011: USD4.858 million) higher/lower, mainly as a result of translation differences on South African rand denominated transactions and bank balances. This is insignificant as the value constitutes only 0.84% (2011: 1.01%) of the company's consolidated net assets.

The tables on pages 69 and 70 show the various currencies in which the group's assets and liabilities were denominated as at 31 December 2012 and 2011. The non US dollar balances reflect the significant foreign currency exposures.

24. Management of Insurance and Financial Risks (continued)

Currency risk (continued)

At 31 December 2012:
(in US$'000)

	USD	Rand	UK Pounds	CFA/EUR	MAD	EGP	NGN	KES	MUR	OTHERS	TOTAL
ASSETS											
Cash and cash equivalents	153,940	143,975	8,002	28,893	25,057	3,963	37,473	22,733	1,113	7,115	432,264
Reinsurance receivables	34,297	8,503	1,259	13,138	2,186	6,510	14,184	11,082	2,787	37,230	131,176
Investments:											
- Bank deposits	72,801	9,601	4,103	18,427	-	2,965	-	1,969	1,719	55	111,640
- Deposits with ceding companies	10,691	166	411	37,913	32,964	7,019	12	698	73	34,211	124,158
- Fixed rate securities at fair value	52,044	47,711	3,674	4,310	-	-	-	481	-	-	108,220
- Fixed rate securities at amortised cost	86,057	11,536	-	10,122	-	-	-	2,460	-	-	110,175
- Floating rate securities at cost	30,156	-	408	-	-	-	-	-	-	-	30,564
- Equity investments at fair value	30,362	41,083	-	3,884	-	-	1,684	545	-	-	77,558
- Equity investments at amortised cost	11,176	2,239	-	-	-	-	637	-	-	-	14,052
Total	**481,524**	**264,814**	**17,857**	**116,687**	**60,207**	**20,457**	**53,990**	**39,968**	**5,692**	**78,611**	**1,139,807**
LIABILITIES											
Reinsurance payables	754	138	1,688	3,122	1	5	-	-	-	47,865	53,573
Outstanding claims	110,663	108,992	694	33,731	32,906	10,801	26,961	19,933	7,329	99,885	451,895
Total	**111,417**	**109,130**	**2,382**	**36,853**	**32,907**	**10,806**	**26,961**	**19,933**	**7,329**	**147,750**	**505,468**

Key to currency abbreviations;

USD - United States Dollar
Rand - South African Rand
UK Pounds - United Kingdom Pound
CFA - CFA Franc
EUR - Euro
MAD - Moroccan Dirham
EGP - Egyptian Pound
NGN - Nigerian Naira
KES - Kenyan Shilling
MUR - Mauritius Rupee

24. Management of Insurance and Financial Risks (continued)

Currency risk (continued)

At 31 December 2011:
(in US$'000)

	USD	Rand	UK Pounds	CFA/EUR	MAD	EGP	NGN	KES	MUR	OTHERS	TOTAL
Cash and cash equivalents	172,668	107,031	6,845	28,530	16,400	2,715	18,967	14,086	2,233	450	369,925
Reinsurance receivables	34,565	83	776	21,144	11,953	2,298	16,609	7,253	2,871	44,289	141,841
Investments;											
- Bank deposits	90,991	11,515	-	13,072	-	2,751	158	3,679	511	2,615	125,292
- Deposits with ceding companies	14,439	4,803	283	31,884	31,125	5,862	12	637	92	29,037	118,174
- Fixed rate securities at fair value	36,621	39,189	3,520	3,707	-	-	-	-	-	-	83,037
- Fixed rate securities at amortised cost	68,364	11,702	-	3,236	-	-	-	-	-	-	83,302
- Floating rate securities at cost	11,492	-	390		-	-	-	-	-	-	11,882
- Equity investments at fair value	22,748	31,457	-	3,385	-	-	1,282	873	-	-	59,745
- Equity investments at amortised cost	10,352	-	-		-	-	637	-	-	-	10,989
Total	**462,240**	**205,780**	**11,814**	**104,958**	**59,478**	**13,626**	**37,665**	**26,528**	**5,707**	**76,391**	**1,004,187**
LIABILITIES											
Reinsurance payables	59,946	2,606	1,653	8,224	-	5	-	-	-	3,435	75,869
Outstanding claims	74,840	118,723	708	2,964	636	9,042	14,629	17,766	13,093	157,953	410,354
Total	**134,786**	**121,329**	**2,361**	**11,188**	**636**	**9,047**	**14,629**	**17,766**	**13,093**	**161,388**	**486,223**

Key to currency abbreviations;

USD - United States Dollar
Rand - South African Rand
UK Pounds - United Kingdom Pound
CFA - CFA Franc
EUR - Euro
MAD - Moroccan Dirham
EGP - Egyptian Pound
NGN - Nigerian Naira
KES - Kenyan Shilling
MUR - Mauritius Rupee

25. Management of insurance and financial risk (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation is exposed to credit risk through its financial assets, which include short-term bank deposits, fixed income securities and receivables.

Short-term bank deposits are placed with financial institutions of very high credit rating and are spread over a number of them to avoid undue concentration. The Corporation's financial regulations prescribe minimum acceptable credit rating and maximum allowable exposure to any single counter-party.

The Corporation's fixed income portfolio is managed through use of prudent standards of diversification and rating quality of issues and issuers. Specific provisions limit the allowable holdings of a single issue and issuer and industry or sector. This is to minimise significant concentration risk associated with the fixed income portfolio.

Credit risk relating to receivables is mitigated by the large number of cedants and their dispersion across the continent. A significant number of the companies from whom receivables are due are equally shareholders of the Group. In addition, the liability for outstanding claims is in respect of insurance contracts with the same counter parties. Receivables are presented at present value net of impairment provision. A periodic evaluation of cedants and retrocessionnaires is carried out to minimise exposure to significant losses from insolvencies. Transaction terms are also strictly monitored to keep balances as current as possible.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in raising funds to meet commitments associated with reinsurance contracts and other obligations as and when due. The Corporation's investment guidelines prescribe minimum levels of financial assets to be held in cash and cash instruments. Cash instruments include bank deposits with maturities of less than 90 days. In addition, the actively managed portfolios are traded on highly liquid markets and as such can easily supplement the Corporation's liquidity requirement in the event of any shortfall.

Equity price risk

Equity price risk refers to the potential loss in fair value resulting from adverse changes of stocks that the Corporation has invested in. The Corporation maintains actively managed equity portfolio and as such is exposed to stock market price fluctuations. The Corporation does not use any derivatives to manage this risk but rather uses the mechanism of diversification in all forms, including limits on single stock, industry and sector allocation and geographical distribution among others. The investment guidelines provide a cap on the total financial assets to be held in equities.

26. Contingent liabilities

There are no material contingent liabilities in respect of pending litigations involving the Corporation for which no provisions have been made in these financial statements.

27. Commitments

(i) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised in the financial statements is as follows:

	2012 US$'000	2011 US$'000
Property and equipment	-	-

(ii) Operating lease commitments

The Corporation leases offices for it Mauritius, Cairo and Ethiopia Offices. The future minimum lease payments under non-cancellable operating leases are as follows:

	2012 US$'000	2011 US$'000
Not later than 1 year	300	267
Later than 1 year and not later than 5 years	309	594
	609	**861**

28. Capital management

The corporation is not subject to any externally imposed capital requirements. However, the corporation will continue to actively grow its available capital to meet rating agencies' requirements for its target rating as well as achieve a comfortable internally determined capital adequacy ratio (available capital divided by required risk adjusted capital).

The corporation's objectives in managing its capital are:

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- To maintain financial strength to support new business growth;
- To satisfy the requirements of its reinsured and rating agencies;
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- To safeguard the corporation's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The corporation has a number of sources of capital available to it and seeks to optimise its retention capacity in order to ensure that it can consistently maximise returns to shareholders. The corporation 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 corporation manages as capital all items that are eligible to be treated as capital.

The constitution of capital managed by the corporation is as shown below:

	2012 US$'000	2011 US$'000
Share capital	286,664	264,885
Share premium	52,452	33,452
Other reserves	178,269	122,343
Retained earnings	91,228	61,450
Total capital - equity	**608,613**	**482,130**

Consolidated income statement by class of business

	Fire and accident US$'000	Marine and aviation US$'000	Life US$'000	Total 2012 US$'000	Total 2011 US$'000
Underwriting income:					
Gross written premium	497,597	120,111	30,272	647,980	631,490
Gross earned premium	477,269	114,532	28,148	619,949	602,502
Retrocession premium	(20,518)	(34,015)	(5,834)	(60,367)	(68,922)
Net earned premium	**456,751**	**80,517**	**22,314**	**559,582**	**533,580**
Commissions & charges earned under retrocession arrangements	**1,358**	**5,738**	**1,520**	**8,616**	**7,914**
Gross claims paid	**(265,950)**	**(37,078)**	**(13,063)**	**(316,091)**	**(283,962)**
Gross claims incurred	(295,171)	(59,024)	(12,179)	(366,374)	(325,740)
Less retrocessionaires' share	8,084	22,797	2,298	33,179	13,744
Net claims incurred	**(287,087)**	**(36,227)**	**(9,881)**	**(333,195)**	**(311,996)**
Acquisition expense	(121,111)	(29,063)	(6,895)	(157,069)	(151,994)
Management expenses	(23,566)	(5,761)	(1,583)	(30,910)	(31,282)
Underwriting profit	**26,345**	**15,204**	**5,475**	**47,024**	**46,222**
Net investment and other income				48,785	27,302
Realised gain/(loss) on exchange				1,190	(1,025)
Profit before income tax				**96,999**	**72,499**
Income tax expense				(4,353)	(3,300)
Profit for the year				**92,646**	**69,199**

Notes