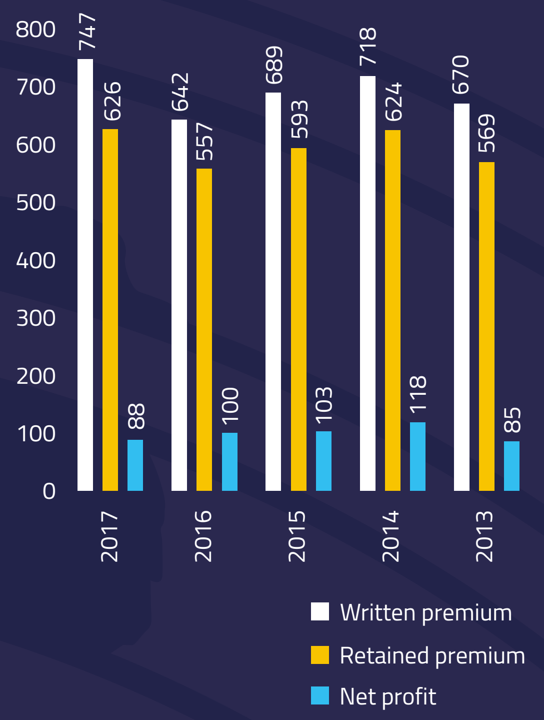
ANNUAL REPORT & ACCOUNTS

2017

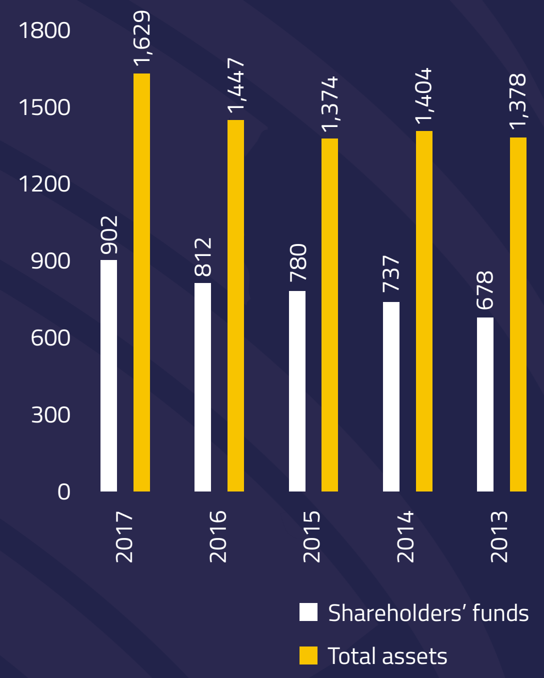
Financial highlights

In US$ '000	2017	2016	2015	2014	2013
Results					
Written Premium	746,829	642,024	689,291	717,525	670,458
Retained Premium	625,651	556,995	593,473	624,387	569,140
Earned Premium (Net)	606,896	567,532	590,820	614,445	556,062
Net Profit	87,982	100,202	103,645	118,504	84,801
Financial position					
Shareholders' Funds	902,039	812,311	780,071	736,925	677,538
Total Assets	1,628,545	1,447,299	1,374,464	1,403,266	1,377,831

Results 2013 - 2017
(in million US$)



Financial position 2013 - 2017
(in million US$)



Ratings

A.M. Best **A**

A.M.Best
(Excellent/Stable Outlook)

Standard & Poor's **A-**

S&P
(Strong/Stable Outlook)

Proposed dividend per share

US$8

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African Reinsurance Corporation
Annual Report & Financial Statements
31 December 2017

African Reinsurance Corporation
General Assembly
40th Annual Ordinary Meeting

Conakry, Guinea, 21 June 2018

Honourable Representatives
General Assembly
African Reinsurance Corporation

In accordance with the provisions of Articles 14 and 37 of the Agreement Establishing the African Reinsurance Corporation and Article 8 of the General Regulations of the Corporation, I have the honour, on behalf of the Board of Directors, to submit to you the Annual Report and Audited Accounts of the Corporation for the period from 1 January to 31 December 2017.

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

HASSAN BOUBRIK

Chairman of the Board of Directors and General Assembly

BOARD OF DIRECTORS

Mr Hassan BOUBRIK
Chairman

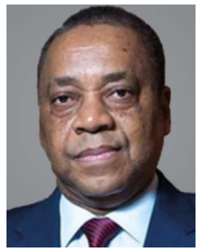
Nationality:
Moroccan

Constituency:
Morocco: state and companies

Current Term ends in:
June, 2020

Mr BOUBRIK is currently the Chairman of the Supervisory Authority of Insurance and Social Security in Morocco. He is a graduate in Finance and Actuarial Science and is in charge of insurance supervision.

He previously served as Chief Executive Officer of a major finance conglomerate in Morocco and has held many Board positions.



Mr Aguinaldo JAIME
Vice Chairman and Member of the Human Resources and Remuneration Committee

Nationality:
Angolan

Constituency:
states of East and Southern Africa and Sudan

Current Term ends in:
June 2020

He is the current President of the Angolan insurance regulatory authority (ARSEG).

Mr JAIME has also occupied the following positions in Angola: Deputy Prime Minister, Governor of the Central Bank, Minister of Finance, President of the Angolan Agency for Private Investment (ANIP), First President of the Angolan Investment Bank – Banco Angolano de Investimento (BAI), Director of the Foreign Investment Board (FIB), and Director of Planning, Studies and Statistics of the Angolan National Insurance Company.

He holds a Bachelor's Degree from the Faculty of Law of the University of Lisbon, a Law Degree from Agostinho Neto University, a Master's in Business Administration (MBA) and a Master of Arts from the University College, London.

He is presently a visiting lecturer in business administration at the Angolan Catholic University, Catholic University of Oporto and Catholic University of Rio de Janeiro.

Dr Mohamed Ahmed MAAIT
Director and Chairman of the Audit and Finance Committee

Nationality:
Egyptian

Constituency:
Egypt: state and companies

Current Term ends in:
June, 2018

He is currently the Vice Minister of Finance for Public Treasury. Dr MAAIT has a first degree in Insurance and Mathematics, M.Phil in Insurance, MSc and PhD in Actuarial Science. He is presently a visiting lecturer in different universities in Egypt, Chairman of Egyptian GAD, member of several government committees and Board member of several companies in Egypt.

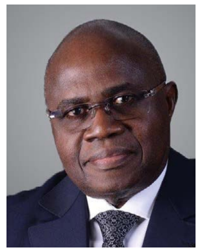
Mr Frédéric FLEJOU
Director and Member of the Audit and Finance Committee

Nationality:
French

Constituency:
AXA

Current Term ends in:
June, 2018

He is currently the Chief Executive Officer, in charge of 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 Chairman 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

He holds a Postgraduate degree in Insurance from Ecôle Nationale des Assurances de Paris and a Maîtrise in Law from University of Rouen, France.

Mr Lawson is currently the Adviser to the President of NSIA Group in charge of ethics and governance. He was previously Regional Director of the Abidjan Regional Office of Africa Re and Managing Director of NSIA Group (Côte d'Ivoire). He equally served as member of the Executive Committee of the African Insurance Organization and the Executive Bureau of 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

Mr Marami is currently the Director of Insurance and a member of the Insurance Supervisory Commission, Ministry of Finance, Algeria.

He is a professional insurer and holds degrees in Economics and Finance. Mr Marami equally has a postgraduate degree in insurance.

Mr Patrick ANDRIAMBAHINY

Director and Member of the Risk Management & IT Governance Committee

Nationality:
Malagasy

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

Current Term ends in:
June 2020

Mr Andriambahiny is the current Chairman of the Committee of Insurance Companies in Madagascar (CEAM) and Managing Director of Compagnie Assurances Réassurances Omnibranches ARO – Madagascar.

He holds a Bachelor's Degree in Economic and Social Administration from Maine University in France. He also has a Master's in Business Administration (MBA), a postgraduate Degree in Accounts and Finance (DESCF) and a Master's in Accounts and Finance. Mr Andriambahiny has served on the Boards of several institutions in Madagascar.

Mr Jean CLOUTIER

Director and Chairman of the Risk Management and Information Technology Governance Committee

Nationality:
Canadian

Constituency:
FAIRFAX

Current Term ends in:
June, 2018

He is currently Chairman of Fairfax International, Executive Committee Member of Fairfax Financial Holdings Limited and Vice President of International Operations. He holds a Bachelor's degree in Actuarial Science 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 State 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 2017
Board of Directors

Mr Almehdi Altahir AGNAIA

Director and Member of the Human Resources and Remuneration Committee

Nationality:
Libyan

Constituency:
Libya, Mauritania and Tunisia: states 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.

Mr Mohammed KARI

Director and Member of the Risk Management and Information Technology Governance Committee

Nationality:
Nigerian

Constituency:
Nigeria: state and companies

Current Term ends in:
June 2019

Currently the Commissioner for Insurance and Chief Executive Officer of the National Insurance Commission (NAICOM), the insurance Supervisory and Regulatory Authority in Nigeria.

He is a Chartered Insurer with over 36 years of experience in insurance and management, stretching from the private to the public sectors where he has managed some of the biggest insurance institutions in Nigeria.

He was appointed Deputy Commissioner for Insurance in charge of technical operations, NAICOM, in April 2014, a position he held until 31 July 2015 when he was appointed substantive Commissioner for Insurance.

Alternate Directors

Mrs Hayat MOUSSAFIR
Mr Woldemichael ZERU
Mr Mohamed OULD NATY
Mr Jerome DROECH
Mr Ashraf BADR
Mr Sahnoune SOFIANE
Mr Karanja KABAGE
Mr Kennedy ODONDI
Mr Mamadou SY
Mr Oye HASSAN-ODUKALE

EXECUTIVE MANAGEMENT

Mr Corneille KAREKEZI

Group Managing Director / Chief Executive Officer

After serving on the Board of Africa Re from 2003 to 2005, Mr Corneille KAREKEZI later joined the Corporation in July 2009 initially as Deputy Managing Director, for a transition period of 2 years, and subsequently as Deputy Managing Director / Chief Operating Officer in 2010, before rising to the current position of Group Managing Director / Chief Executive Officer in July 2011.

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. From 1996, he successively headed all the Technical Departments (Motor, Fire, Accidents & Miscellaneous Risks, and Life) and was appointed Deputy Managing Director in early 2001. In February 2008, he was appointed Chief Executive Officer of SONARWA s.a.

Mr KAREKEZI holds a Bachelor's Degree in Economics, Postgraduate Diplomas in Business Administration, a Master's Degree in Management and a Honorary Doctorate in Business Administration. He speaks English, French and Swahili fluently.

Since 1996, he has contributed significantly to the development of the insurance / reinsurance industry in Africa through his involvement in various regional and continental organizations and active participation as speaker in seminars, conferences, symposia and other fora.

He is the current Vice Chairman of Africa Re South Africa Limited and Africa Retakaful Corporation, Member of the Board of Shelter Afrique (Kenya) 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 Anglophone 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 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

Prior to joining Africa Re in 2003, Mr Séré Mady Kaba worked at the Central Bank of Guinea for twenty two years where he held various leadership 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 distinction, in Accounting and Financial Management from the University of Conakry. While serving as Director of Insurance, he became a Board Member of Africa Re (1995-1998), Alternate Director (2000-2003) and Member of the Accounting Sub-Committee of the International Association of Insurance Supervisors (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).

In April 2014, Mr KABA was appointed Corporate Secretary/Director of Risk Management and Compliance (DRMC) until July 2017 when the two departments were separated.

Mr Seydou KONE

Director, Finance and Accounts

Mr Seydou KONE joined the Corporation in 2010 as Director of Finance and Accounts after 15 years of experience in the insurance industry. He started his career with Deloitte as Auditor of insurance and reinsurance companies. He then joined NSIA Assurance 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 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 Université de Côte d'Ivoire.

Mrs Marie-Agnès SANON

Director, Risk Management and Compliance

Before joining Africa Re in 2007 in its Nairobi Office as Senior Underwriter Treaty and Facultative, Mrs Sanon was an Inspector in the Department of Insurance Supervision, Ministry of Finance in Ouagadougou (Burkina Faso) from 1984 to 1988. She worked in Allianz Burkina Faso from 1988 to 2000 as Head of the Department of Reinsurance, Marine and Corporate Property risks. From 2001 to 2006 Mrs Sanon worked in CICA-RE as Treaty Underwriter in charge of the French - speaking West Africa.

In July 2010, she was appointed Regional Director of the Mauritius Office. Mrs Sanon assumed duty on 19 December 2017 at the Head Office in Lagos as Director of Central Operations and Special Risks (DCOSR) and on 9 March 2018 she was appointed Director of Risk Management and Compliance.

Mrs Sanon holds a Bachelor's degree in Economics (1983), Sociology (1996), Master's degree in Economics (1983) and a Postgraduate diploma in Insurance (1986).

Mrs Sanon has over 33 years work experience in the Insurance /Reinsurance industry.

Mr Raphael Uhunoma OBASOGIE

Director, Human Resources and Administration

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 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 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 Human Resources and Administration.

Mr David MUCHAI

Director, Internal Audit

Mr David Muchai joined the Corporation in October 2016 as Director of Internal Audit. Prior to joining Africa Re, he was a Senior Finance Manager in the Group Reinsurance Unit at Aviva Plc, London. He also worked as European Accountant for ACE Life (a subsidiary of ACE Group) with responsibility for the United Kingdom and seven branches across the European Union. Mr Muchai also served as a Senior Audit Executive with Ernst & Young in London where he focused on the audit of The Society of Lloyds, insurance and asset management companies.

Mr. Muchai is a qualified Accountant and a member of the Institute of Certified Public Accountants of Kenya. He also holds a Master's Degree in Financial Economics from Kingston University (United Kingdom).

Mrs Eunice Wairimu MBOGO

Director, Central Operations and Special Risks

Mrs Eunice Mbogo joined the African Reinsurance Corporation in 2010 as the Regional Director of the Nairobi Office where she worked until July 2017 when she assumed duty as Director of Risk Management and Compliance in the head office in Lagos. On 9 March 2018 she was appointed Director of Central Operations and Special Risks.

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.

She holds a Bachelor of Commerce (BCom) from the University of Nairobi (1998) and a Master's in Business Administration (MBA) from ESAMI (2005). She is also a Fellow of the Chartered Insurance Institute (London). Mrs Mbogo has over 28 years work experience.

REGIONAL DIRECTORS

Mr Mohamed Larbi NALI

Regional Director, Casablanca Office

Mr Mohamed Larbi NALI joined Africa Re in July 2016. He started his career in 1993 as Director of the Life Department in Société Centrale de Réassurance (SCR). Between 1997 and 2012, he successively held many positions namely, Director of the Actuarial Department, Deputy Director in charge of Marketing and Operations. In 2012, he was appointed Managing Director of Société Centrale de Réassurance (SCR).

He is the founder of the Moroccan Association of Actuaries and was its Chairman from 2010 to 2013. He was also the Chairman of the African Centre for Catastrophe Risks (ACCR), Vice- Chairman of the African Insurance Organisation (AIO) and Vice-Chairman of the General Arab Insurance Federation (GAIF).

He holds a Postgraduate degree in Mathematics from the Catholic University of Louvain in Belgium and also a Maîtrise in Actuarial Sciences from the Business School of the Catholic University of Louvain in Belgium.

Mr Léonidas BARAGUNZWA

Regional Director, Ebene Office in Mauritius

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 & Pensions 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. On 1 January 2017 he was appointed Regional Director, Mauritius Ebene Office in Mauritius.

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 Omar GOUDA

Regional Director, Cairo Office and Managing Director of Africa Retakaful Company

After graduating from university 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.

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, after successfully concluding the office establishment Agreement with the Egyptian Government.

In 2010, Africa Re set up Africa Retakaful Company and Mr Gouda became the pioneer Managing Director of the subsidiary in addition to 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 N'guessan 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 Deputy Regional Director from January 2008 to March 2011 when he was promoted to the position of Regional Director of the Abidjan Office.

Mr N'GUESSAN holds a Master's in Business Economics from Université Nationale de Côte d'Ivoire- Abidjan Cocody and a Postgraduate Diploma in Insurance from the International Insurance Institute of Yaounde, Cameroon.

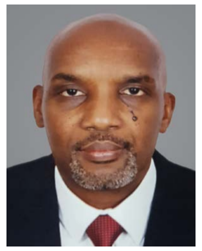
Mrs. Funmi OMOKHODION

Regional Director, Lagos Office

Having served as Interim Regional Director, Mrs Funmi Omokhodion was appointed as Regional Director of the Lagos Office in January 2018.

Prior to this appointment, Mrs Omokhodion, who started her career in Africa Re, held various positions in the Corporation such as Senior Underwriter (treaty & facultative), Assistant Director Technical Operations and Deputy Regional Director amongst others. She has also worked for the African Oil & Energy and Aviation Pools, managed by Africa Re.

Mrs Omokhodion holds a Bachelor of Arts Degree from the University of Ilorin, Nigeria and an Executive MBA Degree from ESUT Business School, Nigeria. She is an Associate member of the Chartered Insurance Institute (ACII), UK.



Mr Ephraim Kiiza BICHETERO

Regional Director, Nairobi Office

Mr Ephraim Kiiza BICHETERO started his career in 1994 as underwriter trainee in Pan World Insurance Uganda. He rose to become head of the reinsurance department. In 1998, he joined Goldstar Insurance Uganda as head of underwriting, claims and reinsurance and eventually became Assistant General Manager. In 2002, he was recruited as Head of Technical Operations in charge of underwriting, reinsurance and claims in the then United Assurance Ltd (now UAP Old Mutual General Insurance Uganda Ltd).

Mr BICHETERO joined Africa Re as underwriter in June 2004 at the Nairobi Regional Office. He subsequently rose through the ranks to become Assistant Director Technical Operations and Deputy Regional Director. In July 2017, he was appointed Interim Regional Director and in January 2018, he became the Regional Director of the Nairobi Regional Office.

Mr BICHETERO holds a Bachelor of Arts Degree from Makerere University, Kampala, Uganda and an Executive MBA Degree from the United States International University, Nairobi, Kenya. He is also a holder of an Associate Diploma from the Chartered Insurance Institute, London (ACII). Mr BICHETERO has served as a member of many insurance technical committees in Uganda and Kenya.

Mr Andy TENNICK

Managing Director, African Reinsurance Corporation South Africa (ARCSA) subsidiary

After graduating from university in 1986, Mr Tennick joined Swiss Re in Johannesburg as a graduate trainee. During a 14-year career he worked in various capacities culminating in management of the underwriting and subsequently the client management functions.

He then joined the Imperial Holdings Group in Johannesburg and set up Imperial Reinsurance before moving to the Group's insurance business, Regent Insurance, as an executive director with various responsibilities including underwriting, reinsurance and risk management. He was joint CEO of the Regent Insurance Group at the time he left the Group.

Mr Tennick holds a Bachelor of Commerce Degree from the University of Cape Town and is an Associate (ACII) and Fellow (FCII) of the Chartered Insurance Institute (UK).

He became Managing Director of African Reinsurance Corporation South Africa in April 2018.

Mr Habtamu DEBELA

Local Representative, Addis Ababa Local Office

Mr Debela HABTAMU started his career with the Ethiopian Insurance Corporation in 1997. He worked in different capacities and rose to the position of Executive Officer for Insurance Operations in various insurance companies in Ethiopia. Mr Habtamu Debela holds a Diploma in Accounting, BA in Business Administration and Executive MBA.

He became the Local Representative of Addis Ababa Local Office in April 2018.

Annual Report & Accounts 2017
Chairman's Statement

Mr Hassan BOUBRIK
Chairman

Chairman's Statement

It is with great pleasure that I present the 40th Annual Report of the Board of Directors of the African Reinsurance Corporation (Africa Re) including the 2017 financial statements. My statement also includes a review of the Corporation's operating environment, report of the external auditors to the shareholders, the reports on capital management, enterprise risk management, corporate governance, compliance, corporate social responsibility and human resources.

Corporate Financial Performance

Macroeconomic performance of the African continent, our core market, improved in 2017 with growth recovery in the real output. African GDP growth increased to 3.6%, up from 2.2% in 2016. In addition, the South African rand appreciated slightly against the US dollar while the Nigerian naira and the Egyptian pound stabilized, which contributed to the reduction of the usual conversion loss in the top line.

It is on this improved environment that the Corporation's Gross Written Premium also recovered from the decline in the last two years and recorded in 2017, a 16.3% growth from US$ 642.02 million in 2016 to US$ 746.83 million, despite a total net negative impact from the fluctuation of exchange rates of our major original currencies against the US dollar. The strong growth witnessed in 2017 came from organic growth in the Corporation's core markets and new businesses in Central Africa due to market repositioning; in West Africa as a result of economic recovery in Nigeria and in the Middle East following an increase in underwriting capacity.

Gross earned premium, after adjusting for movement in unearned premium provision, stood at US$ 718.81 million compared to US$ 653.66 million in 2016, translating into a 9.97% growth.

Retroceded premiums during the year totalled US$ 111.92 million, as against US$ 86.13 million in 2016. 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.

With regard to claims, 2017 was a very bad year. The combined ratios of global reinsurers weakened beyond 10%; in our case there were different geographical reasons. Natural catastrophe losses in South Africa, coupled with large losses in Francophone West Africa and the Middle East, raised the Corporation's total claims above the average level in recent years.

Gross claims paid in 2017 grew by 17.18% to US$ 367.64 million (2016: US$ 313.73million). Gross incurred loss ratio deteriorated to 58.74% from 52.52% the previous year. The net incurred loss ratio reached 60.41% in 2017 from 55.67% in 2016.

During the year, operating expenses and capital expenditure were kept within the approved budget. Management expenses for the year increased by 2.13% to US$ 42.23 million. However, the Management Expense Ratio, including provision for bad debts, decreased to 6.96% (2016: 6.78%), mainly due to the 6.94% growth in net earned premium.

The Corporation's underwriting profit dipped by 44.46% to reach US$ 31.12 million in 2017, compared to US$ 56.04 million the year before. This decline resulted from unprecedented natural catastrophe claims which rose to 4.8% of the total claims as well as two single large claims.

The Corporation recorded a very good Average Return on Investment as investment and other income increased by 35.92% to stand at US$ 62.80 million compared to US$ 46.20million in 2016. This was driven by a strong performance of the equity and fixed income markets.

The Overall Net Profit, affected by the large and natural catastrophe claims recorded during the year, decreased by 12.20% to stand at US$87.98 million against US$ 100.20 million in 2016.

Shareholders' Funds amounted to US$ 902.04 million as against US$ 812.31 million in 2016, representing an increase of 11.05% mainly due to the positive impact of cumulative translation adjustment and the profit of the period.

Corporate Strategy and Initiatives

The Corporation, which is in the penultimate year of the 5th Strategic Business Plan for the period 2014-2018, continued its leadership role in the development, transformation and empowerment of the insurance industry in Africa.

Africa Re continued its positioning as a strong reinsurer with international standards and financial ratings while keeping its ties with its African core markets. Professionalism, prudent underwriting, flexibility to adapt to fast changes, proximity to markets, both culturally and geographically, and dynamic allocation of resources remained at the heart of its strategy.

Africa Re actively promoted insurance awareness and empowerment of African insurance players either alone or with various regional and continental bodies. To accomplish its mission of developing African insurance markets and supporting African economies, Africa Re pursued long standing initiatives in capacity building and support to national or regional markets through in-house, national and regional training sessions, seminars and conferences for the local insurance markets. Furthermore, customized training and in-house attachments continued to be graciously offered to cedants and peers' staff in risk management.

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 stakeholders namely, ceding companies, insurance markets, national insurance associations, regional insurance institutes and insurance regulators. In 2017, the CSR Trust Fund sponsored the African group of ambassadors by funding the 54th Africa day and Internally Displaced Persons (IDP) / Charity Outreach Programmes in Nigeria. Mobile classrooms were donated to IDP Camps in Junchingoro in Abuja, Nigeria, and assistance was provided to the Government of Sierra Leone following the mudslide in Freetown.

The third edition of the popular African Insurance Awards ceremony, which celebrates and promotes professionalism, excellence and innovation in the African insurance industry, was held on 22 May 2017 during the AIO conference in Kampala, Uganda. The CSR Trust Fund continued to partner with the ILO's Impact Insurance Facility by funding initiatives to grow the capacity of providers of micro-insurance in the African markets and, most importantly, to invest in the development of an online platform to train young African insurance professionals. Finally, the dream of training the very young ones in the industry and preparing future industry professionals and leaders has finally come to reality with the launching, in May 2018, of the Young Insurance Professional Programme, which is already very popular at the first edition.

Internally, emphasis was placed 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 element of financial rating. Risk pricing tools and risk models continued to be refined. The South African subsidiary successfully continued its implementation of the new Solvency Assessment and Management (SAM), a European Solvency II insurance regulatory regime equivalent.

The Corporation has continued strengthening the technical skills of its professionals in special risks such as agricultural insurance and oil and energy classes through overseas attachments with its business partners. New specialists were hired to strengthen agricultural insurance risk underwriting with a view to becoming a leader on the continent in that area.

Africa Re continued to implement other strategic initiatives in 2017, which are, among others, to develop a best-in-class IT technology platform and to improve its expertise in special risks. We are today at the final stages of changing our aging reinsurance management software and replacing it with an integrated and more modern reinsurance management solution which will carry our ambitious operational objectives into the future.

Corporate Governance

The Board of Directors held four meetings in 2017 during which key decisions were taken, policy implementation monitored, oversight of controls performed and guidance provided to Management. In addition to the usual supervision of strategy implementation and guidance in critical operational matters, the Board reviewed the investment policy and guidelines, adopted the retrocession programme and approved some investment projects and equity participation.

The most important guidance performed by the Board of Directors was the successful management of the risk of downgrading the financial rating of Africa Re. A.M. Best rating agency suddenly decided that all our shares with put option, a feature which has existed since the inception of the Corporation, are non-permanent capital. Consequently, our rating was put 'under review with negative implications'. The Board immediately started a 'special procedure' to amend the Agreement Establishing Africa Re in order to give comfort to the rating agency that our capital is permanent and stable to support our operations. It is with immense gratitude that I recognize the efforts and cooperation of all the Class A Shareholders. The positive response to our proposal to change the mechanism to withdraw from the Corporation's capital was done in record time. You have demonstrated, if need be, that your commitment to the mission of the Corporation is strong and continuous.

Enterprise Risk Management

After the amendment, the Corporation's rating was reinstated and reaffirmed in 2017 at A with a Stable Outlook by A.M. Best and at A- with a Stable Outlook by Standard & Poor's. As a result of a parental guarantee, Standard and Poor's rating of the Corporation was also extended to the South African Subsidiary (ARCSA), despite the country's downgrade.

Final Note

Due to its resilience and strong capital base, the Corporation posted a decent profit in 2017 despite significant natural catastrophe claims and large claims recorded in some of its markets.

The Board of Directors and Management will continue with the current strategy, with the readiness to identify, assess and seize any opportunity in the market. We will continue efforts to develop new partnerships in Africa and to implement new strategic initiatives in order to sustain the Corporation's planned growth.

The Corporation will continue to leverage on its competitive advantage in the continent namely, skilled human capital, geographical spread, internal strengths and distinctive competences proven over the years.

The resilience of African economies to recent negative shocks and the expected accelerated real output growth, projected at 4.1% in 2018 and 2019, indicate that 2018 should confirm the steady economic recovery of our core markets. Accordingly, there will be a gradual return to a strong premium growth above 7.5%, which is much needed to unlock the huge potential of the insurance industry to contribute to the economic development of Africa.

While claims experience was challenging in 2017, we expect that, with less natural catastrophe events in South Africa, the level of the Corporation's combined ratio will be back to the average of around 90% experienced in the last five years and the underwriting profit margins to about10%.

After a year of exceptional investment returns on risk assets, 2018 is likely to see sustained economic growth and good, albeit more limited returns. We can expect a slight reduction of the unrealized gains and possible shocks due to uncertainty in the geopolitical arena.

Overall, we see 2018 as a better year compared to 2017, and we are confident that the strategic objectives of our 5th Strategic Business Plan will be met.

On behalf of the Board of Directors, I would like to say thank you to all of you who contributed to this good performance, from Africa Re staff working in all our eight locations to Management led by Mr Corneille Karekezi, and our Shareholders, for your dedication, hard work, commitment and support in 2017.

Our gratitude also goes to all ceding companies, brokers and business partners, without whom our Corporation cannot survive and thrive as it does.

I wish you a pleasant reading. Thank you.

Hassan Boubrik
Chairman

Mr Corneille KAREKEZI
Group Managing Director / Chief Executive Officer

MANAGEMENT REPORT

I. ECONOMIC & TRADE ENVIRONMENT IN 2017

Global Economy: expected good surprises

2017 was a year of surprises though some were largely expected. Global growth was the fastest since 2011. Global output improved significantly from 3.2% in 2016 to 3.8%. The highest growth rates were posted by emerging and developing Asia, followed by African low-income countries. In 2017, Gross Domestic Product (GDP) growth in these regions reached 6.5% (2016: 6.5%) and 5.8% (2016: 6.0%). The outcome exceeded forecasts in the October 2017 IMF World Economic Outlook in the Euro Area, Japan, United States and China. Growth continued to gradually improve in commodity exporting countries, backed by supportive expansionary policies and a generally positive economic sentiment.

Mr Trump's administration started the year with a very positive market sentiment. Tax reform and Fed monetary policies contributed to fuel the economy, which achieved a 2.9% growth in 2017 compared to 2.3% last year.

Despite political uncertainties, monetary stimulus helped the Eurozone to remain positive. For the first time in ten years, the Bank of England increased interest rates to support the economy following challenges faced after the Brexit referendum. The European Central bank committed to continuing quantitative easing albeit at a reduced pace. The Euro Area ended the year with a 2.4% growth compared to 2.3% last year.

Emerging markets improved from 4.4% in 2016 to 4.7% in 2017 driven by developing Europe and Latin America. The rise in commodity prices and a strong global demand contributed to this growth. China achieved a better growth in 2017 (6.6%) despite political and economic challenges.

Financial markets recorded excellent results with equity markets in the lead. The increase in short-term interest rates, whose impact on bonds was generally positive, was largely anticipated and well communicated by central banks. Long-term rates remained at their level creating a flat yield curve.

Most financial markets across the globe recorded strong performances due to robust growth, moderate inflation and continuous support from central banks. The US S&P 500 gained 19%.

African economy: recovered growth

In 2016, growth fell behind the global average in Africa as a whole and in 2017, it grew at about the same rate as the global economy.

Sub-Saharan Africa recorded a 3.4% growth compared to 2.8% in 2016. This performance is mainly explained by the recovery in oil price following the gentlemen's agreement between OPEC members on oil supply level. This had a positive effect on major oil producers previously in recession such as Nigeria and Angola.

Output increased to 1.5% compared to 1.3% in 2016 in South Africa, though the economic environment remained generally weak in 2017 and confidence levels very low amongst consumers and business enterprises.

East Africa remains the fastest-growing sub-region, with estimated growth of 5.6% in 2017, up from 4.9% in 2016. North Africa recorded the second-highest growth rate at 5.0% in 2017as against 3.3% in 2016. Growth in Southern Africa nearly doubled in 2017 to 1.6%, up from 0.9% in 2016.

The above picture confirms that economic fundamentals and resilience to external shocks improved in a number of African countries. No single factor accounted for this improvement. Rather, it reflects better global economic conditions, recovery in commodity prices (mainly oil and metals), sustained domestic demand, partly met by import substitution and increased agricultural production.

Real exchange rate depreciation decelerated after major corrections of the Nigerian naira, the Egyptian pound and the Sudanese pound were fully absorbed. The South African rand even appreciated towards the end of 2017 after the much awaited change of leadership in the ruling ANC party.

Global reinsurance: still making money despite significant natural catastrophe losses

Improved economic activities, emerging new products and the introduction of risk-based capital regimes led to a modest increase in global demand for reinsurance protection in 2017.

Despite persistent soft underwriting conditions, the global non-life insurance industry generated around US$ 2,200 billion of premium income in 2017, a 3.0% growth in real terms, after a 2.3% gain in 2016.

Similarly, the global reinsurance sector continued to face a continuous soft market, although the aggregate reinsurance net written premiums increased by 11.3% to US$ 285 billion (2016: US$ 256 billion). Diversification of underwriting platforms remained a key focus for many reinsurers due to continuous weak pricing. Reinsurance growth areas included structured P&C (6% growth), cyber, mortgage, life and health. Some reinsurers continued to target further growth in primary insurance.

Natural catastrophe events caused economic losses estimated at US$320 billion globally in 2017. Insured losses, private market and government-sponsored programmes are estimated at US$136 billion, making it the third most costly year behind 2011 and 2005. The average insurance recovery ratio of 40% shows that the global economy is still partially protected from natural catastrophes. Even in the most developed markets such as the USA, the insurance recovery ratio is just 47%, below the 17-year average of 54 percent mainly due to the relatively high proportion of losses caused by flooding.

In the reinsurance context, traditional providers were well-capitalized going into these events as primary insurers retained more risks. The losses in 2017 were therefore absorbed without compromising the availability of reinsurance capacity. Consequently, global reinsurer capital stood at US$ 605 billion at 31 December 2017, a 2% increase compared to 2016. Traditional capital rose by US$ 2 billion to US$ 516 billion while alternative capital increased by US$ 8 billion to US$ 89 billion.

The results of the top 21 global reinsurers confirm that the traditional reinsurance sector, as a whole, continued to make money in 2017 with a pre-tax profit of US$ 5.1 billion and a 2% average return on equity despite heavy underwriting losses (US$ 10.6 billion). However, the low yet positive average return on equity was much lower than the average cost of equity of 8.1%, leading some analysts to maintain a negative outlook for the sector.

The average combined ratio increased to 107.4% in 2017, taking the five-year average to 94.7%, with net natural catastrophe losses of US$ 23.6 billion accounting for 16.4% points.

Investment returns generally exceeded expectations in 2017, despite the impact of persistent low interest rates. The raising of interest rates by the US Federal Reserve and the Bank of England facilitated this performance. Total investment return of top reinsurers, including capital gains, stood at an average of 3.7% while the underlying investment return stood at 2.6%.

Africa Re in 2017: resilience in the storm

The Corporation achieved a fantastic growth of 16.32% and recorded a premium income of US$ 746.89 million in 2017 compared to US$ 642.02 million in 2016. This was driven by good underwriting and a relatively stable currency exchange rate environment.

Underwriting performance was however severely impacted by significant natural catastrophes in South Africa and large losses in some markets. However, the Corporation generated a positive underwriting result of US$ 31.12 million compared to US$ 56.04 million in 2016. This translated into a combined ratio of 94.87% compared to 90.13% in 2016, a performance above the global average combined ratio of 107.4% in 2017.

Investment income also recorded a commendable improvement of 36.94% from US$ 44.9 million in 2016 to US$ 61.5 million in 2017. This was supported by the bullish financial market and the relative stability of the transactional currencies compared to the reporting currency – the US dollar.

Overall, the Corporation achieved a profit after tax of US$ 87.98 million compared to US$ 100.20 million recorded in 2016. Shareholders' equity increased by 10.95% from US$ 812.31 million in 2016 to US$ 901.24 million in 2017.

Profitability of the Corporation, with a return on equity of 10.27%, was beyond the global reinsurance industry average of 2% in 2017 and the five-year average of 8.5%.

OUTLOOK FOR 2018

Business cycle fear and a tremendous opportunity

The world economy is expected to grow by 3.9% in 2018 from 3.7% in 2017, driven by the growth momentum of last year and continuous positive market sentiment in developed and emerging markets. Expansionary fiscal policies in the USA combined with expansionary monetary policies in Europe support the belief that growth will be sustained in 2018.

Among the emerging and developing countries, top performers are expected to be India, the Middle East, Latin America and sub-Saharan Africa with 7.4%, 3.4%, 2.0% and 3.4% growth rates respectively. This is a reflection of the very positive sentiment on commodity prices.

Analysts are cautiously positive as regards the outlook of the economy across Africa in the early months of 2018. In sub-Saharan Africa, Nigeria and South Africa would grow by 2.1% and 1.5% respectively.

Supported by good economic prospects, the insurance sector is expected to improve in the coming year. The reinsurance sector is also expected to improve despite the loss experience of 2017. In fact, we noticed an increasing number of alternative solutions offered for natural catastrophe risks.

The African reinsurance market will also benefit from this trend. Premium growth, which is similar or even higher than the 16.32% achieved in 2017, will not be a surprise, especially as the market is expected to harden after last year's heavy losses.

In addition, domestication of insurance business in some African countries, coupled with new solvency regulation in others, would contribute to increase opportunities for local reinsurers. However, this is threatened by growing competition on the continent, increasing consolidation, setting up of national reinsurance companies and appearance of global reinsurance subsidiaries.

African currencies are expected to continue appreciating vis-à-vis the US dollar on the back of stable and growing oil price and relative improvement in the prices of major raw materials. This will have a positive impact on the volume of business in US dollar terms and by extension on the financial results.

However, the level of claims from natural catastrophes and large losses will be the major determinant of the bottom line. Already, there are some indications that an upward correction of last year's claims reserves may negatively impact the expected underwriting results.

Since investment income contributed more than 60% to the overall profit of the Corporation in 2017, its volatility, mainly from the reduction of the significant capital gains accumulated in equity markets, may negatively impact the bottom line in 2018.

Assuming average claims activity and stable financial markets in 2018, expected strong growth in written premium will result in an overall profit above that of 2017. Therefore, Management expects premium growth to be above 10%, combined ratio and return on equity to remain within the budget level of 89%-95% and 11%-15% respectively in the coming year.

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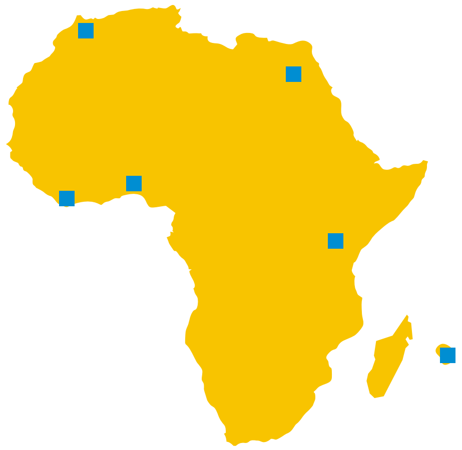
II. TECHNICAL OPERATIONS

In this section the Corporation's operating results are examined and compared to 2016 figures.

Africa Re operates from a network of eight strategically positioned locations in the continent. Each office coordinates activities in specific African markets within a geographical area. The proximity to clients gives Africa Re the leverage to effectively provide quality service to the insurance markets in the continent and beyond.

Africa Re's adherence to best practices provides the Corporation the unique opportunity to access a portfolio of diversified and profitable businesses in Africa, and to a lesser extent, Asia, the Middle East and Brazil.

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, Portuguese-speaking African market, Asia and Brazil.

Two wholly owned subsidiaries

- Johannesburg, South Africa: South Africa and neighbouring markets, handled by the subsidiary - African Reinsurance Corporation (South Africa) Limited;
- Cairo, Egypt: Africa, Asia and Middle East Retakaful markets handled by the subsidiary - African Retakaful Company.

One local office

- Addis Ababa, Ethiopia.

One underwriting office

- Kampala, Uganda

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

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

The table below provides a summary of the Corporation's performance

Description (US$000)	2017			2016		
	Gross	Retro	Net	Gross	Retro	Net
Income						
Premium (less cancellations)	746,829	(121,179)	625,650	642,024	(85,029)	556,995
Change in unearned premium provision	(28,015)	9,261	(18,754)	11,640	(1,103)	10,537
Earned premium	718,814	(111,918)	606,896	653,664	(86,132)	567,532
Outgo						
Losses paid	367,642	(26,901)	340,741	313,733	(10,328)	303,405
Change in outstanding claims provision (incl. IBNR)	54,617	(28,736)	25,881	29,549	(16,990)	12,559
Incurred losses	422,259	(55,637)	366,622	343,282	(27,318)	315,964

Premium income

In 2017, the Corporation generated a gross written premium income of US$746.83 million which is 16.32% more than the 2016 production of US$642.02 million.

Fluctuation in exchange rates adversely impacted corporate production by US$23.66 million as the Nigerian naira, Sudanese pound and Egyptian pound weakened against the US dollar. However, the South African rand and the CFA franc appreciated against the US dollar thereby mitigating Africa Re's loss in the reporting currency.

The broad-based slowdown in sub-Saharan Africa (SSA) is easing according to the October 2017 report of the International Monetary Fund (IMF), which predicted that in 2017, growth would pick up to 2.6 percent from last year's 1.4 percent. The main drivers of GDP growth in 2017 were Nigeria (0.7%), Angola (0.1%) and South Africa (0.1%). The rest of SSA contributed 0.3%.

According to the IMF, growth in SSA emanated from a slight rebound in commodity prices as well as a supportive global environment with improved access for sub-Saharan African economies

Egypt's economy grew by 4.2%, up from 3.5% the previous year.

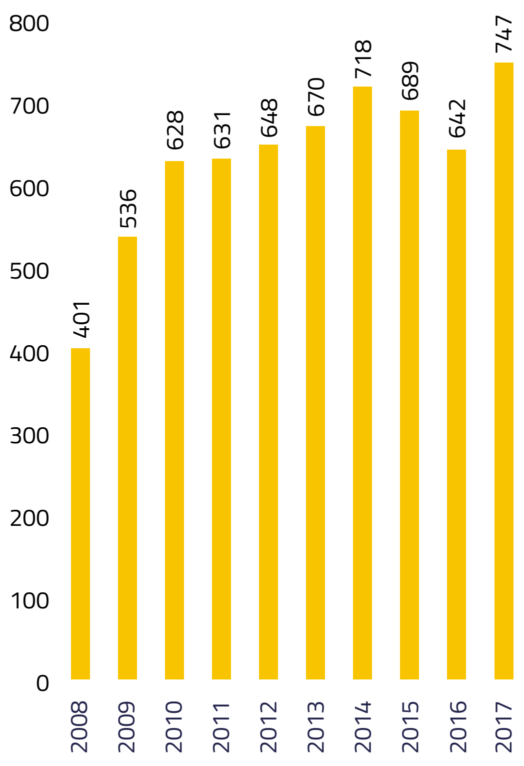
In Algeria, the economy has generally experienced a downturn since 2015 (3.7%). GDP is expected to drop to 2.2% in 2017 from 3.3% in 2016 due to moderate activity in the hydrocarbon sector and a weak non-oil sector.

After a poor performance in 2016 (4.5%), the Moroccan economy grew by 4.1% due to an improved fiscal environment and a strong rebound in agriculture production in the first 3 quarters of 2017. The Tunisian economy is projected to expand from 1% in 2016 to 2.0% in 2017 driven by gradual recoveries in the agriculture and manufacturing sectors.

The African insurance industry will continue to support the growth of the continent's economies.

Africa Re is the leading African reinsurer and the only local security in the continent backed by **A** rating from AM Best and **A-** rating from S&P. Accordingly, the Corporation will continue to build up its expertise in emerging and specialty lines with the view to providing African insurance markets with capacity and technical support in new products and special risks. Concurrently, Africa Re will continue to deploy its resources in order to maintain and increase its existing portfolio lines in the coming years.

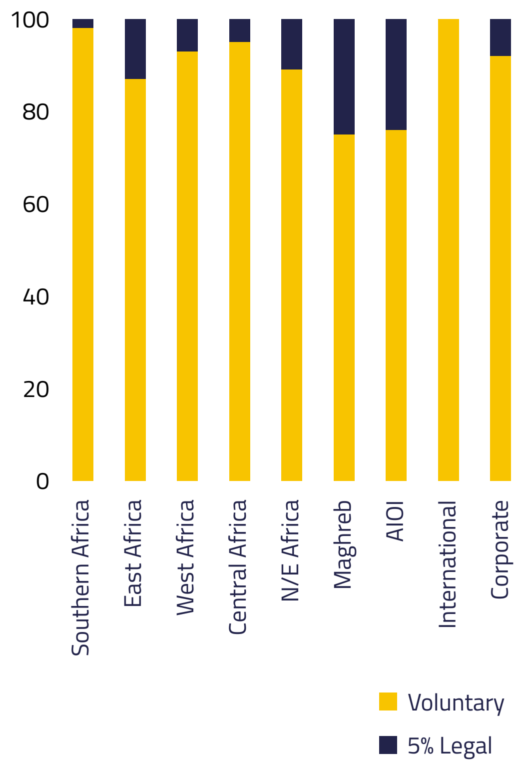
Development of gross written premium in US$million



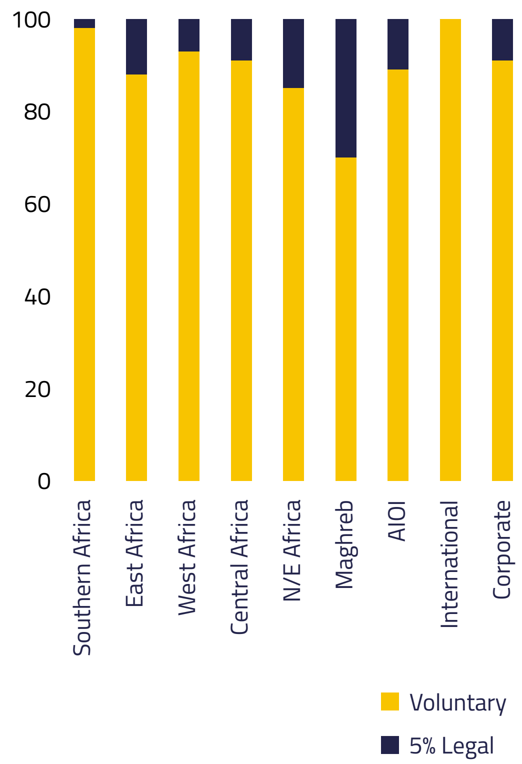
Legal (Compulsory) Cessions

Africa Re came into existence in the 1970s when large European international reinsurers virtually dominated the reinsurance industry in Africa and other former colonies. As an initiative of the African Development Bank, the Corporation was set up in 1976 by 36 African states to reduce the outflow of premium income from the continent. Africa Re now has 41 member states. To ensure its survival among well-known and larger outfits, the Corporation was granted, at inception, 5% of every reinsurance treaty emanating from member states. Without this crucial support in its infancy, which allowed Africa Re to retain a small slice of the African reinsurance premium income, the Corporation would have ceased to operate many years ago. Compulsory cessions presently account for 8.2% of its income.

Financial year 2017



Financial year 2016



Geographical distribution

Operating from its network of six regional offices, two subsidiaries, one local office and an underwriting office, the Corporation accepts businesses from cedants across Africa, as well as selected markets in Asia, the Middle East and Brazil.

Southern Africa

The African Reinsurance Corporation, South Africa Ltd (ARCSA) in Johannesburg, oversees operations in Botswana and the rand zone. The subsidiary is Africa Re's highest premium provider with a contribution of 27.2% to the overall group turnover in 2017. In the year under review, ARCSA generated US$203.50 million, an increase of 28.87% from last year's US$157.91 million. This increase was mainly due to the impact of exchange rate fluctuation translating into a gain of US21.14 million.

East Africa

Production from this region increased from US$131.45 million in 2016 to US$140.47 million in 2017 representing a 6.9% increase. This figure accounts for 18.8% (2016: 20.3%) of the corporate income. This was achieved despite the adverse impact of key currencies which depressed the region's production by US$6.27 million.

Anglophone West Africa

The income from this region was US$84.91 million (2016: US$75.27 million), accounting for 11.4% of corporate production. The 12.8% increase in income compared to last year was attained despite the devaluation of the Nigerian naira.

Maghreb

The production from the Maghreb region increased by US$2.14 million to US$64.20 million in 2017. The impact of exchange rate movement was marginally favourable amounting to US$580,590. The income from Maghreb accounts for 8.6% of corporate premium income.

North East Africa

The domestic production from the Cairo Regional Office decreased from US$41.12 million in 2016 to US$36.93 million in 2017 due to the weakened Egyptian and Sudanese pounds, which led to a loss in premium income amounting to US$5.03 million. The income from North East Africa accounts for 4.9% of corporate production.

Francophone West and Central Africa

The Abidjan Office is responsible for the predominantly French-speaking region of West and Central Africa. The turnover increased by 39.3% from US$60.44 million in 2016 to US$84.22 million in 2017. The growth in premium income was due to an increase in energy business in the region. The income from this region accounts for 11.3% of corporate production.

African Indian Ocean Islands

Income from the African Indian Ocean Islands and lusophone African markets, increased slightly from US$13.18 million in 2016 to US$13.92 million. Business from this office accounts for 3.3% of the Corporation's turnover.

Africa Retakaful

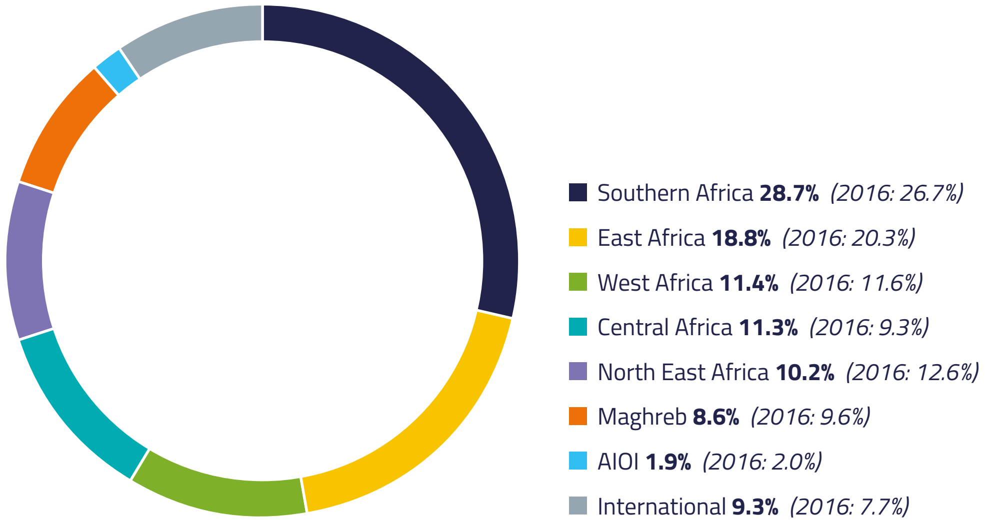
The turnover of Africa Retakaful reduced slightly from US$40.34 million in 2016 to US$38.96 million in 2017. Production from this region accounts for 5.2% of corporate production.

International Business & African Pools

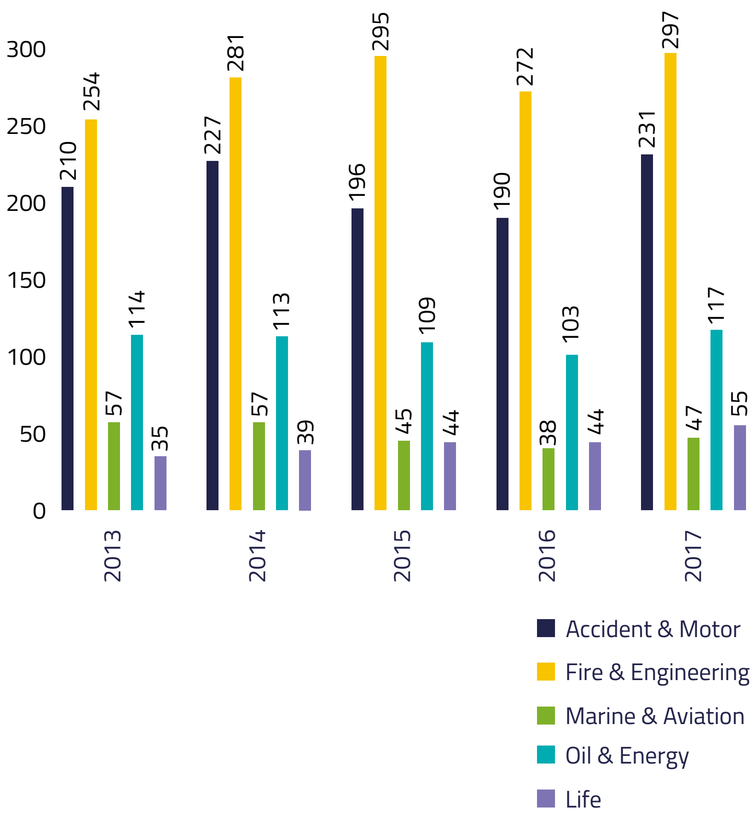
Africa Re's income from international business increased from US49.47 million in 2016 to US$68.21 million in 2017. The Middle East production was US$48.35 million (2016: US$ US$35.67 million). The income from Asia increased from US$10.19 million in 2016 to US$14.54 million in 2017. Production from Brazil increased from US$3.61 million in 2016 to US$5.32 million in 2017.

The premium income from the African Oil & Energy Pool and African Aviation Insurance Pool managed by the Corporation increased from US$602,659 in 2016 to US$936,350 in 2017.

Geographical distribution of gross premium



Premium by class in US$million



Sectoral distribution

Fire and Engineering class continued to produce the highest turnover with US$296.81 million representing 39.7% of corporate production as against US$271.52 million or 42.3% in 2016. This was followed by the Accident and Motor class which stood at US$230.64 million or 30.9% of corporate income (2016: US$185.47 million representing 28.9%).

Oil & Energy class was third with a production of US$117.40 million or 15.7% of turnover (2016: US$103.24 million representing 16.1%).

The Life class was fourth with US$54.6 million or 7.3% of turnover (2016: US$44.16 million or 6.9%) while the Marine and Aviation class followed with US$47.36 million representing 6.3% of corporate production (2016: US$37.63 million representing 5.9%).

Technical expenses

Losses

The total claims paid increased from US$313.73 million in 2016 to US$367.64 million in 2017.

Claims paid ratio increased from 48.87% in 2016 to 49.23% in 2017. Incurred losses which include movement in outstanding claims provision (US$54.62 million as against US$29.55 million in 2016), amounted to US$422.26 million in 2017 (US$343.28 million in 2016).

The table below provides insight into the previously stated indicators.

Gross loss ratio by class-financial year 2017 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.	176.54	270.24	65.33%	11.01	20.37	54.04%	187.55	290.62	64.54%
Accident motor	113.06	199.56	56.65%	15.34	24.13	63.57%	128.39	223.69	57.40%
Oil & Energy	38.04	99.30	38.31%	26.11	11.31	230.93%	64.15	110.61	58.00%
Marine & aviation	16.10	41.49	38.82%	3.99	3.80	105.22%	20.10	45.28	44.38%
Life	21.66	47.88	45.24%	0.40	0.74	54.45%	22.06	48.62	45.38%
Total	**365.40**	**658.48**	**55.49%**	**56.85**	**60.34**	**94.23%**	**422.26**	**718.81**	**58.74%**

Loss Experience by Trading Area

The gross incurred loss ratio for the Subsidiary in South Africa increased from 70.4% in 2016 to 89.2% in 2017 while the net incurred loss ratio also increased from 71.9% to 90.9% during the same period. The subsidiary suffered 3 major losses from storms (Durban & Johannesburg), Knysna fires and Cape storm and an explosion at Wilmar cooking oil factory.

The incurred gross loss ratio of the West Africa Regional Office decreased from 77.0% in 2016 to 42.0% in 2017. The net incurred claims ratio also dropped from 74.9% in 2016 to 41.9% in 2017.

The incurred loss ratios (gross and net) from East Africa decreased to 43.9% and 44.4% in 2017 down from 46.1% and 47.5% in 2016 respectively.

The Maghreb region's loss ratio (gross and net) decreased to 43.9% and 41.4% in 2017 from 50.5% and 52.6% in 2016 respectively.

The incurred loss ratios of North East Africa increased from12.0% (net: 15.5%) in 2016 to 13.5% (net: 23.3%).

The gross and net incurred claims ratio of Francophone West and Central Africa increased from 19.8% (net: 31.8%) in 2016 to 57.8% (net: 58.3%) in 2017. The increased ratios were due mainly to the SIR refinery loss in Cote D'Ivoire which caused the Corporation a gross loss of US$33.0 million.

The gross claims ratio of the African Indian Ocean Islands decreased from 70.3% (net: 63.2%) in 2016 to 55.1% (net: 55.0%) in 2017.

The incurred claims ratio of the Africa Retakaful Company increased to a gross and net ratio of 42.5% and 44.9% in 2017 up from 37.2% and 37.2% in 2016 respectively.

The gross and net incurred loss ratios of the international operations decreased to 48.1% and 50.4% in 2017 down from 65.2% and 65.5% in 2016 respectively. The estimated cost of the ADNOC Ruwais refinery loss to the Corporation is US$18.70 million.

Commissions and Charges

Gross commissions and charges including movement in deferred acquisition costs amounted to US$185.2 million (2016: 164.9 million), while retro commissions stood at US$18.3 million (2016: US$10.7 million). Accordingly, net commissions and charges increased from US$154.2 million in 2016 to US$166.9 million in 2017.

III. INVESTMENT INCOME

Portfolio performance

This year was one of the most positive since the financial crisis of 2008. World Gross Domestic Product (GDP) grew by 3.7% compared to 3.4% forecasted in January 2017 (World Economic Outlook of January 2018). This was driven by global growth momentum as well as fiscal reforms in the United States.

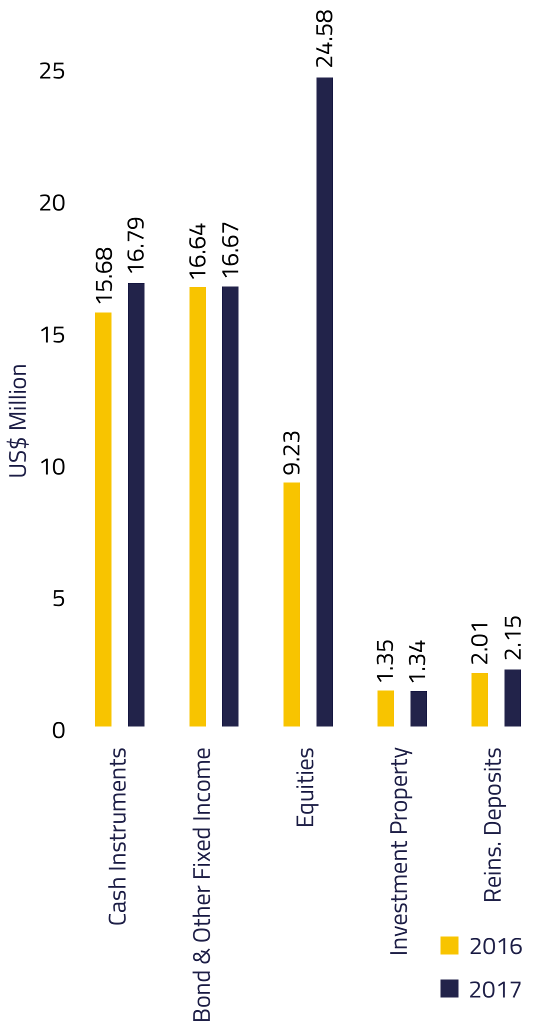
Commodity prices continued to improve in 2017 pushed by factors such as the OPEC agreement to limit oil production, geopolitical tensions in the Middle East and better economic prospects. Brent crude oil, Gold and CRB indices rose by 17.7%, 13.1% and 0.7% respectively. The rise in oil price contributed to the increase in headline inflation in advanced economies.

During the year, the major transactional currencies appreciated against the US dollar except the Ethiopian birr which was officially devalued by 15%.

The value of the investment portfolio inclusive of deposits with ceding companies and investment properties increased by 7.57% year on year from US$1,081.29 million in December 2016 to US$1,163.13 million in December 2017. The investment portfolio was positively impacted by currency translation with a gain of US$25.28 million as opposed to a loss of US$32.86 million in 2016.

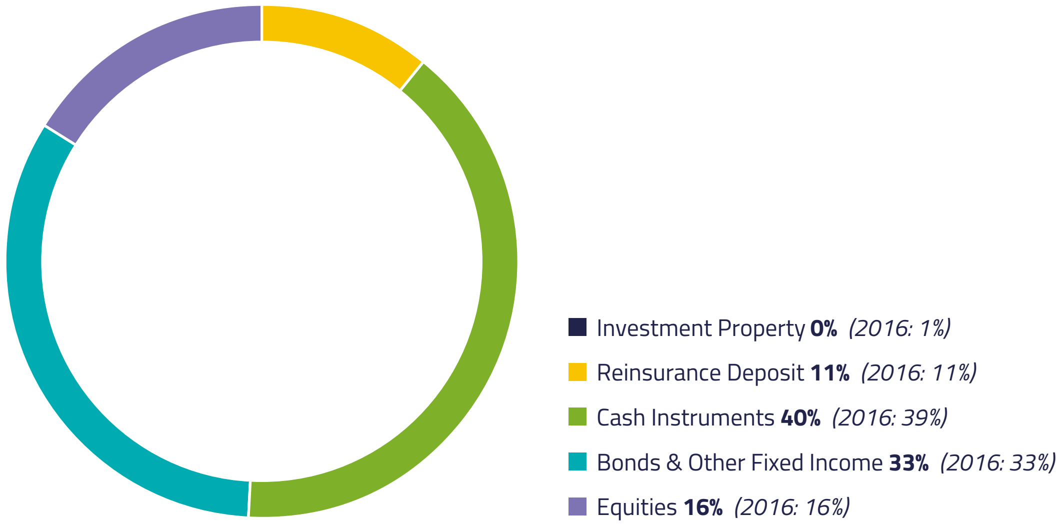
The Corporation recorded its best investment performance ever. Total investment and other income recorded during the year amounted to US$62.80 million compared to US$46.20 million the previous year. This was driven by the excellent performance of major financial markets across the globe combined with relative stability/strengthening of transactional currencies. Among the asset classes, equity recorded the highest performance with US$24.58 million as opposed to US$9.23 million last year. The performance of cash instruments, bonds, investment property and interest on reinsurance deposits was similar to the previous year. The Corporation continues to prudently manage its assets in line with approved investment policy guidelines.

Investment income by asset class



Asset composition

The investment portfolio comprises four asset classes. Cash instruments continue to dominate the investment portfolio with a share of 40% (2016:39%). As mentioned above, the Corporation is pursuing an asset reallocation that seeks the enhancement of the investment portfolio return while minimizing risk. Bonds account for 33% (2016: 33%) of the investment portfolio and equity makes up 16% (2016: 16%). Investment property is less than 1% of the Corporation's total assets. Deposits with ceding companies as at the end of the year amounted to US$127.06 million compared to US$115.86 million last year.



Long term investments

The Corporation continues to support the socio-economic development of Africa by, amongst 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, there was one new approval to invest US$1 million in Gepetrol Seguros SA. The Corporation's total commitment to private equity stood at US$53.09 million invested in a portfolio of 19 companies made up of:

- three (3) African development finance institutions: Shelter Afrique, TDB Bank & Afreximbank;
- three (3) insurance companies: Allianz Vie (Cameroon), Gepetrol Seguros SA and ATI Agency (Kenya);
- One (1) hospital project in Lagos: Trust Hospital;
- One (1) pension fund administration company (ARM PFA in Nigeria); and
- Eleven (11) privately-managed equity funds (CAPE II, CAPE III, CAPE IV, AFIG I, AFIG II ECP Africa Fund III, ECP IV, Adlevo Capital, PAHF, Carlyle Africa fund and AAF SME Fund).

The Corporation received rental income amounting to US$1.34 million (2016: US$1.35 million) from its investment properties in Lagos, Nairobi and Casablanca.

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Equities

Equity markets recorded large gains driven by a positive sentiment on corporate earnings prospects, a gradual normalization of monetary policies in a low inflation environment and, moreover, low volatility of economic fundamentals. The Hang Seng and MSCI Emerging Markets indices recorded the best performances of 40.2% and 37.8% respectively. S&P 500 and DJ Euro Stoxx 50 recorded 21.8% and 24.4% returns respectively. Emerging market stock performance was also fuelled by the good prospects regarding commodity exports mainly in oil producing countries. African equity markets were excellent in 2017. Year to date returns in Nigeria, Kenya, and South Africa stood at 42.3%, 19.9% and 23.1% respectively.

Given the exceptional performance of markets, the equity portfolio posted a high return of 13.43% compared to 7.63% last year. The performance of the portfolio is mainly explained by high unrealized gains with the USA being the biggest contributor. This year, the portfolio recorded an outstanding unrealized gain of US$13.88 million (57% of the equity income) compared to US$2.26 million (24% of the equity income) last year. USA, Europe, and African equity portfolios contributed 65% (2016: 22%), 10% (2016: 49%) and 25% (2016: 29%) respectively to the unrealized gains. The portfolio continues to be well diversified geographically and by currency as detailed in the graph below.

Currency Exposure of Equity Portfolio

- US Dollar **48%** *(2016: 59%)*
- Euro **14%** *(2016: 11%)*
- S. African Rand **34%** *(2016: 28%)*
- Nigerian Naira **2%** *(2016: 1%)*
- Kenya Shilling **2%** *(2016: 1%)*

Bonds and other fixed income

Bond markets reacted positively to the yield curve movement. The anticipated increase in short-term interest rates, combined with a lower increase in long-term rates contributed to flatten yield curves and to reduce the negative impact of interest rate increase on bonds valuation. Consequently, bonds markets recorded positive returns in 2017 with Emerging Market Sovereign bonds having the highest performance of 11.5% followed by preferred bonds (10.8%). The 2-year US treasury was the worst performer with 0.2% return. Investment grade corporates recorded a median return of 6.5%.

The bond portfolio position increased by 5.78% from US$361.95 million in December 2016 to US$382.88 million at the end of December 2017 mainly from positive income. It recorded a return of 4.37% compared to 5.35% last year mainly due to the improvement in credit quality.

The Corporation continues to place much emphasis on quality 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 by Standard & Poor's in 2011.

Consequently, the portfolio is made up of 12% AAA rated bonds, 17% AA rated bonds and 33% A rated bonds compared to 8%, 21%, and 25% respectively in 2016. 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 maximize the return on the portfolio with due regard to the credit quality.

Bond Portfolio Rating Profile

- AAA **12%** *(2016: 8%)*
- AA **17%** *(2016: 21%)*
- A **33%** *(2016: 25%)*
- BBB **11%** *(2016: 30%)*
- BB **14%** *(2016: 4%)*
- B **11%** *(2016: 12%)*
- C or D **0%** *(2016: 0%)*
- NR **2%** *(2016: 1%)*

Cash and Cash Instruments

Interest received on cash instruments recorded a good performance. Return on cash instruments realized a yield of 3.71% as opposed to 3.12% posted in 2016. US Fed interest rates increased again by 25bps in December improving interest rates from 0.75% last year to 1.50%. This had a positive impact on income received on deposits amounting to US$17.17 million.

Other Operating Income

Other operating income made up of management fees received from African Aviation Insurance Pool and the African Oil & Energy Pool recorded a performance of US$1.25 million (2016: US$1.10 million). Sundry income remained marginal at US$0.3 million.

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IV. RESULTS OF THE 2017 FINANCIAL YEAR

Gross written premium income rose by 16.32% from US$642.02 million in 2016 to US$ 746.83 million. This increase is due to an improvement in underwriting capacity in some regions, increased facultative acceptances in life and property, increased treaty acceptances in the property class and the appreciation of some African currencies in which the Corporation transacts business.

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. Premium ceded to retrocessionnaires increased by 29.94% from US$86.13 million in 2016 to US$111.92 million representing a net retention ratio of 84.43% (2016: 86.82%).

Adjustment for the movement in the provision for unearned premiums, net of retrocessionnaires' share thereof, produced a net earned premium of US$606.89 million (2016: US$567.53 million).

Gross claims paid in 2017 amounted to US$367.64 million compared to US$313.73 million in 2016, representing an increase of 17.18%. Of the total losses paid, **US$26.90 million** (2016: US$10.33 million) was recovered from retrocessionnaires, resulting in net losses paid of US$340.74 million, compared to US$303.41 million in 2016. The adjustment for the movement in outstanding claims (including Incurred But Not Reported - IBNR) provisions resulted in a net incurred loss of US$366.62 million, compared to US$315.96 million in 2016, representing a net incurred claims ratio of 60.41% (2016: 55.67%).

Management expenses for the year amounted to US$42.23 million, representing an increase of 2.13% compared to US$41.35 million in 2016. The need to maintain competitiveness in personnel remuneration and the continued investment in the modernization of our IT platform accounted for the slight increase. Thus, the management expense ratio declined to 6.96% in 2017 from 7.29% in 2016.

Income earned by the Corporation from investment and other sources, including interest on reinsurance deposits and fees increased by 35.92% to stand at U$62.79 million compared to US$46.20 million in 2016. The performance was impacted by exceptional results in the equity portfolio that posted a high return of 13.43% compared to 7.63% recorded in 2016.

Profit after tax amounted to US$87.98 million in 2017 compared to US$100.20 million in 2016, representing a 12.20% drop.

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$43,991,082 to the general reserve in accordance with Resolution No. 4/1992;
- US$22,811,240 to be paid as dividend at the rate of US$ 8.0 (2016: US$6.0) per subscribed and paid-up share of US$100 par value.
- US$8,000,000 to be transferred to the reserve for loss fluctuation in accordance with the decision taken by the Board during the 57th meeting constituting the loss fluctuation reserve;
- US$ 879,822 to be transferred to the corporate social responsibility fund; and
- The balance of US$ 12,300,021 to be added to retained earnings.

VI. CAPITAL MANAGEMENT

Africa Re ensures that its solvency and cash flow 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's capital 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 2017 as Africa Re maintained a 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, more capital than required.

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 has been involved, alongside other industry participants, in the development of the new regulatory framework 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 ratings, counterparty and issuer credit ratings to Africa Re since 1998 and 2003 respectively.

The evaluations of the rating agencies are based on a set of criteria, which include the assessment of the Corporation's capital adequacy. Standard & Poor's and A.M. Best require an annual solvency probability of 99.6%, which entails a high level of capital that should enable the company to 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.

On 6 December 2017, A.M. Best affirmed the financial strength rating of Africa Re at A (Excellent) and the issuer credit rating at "a" with both outlooks remaining stable. According to A.M. Best, the ratings of Africa Re reflect its **excellent risk-adjusted capitalisation**, consistently strong operating performance, favourable business profile and appropriate Enterprise Risk Management.

Standard & Poor's affirmed the Financial Strength and Counterparty Credit Rating of Africa Re on 4 October 2017. The rating reflects the risk profile of Africa Re as follows:

"Our rating further reflects our view of African Re's very strong capital and earnings generation. We expect the company's capital levels to remain at the 'AAA' confidence level over the next two to three years. We consider African Re's financial flexibility as strong, reflecting our view that the company receives long-term capital support from a diverse shareholder base, comprised of sovereigns, development organizations, and institutional shareholders. Financial flexibility is also supported by the company's absence of financial leverage, low reinsurance utilization, and strong franchise in Africa. We consider the investment portfolio to be highly liquid, further supporting capital sufficiency"

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 the financial market. 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 2017, the shareholders' funds (available capital) amount to US$ 902 million and the required capital is estimated at US$327 million, resulting in an internal capital adequacy of 275%.

Financial strength ratings

Rating Agency	Financial strength rating	Counterparty/ issuer credit Rating	Outlook	Last press release/ report date
A.M. Best	A	a-	Stable	December 6, 2017
Standard & Poor's	A-	A-	Stable	October 4, 2017

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 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 the process needed to become more anticipatory and effective at evaluating and managing uncertainties faced 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 in 2010. The Department is 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.

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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: 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: risk that sufficient financial resources are not maintained to meet liabilities when due.

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

Group 7 - Reputational risk: risk of loss arising from damage 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, interventions and ultimately revocation of operating licence.

Group 9 - Operational risk: 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 risk. The management of these risks is covered under "Management of Insurance and Financial Risks" (Pages 77 - 83).

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 areas 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 facilitates the implementation of 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. The solution is used in the Corporation's head office and production centres. The modules installed include the platform, risk & control assessment, loss & incident recording, control assurance and enterprise reporting.

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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

These 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 processes are implemented to quickly identify emerging risks as they have indirect bearing on strategy implementation, stability of the Corporation and present opportunities.

Africa Re uses horizon scanning and stress-testing 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 its catastrophe exposures annually 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 2017, namely, A.M. Best and Standard & Poor's. Below are excerpts from the ratings.

A.M. Best: **Appropriate**

"Africa Re continues to demonstrate a solid and evolving enterprise risk management (ERM) framework, which remains appropriate relative to its risk profile. The corporation maintains 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 contributing to the strengthening of technical results over the years.

Africa Re's risk management approach integrates 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. ARCSA has implemented a risk management framework that is in line with the South African Solvency Assessment and Management (SAM) regulatory requirements, further embedding the corporations risk culture. Africa Re has also implemented an operational risk solution. This is a centrally coordinated platform that identifies and assesses operational risks at the corporation and production centre level.

An internal capital model is utilized by Africa Re to measure the organisation's capital requirements and to optimise the retrocession programme, whilst supporting the corporation's strategic decisions. The outcome of the model is based on capital requirements to support underwriting and investment risk exposure. A.M. Best believes Africa Re's understanding of its capital requirements has improved. Although work on the internal model is on-going, Africa Re actively monitors its capital position. This provides some comfort as to Africa Re's understanding of its economic capital requirements as the corporation is exempt from any regulatory solvency requirements.

In addition to the corporation's capital-modelling capabilities, internal and external (proprietary) pricing tools are also partly used to support underwriting, based on the traditional burning cost method with a loading to allow for various expenses, including the cost of capital. Pricing guidelines are periodically updated to reflect the factors identified in the price-monitoring cycle. Africa Re recognises the shortcomings associated with its pricing tools, which are based on the more developed US and European markets and hence not necessarily reflective of the risk profile of the African insurance markets."

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

"We assess ARC's ERM as adequate and improving. We consider there to be improvements in ARC's ERM and underlying risk controls cascading through the business units. This has afforded the reinsurer with a more detailed understanding of risk exposures and enhancing the underlying control and management of the respective risk components. We remain of the opinion that further improvements will be made in this regard as the risk framework matures and develops. We also positively note the active participation of management in further enhancing the risk framework, as well as developing and shaping the risk management culture throughout the organization.

VIII. CORPORATE GOVERNANCE

Overview

Africa Re 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

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;
- Board Charter;
- Rules for Election of Directors;
- The Board Charter and Board Committee Charters, setting out the duties and responsibilities of the Board and its Committees; and
- 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, international best practice in relevant areas, as well as strategy and risk profile amongst others.

The last review of the corporate governance framework in 2013 resulted in 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, which defines the compensation system of elected Management, to cover all the other issues related to human resources management in 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 2017

Shareholder	Number of Shares	In %
41 Member States	986,627	34.60
African Development Bank (AfDB)	240,000	8.42
111 African insurance and reinsurance companies	964,778	33.84
3 Non-African Investors (FAIRFAX, AXA, and IRB Brasil Re)	660,000	23.15

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 2017 with US$ 285,140,500 fully paid up. The capital is divided into 2,851,405 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 steadily growing capital with retained profit and additional equity from existing shareholders and 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 comprises 12 substantive members and is currently chaired by Mr Hassan BOUBRIK. Directors are elected for a period 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 2017.

Name & Nationality	Constituency	Current Term Ends
Mr Hassan BOUBRIK Moroccan	Morocco: state and companies	June 2020
Mr Aguinaldo JAIME Angolan	East and Southern Africa and Sudan (12 states)	June 2020
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 Patrick ANDRIAMBAHINY Malagasy	Anglophone West Africa (4 states and companies) and East and Southern Africa (companies)	June 2020
Dr Almehdi A. AGNAIA Libyan	Libya, Mauritania and Tunisia (state and companies)	June 2018
Mr Mohammed KARI Nigerian	Nigeria: state and companies	June 2019
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 power. 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 (3 non-African investors).

The Board currently has three standing committees: the Audit & Finance Committee; Risk Management & Information Technology Governance Committee; and Human Resources & Remuneration 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 **HR & Remuneration 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 Béné B. LAWSON (Committee Chairman)
- Dr Almehdi A. AGNAIA
- Mr Aguinaldo JAIME

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. Patrick ANDRIAMBAHINY
- Mr Mohammed KARI

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 2017

The Board of Directors met four times in 2017. The first meeting was held in Cairo, Egypt in April 2017. The second and the third meetings took place in Abidjan, Côte d'Ivoire in June 2017 and the fourth was held in Lagos, Nigeria in November 2017. The attendance rate was 100%.

Executive Management

Executive Management comprises the following members as at 31 December 2017.

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 for the second meeting shall be sent within seven (7) days after the first 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.

The 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 recent 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.
- Implementation procedures and service agreements have been approved by Executive Management and the implementation of the AML/CTF policy has commenced.
- A compliance screening tool has been acquired to ensure that all clients on board the Corporation's books are properly screened.

The Corporation's fight against money laundering and terrorist financing is critical in maintaining a stable and corrupt-free society; hence the adoption of 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.

The Corporation has adopted the recommendations of the FATF as best practice in combating money laundering and terrorist financing.

These recommendations shall be used to:

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

X. CORPORATE SOCIAL RESPONSIBILITY (CSR)

An aspect of Africa Re's vision is to be an excellent company that promptly meets its obligations to its partners. Africa Re therefore formulated strategies to meet 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 decided, in November 2013, 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, the Board of Directors approved two projects, as part of the Corporation's 5th Strategic Plan 2014 – 2018, namely, the African Insurance Awards and Training of Young Insurance Professionals.

These projects were selected to fulfil Africa Re's mission to foster the development of the insurance and reinsurance industry in Africa. The expectation is that the projects would have an immediate positive impact on the insurance industry in the continent.

Activities carried out in 2017

African Insurance Awards

The African Insurance Awards programme is a competition for the most innovative and sustainable development 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 focuses on the performance of the last 2 years;

- CEO of the Year: this award is presented to a CEO of an insurance company who has made an outstanding contribution in the last 12 months or more, either through the advancement of his company or the insurance industry; and
- Innovation of the Year: this award is given to an insurance company for excelling in the use of technology, launching of a breakthrough product / service or a new and innovative distribution channel or method.

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

The 2017 African Insurance Awards ceremony was held on 22 May 2017 during the AIO conference in Kampala, Uganda.

The Innovation of the Year Award was jointly won by **two Kenyan institutions namely**,Takaful Insurance of Africa and the International Livestock Research Institute. The Company of the Year was Sanlam Emerging Markets from South Africa. Mrs. Delphine Traore Maidou from Allianz Global Corporate & Specialty (AGCS) South Africa, was the CEO of the Year Award.

Partnership between Africa Re and ILO's Impact Insurance Facility

Africa Re renewed its partnership agreement with the International Labour Organisation (ILO) Impact Insurance Facility. 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, received 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.

The aim of the partnership is to ensure that low income households, small enterprises, farmers etc. can have a better access to insurance protection in their day-to-day risk-taking activities through microinsurance products and solutions.

54th Africa Day and Internally Displaced Persons (IDP)/Charity Outreach Programmes

Africa Re sponsored the African Group of Ambassadors by funding the 54th Africa Day and IDPs/Charity Outreach Programmes in May 2017 to provide comfort and hope to the underprivileged in Nigeria.

Nelson Mandela Day & Oliver Tambo Centenary Celebrations

During the commemoration by the South African High Commission in Abuja of the 2017 Nelson Mandela Day and the Centenary of Oliver Tambo on 18 and 19 July 2017, Africa Re donated mobile classrooms to the IDP Camp in Junchingoro, Abuja, Nigeria.

Assistance to the Government of Sierra Leone

As a sign of solidarity and support, Africa Re provided assistance to the Government of Sierra Leone following the August 14, 2017 mudslide that claimed the lives of more than one thousand people in and around the capital Freetown.

Educate A Child Initiative

Africa Re sponsored Educate A Child Initiative, a project presented by Miss Insurance Nigeria 2017.

XI. Human Resources and Compensation

Human Resources

The Employee Value Proposition (EVP) at Africa Re continues to be very attractive making it the employer of choice in the reinsurance industry in Africa. Africa Re staff remain the greatest assets of the Corporation. Accordingly, our compensation and rewards are constantly reviewed to attract, motivate and retain highly skilled professionals needed to actualise the Corporation's strategic plan and objectives.

Staff Categories

There are six staff categories in Africa Re.

Table A: Staff Categories

Executive Management (MGT)	▪ Group Managing Director/ Chief Executive Officer ▪ Deputy Managing Director/ Chief Operating Officer
Executive Staff (ES)	▪ Central Directors ▪ Regional Directors ▪ Managing Directors of Subsidiaries
Senior Professional Staff (PS)	▪ Deputy Directors ▪ Assistant Directors
Professional Staff (PS)	▪ Senior Managers ▪ Managers ▪ 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. Support Staff and Manual Staff are locally recruited 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, 2017

Locations	**Establishment**						
	MGT	**ES**	**PS**	**SS**	**MS**	**Total**	**Temp**
Head Office	**2**	**7**	**28**	**28**	**12**	**77**	**13**
Lagos Regional Office		0	6	12	3	**21**	2
Casablanca Regional Office		1	4	11	3	**19**	0
Cairo Regional Office and Africa Retakaful (subsidiary)		1	6	15	2	**21**	1
Nairobi Regional Office		0	14	17	2	**33**	2
Ebène Regional Office		1	3	8	4	**16**	1
Abidjan Regional Office		1	6	10	2	**19**	0
African Reinsurance Corporation South Africa (subsidiary)		2	9	20	4	**35**	0
Addis Ababa Local Office		0	0	1	1	**2**	0
Sub-total (regional offices, subsidiaries, local office)		**6**	**45**	**94**	**21**	**166**	**6**
Total staff figures (including Head Office)	**2**	**13**	**73**	**122**	**33**	**243**	**19**
Percentage	**0.82**	**5.35**	**30.04**	**50.21**	**13.58**	**100**	**N/A**

**Includes Uganda*

1.2 Diversity

Africa Re encourages diversity and inclusiveness as it ensures equal employment opportunities to citizens of all member states across Africa. The Corporation also promotes gender equality amongst its workforce.

Table C: Gender Distribution of Staff

Location	Male	Female	Total
Head Office	60	17	77
Lagos Regional Office	14	7	21
Casablanca Regional Office	15	4	19
Cairo Regional Office and Africa Retakaful	11	10	21
Nairobi Regional Office	22	11	33
Ebène Regional Office (Mauritius)	12	4	16
Abidjan Regional Office	13	6	19
African Reinsurance Corporation South Africa	20	15	35
Addis Ababa Local Office	1	1	2
Total Corporate Figures	**168**	**75**	**243**
	69.14	**30.86**	**100**

2 Compensation

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

The compensation practice of Africa Re derives from remuneration surveys and 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. The performance targets are linked to the Corporation's Strategic Business Plan. The BSC for each staff is a mix of objectives and initiatives measured by ***Key Performance Indicators (KPIs)*** in some ***Key Performance Areas (KPAs)*** or ***Perspectives***. The performance management system has now been automated using the Corporater software.

Compensation and Rewards were reviewed in 2017 to ameliorate the erosion in real income of staff caused by massive local currency devaluation and hyper-inflation in most of Africa Re's operating locations.

Africa Re pay practice comprises 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 - Executive Staff - Senior Professional Staff - Professional Staff - Support Staff - 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 - Executive Staff - Professional Staff	Paid monthly only to international staff
Annual Variable Compensation	Individual Performance Bonus	- Executive Management - Executive Staff - Senior Professional Staff - Professional Staff - Support Staff - Manual Staff	Paid annually to all categories of staff
	Special Location Performance Bonus	- Executive Staff - Senior Professional Staff - Professional Staff - Support Staff - Manual Staff	Designed to reward all the employees of a production centre upon attainment of a specified performance level
Allowances	- Housing - Transport - Dependency - Inflation Adjustment - Dependant (Spouse & Child)	- Executive Staff - Senior Professional Staff - Professional Staff - Support Staff - 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 the African Reinsurance Corporation (Africa Re) is 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 the 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 the African Reinsurance Corporation, and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 with strategic plans. Results are monitored regularly and progress reports on performance 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, investment policy guidelines and 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, external auditors, internal auditors, Chief Risk Officer and 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 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

Deloitte.

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INDEPENDENT AUDITOR REPORT

To the members of African Reinsurance Corporation

Opinion

We have audited the consolidated financial statements of African Reinsurance Corporation and its subsidiaries which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation and its subsidiaries as at 31 December 2017, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Technical provisions

Technical provisions represent 39% of the total liabilities of the corporation. Their valuation was significant to our audit because their assessment process is judgmental and based on actuarial assumptions.
As a result, our audit procedures included among others, using actuarial experts to assist us in evaluating the assumptions and methodologies used by the Group.
Our work also involved evaluating operating effectiveness of controls over the complete and accurate recording of the reserves.

Classification and valuation of investments

The Corporation's disclosures about its investments are included in Note 4. The Corporation investments represent almost 53% of the total assets. According to IAS 39, management has classified investments into three categories: "Held to maturity", "Fair value through profit or loss" and "Available for sale". As a result, their classification and valuation was significant to our audit.

We challenged management's rationale for the adopted classification and subsequent valuation and discussed this with the audit committee, and we conclude such classification and valuation are appropriate.
Our audit procedures also included among others, testing management's controls related to classification of investments and obtaining amount's confirmation from third parties.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Our responsibilities for the audit of the consolidated financial statements are described in more details in the appendix to the independent auditor report.

Abidjan, 23 May 2018

Deloitte Côte d'Ivoire

Marc WABI,
Chartered Accountant
Partner

APPENDIX TO INDEPENDENT AUDIT REPORT

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	2017 US$'000	2016 US$'000
Assets			
Cash and cash equivalents	25	285,601	243,968
Investments	4	870,381	830,113
Premium income receivable		60,174	62,591
Deferred acquisition costs	5	50,137	43,644
Reinsurance receivables	6	207,830	155,861
Retrocessionaires' share of technical provisions	7	100,566	62,569
Sundry receivables		8,271	6,919
Tax recoverable	23	847	800
Investment properties	8	7,148	7,206
Property and equipment	9	32,220	29,782
Intangible assets	10	5,370	3,846
Total assets		**1,628,545**	**1,447,299**
Liabilities			
Sundry payables		16,728	35,164
Dividend payable	24	7,765	5,033
Reinsurance payables	11	68,273	53,177
Deferred tax	12	1,441	1,900
Technical provisions	13	632,299	539,714
Total liabilities		**726,506**	**634,988**
Shareholders' funds			
Retained earnings		216,979	199,098
Other reserves	14	243,566	171,719
Share premium		156,354	156,354
Share capital	15	285,140	285,140
Total shareholders' funds		**902,039**	**812,311**
Total liabilities and shareholders' equity		**1,628,545**	**1,447,299**

The financial statements on pages 48 to 89 were approved and authorised for issue by the Board of Directors of the Corporation on 9 April 2018 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 2017

	Notes	2017 US$'000	2016 US$'000
Gross earned premium	16	718,814	653,664
Less: retrocession premium	16	(111,918)	(86,132)
Net earned premium	16	**606,896**	**567,532**
Investment income	17	61,520	44,924
Commissions earned under retrocession arrangements		18,323	10,724
Other operating income	18	1,278	1,277
Total income		**688,017**	**624,457**
Net claims incurred	19	**(366,622)**	**(315,964)**
Acquisition expenses	20	(185,246)	(164,906)
Administrative expenses	21	(42,229)	(41,350)
Net foreign exchange (loss)/gain	22	(6,565)	132
Profit before income tax		**87,355**	**102,369**
Deferred taxation credit/ Income tax charge	23	627	(2,167)
Profit for the year		**87,982**	**100,202**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Exchange differences on translating foreign operations		24,150	(33,003)
Net fair value (loss)/gain on revaluation of available-for-sale financial assets		(4,294)	5,270
Total other comprehensive income/(loss)		**19,856**	**(27,733)**
Total comprehensive income for the year		**107,838**	**72,469**

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

Consolidated statement of changes in equity for the year ended 31 December 2017

	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 2017	199,098	(152,760)	265,815	5,170	6,294	47,200	171,719	156,354	285,140	812,311
Total comprehensive income for the year	87,982	24,150	-	(4,294)	-	-	19,856	-	-	107,838
Buy back of ordinary shares	-	-		-	-	-		-		
Dividend declared in 2016	(17,108)	-	-	-	-	-	-	-	-	(17,108)
Corporate social responsibility fund	(1,002)									(1,002)
Transfer to reserves	(51,991)	-	43,991	-	-	8,000	51,991	-	-	-
At 31 December 2017	216,979	(128,610)	309,806	876	6,294	55,200	243,566	156,354	285,140	902,039
At 1 January 2016	175,657	(119,757)	228,692	(100)	6,294	39,200	154,329	156,354	293,731	780,071
Total comprehensive income for the year	100,202	(33,003)	-	5,270	-	-	(27,733)	-	-	72,469
Buy back of ordinary shares	-	-	(12,978)	-	-	-	(12,978)	-	(8,591)	(21,569)
Dividend declared in 2015	(17,624)	-	-	-	-	-	-	-	-	(17,624)
Corporate social responsibility fund	(1,036)									(1,036)
Transfer to reserves	(58,101)	-	50,101	-	-	8,000	58,101	-	-	-
At 31 December 2016	199,098	(152,760)	265,815	5,170	6,294	47,200	171,719	156,354	285,140	812,311

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

Consolidated statement of cash flows for the year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000
Cash flows from operating activities			
Cash generated from operations	25	67,784	110,315
Income tax paid	23	(88)	(2,105)
Net cash from operating activities		67,696	108,210
Cash flows from investing activities			
Purchase of investment property	8	(29)	-
Purchase of property and equipment	9	(5,236)	(9,722)
Purchase of intangible assets	10	(2,396)	(738)
Net (Purchase)/Sale of investments		(23,887)	63,399
Proceeds on disposal of property and equipment		5	-
Net cash (used in)/generated from investing activities		(31,543)	52,939
Cash flows from financing activities			
Buy back of ordinary shares		-	(21,569)
Dividends paid	24	(14,376)	(19,707)
Net cash used in financing activities		(14,376)	(41,276)
Net increase in cash and cash equivalents		21,777	119,873
Movement in cash and cash equivalents:			
At start of year		243,968	151,828
Net increase in cash and cash equivalents		21,777	119,873
Net exchange gains/(losses) on liquid assets		19,856	(27,733)
At end of year	25(b)	285,601	**243,968**

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) i)New standards and amendments to published standards effective for the year ended 31 December 2017

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	
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12) was issued in January 2016. The amendment to IAS 12 Income Taxes provides clarity on the following aspects: - Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. - The carrying amount of an asset does not limit the estimation of probable future taxable profits. - Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)	The Disclosure Initiative (Amendments to IAS 7), requires that an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. These include the following changes in liabilities arising from financing activities: (a) changes from financing cash flows; (b) changes arising from obtaining or losing control of subsidiaries or other businesses; (c) the effect of changes in foreign exchange rates; (d) changes in fair values; and (e) other changes.

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ii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2017 and future annual periods

New standards and Amendments to standards	Effective for annual periods beginning on or after
IFRS 17 Insurance Contracts	1 January 2021
IFRS 16 Leases	1 January 2019
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)	1 January 2018
Transfers of Investment Property (Amendments to IAS 40)	1 January 2018

IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* was issued in May 2017. The standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

IFRS 17 supersedes IFRS 4 Insurance Contracts. IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

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 17 until a detailed review has been completed.

IFRS 16 Leases

IFRS 16 Leases, issued in January 2016 replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The Corporation is in the process of assessing the impact of IFRS 16. 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 16 until a detailed review has been completed.

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 five steps include: identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract and recognise revenue when (or as) the entity satisfies a performance obligation.

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.

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.

Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), issued in September 2016, amended several paragraphs and provided two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

The application of this standard is likely to have an impact on amounts reported in the corporation's financial statements. The Corporation is considering making use of the deferral option provided in IFRS 4: Insurance Contracts and applying both IFRS 9 and IFRS 17 effective 1 January 2021.

Transfers of Investment Property (Amendments to IAS 40)

Transfers of Investment Property (Amendments to IAS 40), issued in December 2016, amended paragraphs 57-58 and added paragraphs 84C-84E.

Paragraph 57 now states that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs if property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

The non-exhaustive list of examples of evidence of a change in use include: commencement of owner-occupation, or development with a view to owner occupation, for a transfer from investment property to owner-occupied property; commencement of development with a view to sale, for transfer from investment properties to inventories; end of owner-occupation, for a transfer from owner-occupied property to investment property and inception of an operating lease to another party, for a transfer from inventories to investment properties.

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 the Amendments to IAS 40 until a detailed review has been completed

iii) Early adoption of standards

The Corporation did not early-adopt any new or amended standards in 2017.

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

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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 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

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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.

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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 or the value of the share from the latest financial statements available. 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.

The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

(a) the currency:

- that mainly influences sales prices for goods and services; and
- of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

(b) the currency that mainly influences labour, material and other costs of providing goods or services.

The functional currencies of the group's constituent offices have been determined as currencies of countries in which they are established.

In line with IAS 21 revised, the group has selected, United States dollars, as its 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. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit 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.

In line with IAS 21 revised, the group's constituent offices are considered as foreign operations and are consolidated as such.

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

	2017 US$'000	2016 US$'000
i) Investments by category		
Held to maturity		
Bank deposits	177,408	175,824
Deposits with ceding companies	127,057	115,859
Fixed rate securities held to maturity	169,432	157,037
Floating rate securities at cost	47,371	56,430
	521,268	505,150
Fair value through profit or loss		
Fixed rate securities at fair value through profit or loss	166,077	148,485
Quoted equity investments at fair value through profit or loss	142,244	135,860
	308,321	284,345
Available for sale		
Redeemable preference shares	1,397	3,951
Unquoted equity investments at fair value	39,395	36,667
	40,792	40,618
	870,381	**830,113**

Fixed rate securities held to maturity are presented in the Group's statement of financial position at their amortized costs as at 31 December 2017 of US$ 169,432,092 (2016 – US$157,037,303). The fair value of the held- to- maturity assets as at 31 December, 2017 was US$ 168,837,275 (2016: US$ 154,893,604).

Unquoted equity investments are valued at fair value of US$ 39,394,693 (2016: US$ 36,667,123).

The Group's overall commitment in unquoted private equity investments as at 31 December 2017 was US$ 52,090,000 (2016: US$ 48,176,000).

ii) Weighted average effective interest rates

	2017 %	2016 %
Interest-bearing investments denominated in:		
US dollars	2.61	1.38
Euro	1.78	0.81
South African rand	8.83	8.89

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).

31/12/2017	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Financial assets at fair value through profit or loss				
Non-derivative financial assets held for trading	**308,321**	-	-	**308,321**
Available-for-sale financial assets				
Redeemable preference shares	**1,397**	-	-	**1,397**
Total	**309,718**	-	-	**309,718**

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

31/12/2016	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Financial assets at fair value through profit or loss				
Non-derivative financial assets held for trading	**284,345**	-	-	**284,345**
Available-for-sale financial assets	-			
Redeemable preference shares	**3,951**	-	-	**3,951**
Total	**288,296**	-	-	**288,296**

5 Deferred Acquisition Costs

	2017 US $'000	2016 US $'000
Balance at 1 January	43,644	46,582
Exchange rate impact on opening balance	342	300
	43,986	46,882
Released during the year	(43,986)	(46,882)
Deferred during the year	50,137	43,644
At 31 December	**50,137**	**43,644**

		2017 US$'000	2016 US$'000
6	**Reinsurance receivables**		
	Gross receivables arising from reinsurance arrangements	241,958	187,384
	Provision for impairment	(34,128)	(31,523)
		207,830	**155,861**
	Comprising:		
	Current portion	81,877	61,154
	Non-current portion	125,953	94,707
		207,830	**155,861**
7	**Retrocessionnaires share of technical provisions**		
	Claims recoverable	75,900	47,164
	Deferred retrocession premiums	24,666	15,405
		100,566	**62,569**
8	**Investment properties**		
	Cost		
	At 1 January	9,508	10,563
	Transfer to buildings	77	(1,055)
	Additions	29	-
	At 31 December	9,614	9,508
	Depreciation		
	At 1 January	2,302	2,314
	Transfer from/to buildings	-	(287)
	Charge for the year	164	275
	At 31 December	2,466	2,302
	Net book value	**7,148**	**7,206**

The following amounts have been recognised in statement of profit or loss and other comprehensive income in respect of investment properties:

	2017	2016
Net rental income (Note 17)	**1,336**	**1,353**

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 18 December, 2017, the market value of the headquarters building was estimated at US$ 24.43 million (net book value: US$ 3.02 million) based on a valuation by Knight Frank, a firm of Estate Surveyors.

At 12 April 2016, the market value of the Casablanca regional office building was estimated at US$ 12.15 million (net book value: US$ 2.61 million) based on a valuation by El Habib Chbani, a firm of Estate Surveyors.

At 31 December 2016, the market value of the Nairobi regional office building was estimated at US$ 8.09 million (net book value: US$ 1.51 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 2017 as follows:

	Level 1 US $'000	Level 2 US $'000	Level 3 US $'000	Fair value as at 31/12/2017 US $'000
Headquarters building	-	24,433	-	24,433
Casablanca regional office building	-	12,153	-	12,153
Nairobi regional office building	-	8,091	-	8,091

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

	Level 1 US $'000	Level 2 US $'000	Level 3 US $'000	Fair value as at 31/12/2016 US $'000
Headquarters building	-	25,424	-	25,424
Casablanca regional office building	-	11,222	-	11,222
Nairobi regional office building	-	8,148	-	8,148

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

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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 2017:					
Cost					
At 1 January	8,345	21,333	13,204	1,345	**44,227**
Additions	3,468	872	735	161	**5,236**
Disposals	-	-	(129)	(47)	**(176)**
Transfer from Assets under construction	(924)	22	902	-	**-**
Transfer to Investment property	(77)	-	-	-	**(77)**
Asset impairment	(1,250)				**(1,250)**
	9,562	**22,227**	**14,712**	**1,459**	**47,960**
Depreciation					
At 1 January	-	3,284	10,178	983	**14,445**
Depreciation charge	-	272	975	222	**1,469**
Disposals	-	-	(127)	(47)	**(174)**
	-	**3,556**	**11,026**	**1,158**	**15,740**
Net Book Value	**9,562**	**18,671**	**3,686**	**301**	**32,220**
Year ended 31 December 2016:					
Cost					
At 1 January	2,842	16,663	13,931	1,350	**34,786**
Additions	6,836	2,843	-	43	**9,722**
Disposals	-	(560)	(728)	(48)	**(1,336)**
Transfer from assets under construction	(1,333)	1,332	1	-	**-**
Transfer from Investment property	-	1,055		-	**1,055**
	8,345	**21,333**	**13,204**	**1,345**	**44,227**
Depreciation					
At 1 January	-	2,723	9,985	790	**13,498**
Depreciation charge	-	697	759	257	**1,713**
Disposals	-	**(136)**	(566)	(64)	**(766)**
	-	**3,284**	**10,178**	**983**	**14,445**
Net Book Value	**8,345**	**18,049**	**3,026**	**362**	**29,782**

Included in buildings and freehold land is a total amount of US$4,893,328 (2016: US$4,894,088) 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$ 8,534,421 (2016: US$7,874,382) which were fully depreciated as at 31 December 2017. The normal depreciation charge on these assets would have been US$ 1,410,384 (2016: US$1,297,372).

The asset impairment amount represents a provision for the loss of the deposit paid to acquire a piece of land in Abuja, Nigeria. The land is for purposes of the new proposed head office building. The land purchase is subject to grant of statutory consent by federal government bodies which was not given. The Corporation has commenced legal action to recover the deposit amount paid to the Vendor.

10. Intangible Assets

	Computer Software	Computer Software in progress	Total
	US $'000	US $'000	US $'000
Year ended 31 December 2017:			
Cost			
At 1 January	2,074	3,304	**5,378**
Additions	-	2,396	**2,396**
Transfers from software in progress	2,523	(2,523)	**-**
At 31 December	**4,597**	**3,177**	**7,774**
Amortisation			
At 1 January	1,532		**1,532**
Charge for the year	872	-	**872**
At 31 December	**2,404**	**-**	**2,404**
Net book value	**2,193**	**3,177**	**5,370**

	Computer Software	Computer Software in progress	Total
	US $'000	US $'000	US $'000
Year ended 31 December 2016:			
Cost			
At 1 January	2,074	2,566	**4,640**
Additions	-	738	**738**
At 31 December	**2,074**	**3,304**	**5,378**
Amortisation			
At 1 January	1,256	-	**1,256**
Charge for the year	276	-	**276**
At 31 December	**1,532**	**-**	**1,532**
Net book value	**542**	**3,304**	**3,846**

Included above are assets with a total cost of US$971,303 (2016: US$971,303) which were fully amortised as at 31 December 2017. The normal amortisation charge on these assets would have been US$194,260 (2016: US$194,260).

11 Reinsurance payables

	2017 US$'000	2016 US$'000
Payables under reinsurance arrangements	49,179	39,981
Payables under retrocession arrangements	19,094	13,196
	68,273	**53,177**

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 28%. The movement on the deferred tax account is as follows:

	2017 US$'000	2016 US$'000
At 1 January	1,900	1,359
Exchange rate impact on opening balance	209	181
(Credit)/charge to profit or loss (Note 23)	(668)	360
At 31 December	**1,441**	**1,900**

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

	01.01.17 US $'000	Charged to P/L US $'000	31.12.17 US $'000	31.12.16 US $'000
Excess depreciation over capital allowances	(117)	30	(87)	(109)
Unrealised gain on revaluation of investments	2,017	1,000	3,017	1,828
Accumulated losses	-	(1,698)	(1,698)	-
Exchange rate impact on opening balance	209	-	209	181
Net deferred tax liability	**2,109**	**(668)**	**1,441**	**1,900**

13 Technical provisions

i) Analysis of outstanding balances

	2017 US$'000	2016 US$'000
Provision for reported claims	432,724	384,361
Provision for claims incurred but not reported	80,304	65,584
Cumulative translation reserve	(91,310)	(91,310)
Total outstanding claims	421,718	358,635
Provision for unearned premiums	210,581	181,079
	632,299	**539,714**
Comprising:		
- current portion	362,044	308,777
- non-current portion	270,255	230,937
	632,299	**539,714**

Included in provision for reported claims is a provision of US$ 13,250,000 (2016 – US$ 31,255,940). The provision was set up in earlier years to further cushion the Corporation against adverse impact of technical losses. During the year US$ 18,005,940 was released.

ii) Analysis of outstanding claims reserve development

U/W YR	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$'000	2016 US$'000	2017 US$'000
Gross outstanding claims reserve	**184,340**	**179,076**	**209,347**	**261,164**	**273,011**	**332,025**	**320,708**	**377,451**	**316,840**	**308,777**	**362,044**
Gross paid (Cu-mulative):											
1 year later	82,410	121,336	116,271	107,963	91, 909	108,649	126,366	122,505	119,797	139,091	-
2 years later	129,566	167,922	152,433	163,498	153,569	154,306	175,595	170,088	192,806	-	-
3 years later	153,827	188,457	169,968	182,869	173,006	167,714	193,265	187,405	-	-	-
4 years later	169,617	197,253	189,701	194,440	182,094	177,689	198,759	-	-	-	-
5 years later	176,689	200,887	193,590	200,507	187,794	183,105	-	-	-	-	-
6 years later	179,563	203,935	198,142	203,127	191,343	-	-	-	-	-	-
7 years later	180,369	208,291	200,213	207,117	-	-	-	-	-	-	-
8 years later	181,935	209,176	202,738	-	-	-	-	-	-	-	-
9 years later	182,718	210,023	-	-	-	-	-	-	-	-	-
10 years later	183,719	-	-	-	-	-	-	-	-	-	-
Re-estimated as of:	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Closed year	**184,340**	**179,076**	**209,347**	**261,164**	**273,011**	**332,025**	**320,708**	**377,451**	**316,840**	**308,777**	**362,044**
1 year later	174,442	212,563	204,840	130,291	133,668	211,016	151,443	157,228	198,313	218,541	
2 years later	205,816	213,216	193,863	215,433	201,879	207,014	208,432	207,434	257,732		
3 years later	203,417	205,401	212,347	216,229	208,458	202,141	220,067	215,347			
4 years later	192,482	224,140	211,157	218,241	209,562	207,895	220,330		-		
5 years later	192,446	224,929	211,533	217,345	205,796	210,040	-		-		
6 years later	191,527	222,622	211,983	218,897	204,066	-	-		-		
7 years later	190,083	221,348	212,662	221,573	-	-	-		-		
8 years later	189,634	220,850	213,708	-	-	-	-		-		
9 years later	189,610	220,591	-	-	-	-	-		-		
10 years later	188,761	-	-	-	-	-	-		-		
Gross redundancy/ (deficiency)	**(4,421)**	**(41,515)**	**(4,361)**	**39,591**	**68,945**	**121,985**	**100,378**	**162,104**	**59,108**	**90,236**	

14 Other reserves

	2017 US$'000	2016 US$'000
General reserve	309,806	265,815
Reserve for exchange fluctuation	6,294	6,294
Reserve for loss fluctuation	55,200	47,200
Reserve for market value adjustment	876	5,170
Translation reserve	(128,610)	(152,760)
	243,566	**171,719**

(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 41.

15 Share capital

	2017 Number	2016 Number
Authorised share capital	**5,000,000**	**5,000,000**
Issued and fully paid	**2,851,405**	**2,851,405**
	US$'000	**US$'000**
Issued and fully paid at 31 December	285,140	285,140
Nominal value per share	**$100**	**$100**

The movement in issued and fully paid share capital is as below:	2017 USD '000'	2016 USD '000'
At start of year	285,140	293,731
Buy back of ordinary shares	-	(8,591)
Issue of ordinary shares	-	-
At end of year	**285,140**	**285,140**

16 Earned premium

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

	2017			2016		
	Gross US$'000	Retrocession US$'000	Net US$'000	Gross US$'000	Retrocession US$'000	Net US$'000
Fire and accident	564,246	(59,726)	504,520	512,233	(41,985)	470,248
Marine and aviation	105,951	(48,704)	57,247	99,889	(43,414)	56,475
Life	48,617	(3,488)	45,129	41,542	(733)	40,809
	718,814	**(111,918)**	**606,896**	**653,664**	**(86,132)**	**567,532**

17 Investment income

	2017 US$000	2016 US$000
Held to maturity		
Interest income from bank deposits	17,167	15,679
Interest income from deposits with ceding companies	2,149	2,015
Interest income from fixed rate securities HTM	7,516	10,756
Interest income from Floating rate Notes	1,100	832
	27,932	**29,282**
Fair value through profit or loss		
Interest income from fixed rate securities at fair value through profit or loss	6,244	7,313
Dividend from quoted equity investments at fair value through profit or loss	5,298	3,251
Fair value gains from quoted equity investments	13,878	2,255
Fair value gains/(losses) from listed bonds	2,503	2,820
	27,923	**15,639**
Available for sale		
Dividend from unquoted equity investments at cost less impairment losses	**862**	**470**
Rental Income	1,336	1,353
Realized gains or losses on equity portfolios	4,664	3,744
Realized gains or losses on bond portfolios	(58)	(4,356)
Management fees from equity portfolio	(551)	(487)
Management fees from bonds portfolios	(588)	(721)
	4,803	**(467)**
	61,520	**44,924**

18 Other operating income

Fee income	1,252	1,100
Gain /(loss) on disposal of property and equipment	3	(169)
Sundry income	23	346
	1,278	**1,277**

19 Claims incurred

Claims incurred by principal class of business;	2017 Gross US$'000	2017 Retrocession US$'000	2017 Net US$'000	2016 Gross US$'000	2016 Retrocession US$'000	2016 Net US$'000
Fire and accident	366,216	(43,822)	322,394	269,864	(5,711)	264,153
Marine and aviation	33,981	(10,525)	23,456	49,634	(21,432)	28,202
Life	22,062	(1,290)	20,772	23,784	(175)	23,609
	422,259	**(55,637)**	**366,622**	**343,282**	**(27,318)**	**315,964**

20 Acquisition costs

	2017 US $'000	2016 US $'000
Commission paid	169,245	142,614
Charges paid	23,442	18,507
Movement in deferred acquisition cost	(7,441)	3,785
	185,246	**164,906**

21 Administrative expenses

Staff costs	22,742	22,201
Auditors' remuneration	224	240
Depreciation on properties and equipment	1,469	1,916
Depreciation on investment property	164	275
Amortisation of intangible assets	872	276
Asset impairment	1,250	-
Impairment charge on reinsurance receivables	3,518	3,275
Impairment charge on premium and loss deposits	-	1,139
Operating lease rentals	318	304
Repairs and maintenance expenditure	1,005	1,131
Consultancy fees	1,546	1,436
Travel costs and allowances	797	1,036
General Assembly and Board of Directors' meetings	1,484	1,475
Electricity and water	549	672
Insurance	604	587
Communication expenses	315	383
Advertisement and entertainment	680	1,414
Training and subscriptions	279	339
Technical assistance	266	247
Medical expenses	458	466
Computer and word processing	2,796	1,465
Transport and maintenance	141	144
Bank charges and other fees	315	393
Office expenses	257	353
Legal expenses	161	157
Donations	19	26
	42,229	**41,350**

Staff costs include retirement benefit costs amounting to US$ 2,898,567 (2016: US$2,895,231).

22 Net foreign exchange loss/gain

These comprise of currency translation losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies.

	2017 US$'000	2016 US$'000
Net foreign exchange loss/gain	**(6,565)**	**132**

23 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:

	2017 US$'000	2016 US$'000
Current income tax charge	41	1,807
Deferred income tax (credit)/charge (Note 12)	(668)	360
	(627)	**2,167**

The movement in the tax recoverable account is as follows:

At 1 January	800	502
Current tax charge for the year	(41)	(1,807)
Tax paid	88	2,105
At December	**847**	**800**

24 Dividends

At the Annual General Meeting (AGM) to be held on 21 June, 2018, a final dividend in respect of the year ended 31 December, 2017 of US$ 8.0 per share on 2,851,405 existing shares amounting to a total of US$ 22,811,240 (2016: Total dividend; US$ 17,108,400 represented by a dividend per share of US $ 6.0 on existing shares) is to be proposed. The dividend declared at the AGM held on 20 June 2017 was charged to shareholders' equity in these financial statements. The liability for the dividend payable on the 2017 results shall be treated as an appropriation of profit in the financial statements for the year ending 31 December 2018.

The movement in the dividends payable account is as follows:

	2017 USD '000	2016 USD '000
At 1 January	5,033	7,116
Final dividends declared	17,108	17,624
Dividends paid	(14,376)	(19,707)
At 31 December	**7,765**	**5,033**

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25 Notes to the statement of cash flows

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

	Notes	2017 US$'000	2016 US$'000
Profit before income tax		87,355	102,369
Adjustments for:			
Depreciation on investment property	8	164	275
Depreciation on investment property -transferred	8	-	(287)
Depreciation on property and equipment	9	1,469	1,713
Amortisation of intangible assets	10	872	276
Asset impairment		1,250	-
(Gain) /loss on disposal of property and equipment		(3)	169
Change in fair value of financial assets		(16,381)	(5,076)
Working capital changes;			
- Premium income receivable		2,417	(258)
- Deferred acquisition costs		(6,493)	2,938
- Reinsurance receivables		(51,969)	(16,106)
- Retrocessionaires' share of technical provisions		(37,997)	(15,887)
- Sundry receivables		(1,352)	(1,582)
- Reclassification of intangible assets		-	-
- Reclassification of assets in progress		-	490
- Sundry payables		(19,438)	20,006
- Exchange difference on deferred tax opening balance	12	209	181
- Reinsurance payables		15,096	29,063
- Technical provisions		92,585	(7,969)
Cash generated from operations		**67,784**	**110,315**

b) Cash and cash equivalents

	2017 US$'000	2016 US$'000
Cash and bank balances	97,929	71,298
Bank deposits with financial institutions maturing within 90 days	187,672	172,670
Cash and cash equivalents	**285,601**	**243,968**

26 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.

African Reinsurance Corporation established a Corporate Social Responsibility Trust fund to engage in corporate social responsibility projects and initiatives aimed at fostering the development of the insurance and reinsurance industry in Africa.

The Trust fund is considered a related party in accordance with IAS 24. Each year the Corporation allocates an amount up to a maximum of 2% from its yearly net profit after tax to this special fund.

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

	2017 US$ '000	2016 US$ '000
ii) Administration of Staff Provident fund Contributions paid	1,048	1,065
iii) Remuneration for key management personnel		
Directors' fees (non-executive directors)	732	665
Other remuneration (elected members of management)		
- Salaries and other short term benefits	1,487	1,438
- Terminal benefits	169	183
iv) Administration of Africa Re Corporate Social Responsibility Trust fund		
Funds allocated to the trust fund	1,002	1,036

27 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 2017

Class of business	Gross exposure US$' 000	Net exposure US$' 000
Property risk excess of loss	100,000	15,000
Property catastrophe excess of loss	200,000	25,000
Marine & Energy excess of loss	60,000	15,000
Aviation excess of loss	12,000	3,000

31 December 2016 Class of business	Gross exposure US$' 000	Net exposure US$' 000
Property risk excess of loss	90,000	15,000
Property catastrophe excess of loss	180,000	25,000
Marine & Energy excess of loss	60,000	15,000
Aviation excess of loss	12,000	3,000

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 2017 to the earlier of the repricing or contractual maturity date.

27 Financial risk management (Continued)

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
At 31 December 2017 (IN US$'000)							
FINANCIAL ASSETS							
Cash and cash equivalents	285,601	-	-	-	-	-	**285,601**
Reinsurance premiums receivables	81,877	55,929	33,937	20,976	15,111		**207,830**
Claims recoverable	16,263	21,605	19,770	1,397	1,604	15,261	**75,900**
Deferred retrocession premiums	23,401	1,146	82	18	11	8	**24,666**
	407,142	**78,680**	**53,789**	**22,391**	**16,726**	**15,269**	**593,997**
Investments							
Bank deposits	177,408	-	-	-	-	-	**177,408**
Deposits with ceding companies	15,349	20,778	12,321	10,941	7,124	60,544	**127,057**
Fixed rate securities at fair value	29,856	14,067	11,859	12,565	12,000	85,730	**166,077**
Fixed rate securities at amortized cost	11,453	4,881	17,058	31,681	18,379	85,980	**169,432**
Floating rate securities at cost	6,186	19,919	20,655	-	611	-	**47,371**
Equity investments at fair value	142,244	-	-	-	-	-	**142,244**
Redeemable notes	1,397	-	-	-	-	-	**1,397**
Unquoted equity investments at fair value	-	-	-	-	-	39,395	**39,395**
	383,893	**59,645**	**61,893**	**55,187**	**38,114**	**271,649**	**870,381**
Total	**791,035**	**138,325**	**115,682**	**77,578**	**54,840**	**286,918**	**1,464,378**
FINANCIAL LIABILITIES							
Reinsurance payables	43,901	23,930	(2,827)	8,378	(5,109)		**68,273**
Outstanding claims	155,153	124,599	70,539	27,773	22,278	21,376	**421,718**
Total liabilities	**199,054**	**148,529**	**67,712**	**36,151**	**17,169**	**21,376**	**489,991**

27 Financial risk management (Continued)

	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
At 31 December 2016 (IN US$'000) FINANCIAL ASSETS							
Cash and cash equivalents	243,968	-	-	-	-	-	**243,968**
Reinsurance premiums receivables	61,154	40,662	25,040	15,871	13,134	-	**155,861**
Claims recoverable	9,278	19,228	2,071	2,428	7,107	7,052	**47,164**
Deferred retrocession premiums	15,119	269	-	3	14	-	**15,405**
	329,519	**60,159**	**27,111**	**18,302**	**20,255**	**7,052**	**462,398**
Investments							
Bank deposits	175,824	-	-	-	-	-	**175,824**
Deposits with ceding companies	8,600	24,139	14,326	7,855	9,168	51,771	**115,859**
Fixed rate securities at fair value	19,001	24,951	14,343	13,242	15,580	61,368	**148,485**
Fixed rate securities at amortized cost	12,597	9,872	7,511	16,014	32,778	78,265	**157,037**
Floating rate securities at cost	9,922	6,182	19,959	20,367	-	-	**56,430**
Equity investments at fair value	135,860	-	-	-	-	-	**135,860**
Redeemable notes	3,951	-	-	-	-	-	**3,951**
Unquoted equity investments at fair value	-	-	-	-	-	36,667	**36,667**
	365,755	**65,144**	**56,139**	**57,478**	**57,526**	**228,071**	**830,113**
Total	**695,274**	**125,303**	**83,250**	**75,780**	**77,781**	**235,123**	**1,292,511**
FINANCIAL LIABILITIES							
Reinsurance payables	28,881	13,415	5,239	2,460	3,182	-	**53,177**
Outstanding claims	131,650	99,944	41,438	26,802	30,207	28,594	**358,635**
Total	**160,531**	**113,359**	**46,677**	**29,262**	**33,389**	**28,594**	**411,812**

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 82 and 83 show the various currencies in which the group's assets and liabilities were denominated as at 31 December 2017 and 2016. The non US dollar balances reflect the significant foreign currency exposures.

27 Financial risk management (Continued)

Currency risk (continued)

At 31 December 2017: (in US$'000)	USD	SA Rand	UK P	CFA/EUR	MAD	EGP	NGN	KES	MUR	OTHERS	TOTAL
ASSETS											
Cash and cash equivalents	145,066	3,550	6,846	24,000	15,296	6,817	18,174	19,220	2,322	44,310	**285,601**
Reinsurance receivables	56,820	18,226	1,802	31,820	17,978	4,074	8,186	18,685	3,925	46,314	**207,830**
Claims recoverable	69,958	42	29	3,201	549	104	457	61	32	1,467	**75,900**
Deferred retrocession premium	14,274	-	3	6,767	32	140	140	119	11	3,180	**24,666**
	286,118	**21,818**	**8,680**	**65,788**	**33,855**	**11,135**	**26,957**	**38,085**	**6,290**	**95,271**	**593,997**
Investments:											
Bank deposits	66,194	92,913	4,596	761	-	1,589	2,085	-	303	8,967	**177,408**
Deposits with ceding companies	15,764	343	538	48,543	28,144	2,991	6	295	(176)	30,609	**127,057**
Fixed rate securities at fair value	91,104	47,571	3,706	9,071	-	-	11,312	3,313	-	-	**166,077**
Fixed rate securities at amortised cost	152,413	11,414	-	4,479	-	-	-	1,126	-	-	**169,432**
Floating rate securities at cost	47,032	-	339	-	-	-	-	-	-	-	**47,371**
Equity investments at fair value	69,350	48,869	-	18,339	-	-	3,045	2,641	-	-	**142,244**
Redeemable note	265	-	-	1,132	-	-	-	-	-	-	**1,397**
Unquoted equity investments at fair value	39,395	-		-	-	-	-	-	-	-	**39,395**
Total Investments	**481,517**	**201,110**	**9,179**	**82,325**	**28,144**	**4,580**	**16,448**	**7,375**	**127**	**39,576**	**870,381**
Total Assets	**767,635**	**222,928**	**17,859**	**148,113**	**61,999**	**15,715**	**43,405**	**45,460**	**6,417**	**134,847**	**1,464,378**
LIABILITIES											
Reinsurance payables	19,536	3,798	(1,157)	26,245	(6,659)	375	(1,243)	2,582	8	24,788	**68,273**
Outstanding claims	170,734	121,526	2,413	39,057	35,668	9,341	8,425	24,488	6,163	3,903	**421,718**
Total liabilities	**190,270**	**125,324**	**1,256**	**65,302**	**29,009**	**9,716**	**7,182**	**27,070**	**6,171**	**28,691**	**489,991**
NET POSITION	**577,365**	**97,604**	**16,603**	**82,811**	**32,990**	**5,999**	**36,223**	**18,390**	**246**	**106,156**	**974,387**

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

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27 Financial risk management (Continued)

Currency risk (continued)

At 31 December 2016: (in US$'000)	USD	SA Rand	UK P	CFA/EUR	MAD	EGP	NGN	KES	MUR	OTHERS	TOTAL
ASSETS											
Cash and cash equivalents	94,878	29,543	6,924	4,162	13,754	6,130	29,139	16,247	1,906	41,285	**243,968**
Reinsurance receivables	61,048	18,399	1,329	16,580	14,638	3,862	8,865	16,038	1,963	13,139	**155,861**
Claims recoverable	44,589	38	26	732	427	95	104	20	35	1,098	**47,164**
Deferred retrocession premium	12,287	1	-	1,403	45	144	8	32	100	1,385	**15,405**
	212,802	**47,981**	**8,279**	**22,877**	**28,864**	**10,231**	**38,116**	**32,337**	**4,004**	**56,907**	**462,398**
Investments:											
Bank deposits	110,907	51,764	219	8,893	-	41	-	-	556	3,444	**175,824**
Deposits with ceding companies	14,954	-	634	38,969	26,183	3,673	6	433	(164)	31,171	**115,859**
Fixed rate securities at fair value	90,287	38,133	2,982	7,933	-	-	6,772	2,378	-	-	**148,485**
Fixed rate securities at amortised cost	140,054	9,563	-	5,145	-	-	-	2,275	-	-	**157,037**
Floating rate securities at cost	56,123	-	307	-	-	-	-	-	-	-	**56,430**
Redeemable notes	78,906	39,308	-	14,409	-	-	1,663	1,574	-	-	**135,860**
Equity investments at fair value	3,116	-	-	835	-	-	-	-	-	-	**3,951**
Unquoted equity investments at fair value	36,667	-	-	-	-	-	-	-	-	-	**36,667**
Total Investments	**531,014**	**138,768**	**4,142**	**76,184**	**26,183**	**3,714**	**8,441**	**6,660**	**392**	**34,615**	**830,113**
Total Assets	**743,816**	**186,749**	**12,421**	**99,061**	**55,047**	**13,945**	**46,557**	**38,997**	**4,396**	**91,522**	**1,292,511**
LIABILITIES											
Reinsurance payables	24,885	468	(193)	3,675	(5,598)	(106)	4,747	1,877	(153)	23,575	**53,177**
Outstanding claims	128,531	78,660	1,735	37,658	36,016	7,261	13,477	27,196	5,712	22,389	**358,635**
Total liabilities	**153,416**	**79,128**	**1,542**	**41,333**	**30,418**	**7,155**	**18,224**	**29,073**	**5,559**	**45,964**	**411,812**
NET POSITION	**590,400**	**107,621**	**10,879**	**57,728**	**24,629**	**6,790**	**28,333**	**9,924**	**(1,163)**	**45,558**	**880,699**

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

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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	2017 US$ '000	2016 US$ '000
African Reinsurance Corporation (South Africa) Limited	Reinsurance services	*	100%	*	*
African Takaful Reinsurance Company	Reinsurance services	12,000	100%	12,000	12,000
Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited	Property holding	*	100%	*	*
				*	*
				12,000	12,000

** 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 profit of US $ 3,283,982 during the year ended 31 December 2017 (2016 – Profit of US$ 6,070,280). 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	2017 US $'000	2016 US $'000
Total assets	361,658	262,492
Total liabilities	(299,712)	(208,676)
Net assets	61,946	53,816

Summarised statement of profit or loss and other comprehensive income		
Net earned premium	58,471	45,893
Profit before income tax	2,616	8,198
Deferred tax credit/Income tax expense	668	(2,128)
Other comprehensive income	-	-
Total comprehensive income	3,284	6,070

Summarised statement of cash flows		
Net cash generated from operating activities	91	8
Net cash generated from/(used in) investing activities	3,722	(253)
Net increase/(decrease) in cash and cash equivalents	3,813	(245)
Net gain on liquid assets	9	38
Cash and cash equivalents at beginning of year	79	286
Cash and cash equivalents at end of year	3,901	79

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$ 7,175,167 during the year ended 31 December 2017 (December 2016 – US $ 19,401,751). 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	2017 US $'000	2016 US $'000
Total assets	66,642	59,109
Total liabilities	(63,564)	(42,928)
Net assets	3,078	16,181
Summarised statement of profit or loss and other comprehensive income		
Net earned premium	33,436	44,738
Profit before income tax	7,175	19,402
Other comprehensive income	-	-
Total comprehensive income	7,175	19,402
Summarised statement of cash flows		
Net cash generated from operating activities	2,382	8,873
Net cash from investing activities	1,685	1,976
Net cash generated from financing activities	-	-
Net increase in cash and cash equivalents	4,067	10,849
Net (loss)/gain on liquid assets	(1,193)	(10,366)
Cash and cash equivalents at beginning of year	35,330	34,847
Cash and cash equivalents at end of year	38,204	35,330

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 $ 91,181 during the year ended 31 December 2017 (2016 – US $ 74,270). 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	2017 US $'000	2016 US $'000
Total assets	2,912	2,780
Total liabilities	(234)	(176)
Net assets	2,678	2,604
Summarised statement of profit and loss and other comprehensive income		
Net Income	177	158
Profit before income tax	132	113
Income tax (expense)/credit	(41)	(39)
Other comprehensive income	-	-
Total comprehensive income	91	74
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, Sudan, Abidjan, Uganda and Ethiopia Offices. The future minimum lease payments under non-cancellable operating leases are as follows:

	2017 US$'000	2016 US$'000
Not later than 1 year	207	269
Later than 1 year and not later than 5 years	103	177
	310	**446**

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:

	2017 US$'000	2016 US$'000
Not later than 1 year	1,049	1,082
Later than 1 year and not later than 5 years	1,148	720
	2,197	**1,802**

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:

	2017 US$'000	2016 US$'000
Share capital	285,140	285,140
Share premium	156,354	156,354
Other reserves	243,566	171,719
Retained earnings	216,979	199,098
Total capital – equity	**902,039**	**812,311**

Appendix

Consolidated statement of profit or loss by class of business

	Fire and accident US$'000	Marine and aviation US$'000	Life US$'000	Total 2017 US$'000	Total 2016 US$'000
Underwriting income:					
Gross written premium	582,877	109,322	54,630	746,829	642,024
Gross earned premium	564,246	105,951	48,617	718,814	653,664
Retrocession premium	(59,726)	(48,704)	(3,488)	(111,918)	(86,132)
Net earned premium	**504,520**	**57,247**	**45,129**	**606,896**	**567,532**
Commissions & charges earned under retrocession arrangements	**11,236**	**6,874**	**213**	**18,323**	**10,724**
Gross claims paid	**(301,973)**	**(44,205)**	**(21,464)**	**(367,642)**	**(313,733)**
Gross claims incurred	(366,216)	(33,981)	(22,062)	(422,259)	(343,282)
Less retrocessionaires' share	43,822	10,525	1,290	55,637	27,318
Net claims incurred	**(322,394)**	**(23,456)**	**(20,772)**	**(366,622)**	**(315,964)**
Acquisition expense	(148,983)	(23,418)	(12,845)	(185,246)	(164,906)
Management expenses	(32,772)	(5,917)	(3,540)	(42,229)	(41,350)
Underwriting profit	**11,607**	**11,330**	**8,185**	**31,122**	**56,036**
Net investment and other income				62,798	46,201
Net foreign exchange (loss) /gain				(6,565)	132
Profit before income tax				**87,355**	**102,369**
Taxation credit/(charge)				627	(2,167)
Profit for the year				**87,982**	**100,202**

Notes