AFRICAN REINSURANCE CORPORATION
SOCIETE AFRICAINE DE REASSURANCE
(AFRICA RE)

Honourable Representatives
General Assembly
African Reinsurance Corporation

Date: 19th June 2014

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 2013.

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

HASSAN BOUBRIK
Chairman of the Board of Directors and General Assembly

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Mr Y. ETEFFA
Vice-Chairman

Mr H. BOUBRIK
Chairman

Mr F. DANIEL

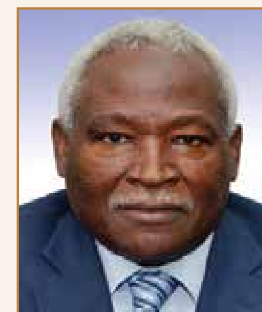
Mr K. MARAMI

Mr B. TÜMMERS

Mr J. BURBIDGE

Mr B. NJAI

Mr F. BALA



Mr M. DIAW

Mr M. DEME

Mr P. VAN PETEGHEM

DR. M. MAAIT

ALTERNATE DIRECTORS

Mr Ali REGAE, Mr M. Henri Fréderic EWELE, Mr Hilali LARBI, Mr Kamel MERAGHNI, Alj. Bala ZAKARIYAU, Mr Patrick ANDRIAMBAHINY, Mr Woldemichael ZERU, Mrs Marie-Laure AKIN-OLUGBADE, Mr Boubacar BAH, Mr Thomas KRONSBEIN, Dr Osama FATEHY.

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Mr H. BOUBRIK
Chairman

I have the pleasure to present my first Annual Report since my election as Chairman of the Board of Directors of Africa Re in June 2013.The 36th Annual Report of the Board of Directors presents the African Reinsurance Corporation's consolidated financial statements for the year 2013, including the statement of financial position as at 31 December 2013 and the statement of comprehensive income for the financial year. It also includes a review of the Corporation's operating environment, the report of the external auditors to the shareholders, the reports on capital management, corporate governance and enterprise risk management, compliance and corporate social responsibility.

Gross written premium for the year grew by 3.47% to US$ 670.46 million compared to US$ 647.98 million in 2012. This growth is higher than the 2.61% recorded in 2012. The premium income achieved in 2013 was slightly below the budgeted target. However, the Corporation could have registered a growth rate of 11.62% had the exchange rates of African currencies remained stable during the year 2013. In South Africa, the subsidiary company alone recorded a decline in premium income of 9.7% as opposed to a positive growth of 11.4% in the original currency, the South African rand, which lost 23% of its value against the US dollar during the same period. Similar depreciation was recorded for the Ethiopian birr (- 4.8%), the Egyptian pound (- 9.2%), the Zambia kwacha (-6.7%) and the Sudanese pound (-30.1%). Other adverse unquantifiable conditions, similar to those experienced in 2012, played a significant role. These conditions include the undercutting of insurance and reinsurance rates in markets like South Africa and Mauritius, stiff competition driven by excess capital in matured markets, continuous and deliberate reduction of our portfolio in the loss making markets - in the Middle East and South East Asia and greater retentions by some insurers who undertook to change their reinsurance structures by buying less covers.

Gross earned premium, after adjusting for the movement in unearned premium provision, stood at US$ 652.14 million compared to US$ 619.95 million in 2012, a 5.2% growth year on year.

Premium ceded to retrocessionnaires during the year totalled US$ 96.08 million, as against US$ 60.37 million last year. The sharp increase resulted from new major accounts in oil business with very high sum insured, thus requiring a large retrocession cover. Otherwise, the Corporation's retrocession policy remained the same as it continued to rely mainly on XL (excess of loss) covers for the regular risks assumed, while arranging special covers in respect of the major oil and petrochemical risks accepted.

Gross claims paid during the year under review amounted to US$ 344.43 million compared to US$ 316.09 million in 2012, representing 8.96% increase, following large losses in South Africa, Côte d'Ivoire and Kenya, as well as attritional losses in South Africa (motor and natural catastrophe classes). Consequently, the net paid claims ratio increased from 52.11% in 2012 to 57.64% in 2013. Adjusting for the movement in outstanding claims, including IBNR (incurred but not reported) claims, the net incurred loss ratio improved slightly to 58.76% from 59.54% in 2012.

During the year, the Corporation continued the rolling and forward looking budgeting approach to adapt to the prevailing economic and commercial environment. Operating expenses and capital expenditures were well planned to keep them within acceptable levels and aligned to the volume of activity. However, Management expenses for the year 2013 increased by 10.50% to US$ 34.16

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million from US$ 30.91 million the previous year as a result of improvement in the remuneration of the Corporation's personnel, as we strive to retain key professional staff in a very competitive and specialized environment. This was however in line with the budget.

Underwriting discipline remained our top priority. Consequently selective risk acceptance resulted in a slightly lower Net Underwriting Profit (after management expenses) of US$ 41.26 million in 2013, compared to US$ 47.02 million for last year, a decline of 12% explained above by an increased claim experience. Given the low growth in premium income and the increased claims level, the lower underwriting profit still represents a very good performance in the industry, demonstrating the Corporation's continuous commitment to profitable underwriting.

Income from investment and other sources, including interest on reinsurance deposits and realized gains / losses on exchange, amounted to US$46.40 million compared to US$48.79 million reported in the previous period, representing a slight decline of 4.9% partially due to the negative impact of income from South Africa as a result of the depreciation of the rand. Also, the poor performance of the bond market and the continuous low interest rates on the international market played an important role in the decline. Moreover, the Corporation's financial assets grew only by 2.48% from US$ 1,008.63 million in 2012 to US$ 1,033.61 million in 2013. This figure includes the US$16.56 million from the proceeds of the fourth capital increase less the impact of the 23.4% depreciation of the South African rand.

Shareholders' funds as at 31 December 2013 stood at US$677.54 million as against US$608.61 million in 2012, representing 11.33% increase mainly as a result of the significant retained earnings from the profit of the period.

During the year 2013, the global economy performed better than expected at 3.0% partly due to the continuous quantitative easing , the resolution of the tense political wrangling among US lawmakers which at one point threatened to shut down the biggest economy of the World and the momentum gained by European and other advanced economies towards recovery.

Emerging Markets and Developing Economies continued to grow although at lower pace (4.7%) with China always leading the growth with 7.7%, followed by Developing Asia (6.5%), Sub-Saharan Africa (5.1%) and India (4.4%).

Despite headwinds from the global economy, the African continent maintained its growth at nearly 5% with Sub-Saharan economies leading at 5.1% in 2013. Increased domestic demand coupled with Diaspora remittances and fairly good prices of exported raw goods, including mineral resources, helped to weather the external shocks. Almost all the regions are projected to record an encouraging GDP growth rate above 5%: West Africa (6.7%), East Africa (5%), and Central Africa (5.7%). Only Southern Africa and North Africa are expected to grow by a rate below 5%.

The South African economy, the second largest on the continent, and from where nearly a quarter of the Corporation's income is derived, performed poorly at 2.1% GDP growth due to low exports, recurrent social unrest in key sectors, particularly the mining sector, widening trade deficit and capital flight to advanced economies. One of the results of the challenging economic environment was the depreciation of the South African rand which had a devastating impact on the Corporation's premium income (- US$ 42.9 million). The Board of Directors has done everything possible to find available and affordable financial products to hedge the Corporation's exposure in rand. However, it seems that the only few available products are very expensive and hedging with traditional bank would be uneconomical. The Board will continue to search for an adequate mechanism to hedge the translational risk. Meanwhile, the Corporation may continue to apply other financial risk mitigation measures including the diversification of its portfolio away from South Africa and the conversion of excess assets in rand to US dollar.

The global reinsurance recorded another very good year in 2013 with strong profits following a low catastrophe activity as global insured losses, estimated at US$ 45 billion remained well below the recent 10-year average of US$ 58 billion. The major debate in the industry was the excess capital supply from hedge funds and pension funds entering the reinsurance market and causing excessive pressure on market rates by spurring competition between traditional reinsurance products and alternative financial solutions to risk management. If this new order remains in the near future, capital and cycle management, as well as innovation, will be strategic factors for traditional reinsurers to succeed. Indeed, a couple of international reinsurers, facing slow growth prospects, have decided to give back capital to shareholders after strong profits recorded in 2013.

Reinsurance premium remained stable globally with some very few pockets of increases while others saw a fierce competition which brought down market rates with little consideration to potential underwriting losses. This was the case in South Africa, Mauritius and Egypt. Until there is an external trigger, whether from catastrophe losses, rating agency models, regulatory requirements or financial markets, the soft cycle is expected to continue in the affected markets and even in other markets while causing further consolidations in the industry.

Africa Re underwriting profitability remained strong despite large claims in South Africa, one major loss in Côte d'Ivoire, some catastrophe losses from natural perils like floods in Mauritius and hail in South Africa. The Corporation maintained its policy of writing profitable business instead of pursuing an unprofitable growth. This, coupled with our diversified portfolio across regions, enabled the Corporation to post excellent underwriting profit ratio of 7.42% (after management expenses), slightly lower than the 8.40% recorded in 2012. An underwriting profit of US$41.26 million (2012: US$47.02 million) together with investment income and other income of US$46.40 million (2012: US$48.78 million) generated an overall net profit of US$ 84.80 million compared to US$ 92.64 million in the previous year. This decline is mainly due to the loss deterioration environment in South Africa, Kenya, Mauritius and Côte d'Ivoire. The overall profit translates into an average return on equity of 13.19% which is above the industry average although below the 16.99% achieved in 2012. This drop is partly due to a reduced profit in spite of a higher capital base.

During the period under review, the Corporation continued to be a leading force in the development and transformation of the insurance and reinsurance industries in African countries. Firstly, the Corporation raised its underwriting capacity and negotiated partnership with regional and international players to allow higher retention of business on the continent. Secondly, the Corporation initiated multiple activities and provided many ideas and solutions to raise technical capacity in insurance, reinsurance and risk management through seminars, workshop, customized trainings and in-house attachments. The Corporation was again awarded, for the second consecutive year, the "Best Regional Takaful Company" by the International Takaful Summit in Cairo due to its benevolent efforts in the development of Takaful market in Africa. Peers in the industry requested the Corporation to spearhead the development of new insurance pools for catastrophe & war and terrorism , beside the two other insurance pools already managed by the Corporation. Research reports and publications on insurance and reinsurance matters were proposed to industry practitioners via our regular communication channels.

Internally, technical capacity development and enterprise risk management were at the fore of enhancing the Corporation's value proposition and security. A thorough review of the risk pricing tools and risk models were undertaken with the aim of moving from "adequate" to "adequate with strong risk controls" in our rating by specialized agencies.

The Board of Directors held four meetings during which key decisions were taken. The decisions made were technical (adoption of the retrocession programme, review of the underwriting guidelines implementation), financial (review of the investment policy, approval and implementation of investment projects) and

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with regard to human resources (reinforcing the policy of attracting, recruiting and retaining highly skilled insurance and reinsurance professionals through competitive pay and motivation initiatives). The Board undertook a number of initiatives to strengthen the corporate governance by adopting various best practices in the industry and its evolving regulatory framework. In its pursuit for partnership with non-African markets, the Board finalized the licensing of the Corporation in the Brazilian market where prospects are bright especially with the support of IRB-Brasil Re, our new shareholder.

More importantly, the Board adopted the Fifth Strategic Plan of the Corporation for the period 2014 – 2018. The strategy development process has been highly inclusive and thorough. All elements of the strategic plan have been passionately debated by staff, management and the Board. Expansion and development strategies for the next five years have been designed around our core and distinctive competences with the same mission of developing our core markets and the same vision of maintaining our leadership position on the African continent. The Board is confident that the Fifth Strategic Plan reflects the aspirations of Africa Re which by 2018 is expected to achieve stronger capitalization and higher profitability.

The financial ratings of the Corporation were reaffirmed in 2013 by both Standard & Poor's and A.M. Best rating agencies at A – with a stable outlook. This continuous performance over the past five years has put the Corporation at a unique position in the competitive landscape. As the only African reinsurer to have such rating at the moment, and more so after the recent adjustment in rating agencies models, we take pride in this achievement and commit to keeping and even improving the security we offer to our customers.

The year 2013 and its good profit will give the Corporation an additional strength by raising its capital base through retained earnings. This will allow a high value and quality offerings to ceding companies. With economic indicators leading to a slightly better economic growth, especially in Africa, and the reinsurance outlook remaining stable, we believe that 2014 will be another good year in terms of growth and profit.

I would like to thank all the staff and management of the Corporation, led by Mr. Corneille Karekezi, for their dedication and hard work throughout our 8 locations on the continent, which contributed to these results.

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

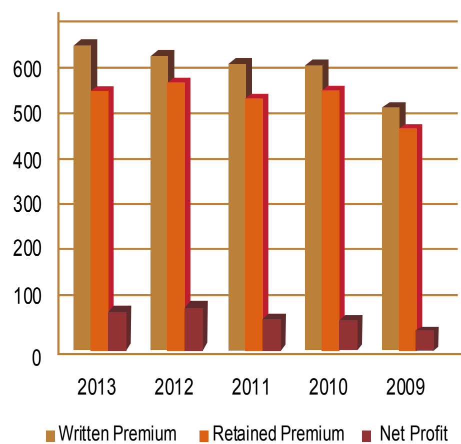
On my part as the new Chairman of the Corporation, I humbly pledge my commitment to vigorously pursue the excellent and remarkable work done by my predecessor Mr. Musa El Naas, whose visionary leadership has contributed tremendously to shape this wonderful Corporation, a real pride of the African continent.

I also seek the support of my fellow colleagues on the Board and all the shareholders of the Corporation. Your advice and guidance, together with your business support, will ease my job and propel the Corporation to greater heights.

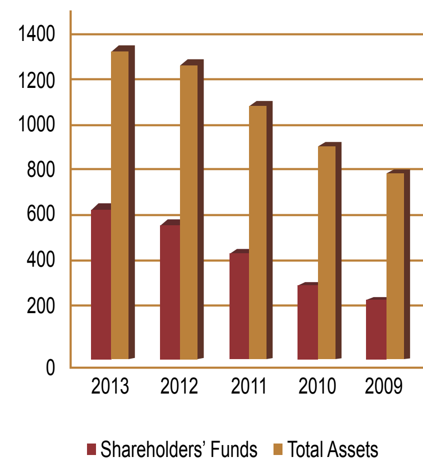
I thank you all.

In US$ '000	2013	2012	2011	2010	2009
PREMIUMS AND RESULT					
WRITTEN PREMIUM	670,458	647,980	631,490	627,532	536,382
RETAINED PREMIUM	569,140	586,443	554,746	569,700	487,150
EARNED PREMIUM (NET)	556,062	559,582	533,580	563,783	466,416
NET PROFIT	84,801	92,646	69,199	64,863	44,301
FINANCIAL POSITION					
SHAREHOLDERS' FUNDS	677,538	608,613	482,130	343,674	280,399
TOTAL ASSETS	1,377,831	1,314,306	1,137,383	958,367	836,017

PREMIUMS AND RESULT 2009-2013
In million US$



FINANCIAL POSITION 2009-2013
In million US$



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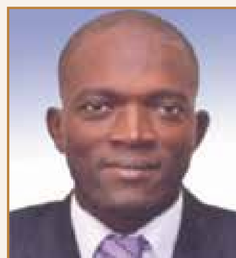
EXECUTIVE MANAGEMENT

Mr C. KAREKEZI
Group Managing Director/CEO

Mr K. AGHOGHOVBIA
Deputy Managing Director/COO

CENTRAL DIRECTORS

Mr S. M. KABA
Corporate Secretary/Director of Risk Management & Compliance

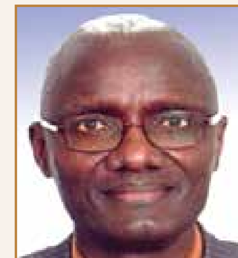


Mr S. KONE
Director of Finance & Accounts

Mr L . BARAGUNZWA
Director of Central Operations & Special Risks

Mr R.U. OBASOGIE
Director of Administration & Human Resources

Mr A. D. SEYDI
Director of Information & Communication Technology



Mr O. SARR
Deputy Director of Internal Audit

REGIONAL DIRECTORS AND LOCAL REPRESENTATIVE

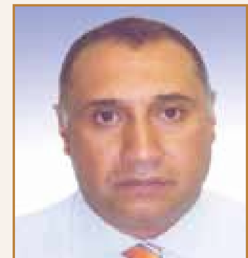
Mrs. E. MBOGO
Regional Director,
Nairobi

Mr M. BELAZIZ
Regional Director,
Casablanca

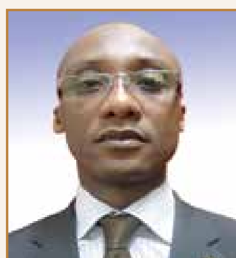
Mrs. M. SANON
Regional Director,
Mauritius

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

Mr O. N'GUESSAN
Regional Director,
Abidjan



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



Mr S. DIOMANDE
Regional Director,
West Africa

Mr S. BELAY
Local Representative,
Addis Ababa

I. ECONOMIC & TRADE ENVIRONMENT IN 2013

Global Economy: Better Than Expected But Still Uncertain

The global economy performed better than the expected 3.0% growth rate, especially in the second half of 2013 due to the continuous improvement of financial conditions. However, there were challenges as the US hint to taper the quantitative easing in May 2013 harmed the emerging markets, hitherto engine of the world economic growth.

The US economy declined compared to 2012 at a GDP growth rate of 1.9%. This was amid a tense political brinkmanship of US lawmakers which could have adversely impacted the global investment climate. Eventually, the funding of government activities was temporarily secured and the encouraging 2.8% growth in GDP in the 3rd quarter of 2013 led analysts to project the same growth rate for 2014.

The expansion witnessed in the Eurozone confirmed that the zone is on course to recovery. The 0.4% GDP growth rate achieved in 2013 was better than the previous year's. Despite setbacks in domestic demand due to high public and private debt, GDP growth could reach 1.0% in 2014 as a result of expanding exports.

Advanced economies, in general, performed fairly better in 2013 than the projected 1.3%, with the UK, Japan and Canada leading the recovery at 1.7% each due to easier credit conditions and increased confidence.

Emerging Markets and Developing Economies continued to grow, although at a slower pace at 4.7%. The best performers were the same as in the recent past: China (7.7%), Developing Asia (6.5%), Sub-Saharan Africa (5.1%) and India (4.4%).

In 2013, the global economy gained momentum as a number of advanced economies performed better than expected. The continuous strong growth in emerging markets and quantitative easing contributed significantly to the achievement of the 3.0% GDP growth rate, compared to 3.1% in 2012. The IMF World Economic Outlook forecast of 3.7% in 2014 can only be achieved if monetary policies are not tightened. Downside risks remain as a result of capital flow volatility in many emerging markets, possible deflation in advanced economies and weak demand in emerging markets.

African Economy: Strong Growth Despite Headwinds From the Global Economy

The African continent's growth remained relatively strong in 2013 at 4.5% with the sub-Saharan economies leading with a cumulative growth of 4.9%. External shocks in the continent's economies continued to be a major concern. However, they were mitigated to some extent by the expansion of domestic demand, African migrant remittances and investments in the productive sector.

West Africa, pulled by Nigeria, Côte d'Ivoire and Ghana, has become the fastest growing region of the continent with projected rates of 6.7% in 2013 and 7.4% in 2014. As in other regions of the continent, this growth is not only driven by the oil and mining sectors but also by agriculture and services and on the demand side, by consumption and investment. In East Africa, a solid growth was also recorded between 5% and 7%, led by Rwanda, Tanzania, Ethiopia and Uganda. Central Africa equally performed well with an average of 5.7% in 2013. Chad and the Democratic Republic of Congo recorded above-average growth. The Southern Africa GDP growth of 4.1% was mainly boosted by Angola, Mozambique and Botswana that posted growth rates above 5%.

The South African economy struggled to maintain its expansion in a very challenging environment. The estimated GDP growth of 2.1% was lower than the 2.4% recorded in 2012. This is a result of multiple challenges, including a global weak demand which slowed down exports, labour strikes in key sectors, capital flow volatility and a large and widening current account deficit, which led to the rand losing its value against the US dollar by more than 23% in 2013. This depreciation of the rand had a significant negative impact again on the Corporation's income and assets.

The medium-term outlook for Africa is still positive with a real GDP growth estimated above 5% annually up to 2018, despite the fragile global economic recovery, highly volatile commodity markets and a reduction in capital flow from emerging markets. Growth is even higher for Sub-Saharan Africa at 5.7% annually over the same period of time.

Mixed Financial Markets Performance

Financial markets in general performed better in the advanced countries than in the emerging market. Equity markets continued to surge in 2013 with developed markets outperforming emerging markets. US and European markets ended the year on a good standing: S&P500 (32.4%), MSCI EAFE (23.3%) as against -2.3 for MSCI EM.

African equity markets also recorded positive returns with the Nigeria All Shares Index (ASI), Nairobi ASI and Johannesburg ASI posting 47.19%, 19.2% and 21.4% respectively.

The bond market however performed poorly in 2013 as concerns that the United States Federal Reserve would taper its quantitative easing sent investment grade and long- dated bond values on a nosedive. Bonds in general registered the worst performance since 1994 with the investment grade recording its worst since 1980. The year ended with Barclays US Government Long Term Index and Barclays US Aggregate Bond Index posting -12.48% and -2.12% respectively.

During the year, the euro and UK pound strengthened by 4.32% and 1.86% respectively against the US dollar. The South African rand, the Nigerian naira, the Kenyan shilling and the Egyptian pound depreciated against the US dollar by 23.4%, 2.43%, 0.23% and 9.18% respectively. Other transactional currencies XAF, MAD, MUR and ETB strengthened by 4.32%, 3.52%, 1.64% and 4.77% respectively.

The Corporation's financial assets grew by 2.48% from (US$ 1,008.63 million) in 2012 to (US$ 1,033.61 million) in 2013 despite the negative impact of the depreciation of major African currencies against the US dollar, in particular the South African rand.

Accordingly, investment income & other income for the year 2013 marginally underperformed the budget by 4.9% to record US$ 46.40 million constituting a return on investment (ROI) of 4.54%. The actual results were largely driven by the equity market.

There are positive signs for the year 2014 though the full impact of the quantitative easing tapering is yet to be known, especially on the South African financial market where a significant portion of the Corporation's financial assets is invested. However, it is believed that an increasing listing activity may boost the Johannesburg Stock Exchange. In the global financial markets, there has been a burst of optimism. Economic and financial data during the last quarter of 2013 indicate that the US economy is strengthening. In Europe, while not out of the woods, the economic decline seems to have died down if not improved and Africa's more than 5% growth rate is encouraging. Consequently, 2014 may be better than any year since 2007.

Global Reinsurance: Improved Underwriting Profitability

International reinsurers recorded another good year as global catastrophe losses remained below average in 2013. Hurricanes in North and Central America were generally benign. Other catastrophe losses, including the devastating Typhoon Haiyan, which hit low insured area, did not result in high insurance losses. The global insured losses, estimated at US$ 45 billion, remained below the recent 10-year average of US$ 58 billion.

The world non-life reinsurance market shifted its debate from usual topics like catastrophe losses, low interest rates and premium rates, to the flush of capital from hedge funds and pension funds entering the market. This excess supply of capital contributed significantly to the 4% increase in reinsurers' capital, estimated above US$ 525 billion in 2013 and allowed reinsurance buyers to lower their cost of capital. Other reinsurers, after a strong performance, decided to give back some capital to their shareholders, confirming that capital and cycle management remain a strategic factor to succeed in the sector.

Though market premium rates were selectively reviewed upwards in some markets and in specific risks, reinsurance rates were under pressure due to high supply of capital and stiff competition from investment vehicles offering alternatives to traditional reinsurance. The combination of this new external threat and the increasing high retentions of insurers are likely to change significantly reinsurance demand in future. Only the pressure of higher capital requirements or above average catastrophe losses may reverse the trend in better regulated environments.

The underwriting profitability of reinsurers was good as a result of low catastrophe losses, with an international combined ratio around 90% for the financial year 2013. The good underwriting results were also due to reserve releases following a decline in claim payments in recent years.

The overall profitability, estimated as a return on equity between 9% and 10%, was hampered by an investment income which remained low in a continued near-zero interest rate environment. The average annualized return on investment was around 3% for the international reinsurance industry and 4.54% for the Corporation. However, both figures were below levels recorded in 2012.

The African reinsurance market continues to be the focus of major global players in search of growth and diversity outside their markets. Excess capital, in such a less sophisticated market, will certainly mount pressure on reinsurance pricing as was the case in 2013 in some markets. Even in South Africa, the most sophisticated market in the continent, most insurers and reinsurers reported low underwriting performance due to a fall in premium rates. In this important market, the high level of catastrophe losses (hail and floods) and the decline of the Rand value adversely affected the reinsurance industry.

As regards regulation, Solvency II is to be implemented in Europe in 2016 while Solvency Assessment and Management (SAM) regime is still expected to come into force in 2015 in South Africa. Rating agencies have been designing more stringent models over the years. However, the latest model introduced by Standard & Poor's in 2013 did not significantly change major reinsurers' ratings, including for the Corporation.

The outlook for global reinsurance in 2014 is believed to be stable or slightly lower than 2013, which implies that premium rates will not rebound. This is supported by the continuous excess capital in the industry, a general improvement in risk management and the recent resilience of reinsurers to bear significant losses. Higher retentions by reinsurance buyers and alternative sources of reinsurance coverage may, however, impact on the traditional reinsurance volume.

The Corporation in 2013: Improved Premium Income Growth rate in a Challenging Environment and Lower But Still Strong Profitability

For the third consecutive year, the premium income growth in 2013 (3.47%) remained lower than the five-year average of 9%, albeit higher than the 2.61% achieved in 2012. The significant depreciation of some African currencies (South African Rand: 23% and Egyptian Pound: 9.18%) and, to some extent, the deliberate portfolio cleansing in unprofitable international markets contributed to the situation. Had the exchange rates remained stable in 2013, the premium income growth would have been 11.62%.

Claims experience was good with an incurred loss ratio of 58.76% (2012: 59.54%) despite heavy single losses in South Africa and Côte-d'Ivoire. Benign catastrophe losses were recorded in Mauritius (floods) and South Africa (hail).

Technical result (Underwriting profit before management expenses) of US$75.4 million achieved in 2013 was slightly below its 2012 level of US$77.9 million while the underwriting profit (after management expenses) dropped to US$ 41.26 million (2012: US$ 47 million). This was mainly due to higher management expenses, which have not been affected by the depreciation of African currencies as most of them are settled in US dollar. The combined ratio of 92.58% was slightly higher than in 2012 (91.60%).

The investment income of US$ 46.40 million in 2013 was comparable to the 2012 figure (US$ 48.78 million). However, the overall net profit dropped to US$ 84.80 million from US$ 92.64 million, representing a 8.5% decline.

This performance was achieved despite adverse circumstances similar to 2012, namely the significant depreciation of major operating currencies, rate cutting in some of our markets and change in reinsurance buying approach by some of our clients leading to lower reinsurance cessions. However, our underwriting discipline and focus on profitable business helped us to maintain a good underwriting profit ratio of 7.42% (2012: 8.40%). This ratio in addition to a return on investment of 4.54% resulted in a return on equity of 13.19% (2012: 16.99%), a figure still above the international reinsurance average of 9%, despite the increase in shareholders' funds by US$ 68.9 million during the year 2013.

The level of capitalization continued to increase due to receipt of the fourth capital increase payments (US$14 million) and retained profits (US$72.4million) from last year.

OUTLOOK FOR 2014

Improved Premium Income Growth and Stable Profitability Sustained by New Strategies from the 5th Strategic Plan for 2014-2018

The outlook for international non-life reinsurance industry in 2014 is stable as the conditions, which prevailed in 2013 are likely to recur. Non-life business constitutes about 95% of the Corporation's total premium income. Capital inflow from traditional reinsurers and alternative sources will continue while insurers are expected to retain more risk and adopt new buying strategies. In such an environment, market premium rates may fall. The only unknown remains the impact of catastrophe, which is normally felt a year later. Regarding interest rates, the financial markets and the global economy, no radical change is expected.

It is expected that in 2014, the African insurance and reinsurance industry will continue to grow in tandem with African economies (sub-Saharan Africa: 6.1%, North Africa: 3.3% and South Africa: 3.4%).

In Africa Re's core markets, although competition is likely to remain or even increase in some markets such as South Africa, it is expected that rates, terms and conditions will remain generally stable as witnessed during the December 2013 / January 2014 renewal process. There is no indication that claims experience will worsen significantly as much of Africa is not prone to major natural catastrophe activity. Even though there may be single large losses, the Corporation's highly diversified portfolio is resilient enough to produce a fairly good bottom line.
Another uncertainty is the fluctuation of African currencies against the Corporation's reporting currency, the US dollar. Indeed, before we find an available and affordable hedging strategy in the market, we will have to live with this risk facing all industry players operating with multiple currencies.

Considering the assumptions articulated above, in 2014 the Corporation's premium income is expected to grow steadily, while the combined ratio should remain stable at current levels, with a resultant satisfactory return on equity above 10%.

With a strong capitalization at hand, the Corporation will focus on implementing profitable expansion strategies by further penetrating existing and untapped markets within the framework of the 5th Strategic Plan for the period 2014-2018. The Corporation will more than ever before focus on enhancing internal competencies and reinforcing differentiation through the development of its distinctive competences.

II. OPERATIONS

This section examines the Corporation's operating results for the year 2013 compared to the performance of the previous year.

Africa Re has a network of offices in strategic locations on the continent. Each office caters for specific markets, thereby building durable and interpersonal relationships in every insurance market in Africa. The Corporation's proximity to clients as well as its commitment to distinction and best practices, places Africa Re in a vantage position to access directly widespread profitable business in Africa. Africa Re also writes business in 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 and Asia

Three wholly owned subsidiaries

- African Reinsurance Corporation (South Africa) Limited, Johannesburg, South Africa: handles South Africa and neighbouring markets;

- Africa Takaful Reinsurance Company Limited, Cairo, Egypt: handles African, Asian and Middle East Retakaful markets.
- Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited: Owns a building in South Africa

One local office

- Addis Ababa, Ethiopia.

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

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

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

DESCRIPTION (US$000)	2013			2012		
	GROSS	RETRO	NET	GROSS	RETRO	NET
INCOME						
Premium (less cancellations)	670,458	(101,318)	569,140	647,980	(61,537)	586,443
Change in unearned premium provision	(18,313)	5,235	(13,078)	(28,031)	1,170	(26,861)
Earnedpremium	**652,145**	**(96,083)**	**556,062**	**619,949**	**(60,367)**	**559,582**
OUTGO						
Losses paid	344,429	(16,378)	328,051	316,091	(10,477)	305,614
Change in outstanding claims provision (incl. IBNR)	(494)	(839)	(1,333)	50,283	(22,702)	27,581
Incurred losses	**343,935**	**(17,217)**	**326,718**	**366,374**	**(33,179)**	**333,195**

Premium Income

In 2013, the Corporation generated a gross written premium income of US$670.46 million (2012: US$647.98 million), exceeding 2012 production by 3.47%.

Development of Gross Premium

In 2005, Africa Re produced an income of US$255.12 million. By 2010, the Corporation had generated a further US$372.41 million in turnover culminating in a production income of US$627.53 million. The premium income growth during the period was due to the economic growth in many African States as well as the appreciation of the Rand in 2007, 2009 & 2010. Furthermore, the acceptance of Africa Re by many South African insurers further assisted in increasing turnover in 2009 & 2010.

However, from 2010 to 2013, the growth in premium income has been marginal due to depreciation of trading currencies, rate-cutting in many insurance markets and the slow growth in South Africa, the biggest income producer in the Corporation. In addition, there has been a deliberate effort over the past few years to cleanse the Corporation's portfolio of loss-making accounts. The future of the African economy is positive. Indeed, the World Bank predicts that the Sub-Saharan African economy would grow by 4.9% in 2013 and should rise to 5.3% in 2014 and 5.5% in 2015. In North Africa, the Algerian and Moroccan economies are expected to rebound from 2013 while Egypt, Tunisia and Libya are still facing some challenges. The Mauritian economy, which grew by

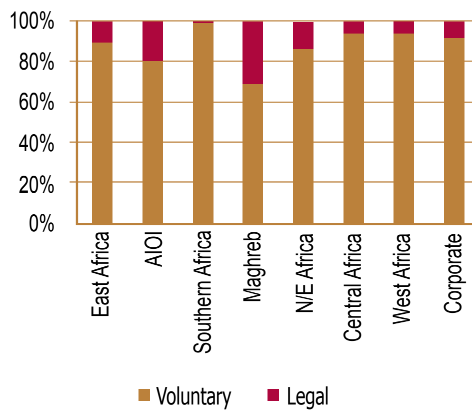
6.0% in 2012, is expected to slow down due to the narrow production base and weak domestic investment in the dominant mining sector.

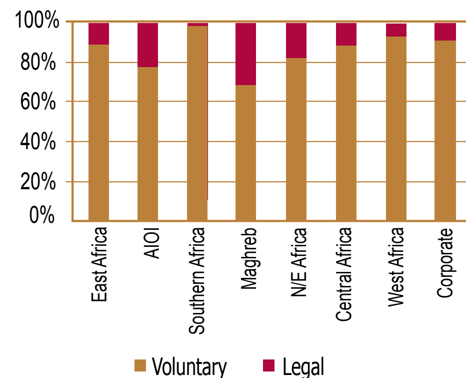
The insurance industry which has generally been profitable is expected to continue to support the economic growth of most markets in Africa. This is more so because many of these insurance markets are now liberalised and operating within regulatory frameworks aligned to international standards.

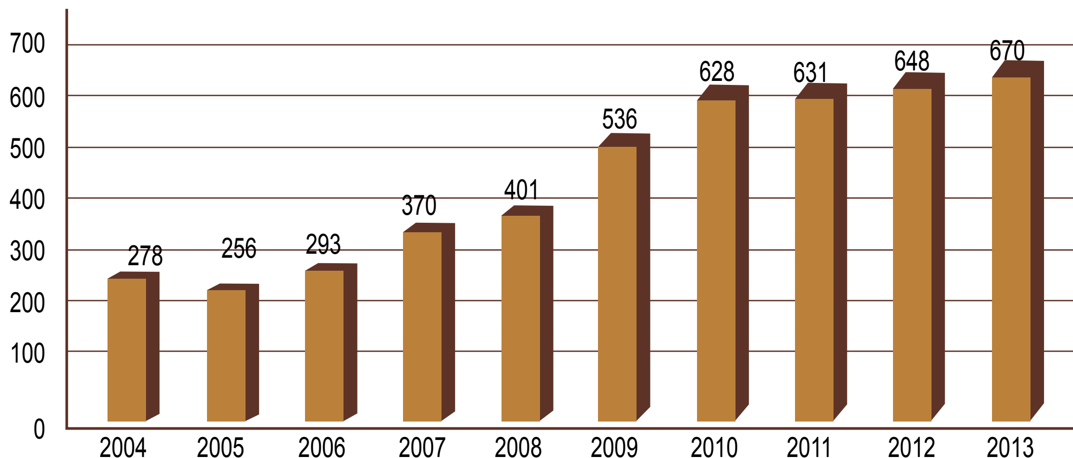
The Corporation is expected to continue to enjoy profitable results as it remains the reinsurer of choice on the continent, with its A- rating from AM Best and S & P.

Voluntary Cessions

Compulsory cessions tell the story of Africa Re's humble beginnings, when in 1976 it was granted 5% of every reinsurance treaty emanating from member States. This survival strategy deployed by the founding members was necessary because the African reinsurance landscape at the time was dominated by foreign reinsurers with long ties to the continent. Compulsory cessions, which made up 18.66% of the total premium income ten years ago, presently account for only 8.30%.







GEOGRAPHICAL DISTRIBUTION

Africa Re accepts businesses from Africa, Asia, the Middle East and Brazil from its network of six regional offices, two subsidiaries and a local office.

Southern Africa

The African Reinsurance Corporation, South Africa Ltd (ARCSA) oversees operations in Angola, Mozambique, Botswana and the rand zone from Johannesburg. Since its establishment in 2004, the subsidiary has been Africa Re's highest income contributor. However, between 2010 and 2013, ARCSA's turnover has consistently fallen from 41.56% (US$260.79 million) in 2010 to 28.81% (US$193.14 million) of corporate premium income in 2013. The reduction in production during the period was due to the depreciation of the rand against the US dollar (resulting in a loss in turnover of US$42.87 million in 2013), as well as intense competition and Management's decision to stop accepting certain types of risks.

East Africa

Production from this region increased from US$118.24 million in 2012 to US$139.48 million in 2013, resulting in a growth of 17.97% and representing 20.80% of the corporate income. This performance was driven by increased voluntary acceptances in most classes of business, especially from Kenya, Tanzania and Rwanda. This was achieved despite currency fluctuations translating into a loss of US$3.0 million.

Anglophone West Africa

The income from this region was US$111.52 million (2012: US$102.45 million). This increase over 2012 figures (8.85%) represents 16.63% of corporate production. The income growth was due essentially to increased acceptances from the Fire/ Engineering, Energy, Life and Marine classes.

Maghreb

The production of this region grew by just 2.6% from US$58.40 million in 2012 to US$59.96 million despite Algeria, Tunisia and Mauritania posting impressive income growth. This was due to a drop in income from Libya and a marginal premium growth from Maghreb's largest market, Morocco.

North-East Africa

In spite of currency depreciation in Egypt and Sudan, the domestic production from the Cairo Regional Office (US$42.43 million) was slightly higher than the previous year's income by US$0.98 million. The turnover from North-East Africa represents 6.33% of corporate production income.

Francophone West and Central Africa

The Abidjan Office is responsible for this predominantly French speaking region of West and Central Africa, which also includes Portuguese speaking Guinea Bissau and Cape Verde. The turnover increased tremendously from US$39.78 million in 2012 to US$63.73 million this year, representing 9.51% of corporate production. Energy premium income from the Republic of Congo and Gabon was the main driver of the performance of this region. The CFA Franc appreciated slightly by 1.5% during the period under review.

African Indian Ocean Islands

Income from the African Indian Ocean Islands reduced from US$13.62 million in 2012 to US$13.21 million in 2013. This production represents 1.97% of the Corporation's turnover. A drastic drop in income from Madagascar was mainly responsible for the decrease.

Africa Retakaful

The turnover of Africa Retakaful was US$27.28 million (2012: US$20.51 million). The production was achieved despite a loss of US$4.15 million from the depreciation of the Sudanese Pound and to a lesser extent the Egyptian Pound.

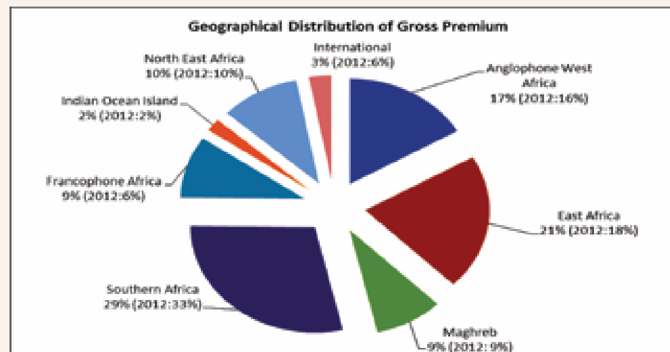
International Business & African Pools

Africa Re's income from international business fell from US$37.47 million in 2012 to US$19.70 million in 2013. The reduction in income was due to the on-going policy to cleanse the international portfolio of loss making business. The Middle East production of US$10.69 million was lower than last year's figure of US$20.86 million, while income

from Asia reduced from US$16.61 million in 2012 to US$8.01 million in 2013.

Production from the newly-entered Brazilian market was US$0.19 million.

The premium income due to Africa Re from the African Oil & Energy and Aviation Pools managed by the Corporation increased from US$428,452 to US$817,137. The increase in production was essentially a result of the growth in income of the African Oil & Energy Pool.



SECTORAL DISTRIBUTION

The Fire and Engineering class continued to produce the highest turnover with US$254.22 million, representing 37.92% of corporate turnover as against US$268.00 million or 41.36% in 2012. This was followed by the Accident and Motor classes which stood at US$210.17 million or 31.35% of corporate income (2012: US$204.58 million or 31.57%).

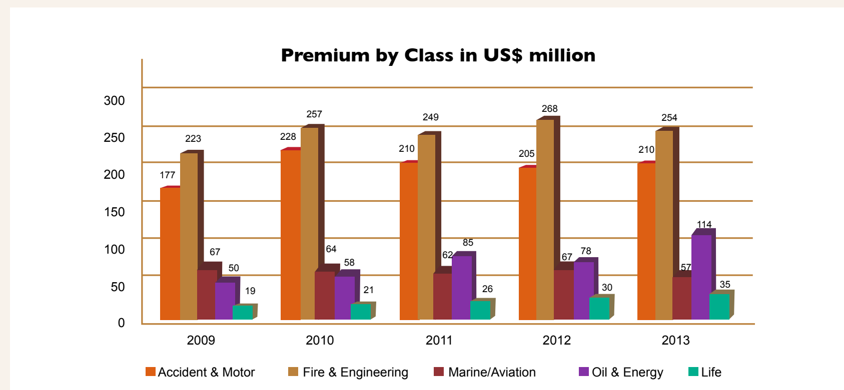
For the third consecutive year, the Oil & Energy class outperformed the Marine and Aviation class with a production of US$113.94 million or 16.99% of turnover (2012: US$77.92 million or 12.03%). The increase in income was due mainly to incomes from the following countries: Congo (+US$20 million), Equatorial Guinea (+US$3.3 million), Egypt (+US$3 million), Algeria (+US$1.6 million) and Nigeria (+US$1.4 million).

The Marine and Aviation class was fourth with US$56.91 million or 8.49% (2012: US$67.21 million or 10.37%) while the Life class followed with US$35.22 million or 5.25% of corporate production (2012: US$$30.27 million or 4.67%).

TECHNICAL EXPENSES

Losses

The total claims paid increased from US$316.09 million in 2012 to US$344.43 million in 2013. The claims paid ratio also
increased from 48.78% in 2012 to 51.37% in 2013. Incurred losses, which include movement in outstanding claims provision (US$0.49 million as against US$50.28 million in 2012), amounted to US$343.94 million (US$366.37 million in 2012).



The following table provides insight into the above mentioned indicators.

CLASS OF BUSINESS	REGIONAL BUSINESS			INTERNATIONAL INWARD			TOTAL CORPORATE		
	Incurred Loss	Earned Premium	Loss Ratio %	Incurred Loss	Earned Premium	Loss Ratio %	Incurred Loss	Earned Premium	Loss Ratio %
Fire/Eng	147.89	241.62	61.21%	6.70	11.10	60.39%	154.59	252.72	61.17%
Accident/Motor	118.79	195.65	60.71%	3.10	3.95	78.34%	121.88	199.61	61.06%
Energy	26.82	106.74	25.13%	1.22	3.24	37.62%	28.04	109.98	25.50%
Marine & Aviation	18.52	53.19	34.82%	4.20	4.46	94.24%	22.72	57.64	39.42%
Life	16.70	32.19	51.86%	-0.00	0.00	0.00%	16.70	32.19	51.86%
Total	**328.71**	**629.39**	**52.23%**	**15.22**	**22.75**	**66.90%**	**343.94**	**652.14**	**52.74%**

Loss Experience by Trading Area

The gross and net incurred loss ratios for the Subsidiary in South Africa decreased slightly from 71.61% and 74.16% in 2012 to 70.85% and 73.43% in 2013. The high loss ratio was the result of the general unfavourable weather-related claims environment and a large market Fire loss (Astrapak) which occurred in the 1st half of 2013. ARCSA's share of the loss was US$9.2 million.

The incurred gross loss ratio of the West Africa Regional Office decreased from 79.17% in 2012 to 44.64% in 2013. The net incurred claims ratio also decreased from 70.26% in 2012 to 51.90% in 2013. The incurred loss ratios (gross and net) from East Africa increased from 43.39% and 44.21% respectively in 2012 to 53.64% and 55.46% in 2013. The increase in claims ratio was as a result of a rise in medical expense claims from the Kenyan market.

The Maghreb region's gross and net loss ratios decreased from 54.37% and 58.25% in 2012 to 43.97% and 42.58% respectively in 2013. The incurred loss ratios of North East Africa reduced from 56.12% (net: 60.13%) in 2012 to 42.48% (net: 47.37%) in 2013. The gross and net incurred claims ratio of the Francophone West and Central Africa moved from 20.11% (net: 23.27%) in 2012 to 19.92% (net: 35.83%). The relative increase of the net loss ratio (which remains very good) was due to a fire loss in a perfume factory (Gandour) in Abidjan, Côte D'Ivoire. for which a reserve of US$9.2 million was constituted.

The gross claims experience of the African Indian Ocean Islands increased from 16.28% in 2012 to 60.89%. Hence, the net incurred claims also increased from 16.65% to 65.77% in 2013. The increase was due to major losses (including flash floods) that hit Mauritius in March 2013. Africa Re's share of these losses was about US$3,500,000.

The incurred claims ratios of Africa Retakaful Company increased from 35.30% to 48.10% (gross) and 36.83% to 51.81% (net). This was mainly due to increase of IBNR as a result of premium growth (+US$1.1 million) as well as a few medium sized Fire and Aviation losses emanating from Egypt, Sudan and Kuwait. The incurred loss ratios for international operations increased from 65.55% in 2012 to 66.90% (gross) and 63.52% in 2012 to 69.48% (net). The premium base is shrinking, making the international market less diversified and very sensitive to claims when they occur.

Commissions and Charges

During the period under review, gross commissions and charges including movement in deferred acquisition costs amounted to US$164.48 million (2012: US$157.07 million), while recoveries from retrocessionaires stood at US$10.55 million (2012: US$8.62 million). Accordingly, net commissions and charges increased from US$148.45 million in 2012 to US$153.93 million in 2013. The net acquisition ratio remained stable at 27.7% (2012:26.5%).

III. INVESTMENT INCOME

Portfolio Performance

The global economy had a good year in 2013. After years of lagging behind in economic growth compared to many emerging economies, some advanced economies in 2013 showed signs of leadership. The 2013 performance reflected somewhat of a role reversal as, in the recent past, it had been the emerging market economies that propelled the financial markets. But by close of 2013, even the euro zone that started the year on an erratic recovery saw its economy beginning to show a consistent growth.

During the year 2013, two major global events helped boost investors' confidence. The fear of the euro zone breakup abated and the zone finally crawled out of recession. In the United States, the Federal Open Market Committee (FOMC) in December confirmed the Federal Reserve's decision to trim its quantitative easing program. During the second quarter, rumours of the quantitative easing caused interest rates to trickle up resulting in depressed bond values.

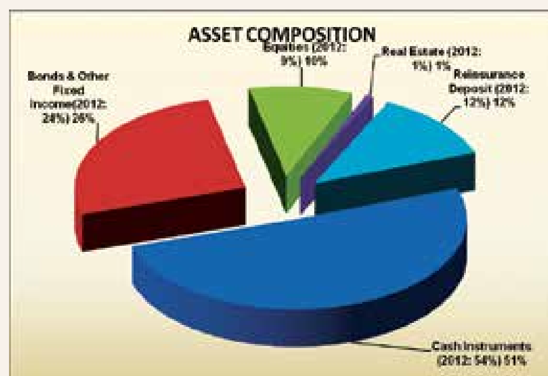
The tapering announcement in December 2013 was broadly welcomed by equity investors. Investors viewed the Federal Reserves' decision as a positive signal about the strength of the US economy. As a result, the US equities rose during the last month of the year to record its best one-year performance in the past five years. In the Euro zone, a period of relative financial calm and economic stabilization led to increased capital flows into the region. However, while the peripheral economies improved, there were worrying signs about France which saw its sovereign rating dropped to AA by Standard and Poor's based on lack of economic reform.

2013 was a tough year for bonds. Investors lost money in investment grade corporate bonds, long-term Treasury bonds and gold. Yields in almost all sectors of the bond market were at or near record lows. The volatility in Treasuries trickled down into every sub-asset class (Corporates and Preferreds) with the exception of the "equity-like" sectors such as Convertibles and US High Yield.

Within the sub-Saharan Africa (SSA) region, IMF estimates GDP growth rate for 2013 to be about 5%.The IMF expects key drivers of the growth in 2013 to be strong investment demand as well as improving productive capacity. Major African equity markets also recorded positive returns. Nigeria, Kenya and South Africa recorded the following returns: Nigeria All Shares Index (ASI) 47.19%, Nairobi ASI 19.2% and South Africa Top40 22.8%.

The Corporation's financial assets grew by 2.48% from US$ 1,008.63 million in 2012 to US$ 1,033.61 million in 2013 despite the negative impact of the depreciation of major African currencies against the US dollar in particular, the South African rand. During the year, the Corporation increased the funds under management with UBS-US, UBS-UK, ARM and Pinebridge. It also built a "Held to Maturity" portfolio that is to be invested in only "AA" or better rated fixed income securities with RBC.

The Corporation recorded a marginal decrease in its total investment income plus other income by (-4.90%) to attain US$46.40 million compared to US$48.79 million achieved in the previous year. The breakdown of the investment income reveals that return on cash and cash equivalents amounted to US$12.64 million compared to US$17.03 million recorded last year. There was a deliberate effort during the year to reallocate some funds from the cash instruments to equities and fixed income instruments. The effort paid off as equities posted income and realized/ unrealized gains of US$17.39 million compared to the US$11.78 million recorded same period last year. However, the fixed income portfolio did not fare as well due to concerns over the US Federal Reserve tapering and recorded US$10.50 million as against US$14.46 million in 2012. Earnings from reinsurance deposit ofUS$2.30 million was same as last year's figure of US$2.31 million while rental income of US$2.51 million was substantially higher than the figure for 2012 (US$2.08 million).



ASSET COMPOSITION

The Corporation ended the year with a total investment portfolio value of US$1,041.293 million (inclusive of property) compared to US$1,016.47million as at 31 December 2012. This 2.4% growth rate in the investment portfolio was attained despite the negative Currency Translation Adjustment (CTA) of US$43 million recorded during the year. Operational cash flow surplus generated during the year and a decent investment income less the currency translation loss account for the growth in investment assets. The South African rand that depreciated by 23.4% against the US dollar in 2013 was mainly responsible for the currency translation loss.

The investment portfolio allocation remains broadly in line with the investment policy document that seeks to offer diversification and minimization of risk while providing the needed liquidity and security.
Cash instruments continue to dominate the asset composition, accounting for 51%, 300 basis points lower than the year before (2012: 54%).This asset class is invested primarily in treasury and other money market securities with highly-rated counterparties. Bonds and other fixed income securities follow suit at 26%, up from the 24% recorded last year while the composition of the equity portfolio moved up 100 basis points to 10% at the end of the year.

Unlisted Equities

The Corporation continues to support the socio-economic development of Africa by, among others, allocating its long term equity investments to African entities or those contributing directly or indirectly to the growth of economic activities on the continent. During the year, the Corporation made a commitment of US$1 million in one new private equity fund, African Agricultural Fund (AAF). An additional commitment of US$1.4 million was made to Advanced Finance Investment Group (AFIG) fund following the capital increase conducted by the General Partner of the Fund. Additionally, the Board decided to retract an earlier commitment of US$10 million to ADCII Fund following the receipt of unsavoury news about the sponsoring company ADC. Finally, the Board reclassified one investment earlier considered private equity as a wholly-owned subsidiary. Accordingly, the Corporation's total commitment to private equity investments as at December 31, 2013 decreased to US$26.46 million from the US$36.30 million reported last year and invested in 17 companies.They include two (2) international development finance institutions, four (4) insurance companies, a computerization project sponsored by African Insurance Organization (AIO), a pension fund administration company, eight (8) privately managed equity funds and a private healthcare facility.
Cumulative disbursements in respect of the private equity portfolio increased by US$0.53 million to reach US$14.89 million (2012: US$14.36 million), primarily as a result of capital calls by Atlantic Coast Regional Fund (ACRF), Emerging Capital Partners (ECP), Capital Alliance Private Equity III (CAPE III), the reclassification and a return of capital from Carlyle. On a net asset basis, the portfolio is valued at US$18.61 million as at 31 December 2013 (2012: US$19.86 million) and gives a multiple of 1.25 times invested capital.

An amount of US$1,139,238 (2012: US$970,702) was realized as dividend payments during the year primarily from ARM Pension managers, Afreximbank, Shelter Afrique and CAPE III.

Rental income from the Corporation's three office buildings in Lagos, Nairobi and Casablanca recorded a significant increase of 21.0% to record US$ 2.51 million compared to the US$ 2.08 million recorded in 2012.

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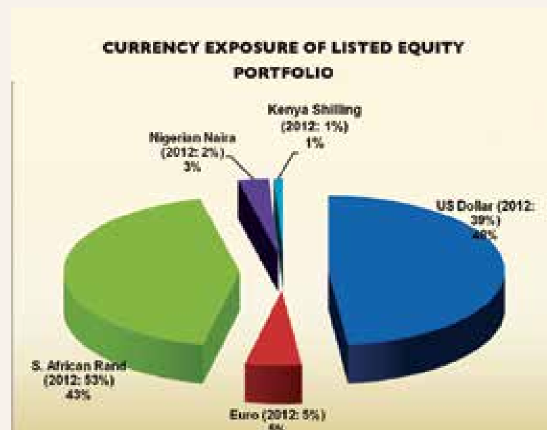
Equities

In 2013 global equities rallied. The MSCI AC World Index was up by 23.4% on a total return basis, the highest one-year return since 2009. The US was the best performing region as economic data improved. Developed Markets significantly and consistently outperformed Emerging Markets over the course of the year. The US rallied (+32.4%) including dividends, as macro data improved. New economic policies fuelled a strong rally in Japan equities (+27.4%) and Europe bounced (+26%) as the continent emerged from recession. Emerging Markets which has hitherto been the driver of global economic recovery registered a performance of -2.3%.

African markets were not left out of the remarkable global equity performances. Nigeria ASI, Nairobi ASI and South Africa Top40 recorded the following returns: 47.19%, 19.2%, and 22.8% respectively.

Following the impressive performance of the equity markets during the year, the Corporation's actively managed equity portfolio generated an impressive performance of US$17.39 million, as compared to US$11.78 million recorded in the previous year. Furthermore, dividend income for the year grew significantly to record US$2.46 million (2012: US$1.72 million); the portfolio generated unrealized gain of US$11.94 million compared to US$7.74 million posted last year.



Bonds and Other Fixed Income

The year 2013 was very difficult for the bond market as concerns that the US Federal Reserve would taper its quantitative easing caused investment grade and long-dated bonds to experience their worst loss since 1994. For investment grade bonds, the performance represented the first loss since 1999 and only the third time in 34 years that the asset class has finished the year with a negative performance. Only high yield and short term bonds finished the year in positive territory. Barclays US Aggregate Bond index recorded -2.02% during the year while Barclays US Government Long Index and Barclays 1-3 year US Government Index posted yields of -12.48% and 0.37% respectively.
The composition of the bonds and fixed income securities in the investment portfolio increased by 200 basis points to 26%as part of the continuous reallocation of the investment portfolio with a corresponding value of US$274.28 million (2012: US$248.96 million). The performance of the externally managed North American US dollar bond portfolio posted a yield of 2.14%, compared to the benchmark index return of 2.68%, while the performance of the South African rand portfolio fell short by 200 basis points of its benchmark to record 5.60%. .

In the light of the volatility of the current global financial market, the Corporation continues to place much emphasis on security and liquidity. Accordingly, the overall portfolio remained well diversified across sectors, issues, maturities, markets and managers. The average duration is still less than five years, while weighted average rating stood at A+. The Corporation continues to categorize US Government Treasury securities as AA rated following the credit downgrade of the US Government two years ago.

Consequently, the portfolio is made up of 4% AAA rated bonds, 17% AA rated bonds and 51% A rated bonds as at the end of the year compared to 6%, 19% and 57% respectively as at end of 2012. The non-investment grade bonds are African sovereign and corporate issues which the Corporation holds in line with its developmental mandate. Management will continue with the conscious effort to maximise the return of the portfolio with due regard to the credit quality.

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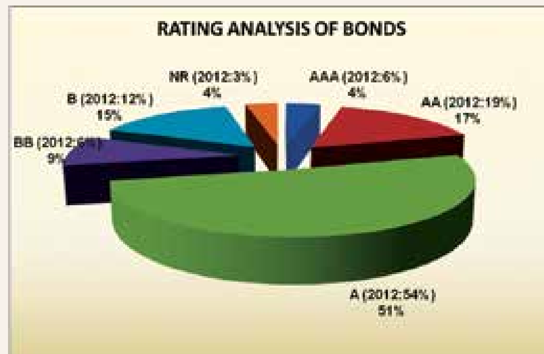

Cash Instruments

Cash instrument portfolio, not surprisingly, dominates corporate investment income as it constitutes the largest asset class in the overall asset allocation. The return on this asset class was minimal compared to the other asset classes. Nevertheless, the Corporation maintains a sizeable amount in this asset class in order to meet its liabilities as they fall due. Income from cash and cash instruments stood at US$12.64 million, considerably lower than the previous year's figure of US$17.03 million as a result of the Corporation's deliberate effort to reallocate funds from this asset class to other asset classes (equities and fixed income).

Other Operating Income

Other operating income comprises predominantly fees from the management of the African Oil & Energy and Aviation insurance pools. Fees earned during the year amounted to US$0.61 million, which is considerably lower compared to the US$1.07 million earned in 2012. This is because of adjustment from 2012 other income reconciliation.

IV. RESULTS OF THE 2013 FINANCIAL YEAR

Gross written premium grew slightly by 3.47% from US$647.98 million in 2012 to US$ 670.46 million. This moderate growth confirms the trend observed in the last three years: a relatively slow growth due to the combined effect of the depreciation of the major transaction currencies of the Corporation and a stiff competition in its main markets namely: South Africa, East Africa and Anglophone West Africa. The Corporation's performance during the year under review is 5% above the projection in the corporate five year plan and is in line with Management's will to scale down the loss-making international business portfolio.
The Corporation's retrocession policy continues to rely on Excess of Loss programmes to protect its traditional acceptances, while purchasing additional covers for the major oil and petrochemical risks as well as other special risks. Accordingly, premium ceded to retrocessionnaires on proportional and non- proportional business increased by 60% from US$60.37 million last year to US$96.08 million representing a retention ratio of 85.27% (2012: 90.36%). The increase in premium ceded is mainly due to the new retro programme with MISR in Egypt and the new fac business of Total Congo.

Adjustment for the movement in the provision for unearned premiums, net of retrocessionnaires' share thereof, produced a net earned premium of US$556.06 million (2012: US$559.58 million).

Gross claims paid in 2013 amounted to US$344.43 million compared to US$316.09 million in 2012, representing an increase of 8.96%. Of the total losses paid, US$16.38 million (2012: US$10.48 million) was recovered from retrocessionnaires, resulting in net losses paid of US$328.05 million, compared to US$305.61 million in 2012. The adjustment for the movement in the outstanding claims (including Incurred But Not Reported - IBNR) provisions resulted in a net incurred loss of US$326.72 million, compared to US$333.19 million in 2012, representing a claims ratio of 58.76% (2012:59.54%).

Management expenses for the year amounted to US$34.16 million in 2013, representing an increase of 10.50% compared to US$30.91 million in 2012 as a result of an improvement in both the remuneration and cost of living allowance for staff. Consequently, management expenses ratio rose to 6.14% in 2013 up from 5.52% in 2012.

Despite the recovery of global financial markets, income earned by the Corporation from investment and other sources, including interest on reinsurance deposits and fee income decreased by 4.90% to stand at U$46.40million compared to US$48.78 million in 2012, mainly due to the underperformance of the fixed income portfolio.
Profit after tax amounted to US$84.80 million in 2013 compared to US$ 92.65 million in 2012, representing a 8.47% 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 unappropriated profits be distributed as follows:

- US$42, 400,338.96 to the general reserve in accordance with Resolution No. 4/1992;

- US$13, 224, 183.75 to be paid as dividend at the rate of US$4.5 (2012: US$4.5) per subscribed and paid-up share of US$100 par value. Shares paid in 2013, by the end of May, within the framework of the capital increase will earn 100% dividend per share. There shall be a discounted rate for shares paid after this date.

- US$8, 000, 000 to be transferred to the reserve for loss fluctuation;
- US$1,696,013.56 to be transferred to a Corporate social responsibility fund; and
- The balance of US$19,480,141.66 to be added to retained earnings.

VI. CAPITAL MANAGEMENT

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

It is worth mentioning that the successful fourth capital increase improved the Corporation's solvency position in 2013 thereby ameliorating the capital adequacy ratios.
The capital needs of the Corporation are assessed with the aid of an internal risk-based capital model and external proprietary rating models.

1. Financial strength ratings and external capital adequacy

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

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

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

- **Standard & Poor's Model:** The required capital covers insurance, investment and credit risks and is assessed by applying predetermined factors to the insurance premium, technical provisions and investments. Investment and credit risks carry relatively much weight even if insurance risks predominate.

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

As at 31st December 2013, the Corporation has a strong capitalization under the capital adequacy requirements of the two (2) rating agencies.
Standard & Poor's affirmed the Financial Strength and the Counterparty Credit Rating of Africa Re on July 12, 2013.
The rating reflects the following view by Standard

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& Poor's: Africa Re has a satisfactory business risk profile and strong financial risk profile, built on its highly diverse premium and strong franchise within the African reinsurance market, as well as its very strong capital and earnings.

A.M. Best affirmed the rating of Africa Re on June 20, 2013. According to A.M. Best, the ratings of African Reinsurance Corporation (Africa Re) reflect its strong risk-adjusted capitalisation and operating performance, as well as its established market position across the African reinsurance market.

2. Africa Re's internal capital adequacy

Africa Re's capital management aims to ensure our ability to continue operations following an extremely adverse year of losses from our core business and financial market events. In the in-house model, the required capital is assessed by mathematical simulation of extreme losses that the Corporation can incur due to its exposure to insurance and investment risk.

As at 31 December 2013, the shareholders' funds amount to US$677,538 million and the required capital is estimated at US$232,767 million, resulting in an internal capital adequacy of 291.08%

Africa Re's Financial Strength Ratings

Rating Agency	Financial strength rating	Counterparty/ issuer credit rating	Outlook	Last press release/ report
Standard & Poor's	A-	A-	Stable	July 12, 2013
A.M. Best	A-	a -	Stable	June 20, 2013

VII. ENTERPRISE RISK MANAGEMENT (ERM)

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

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

1. Risk Governance

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

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

Through the current risk governance structure, the Corporation recognizes the importance of an integrated approach by assigning the Corporation-wide risk management responsibility to senior

management with access to the Risk Management and IT Governance Committee of the Board

Key Risk Management Bodies and Functions

Board of Directors			
Risk Management and IT Governance Committee of the Board			
Executive Management			
Risk Management Committee	Investment Committee	ICT Steering Committee	Special Risks Committee
Chief Risk Officer			
Risk Management function			

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

- The day-to-day risk management and management control line, where staff and Management have direct responsibility for the management and control of risk;
- The risk oversight, policy and methodologies line, where the concerned staff co-ordinate, facilitate and oversee the effectiveness and integrity of Africa Re's risk management framework; and
- The independent assurance line, where control departments in charge of internal audit and technical inspection and external auditors provide independent assurance across all business functions in respect of the integrity and effectiveness of the risk management framework.

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

2. Risk Landscape

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

Group 1- Insurance risk: The risk of loss due to inherent uncertainties arising from amount and timing of insurance liabilities.

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

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

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

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

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

3. Risk Management Processes

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

Financial Risks

Insurance, credit, liquidity and market risks have been classified as financial risks. The management of these risks is covered under "Management of Insurance and Financial Risks" (Pages 70 to75).

Operational Risk

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

Within this framework, Africa Re has eight sub-

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categories of operational risk: people, processes, systems, external events, reputational, legal, strategic and capital adequacy. The detailed risk categorization is set out in the Corporation's Risk Policy Document and Risk Register.

Africa Re is committed to properly mitigating and managing its exposure to operational risks. Dedicated officers (Risk Champions) from production centres are responsible for overseeing the management of operational risks which arise in their area of control. The Corporation applies a centrally coordinated methodology to identify and assess risks through the use of an effective Operational Risk Solution, an IT platform called ARC Logics (Sword)

The Operational Risk Solution assists the Corporation in implementing the tools and techniques provided in the Group Operational Risk Policy Document: Risk and Control Self-Assessment (RCSA), Internal Loss Data Capturing, Key Risk Indicators (KRIs), Stress and Scenario Testing, etc. It is used in the Corporation's head office and production centres. The modules installed include the Platform, Risk & Control Assessment, Loss & Incident Recording, Control Assurance and Enterprise Reporting.

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

4. Risk Modelling

Financial Modelling

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

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

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

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

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

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

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

Catastrophe Modelling

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

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

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

5. ERM Evaluation by Rating Agencies

Enterprise Risk Management in Africa Re received ratings from two top rating agencies in 2013, namely: A.M. Best and Standard & Poor's. Some excerpts from the ratings are as below:

A.M. Best: Adequate

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

Standard & Poor's: Adequate

"Our assessment of ERM as adequate reflects our opinion that the company has appropriate risk-management controls, tools, and culture in place to manage the risks it undertakes. The importance of ERM to the rating is low, mainly because of the company's limited exposure to natural catastrophes and as we note that it has excess capital relative to risks."

VIII. CORPORATE GOVERNANCE

1. Overview

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

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

2. Corporate Governance Framework of Africa Re

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

- Agreement Establishing the African Reinsurance Corporation, defining the ownership, administration and governance structure;
- Procedure for Proposing and Introducing Amendments to the Agreement;
- General By-Laws defining the General Regulations and the Rules of Procedure of the General Assembly;
- Rules of Procedure of the Board of Directors;
- Rules for Election of Directors;
- Code of Ethics, which lays down rules, behavior 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 has been comprehensively reviewed in the last financial year by a reputable consultancy firm. This review referenced the underlying concepts of the South African King III Report and global best standards in the area of the governance of major international reinsurers and major development finance institutions. The following are some of the initiatives adopted to enhance the corporate governance in place:

- New Board Charter integrating the latest best practices in board functioning;
- Revised Terms of Reference of all Board Committees.
- Separation of the "audit" function and the "risk management" function of the "Audit and Risk"

Committee of the Board by the creation of two different committees namely:

- Audit and Finance Committee
- Risk Management and IT Governance Committee
- Extension of the scope of the "Remuneration" Committee of the Board, in charge of defining the compensation system of the elected

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Management members, to cover all other Human Resources Affairs of the Corporation. Hence the creation of the:

- Human Resources and Remuneration Committee
- Regular formal Board Evaluation;
- Reinforcement of the Declaration of Interest by the Board Directors;

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

3. Shareholding and Board of Directors

3.1. Shareholding Structure as at 31 December 2013

Shareholder	Number of Shares	%
41 Member States	986,627	33.55
African Development Bank (AfDB)	240,000	8.16
101 African Insurance and Reinsurance companies	963,778	32.78
5 Non-African shareholders: 4 Development Financial Institutions (IFC, DEG, FMO, PROPARCO) plus IRB Brasil-Re	750,000	25.51
Total shares	**2,940,405**	**100.00**

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

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

The authorized capital of the Corporation amounts to US$ 500,000,000 as at 31 December 2013 with US$ 294,040,500 fully paid-up. The capital is divided into 2,940,405 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 expected rapid economic growth in its core market, the much awaited hardening of the reinsurance market following the ongoing long low cycle and the consistently strong/excellent financial rating of the Corporation that is unique in the African insurance/reinsurance industry.

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

It is expected that the current capital increase shall be closed by 31 May 2014, leaving the Corporation with a strong paid up capital. As at 31 December 2013 the Corporation recorded shareholders' funds of US$ 677 million and an international solvency ratio of 119 %.

3.3. Board of Directors – Composition

The Board of Directors, currently chaired by Mr. Hassan BOUBRIK, comprises 12 substantive members whose particulars are as follows as at 31 December 2013. Directors are elected for a term of three years and may be re-elected. They shall continue in office until their successors are elected.

Name & Nationality	Constituency (*)	Position in the Board & Short Biography	Current term ends in
Mr. Hassan BOUBRIK Moroccan	Morocco: State* and Companies	**Chairman, Africa Re** Currently the Director of Insurance & Social Welfare, Ministry of Finance & the Economy, Kingdom of Morocco He is a graduate in Finance and Actuarial Science. He is in charge of insurance supervision. He previously served as CEO of a major finance conglomerate in Morocco.Apart from his many Board positions, he is an Executive Committee member of the International Association of Insurance Supervisors (IAIS).	June 2014
Mr Yewondwossen Kumsa ETEFFA *Ethiopian*	East and Southern Africa and Sudan (12 States)	**Vice Chairman and Chairman of the Remuneration Committee, Africa Re** Currently the CEO of the Ethiopian Insurance Corporation, Addis Ababa, Ethiopia He holds a degree in Business Administration and is a chartered insurer. He was the Director of Insurance Supervision at the National Bank of Ethiopia, the financial services regulatory body in Ethiopia.	June 2014
Dr Mohamed Ahmed MAAIT *Egyptian*	Egypt: State and Companies	**Director and Member of the Risk Management & IT Governance Committee, Africa Re** Currently the Deputy Chairman of the Egyptian Financial Supervisory Authority (EFSA). He has a first degree in Insurance and Mathematics, M.Phil in Insurance, Masters and PhD in Actuarial Science. He is currently a visiting lecturer in different universities in Egypt. He is also the chairman of Egyptian GAD, member of several government committees and Board member of several companies in Egypt.	June 2015

Name & Nationality	Constituency (*)	Position in the Board & Short Biography	Current term ends in
Mr Moussa DIAW Senegalese	Companies of Francophone West and Central Africa plus Mauritania & Tunisia (States and Companies)	**Director and Member of the Audit and Finance Committee, Africa Re** Currently the Managing Director, Sen Re, Dakar, Senegal. He is a graduate in Economics and holds professional insurance qualifications. He has been in the current position since 1988 with a chequered professional insurance career spanning nearly four decades and multiple Board-level appointments. He holds the Senegalese national honour of the Order of the Lion.	June 2015
Mr Mamadou DEME Senegalese	Francophone Africa (18 States)	**Director and Member of the Risk Management & IT Governance Committee, Africa Re** Currently the Commissioner for Insurance, Ministry of Finance, Republic of Senegal. He holds professional insurance qualifications and a Master's degree in Business Law. He serves as part-time Lecturer in Insurance He is a chartered insurer and holds degrees in the fields of Economics and Finance.	June 2015
Mr. Kamel MARAMI Algerian	Algeria: State and 4 companies	**Director, Africa Re** Currently the Director of Insurance, Ministry of Finance, Algeria. He is a chartered insurer and holds degrees in the fields of Economics and Finance.	June 2015
Mr. Basiru NJAI Gambian	Anglophone West Africa (4 States and Companies) and East and Southern Africa (Companies)	**Director and Member of the Remuneration & HR Committee, Africa Re** Currently the First Deputy Governor, Central Bank, Banjul, The Gambia He holds a first degree and two Master's degrees in the fields of Agricultural Economics, banking and finance. He oversees the financial supervision, foreign exchange, insurance and microfinance functions.	June 2014

Name & Nationality	Constituency (*)	Position in the Board & Short Biography	Current term ends in
Mr. Fathi Sanoussi Guma BALA Libyan	Libya: State and Companies	**Director and Member of the Remuneration & HR Committee, Africa Re** Currently a member of the Board of Directors of the Libyan Insurance Company. He Holds a first degree in Finance and Insurance. He sits on other Boards including Ajma'a Bank. He has lectured at the Maritime studies.	June 2015
Mr Fola DANIEL *Nigerian*	NIGERIA: State and Companies	**Director and Chairman of the Risk Management & IT Governance Committee, Africa Re** Currently the Commissioner and CEO of the National Insurance Commission, Abuja, Nigeria. He holds a diploma in Insurance & Risk Management, and is a chartered insurer and qualified management professional. He supervises the insurance industry in Nigeria prior to which he served as CEO of another reinsurance company.	June 2015
Mr Pierre VAN PETEGHEM *Belgian*	African Development Bank (AfDB)	**Director and Member of the Audit and Finance Committee, Africa Re** Currently the Group Treasurer of the African Development Bank Group, Tunis, Tunisia He holds a first degree in Mechanical Engineering, Master's degree in Management and a PhD degree in Economics. He has extensive experience with multilateral development finance institutions	June 2015
Mr Bernd TUEMMERS *German*	German Investment and Development Corporation (DEG)	**Director and Member of the Audit and Finance Committee, Africa Re** He is a former Senior Vice President, DEG, Cologne, Germany. He holds an MBA in marketing, organization and social psychology. He is an accomplished investment manager and business administrator. He retired recently and has served on the Boards of many companies in which DEG had equity interest.	June 2015

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Name & Nationality	Constituency (*)	Position in the Board & Short Biography	Current term ends in
Mr John BURBIDGE British	International Finance Corporation (IFC)	**Director and Chairman of the Audit & Finance Committee, Africa Re** He is a chartered accountant and retired business executive, having served as CEO in a number of quoted companies. He is a qualified Fellow of the Institute of Chartered Accountants in England and Wales. He currently serves as non-executive director in many quoted and unquoted companies in diverse business fields	June 2014

(*) "States" are 41 African member states signatories of the Agreement Establishing the Corporation while "Companies" are insurance and reinsurance companies registered in African countries

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

- Ten (10) for Class "A" Shareholders (41 African member States, AfDB and 110 African insurance and reinsurance companies), with AfDB entitled to a permanent seat.

- Two (2) for Class "B" Shareholders (4 non-African Development Finance Institutions)

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

3.4. Board of Directors – Committees

The Audit & Finance Committee comprises 4 Directors and is chaired by an Independent Non Executive Director. Mr. John Burbidge is the current Chairman. The 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 efficacy of the system of internal control. In addition, it evaluates the external auditors, approves the audit plans of the Group internal audit and the external auditors and discusses their findings. The committee meets at least twice a year.

The Remuneration & HR Committee is chaired by the Vice Chairman of the Board and comprises 3 Directors. The current Chairman is Mr. Yewondwossen K. ETEFFA. The Committee proposes to the Board the principles for compensating executive management and establishes performance criteria for the different members of the executive. It also reviews the conditions of service of Management on a yearly basis, guided mainly by criteria of the best employer/payer, taking into account the practice of companies of comparable rank and standing, as well as the financial means of Africa Re. The committee meets at least twice a year.

The Risk Management & IT Governance Committee comprises 3 Directors. The current Chairman is Mr Fola Daniel. The Committee assists the Board in ensuring that a strong risk management practice is properly entrenched in the Corporation and also 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.

3.5. Board of Directors – Activities in 2013

The Board of directors met four times in 2013. The first meeting was held in Johannesburg, South Africa on 8 April 2013. The second and third meetings were held in Dakar, Senegal on the 18 and 20 June 2013 and the fourth was held in Lagos, Nigeria on 11 November 2013. The average attendance rate was 98%.

4. Executive Management

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

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

Corneille KAREKEZI, Group Managing Director / Chief Executive Officer

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

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

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

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

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

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

Since joining the Corporation in 1985, Mr Ken AGHOGHOVBIA worked in different capacities before rising to the position of Regional Director of the West Africa Regional Office. He was the pioneer Regional Director of this Office when it was established in 2009 and played a pivotal role in the turnaround of the fortunes of the Regional Office, African Oil and Energy Pool and the African Aviation Pool.

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

He has been a member of various regional professional committees.

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

5. General Assembly

5.1. General Assembly Meeting

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

5.2. Voting Right & Representation

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

5.3. Statutory quorums

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

5.4. Convocation & Agenda of the General Assembly

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

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

IX. COMPLIANCE

As part of an effective system of risk management and internal controls in the Corporation, control functions were established which include risk management, actuarial services, internal audit and compliance. The compliance function was developed recently in order to complete the essential pillars of a strong risk management system.
The Compliance function enhances governance, checks and balances and provides support to the Board in the fulfilment of its oversight duties.
Even though the parent company is not subject to any regulatory compliance requirements, its subsidiary African Reinsurance Corporation South Africa (ARCSA) is mandated to comply with all applicable regulatory requirements in South Africa. The Group compliance function reviews requirements of any applicable rules and regulations in order to assess compliance levels and issues and report to Executive Management and the Board.
Consequently, through this function the Corporation monitors and ensures compliance on all issues Africa Re has subscribed to contractually. These are mainly:

- Anti-Money Laundering/Combating Terrorist Financing
- Sanctionable practices
- Social and Environmental Laws
- Exclusions list
- UN Security Council Resolutions
- Reporting covenants
- Insurance of Officers
- Regulatory Requirements

X. CORPORATE SOCIAL RESPONSIBILITY

One aspect of the vision of Africa Re is to be an excellent corporate entity that promptly meets all obligations to stakeholders. Corporate social responsibility has thus been taken to the markets in which the Corporation operates.

Africa Re has strategies to meet all the expectations of stakeholders including member countries by performing social and developmental missions through the CSR programme. In 2013, the Corporation organised seminars and workshops on insurance, reinsurance, risk management and

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governance. Technical assistance, especially training in special risks, was provided to ceding companies.

In addition to the many social and environmental activities realised so far by the Corporation, the Board decided in November 2013 to henceforth allocate a maximum of 2% of Africa Re's profit after-tax to CSR activities.

The Board has approved two CSR projects as part of the 5th Strategic Plan 2014-2018 of the Corporation: the African Insurance Awards and the Training of Young Insurance Professionals. These projects have strategically been selected to address one of the Corporation's missions namely, "to foster the development of the insurance and reinsurance industry in Africa". The projects are expected to have immediate positive impacts in the insurance industry in Africa.

A Trust Fund will be set up to finance the CSR projects of the Corporation. A maximum contribution of 2% of the Corporation's net profits will be paid every year into the fund. This allocation will be supplemented by partners' contributions in their areas of intervention. The Fund shall be incorporated as a Trust managed by a Board of Trustees.

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RESPONSIBILITY FOR EXTERNAL FINANCIAL REPORTING

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

Management responsibility regarding Effectiveness of Internal Controls over Financial Reporting

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

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

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

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

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

In addition, Management is developing a risk management profile that would continue to ensure effective coordination and monitoring , within the Group , of all the risk management policies approved by the Board of Directors and/or by the Executive Management such as underwriting

and reserving policies , staff rules and regulations, investments policy guidelines and the accounting and financial procedures.

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

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

HASSAN BOUBRIK
Chairman

CORNEILLE KAREKEZI
Group Managing Director/CEO

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
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Waiyaki Way, Muthangari
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFRICAN REINSURANCE CORPORATION

We have audited the accompanying consolidated financial statements of African Reinsurance Corporation set out on pages 40 to 79 which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the Group as at 31 December 2013 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards.

The engagement partner responsible for the audit resulting in this independent auditors' report is J W Wangai – P/No 1118.

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya
23 May 2014

Consolidated Statement of Financial Position

as at 31 December 2013

	Notes	2013 US$'000	2012 US$'000
Assets			
Cash and cash equivalents	24	478,123	432,264
Investments	4	555,482	576,367
Premium income receivable		51,040	44,506
Deferred acquisition costs	5	44,776	43,386
Reinsurance receivables	6	152,262	131,176
Retrocessionaires' share of technical provisions	7	64,158	58,089
Sundry receivables		5,900	5,699
Tax recoverable	22	2,374	2,284
Investment properties	8	7,688	7,835
Property and equipment	9	15,287	12,700
Intangible Assets	10	741	-
Total assets		**1,377,831**	**1,314,306**
Liabilities			
Sundry payables		12,258	15,342
Dividend payable	23	4,044	5,309
Reinsurance payables	11	57,721	53,573
Deferred tax	12	2,603	2,627
Technical provisions	13	623,667	628,842
Total liabilities		**700,293**	**705,693**
Shareholders' funds			
Retained earnings		112,961	91,228
Other reserves	14	211,675	178,269
Share premium		58,862	52,452
Share capital	15	294,040	286,664
Total shareholders' funds		**677,538**	**608,613**
Total liabilities and shareholders' equity		**1,377,831**	**1,314,306**

The financial statements on pages 40 to 79 were approved and authorised for issue by the Board of Directors of the Corporation on 12th April 2014 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 2013

	Notes	2013 US$'000	2012 US$'000
Gross earned premium	16	652,145	619,949
Less: retrocession premium	16	(96,083)	(60,367)
Net earned premium	16	**556,062**	**559,582**
Investment income	17	45,341	47,661
Commissions earned under retrocession arrangements		10,550	8,616
Other operating income	18	1,054	1,124
Total income		**613,007**	**616,983**
Net claims incurred	19	(326,718)	(333,195)
Acquisition expenses	20	(164,477)	(157,069)
Administrative expenses	21	(34,157)	(30,910)
Net foreign exchange gain/(loss)		(486)	1,190
Profit before income tax		**87,169**	**96,999**
Taxation charge	22	(2,368)	(4,353)
Profit for the year		**84,801**	**92,646**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Exchange differences on translating foreign operations		(16,991)	1,290
Net fair value (loss)/gain on revaluation of available-for-sale financial assets		(4)	313
Total other comprehensive (loss)/income		**(16,995)**	**1,603**
Total comprehensive income for the year		**67,806**	**94,249**

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

	Retained earnings US$ '000	Trans-lation reserve US$ '000	General reserve US$ '000	Reserve for Market Value Adjustment US$ '000	Reserve for exchange fluctuation US$ '000	Reserve for loss fluctuation US$ '000	Other total reserves US$ '000	Share premium US$ '000	Share capital US$ '000	Total
At 1 January 2013	**91,228**	**(19,399)**	**176,097**	**77**	**6,294**	**15,200**	**178,269**	**52,452**	**286,664**	**608,613**
Total comprehensive income for the year	**84,801**	**(16,991)**	**-**	**(4)**	**-**	**-**	**(16,995)**	**-**	**-**	**67,806**
Issue of ordinary shares	-	-	-	-	-	-	-	19,000	21,779	40,779
Dividend declared in 2012	(12,667)	-	-	-	-	-	-	-	-	(12,667)
Transfer to reserves	(50,401)	-	42,401	-	-	8,000	50,401	-	-	-
At 31 December 2013	**112,961**	**(36,390)**	**218,498**	**73**	**6,294**	**23,200**	**211,675**	**58,862**	**294,040**	**677,538**
At 1 January 2012	**61,450**	**(20,689)**	**129,774**	**(236)**	**6,294**	**7,200**	**122,343**	**33,452**	**264,885**	**482,130**
Total comprehensive income for the year	**92,646**	**1,290**	**-**	**313**	**-**	**-**	**1,603**	**-**	**-**	**94,249**
Issue of ordinary shares	-	-	-	-	-	-	-	19,000	21,779	40,779
Dividend declared in 2011	(8,545)	-	-	-	-	-	-	-	-	(8,545)
Transfer to reserves	(54,323)	-	46,323	-	-	8,000	54,323	-	-	-
At 31 December 2012	**91,228**	**(19,399)**	**176,097**	**77**	**6,294**	**15,200**	**178,269**	**52,452**	**286,664**	**608,613**

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

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Consolidated Statement of Cash Flows

for the year ended 31 December 2013

	Notes	2013 US$'000	2012 US$'000
Cash flows from operating activities			
Cash generated from operations	24	41,191	105,592
Income tax paid	22	(1,983)	(4,304)
Net cash generated from operating activities		39,208	101,288
Cash flows from investing activities			
Purchase of Investment property	8	(20)	-
Purchase of property and equipment	9	(4,286)	(1,277)
Purchase of intangible assets	10	(741)	-
Sale/(purchase) of investments		28,800	(73,481)
Proceeds of disposal of property and equipment		39	32
Net cash generated from /(used in) investing activities		23,792	(74,726)
Cash flows from financing activities			
Proceeds of shares subscription		13,786	40,779
Dividends paid	23	(13,932)	(6,605)
Net cash (used in) /generated from in financing activities		(146)	34,174
Net increase in cash and cash equivalents		62,854	60,736
Movement in cash and cash equivalents:			
At start of year		432,264	369,925
Net increase in cash and cash equivalents		62,854	60,736
Net exchange (losses)/gains on liquid assets		(16,995)	1,603
At end of year	**24(b)**	**478,123**	**432,264**

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

1. General information

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

a) mobilise financial resources from insurance and reinsurance operations;

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

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

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

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

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

2. Accounting policies

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

i) New standards and amendments to published standards effective for the year ended 31 December 2013

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

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The application of the amendment had no effect on the corporation's financial statements as the corporation did not have any offsetting arrangements in place.
New and revised standards on consolidation, joint arrangements, associates and disclosures	In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.
Impact of the application of IFRS 10	IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the

investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

Specifically, the Group has a 100% ownership interest in African Reinsurance Corporation (South Africa) Limited, African Takaful Reinsurance Company and Sherborne Number Ten Parktown Investments Proprietary Limited (South Africa) with a similar percentage in voting rights. The directors concluded that it has control over both subsidiaries on the basis of the Group's absolute size of holding in both entities.

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes). IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in

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IFRS 13 Fair Value Measurement (continued)	comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Corporation has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.
Amendments to IAS 1 Presentation of Items of Other Comprehens-ive income	The Group has applied the amendments to IAS 1, Presentation of Items of Other Comprehensive Income, for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' (and the 'income statement' is renamed as the 'statement of profit or loss'). The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently

	to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The new terminology have been adopted in these financial statements in other respects the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.
Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)	The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the corporation are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented.The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments

	specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position. This amendment did not have any impact on the corporation's financial statements as the corporation did not restate its prior period financial statements.
Employee Benefits (as revised in 2011	IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits.The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.The application of the amendment had no effect on the corporation's financial statements as the corporation does not operate as a defined benefit plan

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9	1 January 2018
Amendments to IFRS 9 and IFRS 7	1 January 2018
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
Amendments to IAS 32	1 January 2014

ii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods

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.

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Key requirements of IFRS 9:

•All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

• With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. The application of this standard is likely to have an impact on amounts reported in the corporation's financial statements. However it is not practicable to provide a reasonable estimate on the effects of IFRS 9 until a detailed review has been completed.

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

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

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

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.
The directors of the group do not anticipate that these amendments will have any effect on the corporation's financial statements as the corporation is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

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The directors of the corporation do not anticipate that the application of these amendments to IAS 32 will have a significant impact on the corporation's financial statements as the corporation does not have any financial assets and financial liabilities that qualify for offset.

iii) Early adoption of standards

The corporation did not early-adopt any new or amended standards in 2013.

3. Summary of significant accounting policies

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

(A) Basis of preparation

Statement of compliance

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

The financial statements are presented in United States dollars (US$'000). They have been prepared under the historical cost convention, as modified by the carrying of certain investments at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. Although estimates are determined on the basis of historical information, actuarial analyses and the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

(B) Basis of Consolidation

(a) Subsidiaries

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

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

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised 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 corporation and its subsidiaries African Reinsurance Corporation (South Africa) Limited, Africa Retakaful (Egypt) and Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited.

(b) 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.

(c) 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 premiums provision for short-term insurance contracts

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

(iii) Claims arising from short-term insurance contracts

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

(iv) Unexpired risk provision for short-term insurance contracts

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

(v) Claims arising from long-term insurance contracts

Claims incurred in respect of long-term insurance contracts consist of claims arising during the year including provision for policyholder liabilities. Outstanding claims on long-term insurance contracts that have occurred at the reporting date and have been notified to the Corporation by the cedants are carried at the claim amounts advised by the cedants. The operating surpluses or losses arising from insurance contracts are determined by regular actuarial valuation. These surpluses or losses are arrived at after taking into account the movement in actuarial liabilities under unmatured policies, provisions for profit commissions accrued and adjustments to contingency and other reserves within the policyholder liabilities.

(F) Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the

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

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

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

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by comparing proceeds with their carrying amounts.

(G) Intangible assets

(i) Computer software

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

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

(ii) Deferred acquisition costs

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

(H) Investment property

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

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

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

(I) Investments

Financial instruments

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. The group classifies its financial assets into the following categories:

i) Loans and receivables

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

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

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

iii) Held to maturity investments

Held to maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the group has the intention and ability to hold to maturity.
After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowances for impairment.
Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation and losses arising from impairment of such investments are recognised in the profit or loss.

iv) Available for sale financial assets

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

Impairment of financial assets

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

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

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

Derecognition of financial assets

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

(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

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statement and statement of financial position on a gross basis.

Amounts recoverable under reinsurance and retrocession contracts are assessed for impairment losses at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition that the Group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the company will receive from the debtors.

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

(K) Cash and cash equivalents

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

(L) Foreign currency translation

(i) Functional and presentation currencies

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

(ii) Foreign currency translation

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

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

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

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

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

(M) Leases

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

(N) Employee benefits

Retirement benefit obligations

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

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

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

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

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

Other employee benefits

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

(O) Income tax

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The 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 with changes in presentation in the current year.

4. Investments

i) Investments by category

	2013 US $'000	2012 US $'000
Held to maturity		
Bank deposits	49,866	111,640
Deposits with ceding companies	129,104	124,158
Fixed rate securities held to maturity	137,733	110,175
Floating rate securities at cost	4,418	30,564
	321,121	**376,537**
Fair value through profit or loss		
Fixed rate securities at fair value through profit or loss	132,128	105,063
Quoted equity investments at fair value through profit or loss	85,130	77,558
	217,258	**182,621**
Available for sale		
Redeemable preference shares	3,294	3,157
Unquoted equity investments at cost less impairment	13,809	14,052
	17,103	**17,209**
	555,482	**576,367**

Fixed rate securities held to maturity are presented in the Group's statement of financial position at their amortized costs as at 31 December 2013 of US$137,733,400 (2012 – US$ 110,175,663) . The fair value of the held-to-maturity assets as at 31 December, 2013 was US$ 137,304,983 (2012: US$114,203,022).

Unquoted equity investments with a cost of US$ 13,808,966 (2012: US$14,051,635) are carried at cost because their fair value cannot be determined as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

ii) Weighted average effective interest rates

	2013 %	2012 %
Interest-bearing investments denominated in:		
US dollars	2.67	3.24
Euro	1.40	1.39
South African rand	8.32	8.65

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).

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4. Investments (continued)	31/12/2013 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	-	217,258	-	**217,258**
Available-for-sale financial assets				
Redeemable preference shares	-	3,294	-	**3,294**
Total	-	**220,552**	-	**220,552**

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

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

5. Deferred Acquisition Costs	**2013 US $'000**	**2012 US $'000**
Balance at 1 January	43,386	35,892
Exchange rate impact on opening balance	(1,286)	(245)
	42,100	**35,647**
Released during the year	(42,100)	(35,647)
Deferred during the year	44,776	43,386
At 31 December	**44,776**	**43,386**

6. Reinsurance receivables	2013 US $'000	2012 US $'000
Gross receivables arising from reinsurance arrangements	172,737	149,085
Provision for impairment	(20,475)	(17,909)
	152,262	**131,176**
Comprising:		
Current portion	59,385	71,350
Non-current portion	92,877	59,826
	152,262	**131,176**

7. Retrocessionnaires share of technical provisions	2013	2012
Claims recoverable	41,111	40,277
Deferred retrocession premiums	23,047	17,812
	64,158	**58,089**

8. Investment properties	2013	2012
Cost		
At 1 January	9,710	9,710
Additions	20	-
At 31 December	**9,730**	**9,710**
Depreciation		
At 1 January	1,875	1,703
Charge for the year	167	172
At 31 December	**2,042**	**1,875**
Net book value	**7,688**	**7,835**

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

	2013	2012
Net rental income (Note 17)	**2,513**	**2,080**

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

At 17 April 2012, the market value of the headquarters building was estimated at US$ 45.531 million (net book value: US$ 5.828 million) based on a valuation by Knight Frank, a firm of Estate Surveyors.

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8. Investment properties (continued)

At 1 April 2012, the market value of the Casablanca regional office building was estimated at US$ 4.831 million (net book value: US$ 3.361 million) based on a valuation by Elodie Cantarel SARL, a firm of Estate Surveyors.

At 24 May 2012, the market value of the Nairobi regional office building was estimated at US$ 8.13 million (net book value: US$ 2.107 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 2013 as as follows:

	Level 1	Level 2	Level 3	Fair value as at 31/12/2013
	US $'000	US $'000	US $'000	US $'000
Headquarters building	-	45,531	-	45,531
Casablanca regional office building	-	4,831	-	4,831
Nairobi regional office building	-	8,130	-	8,130

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

	Level 1	Level 2	Level 3	Fair value as at 31/12/2012
	US $'000	US $'000	US $'000	US $'000
Headquarters building	-	5,828	-	5,828
Casablanca regional office building	-	3,361	-	3,361
Nairobi regional office building	-	2,107	-	2,107

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

9 Properties and equipment

	Assets under construction US$'000	Buildings & freehold land US$'000	Fittings & equip-ment US$'000	Motor vehicles US$'000	Total US$'000
Year ended 31 December 2013:					
Cost					
At 1 January	1,384	9,440	11,950	1,331	**24,105**
Additions	1,013	2,157	940	176	**4,286**
Disposals	-	-	(391)	(236)	**(627)**
Transfer from assets under construction	(13)	-	13	-	**-**
	2,384	**11,597**	**12,512**	**1,271**	**27,764**
Depreciation					
At 1 January	-	2,001	8,459	945	**11,405**
Depreciation charge	-	181	1,203	215	**1,599**
Disposals	-	-	(291)	(236)	**(527)**
	-	**2,182**	**9,371**	**924**	**12,477**
Net Book Value	**2,384**	**9,415**	**3,141**	**347**	**15,287**
Year ended 31 December 2012:					
Cost					
At 1 January	2,249	9,402	10,082	1,244	**22,977**
Additions	330	38	768	141	**1,277**
Disposals	-	-	(95)	(54)	**(149)**
Reclassifications	(1,195)	-	1,195	-	**-**
	1,384	**9,440**	**11,950**	**1,331**	**24,105**
Depreciation					
At 1 January	-	1,840	7,390	786	**10,016**
Depreciation charge	-	161	1,155	213	**1,529**
Disposals	-	-	(86)	(54)	**(140)**
	-	**2,001**	**8,459**	**945**	**11,405**
Net Book Value	**1,384**	**7,439**	**3,491**	**386**	**12,700**

Included in buildings and freehold land is a total amount of US$4,342,887 (2012:US$3,951,596) representing the carrying amount of the owner-occupied proportion of the Group's headquarters building in Lagos and regional office buildings in Nairobi, Casablanca and South Africa. The assets under construction represent fixed assets in progress.

Included above are assets with a total cost of US$6,023,483 (2012: US$ 4,800,875) which were fully depreciated as at 31 December 2013.The normal depreciation charge on these assets would have been US$ 1,153,413 (2012: US$ 919,313).

10. Intangible Assets

	Computer Software & projects US $'000	Computer Software & projects US $'000
	2013	**2012**
Cost		
At 1 January	971	971
Additions	741	-
At 31 December	**1,712**	**971**
Amortisation		
At 1 January	971	971
Charge for the year	-	-
At 31 December	971	971
Net book value	**741**	**-**

Included above are assets with a total cost of US$971,303 (2012: US$ 971,303) which were fully depreciated as at 31 December 2013. The normal depreciation charge on these assets would have been US$ 194,260 (2012: US$ 194,260).

11. Reinsurance payables

	2013 US$'000	2012 US$'000
Payables under reinsurance arrangements	40,471	39,793
Payables under retrocession arrangements	17,250	13,780
	57,721	**53,573**

12. Deferred tax

Deferred tax relates only to a subsidiary company, African Reinsurance Corporation South Africa (ARCSA) and is calculated in full using the liability method and applying a principal tax rate of 29%. The movement on the deferred tax account is as follows:

	2013 US$'000	2012 US$'000
At 1 January	2,627	843
Exchange rate impact on opening balance	(499)	(39)
Charged to profit or loss (Note 22)	475	1,823
At 31 December	**2,603**	**2,627**

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

	01.01.13 US $'000	Charged to P/L US $'000	31.12.13 US $'000	31.12.12 US $'000
Excess depreciation over capital allowances	(66)	(14)	(80)	(66)
Unrealised gain on revaluation of investments	2,693	489	3,182	2,732
Exchange rate impact on opening balance	(499)	-	(499)	(39)
Net deferred tax liability	**2,128**	**475**	**2,603**	**2,627**

13. Technical provisions

i) Analysis of outstanding balances

	2013 US$'000	2012 US$'000
Provision for reported claims	374,181	399,227
Provision for claims incurred but not reported	68,963	64,558
Cumulative translation reserve	(9,962)	(11,890)
Total outstanding claims	433,182	451,895
Provision for unearned premiums	190,485	176,947
	623,667	**628,842**
Comprising:		
- current portion	320,708	332,025
- non-current portion	302,959	296,817
	623,667	**628,842**

ii) Analysis of outstanding claims reserve development

U/W YR	2003 US$'000	2004 US$'000	2005 US$'000	2006 US$'000	2007 US$'000	2008 US$'000	2009 US$'000	2010 US$'000	2011 US$'000	2012 US$'000	2013 US$'000
Gross outstanding claims reserve	134,312	135,573	148,915	137,391	184,340	179,076	209,347	261,164	273,011	332,025	**320,708**
Gross paid (Cumulative):											
1 year later	36,866	48,968	51,265	61,065	82,410	121,336	116,271	107,963	51,856	91,909	108,649
2 years later	89,911	70,452	67,657	92,138	129,566	167,922	152,433	163,498	153,569	-	-
3 years later	101,200	77,164	76,434	108,658	153,827	188,457	169,968	182,869	-	-	-
4 years later	104,722	83,147	83,881	115,327	169,617	197,253	189,701	-	-	-	-
5 years later	108,481	87,641	87,836	120,486	176,689	200,887	-	-	-	-	-
6 years later	110,214	90,263	90,633	121,607	179,563	-	-	-	-	-	-
7 years later	111,236	91,596	93,188	123,010	-	-	-	-	-	-	-
8 years later	111,932	93,284	97,255	-	-	-	-	-	-	-	-
9 years later	111,499	94,223	-	-	-	-	-	-	-	-	-
10 years later	112,993	-	-	-	-	-	-	-	-	-	-
Re-estimated as of:											
Closed year	134,312	135,573	148,915	137,391	184,340	179,076	209,347	261,164	273,011	332,025	320,708
1 year later	131,985	128,836	102,876	117,432	174,442	212,563	204,840	130,291	133,668	211,016	
2 years later	132,575	114,114	136,360	137,660	205,816	213,216	193,863	215,433	201,879	-	-
3 years later	137,471	132,279	120,260	143,870	203,417	205,401	212,347	216,229	-	-	-
4 years later	144,008	111,528	124,345	139,407	192,482	224,140	211,157	-	-	-	-
5 years later	137,500	112,969	116,445	137,316	192,446	224,929	-	-	-	-	-
6 years later	139,522	109,417	101,320	135,838	191,527	-	-	-	-	-	-
7 years later	137,469	99,287	105,155	134,042	-	-	-	-	-	-	-
8 years later	118,375	99,018	103,706	-	-	-	-	-	-	-	-
9 years later	117,802	98,905	-	-	-	-	-	-	-	-	-
10 years later	117,307	-	-	-	-	-	-	-	-	-	-
Gross redundancy/ (deficiency)	17,005	36,668	45,209	3,349	(7,187)	45,853	(1,811)	44,935	71,132	129,009	-

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14. Other reserves

	2013	2012
	US$'000	**US$'000**
General reserve	218,498	176,097
Reserve for exchange fluctuation	6,294	6,294
Reserve for loss fluctuation	23,200	15,200
Reserve for market value adjustment	73	77
Translation reserve	(36,390)	(19,399)
	211,675	**178,269**

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

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

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

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

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

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

15. Share capital

	2013	2012
	Number	**Number**
Authorised share capital	**5,000,000**	**5,000,000**
Issued and fully paid	**2,940,405**	**2,866,637**
	US$'000	**US$'000**
Issued and fully paid at 31 December	294,040	286,664
Nominal value per share	$100	$100

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

	2013	2012
	USD '000'	**USD '000'**
At start of year	286,664	264,885
Issue of ordinary shares	7,376	21,779
At end of year	**294,040**	**286,664**

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16. Earned premium

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

	2013 Gross US$'000	2013 Retro cession US$'000	2013 Net US$'000	2012 Gross US$'000	2012 Retro cession US$'000	2012 Net US$'000
Fire and accident	483,570	(32,124)	451,446	477,269	(20,518)	456,751
Marine and aviation	136,380	(58,804)	77,576	114,532	(34,015)	80,517
Life	32,195	(5,155)	27,040	28,148	(5,834)	22,314
	652,145	**(96,083)**	**556,062**	**619,949**	**(60,367)**	**559,582**

17. Investment income

	2013 US$000	2012 US$000
Held to maturity		
Interest income from bank deposits	12,637	17,028
Interest income from deposits with ceding companies	2,296	2,313
Interest income from fixed rate securities HTM	6,435	5,647
interest income fron Floating rate Notes	119	99
	21,487	**25,087**
Fair value through profit or loss		
Interest income from fixed rate securities at fair value through profit or loss	8,100	5,135
Dividend from quoted equity investments at fair value through profit or loss	2,566	1,719
Fair value gains from quoted equity investments	11,855	7,740
Fair value gains from listed bonds	(3,940)	2,725
	18,581	**17,320**
Available for Sale		
Dividend from unquoted equity investments at cost less impairment losses	**1,139**	**971**
Rental Income	2,513	2,080
Realized gains or losses on equity portfolios	2,339	1,755
Realized gains or losses on bond portfolios	291	1,277
Management fees from equity portfolio	(504)	(402)
Management fees from bonds portfolios	(505)	(426)
	45,341	**47,661**

18. Other operating income

	2013	2012
Fee income	606	1,082
(Loss)/gain on disposal of property and equipment	(61)	23
Sundry income	509	19
	1,054	**1,124**

19. Claims incurred

	2013 Gross US$'000	2013 Retro cession US$'000	2013 Net US$'000	2012 Gross US$'000	2012 Retro cession US$'000	2012 Net US$'000
Claims incurred by principal class of business;						
Fire and Accident	285,767	(7,433)	278,334	295,171	(8,084)	287,087
Marine and Aviation	41,471	(7,215)	34,256	59,024	(22,797)	36,227
Life	16,697	(2,569)	14,128	12,179	(2,298)	9,881
	343,935	**(17,217)**	**326,718**	**366,374**	**(33,179)**	**333,195**

20. Acquisition costs

	2013 US$'000	2012 US$'000
Commission paid	149,099	145,527
Charges paid	19,488	18,868
Movement in deferred acquisition cost	(4,110)	(7,326)
	164,477	**157,069**

21. Administrative expenses

	2013 US$'000	2012 US$'000
Staff costs	20,965	19,116
Auditors' remuneration	262	262
Depreciation on properties and equipment	1,599	1,529
Depreciation on investment property	167	172
Impairment charge on reinsurance receivables	2,442	2,449
Operating lease rentals	365	418
Repairs and maintenance expenditure	1,145	1,091
Consultancy fees	762	926
Travel costs and allowances	772	677
General Assembly and Board of Directors' meetings	1,245	1,098
Electricity and water	617	(418)
Insurance	582	790
Communication expenses	394	383
Advertisement and entertainment	615	422
Training and subscriptions	437	521
Technical assistance	126	60
Medical	491	475
Computer and word processing	394	290
Transport and maintenance	158	149
Bank charges and other fees	322	270
Office	197	166
Legal	64	38
Donations	36	26
	34,157	**30,910**

Staff costs include retirement benefit costs amounting to US$ 2,518,347 (2012: US$2,376,455).

22. Taxation

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

Tax charged in the financial statements is made up of:

	2013	2012
	US$'000	US$'000
Current income tax charge	1,893	2,530
Deferred income tax charge (Note 12)	475	1,823
	2,368	**4,353**

The movement in the tax recoverable account is as follows:

At 1 January	2,284	510
Current tax charge for the year	(1,893)	(2,530)
Tax paid	1,983	4,304
At December	**2,374**	**2,284**

23. Dividends

At the Annual General Meeting (AGM) to be held on 20 June , 2014, a final dividend in respect of the year ended 31 December, 2013 of US$ 4.5 per share on 2,940,405 existing shares amounting to a total of US$ 13,224,183.75 (2012: Total dividend; US$12,666,983.06 represented by a dividend per share of US $ 4.5 on existing shares) is to be proposed. The dividend declared at the AGM held on 21 June 2013 was charged to shareholders' equity in these financial statements. The liability for the dividend payable on the 2013 results shall be treated as an appropriation of profit in the financial statements for the year ending 31 December 2014.

The movement in the dividends payable account is as follows:

	2013	2012
	US$'000	US$'000
At 1 January	5,309	3,369
Final dividends declared	12,667	8,545
Dividends paid	(13,932)	(6,605)
At 31 December	**4,044**	**5,309**

24. Notes to the statement of cash flows

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

	Notes	2013 US$'000	2012 US$'000
Profit before income tax		87,169	96,999
Adjustments for:			
Depreciation on investment property	8	167	172
Depreciation on property and equipment	9	1,599	1,529
Loss/ (gain)on disposal of property and equipment		61	(23)
Change in fair value of financial assets		(7,915)	(10,465)
Working capital changes;			
- Premium income receivable		(6,534)	(5,724)
- Deferred acquisition costs		(1,390)	(7,494)
- Reinsurance receivables		(21,086)	10,665
- Retrocessionaires' share of technical provisions		(6,069)	(23,872)
- Sundry receivables		(201)	(2,872)
- Sundry payables		(3,084)	490
- Exchange difference on deferred tax opening balance	12	(499)	-
- Reinsurance payables		4,148	(22,296)
- Technical provisions		(5,175)	68,483
Cash generated from operations		**41,191**	**105,592**

b) Cash and cash equivalents

	2013	2012
Cash and bank balances	90,969	71,795
Bank deposits with financial institutions maturing within 90 days	387,154	360,469
Cash and cash equivalents	**478,123**	**432,264**

25. Related party transactions and balances

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

	2013 US$'000	2012 US$'000
ii) Remuneration for key management personnel		
Directors' fees (non executive directors)	604	468
Other remuneration (elected members of management)		
- Salaries and other short term benefits	1,302	1,241
- Terminal benefits	192	435

26. Management of Insurance Risks

Insurance risk

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

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

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

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

26. Management of Insurance Risks (Continued)

31 December 2013

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

31 December 2012

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

27. Financial risk management (Continued)

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 2013 to the earlier of the repricing or contractual maturity date.

	Up to 1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	over 5 Years	Total
At 31 December 2013							
(IN US$'000)							
FINANCIAL ASSETS							
Cash and cash equivalents	478,123	-	-	-	-	-	478,123
Reinsurance premiums receivables	59,385	49,356	34,557	8,964	-	-	152,262
Claims recoverable	8,738	16,527	6,063	1,148	968	7,667	41,111
Deferred retrocession premiums	22,561	385	64	37	-	-	23,047
	568,807	**66,268**	**40,684**	**10,149**	**968**	**7,667**	**694,543**
Investments							
- Bank deposits	49,866	-	-	-	-	-	49,866
- Deposits with ceding companies	10,216	32,091	14,511	10,103	10,271	51,912	129,104
- Fixed rate securities at fair value	15,633	16,158	12,311	21,017	23,273	43,735	132,127
- Fixed rate securities at amortized cost	5,706	19,600	17,589	15,616	11,089	68,134	137,734
- Floating rate securities at cost	596	2,414	1,408	-	-	-	4,418
Redeemable notes	3,294	-	-	-	-	-	3,294
Equity investments at fair value	85,130	-	-	-	-	-	85,130
Unquoted equity investments at cost less impairment losses	-	-	-	-	-	13,809	13,809
	170,441	**70,263**	**45,819**	**46,736**	**44,633**	**177,590**	**555, 482**
Total	**739,248**	**136,531**	**86,503**	**56,885**	**45,601**	**185,257**	**1,250,025**
FINANCIAL LIABILITIES							
Reinsurance payables	34,102	10,888	4,798	3,984	183	3,766	57,721
Outstanding claims	133,728	102,367	48,310	33,359	42,750	72,668	433,182
Total	**167,830**	**113,255**	**53,108**	**37,343**	**42,933**	**76,434**	**490,903**

27. Financial risk management (Continued)

At 31 December 2012 (IN US$'000)	Up to 1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	over 5 Years	Total
FINANCIAL ASSETS							
Cash and cash equivalents	432,264	-	-	-	-	-	432,264
Reinsurance premiums receivables	71,350	46,185	6,142	4,502	2,997	-	131,176
Claims recoverable	13,773	9,967	2,251	4,831	4,012	5,443	40,277
Deferred retrocession premiums	17,631	125	11	45	-	-	17,812
	535,018	**56,277**	**8,404**	**9,378**	**7,009**	**5,443**	**621,529**
Investments:							
- Bank deposits	111,640	-	-	-	-	-	111,640
- Deposits with ceding companies	13,784	25,637	16,052	12,964	8,463	47,258	124,158
- Fixed rate securities at fair value	7,374	8,278	11,101	9,816	15,123	53,371	105,063
- Fixed rate securities at amortized cost	2,263	9,371	15,711	13,164	21,218	48,448	110,175
- Floating rate securities at cost	21,139	5,500	2,410	1,515	-	-	30,564
Redeemable notes	3,157	-	-	-	-	-	3,157
Equity investments at fair value	77,558	-	-	-	-	-	77,558
Unquoted equity investments at cost less impairment losses	-	-	-	-	-	14,052	14,052
	236,915	**48,786**	**45,274**	**37,459**	**44,804**	**163,129**	**576,367**
Total	**771,933**	**105,063**	**53,678**	**46,837**	**51,813**	**168,572**	**1,197,896**
FINANCIAL LIABILITIES							
Reinsurance payables	16,976	5,387	6,349	984	10,098	13,779	53,573
Outstanding claims	155,078	81,812	54,582	44,434	28,805	87,184	451,895
Total	**172,054**	**87,199**	**60,931**	**45,418**	**38,903**	**100,963**	**505,468**

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 73 and 74 show the various currencies in which the group's assets and liabilities were denominated as at 31 December 2013 and 2012. The non US dollar balances reflect the significant foreign currency exposures.

27. Financial risk management

Currency risk

At 31 December 2013:
(in US$'000)

	USD	Rand	UK Pounds	CFA/EUR	MAD	EGP	NGN	KES	MUR	OTHERS	TOTAL
ASSETS											
Cash and cash equivalents	203,552	66,501	11,599	65,494	22,972	9,613	42,635	33,929	1,071	20,757	478,123
Reinsurance receivables	38,713	17,811	597	17,887	6,753	9,007	14,359	12,219	2,788	32,128	152,262
Claims recoverable	36,185	52	15	773	753	625	23	335	-	2,350	41,111
Deferred retrocession premium	17,152	-	-	683	19	25	51	1,511	-	3,606	23,047
Investments:											
- Bank deposits	38,307	11,559	-	-	-	-	-	-	-	-	49,866
- Deposits with ceding companies	9,180	126	460	37,880	36,009	7,113	12	813	94	37,417	129,104
- Fixed rate securities at fair value	78,337	40,841	4,157	4,597	-	-	3,133	1,062	-	-	132,127
- Fixed rate securities at amortised cost	108,808	9,862	-	14,234	-	-	-	4,830	-	-	137,734
- Floating rate securities at cost	4,004	-	414	-	-	-	-	-	-	-	4,418
- Redeemable notes	3,294	-	-	-	-	-	-	-	-	-	3,294
- Equity investments at fair value	40,068	38,037	-	3,822	-	-	2,467	736	-	-	85,130
- Unquoted equity investments at cost less impairment losses	13,172	-	-	-	-	-	637	-	-	-	13,809
Total	**590,772**	**184,789**	**17,242**	**145,370**	**66,506**	**26,383**	**63,317**	**55,435**	**3,953**	**96,258**	**1,250,025**
LIABILITIES											
Reinsurance payables	-	51	1,333	4,008	1	-	-	-	-	52,328	57,721
Outstanding claims	131,914	85,816	629	36,678	33,574	15,819	21,589	29,909	7,504	69,750	433,182
Total	**131,914**	**85,867**	**1,962**	**40,686**	**33,575**	**15,819**	**21,589**	**29,909**	**7,504**	**122,078**	**490,903**

Key to currency abbreviations;

USD - United States Dollar
Rand - South African Rand
UK Pound - 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

Currency risk

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

	USD	Rand	UK Pounds	CFA/EUR	MAD	EGP	NGN	KES	MUR	OTHERS	TOTAL
ASSETS											
Cash and cash equivalents	153,940	143,975	8,002	28,893	25,057	3,963	37,473	22,733	1,113	7,115	432,264
Reinsurance receivables	34,297	8,503	1,259	13,138	2,186	6,510	14,184	11,082	2,787	37,230	131,176
Claims recoverable	35,474	88	19	1,615	847	573	234	280	-	1,147	40,277
Deferred retrocession premium	13,934	-	2	490	31	130	1,083	1,287	-	855	17,812
Investments:											
- Bank deposits	72,801	9,601	4,103	18,427	-	2,965	-	1,969	1,719	55	111,640
- Deposits with ceding companies	10,691	166	411	37,913	32,964	7,019	12	698	73	34,211	124,158
- Fixed rate securities at fair value	52,044	47,711	3,674	4,310	-	-	-	481	-	-	108,220
- Fixed rate securities at amortised cost	86,057	11,536	-	10,122	-	-	-	2,460	-	-	110,175
- Floating rate securities at cost	30,156	-	408	-	-	-	-	-	-	-	30,564
- Equity investments at fair value	30,362	41,083	-	3,884	-	-	1,684	545	-	-	77,558
- Equity investments at amortised cost cost less impairment losses	11,176	2,239	-	-	-	-	637	-	-	-	14,052
Total	**530,932**	**264,902**	**17,878**	**118,792**	**61,085**	**21,160**	**55,307**	**41,535**	**5,692**	**80,613**	**1,197,896**
LIABILITIES											
Reinsurance payables	754	138	1,688	3,122	1	5	-	-	-	47,865	53,573
Outstanding claims	110,663	108,992	694	33,731	32,906	10,801	26,961	19,933	7,329	99,885	451,895
Total	**111,417**	**109,130**	**2,382**	**36,853**	**32,907**	**10,806**	**26,961**	**19,933**	**7,329**	**147,750**	**505,468**

Key to currency abbreviations;

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

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28. Investments 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	2013 US$'000	2012 USD'000
African Reinsurance Corporation (South Africa) Limited	Reinsurance services	*	100%	*	*
African Takaful Reinsurance Company	Reinsurance services	6,000	100%	6,000	6,000
Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited	Property holding	*	100%	*	*
				6,000	**6,000**

*Less than US$ 1,000 (African Reinsurance Corporation (South Africa) limited – 7 ordinary shares of 0.01 Rand; Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited – 40,000 ordinary shares of 0.10 Rand)
African Reinsurance Corporation (South Africa) Limited has its financial year end on 31 December, African Takaful Reinsurance Company on 30 June and Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited on 31 August.

African Reinsurance Corporation (South Africa) Limited

African Reinsurance Corporation (South Africa) Limited was incorporated in 9 January 2004.The principal activity of the company is provision of reinsurance services to the countries of the Rand zones well as Mozambique, Botswana and Angola. It made a profit if US $ 7,974,697 during the year ended 31 December 2013 (2012 - US $ 12,743,307).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

	2013 US$'000	2012 US$'000
Summarised statement of financial position		
Total assets	284,368	349,935
Total liabilities	(232,314)	(295,521)
Net assets	**52,054**	**54,414**
Summarised statement of profit or loss and other comprehensive income		
Net Income	64,987	74,772
Profit before income tax	10,287	17,096
Income tax expense	(2,312)	(4,353)
Other comprehensive income	-	-
Total comprehensive income	**7,975**	**12,743**

	2013 US$'000	2012 US$'000
Summarised statement of cash flows		
Net cash generated from /(used in) operating activities	(15,719)	9,141
Net cash generated from /(used in) investing activities	15,492	(8,668)
Net (decrease)/increase in cash and cash equivalents	(227)	473
Net (loss)/ gain on liquid assets	(96)	-
Cash and cash equivalents at beginning of year	508	35
Cash and cash equivalents at end of year	**185**	**508**

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 if US $1,733,007 during the year ended 31 December 2013 (2012 - US $ 463,992). 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.

	2013 US$'000	2012 US$'000
Summarised statement of financial position		
Total assets	49,791	28,224
Total liabilities	(43,687)	(22,176)
Net assets	**6,104**	**6,048**
Summarised statement of profit or loss and other comprehensive income		
Net income	5,489	3,683
Profit before income tax	1,601	402
Other comprehensive income	132	61
Total comprehensive income	**1,733**	**463**
Summarised statement of cash flows		
Net cash generated from operating activities	5,929	2,630
Net cash generated/(used in) from investing activities	234	(53)
Net cash used in financing activities	(1,032)	-
Net increase in cash and cash equivalents	5,131	2,577
Net (loss) on liquid assets	(97)	(233)
Cash and cash equivalents at beginning of year	8,880	6,536
Cash and cash equivalents at end of year	**13,914**	**8,880**

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 ofUS $ 143,843 during the year ended 31 December 2013 (2012 – loss of US $ 7,333). 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
The financial statement of Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited consolidated into the Group Financial Statements were unaudited because it is not a legal requirement in South Africa for a company of this size.
Set out below is the summarised financial information for the subsidiary

	2013	2012
Summarised statement of financial position	**US$'000**	**US$'000**
Total assets	679	591
Total liabilities	(460)	(499)
Net assets	**219**	**92**

Summarised statement of profit and loss and other comprehensive income		
Net Income	212	3
Profit/(loss) before income tax	200	(10)
Income tax (expense)/credit	(56)	3
Other comprehensive income	-	-
Total comprehensive income	**144**	**(7)**

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	(1)	-
Cash and cash equivalents at beginning of year	4	4
Cash and cash equivalents at end of year	**3**	**4**

29. Contingent liabilities

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

30. Operating lease Commitments

Operating lease payables

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

	2013 US$'000	2012 US$'000
Not later than 1 year	199	300
Later than 1 year and not later than 5 years	67	309
	266	**609**

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:

	2013 US$'000	2012 US$'000
Not later than 1 year	1,883	1,940
Later than 1 year and not later than 5 years	1,249	1,291
	3,132	**3,231**

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.

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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

	2013 US$'000	2012 US$'000
Share capital	294,040	286,664
Share premium	58,862	52,452
Other reserves	211,675	178,269
Retained earnings	112,961	91,228
Total capital – equity	**677,538**	**608,613**

Consolidated statement of profit or loss by class of business

	Fire & accident US$'000	Marine & aviation US$'000	Life	Total 2013 US$'000	Total 2012 US$'000
Underwriting income:					
Gross written premium	497,974	137,268	35,216	670,458	647,980
Gross earned premium	483,570	136,380	32,195	652,145	619,949
Retrocession premium	(32,124)	(58,804)	(5,155)	(96,083)	(60,367)
Net earned premium	**451,446**	**77,576**	**27,040**	**556,062**	**559,582**
Commissions & charges earned Under retrocession arrangements	3,789	5,392	1,369	10,550	8,616
Gross claims paid	**(284,761)**	**(44,047)**	**(15,621)**	**(344,429)**	**(316,091)**
Gross claims incurred	(285,767)	(41,471)	(16,697)	(343,935)	(366,374)
Less retrocessionaires' share	7,433	7,215	2,569	17,217	33,179
Net claims incurred	**(278,334)**	**(34,256)**	**(14,128)**	**(326,718)**	**(333,195)**
Acquisition expense	(131,529)	(25,954)	(6,994)	(164,477)	(157,069)
Management expenses	(25,433)	(6,897)	(1,827)	(34,157)	(30,910)
Underwriting profit	**19,939**	**15,861**	**5,460**	**41,260**	**47,024**
Net investment and other income				46,395	48,785
Realised (loss) /gain on exchange				(486)	1,190
Profit before income tax				**87,169**	**96,999**
Taxation charge				(2,368)	(4,353)
Profit for the year				**84,801**	**92,646**

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