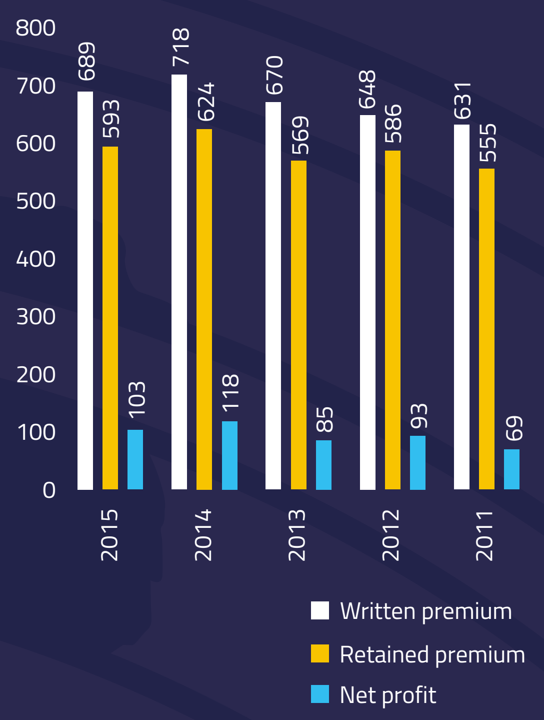
# ANNUAL REPORT & ACCOUNTS

**2015**

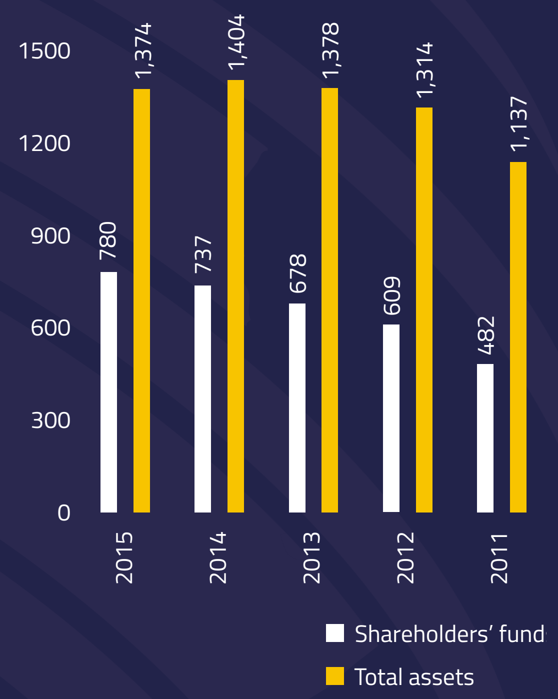
## Financial highlights

| In US$ '000 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Results** | | | | | |
| Written Premium | 689,291 | 717,525 | 670,458 | 647,980 | 631,490 |
| Retained Premium | 593,473 | 624,387 | 569,140 | 586,443 | 554,746 |
| Earned Premium (Net) | 590,820 | 614,445 | 556,062 | 559,582 | 533,580 |
| Net Profit | 103,656 | 118,504 | 84,801 | 92,646 | 69,199 |
| **Financial position** | | | | | |
| Shareholders' Funds | 780,085 | 736,925 | 677,538 | 608,613 | 482,130 |
| Total Assets | 1,374,470 | 1,403,266 | 1,377,831 | 1,314,306 | 1,137,383 |

### Results 2011 - 2015
(in million US$)




### Financial position 2011 - 2015
(in million US$)




Ratings

**A-**

**A.M.Best**
(Excellent/Positive Outlook)

**S&P**
(Strong/Stable Outlook)

Proposed dividend per share

**US$6**



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**African Reinsurance Corporation**
**General Assembly**
**38th Annual Ordinary Meeting**

**Kigali, Rwanda, 16th June 2016**

Honourable Representatives
General Assembly
African Reinsurance Corporation

Date: 16th June 2016

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,1 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 1 January to 31 December 2015.

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

**HASSAN BOUBRIK**

Chairman of the Board of Directors and General Assembly

Annual Report & Accounts 2015
Board of Directors

# BOARD OF DIRECTORS

## Mr Hassan BOUBRIK

Chairman

**Nationality:**
Moroccan

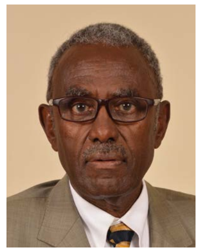
**Constituency:**
Morocco: State and Companies

**Current Term ends in:**
June, 2017

Currently the Chairman of the Supervisory Authority of Insurance and Social Security in 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).



## Mr Woldemichael ZERU

Vice Chairman and Member of the Risk Management & IT Governance Committee

**Nationality:**
Eritrean

**Constituency:**
East and Southern Africa and Sudan (12 States)

**Current Term ends in:**
June, 2017

He is currently the General Manager/CEO of National Insurance Corporation of Eritrea and the MD of New Sudan Insurance Company in South Sudan. He has 42 years of experience in the insurance industry.

He holds a Bachelor's Degree in Business Management and Finance and is also a Chartered Insurer (ACII London). He has previously served as Vice Chairman of the Board of Africa Re for four years from 2001 to 2005. He is presently a Board Member of Zep Re.

## Dr Mohamed Ahmed MAAIT

Director and Chairman of the Audit and Finance Committee

**Nationality:**
Egypt

**Constituency:**
Egypt: State and Companies

**Current Term ends in:**
June, 2018

Currently the Deputy Chairman of the Egyptian Financial Supervisory Authority (EFSA).

He has a first degree in Insurance and Mathematics, M.Phil in Insurance, Masters and PhD in Actuarial Science. He is currently a visiting lecturer in different universities in Egypt. He is also the chairman of Egyptian GAD, member of several government committees and Board member of several companies in Egypt.

## Mr Frédéric FLEJOU

Director and Member of the Audit and Finance Committee

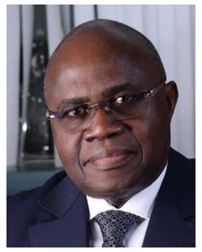
**Nationality:**
French

**Constituency:**
AXA

**Current Term ends in:**
June, 2018

He is currently the Chief Executive Officer, New Markets Development, AXA Mediterranean & Latin American Region.

He attended École Centrale de Paris, Institut des Actuaires Français and DESCF graduating as Engineer, Actuary and Accountant respectively.



## Mr Béné Boèvi LAWSON

Director and Member of the Human Resources and Remuneration Committee

**Nationality:**
Togolese

**Constituency:**
States and companies of francophone West and Central Africa

**Current Term ends in:**
June, 2018

Chairperson of the Governance and Ethics Committee of NSIA Group.

He holds a Post-graduate Degree in Insurance from the National Institute of Insurance, Paris and a Master's Degree in Law –University of Rouen, France.

He was previously Regional Director of the Abidjan Regional Office of Africa Re and Member of the Executive Committee of the Federation of African National Insurance Companies (FANAF).

## Mr Kamel MARAMI

Director

**Nationality:**
Algerian

**Constituency:**
Algeria: state and 4 companies

**Current Term ends in:**
June, 2018

Currently the Director of Insurance, Ministry of Finance, Algeria.

He is a chartered insurer and holds degrees in Economics and Finance.

### Mr Karanja KABAGE
Director and Chairman of the Human Resources and Remuneration Committee

**Nationality:**
Kenyan

**Constituency:**
Anglophone West Africa (4 states and companies) and East and Southern Africa (companies)

**Current Term ends in:**
June, 2017

Mr Kabage is currently the Group Chairman of Pacific Insurance Brokers (EA) Ltd and First Reinsurance Brokers Ltd.

He holds Bachelor's and Master's degrees in both Business Administration and Law, and is currently pursuing a Doctorate degree in Law.

He was the national chairman of the Federation of Kenya Employers, Kenya Business Council and Kenya Private Sector Alliance.

### Mr Jean CLOUTIER
Director and Chairman of the Risk Management and Information Governance Committee

**Nationality:**
Canadian

**Constituency:**
FAIRFAX

**Current Term ends in:**
June, 2018

He is currently the Chairman, Fairfax International, Executive Committee Member of Fairfax Financial Holdings Limited and Vice President of International Operations.

He holds a Bachelor's degree in Actuarial Sciences from Laval University, Quebec City.

He is a fellow of the Canadian Institute of Actuaries (FCIA) and Casualty Actuarial Society (FCAS), fellow of the Singapore Actuarial Society and fellow of the Society of Actuaries of Thailand.

### Mr Samuel MIVEDOR
Director and Member of the Audit and Finance Committee

**Nationality:**
Togolese

**Constituency:**
African Development Bank (AfDB)

**Current Term ends in:**
June, 2018

Currently the Division Manager, Tunisia & Côte d'Ivoire of the African Development Bank

He graduated from the National Civil Engineering Institute, Lyon, France as a Mechanical Engineer and also holds a Master of Business Administration from the University of New York at Buffalo, Buffalo NY.

He has served on the Boards of several institutions (PTA Bank, Shelter Afrique, Pan-African Infrastructure Development Fund etc.)



Annual Report & Accounts 2015
Board of Directors

### Mr Almehdi Altahir AGNAIA
Director and Member of the Human Resources and Remuneration Committee

**Nationality:**
Libyan

**Constituency:**
Libya, Mauritania and Tunisia: state and companies

**Current Term ends in:**
June, 2018

He is currently a professor at the Faculty of Economics, University of Tripoli and Chairman of the Board of Directors of the Libya Insurance Company.

He holds a first degree, Masters and PhD in Management. He was previously Minister of Planning and also Chairman of several Boards of Directors/Trustees.

## Alternate Directors

Mrs Hayat MOUSSAFIR
Mr Aguinaldo JAIME
Mr Mohamed OULD NATY
Mr Jerome DROECH
Mr Ashraf BADR
Mr Sahnoune SOFIANE
Mr Eteffa YEWONDWONSSEN
Mr Kennedy ODONDI
Mr Mamadou SY

# EXECUTIVE MANAGEMENT

## Mr Corneille KAREKEZI

Group Managing Director / Chief Executive Officer

Mr Corneille KAREKEZI was appointed to this position on 1July 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 the current Vice Chairman of Africa Re South Africa Ltd. (SA) and Africa Retakaful Corporation (Egypt), Member of the Board of Shelter Afrique, the leading pan-African housing finance company, and Member of the Executive Committee of the African Insurance Organization (AIO).

## Mr Ken AGHOGHOVBIA

Deputy Managing Director / Chief Operating Officer

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 has been a member of various regional professional committees.

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





# CENTRAL DIRECTORS

## Mr Séré Mady KABA

Corporate Secretary/Director of Risk Management and Compliance (DRMC)

Prior to his recruitment in Africa Re in 2003, Mr Séré Mady Kaba worked at the Central Bank of Guinea for twenty two years where he held the various positions including that of Director of Internal Audit and Director of Insurance.

He is an Inspector of Financial Services, a Certified Internal Auditor and Member of the Institute of Internal Auditors (IIA). He holds a DES with a remarkable distinction in Accounting and Financial Management from the University of Conakry.

While serving as Director of Insurance, he was a Board Member of Africa Re (1995-1998), Alternate Director (2000-2003) and Member of IAIS Accounting Sub-Committee (1999-2003).

Since joining Africa Re, he has served as Deputy Director Internal Audit in charge of Nairobi & Mauritius Regional Offices and ARCSA (2003-2010), Director of Technical Inspection and Enterprise Risk Management/Chief Risk Officer (2010-2014).

He has written several articles on Internal Audit, Corporate Governance and Enterprise Risk Management.

## Mr Seydou KONE

Director of Finance and Accounts (DFA)

Mr Seydou KONE joined the Corporation in 2010 as Director of Finance and Accounts after 15 years of relevant experience in the insurance industry. He started his career in Deloitte as Auditor of insurance and reinsurance companies. He then joined NSIA and worked in different capacities including Director of Internal Audit. As Group Director of Internal Audit, he was also in charge of the account consolidation process.

In his current position, Mr KONE oversees implementation of the corporation's decisions regarding finance, investments, dividends and the consolidation process of accounts in accordance with IFRS.

Mr KONE holds a Bachelor's Degree in Management and a Master's Degree in Finance and Accounting from University of Côte d'Ivoire.

## Mr Léonidas BARAGUNZWA

Director of Central Operations and Special Risks (DCOSR)

Since joining the insurance industry in 1987, Mr Léonidas Baragunzwa has worked in different capacities in various insurance entities. Prior to Africa Re, he served as Underwriter, Survey Engineer and Manager at *Société d'Assurances du Burundi*, trainee Actuary at Aon Belgium in Life & Pension Department, Actuary at AG Insurance Belgium, Chief Actuary and Assistant Director Underwriting & Special Risks before rising to the position of Director of Central Operations & Special Risks at Africa Re in January 2014.

Mr BARAGUNZWA holds a Master's degree in Civil Engineering (Belgium) and a Master's Degree in Actuarial Science (Belgium). He is a Fellow of the Institute of Actuaries in Belgium (IA|BE).

### Mr Raphael Uhunoma OBASOGIE

Director of Administration and Human Resources (DAHR)

Mr Raphael Obasogie started his career at the Port Harcourt Refinery in 1985 where he did his compulsory national service and was subsequently retained on a short-term contract.

He was at various times the Head of HR/ HR Director designate at Elder Dempster Nigeria, Acting Head of HR at Nestle Nigeria, Corporate Industrial Relations & Employee Communication Manager at Shell Petroleum Nigeria and General Manager Human Resources at Addax Petroleum Nigeria.

Mr Obasogie holds a Bachelor of Science degree in Industrial Psychology and a Master of Business Administration (MBA). He is a distinguished Fellow of the Chartered Institute of Personnel Management (Nigeria), an Associate of the Chartered Institute of Personnel Development (UK) and a member of the National Labour Advisory Council of Nigeria.

Mr Obasogie joined Africa Re in November 2013 as Director of Administration and Human Resources.

### Mr Aly Dia SEYDI

Director of Information and Communication Technology (DICT)

Since joining the Corporation in March 2014, Mr Aly D. Seydi has been involved in the implementation of numerous transformational initiatives (Centralization of IT Infrastructure, Email and Business applications) in line with the 2014 – 2018 corporate strategy.

Prior to Africa Re, Mr Seydi worked as IT professional in Banking and Financial Services (UBS and Merrill Lynch in USA) and in Telecommunications industries (AT&T in USA).

Mr Seydi holds a Master of Science Engineering in Computer Science (USA). He is a Certified Lean & Six Sigma (USA) IT professional and a member of the Project Management Institute (PMI- New Jersey, USA Chapter).

### Mr Ousmane SARR

Deputy Director of Internal Audit (DDIA)

Since joining the Corporation in 1999, Mr Ousmane Sarr has worked as Assistant Director Finance and Accounts in Casablanca (1999-2012) before rising to the position of Deputy Director of Internal Audit in Nairobi on 1 September 2010. He was transferred to the headquarters in Lagos in 2013. Mr Sarr holds a Master's in Business Administration from ISCAE, Casablanca, Morocco. He is a member of the Institute of Internal Auditors of Kenya.





# REGIONAL DIRECTORS

### Mrs Eunice Wairimu MBOGO

Regional Director, Nairobi Office

Mrs Eunice Mbogo joined the African Reinsurance Corporation in 2010 as the Regional Director of the Nairobi Office.

She started her career in 1989 as Marketing Assistant/Account Executive at ALICO Kenya Limited (now AIG Kenya) and rose to the position of Assistant Marketing and Training Manager in 1993. In 1998, she moved to British American Insurance Company Limited (now BRITAM) as Marketing Manager and occupied the positions of Assistant General Manager and General Manager in 2000 and 2007 respectively. In April 2007, she joined Kenya Re as Managing Director where she served until 2010. During her tenure in Kenya Re, she successfully oversaw the privatization of the State Corporation and also steered the Corporationto deliver the set targets of the Performance Contract in 2008 and 2009 when it was rated among the 10 best-performing Corporations in the country.

She holds a Bachelor of Commerce (BCom) from the University of Nairobi (1998) and a Masters in Business Administration (MBA) from ESAMI (2005). She is also an Associate (ACII) London and a Fellow (FCII) of the Chartered Insurance Institute (London). Mrs Mbogo has over 26 years work experience.

### Mr Mohamed BELAZIZ

Regional Director, Casablanca Office

After 19 years of experience as Bureau Head in charge of reinsurance, Project Manager, Central Director Mr Mohamed Belaziz joined Africa Re in 1995 as Deputy Regional Director in charge of Underwriting & Marketing and afterwards as Deputy Regional Director. Prior to joining Africa Re, Mr Belaziz served as a Board member of Africa Re from 1992 to 1995. On 1 January 2014, he became the Regional Director of the Casablanca Regional Office.

### Mrs Marie-Agnes SANON

Regional Director, Mauritius Office

After obtaining her Master's degree in economics in 1983, Mrs Sanon worked with the insurance regulatory body in Burkina Faso from 1983 to 1988. During that period she did a postgraduate degree at the *Institut International des Assurances (IIA)* in Yaounde, Cameroon. In July 1986, she was in charge of insurance data collection and training at the national insurance trading centre in coordination with IIA and CIMA (Conference interafricaine des marches d'assurance).

In June 1988, she moved to Foncias, subsidiary of Allianz in Burkina Faso as head of the reinsurance and marine department, as well as corporate property risks. In January 2001, she joined CICA-RE as Treaty Underwriter for French-speaking West Africa.

Mrs Sanon was recruited in Africa Re Nairobi in February 2007, as Senior Underwriter for treaties and facultatives for French-speaking countries of Eastern Africa and some Kenyan companies. In July 2010, she was appointed Regional Director of the Mauritius Office.

## Mr Omar GOUDA

Regional Director, Cairo Office and MD Africa Retakaful

After graduating from one of the most reputable universities in the region in May 1982, Mr Omar Gouda joined the Egyptian Insurance Supervisory Authority. He has occupied technical positions in different insurance companies in Egypt and abroad and has been a member of many technical committees and Boards of companies and institutions.

An important part of his career was when he served as Technical Affairs General Manager of the oldest insurance company in the region - National Insurance Company of Egypt. Mr Gouda was also CEO/GM of *AlAhlia* Insurance Company in Saudi Arabia until February 2003, before moving to ESIH, Egypt as CEO/GM.

In October 2003, he joined Africa Re as Local Representative of the Cairo Office and became the first Regional Director of the Office in May 2005. In 2010, when Africa Retakaful Company was set up, Mr Gouda became the pioneer Managing Director of the subsidiary cumulatively with his position as Regional Director of the Cairo Office.

## Mr Olivier N'GUESSAN-AMON

Regional Director, Abidjan Office

After spending seven years as head of production in Life and Non-Life Insurance companies in Côte d'Ivoire, Olivier Nguessan became Director of SCOR Office for French-speaking West and Central Africa. He served as Managing Director of *Compagnie Nationale d'Assurance* for three years before joining Africa Re in 2005 as a Senior Underwriter. He was the Deputy Regional Director from January 2008 to March 2011 when he became the Regional Director of the Abidjan Office.

Mr N'GUESSAN holds a Maîtrise in Business Economics from Université Nationale Côte d'Ivoire, Abidjan Cocody and a Postgraduate Diploma in Insurance (Diplôme d'Etudes Supérieures) from the International Insurance Institute, Yaounde, Cameroon.

## Mr Daryl De VOS

Managing Director, Africa Re SA Limited (ARCSA)

After close to two decades of experience during which he established himself as a key player in the South African insurance industry, Daryl was head-hunted in 2003 to join the pioneer management team that transformed the Corporation's representative office to a wholly-owned subsidiary in South Africa. His appointment paid off as he was a key driver of the Corporation's rapid growth in that highly competitive market.

Daryl commenced his career with the Corporation as General Manager Underwriting and Marketing and rose to become Deputy Managing Director in 2007 and Managing Director in 2011. Apart from successfully leading the underwriting and marketing function over the years, Daryl has consistently participated in and contributed to the Corporation's rating exercises and retrocession programmes.

Daryl has served and continues to serve on a number of industry associations including the South African Insurance Association (Board member since 2013) and the Insurance Institute of the Cape of Good Hope (President in 2003). He has attended numerous professional and management-level training programmes including the International Management Development Programme of the Wits Business School.

## Mr Sory DIOMANDE

Regional Director, Anglophone West Africa Regional Office

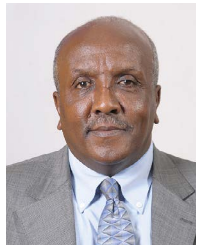
Mr Sory DIOMANDE was appointed to this position on 1 June 2012.

He started his career as a Life Actuary with Allianz Côte d'Ivoire from where he joined Swiss Re in 2002 as Non-Life Treaty and Facultative Underwriter in Johannesburg, Paris and Singapore. Mr DIOMANDE thereafter held the position of Senior Manager for Allianz Re Asia Pacific in charge of Japan, Indonesia, Thailand, Vietnam and Laos before moving to Willis Re Singapore and London as Financial Analyst.

Prior to his recruitment in Africa Re, he was the Managing Director of a reinsurance captive in Casablanca.

Mr DIOMANDE holds an Actuarial degree from INP-HB/HEA in Côte d'Ivoire and a Global Executive MBA from Instituto de Empresa (IE Business School), Madrid, Spain.

He represents Africa Re on various regional professional executive committees.



## Mr Shimelis BELAY

Local Representative | Consultant

Addis Ababa Local Office

Mr Shimelis Belay joined the insurance industry in 1977 and worked in different capacities before rising to the position of Head of Risk Management and Survey Department of the Ethiopian Insurance Corporation.

He then moved to Kenya in 1994 and served as General Manager and/or Managing Director (CEO) in various risk management & loss adjusting companies.

He joined Africa Re in 2004 as Senior Underwriter and rose to the position of Assistant Director of Operations in Kenya before moving to Ethiopia in 2011 as pioneer Local Representative of the Addis Ababa Local Office.

Mr Shimelis Belay holds a Bachelor of Science in Mechanical Engineering (Ethiopia). He is an Associate (ACII), a Fellow (FCII) of the Chartered Insurance Institute (UK), an Associate Member of the Chartered Institute of Arbitrators (UK) and an Associate Member of the Institute of Loss Adjusters (SA).

Mr Shimelis is serving the Corporation as a Local Representative / Consultant since 2013.

**Mr Hassan BOUBRIK**
Chairman

## Chairman's Statement

It is my pleasure to present the 38th Annual Report of the Board of Directors of the African Reinsurance Corporation and the consolidated financial statements for the year 2015, including the statement of financial position as at 31 December 2015 and the statement of comprehensive income for the financial year. This report includes also a review of the Corporation's operating environment, the report of the external auditors to the shareholders, the reports on capital management, corporate governance, enterprise risk management, and human resources and compensation.

Gross written premium for 2015 declined by 3.9% to US$ 689.29 million from US$ 717.52 million recorded in 2014, following a sharp double-digit depreciation of almost all the African currencies in which the Corporation writes the vast majority of its income. Obviously far below the target and the 7.02% growth achieved in 2014, this performance was negatively impacted by the conversion of the written premiums into the presentation currency, the US$ dollar, which strengthened significantly against all our transaction currencies. However, the weighted average underlying premium income growth rate, the real growth in original currencies, was 9.35% in 2015, using the average 2014 rates of exchange to the US dollar, resulting in a translational loss of about US$ 95.58 million.

The South African rand, that accounts for about a quarter of the total premium income, depreciated by 34.49% in 2015, while the Nigerian naira and the Kenyan shilling averagely lost 8.85% and 13.09% respectively of their value against the US dollar. This trend was similar for many other African currencies. Other adverse conditions continued to hamper the premium growth, mainly the declining pricing adequacy following an excess of capacity, an oversupply of capital from outside the African continent and stiff competition in many markets. In addition, in the face of the persistent soft cycle, the Corporation took major steps to come out of sizeable loss-making portfolios in order to protect its bottom line. Finally, changes in reinsurance purchasing and higher retentions by insurers also contributed to the reduction in reinsurance premium income growth.

Gross earned premium, after adjusting for the movement in unearned premium provision, stood at US$ 692.18 million (2014: US$ 708.58 million), which translates into a 2.31% decline year on year.

Premium ceded to retrocessionnaires during the year totalled US$ 101.35 million, as against US$ US$ 94.14 million last year. The Corporation's retrocession programme remained the same as it continued to rely mainly on excess of loss (XL) covers for the regular risks assumed, while arranging special covers in respect of the major oil and petrochemical risks accepted. The total cost of retrocession dropped slightly thanks to soft international market.

Gross claims paid during the year under review amounted to US$ 346.18 million, which is almost the same amount paid in 2014 (US$ 344.56 million). The claims experience was benign in 2015 with no significant catastrophe losses or large losses. Consequently, the gross incurred loss ratio improved to 48.93% from 49.46% of the previous year. Adjusting for the movement in outstanding claims, including incurred but not reported (IBNR) claims, the net incurred loss ratio improved significantly to 52.67% in 2015 from 55.69% in 2014 and 58.76% in 2013, confirming the positive trend in underwriting discipline.

During the year, operating expenses and capital expenditure were kept within the budget and aligned, where possible, with the volume of activity, the prevailing economic and commercial environment, as well as business strategy and prospects. The Corporation's management expenses for the year 2015 increased by 6.06% to US$ 40.07 million. Inflation, the need to maintain competitiveness in personnel remuneration and the steady investment in the modernization of our IT platform accounted for the increase. The management expense ratio, including provision for bad debts, surged to 6.78% (2014: 6.15%, 2013: 6.14%) due to the reduction of the net earned premiums for 2015.

The Corporation maintained its disciplined underwriting which, coupled with the clement claims activity, yielded a record net underwriting profit (after management expenses) of US$ 77.64 million in 2015, compared to US$ 68.65 million last year, an increase of 13.09%. This positive trend is a result of a deliberate strategy focussing on profitable underwriting rather than on top line growth.

The Corporation recorded its worse ever return on investment. Investment income and other income, including interest on reinsurance deposits and realized gains / losses on exchange, decreased by 47.13% to stand at US$ 26.75 million compared to US$ 50.50 million in 2014. The bad investment performance, was due to systematically poor global and African financial markets and low interest yields in 2015. Most equity and bond markets performed poorly while interest rates on term deposits remained extremely low. The currency depreciation also negatively impacted the investment income earned in local currencies. On an annualized basis, the return on investment was 2.52% compared to 4.78% as at the same period last year. The Corporation's financial assets contracted slightly by 3.03% from US$ 1,265.12 million in 2014 to US$ 1,226.79 million in 2015. This figure includes the impact of the 34.49% depreciation of the South African rand in which 13.02% of the financial assets are held.

Shareholders' funds as at 31 December 2015 stood at US$ 780.07million as against US$ 736.92 million in 2014, representing an increase of 5.86% mainly due to the significant retained earnings from the profit of the period.

During the year 2015, the global economy grew by 3.1%, lower than the 3.4% growth recorded the previous year, amid subdued global demand and diminishing prospects.  The recovery of advanced economies was modest and uneven. The US economy posted a commendable 2.5% growth which prompted a slight upward review of the interest rates by the Federal Reserve, causing a sharp strengthening of the US dollar against almost all the other currencies. The slowdown of the Chinese economy and the lower commodity prices were both signs of the low activity of the global economy and consequences of an economic rebalancing and adjustment. Tighter external financial conditions and economic distress linked to geopolitical factors characterized most of the emerging market economies. Some of them like Brazil, contracted more than expected due to political upheaval.

The African economy grew by nearly 3.75%, a performance below the 5% recorded in 2014, as a result of many woes, including the decline of commodity prices, the slowdown of the Chinese economy, Africa's major trading partner and foreign investor, and the sharp depreciation of almost every currency. Despite this, most African economies did better than the rest of the world by posting a GDP growth higher than other continents. Côte d'Ivoire, Ethiopia, Mozambique, Tanzania, Rwanda and Kenya recorded economic growth rates above 6%, while many other countries like Morocco, Egypt and Nigeria had a growth above 3%, confirming the hope of a resilient African economy even faced with strong external adverse headwinds, particularly the shortage of foreign currencies and the decline of foreign direct investments.

The South African economy, the second largest on the continent, and from where nearly a quarter of the Corporation's income is derived, performed again poorly at just 1.3% GDP growth in the year under review. Ongoing fiscal challenges, a difficult consumer environment, a subdued export performance and a higher import bill, all contributed to the poor performance. Social, economic and political tensions added to the situation and caused the rand to depreciate sharply towards the end of the year. Many analysts believe that the challenges faced by the UK bank Barclays and the Swiss insurer Zurich, which announced recently their exit from the African market for the former and the South African market for both, have certainly been compounded by the volatility of the rand. This volatility is one of the signs of a low investor confidence in the near future in the South African economy characterized by a depreciating currency and an economic slowdown tilting towards stagnation.

Annual Report & Accounts 2015
Chairman's Statement

For the Corporation, a weaker South African currency continues to be a matter of great concern. Indeed, this translated into a reduction of the 2015 Corporation's performance by US$ 30.00 million in premium income, US$ 1.1 million in investment income.

Faced with a sharp deterioration of African currencies in recent years, especially towards the end of the year 2015, the Board has been actively considering strategies to minimise the FX impact on the Corporation's assets and performance. The Board, in 2015, took a decision to convert, where possible, excess funds denominated in local currencies into US dollar-denominated investment assets. However, this can only be possible in countries where there is enough liquidity in foreign currency. In the meantime, the natural matching of technical liabilities and assets, both denominated in local currencies, has helped to reduce the negative impact. For the decline in top line and the rise in currency translation reserve due to currency depreciation, the Board will continue to consider hedging against such risk through hedging products. It should be noted however that not all the African currencies are commercially and publicly hedged and such products are rare, costly and highly speculative.

The global reinsurance industry remained challenging in 2015, with a negative outlook by all the rating agencies. Though global and African reinsurers posted reasonable results for 2015, slightly below the great performance of 2014, and thanks to the lack of catastrophe losses and the ongoing favourable reserve releases, analysts have identified mounting signs that the prevailing adverse conditions in the traditional reinsurance market go beyond a normal cycle and may be rather structural. Often-cited adverse conditions are over-capitalization, the growth of alternative capital which is viewed as negative for traditional reinsurers, the decline of the pricing adequacy especially due to the softening pricing in property business and the persistent low investment yields which increase the risk as reinsurers search for higher yield to reduce the pressure on earnings.

The Corporation also recorded in 2015 a strong underwriting profit (after management expenses) that is 13.14% higher than the previous year performance and better than the 11.17% and the 7.42% posted in 2014 and 2013. Consequently, the underwriting profit (after management expenses and before the investment income) grew by 13.09% to US$ 77.64 million, and together with an investment income of US$ 26.75 million, the worst since 2009, brought the an overall net profit slightly above the psychological threshold of US$ 100 million which the Corporation crossed for the first time at the end of the year 2014. The financial year ended therefore with a decent overall net profit of US$ 103.65 million.

The volatility of financial markets and the potential depletion of investment income in just one year, as the Corporation witnessed a drop of 47.02% of its investment income in 2015, are a strong reminder to keep the focus on prudent underwriting. Hence, thanks to an excellent underwriting profit, the Corporation managed to deliver a return on average equity of 13.67%, lower than the 16.51% from the year 2014, but within the upper range of the global reinsurance industry performance estimated at 11% for 2015.

During the period under review, the Corporation continued its leadership role for the development, transformation and empowerment of the insurance and reinsurance industry in Africa. The Corporation led the efforts to create more insurance pools on the continent and actively promoted the insurance awareness and empowerment of African insurance players through own initiatives or together with various regional and continental bodies. True to its mission of development of African insurance markets and support to African economies, the Corporation, leveraging on its well established capacity building competence, raised insurance technical capacity through in-house, national and regional training sessions, seminars and conferences for the local insurance markets. Also, the Corporation trained various professionals and companies in risk management via customized training and in-house attachments.

The Corporation initiated and sponsored the first compendium on African insurance legislation and regulation, which was published in May 2015 and was much appreciated by insurance professionals and investors.

The Africa Re Trust Fund for Corporate Social Responsibility (CSR), financed by up to 2% of its annual net profit, continued to grow its CSR initiatives in consultation with the Corporation's stakeholders, namely ceding insurance companies, insurance markets, national insurance associations, regional insurance institutes and insurance regulators. In 2015, the CSR Trust Fund supported financially the communities affected by the Ebola virus outbreak in West Africa, funded the breast cancer prevention campaign in Sudan, and donated funds to orphaned children in South Africa. The CSR Fund continued investment in the development of an online platform to train young African insurance professionals. It partnered with the ILO's Impact Insurance Facility by funding initiatives to grow the capacity of providers of micro-insurance in African markets.

In June 2015, during the first ever African Insurance Awards ceremony organized in Tunis, awards were presented to the African Insurance CEO of the Year, Innovative African Insurance Company of the Year and Insurance Company of the Year. The Awards will go a long way to celebrate professionalism, excellence and innovation of African insurance players in their efforts to increase the role of the industry in their economies.

In order to raise its visibility and image, the Corporation changed its logo. The new logo was unveiled during several festive occasions during the year. The new logo of three colors, blue, gold and white, has an icon made of the continent of Africa on a globe and the logotype made of the words 'Africa Re', already known by the majority of our customers and stakeholders. This new logo portrays Africa Re as a leader in the African reinsurance industry, proudly born in Africa, serving Africa, yet with a global presence and service quality of international standards.

Industry players continued to shower recognitions on the Corporation, which for the fifth consecutive year, was awarded the "Best Regional Takaful Company" by the International Takaful Summit in London. The Corporation has also recently been awarded the "Best African Takaful Company of the Decade" by the same International Takaful Summit in London.

Internally, a strong focus was put on the development of technical capacity in enterprise risk management (ERM) to enhance the Corporation's value proposition and security, as well as to raise its potential to be upgraded from "adequate" to "adequate with strong improvements" by rating agencies for the ERM criteria element of financial rating. Risk pricing tools and risk models continued to be refined. The Corporation's South African subsidiary successfully continued its implementation of the new Solvency Assessment and Management (SAM), a European Solvency II equivalent insurance regulatory regime, which is expected to effectively start in 2016 in South Africa.

The Corporation strengthened the skills of its professionals in special risks such as agricultural insurance and oil and energy through overseas attachments with its business partners.

The Corporation accelerated the implementation of its other strategic initiatives in 2015, which are, among others, to develop a best-in-class IT technology platform and to improve its expertise in special risks. A new Enterprise Resource Planning (ERP) system was installed to streamline the efficiency of the non-core support and control functions. Infrastructure Centralisation was completed with one primary and one secondary disaster recovery data centres established in two African major cities.

The Board of Directors held four meetings during which key decisions were taken and guidance provided to Management. In addition to the usual supervision of strategy implementation and guidance in critical operational matters, the Board adopted the retrocession programme and approved some investment projects in administrative offices and equity participation. The ERM framework was reviewed and other policies were adopted, namely the staff succession planning, anti-money laundering and combatting terrorist financing policies.

The Board initiated a thorough review of the corporate governance by adapting the Corporation's statutory documents and the Board Charter to current realities and best practices in the industry.

During the year, the Board and Management successfully completed the smooth exit of two former shareholders from the development finance world, IFC and DEG, and welcomed two new strategic partners from the global insurance and reinsurance industries, namely

AXA and FAIRFAX. This move and the manner in which the whole process was conducted attracted many accolades from our customers, peers and rating agencies for its potential to raise our profile, increase our financial flexibility, serve better our clients and achieve our mission faster.

The Corporation's rating by A.M. Best was reaffirmed at A – with a "positive" outlook for the second consecutive year. The rating with Standard & Poor's was also reaffirmed at A – with a "stable" outlook for the Corporation. Hence, the Corporation continued to enjoy a unique position in the African competitive landscape. We do not take for granted such continuous achievements in a fast changing and volatile environment. We will continue to keep and even improve the financial security we offer to our esteemed customers.

The year 2015 was certainly challenging but the Corporation managed to post a very good profit which will strengthen its capital base, through retained earnings, after the distribution of a decent dividend to the shareholders. The Board of Directors and Management will not spare any effort to protect the Corporation's business portfolio and grow it through high value and quality services to ceding companies, as well as through business partnership. In spite of an already challenging 2016 year for many African economies, indicators pointing to a slowing global economic growth, and an ongoing negative outlook for the reinsurance sector, we remain hopeful that 2016 will be slightly better than last year in terms of growth and profit for the corporation, barring strong depreciation of major African currencies. We draw our optimism from the stability of our portfolio in core markets, the relatively strong geographical diversification, as well as internal strengths and distinctive competences proven over the years.

On behalf of the Board of Directors I would like to thank all the staff and Management, led by Mr. Corneille Karekezi, throughout our 8 locations on the African continent, for their dedication and hard work which contributed to the very good results in 2015.

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

I wish you a pleasant reading.

**Hassan Boubrik**
Chairman





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

# MANAGEMENT REPORT

## I. ECONOMIC AND TRADE ENVIRONMENT IN 2015

### Global Economy: Sluggish Demand and not so Good Outlook

The global economic activity remained subdued in 2015 with a 3.1% growth (2014: 3.4%). The slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in almost all the large emerging countries have muted the economic recovery which was modest and uneven in advanced economies. The political economy took centre stage, with Greece's faltering negotiations leading ever closer to a crisis. Other political and social crisis, such as the ongoing Syrian war and the immigrant crisis in Europe, weighed on the growth prospects in 2015.

The US economy posted a 2.5% growth (2014: 2.4%), strong enough gains to convince the Federal Reserve it was finally fit enough to handle higher interest rates. Unemployment fell to 5% from 5.6%, average hourly earnings of private-sector workers rose by 2.3% and workforce expanded by 2.6 million employees. However, this was not enough to absorb the nearly 15 million unemployed people looking for work in 2010. By some measures, the US economy in 2015 looked a little different from what prevailed since the official ending of the recession in 2009.

The European Union economic recovery continued in 2015 albeit at a much slower pace than anticipated. Growth had picked up to 1.5% in 2015 (2014: 0.9%), the strongest performance since the recovery started in September 2013. However, the pace of European Union recovery has been disappointing especially given the fact that the euro area has benefited from a double impetus: the fall in energy prices and the quantitative easing carried out by the European Central Bank. Consumer spending was not boosted although the weak euro helped exporters and contributed to a big current account surplus of 3.7% of GDP in 2015.

In Japan, although dynamics in the job market remained strong, a number of headwinds clouded the economic outlook for the world's third largest economy. A stronger yen and subdued external demand took its toll on the economy which grew by only 0.6% (2014: 0.0%). On the domestic front, the prospect of deflation threatened to dampen consumption.

The continuing dissipation towards global growth was better demonstrated by a lower growth in China where investment declined and other leading factors pointed to a further slowdown. Real GDP growth in China decelerated to 6.9% in 2015, its worst performance in 25 years.

In emerging market economies, the continued growth slowdown reflects several factors, including lower commodity prices and tighter external financial conditions, structural bottlenecks, rebalancing in China, and economic distress related to geopolitical factors. The slowdown in China spilled over to several key emerging markets.

Brazil faced a political upheaval and a sharper contraction than expected with a substantial slowdown to – 3.8% (2014: 0.1%) and the Russian economy was recessed by – 3.7% in 2015 (2014: 0.6%). In sharp contrast, sub-Saharan Africa recorded a relatively slow growth at 3.5% in 2015 (2014: 5.0%), underpinned by decreasing domestic consumption and investment spending, lower commodity prices, subdued global demand for export products, fiscal space limitations and weaker foreign direct investment (FDI) inflows which adversely impacted growth.

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### African Economy: Moderate Growth amid Worsening Economic Conditions

2015 was a difficult year for most African economies for several reasons. Firstly, prices of almost all major commodities dropped significantly by over 50% (iron ore: 60%, crude oil: 55%) causing a significant dip in their revenues. Commodities account for over 80% of total foreign exchange and government revenues in several African economies. Falling prices had a huge negative impact on the economies of producers of oil (Nigeria, Angola, Algeria, Equatorial Guinea), copper (Zambia and the Democratic Republic of Congo) and gold (Ghana, South Africa, Mali and Burkina Faso). Secondly, the slowdown in the Chinese economy, Africa's biggest trading partner and major financial partner, negatively affected economies in Africa. Thirdly, as a consequence of the above reasons, almost all the currencies depreciated against the US dollar, some by over 30% such as the South African rand, and many others by double digit percentages.

As a result of these economic woes, Africa's 2015 Gross Domestic Product (GDP) grew by just about 3.75% (sub-Saharan Africa: 3.5%, Nigeria: 3.0%, South Africa: 1.3%) below the 5% average of the last decade. It should be noted that the economic events mentioned above have affected economies in Africa very differently, and this has resulted in different GDP growth rates in 2015. Some economies achieved GDP growth rates above 6% and others barely managed to grow above 3.5%. Cote d'Ivoire, Ethiopia, Mozambique, Tanzania, Rwanda and Kenya are in the former group while Angola, Nigeria, Ghana, Botswana, South Africa, Congo and Equatorial Guinea are in the latter group.

South Africa's economy grew by just 1.3% in 2015 following a very difficult consumer environment, ongoing fiscal challenges, contractions in fixed investment spending by the public and private sectors, as well as a subdued export performance and a higher import bill. The rand depreciated sharply due to substantial outflows of investment capital, large trade imbalances and a strong US dollar. Unemployment, at a rate of 25% (compared to an average of 11% for upper middle income countries, according to the World Bank), remains the most challenging of South Africa's hurdles and at the top of government priorities.

### Financial Markets: Weak Return in a Mixed Performance and Stronger Dollar Environment

The year 2015 was marked by significant events: European Quantitative Easing Program started in January, Greece defaulted on its debt in July, China currency devalued in August, FED interest rate hike in December. In addition, crude oil price reached a 12-year low as a consequence of oversupply. African currencies depreciated against the US$ as a consequence of the low oil price.

Equity market performance was globally negative in 2015 (TOPIX: -11.0%, DJ Euro Stoxx 50: -4.4%, MSCI EM: -14.6%, MSCI EAFE: -0.4%). Only the S&P500: 1.4% fared better. On the Fixed income space, Preferreds had the best performance with 8.5%. The 10-year Treasuries and 30-year Treasuries recorded 0.9% and -3.2% returns respectively.

African equity markets recorded mixed returns. Nigeria and Kenya recorded negative performances: Nigeria ASI: - 17.4% and Nairobi NSE20: - 21.0%. South Africa performed better: South Africa Top 40: + 7.5%.

The global bond market did not perform any better in 2015. The fourth quarter marked the first US Fed rate hike since June 2006. Most US investment grade fixed income benchmarks posted modest losses, while high yield indices faced additional challenges. Higher-quality corporates and securitized assets, which represent 26.9% and 23.5% of the US Aggregate Index, respectively, helped the Index earn an excess return over like-duration Treasuries.

During the year, the euro and UK pound weakened by 10.88% and 5.12% respectively against the US dollar. The South African rand, Nigerian naira, Kenyan shilling and Egyptian pound all depreciated against the US dollar by 34.49%, 8.85%, 13.09% and 9.51% respectively. Other transactional currencies XOF, MAD, MUR and ETB equally weakened by 10.88%, 9.12%, 12.91% and 4.40% respectively.

The Corporation's investments marginally decreased by 2.19% from US$ 1,072.33 million in 2014 to US$ 1,048.60 million in 2015 largely as a result of the depreciation of the major currencies against the US dollar, in particular the South African rand and the Kenyan shilling.

Accordingly, investment income & other income for the year 2015 recorded US$ 26.75 million constituting a return on investment (ROI) of 2.52%. The results were largely driven by the equity and bond markets less the impact of exchange rate depreciation.

### Global Reinsurance: Another Clement Claims Year amidst Falling Performance Ratios and Abundant Capacity

International reinsurers had another benign claims year as insured losses reduced from US$35 billion in 2014 to US$32 billion in 2015. Man-made losses were US$9 billion (2014: US$7 billion) while natural losses were US$23 billion (2014: US$28 billion). Despite being a year of many disaster events and 26,000 fatalities (2014: 12,700), the natural catastrophe figure in 2015 was far below the 10 year average of US$55 billion.

Global demand for primary non-life insurance increased by 5.6% in 2015. In the next two years, emerging markets will be the main drivers with premiums up by an estimated 7.9% and 8.7% respectively.

The non-life reinsurance sector underwriting result is expected to be strong for the 4th consecutive year, because of low natural catastrophe losses and reserve releases, culminating in a combined ratio estimated at 90%. However, with falling prices, profit margins have been eroded over the past two years. Property catastrophe reinsurance rates are currently close to bottoming out and the rate softening in most lines is expected to be at best moderate. In casualty and specialty, significant differences in pricing developments by market and line of business are expected.

The outlook for investment income is negative as high yield bonds market may enter a turmoil. The concern is for the few reinsurers that expose themselves to the high yield bond market in a time when interest rates are rising. As at half year, investment yields remained low at 2.3% (H1 2014: 2.3%).

Consequently, the return on average equity (RoE) of 10.4% as at half year (2014 H1: 13.7%), is estimated at around 11% by year-end 2015.

The Mergers & Acquisitions (M&A) trend in the insurance and reinsurance industry also continued unabated in 2015. Deals lead to more deals as buyers seek to buy scale and visibility for growth and better deployment of their growing capital. Similarly, intra African trade in form of cross-border mergers & acquisition activities, have heightened in the past five years. An unprecedented number of deals were concluded in 2015 mainly by European and South African insurers.

In Africa, though premium rates are falling as a result of excess capital and intense competition, the reinsurance industry continues to record profits albeit with reduced margins each year. However, international players' interest in the market has not abated, providing both capital and equity.

From 1 January 2016, Europe's insurers will be governed by Solvency II, which aims to ensure that policyholders throughout the European Union enjoy the same level of protection, no matter where they buy insurance. Solvency Assessment and Management (SAM), which will also be rolled out at the same time, will be adapted to South African circumstances where necessary. The rest of Africa is also preparing for the risk-based capital regime by enacting regulations to that effect.

The reinsurance sector outlook, which has been negative since January 2014, continues to remain so as premium prices are expected to continue to slide further and investment yields to remain low in 2016. The increased M&A which would reduce the number of players in the market place is not expected to mop up excess capital built up in the last couple of years by traditional and non-traditional reinsurers.

However, at present, reinsurers rating is expected to remain resilient as long as capitalization remains strong and profit levels are adequate. Rating agencies, concerned by a potential erosion of previously built claims reserves, are keenly watching the landscape and could yield the big stick, if the profitability of the sector deteriorates (even if capital remains strong), RoE drops below 10%, or if there is a catastrophic loss in excess of US$70 billion coupled with a sudden hike in interest rates.

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### The Corporation in 2015: Excellent Underwriting Results amidst Stiff Competition

For the first time, the production income of the Corporation (US$689.29 million) fell below the previous year's turnover of US$717.52 million by 3.9% due to a massive and systemic strengthening of the US dollar against African currencies in which the Corporation writes most of its income. However, using 2014 rates of exchange to the US dollar, the Corporation would have exceeded both the target set and last year's figures by 1.50% and 9.35% respectively. The weighted average underlying growth rate in operating currencies which was above 9.35% translates to transactional losses cumulating at US$95.58 million.

Thanks to a good claims experience, both attritional, large and catastrophe claims were at their low levels, which led to an excellent incurred loss ratio of 52.67% (2014: 55.69%), an excellent net technical margin (underwriting profit) of 13.14% compared to 11.17% in 2014 and 7.42% in 2013, an excellent combined ratio in many years of 86.86% (2014: 88.83%, 2013: 92.58%), one of the best ever achieved, and a strong underwriting result of US$ 77.64 million (2014: 68.65 million, 2013: US$ 41.26 million).

While the underwriting profit was excellent, the investment income fell from US$50.50 million to US$26.75 million following general poor performance of the global and African financial markets and a longstanding low interest environment.

Consequently, the overall net profit of the Corporation fell from US$118.50 million to US$ 103.65 million in the year under review.

The main impediments to achieving a higher top line were the significant depreciation of all major and several other African currencies, rate cutting in a number of our markets as well as cost saving restructuring of reinsurance by some buyers. On the bottom line side, the difficulties of the global investment climate, with one of the lowest ever investment income performance, is the sole reason of the drop of 12.53% recorded in 2015 for the overall net profit.

The return on average equity (RoAE) of 13.67% achieved in 2015 (2014: 16.76%, 2013: 13.19%) remained strong above the global average of 11%.

The level of capitalization, which continued to increase in 2015 due to significant earnings retention, ended at US$ 780 million, 5.86% above US$ 737 million at the end of 2014.

## OUTLOOK FOR 2016

### Challenging Premium Income Growth and Stable Profitability for the Corporation

Global growth is expected to inch up moderately to 3.4 percent in 2016 from a projected 3.1 percent in 2015, with uneven prospects across the main countries and regions. Relative to last year, the outlook for advanced economies is promising, while growth in emerging markets and developing economies is projected to be lower, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries.

The general view of financial analysts is that the central banks will be under pressure by markets while stocks are likely to continue to be oversold and big moves likely to be seen at FX markets in 2016. Investors will face the likelihood of the US Federal Reserve shifting borrowing costs higher for the first time in nearly a decade, while trying to gauge the extent of China's slowing growth and how far other leading central banks ease policy. How this divergence between the US and the rest of the global economy plays out, looms as one important driver of investment sentiment across markets over the coming year.

The global reinsurance industry posted strong, but declining, financial performance in 2015. It is expected that reinsurers will continue to face intense market pressure and the industry outlook to remain negative. Abundancy of capacity, following the capital inflow from traditional reinsurers and alternative sources, will continue while insurers are expected to retain more risk and adopt new buying strategies, leading to structural pressures for reinsurers. In such an environment, pricing adequacy will decline and reinsurers may tend to take more risks in the search for yield. However, given the very low investment return recorded by many global reinsurers in 2015, and the fear of a potential catastrophe, we believe that reason will prevail and the decline of premium rates should be mild.

The Corporation expects the impact of most of the ongoing reinsurance market challenges and pressures seen at the global level to be low in the African reinsurance sector. The reasons why the African reinsurance sector is relatively shielded from such pressures, at least for now, may be found in the low sophistication of reinsurance products on the continent, predominance of stable basic treaties over facultative business, low demand of catastrophe risk covers, strong growth of top lines and the relatively low level of capitalization of most insurers.

However, the Corporation will continue to face a different set of challenges in its African context, namely the slow growth of African economies and the falling value of the original currencies in which the vast majority of its income is denominated.

Based on the bitter experience in 2015, characterized by a sharp drop of oil prices, a significant devaluation of African currencies, led by the South African rand, and the threats on African economic growth rates, it is expected that the Corporation will struggle to meet the growth targets set in the 5th Strategic Business Plan for the period 2014-2018.

While the underlying premium income growth rate should be above the target of 7.5% to 10% in 2016, these targets may not be attained if the economic and monetary environments remain as they were in 2015.

Indeed, the economic growth is expected to be hardly around 4% in Africa, following the low growth forecast in the GDP of the two biggest economies, Nigeria (2.4% compared to 3.0% in 2014) and South Africa (0.7% compared to 1.3% in 2015). The risks to this outlook remain on the downside, particularly with respect to low demand for commodities, low oil prices, South African socio-economic and political tensions, slowing FDI and official development assistance, as well as hard currency shortage in oil producing economies.

In the Corporation's core markets, competition is likely to remain high or even intensify in some markets due to increasing capitalization of African insurers and reinsurers, the formation of new national reinsurance corporations in some countries and the yearning for growth and diversification shown by South African and European players. Markets like South Africa, Mauritius and Egypt are also likely to remain very competitive with low premium rates. However, it is expected that reinsurance rates, terms and conditions will remain generally adequate as witnessed during the December 2015 / January 2016 renewal period, especially during times of low investment returns. Finally, there is no indication that claims experience will worsen significantly as much of Africa is not prone to major natural catastrophes.

If the negative fluctuation of African currencies against the Corporation's reporting currency continues, the Corporation's financial performance will be impacted on the top and bottom lines like in the year 2015. Consequently, the Corporation has resolved to improve its foreign exchange risk (translational and not transactional one) mitigation strategy through natural hedging mechanisms, conversion of excess funds from original currencies to US dollar whenever possible and investment in US dollar-hedged instruments if available in local financial markets. The Board of Directors has also started to consider the purchase of forex hedging products, although the decision may remain challenging if their cost is high, their scope, range and availability limited, and nature speculative; as indicated by the difficult situation faced by some global financial companies with investments denominated in the South African currency.

Despite current challenging times for top line growth, there is a strong confidence that the targets in combined ratio (89% - 95%) and return on average equity (11% - 16%) shall be again largely met in 2016.

With strong capitalization, the Corporation will continue to seek profitable expansion growth by further penetrating untapped markets and products, as well as existing markets through differentiation. The Corporation will more than ever before focus on enhancing internal competencies and reinforcing differentiation through the development of its distinctive competences in its core markets. Finally, the disciplined underwriting which led to a recent outstanding decline of the combined ratio will be maintained.

Accordingly, the Corporation expects a low premium income growth in 2016 and a decent bottom line.

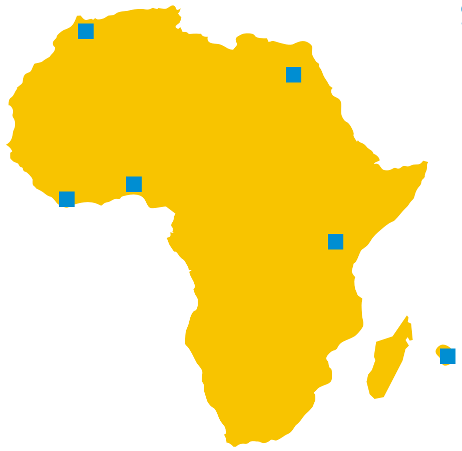
## II. OPERATIONS

This section examines the Corporation's operating results for the year 2015 and compares it to the performance of the previous year.

Africa Re operates from eight strategic locations on the continent. Each of these offices is in charge of specific markets within a geographical location. This enables every insurance market in Africa to be served by the Corporation.

This proximity of Africa Re to its clients and its adherence to best practices give the Corporation a unique access to diversified and profitable business from 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 African 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.

The portfolio of insurance risks accepted by the Corporation may be broadly classified along the following business lines:

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



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

| Description (US$000) | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Gross | Retro | Net | Gross | Retro | Net |
| **Income** | | | | | | |
| Premium (less cancellations) | 689,291 | -95,818 | 593,473 | 717,525 | -93,138 | 624,387 |
| Change in unearned premium provision | 2,888 | -5,540 | -2,653 | -8,944 | -998 | -9,942 |
| Earned premium | 692,179 | -101,359 | 590,820 | 708,582 | -94,137 | 614,445 |
| **Outgo** | | | | | | |
| Losses paid | 346,177 | -31,434 | 314,743 | 344,560 | -15,326 | 329,234 |
| Change in outstanding claims provision (incl. IBNR) | -7,474 | 3,941 | -3,533 | 5,929 | 6,996 | 12,925 |
| Incurred losses | 338,703 | -27,493 | 311,210 | 350,490 | -8,331 | 342,159 |

### Premium income

In 2015, the Corporation generated a gross written premium income of US$689.29 million which was 4% below 2014's figure of US$717.53 million.

The fluctuation in exchange rates negatively impacted the corporate production by US$95.21 million mainly due the weakening in virtually all African currencies.

Preliminary estimates show that 2015 economic growth in sub Saharan Africa, amid external and domestic headwinds, would be about 3.6%. This makes it the slowest in 6 years. Low commodity prices, coupled with weak growth among the region's main trading partners (majorly due to a slowdown in China), caused growth to be under potential last year. On the domestic front, political instability, adverse weather conditions as well as water and electricity shortages undermined growth.

As the main threats to growth remain, recent opinion of analysts is that SSA would grow modestly by 3.8% in 2016.

Egypt's GDP grew by 4.2% in 2015 (2014: 2.1%), it's strongest in 5 years. Egypt's GDP is expected to expand 3.5% & 4.2% in 2016 & 2017 respectively. Algeria's outlook will continue to weaken as oil prices fall. Analysts however expect GDP to moderately expand in 2016 & 2017 by 1.6% and 2.1%. The economy of Morocco is expected to slow on the back of lower-than average rainfall at the beginning of 2016. Analysts predict the economy to grow 3.1% in 2016 and 4.3% in 2017. In Tunisia, though economic activity seems to have stagnated in Q4 2015, analysts believe that if crucial growth-oriented reforms are carried out, the economy should grow by 2.4% & 3.1% in 2016 in 2017.

The insurance industry, which in most markets is fully deregulated and liberalised, continues to be generally profitable and is expected to remain a vital support to the growth of economies in Africa.

The Corporation, being a reinsurer of choice in the continent continues to provide much needed capacity backed by its A- rating from AM Best and S&P, is expected to continue to enjoy a healthy underwriting bottom line in the years ahead.

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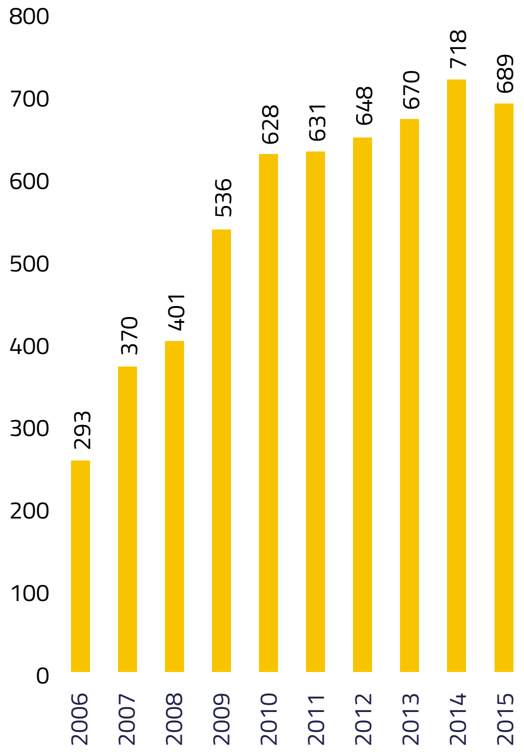
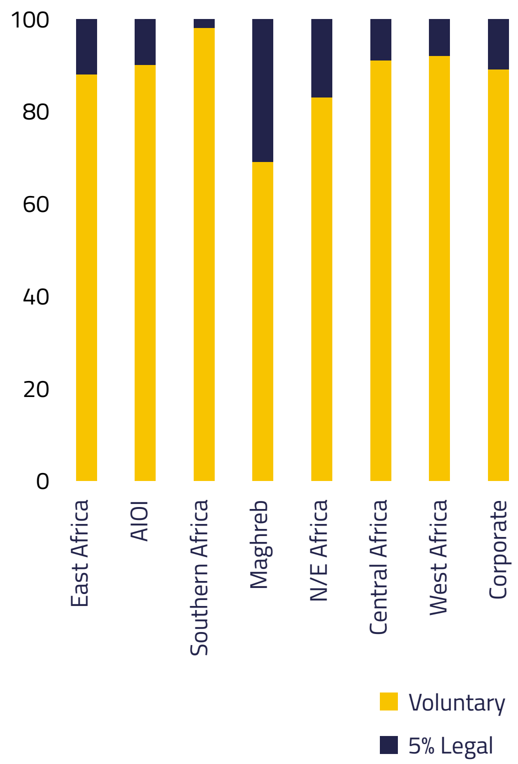
## Development of gross written premium in US$million



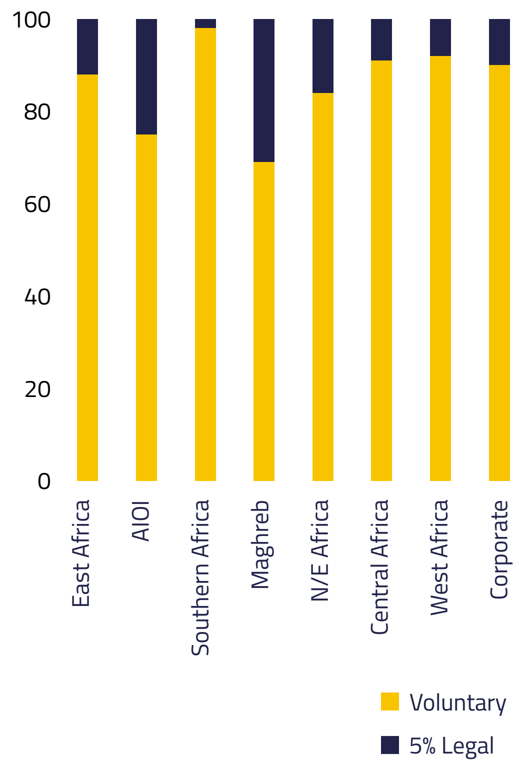

## Legal cessions

The provision of legal cessions is historical in the sense that Africa Re was set up in 1976 by 36 States in the continent with a view of stemming the tide of premium incomes from the continent by foreign reinsurers with long ties to the continent. In order to survive the early years as an unknown and untested security, the Corporation was granted 5% of every reinsurance treaty emanating from the 41 member States. This greatly assisted Africa Re to retain a small slice of the African reinsurance premium income from these more established reinsurers. Compulsory cessions presently account for only 10.0% of its income.

## Financial year 2015




## Financial year 2014




## Geographical distribution

The Corporation which accepts businesses from cedants across Africa, as well as selected markets in Asia, the Middle East and Brazil in South America, operates from a network of six regional offices, two subsidiaries and a local office.

### Southern Africa

The African Reinsurance Corporation, South Africa Ltd (ARCSA) oversees operations in Angola, Mozambique, Botswana and the rand zone from Johannesburg. The subsidiary is Africa Re's highest income earner. In the year under review, ARCSA generated US$170.75 million a drop of US$ 36.14 million from last year' US$206.89 million. The situation is largely due to the depreciation of the rand that led to a production loss of US$36.57 million and the cancellation of some loss making accounts leading to a loss of premium income of US$19.79 million. ARCSA's contribution to the group's turnover was 24.77% in 2015.

### East Africa

Production from this region marginally reduced in 2015 by 0.14% to US$ 159.82 (2014: US$160.04 million). The income represents 23.19% of the corporate income. Though the region performed well in local currencies, depreciation of virtually all currencies led to a loss of income to the tune of US$17.89 million.

### West Africa Regional Office

The income from this region was US$ 98.43 million (2014: US$106.59 million), representing 14.28% of corporate production. The drop in income of 7.7% compared to 2014 was due mainly to the devaluation of the Naira, and the lull in major projects Nigeria as the new Government settles down to formulate and execute its own economic policy initiative. Currency fluctuations driven by the Nigerian Naira led to a loss of US$12.84 million.

### Maghreb

The production from the Maghreb marginally grew by US$0.75 million to US$64.75 million in 2015 despite the devaluation of currencies in the region which led to an income loss of US$11.43 million. The income from the Maghreb represents 9.39% of corporate premium income.

### North East Africa

The domestic production from the Cairo Regional Office was US$41.81 million in 2015 (2014: US$40.36 million). The income from North East Africa represents 6.07% of corporate production.

### 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 dropped by 6.78%, from US$65.76 million in 2015 to US$61.30 million in 2015 as a result of drop in premium income from Oil business (-US$8.0 million) and the devaluation of the CFA which led to a production loss of US$5.48 million.

### African Indian Ocean Islands

Income from the African Indian Ocean Islands increased significantly from US$13.67 million in 2014 to US$23.76 million due to increased participation of business from Mauritius, representing 3.45% of the Corporation's turnover.

### Africa Retakaful

The turnover of Africa Retakaful increased from US$38.73 million in 2014 to US$40.43 million in 2015.

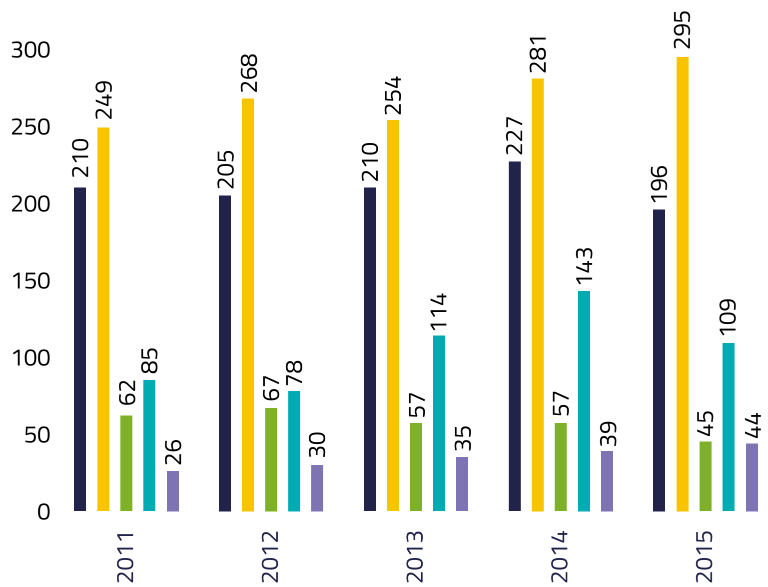
### International Business & African Pools

Africa Re's income from international business increased from US$21.29 million in 2014 to US$28.23 million in 2015. The Middle East production was US$15.44 million (2014: US$ US$10.99 million). The income from Asia increased marginally from US$8.34 million in 2014 to US$8.54 million in 2015. Production from Brazil which in its first year of production (2014) stood at US$1.27 million increased to US$3.51 million in 2015.

## Geographical distribution of gross premium

- Anglophone West Africa **14.3%** *(2014: 14.9%)*
- East Africa **23.2%** *(2014: 22.3%)*
- Maghreb **9.4%** *(2014: 9.0%)*
- Southern Africa **24.8%** *(2014: 28.8%)*
- Francophone Africa **8.9%** *(2014: 9.2%)*
- Indian Ocean Island **3.4%** *(2014: 1.9%)*
- North East Africa **11.9%** *(2014: 11.0%)*
- International **4.1%** *(2014: 3.0%)*

## Premium by class in US$million




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

## Sectoral distribution

Fire and Engineering class continued to produce the highest turnover with US$295.15 million representing 42.82% of corporate production as against US$281.42 million or 39.22% in 2014. This was followed by the Accident and Motor class which stood at US$196.30 million or 28.48% of corporate income (2014: US$226.68 million representing 31.59%).

Oil & Energy class was third with a production of US$108.67 million or 15.77% of turnover (2014: US$113.39 million representing 15.80%).

The Marine and Aviation class was fourth with US$45.36 million or 6.58% (2014: US$56.71 million or 7.90%) while the Life class followed with US$43.81 million representing 6.36% of corporate production (2014: US$$39.32 million representing 5.48%).

The premium income from the African Oil & Energy and African Aviation Insurance Pools managed by the Corporation increased from US$694,022 in 2014 to US$738,771.





## Technical expenses

### Losses

The total claims paid increased slightly from US$344.56 million in 2014 to US$346.18 million in 2015. Claims paid ratio increased from 48.02% in 2014 to 50.22% in 2015. Incurred losses which include movement in outstanding claims provision (US$-7.47 million as against US$5.93 million in 2014), amounted to US$338.70 million in 2015 (US$350.49 million in 2014).

The following table provides insight into the above mentioned indicators.

## Gross loss ratio by class-financial year 2015 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.** | 150.22 | 276.74 | 54.28% | 12.96 | 10.31 | 125.68% | 163.19 | 287.05 | 56.85% |
| **Accident motor** | 118.00 | 191.33 | 61.67% | 3.21 | 5.82 | 55.09% | 121.21 | 197.15 | 61.48% |
| **Energy** | 21.91 | 110.78 | 19.78% | 0.01 | 4.62 | 0.23% | 21.92 | 115.40 | 18.99% |
| **Marine & aviation** | 15.47 | 46.23 | 33.47% | 1.65 | 2.33 | 70.83% | 17.12 | 48.56 | 35.26% |
| **Life** | 15.13 | 43.92 | 34.45% | 0.13 | 0.09 | 149.14% | 15.26 | 44.01 | 34.68% |
| **Total** | **320.74** | **669.00** | **47.94%** | **17.96** | **23.18** | **77.51%** | **338.70** | **692.18** | **48.93%** |

### Loss Experience by Trading Area

The gross incurred loss ratio for the Subsidiary in South Africa remained high but reduced from 75.22% in 2014 to 71.72% in 2015 and the net incurred loss ratio also decreased from 76.96% to 73.52% during the same period.

The incurred gross loss ratio of the West Africa Regional Office increased from 30.55% in 2014 to 43.02% in 2015, as a result of a major loss from Total E&P in the Energy class. The net incurred claims ratio however decreased from 42.96% in 2014 to 36.30% in 2015.

The incurred loss ratios (gross and net) from East Africa increased from 46.04% and 47.17% respectively in 2014 to 48.41% and 50.22% in 2015. The increase in loss ratios was due to some major losses recorded by the office during the year including Vitafoam, Eskom and Nepal earthquake.

The Maghreb region's gross loss ratio increased from 39.46% in 2014 to 44.80% in 2015, while the net loss ratio decreased slightly from 44.45% to 43.47% during the same period.

The incurred loss ratios of North East Africa decreased from 54.03% (net: 66.90%) in 2014 to 24.05% (net: 39.01%) in 2015 as the region recovers from the large losses that affected Fire and Energy classes in 2014.

The gross and net incurred claims ratio of the Francophone West and Central Africa decreased from 19.65% (net: 31.48%) in 2014 to 15.68% (net: 25.09%) in 2015.

The gross claims experience of the African Indian Ocean Islands increased from 37.04% (Net: 39.38%) in 2014 to 49.05% (Net: 48.94) in 2015. The loss ratio increased due to high claim paid on Jubilee fire treaty for the years 2013-2015 which accounts for nearly 50% of the total claim paid.

The incurred claims ratio of the Africa Retakaful Company increased from a gross and net ratio of 44.72% and 46.40% to 55.32% and 55.45% respectively.

The gross and net incurred loss ratios of the international operations remained high at respectively 77.97% and 87.64% (2014:82.40% and 76.91%).

### Commissions and Charges

During the period under review, gross commissions and charges including movement in deferred acquisition costs amounted to US$179.22 million (2014: 180.91 million), while retro commissions stood at US$17.32 million (2014: US$15.05 million). Accordingly, net commissions and charges decreased from US$165.86 million in 2014 to US$161.90 million in 2015.

## III. INVESTMENT INCOME

### Portfolio performance

The year 2015 could be remembered as full of tumultuous financial events. The year started with falling oil prices that caused the world economy to adjust, favouring non oil producing economies over oil producing economies. Global equity markets struggled and as oil prices plummeted, central banks were forced to react. By the end of the first quarter, twenty-one central banks had cut policy rates. The EU introduced its own quantitative easing program. However, this was too late to prevent deflation in Europe as banks and households were reluctant to increase borrowing. At the same time, there were concerns that China might need to recapitalize its banking system similar to what had transpired earlier in the US and UK.

There was a glimmer of hope at the beginning of the second quarter that financial markets could recover as political risks subsided following Russia's ceasefire agreement in Ukraine and a perceived Greece/Euro block negotiations. This was however short-lived as, by June, there was uncertainty over the ability by Greece to service its debt commitments and investors started speculating about a Greek bailout or a potential "grexit".

Sharp and sudden falls in emerging market currencies were a topic throughout the year.

Central bank actions were very mixed. The divergent central bank policies worsened the situation. While the European Central Bank and the Bank of Japan sought to loosen their monetary policies to help increase borrowing, the Bank of England rather tightened its monetary policies. In the United States, the Federal Reserve (Fed) increased interest rate by twenty-five basis points in December for the very first time in a decade.

The growing expectation of an interest rate hike from the US Fed helped drive the US dollar up against its main trading partners and hampered the growth of the equity market. Some of the Corporation's transactional currencies namely, the Kenyan shilling, South African rand, Mauritian rupee and the CFA suffered double-digit depreciation vis-à-vis the US dollar.

Sub-Saharan Africa's economy registered another year of notable growth, although the expansion was at the lower end of the range registered in recent years, mainly as a result of the severe impact of the sharp decline in oil prices. In an era of tightening global financial conditions, the large fiscal and current account deficits in some countries left them vulnerable to a potential reduction in external financing.

The value of the investment portfolio inclusive of the deposits with ceding companies and investment properties decreased by 2.19% YoY from US$1,072.33 million in December 2014 to US$1,048.60 million largely as a result of the negative impact of the depreciation of major operational currencies against the US dollar. During the year, the Corporation increased funds under management with ML, UBS US, and UBS UK. Management continues to prudently manage the assets of the Corporation in line with the approved investment policy guidelines.

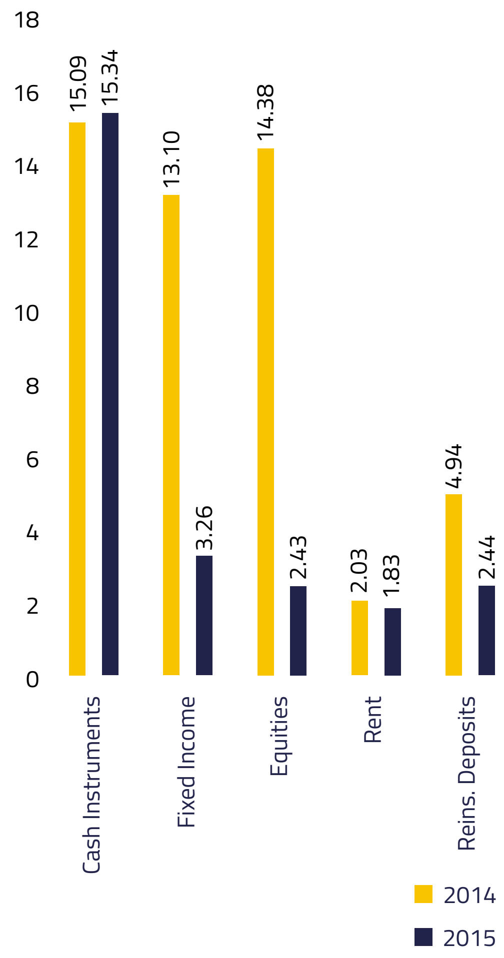
The Corporation recorded a partly total investment income plus other income of US$26.75 million, compared to US$50.50 million achieved in the previous year. This poor performance was the worst year on year drop in the history of the Corporation. The breakdown of the investment income reveals that return on cash and cash equivalents amounted to US$15.34 million compared to US$15.09 million recorded last year.

There was a deliberate effort during the year to convert operational currencies into the reporting currency to minimise currency translation loss. The Corporation also continues to reallocate long-dated instruments into short-dated instruments. The idea is to minimise the impact of global interest rate adjustments, in particular the US dollar, on the Corporation's fixed income portfolio.

Earnings from reinsurance deposit of US$2.44 million was 50.61% of last year's figure of US$4.94. The 2014 figure included a one-time reversal of a credit balance in the retrocessionaire account of US$2.80 million.

Rental income of US$1.83 million was slightly lower than the 2014 figure of US$2.03 million.

### Investment income by asset class In US$ million




### Asset composition

The Corporation ended the year with a total investment portfolio value of US$1,048.60 million (inclusive of property) compared to US$1,072.33 million as at 31 December 2014. The 2.19% decrease in the investment portfolio is attributed largely to the currency translation loss adjustment of US$45.03 million recorded during the year. Operational cash flow surplus generated during the year and a decent investment income less the currency translation loss account for the drop in investment assets. The depreciation of the South African rand, Kenyan shilling and the euro against the US dollar in 2015 by 34.49%, 13.09% and 10.88% respectively was mainly responsible for the currency translation loss.

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 risk-adjusted return.

Cash instruments continue to dominate the asset composition, accounting for 39%, which is 600 basis points lower than the year before (2014: 46%). This asset class is invested primarily in treasury and other money market securities with highly-rated counterparties. Bonds and other fixed income securities followed suit at 34%, up from the 30% recorded last year while the composition of the equity portfolio moved up 300 basis points to 14% as at the end of the year.

- Real Estate **1%** *(2014: 1%)*
- Reinsurance Deposit **12%** *(2014: 12%)*
- Cash Instruments **39%** *(2014: 46%)*
- Bonds & Other Fixed Income **34%** *(2014: 30%)*
- Equities **14%** *(2014: 11%)*

## 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 increased its investment in PTA Bank by an additional US$2 million. The Corporation also committed to invest in CAPE Fund IV. PTA Bank is a regional financial institution operating in the COMESA zone in South Eastern Africa while Capital Alliance Private Equity (CAPE) is a private equity firm that focuses on West Africa. As at December 31st, 2015, the Corporation's total commitment to private equity stood at US$33.18 million (3.16% of total investment portfolio) invested in a portfolio of 15 companies. These private equity investments are made up of:

- three (3) international development finance institutions: Shelter Afrique, PTA Bank and Afreximbank,
- Two (2) insurance companies: AGF Assurance Vie / Allianz Vie (Cameroon) and ATI Agency (Kenya),
- One (1) pension fund administration company (ARM PFA in Nigeria)
- Eight (8) privately managed private equity funds (CAPE II, CAPE III, ACRF, ECP Africa Fund III, Adlevo Capital, PAHF, Carlyle Africa fund and AAF SME Fund).

Rental income from the Corporation's three office buildings in Lagos, Nairobi and Casablanca decreased by 9.85% to record US$1.83 million compared to the US$2.03 million recorded in 2014 due to termination of lease contracts by some tenants.

## Equities

The equity market performance was diverse in 2015. Major Global indices recorded the following performance: TOPIX: -11.0%, DJ Euro Stoxx 50: -4.4%, S&P500: 1.4%, MSCI EM: -14.6%, MSCI EAFE: -0.4%. On the Fixed Income space, Preferreds had the best performance with 8.5%, 10-year Treasuries and 30-year Treasuries recorded 0.9% and -3.2% returns respectively. In general, developed markets outperformed emerging markets whose market performance was dragged down by concerns over the economic growth of China.

Major African equity markets followed the global trend. Nigeria, Kenya and South Africa recorded the following year to date returns: Nigeria All Shares Index (ASI): -17.4%, Nairobi NSE 20: -21.0% and South Africa Top 40: +7.5%.

Following the lacklustre performance of the equity markets during the year, the Corporation's actively managed equity portfolio generated a lower performance of US$1.19 million, as compared to US$14.38 million recorded in the previous year. Furthermore, dividend income recorded amounted to US$4.42 million (2014: US$6.26 million); the portfolio generated unrealized loss of (US$4.78) million compared to unrealized gain of US$3.04 million posted last year.

### Currency Exposure of Equity Portfolio

- US Dollar **58%** *(2014: 55%)*
- Euro **13%** *(2014: 4%)*
- S. African Rand **24%** *(2014: 37%)*
- Nigerian Naira **3%** *(2014: 3%)*
- Kenya Shilling **2%** *(2014: 1%)*



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## Bonds and other fixed income

The US Federal Reserve raised its Fed rate in December 2015 for the first time since June 2006. The marginal raise - twenty-basis points - caused most US investment grade fixed income benchmarks to record modest losses, while high yield indices faced additional challenges. Higher-quality corporates and securitized assets, which represent 26.9% and 23.5% of the US Aggregate Index respectively, helped the Index earn an excess return over like-duration Treasuries. Similarly, the US Government / Credit Index, with a weight of 35.2% to high-credit-quality corporates, earned an excess return over US Treasuries.

The composition of the bonds and fixed income securities in the investment portfolio increased by 400 basis points to 34% as part of the continuous reallocation of the investment portfolio with a corresponding value of US$359.12 million (2014: US$311.20 million). The performance of the externally managed North American US dollar bond portfolio posted a yield of 0.1%, compared to the benchmark index return of 0.6%, while the performance of the South African rand portfolio fell short by 500 basis points of its benchmark to record 0.2%.

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+. The Corporation continues to categorize US Government Treasury securities as AA rated following the credit downgrade of the US Government in 2011.

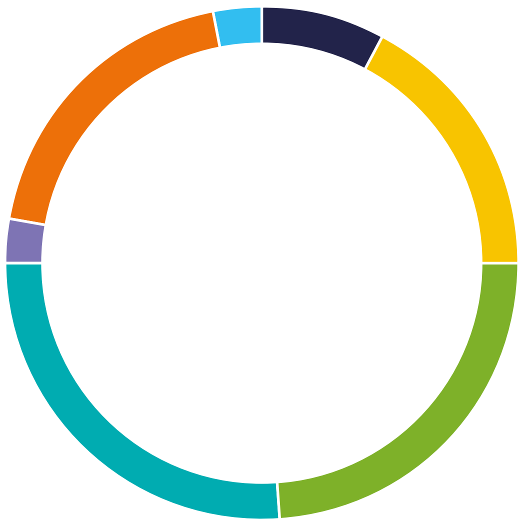
Consequently, the portfolio is made up of 8% "AAA" rated bonds, 17% "AA" rated bonds and 24% "A" rated bonds as at the end of the year compared to 7%, 17% and 27% respectively as at the end of 2014. The non-investment grade bonds are African sovereign and corporate issues which the Corporation holds 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 and 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 towers all the other asset classes. The Corporation maintains a sizeable amount in this asset class in order to meet its liabilities as they fall due. Income from cash and cash instruments stood at US$15.34 million, fractionally higher than the previous year's figure of US$15.09 million.

## Other Operating Income

Other operating income comprises predominantly fees from the management of the African Oil & Energy and Aviation insurance pools. Other operating income earned during the year amounted to US$1.45 million, considerably higher than the US$0.95 million earned in 2014 in line with the performance of the pools.



### Bond Portfolio Rating Profile

- AAA **8%** *(2014: 7%)*
- AA **17%** *(2014: 17%)*
- A **24%** *(2014: 27%)*
- BBB **26%** *(2014: 22%)*
- BB **3%** *(2014: 13%)*
- B **19%** *(2014: 14%)*
- C or D **3%** *(2014: 0%)*
- NR **0%** *(2014: 0%)*

# IV. RESULTS OF THE 2015 FINANCIAL YEAR

Gross written premium declined by 3.93% from US$717.53 million in 2014 to US$ 689.29 million as a result of the depreciation of most the African currencies in which the Corporation writes its income.

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. Net Premium ceded to retrocessionnaires on proportional and non- proportional business increased by 7.67% from US$94.14million in 2014 to US$101.36 million representing a net retention ratio of 85.35% (2014: 86.71%). The increase is in line with increase in proportional business.

Adjustment for the movement in the provision for unearned premiums, net of retrocessionnaires' share thereof, produced a net earned premium of US$590.82 million (2014: US$614.45 million).

Gross claims paid in 2015 amounted to US$346.18 million compared to US$344.56 million in 2014, representing an increase of 0.47%. Of the total losses paid, US$31.43 million (2014: US$15.33 million) was recovered from retrocessionnaires, resulting in net losses paid of US$314.74 million, compared to US$329.23 million in 2014. The adjustment for the movement in the outstanding claims (including Incurred But Not Reported - IBNR) provisions resulted in a net incurred loss of US$311.21 million, compared to US$342.16 million in 2014, representing a claims ratio of 52.67% (2014: 55.69%).

Management expenses for the year amounted to US$40.07 million, representing an increase of 6.06% compared to US$37.78 million in 2014. The need to maintain competitiveness in personnel remuneration; steady investment in the modernization of our IT platform and ongoing review of long outstanding cedant balances accounted for the increase. Consequently, the management expense ratio rose to 6.78% in 2015 up from 6.15% in 2014.

Income earned by the Corporation from investment and other sources, including interest on reinsurance deposits and fee income decreased by 47.02% to stand at U$26.75million compared to US$50.50 million in 2014. The results were impacted by lower equity gains from the bond and equity markets as well as impairments.

Profit after tax amounted to US$103.64 million in 2015 compared to US$118.50 million in 2014, representing a decrease of 12.54%.

# 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 net profit be distributed as follows:

- US$51,822,560 to the general reserve in accordance with Resolution No. 4/1992;
- US$17,623,860 to be paid as dividend at the rate of US$ 6.0 (2014: US$5.5) per subscribed and paid-up share of US$100 par value.
- US$8,000,000 to be transferred to the reserve for loss fluctuation;
- US$1,036,451 to be transferred to a corporate social responsibility fund; and
- The balance of US$ 25,162,249 to be added to retained earnings.

# VI. CAPITAL MANAGEMENT

Africa Re ensures that its solvency and cash flows are sufficient to meet existing liabilities, future growth aspirations and to maximize reported profits. This is achieved by efficiently managing capital through a risk-based capital modelling regime under which the Corporation holds 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 2013. This situation continued in the year 2015 as the Corporation maintained its strong capitalization.

The capital needs of the Corporation are assessed using an internal risk-based capital model and external proprietary rating models. The objective is to ensure that, at all times, the Corporation has available capital in excess of required capital.





## Financial strength ratings and capital adequacy

Due to its supranational nature, 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)of 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 in the measurement of 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 and adopt best practices for its Group operations.

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.

The evaluations of the rating agencies are based on a set of criteria including the assessment of our capital adequacy. They require an annual solvency probability of 99.6%, which entails a high level of capital that should enable the company endure exceptional losses once in every 250 years.

The Corporation has a strong capitalization under the capital adequacy requirements of the two rating agencies. The financial strength is assessed in accordance with the capital models of the two rating agencies in the table below.

A.M. Best affirmed the Financial Strength and Issuer Credit ratings of Africa Re as A- and a- respectively while maintaining the outlook for both ratings at positive. According to A.M. Best, the ratings of Africa Re reflect its **excellent risk-adjusted capitalisation**, strong operating performance and established market position across the African reinsurance market.

Standard & Poor's affirmed the Financial Strength and the Counterparty Credit Rating of Africa Re on 13 August 2015. The rating reflects the risk profile of Africa Re as follows:

**Business risk profile –**

- Strong franchise across Africa with solid market shares in key African countries;
- Well-diversified premiums;
- Strong operating performance.

**Financial risk profile**

- Strong capitalization;
- Excellent liquidity.

## Africa Re's internal capital adequacy

Africa Re's capital management aims at ensuring the ability to continue operations following an extreme adverse year of losses from the core business and financial market events. In the in-house model, the required capital is assessed by stochastic simulations of extreme losses that the Corporation may incur due to its exposure to insurance and investment risks.

As at 31 December 2015, the shareholders' funds (available capital) amount to US$ 780 million and the required capital is estimated at US$242 million, resulting in an internal capital adequacy of 322%.

## Financial strength ratings

| Rating Agency | Financial strength rating | Counterparty/ issuer credit Rating | Outlook | Last press release/ report date |
|---|---|---|---|---|
| A.M. Best | A- | a- | Positive | June 19, 2015 |
| Standard & Poor's | A- | A- | Stable | August 13, 2015 |

# VII. ENTERPRISE RISK MANAGEMENT (ERM)

Africa Re ensures an enterprise approach to its risk management process to enable efficient identification and management of known and emerging threats to its business operations.

The **ENTERPRISE RISK MANAGEMENT** (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 leveraging on opportunities. 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.

## Risk Governance

Conscious of the key need for a formalized enterprise risk management function in the Corporation, the Management of Africa Re created a Risk Management and Compliance Department 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 Management and IT Governance Committee of the Board.

## Key Risk Management Bodies and Functions

| | | | |
|---|---|---|---|
| **Board of Directors** | | | |
| **Risk Management and IT Governance 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" operational 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 of each of these functions and parties involved in the risk management process are described in detail in the Group Risk Policy Document.





## Risk Landscape

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

**Group 1 - Insurance risk:** Risk of loss arising from the Corporation's core business as a result of inadequate underwriting or reserving.

**Group 2 - Credit risk:** Risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

**Group 4 - Currency fluctuation risk:** Risk of loss arising from changes in the different operational currencies of the Corporation.

**Group 5- Liquidity risk:** The risk that sufficient financial resources are not maintained to meet liabilities when due.

**Group 6 - Strategy risk:** Risk that the strategy the company set for itself is unsuccessful or does not adequately recognise opportunities.

**Group 7 - Reputational risk:** Risk of loss arising from damages to the Corporation's brand, leading to loss of business and competitive advantage.

**Group 8 - Regulatory/Compliance risk:** Risk of loss from non-adherence to regulatory or shareholding agreement and international standards/policies leading to fines, sanctions and interventions and ultimately revocation of operating licence.

**Group 9 - 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.

## Risk Management Processes

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

### Financial Risks

Insurance, credit, liquidity, currency fluctuation and market risks have been classified as financial risks. The management of these risks is covered under "Management of Insurance and Financial Risks" (Pages 76 - 82).

### 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 six sub-categories of operational risk: people, processes, systems, external events, legal, and capital adequacy. Other risks (categories) such as reputational, strategy and regulatory/compliance risks have been identified separately. The detailed risk categorization is set out in the Corporation's Risk Policy Document and Risk Register.

Africa Re is committed to properly mitigating and managing its exposure to operational and other non-financial risks. The operational risk management model involves the following cyclical process: identification, assessment, response & control, reporting and monitoring of risks. Dedicated officers (Risk Champions) 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 (Sword).

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 (RCSA), Internal Loss Data Capturing, Key Risk Indicators (KRIs), Stress and Scenario Testing, etc. It 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.

**Emerging risks**

Emerging risks are developing or already known risks which are subject to uncertainty and ambiguity and are therefore difficult to quantify using traditional risk assessment techniques.

An emerging risk can represent either a change in the nature of an existing or known risk or the development of a new risk. Generally, such risks are characterised by a high level of uncertainty.

Appropriate strategies are implemented to quickly identify emerging risks as they have indirect bearing on strategy setting, stability of the Corporation and also present opportunities.

Africa Re uses horizon scanning, analyses of plausible and extreme scenarios and stressing key indicators and parameters to identify emerging risks. The Corporation's approach to managing emerging risks builds on the structures and tools for managing its known/traditional risks. It ensures that the provisions of its risk management framework are robust in response to changing exposure to known risks and other emerging risks.

## 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 insurance, investment and credit risks.

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 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 accumulations 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 and Kenya. Willis and Aon Benfield have traditionally offered catastrophe modelling service, using either licensed or own models.





## ERM Evaluation by Rating Agencies

Enterprise Risk Management in Africa Re received ratings from two top rating agencies in 2015, namely: A.M. Best and Standard & Poor's. Below are some excerpts from the ratings:

A.M. Best: **Adequate**

*"Africa Re continues to demonstrate an adequate and evolving enterprise risk management (ERM) framework, which remains supportive of its risk profile. The Corporation has been developing its internal risk management procedures over the past few years and has implemented an ERM unit headed by a Chief Risk Officer, who oversees the risk management function across the group. A.M. Best has noted the improvements in Africa Re's ERM as a factor for the improvement in performance over the years.*

*Africa Re's risk management approach integrates the three lines of defence, which correspond to the day-to-day management of risks, oversight of the effectiveness of the policies in place, and independent assurance. Ownership for each of these functions is clearly defined. The risk culture across the organisation continues to improve, with the requirement of annual technical inspections at each production centre, the use of regular committees to address the Corporation's identified risks and quarterly updates of the risk register at the production centre and group level. The Corporation is currently developing an ERM function in ARCSA, further embedding its risk culture across the organisation and has implemented an operational risk solution. This is a centrally coordinated platform that identifies and assesses operational risks at the Corporation and production centre level."*

Standard & Poor's: **Adequate and improving**

*"We assess ARC's ERM as adequate and improving.*

*We think there have been improvements in ARC's ERM framework and controls over the past few years, in part reflecting regulatory developments in South Africa. We believe this view is supported by ARC's improvements in its risk culture and the knock-on benefits to risk controls, as well as a more granular risk appetite. ARC has, in our opinion, the capability to identify and manage most major risk exposures and losses."*

# VIII. CORPORATE GOVERNANCE

## Overview

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

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 international and peer companies.

## Corporate Governance Framework

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

- 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;
- The Board Charter and Board Committee Charters, setting out the duties and responsibilities of the Board and its committees;
- 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.

The corporate governance framework of the Corporation undergoes appropriate reviews triggered by changes in the operations of the Corporation, in international best practice in relevant areas, in strategy and risk profile amongst others.

The last review of the corporate governance framework in 2013 ensured the following:

- A new Board Charter integrating the latest best practices in Board functioning;
- Separate Committees for the following oversight functions (hitherto combined):
  - Audit and Finance
  - Risk Management and IT Governance
- Extension of the scope of the Remuneration Committee, in charge of defining the compensation system of the elected Management members, to cover all the other Human Resources affairs of the Corporation. Accordingly, the Human Resources and Remuneration Committee was set up.
- Regular and formal Board Evaluation;
- Reinforcement of the Declaration of Interest by Board members;
- Appointment of the Corporate Secretary.

The Corporation also ensured that its 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 and the new Companies Act.

## Shareholding and Board of Directors

### Shareholding Structure as at 31 December 2015

| Shareholder | Number of Shares | Percentage |
|---|---|---|
| 41 Member States | 986,627 | 33.59 |
| African Development Bank (AfDB) | 240,000 | 8.17 |
| 111 African insurance and reinsurance companies | 964,778 | 32.85 |
| 4 Non-African Investors (FAIRFAX, AXA, PROPARCO and IRB Brasil Re ) | 745,905 | 25.39 |
| **Total number of shares** | **2,936,310** | **100** |

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

The authorized capital of the Corporation amounts to US$ 500,000,000 as at 31 December 2015 with US$ 293,731,000 fully paid-up. The capital is divided into 2,937,310 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 following:

- 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.

### Board of Directors – Composition

The Board of Directors is currently chaired by Mr. Hassan BOUBRIK and comprises 12 substantive members. Directors are elected for a term of three years and may be re-elected at the expiration of the term. They shall continue in office until their successors are elected.

The table below contains the current members of the Board of Directors of the Corporation as at 31 December 2015.





| Name & Nationality | Constituency | Current Term Ends |
|---|---|---|
| **Mr Hassan BOUBRIK** Moroccan | Morocco: state and companies | June 2017 |
| **Mr Woldemichael ZERU** Eritrean | East and Southern Africa and Sudan (12 States) | June 2017 |
| **Dr Mohamed Ahmed MAAIT** Egyptian | Egypt: state and companies | June 2018 |
| **Mr Béné B. LAWSON** Togolese | Francophone West and Central Africa (states and companies) | June 2018 |
| **Mr Kamel MARAMI** Algerian | Algeria: state and 4 companies | June 2018 |
| **Mr Karanja KABAGE** Kenyan | Anglophone West Africa (4 states and companies) and East and Southern Africa (companies) | June 2017 |
| **Dr Almehdi A. AGNAIA** Libyan | Libya, Mauritania and Tunisia (state and companies) | June 2018 |
| **Mr Samuel Ekue MIVEDOR** Togolese | African Development Bank (AfDB) | June 2018 |
| **Mr Frederic Flejou** French | AXA | June 2018 |
| **Mr Jean CLOUTIER** Canadian | FAIRFAX | June 2018 |

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

- Nine (9) for Class "A" Shareholders (41 African member States, AfDB and 111 African insurance and reinsurance companies), with AfDB entitled to a permanent seat.
- Three (3) for Class "B" Shareholders (4 non-African Investors)

The Board currently has three standing committees: the Audit & Finance Committee, Risk Management & Information Technology Governance Committee and; Remuneration & Human Resources Committee.

### Board of Directors – Committees

The **Audit & Finance Committee** assists the Board in fulfilling its oversight responsibilities relating to the integrity of the Corporation's financial statements. The committee also reviews the adequacy of the financial reporting process and the efficiency of the internal control system. In addition, it evaluates the external auditors, approves the audit plans of internal audit, internal technical inspection, external auditors and discusses their findings. The committee meets at least twice a year.

**Members**

- Dr Mohamed Ahmed MAAIT (Committee Chairman)
- Mr Frederic FLEJOU
- Mr Samuel Ekue MIVEDOR

The **Remuneration & HR Committee** proposes to the Board the compensation principles and performance criteria of members of executive management. 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.

**Members**

- Mr Karanja KABAGE (Committee Chairman)
- Mr Béné B. LAWSON
- Dr Almehdi A. AGNAIA

The **Risk Management & IT Governance Committee** assists the Board in ensuring that a strong risk management practice is properly entrenched in the Corporation and reviews the adequacy, efficiency and effectiveness of the information technology systems in place. In addition, it ensures that the Corporation upholds a strong compliance culture, hence adhering to all agreements signed with the shareholders. The committee meets at least twice a year.

**Members**

- Mr Jean CLOUTIER (Committee Chairman)
- Mr Woldemichael ZERU

**Board Evaluation and Training**

Evaluating the performance of the Board was part of the recommendations of the last corporate governance review exercise. The Board has decided that its performance shall be evaluated through a self-assessment exercise. Accordingly, self-assessment forms and performance criteria were prepared.

As regards training, new Board members are provided with induction packs on the functions of the Board and the Committees.

**Board of Directors – Activities in 2015**

The Board of Directors met four times in 2015. The first meeting was held in Port Louis, Mauritius in April 2015. The second and the third meetings took place in Accra, Ghana in June 2015 and the fourth was held in Lagos, Nigeria in November 2015. The average attendance rate was 100%.

## Executive Management

Executive Management comprises the following members as at 31/12/2015:

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

## General Assembly

**General Assembly Meeting**

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

**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.

**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.

**Notice & 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.

# IX. COMPLIANCE

As part of an effective system of risk management and internal controls in the Corporation, control functions were established including risk management, actuarial services, internal audit and compliance. The compliance function was developed recently in order to complete the essential pillars of a strong risk management system.

The compliance function enhances governance, checks and balances and provides support to the Board in the fulfilment of its oversight duties.

Even though the parent company is not subject to any regulatory compliance requirements, its subsidiary African Reinsurance Corporation South Africa (ARCSA) is mandated to comply with all applicable regulatory requirements in South Africa. The Group compliance function reviews requirements of any applicable rules and regulations in order to assess compliance levels and issues and reports to Executive Management and the Board.

Consequently, through this function the Corporation monitors and ensures compliance with all contractual agreements of Africa Re.

The compliance function operates independently from Internal Audit. It also ensures as much as possible that there is no conflict of interest with other control functions, hence meeting the minimum requirement of good governance and control practice.

The following are the 2015 updates in the compliance function of the Corporation:

- The scope of the compliance function has been extended to Foreign Accounts Tax Compliance Act (FATCA), an act of the United States' Internal Revenue Service (IRS). The compliance with the requirements of FATCA has been considered and implemented.
- The anti-money laundering (AML)/ combating terrorist financing (CTF) document was developed and approved by the Board.

The Corporation's fight against money laundering and terrorist financing is critical in maintaining a stable and corrupt-free society and hence adopts the recommendations of the Financial Actions Task Force (FATF) and the guidance paper of the International Association of Insurance Supervisors (IAIS) on this subject.

The AML/CTF forms part of the Risk Management Programme of the African Reinsurance Corporation and formalises the approach to combat money laundering and terrorist financing.

Although the Corporation is not subject to any local regulation on AML/CTF, it has adopted the recommendations of the FATF as best practice in combating ML/TF.

These recommendations shall be used for the following:

- To define and communicate principles and minimum requirements for conducting money laundering and terrorist financing assessments;
- To provide further controls on the operational, reputation and legal risks of the Corporation;
- To ensure compliance with international best practice on fighting money laundering and terrorist financing;
- To provide guidance to eliminate the possibility of the Corporation's participation in any money laundering or terrorist financing activities;
- To formalise the Know Your Customer (KYC) and Customer Due Diligence (CDD) procedures of the Corporation.

# X. CORPORATE SOCIAL RESPONSIBILITY

One of the aspects of Africa Re's vision consists in being an excellent company that promptly meets its obligations to its partners.

In this context, to implement the corporate social responsibility (CSR) in markets where the Corporation operates, Africa Re formulated strategies to meet all the expectations of its partners, including member States. In addition to the many social and environmental activities carried out so far, the Board of Directors of Africa Re in November 2013 decided to henceforth allocate a maximum of 2% of the Corporation's yearly net profit after tax to a Special Fund to finance corporate social responsibility projects.

To implement this resolution, as part of the Corporation's 5th Strategic Plan 2014 – 2018, the Board of Directors approved the following projects: the African Insurance Awards and Training of Young Insurance Professionals.

These projects were selected to meet one of Africa Re's missions namely, to foster the development of the insurance and reinsurance industry in Africa. The main aim is to have an immediate positive impact on the insurance industry in Africa.

**Activities carried out in 2015**

**Community Support through Africa Re Network**

Assistance was given to countries, through our regional offices and subsidiary companies, for disease prevention (Ebola in the affected West African countries and breast cancer prevention and awareness campaign in Sudan). In South Africa, orphaned children received donations and sponsorship.

### The Training Programme for Young Insurance Professionals

The programme consists in an online training targeting many young insurance professionals who have just joined the industry. A number of courses will be delivered electronically on a platform that has been developed in collaboration with training consultants.

### African Insurance Awards

The "African Insurance Awards" programme is a competition for the most innovative and sustainable development in the African insurance sector, as well as the best corporate management, leadership and governance in the African insurance markets.

The three categories of the Awards are as follows:

- Insurance Company of the Year: this category is open to all African registered insurance companies and will focus on the performance of the last 2 years;
- CEO of the Year: this special award will be presented to a CEO of an insurance company who has made an outstanding contribution in the last 12 months or before, either through the advancement of his company or the insurance industry;
- Innovation of the Year: this award will be given to an insurance company for the best use of technology, launching of a breakthrough product / service or a new and innovative distribution channel or method.

Cash prizes, plaques and certificates will be awarded to the winners of each of the three categories.

The 2015 African Insurance Awards ceremony was held on 25 May during the AIO conference in Tunis, Tunisia.

### Partnership between Africa Re and ILO's Impact Insurance Facility

In their day-to-day risk-taking activities low income households, small enterprises, farmers etc can now have a better access to insurance cover, thanks to microinsurance products and solutions. That is the aim of the partnership between the African Reinsurance Corporation (Africa Re) and the International Labour Organisation (ILO) / Impact Insurance Facility. This agreement was signed on Tuesday 27 December 2015 at the Headquarters of the Corporation in Lagos, Nigeria.

In this partnership, Africa Re, through its Corporate Social Responsibility Fund, will give annual financial assistance to the ILO's Impact Insurance Facility with the aim of supporting and enhancing the development of microinsurance in Africa.

Through this partnership mutually selected initiatives by Impact Insurance Facility and Africa Re, which aim at capacity building of insurance providers in the African market, will receive financial support from Africa Re's CSR fund. Africa Re will continue to support such initiatives, not only for their potential to improve the welfare of the financially excluded population in our continent, but also as a way to develop future insurance markets.

Mr. Corneille Karekezi, Group Managing Director/CEO of Africa Re, while signing the partnership agreement, pointed out that "the partnership is perfectly in line with Africa Re's mission which is to foster the development of insurance and reinsurance industry in Africa, to promote the growth of national, regional and sub-regional underwriting and retention capacities in the industry and thereby support the African economy".

The ILO's Impact Insurance Facility is an initiative of the International Labour Organisation which enables insurance industries, governments and their partners to realize the potential of insurance for social and economic development. It was launched in 2008. It is housed at the ILO headquarters in Geneva, Switzerland.

### Emergency Fund for Risk Prevention and Disaster Relief

The Corporation is sponsoring awareness programmes on major risk prevention through risk communication and risk dialogue for prevention, preparedness, response and recovery as equal measures to traditional risk management practices. The objective is to reduce the impact of risks on people, communities and their properties. These programmes will have a positive impact on the likelihood and severity of the claims reported to the Corporation.





## XI. Human Resources and Compensation

### Human Resources

The African Reinsurance Corporation is an employer of choice in the reinsurance industry in Africa due to its attractive employment value proposition. In recognition of the fact that the staff of Africa Re are the greatest assets of the Corporation, our compensation and rewards strategy is constantly reviewed to attract, motivate, and retain highly skilled professionals needed to deliver on the Corporation's strategic plan and objectives.

### Staff Categories

There are six (6) staff categories as follows:

Table A: Staff Categories

| | |
|---|---|
| **Executive Management (MGT)** | ▪ Group Managing Director/ Chief Executive Officer<br>▪ Deputy Managing Director/ Chief Operating Officer |
| **Executive Staff (ES)** | ▪ Central Directors<br>▪ Regional Directors<br>▪ Managing Directors of Subsidiaries |
| **Senior Professional Staff (PSS & PS4)** | ▪ Deputy Directors<br>▪ Assistant Directors |
| **Professional Staff (PS1, PS2 and PS3)** | ▪ Senior Managers<br>▪ Managers<br>▪ Assistant Managers |
| **Support staff (SS)** | Assistants/Officers |
| **Manual Staff (MS)** | Operatives |

Executive Management, Executive Staff, Senior Professional Staff and Professional Staff are considered international staff while Support Staff and Manual Staff are local staff of the respective locations in which the Corporation operates.

The table below shows the distribution of staff according to categories and duty posts across the African continent.

Table B: Staff Establishment Figures as at December 31, 2015

| Head Office/ Production Centre | Management | ES | PS | SS | MS | Temporary Staff | Total |
|---|---|---|---|---|---|---|---|
| Head Office | 2 | 5 | 31 | 28 | 12 | 7 | 85 |
| Lagos Regional Office | | 1 | 5 | 10 | 3 | 2 | 21 |
| Abidjan Regional Office | | 1 | 6 | 9 | 2 | 0 | 18 |
| Casablanca Regional Office | | 1 | 4 | 9 | 2 | 0 | 16 |
| Cairo Regional Office and Africa Retakaful | | 1 | 4 | 12 | 2 | 1 | 20 |
| Nairobi Regional Office | | 1 | 11 | 17 | 2 | 1 | 32 |
| Ebène Regional Office (Mauritius) | | 1 | 3 | 7 | 4 | 1 | 16 |
| African Reinsurance Corporation South Africa -ARCSA (Subsidiary)/Johannesburg | | 3 | 8 | 21 | 4 | 0 | 36 |
| Addis Ababa Local Office | | 0 | 0 | 1 | 1 | 1 | 3 |
| **Total** | **2** | **14** | **72** | **114** | **32** | **13** | **247** |

**1.2 Diversity**

Africa Re encourages diversity and inclusiveness as it presents employment opportunities to citizens of all its member states across Africa. Also, the Corporation's gender distribution is reflective of its strategy on equal employment opportunities regardless of gender.

**2 Compensation**

The guiding principle for Africa Re's compensation and rewards practice is to be at least within the 75th percentile range of the benchmarked remuneration of acceptable reinsurance and finance industry comparators. Our comprehensive compensation is competitively benchmarked with the African labour market to ensure that employees are well motivated to focus on delivering outstanding results without taking avoidable risks.

Our compensation structure derives from remuneration surveys, participation in peer reviews, complemented by effective staff and team performance management policies.

Africa Re has adopted the Balanced Score Card (BSC) as a strategic performance management tool to set measurable performance targets for teams and individual staff linked to the Corporation's Strategic Business Plan. The BSC for each staff is a mix of objectives and initiatives which are measured by ***Key Performance Indicators (KPIs)*** in some ***Key Performance Areas (KPAs)*** or ***Perspectives***. The major focus for 2015 compensation was to strengthen the link between pay and performance with more emphasis on variable pay (Bonuses/Incentives) instead of fixed pay.

Africa Re pay practice is composed of fixed pay, variable pay, allowances and other benefits (education grant, Provident Fund, end of service gratuity, medical insurance, other insurance covers, etc.).

Table C: Components of compensation

| Type | Composition | Beneficiaries | Comments |
|---|---|---|---|
| **Fixed Compensation** | Base salary | -Executive Management<br>-Executive Staff<br>-Senior Professional Staff<br>-Professional Staff<br>-Support Staff<br>-Manual Staff | Base pay and allowances are paid monthly in US dollars for Executive Management, Executive Staff, Senior Professional Staff and Professional Staff, and in local currencies for Support and Manual Staff |
| | Duty Post Differential | -Executive Management<br>-Executive Staff<br>-Professional Staff | Paid monthly only to international staff |
| **Annual Variable Compensation** | Individual Performance Bonus | -Executive Management<br>-Executive Staff<br>-Senior Professional Staff<br>-Professional Staff<br>-Support Staff<br>-Manual Staff | Paid annually to all categories of staff |
| | Special Location Performance Bonus | -Executive Staff<br>-Senior Professional Staff<br>-Professional Staff<br>-Support Staff<br>-Manual Staff | Designed to reward all the employees of a production centre upon attainment of a specified performance level |
| **Allowances** | -Housing<br>-Transport<br>-Dependency | -Executive Staff<br>-Senior Professional Staff<br>-Professional Staff<br>-Support Staff<br>-Manual Staff | Allowances are paid monthly in US dollars for Executive Staff, Senior Professional Staff and Professional Staff, and in local currencies for Support and Manual Staff |





## 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 the requirements of Article 37 of the Agreement establishing African Reinsurance Corporation and as such, include amounts based on informed judgments and estimates 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 the requirements of the agreement establishing African Reinsurance Corporation, and for such internal 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 to 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.

The Board of Directors of the African Reinsurance Corporation has set up an Audit & Finance Committee and Risk Management & IT Governance Committee to monitor the internal controls and risk management practices within the Group. The committees are made up of non-executive directors who are independent of Management. They meet periodically with Management, the external auditors, internal auditors, Chief Risk Officer and the technical inspectors to review their reports and ensure that they are effectively carrying out their respective responsibilities.

The external auditors, internal auditors, Chief Risk Officer and the technical inspectors have free access to the Committees with or without the presence of Management; to discuss the adequacy of internal control over financial reporting and any other matters which they believe should be brought to the attention of the Committees.

**HASSAN BOUBRIK**
Chairman

**CORNEILLE KAREKEZI**
Group Managing Director / CEO

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**INDEPENDENT AUDITOR REPORT**

To the members of African Reinsurance Corporation

We have audited the accompanying consolidated financial statements of African Reinsurance Corporation and its subsidiaries which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, 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 consolidated financial statements*

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

*Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated 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 our audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Abidjan, 08 April 2016

Deloitte Côte d'Ivoire

Marc WABI,
Chartered Accountant
Partner

Commissariat aux comptes. Audit. Comptabilité. Consulting. Juridique Fiscal.

Membre de
**Deloitte Touche Tohmatsu**





## Consolidated Statement of Financial Position

## As at 31 December 2015

| | Notes | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 24 | 151,828 | 184,014 |
| Investments | 4 | 888,525 | 880,663 |
| Premium income receivable | | 62,332 | 56,906 |
| Deferred acquisition costs | 5 | 46,582 | 47,146 |
| Reinsurance receivables | 6 | 139,755 | 144,276 |
| Retrocessionaires' share of technical provisions | 7 | 46,682 | 56,164 |
| Sundry receivables | | 5,337 | 5,258 |
| Tax recoverable | 22 | 502 | 309 |
| Investment properties | 8 | 8,249 | 7,655 |
| Property and equipment | 9 | 21,288 | 16,951 |
| Intangible assets | 10 | 3,384 | 3,924 |
| **Total assets** | | **1,374,464** | **1,403,266** |
| **Liabilities** | | | |
| Sundry payables | | 14,121 | 16,646 |
| Dividend payable | 23 | 7,116 | 3,694 |
| Reinsurance payables | 11 | 24,114 | 36,516 |
| Deferred tax | 12 | 1,359 | 2,920 |
| Technical provisions | 13 | 547,683 | 606,565 |
| **Total liabilities** | | **594,393** | **666,341** |
| **Shareholders' funds** | | | |
| Retained earnings | | 175,657 | 149,293 |
| Other reserves | 14 | 154,329 | 223,201 |
| Share premium | | 156,354 | 70,700 |
| Share capital | 15 | 293,731 | 293,731 |
| **Total shareholders' funds** | | **780,071** | **736,925** |
| **Total liabilities and shareholders' equity** | | **1,374,464** | **1,403,266** |

The financial statements on pages 49 to 88 were approved and authorised for issue by the Board of Directors of the Corporation on 11 April 2016 and were signed on its behalf by:

**HASSAN BOUBRIK**
Chairman

**CORNEILLE KAREKEZI**
Group Managing Director / CEO

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

## Consolidated statement of profit or loss and other comprehensive income

## For the year ended 31 December 2015

| | Notes | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| Gross earned premium | 16 | 692,179 | 708,582 |
| Less: retrocession premium | 16 | (101,359) | (94,137) |
| **Net earned premium** | 16 | **590,820** | **614,445** |
| Investment income | 17 | 25,307 | 49,548 |
| Commissions earned under retrocession arrangements | | 17,316 | 15,052 |
| Other operating income | 18 | 1,447 | 948 |
| **Total income** | | **634,890** | **679,993** |
| Net claims incurred | 19 | (311,210) | (342,159) |
| Acquisition expenses | 20 | (179,216) | (180,910) |
| Administrative expenses | 21 | (40,071) | (37,780) |
| Net foreign exchange (loss)/gain | | (273) | 1,280 |
| **Profit before income tax** | | **104,120** | **120,424** |
| Taxation charge | 22 | (475) | (1,920) |
| **Profit for the year** | | **103,645** | **118,504** |
| Other comprehensive income | | | |
| Items that may subsequently be reclassified to profit or loss | | | |
| Exchange differences on translating foreign operations | | (45,307) | (38,060) |
| Net fair value (loss)/gain on revaluation of available-for-sale financial assets | | (264) | 91 |
| **Total other comprehensive (loss)/income** | | **(45,571)** | **(37,969)** |
| **Total comprehensive income for the year** | | **58,074** | **80,535** |

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





## Consolidated statement of changes in equity for the year ended 31 December 2015

| | Retained earnings | Translation reserve | General reserve | Reserve for Market Value Adjustment | Reserve for exchange fluctuation | Reserve for loss fluctuation | Other total reserves | Share premium | Share capital | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 |
| At 1 January 2015 | 149,293 | (74,450) | 259,993 | 164 | 6,294 | 31,200 | 223,201 | 70,700 | 293,731 | 736,925 |
| **Total comprehensive income for the year** | **103,645** | **(45,307)** | **-** | **(264)** | **-** | **-** | **(45,571)** | **-** | **-** | **58,074** |
| Buy back of ordinary shares | - | - | (83,124) | - | - | - | (83,124) | - | 42,000 | (41,124) |
| Issue of ordinary shares | - | - | - | - | - | - | - | 85,654 | (42,000) | 43,654 |
| Dividend declared in 2014 | (16,155) | - | - | - | - | - | - | - | - | (16,155) |
| Corporate social responsibility fund | (1,303) | - | - | - | - | - | - | - | - | (1,303) |
| Transfer to reserves | (59,823) | - | 51,823 | - | - | 8,000 | 59,823 | - | - | - |
| **At 31 December 2015** | **175,657** | **(119,757)** | **228,692** | **(100)** | **6,294** | **39,200** | **154,329** | **156,354** | **293,731** | **780,071** |
| **At 1 January 2014** | **112,961** | **(36,390)** | **218,498** | **73** | **6,294** | **23,200** | **211,675** | **58,862** | **294,040** | **677,538** |
| **Total comprehensive income for the year** | **118,504** | **(38,060)** | **-** | **91** | **-** | **-** | **(37,969)** | **-** | **-** | **80,535** |
| Buy back of ordinary shares | - | - | (17,757) | - | - | - | (17,757) | - | (10,000) | (27,757) |
| Issue of ordinary shares | - | - | - | - | - | - | - | 11,838 | 9,691 | 21,529 |
| Dividend declared in 2013 | (13,224) | - | - | - | - | - | - | - | - | (13,224) |
| Corporate social responsibility fund | (1,696) | - | - | - | - | - | - | - | - | (1,696) |
| Transfer to reserves | (67,252) | - | 59,252 | - | - | 8,000 | 67,252 | - | - | - |
| **At 31 December 2014** | **149,293** | **(74,450)** | **259,993** | **164** | **6,294** | **31,200** | **223,201** | **70,700** | **293,731** | **736,925** |

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

## Consolidated statement of cash flows for the year ended 31 December 2015

| | Notes | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations24 | | 50,663 | 91,685 |
| Income tax paid | 22 | (1,480) | 708 |
| Net cash from operating activities | | 49,183 | 92,393 |
| **Cash flows from investing activities** | | | |
| Purchase of investment property | 8 | (763) | (70) |
| Sale/(Purchase) of property and equipment | 9 | (5,074) | (3,374) |
| Purchase of intangible assets | 10 | (213) | (3,287) |
| Net (Purchase)/Sale of investments | | (19,576) | 1,661 |
| Proceeds of disposal of property and equipment | | 31 | 50 |
| Net cash (used in) investing activities | | (25,595) | (5,020) |
| **Cash flows from financing activities** | | | |
| Proceeds of shares subscription | | 85,654 | 21,528 |
| Buy back of ordinary shares | | (83,124) | (27,757) |
| Dividends paid | 23 | (12,733) | (13,574) |
| Net cash (used in) financing activities | | (10,203) | (19,803) |
| **Net increase in cash and cash equivalents** | | **13,385** | **67,570** |
| **Movement in cash and cash equivalents:** | | | |
| At start of year | | 184,014 | 154,413 |
| Net increase in cash and cash equivalents | | 13,385 | 67,570 |
| Net exchange (losses) on liquid assets | | (45,571) | (37,969) |
| At end of year | 24(b) | 151,828 | 184,014 |

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

# Notes to the 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, Ebene and Johannesburg via its wholly owned subsidiary, African Reinsurance Corporation (South Africa) Limited, a company incorporated in the Republic of South Africa and African Takaful Reinsurance Company in Egypt, also a wholly owned subsidiary.

## 2. Accounting policies

### Adoption of new and revised International Financial Reporting Standards (IFRS)

**i) New standards and amendments to published standards effective for the year ended 31 December 2015**

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

**Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities**

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The application of the amendment had no effect on the corporation's financial statements as the corporation is not an investment entity.

**ii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods**

| New and Amendments to standards | Effective for annual periods beginning on or after |
|---|---|
| IFRS 9 | 1 January 2018 |
| Amendments to IFRS 15 Revenue from Contracts with Customers | 1 January 2018 |

### IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

### Key requirements of IFRS 9:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required 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 value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that 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 presented 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. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

*The application of this standard is likely to have an impact on amounts reported in the corporation's financial statements. However it is not practicable to provide a reasonable estimate on the effects of IFRS 9 until a detailed review has been completed.*

### Amendments to the Basis for Conclusions on IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

*The application of this standard is likely to have an impact on amounts reported in the corporation's financial statements. However it is not practicable to provide a reasonable estimate on the effects of IFRS 15 until a detailed review has been completed.*

**iii) Early adoption of standards**

The Corporation did not early-adopt any new or amended standards in 2015.



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## 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 Standard (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 judgement 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. Basis of consolidation

**(i) Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The corporation applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised

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losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries African Reinsurance Corporation (South Africa) Limited, Africa Retakaful (Egypt) and Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited.

#### (ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### (iii) Disposal of subsidiaries

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Investments in subsidiary companies in the corporation's books are carried at cost less provision for impairment.

### 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 premium 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. For proportional treaty business, this is computed separately for each contract at the reporting date, using 50% of written premium in respect of the current underwriting year for Africa Re Group excluding the South African subsidiary, where computation is based on the one-over-eighth method. For non-proportional and facultative business this is computed on the pro-rata basis. Where the nature of the underlying business and risk does not justify the use of the above methods, the unearned premium provision is calculated on basis relevant to the risk profile of the 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. Financial assets and liabilities

### i. Financial assets – Recognition, classification and measurement

Financial assets and liabilities are recognised when the group becomes a party to the contractual provisions of the instrument.

### Classification of financial assets

The group classifies its financial assets into the following categories:

### i) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and are not quoted in an active market. After initial measurement at cost, receivables are subsequently remeasured to amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

### ii) Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments classified as fair value through profit or loss are initially recognised at cost and subsequently re-measured to fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realised and unrealised gains and losses are included in the profit or loss. Interest earned whilst holding held for trading investments is reported as investment income.

### iii) Held to maturity investments

Held to maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the group has the intention and ability to hold to maturity.

After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowances for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation and losses arising from impairment of such investments are recognised in the profit or loss.

### iv) Available for sale financial assets

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, or changes in interest rates, exchange rates or equity prices are classified as available for sale and are initially recognised at cost. Available for sale investments are subsequently re-measured to fair value, based on quoted bid prices or amount derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in other comprehensive income and accumulated in the fair value reserve, with the exception of impairment losses, interest calculated using effective interest method, and foreign exchange gains and loss on monetary assets which are recognized in profit or loss. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

### Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The objective evidence of impairment of receivables arises when there is a significant financial difficulty of the counter party or when there is a default or delinquency in the interest or principal payments. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

The carrying amount of the financial asset is reduced by the impairment loss indirectly through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss for the year. Changes in the carrying amount of the allowance account are recognised in profit or loss.

**Derecognition of financial assets**

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

**ii. Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

**Financial liabilities at FVTPL**

The Group does not have financial liabilities classified as at FVTPL.

**Other financial liabilities**

Other financial liabilities which includes creditors arising out of reinsurance arrangements and direct insurance arrangement, borrowings and other payable, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

**De-recognition of financial liabilities**

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The condition is met when the liability is settled by paying the creditors, or when the Group is released from primary responsibility for the financial liability either by process of law or by creditor.

**Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## 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

For the purposes of the statement of cash flows, cash and cash equivalents, comprise short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## 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 other comprehensive income. Translation differences on non-monetary financial assets and liabilities, such as 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 Corporation'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 Corporation 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 to changes in presentation in the current year.





## 4 Investments

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| **i) Investments by category** | | |
| **Held to maturity** | | |
| Bank deposits | 259,762 | 318,896 |
| Deposits with ceding companies | 123,626 | 129,575 |
| Fixed rate securities held to maturity | 158,122 | 139,256 |
| Floating rate securities at cost | 56,180 | 12,914 |
| | 597,690 | 600,641 |
| **Fair value through profit or loss** | | |
| Fixed rate securities at fair value through profit or loss | 144,823 | 159,029 |
| Quoted equity investments at fair value through profit or loss | 115,510 | 94,691 |
| | 260,333 | 253,720 |
| **Available for sale** | | |
| Redeemable preference shares | 4,450 | 4,665 |
| Unquoted equity investments at cost less impairment losses | 26,052 | 21,637 |
| | 30,502 | 26,302 |
| | **888,525** | **880,663** |

Fixed rate securities held to maturity are presented in the Group's statement of financial position at their amortized costs as at 31 December 2015 of US$ 158,122,081(2014 – US$139,256,440). The fair value of the held- to- maturity assets as at 31 December, 2015 was US$ 146,934,805 (2014: US$ 137,140,162).

Unquoted equity investments with a cost of US$ 26,051,792 (2014: US$ 21,636,939) are carried at cost 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.

The Group's overall commitment in unquoted private equity investments as at 31 December 2015 was US$ 33,176,000 (2014: US$ 31,562,000).

| **ii) Weighted average effective interest rates** | **2015 %** | **2014 %** |
|---|---|---|
| Interest-bearing investments denominated in: | | |
| US dollars | 1.18 | 2.44 |
| Euro | 0.70 | 0.80 |
| South African rand | 7.46 | 11.01 |

**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).

**31/12/2015**

| | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | **US$'000** |
| **Financial assets at fair value through profit or loss** | | | | |
| Non-derivative financial assets held for trading | 260,333 | - | - | **260,333** |
| Available-for-sale financial assets | | | | |
| Redeemable preference shares | 4,450 | - | - | **4,450** |
| **Total** | **264,783** | **-** | **-** | **264,783** |

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

**31/12/2014**

| | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | **US$'000** |
| **Financial assets at fair value through profit or loss** | | | | |
| Non-derivative financial assets held for trading | 253,720 | - | - | 253,720 |
| **Available-for-sale financial assets** | - | | | |
| Redeemable preference shares | 4,665 | - | - | 4,665 |
| **Total** | **258,385** | **-** | **-** | **258,385** |

| | | **2015** | **2014** |
|---|---|---|---|
| **5** | **Deferred Acquisition Costs** | **US $'000** | **US $'000** |
| | Balance at 1 January | 47,146 | 44,776 |
| | Exchange rate impact on opening balance | (787) | (398) |
| | | 46,359 | 44,378 |
| | Released during the year | (46,359) | (44,378) |
| | Deferred during the year | 46,582 | 47,146 |
| | At 31 December | **46,582** | **47,146** |

| | | **2015 US$'000** | **2014 US$'000** |
|---|---|---|---|
| **6** | **Reinsurance receivables** | | |
| | Gross receivables arising from reinsurance arrangements | 167,803 | 167,258 |
| | Provision for impairment | (28,048) | (22,982) |
| | | **139,755** | **144,276** |
| | Comprising: | | |
| | Current portion | 65,605 | 56,094 |
| | Non-current portion | 74,150 | 88,182 |
| | | **139,755** | **144,276** |
| **7** | **Retrocessionnaires share of technical provisions** | | |
| | Claims recoverable | 30,174 | 34,115 |
| | Deferred retrocession premiums | 16,508 | 22,049 |
| | | **46,682** | **56,164** |
| **8** | **Investment properties** | | |
| | Cost | | |
| | At 1 January | 9,800 | 9,730 |
| | Additions | 763 | 70 |
| | At 31 December | 10,563 | 9,800 |
| | **Depreciation** | | |
| | At 1 January | 2,145 | 2,042 |
| | Charge for the year | 169 | 103 |
| | At 31 December | 2,314 | 2,145 |
| | **Net book value** | **8,249** | **7,655** |
| | The following amounts have been recognised in statement of profit or loss and other comprehensive income in respect of investment properties: | | |
| | **Net rental income (Note 17)** | **1,827** | **2,032** |

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 15 January 2015, the market value of the headquarters building was estimated at US$ 38.889 million (net book value: US$ 5.89 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$ 1.86 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$ 2.05 million) based on a valuation by Knight Frank, a firm of Estate Surveyors.

Details of the group's investment properties and information about the fair value hierarchy as at 31 December 2015 as follows:

| | Level 1 | Level 2 | Level 3 | Fair value as at 31/12/2015 |
|---|---|---|---|---|
| | US $'000 | US $'000 | US $'000 | US $'000 |
| Headquarters building | - | 38,889 | - | 38,889 |
| Casablanca regional office building | - | 4,831 | - | 4,831 |
| Nairobi regional office building | - | 8,130 | - | 8,130 |

There were no transfers between levels 1 and 2 during the year.

| | Level 1 | Level 2 | Level 3 | Fair value as at 31/12/2014 |
|---|---|---|---|---|
| | US $'000 | US $'000 | US $'000 | US $'000 |
| Headquarters building | - | 38,889 | - | 38,889 |
| Casablanca regional office building | - | 4,831 | - | 4,831 |
| Nairobi regional office building | - | 8,130 | - | 8,130 |

There were no transfers between levels 1 and 2 during the year.



## 9. Property and equipment

| | Assets under construction | Buildings & freehold Land | Fittings & equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Year ended 31 December 2015:** | | | | | |
| **Cost** | | | | | |
| At 1 January | 3,457 | 12,421 | 12,926 | 1,424 | **30,228** |
| Additions | 588 | 3,659 | 658 | 169 | **5,074** |
| Disposals | - | - | (273) | (243) | **(516)** |
| Transfer from Assets under construction | (1,203) | 583 | 620 | - | **-** |
| | **2,842** | **16,663** | **13,931** | **1,350** | **34,786** |
| **Depreciation** | | | | | |
| At 1 January | - | 2,483 | 10,013 | 781 | **13,277** |
| Depreciation charge | - | 240 | 251 | 259 | **750** |
| Disposals | - | - | (279) | (250) | **(529)** |
| | - | 2,723 | 9,985 | 790 | **13,498** |
| **Net Book Value** | **2,842** | **13,940** | **3,946** | **560** | **21,288** |
| **Year ended 31 December 2014:** | | | | | |
| **Cost** | | | | | |
| At 1 January | 2,384 | 11,597 | 12,512 | 1,271 | **27,764** |
| Additions | 1,719 | 340 | 822 | 493 | **3,374** |
| Disposals | - | | (570) | (340) | **(910)** |
| Transfer from assets under construction | (646) | 484 | 162 | - | **-** |
| | 3,457 | 12,421 | 12,926 | 1,424 | **30,228** |
| **Depreciation** | | | | | |
| At 1 January | - | 2,182 | 9,371 | 924 | **12,477** |
| Depreciation charge | - | 301 | 1,208 | 197 | **1,706** |
| Disposals | - | | (566) | (340) | **(906)** |
| | - | 2,483 | 10,013 | 781 | **13,277** |
| **Net Book Value** | **3,457** | **9,938** | **2,913** | **643** | **16,951** |

Included in buildings and freehold land is a total amount of US$4,335,817 (2014:US$3,853,223) representing the carrying amount of the owner-occupied proportion 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.

Included above are assets with a total cost of US$ 7,452,989 (2014: US$ 6,988,137) which were fully depreciated as at 31 December 2015. The normal depreciation charge on these assets would have been US$ 1,254,767 (2014: US$ 1,162,993).

## 10. Intangible Assets

| | Computer Software US $'000 | Computer Software in progress US $'000 | Total US $'000 |
|---|---|---|---|
| **Year ended 31 December 2015:** | | | |
| **Cost** | | | |
| At 1 January | 1,387 | 3,612 | 4,999 |
| Additions | 1 | 212 | 213 |
| Transfers from software in progress | 686 | (686) | - |
| Reclassification to expenses | - | (572) | (572) |
| **At 31 December** | **2,074** | **2,566** | **4,640** |
| **Amortisation** | | | |
| At 1 January | 1,075 | - | 1,075 |
| Charge for the year | 181 | - | 181 |
| **At 31 December** | **1,256** | **-** | **1,256** |
| **Net book value** | **818** | **2,566** | **3,384** |

| | Computer Software US $'000 | Computer Software in progress US $'000 | Total US $'000 |
|---|---|---|---|
| **Year ended 31 December 2014:** | | | |
| **Cost** | | | |
| At 1 January | 971 | 741 | 1,712 |
| Additions | 289 | 2,998 | 3,287 |
| Additions | 127 | (127) | - |
| **At 31 December** | **1,387** | **3,612** | **4,999** |
| **Amortisation** | | | |
| At 1 January | 971 | - | 971 |
| Charge for the year | 104 | - | 104 |
| **At 31 December** | **1,075** | **-** | **1,075** |
| **Net book value** | **312** | **3,612** | **3,924** |

Included above are assets with a total cost of US$971,303 (2014: US$ 971,303) which were fully amortised as at 31 December 2015. The normal amortisation charge on these assets would have been US$ 194,260 (2014: US$ 194,260).



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## 11 Reinsurance payables

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Payables under reinsurance arrangements | 21,857 | 35,797 |
| Payables under retrocession arrangements | 2,257 | 719 |
| | **24,114** | **36,516** |

## 12 Deferred tax

Deferred tax relates only to a subsidiary company, African Reinsurance Corporation South Africa (ARCSA) and 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:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| At 1 January | 2,920 | 2,603 |
| Exchange rate impact on opening balance | (749) | (246) |
| Charged to profit or loss (Note 22) | (812) | 563 |
| **At 31 December** | **1,359** | **2,920** |

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

| | 01.01.15 US $'000 | Charged to P/L US $'000 | 31.12.15 US $'000 | 31.12.14 US $'000 |
|---|---|---|---|---|
| Excess depreciation over capital allowances | (60) | (15) | (75) | (66) |
| Unrealised gain on revaluation of investments | 2,980 | (797) | 2,183 | 3,232 |
| Exchange rate impact on opening balance | (749) | - | (749) | (246) |
| Net deferred tax liability | **2,171** | **(812)** | **1,359** | **2,920** |

## 13 Technical provisions

### i) Analysis of outstanding balances

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Provision for reported claims | 344,784 | 370,697 |
| Provision for claims incurred but not reported | 66,928 | 70,479 |
| Cumulative translation reserve | (55,458) | (32,400) |
| Total outstanding claims | 356,254 | 408,776 |
| Provision for unearned premiums | 191,429 | 197,789 |
| | **547,683** | **606,565** |
| Comprising: | | |
| - current portion | 316,840 | 377,451 |
| - non-current portion | 230,843 | 229,114 |
| | **547,683** | **606,565** |

### ii) Analysis of outstanding claims reserve development

| U/W YR | 2005 US$'000 | 2006 US$'000 | 2007 US$'000 | 2008 US$'000 | 2009 US$'000 | 2010 US$'000 | 2011 US$'000 | 2012 US$'000 | 2013 US$'000 | 2014 US$'000 | 2015 US$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross outstanding claims reserve** | 148,915 | 137,391 | 184,340 | 179,076 | 209,347 | 261,164 | 273,011 | 332,025 | 320,708 | 377,451 | **316,840** |
| **Gross paid (Cu-mulative):** | | | | | | | | | | | |
| **1 year later** | 51,265 | 61,065 | 82,410 | 121,336 | 116,271 | 107,963 | 91,909 | 108,649 | 126,366 | 122,505 | |
| **2 years later** | 67,657 | 92,138 | 129,566 | 167,922 | 152,433 | 163,498 | 153,569 | 154,306 | 175,595 | | |
| **3 years later** | 76,434 | 108,658 | 153,827 | 188,457 | 169,968 | 182,869 | 173,006 | 167,714 | - | | |
| **4 years later** | 83,881 | 115,327 | 169,617 | 197,253 | 189,701 | 194,440 | 182,094 | - | - | | |
| **5 years later** | 87,836 | 120,486 | 176,689 | 200,887 | 193,590 | 200,507 | - | - | - | | |
| **6 years later** | 90,633 | 121,607 | 179,563 | 203,935 | 198,142 | - | - | - | - | | |
| **7 years later** | 93,188 | 123,010 | 180,369 | 208,291 | - | - | - | - | - | | |
| **8 years later** | 97,255 | 125,602 | 181,935 | - | - | - | - | - | - | | |
| **9 years later** | 98,407 | 126,463 | - | - | - | - | - | - | - | | |
| **10 years later** | 99,121 | - | - | - | - | - | - | - | - | | |
| **Re-estimated as of:** | | | | | | | | | | | |
| **Closed year** | 148,915 | 137,391 | 184,340 | 179,076 | 209,347 | 261,164 | 273,011 | 332,025 | 320,708 | 377,451 | 316,840 |
| **1 year later** | 102,876 | 117,432 | 174,442 | 212,563 | 204,840 | 130,291 | 133,668 | 211,016 | 151,443 | 157,228 | |
| **2 years later** | 136,360 | 137,660 | 205,816 | 213,216 | 193,863 | 215,433 | 201,879 | 207,014 | 208,432 | | |
| **3 years later** | 120,260 | 143,870 | 203,417 | 205,401 | 212,347 | 216,229 | 208,458 | 202,141 | - | | |
| **4 years later** | 124,345 | 139,407 | 192,482 | 224,140 | 211,157 | 218,241 | 209,562 | - | - | | |
| **5 years later** | 116,445 | 137,316 | 192,446 | 224,929 | 211,533 | 217,345 | - | - | - | | |
| **6 years later** | 101,320 | 135,838 | 191,527 | 222,622 | 211,983 | - | - | - | - | | |
| **7 years later** | 105,155 | 134,042 | 190,083 | 221,348 | - | - | - | - | - | | |
| **8 years later** | 103,706 | 134,285 | 189,634 | - | - | - | - | - | - | | |
| **9 years later** | 103,764 | 134,616 | - | - | - | - | - | - | - | | |
| **10 years later** | 104,474 | - | - | - | - | - | - | - | - | | |
| **Gross redundancy/ (deficiency)** | **44,441** | **2,775** | **(5,294)** | **(42,272)** | **(2,636)** | **43,819** | **63,449** | **129,884** | **112,276** | **220,223** | |

## 14 Other reserves

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| General reserve | 228,692 | 259,993 |
| Reserve for exchange fluctuation | 6,294 | 6,294 |
| Reserve for loss fluctuation | 39,200 | 31,200 |
| Reserve for market value adjustment | (100) | 164 |
| Translation reserve | (119,757) | (74,450) |
| | **154,329** | **223,201** |

**(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 51.

## 15 Share capital

| | 2015 Number | 2014 Number |
|---|---|---|
| Authorised share capital | **5,000,000** | **5,000,000** |
| Issued and fully paid | **2,937,310** | **2,937,310** |
| | **US$'000** | **US$'000** |
| Issued and fully paid at 31 December | 293,731 | 293,731 |
| **Nominal value per share** | $100 | $100 |

| The movement in issued and fully paid share capital is as below: | 2015 USD '000' | 2014 USD '000' |
|---|---|---|
| At start of year | 293,731 | 294,040 |
| Buy back of ordinary shares | (42,000) | (10,000) |
| Issue of ordinary shares | 42,000 | 9,691 |
| **At end of year** | **293,731** | **293,731** |

## 16 Earned premium

The premium income of the group is analysed into the main classes of business as shown below:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Gross US$'000 | Retrocession US$'000 | Net US$'000 | Gross US$'000 | Retrocession US$'000 | Net US$'000 |
| Fire and accident | 528,927 | (46,936) | 481,991 | 536,043 | (34,507) | 501,536 |
| Marine and aviation | 119,241 | (54,317) | 64,924 | 134,324 | (56,943) | 77,381 |
| Life | 44,011 | (106) | 43,905 | 38,215 | (2,687) | 35,528 |
| | **692,179** | **(101,359)** | **590,820** | **708,582** | **(94,137)** | **614,445** |

## 17 Investment income

| | 2015 US$000 | 2014 US$000 |
|---|---|---|
| **Held to maturity** | | |
| Interest income from bank deposits | 15,334 | 15,095 |
| Interest income from deposits with ceding companies | 2,442 | 4,935 |
| Interest income from fixed rate securities HTM | 3,516 | 8,277 |
| Interest income from Floating rate Notes | 499 | 240 |
| | **21,791** | **28,547** |
| **Fair value through profit or loss** | | |
| Interest income from fixed rate securities at fair value through profit or loss | 7,097 | 4,408 |
| Dividend from quoted equity investments at fair value through profit or loss | 3,189 | 6,263 |
| Fair value gains from quoted equity investments | (4,779) | 3,038 |
| Fair value gains/(losses) from listed bonds | (6,935) | 1,788 |
| | **(1,428)** | **15,497** |
| **Available for sale** | | |
| Dividend from unquoted equity investments at cost less impairment losses | **1,237** | **1,197** |
| Rental Income | 1,827 | 2,032 |
| Realized gains or losses on equity portfolios | 3,319 | 4,259 |
| Realized gains or losses on bond portfolios | (378) | (917) |
| Management fees from equity portfolio | (526) | (373) |
| Management fees from bonds portfolios | (535) | (694) |
| | **3,707** | **4,307** |
| | **25,307** | **49,548** |

## 18 Other operating income

| | | |
|---|---|---|
| Fee income | 971 | 814 |
| Gain /(Loss) on disposal of property and equipment | 44 | 46 |
| Sundry income | 432 | 88 |
| | **1,447** | **948** |

## 19 Claims incurred

| Claims incurred by principal class of business; | 2015 Gross US$'000 | 2015 Retrocession US$'000 | 2015 Net US$'000 | 2014 Gross US$'000 | 2014 Retrocession US$'000 | 2014 Net US$'000 |
|---|---|---|---|---|---|---|
| Fire and accident | 290,306 | (11,109) | 279,197 | 304,264 | (3,575) | 300,689 |
| Marine and aviation | 33,132 | (16,312) | 16,820 | 30,567 | (3,956) | 26,611 |
| Life | 15,265 | (72) | 15,193 | 15,659 | (800) | 14,859 |
| | **338,703** | **(27,493)** | **311,210** | **350,490** | **(8,331)** | **342,159** |

## 20 Acquisition costs

| | 2015 US $'000 | 2014 US $'000 |
|---|---|---|
| Commission paid | 159,073 | 160,605 |
| Charges paid | 19,729 | 23,042 |
| Movement in deferred acquisition cost | 414 | (2,737) |
| | **179,216** | **180,910** |

## 21 Administrative expenses

| | | |
|---|---|---|
| Staff costs | 22,472 | 21,220 |
| Auditors' remuneration | 226 | 263 |
| Depreciation on properties and equipment | 750 | 1,706 |
| Depreciation on investment property | 169 | 103 |
| Amortisation of intangible assets | 181 | 104 |
| Impairment charge on reinsurance receivables | 6,335 | 5,179 |
| Operating lease rentals | 313 | 204 |
| Repairs and maintenance expenditure | 985 | 1,148 |
| Consultancy fees | 656 | 855 |
| Travel costs and allowances | 1,023 | 748 |
| General Assembly and Board of Directors' meetings | 1,323 | 1,449 |
| Electricity and water | 528 | 447 |
| Insurance | 646 | 580 |
| Communication expenses | 381 | 359 |
| Advertisement and entertainment | 992 | 657 |
| Training and subscriptions | 315 | 632 |
| Technical assistance | 232 | 227 |
| Medical expenses | 539 | 507 |
| Computer and word processing | 1,039 | 594 |
| Transport and maintenance | 141 | 137 |
| Bank charges and other fees | 472 | 371 |
| Office expenses | 190 | 191 |
| Legal expenses | 124 | 36 |
| Donations | 39 | 63 |
| | **40,071** | **37,780** |

Staff costs include retirement benefit costs amounting to US$ 2,024,104 (2014: US$2,415,705).

## 22 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 a subsidiary company's profit, which is computed in accordance with the income tax rules applicable in the subsidiary company's jurisdiction, the Republic of South Africa.

Tax charged in the financial statements is made up of:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Current income tax charge | 1,287 | 1,357 |
| Deferred income tax (credit)/charge (Note 12) | (812) | 563 |
| | **475** | **1,920** |

The movement in the tax recoverable account is as follows:

| | | |
|---|---|---|
| At 1 January | 309 | 2,374 |
| Current tax charge for the year | (1,287) | (1,357) |
| Tax paid/refund | 1,480 | (708) |
| At December | **502** | **309** |

## 23 Dividends

At the Annual General Meeting (AGM) to be held on 16 June, 2016, a final dividend in respect of the year ended 31 December, 2015 of US$ 6.0 per share on 2,937,310 existing shares amounting to a total of US$ 17,623,860 (2014: Total dividend; US$ 16,155,205 represented by a dividend per share of US $ 5.5 on existing shares) is to be proposed. The dividend declared at the AGM held on 18 June 2015 was charged to shareholders' equity in these financial statements. The liability for the dividend payable on the 2015 results shall be treated as an appropriation of profit in the financial statements for the year ending 31 December 2016.

The movement in the dividends payable account is as follows:

| | 2015 USD '000 | 2014 USD '000 |
|---|---|---|
| At 1 January | 3,694 | 4,044 |
| Final dividends declared | 16,155 | 13,224 |
| Dividends paid | (12,733) | (13,574) |
| **At 31 December** | **7,116** | **3,694** |

## 24 Notes to the statement of cash flows

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

| | Notes | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| Profit before income tax | | 104,120 | 120,425 |
| Adjustments for: | | | |
| Depreciation on investment property | 8 | 169 | 103 |
| Depreciation on property and equipment | 9 | 750 | 1,706 |
| Amortisation of intangible assets | 10 | 181 | 104 |
| Loss/ (gain)on disposal of property and equipment | | (44) | (46) |
| Change in fair value of financial assets | | 11,714 | (4,826) |
| Working capital changes; | | | |
| - Premium income receivable | | (5,426) | (5,866) |
| - Deferred acquisition costs | | 564 | (2,370) |
| - Reinsurance receivables | | 4,521 | 7,986 |
| - Retrocessionaires' share of technical provisions | | 9,482 | 7,994 |
| - Sundry receivables | | (78) | 640 |
| - Reclassification of intangible assets | | 572 | - |
| - Sundry payables | | (3,829) | 4,388 |
| - Exchange difference on deferred tax opening balance | 12 | (749) | (246) |
| - Deposits due to retrocessionaires | | - | (3,980) |
| - Reinsurance payables | | (12,402) | (17,226) |
| - Technical provisions | | (58,882) | (17,101) |
| Cash generated from operations | | 50,663 | 91,685 |

b) Cash and cash equivalents

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Cash and bank balances | 71,664 | 77,849 |
| Bank deposits with financial institutions maturing within 90 days | 80,164 | 106,165 |
| Cash and cash equivalents | 151,828 | 184,014 |

## 25 Related party transactions and balances

Transactions between African Reinsurance Corporation and subsidiaries that are to be deemed related parties have been eliminated in consolidation and are not disclosed in the notes.

African Reinsurance Corporation has established a Staff Provident Fund to provide a long term savings plan for its employees. The Staff provident fund is considered a related party in accordance with IAS 24. Contributions to the Fund are recognised as expenses.

**i) Transactions with related parties - Shareholders**
No individual shareholder has a controlling interest in the Corporation.

| | 2015 US$ '000 | 2014 US$ '000 |
|---|---|---|
| **ii) Administration of Staff Provident fund Contributions paid** | 983 | 927 |
| **iii) Remuneration for key management personnel** | | |
| Directors' fees (non-executive directors) | 640 | 691 |
| Other remuneration (elected members of management) | | |
| - Salaries and other short term benefits | 1,421 | 1,324 |
| - Terminal benefits | 164 | 203 |

## 26 Management of Insurance 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. The retrocession arrangements existing are as follows:

**31 December 2015**

| Class of business | Gross exposure US$' 000 | Net exposure US$' 000 |
|---|---|---|
| Property risk excess of loss | 90,000 | 20,000 |
| Property catastrophe excess of loss | 220,000 | 25,000 |
| Marine & Energy excess of loss | 60,000 | 15,000 |
| Aviation excess of loss | 15,000 | 3,000 |

**31 December 2014**

| Class of business | Gross exposure US$' 000 | Net exposure US$' 000 |
|---|---|---|
| Property risk excess of loss | 80,000 | 20,000 |
| Property catastrophe excess of loss | 215,000 | 25,000 |
| Marine & Energy excess of loss | 60,000 | 15,000 |
| Aviation excess of loss | 15,000 | 3,000 |



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## 27 Financial risk management

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.

### a) 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.

### b) 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.

The table below analyses the Corporation's key financial assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2015 to the earlier of the repricing or contractual maturity date.

## 27 Financial risk management (Continued)

| At 31 December 2015 (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 | 151,828 | - | - | - | - | - | **151,828** |
| Reinsurance premiums receivables | 65,605 | 29,655 | 19,250 | 17,799 | 7,446 | - | **139,755** |
| Claims recoverable | 6,734 | 1,621 | 2,969 | 5,118 | 13,732 | - | **30,174** |
| Deferred retrocession premiums | 14,474 | 1,181 | 492 | - | 361 | - | **16,508** |
| | **238,641** | **32,457** | **22,711** | **22,917** | **21,539** | **-** | **338,265** |
| Investments | | | | | | | |
| - Bank deposits | 259,762 | - | - | - | - | - | **259,762** |
| - Deposits with ceding companies | 9,264 | 28,527 | 14,676 | 10,719 | 7,524 | 52,916 | **123,626** |
| - Fixed rate securities at fair value | 26,367 | 17,298 | 22,395 | 13,241 | 11,008 | 54,514 | **144,823** |
| - Fixed rate securities at amortized cost | 12,646 | 16,121 | 17,348 | 8,981 | 19,819 | 83,207 | **158,122** |
| - Floating rate securities at cost | 506 | 9,922 | 5,364 | 19,960 | 20,428 | - | **56,180** |
| - Equity investments at fair value | 115,510 | - | - | - | - | - | **115,510** |
| - Redeemable notes | 4,450 | - | - | - | - | - | **4,450** |
| Unquoted equity investments at cost less impairment losses | - | - | - | - | - | 26,052 | **26,052** |
| | **428,505** | **71,868** | **59,783** | **52,901** | **58,779** | **216,689** | **888,525** |
| **Total** | **667,146** | **104,325** | **82,494** | **75,818** | **80,318** | **216,689** | **1,226,790** |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Reinsurance payables | 15,678 | 2,672 | 2,056 | 1,687 | 2,021 | - | **24,114** |
| Outstanding claims | 129,856 | 67,989 | 40,691 | 34,428 | 27,468 | 55,822 | **356,254** |
| **Total** | **145,534** | **70,661** | **42,747** | **36,115** | **29,489** | **55,822** | **380,368** |





## 27 Financial risk management (Continued)

| At 31 December 2014 (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 | 184,014 | - | - | - | - | - | 184,014 |
| Reinsurance premiums receivables | 67,945 | 29,095 | 23,383 | 17,014 | 6,839 | - | 144,276 |
| Claims recoverable | 7,908 | 3,682 | 9,667 | 6,082 | 578 | 6,198 | 34,115 |
| Deferred retrocession premiums | 18,642 | 3,186 | 210 | - | 2 | 9 | 22,049 |
| | **278,509** | **35,963** | **33,260** | **23,096** | **7,419** | **6,207** | **384,454** |
| Investments | | | | | | | |
| - Bank deposits | 318,896 | - | - | - | - | - | 318,896 |
| - Deposits with ceding companies | 9,888 | 29,562 | 15,724 | 11,596 | 13,708 | 49,097 | 129,575 |
| - Fixed rate securities at fair value | 18,491 | 18,820 | 19,888 | 22,724 | 5,620 | 73,486 | 159,029 |
| - Fixed rate securities at amortized cost | 11,208 | 17,767 | 20,968 | 12,255 | 10,137 | 66,921 | 139,256 |
| - Floating rate securities at cost | 2,394 | 506 | - | - | 10,014 | - | 12,914 |
| Redeemable notes | 94,691 | - | - | - | - | - | 94,691 |
| Equity investments at fair value | 4,665 | - | - | - | - | - | 4,665 |
| Unquoted equity investments at cost less impairment losses | - | - | - | - | - | 21,637 | 21,637 |
| | 460,233 | 66,655 | 56,580 | 46,575 | 39,479 | 211,141 | 880,663 |
| Total | **738,742** | **102,618** | **89,840** | **69,671** | **46,898** | **217,348** | **1,265,117** |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Reinsurance payables | 23,099 | 4,258 | 2,442 | 2,894 | 3,823 | - | 36,516 |
| Outstanding claims | 187,871 | 93,295 | 52,999 | 27,474 | 16,530 | 30,607 | 408,776 |
| **Total** | **210,970** | **97,553** | **55,441** | **30,368** | **20,353** | **30,607** | **445,292** |

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## 27 Financial risk management (Continued)

### c) Market risk

### i) 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.

Note 4 discloses the weighted average interest rate on principal interest bearing investments.

### ii) Equity price risk

Equity price risk refers to the potential loss in fair value resulting from adverse changes in the fair value of stocks that the Corporation has invested in. The Corporation maintains an 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.

### iii) 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.

The tables on pages 81 and 82 show the various currencies in which the group's assets and liabilities were denominated as at 31 December 2015 and 2014. The non US dollar balances reflect the significant foreign currency exposures.

## 27 Financial risk management (Continued)

### Currency risk (continued)

| At 31 December 2015: (in US$'000) | USD | Rand | UK Pounds | CFA/EUR | MAD | EGP | NGN | KES | MUR | OTHERS | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | |
| Cash and cash equivalents | 47,605 | 21,177 | 3,516 | 9,509 | 12,603 | 1,041 | 31,015 | 9,951 | 1,140 | 14,271 | **151,828** |
| Reinsurance receivables | 32,595 | 14,460 | 1,596 | 22,105 | 16,246 | 7,826 | 10,980 | 14,393 | 6,317 | 13,237 | **139,755** |
| Claims recoverable | 25,555 | 35 | 22 | 981 | 1,488 | 274 | 212 | 37 | 162 | 1,408 | **30,174** |
| Deferred retrocession premium | 11,061 | - | 38 | 1,409 | - | 219 | 169 | 47 | 742 | 2,823 | **16,508** |
| **Investments:** | | | | | | | | | | | |
| - Bank deposits | 147,388 | 55,354 | 7,390 | 3,899 | | 11,016 | 5,383 | 2,441 | 1,152 | 25,739 | **259,762** |
| - Deposits with ceding companies | 14,179 | 235 | 596 | 35,602 | 30,585 | 8,114 | 10 | 760 | 165 | 33,380 | **123,626** |
| - Fixed rate securities at fair value | 85,541 | 31,485 | 3,896 | 8,012 | - | - | 13,839 | 2,050 | - | - | **144,823** |
| - Fixed rate securities at amortised cost | 138,396 | 7,776 | - | 8,532 | - | - | - | 3,418 | - | - | **158,122** |
| - Floating rate securities at cost | 55,808 | - | 372 | - | - | - | - | - | - | - | **56,180** |
| - Redeemable notes | 65,808 | 29,165 | - | 14,355 | - | - | 4,039 | 2,143 | - | - | **115,510** |
| - Equity investments at fair value | 3,590 | | - | 860 | - | - | | | - | - | **4,450** |
| - Equity investments at amortised cost less impairment losses | 26,052 | - | - | - | - | - | - | - | - | - | **26,052** |
| Total | **653,578** | **159,687** | **17,426** | **105,264** | **60,922** | **28,490** | **65,647** | **35,240** | **9,678** | **90,858** | **1,226,790** |
| LIABILITIES | | | | | | | | | | | |
| Reinsurance payables | 581 | 65 | 1,224 | 1,238 | - | 175 | - | - | - | 20,831 | **24,114** |
| Outstanding claims | 93,564 | 66,976 | 1,125 | 33,288 | 39,412 | 16,727 | 10,108 | 31,170 | 6,212 | 57,672 | **356,254** |
| Total | **94,145** | **67,041** | **2,349** | **34,526** | **39,412** | **16,902** | **10,108** | **31,170** | **6,212** | **78,503** | **380,368** |
| Net Position | **559,433** | **92,646** | **15,077** | **70,738** | **21,510** | **11,588** | **55,539** | **4,070** | **3,466** | **12,355** | **846,422** |

**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

## 27 Financial risk management (Continued)

### Currency risk (continued)

| At 31 December 2014: (in US$'000) | USD | Rand | UK Pounds | CFA/EUR | MAD | EGP | NGN | KES | MUR | OTHERS | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | |
| Cash and cash equivalents | 30,730 | 24,446 | 10,866 | 47,978 | 22,613 | 8,116 | 21,000 | 8,069 | 2,118 | 8,078 | **184,014** |
| Reinsurance receivables | 41,444 | 13,677 | 1,067 | 14,027 | 5,992 | 8,944 | 13,618 | 11,902 | 3,237 | 30,368 | **144,276** |
| Claims recoverable | 29,338 | 45 | 14 | 826 | 673 | 754 | 11 | 241 | 3 | 2,210 | **34,115** |
| Deferred retrocession premium | 17,519 | - | 45 | 920 | 34 | 162 | 19 | 86 | 27 | 3,237 | **22,049** |
| **Investments:** | | | | | | | | | | | |
| - Bank deposits | 91,649 | 50,003 | 4,457 | 48,031 | 53,073 | 5,884 | 20,187 | 21,794 | 477 | 23,341 | **318,896** |
| - Deposits with ceding companies | 12,542 | (263) | 435 | 38,558 | 34,234 | 7,800 | 10 | 783 | (186) | 35,662 | **129,575** |
| - Fixed rate securities at fair value | 94,665 | 41,212 | 3,376 | 4,086 | - | - | 14,000 | 1,690 | - | - | **159,029** |
| - Fixed rate securities at amortised cost | 113,059 | 9,853 | - | 12,479 | - | - | - | 3,865 | - | - | **139,256** |
| - Floating rate securities at cost | 12,523 | - | 391 | - | - | - | - | - | - | - | **12,914** |
| - Redeemable notes | 3,839 | - | - | 826 | - | - | - | - | - | - | **4,665** |
| - Equity investments at fair value | 47,527 | 38,095 | - | 3,633 | - | - | 4,561 | 875 | - | - | **94,691** |
| - Equity investments at amortised cost less impairment losses | 21,637 | - | - | - | - | - | - | - | - | - | **21,637** |
| Total | **516,472** | **177,068** | **20,651** | **171,364** | **116,619** | **31,660** | **73,406** | **49,305** | **5,676** | **102,896** | **1,265,117** |
| LIABILITIES | | | | | | | | | | | |
| Reinsurance payables | 917 | 54 | 1,051 | 1,421 | - | - | - | - | - | 33,073 | **36,516** |
| Outstanding claims | 108,607 | 88,383 | 804 | 34,035 | 33,249 | 18,328 | 9,430 | 28,729 | 7,762 | 79,449 | **408,776** |
| Total | **109,524** | **88,437** | **1,855** | **35,456** | **33,249** | **18,328** | **9,430** | **28,729** | **7,762** | **112,522** | **445,292** |
| Net Position | **406,948** | **88,631** | **18,796** | **135,908** | **83,370** | **13,332** | **63,976** | **20,576** | **(2,086)** | **(9,626)** | **819,825** |

**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

## 28 Investments in subsidiary companies

Details of the Group's material subsidiaries at the end of the reporting period are as follows.

| | Principal Activity | Share capital US$ '000 | Holding | 2015 US$ '000 | 2014 US$ '000 |
|---|---|---|---|---|---|
| African Reinsurance Corporation (South Africa) Limited | Reinsurance services | * | 100% | * | * |
| African Takaful Reinsurance Company | Reinsurance services | 12,000 | 100% | 12,000 | 6,000 |
| Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited | Property holding | * | 100% | * | * |
| | | | | * | * |
| | | | | 12,000 | 6,000 |

** Less than US$ 1,000 (African Reinsurance Corporation (South Africa) limited – 7 ordinary shares of 0.01 rand; Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited – 40,000 ordinary shares of 0.10 Rand)*

African Reinsurance Corporation (South Africa) Limited has its financial year end on 31 December, African Takaful Reinsurance Company on 30 June and Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited on 31 August.

### African Reinsurance Corporation (South Africa) Limited

African Reinsurance Corporation (South Africa) Limited was incorporated on 9 January 2004. The principal activity of the company is provision of reinsurance services to the countries of the rand zone as well as Mozambique, Botswana and Angola. It made a loss of US $ 258,579 during the year ended 31 December 2015 (2014 –Profit of US$ 3,736,994). The relevant activities of African Reinsurance Corporation (South Africa) Limited are determined by its Board of directors based on simple majority votes where each share carries one vote.

Therefore, the conclusion of the directors of the Group is that the Group has control over African Reinsurance Corporation (South Africa) Limited and the financial information of African Reinsurance Corporation (South Africa) Limited is consolidated in these financial statements

Set out below is the summarised financial information for the subsidiary

**African Reinsurance Corporation (South Africa) Limited**

| **Summarised statement of financial position** | 2015 US $'000 | 2014 US $'000 |
|---|---|---|
| Total assets | 215,161 | 276,080 |
| Total liabilities | (172,971) | (222,332) |
| Net assets | 42,190 | 53,748 |

| **Summarised statement of profit or loss and other comprehensive income** | | |
|---|---|---|
| Net earned premium | 43,900 | 57,028 |
| Profit before income tax | 175 | 5,610 |
| Income tax expense | (434) | (1,873) |
| Other comprehensive income | - | - |
| Total comprehensive (loss)/income | (259) | 3,737 |

| **Summarised statement of cash flows** | | |
|---|---|---|
| Net cash (used in)/generated from operating activities | (3,720) | 5,124 |
| Net cash generated from/(used in) investing activities | 3,809 | (5,027) |
| Net increase/(decrease) in cash and cash equivalents | 89 | 97 |
| Net (loss)/ gain on liquid assets | (67) | (18) |
| Cash and cash equivalents at beginning of year | 264 | 185 |
| Cash and cash equivalents at end of year | 286 | 264 |

**African Takaful Reinsurance Company**

African Takaful Reinsurance Company was incorporated on 1 September 2010. The principal activity of the company is provision of reinsurance products which are fully sharia compliant. The company made a profit of US $3,919,321 during the year ended 31 December 2015 (December 2014 – US $ $591,753). The relevant activities of African Takaful Reinsurance Company are determined by its Board of directors based on simple majority votes where each share carries one vote.

Therefore, the conclusion of directors of the Group is that the Group has control over African Takaful Reinsurance Company and the financial information of African Takaful Reinsurance Company is consolidated in these financial statements.

Set out below is the summarised financial information for the subsidiary.



**African Takaful Reinsurance Company Limited (Continued)**

| Summarised statement of financial position | 2015 US $'000 | 2014 US $'000 |
|---|---|---|
| Total assets | 92,718 | 80,947 |
| Total liabilities | (80,377) | (72,185) |
| Net assets | 12,341 | 8,762 |
| **Summarised statement of profit or loss and other comprehensive income** | | |
| Net earned premium | 6,441 | 7,594 |
| Profit before income tax | 3,919 | 592 |
| Other comprehensive income | - | - |
| Total comprehensive income | 3,919 | 592 |
| **Summarised statement of cash flows** | | |
| Net cash generated (used in)/from operating activities | 3,856 | 8,869 |
| Net cash from investing activities | 448 | 456 |
| Net cash generated from financing activities | - | 6,000 |
| Net increase in cash and cash equivalents | 4,304 | 15,325 |
| Net gain/(loss) on liquid assets | 30 | (1,385) |
| Cash and cash equivalents at beginning of year | 30,513 | 16,573 |
| Cash and cash equivalents at end of year | 34,847 | 30,513 |

**Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited**

Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited was purchased by African Reinsurance Corporation in October 2012. The principal activity of the company is property holding. The company made a profit of US $ 86,578 during the year ended 31 December 2015 (2014 – US $ 110,259). The relevant activities of Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited are determined by its Board of directors based on simple majority votes where each share carries one vote.

Therefore, the conclusion of the directors of the Group is that the Group has control over Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited and therefore, the financial information of Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited is consolidated in these financial statements

Set out below is the summarised financial information for the subsidiary

**Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited (Continued)**

| Summarised statement of financial position | 2015 US $'000 | 2014 US $'000 |
|---|---|---|
| Total assets | 2,667 | 2,539 |
| Total liabilities | (124) | (106) |
| Net assets | 2,543 | 2,433 |

**Summarised statement of profit and loss and other comprehensive income**

| | | |
|---|---|---|
| Net Income | 173 | 203 |
| Profit/(loss) before income tax | 128 | 158 |
| Income tax (expense)/credit | (42) | (48) |
| Other comprehensive income | - | - |
| Total comprehensive income | 86 | 110 |

**Summarised statement of cash flows**

| | | |
|---|---|---|
| Net cash generated (used in)/from operating activities | - | - |
| Net cash used in from investing activities | - | - |
| Net cash generated from financing activities | - | - |
| Net increase in cash and cash equivalents | - | - |
| Net (loss) on liquid assets | - | - |
| Cash and cash equivalents at beginning of year | - | - |
| Cash and cash equivalents at end of year | - | - |

## 29 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.





## 30 Operating lease Commitments

**Operating lease payables**

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

| | **2015 US$'000** | **2014 US$'000** |
|---|---|---|
| Not later than 1 year | 295 | 296 |
| Later than 1 year and not later than 5 years | 250 | 427 |
| | 545 | 723 |

**Operating lease receivables**

At the end of the reporting period, the lettable portion of the Corporation's headquarters building in Lagos as well as regional office buildings in Nairobi and Casablanca had been contracted with tenants for the following future lease receivables:

| | **2015 US$'000** | **2014 US$'000** |
|---|---|---|
| Not later than 1 year | 1,121 | 1,571 |
| Later than 1 year and not later than 5 years | 1,542 | 1,627 |
| | 2,663 | 3,198 |

## 31 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:

| | **2015 US$'000** | **2014 US$'000** |
|---|---|---|
| Share capital | 293,731 | 293,731 |
| Share premium | 156,354 | 70,700 |
| Other reserves | 154,329 | 223,201 |
| Retained earnings | 175,657 | 149,293 |
| Total capital – equity | **780,071** | **736,925** |

## 32 Subsequent Events

In January 2016 our Mauritius regional office received missing statements of the quota share accounts of Jubilee Insurance Mauritius for the underwriting year 2013 and 2014, totalling gross premium income of US$9,761,043 with related claims of US$ 5,263,847 and deductions of US$ 2,663,519. The retrocession premiums for the same amounted to reinsurance premiums of US$ 6,582,511 and claims recoverable of US$ 3,521,895 and deductions of US$ 1,796,545. The net technical result of those accounts of US$ 569,606 included in 2015 financials has been judged not material, as well as the impact of respective 2013 and 2014's premiums and claims on financial statements of each year. Therefore, 2014 figures have not been restated.

**Appendix**

**Consolidated statement of profit or loss by class of business**

| | Fire and accident US$'000 | Marine and aviation US$'000 | Life US$'000 | Total 2015 US$'000 | Total 2014 US$'000 |
|---|---|---|---|---|---|
| **Underwriting income:** | | | | | |
| Gross written premium | 535,849 | 109,634 | 43,808 | 689,291 | 717,525 |
| **Gross earned premium** | 528,927 | 119,241 | 44,011 | 692,179 | 708,582 |
| Retrocession premium | (46,936) | (54,317) | (106) | (101,359) | (94,137) |
| **Net earned premium** | **481,991** | **64,924** | **43,905** | **590,820** | **614,445** |
| **Commissions & charges earned under retrocession arrangements** | **9,708** | **7,276** | **332** | **17,316** | **15,052** |
| **Gross claims paid** | **(287,399)** | **(43,580)** | **(15,198)** | **(346,177)** | **(344,560)** |
| Gross claims incurred | (290,306) | (33,132) | (15,265) | (338,703) | (350,490) |
| Less retrocessionaires' share | 11,109 | 16,312 | 72 | 27,493 | 8,331 |
| **Net claims incurred** | **(279,197)** | **(16,820)** | **(15,193)** | **(311,210)** | **(342,159)** |
| Acquisition expense | (141,530) | (25,788) | (11,898) | (179,216) | (180,910) |
| Management expenses | (30,423) | (6,623) | (3,025) | (40,071) | (37,780) |
| **Underwriting profit** | **40,549** | **22,969** | **14,121** | **77,639** | **68,648** |
| Net investment and other income | | | | 26,754 | 50,496 |
| Realised (loss) /gain on exchange | | | | (273) | 1,280 |
| **Profit before income tax** | | | | **104,120** | **120,424** |
| Taxation charge | | | | (475) | (1,920) |
| **Profit for the year** | | | | **103,645** | **118,504** |





# Notes

# Notes