



# ANNUAL REPORT & ACCOUNTS 2014



## KEY INFORMATION

In US\$ '000	2014	2013	2012	2011	2010
<b>RESULTS</b>					
WRITTEN PREMIUM	717,525	670,458	647,980	631,490	627,532
RETAINED PREMIUM	624,387	569,140	586,443	554,746	569,700
EARNED PREMIUM (NET)	614,445	556,062	559,582	533,580	563,783
NET PROFIT	118,504	84,801	92,646	69,199	64,863
<b>FINANCIAL POSITION</b>					
SHAREHOLDERS' FUNDS	736,925	677,538	608,613	482,130	343,674
TOTAL ASSETS	1,403,266	1,377,831	1,314,306	1,137,383	958,367

### RATINGS

**A-**

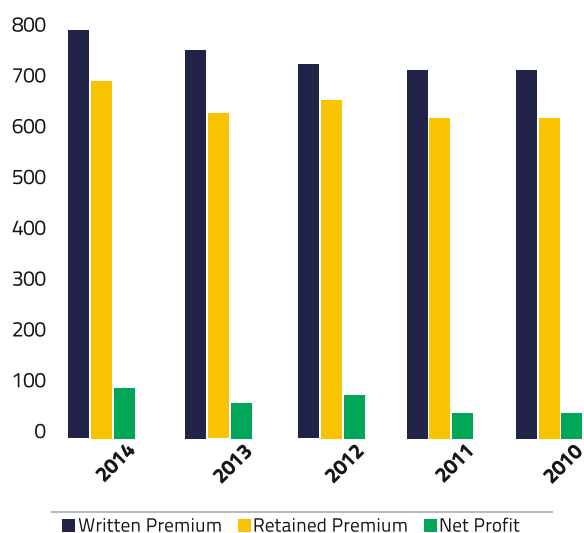
**A.M.Best**  
(Excellent/Positive Outlook)

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

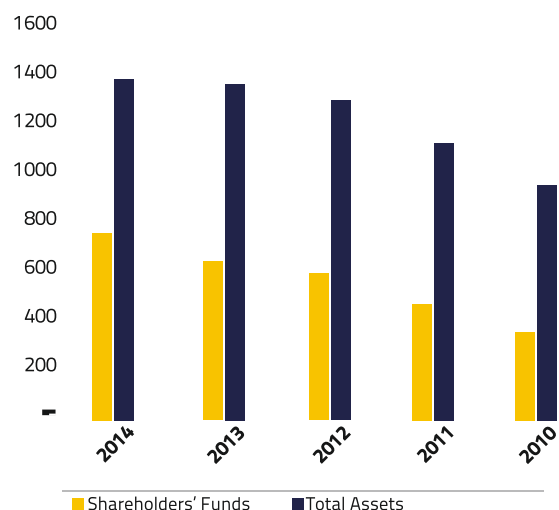
### Proposed dividend per share

**US\$ 5.5**

**RESULTS 2010 - 2014**  
[in million US\$]



**FINANCIAL POSITION 2010 - 2014**  
[in million US\$]





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African Reinsurance Corporation  
Société Africaine de Réassurance

**AFRICAN REINSURANCE CORPORATION  
GENERAL ASSEMBLY  
37TH ANNUAL ORDINARY MEETING  
ACCRA, GHANA, 18TH JUNE 2015**

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Honourable Representatives  
General Assembly  
African Reinsurance Corporation

Date: 18<sup>th</sup> June 2015

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 2014.

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



**HASSAN BOUBRIK**  
Chairman of the Board of Directors and General Assembly

# BOARD OF DIRECTORS



## Mr Hassan BOUBRIK

Chairman

### Nationality:

Moroccan

### Constituency:

Morocco: State and Companies

### Current Term ends in:

June, 2017

### Short Biography

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 financial conglomerate in Morocco. Apart from his many Board positions, he is a member of the International Association of Insurance Supervisors (IAIS).



## Mr Woldemichael ZERU

Vice Chairman and member of the Risk Management and IT Governance Committee

### Nationality:

Eritrean

### Constituency:

East and Southern Africa and Sudan (12 States)

### Current Term ends in:

June, 2017

### Short Biography

Mr Zeru is currently the GM/Chief Executive of NIC-Eritrea and MD of New Sudan Insurance Company in South Sudan.

He holds a Bachelors in Business Administration and Finance and is also a Chartered Insurer (ACII London).

He was the Technical Manager of Khartoum Insurance Company in Sudan and lectured risk management and reinsurance at the University of Asmara, Eritrea.



## Dr Mohamed Ahmed MAAIT

Director and Member of the Audit and Finance Committee

### Nationality:

Egyptian

### Constituency:

Egypt: State and Companies

### Current Term ends in:

June, 2015

### Short Biography

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

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



### Mr Moussa DIAW

Director and Chairman of the Remuneration and HR Committee

**Nationality:**

Senegalese

**Constituency:**

Companies of Francophone West & Central Africa plus Mauritania & Tunisia (States and Companies)

**Current Term ends in:**

June, 2015

**Short Biography**

Currently the Managing Director, Sen Re, Dakar, Senegal.

He is a graduate in Economics and holds a Diplôme d'Etudes Supérieures in Insurance.

He has been in the current position since 1988 with a professional insurance career spanning nearly four decades and multiple Board appointments. He holds the Senegalese national honour of the Order of the Lion.



### Mr Mamadou DEME

Director and Member of the Risk Management & IT Governance Committee

**Nationality:**

Senegalese

**Constituency:**

States of Francophone West and Central Africa (18 States)

**Current Term ends in:**

June, 2015

**Short Biography**

Currently the Commissioner for Insurance, Ministry of Finance, Republic of Senegal.

He holds a Diplôme d'Etudes Supérieures in Insurance and a postgraduate degree in Business Law. He serves as part-time Lecturer in Insurance.



### Mr Kamel MARAMI

Director

**Nationality:**

Algerian

**Constituency:**

Algeria: State and 4 companies

**Current Term ends in:**

June, 2015

**Short Biography**

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

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



### Mr Karanja KABAGE

Director and Member of the Remuneration & HR Committee.

#### Nationality:

Kenyan

#### Constituency:

Anglophone West Africa (4 States & Companies) and East and Southern Africa (Companies)

#### Current Term ends in:

June, 2017

#### Short Biography

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

He holds Bachelors and Masters degrees in both Business Administration and Law, and is currently pursuing a Doctorate degree in Law.

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



### Mr Fathi Sanoussi Guma BALA

Director and Member of the Remuneration & HR Committee

#### Nationality:

Libyan

#### Constituency:

Libya: State and Companies

#### Current Term ends in:

June, 2015

#### Short Biography

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.



### Mr Fola DANIEL

Director and Chairman of the Risk Management & IT Governance Committee

#### Nationality:

Nigerian

#### Constituency:

NIGERIA: State and Companies

#### Current Term ends in:

June, 2015

#### Short Biography

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.





**Mr Pierre VAN PETEGHEM**

Director and Member of the  
Audit and Finance Committee

**Nationality:**

Belgian

**Constituency:**

African Development Bank  
(AfDB)

**Current Term ends in:**

June, 2015

**Short Biography**

Group Treasurer of the African  
Development Bank Group until  
2014.

He holds a first degree in Mechanical  
Engineering, Master's degree in  
Management and a PhD in Economics.

He has extensive experience with  
multilateral development finance  
institutions.



**Mr Bernd TUEMMERS**

Director and Member of the  
Audit and Finance Committee

**Nationality:**

German

**Constituency:**

German Investment and  
Development Corporation  
(DEG)

**Current Term ends in:**

June, 2015

**Short Biography**

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.



**Mr John BURBIDGE**

Director and Chairman of the  
Audit & Finance Committee

**Nationality:**

British

**Constituency:**

International Finance  
Corporation (IFC)

**Current Term ends in:**

June, 2015

**Short Biography**

He is a chartered accountant and  
retired business executive, having  
served as CEO in a number of  
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 companies in various  
business fields.

**ALTERNATE DIRECTORS**

Mr Ali REGAE, Mr M. Henri Frédéric EWELE, Mr Hilali LARBI, Mr Kamel MERAGHNI, Alj. Bala ZAKARIYAU, Mr Jaime AGUINALDO  
Mr Eteffa YEWONDWOSEN, Mrs Marie-Laure AKIN-OLUGBADE, Mr Boubacar BAH, Mr Thomas KRONSBELN, Dr Osama FATEHY.

# EXECUTIVE MANAGEMENT



**Mr CORNEILLE KAREKEZI,**  
Group Managing Director / Chief  
Executive Officer

**Nationality:**  
Rwandese

### Short Biography

Mr Corneille KAREKEZI was appointed to this position on July 1, 2011 after a transition period of 2 years as Deputy Managing Director. 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 in 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. He was appointed Deputy Managing Director early in 2001 and in February 2008, he became the Chief Executive Officer of SONARWA s.a.

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

He currently sits on several Boards of continental companies and institutions. He is the current Vice Chairman of both Africa Re South Africa Ltd. and Africa Retakaful Corporation (Egypt) and Member of the Executive Committee of the African Insurance Organization (AIO).



**Mr KEN AGHOGHOVIA**  
Deputy Managing Director  
& Chief Operating Officer

**Nationality:**  
Nigerian

### Short Biography

Since joining the Corporation in 1985, Mr Ken AGHOGHOVIA 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 AGHOGHOVIA 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 AGHOGHOVIA became Deputy Managing Director / Chief Operating Officer on 1 July 2011.

## CENTRAL DIRECTORS



### Mr S.M. KABA

Corporate Secretary/Director  
of Risk Management & Compliance

#### Nationality

Guinean

#### Short Biography

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

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

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

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

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



### Mr S. KONE

Director of Finance & Accounts

#### Nationality

Ivorian

#### Short Biography

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

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

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



### Mr L. BARAGUNZWA

Director of Central Operations  
& Special Risks

#### Nationality

Burundian

#### Short Biography

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

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



### Mr R.U. OBASOGIE

Director of Administration  
& Human Resources

#### Nationality

Nigerian

#### Short Biography

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

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

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

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



### Mr A. D. SEYDI

Director of Information &  
Communication Technology

#### Nationality

Senegalese

#### Short Biography

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

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

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



### Mr O. SARR

Deputy Director of Internal  
Audit

#### Nationality

Mauritanian

#### Short Biography

Since joining the Corporation in 1999, Mr Ousmane Sarr has worked as Assistant Director Finance and Accounts in Casablanca (1999-2012) before rising to the position of Deputy Director of Internal Audit in Nairobi on 1 September 2010.

He was transferred to the headquarters in Lagos in 2013. Mr Sarr holds a Master's in Business Administration from ISCAE, Casablanca, Morocco.

He is a member of the Institute of Internal Auditors of Kenya.

## REGIONAL DIRECTORS & LOCAL REPRESENTATIVE



### **Mrs E. MBOGO**

Regional Director,  
Nairobi

#### **Nationality**

Kenyan

#### **Short Biography**

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

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

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



### **Mr M. BELAZIZ**

Regional Director,  
Casablanca

#### **Nationality**

Algerian

#### **Short Biography**

After 19 years of experience as Bureau Head in charge of reinsurance, Project Manager, Central Director Mr Mohamed Belaziz joined Africa Re in 1995 as Deputy Regional Director in charge of Underwriting & Marketing and afterwards as Deputy Regional Director.

Prior to joining Africa Re, Mr Belaziz served as a board member of Africa Re from 1992 to 1995. On 1 January 2014, he became the Regional Director of the Casablanca Regional Office.



### **Mrs M. SANON**

Regional Director,  
Mauritius

#### **Nationality**

Burkinabe

#### **Short Biography**

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

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

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



### Mr O. GOUDA

Regional Director, Cairo  
& Managing Director,  
Africa Retakaful

#### Nationality

Egyptian

#### Short Biography

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

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

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



### Mr O. N'GUESSAN

Regional Director,  
Abidjan

#### Nationality

Ivorian

#### Short Biography

After spending seven years as head of production in Life and Non-Life Insurance companies in Côte d'Ivoire, Olivier Nguessan became Director of SCOR Office for French-speaking West and Central Africa.

He served as Managing Director of Compagnie Nationale d'Assurance for three years before joining Africa Re in 2005 as a Senior Underwriter. He was the Deputy Regional Director from January 2008 to March 2011 when he became the Regional Director of the Abidjan Office.



### Mr D. DE VOS

Managing Director,  
Africa Re, South Africa

#### Nationality

South African

#### Short Biography

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

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

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



**Mr S. DIOMANDE**  
Regional Director,  
West Africa

**Nationality**

Ivorian

**Short Biography**

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

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

Mr DIOMANDE holds an Actuarial degree from H.E.A. (INPHB) in Côte d'Ivoire and a Global Executive MBA from Instituto de Empresa (IE Business School), Madrid, Spain. He represents Africa Re on various regional professional executive committees.



**Mr S. BELAY**  
Local Representative,  
Addis Ababa

**Nationality**

Ethiopian

**Short Biography**

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

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

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

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

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

## CHAIRMAN'S STATEMENT



**Mr Hassan BOUBRIK**  
Chairman

It is my pleasure to present the 37th Annual Report of the Board of Directors of the African Reinsurance Corporation and the consolidated financial statements for the year 2014, including the statement of financial position as at 31 December 2014 and the statement of comprehensive income for the financial year. This report includes also a review of the Corporation's operating environment, the report of the external auditors to the shareholders, the reports on capital management, corporate governance and enterprise risk management.

Gross written premium for 2014, after a period of low growth, grew by 7.02% to US\$ 717.52 million compared to US\$ 670.46 million in 2013. This performance was slightly below the target by 1.74%. However, the Corporation could have registered a growth rate of 12.18% had the exchange rates of our transaction currencies remained stable in 2014 against the US dollar, our reporting currency. The South African rand, in which more than a quarter of the total premium income is written, depreciated

averagely by 10.45% while the Nigerian naira and the Egyptian pound averagely lost 14.41% and 2.90% respectively. This trend was similar for many other African currencies. Other adverse conditions continued to hamper the premium growth rate especially undercutting of insurance and reinsurance rates in the current international and regional soft cycle, fuelled by excess capital and alternative reinsurance products. Faced with the persistent soft cycle, which has lasted longer than expected or wished by many analysts and professionals, the Corporation had to rationalise its expansion strategy in lossmaking markets. Higher retentions by insurers also contributed to the reduction in reinsurance premium income growth.

Gross earned premium, after adjusting for the movement in unearned premium provision, stood at US\$ 708.58 million, which translates into 8.65% growth year on year.

Premium ceded to retrocessionnaires during the year totalled US\$ 94.14 million, as against US\$ 96.08 million last year. The Corporation's retrocession programme remained the same as it continued to rely mainly on excess of loss (XL) covers for the regular risks assumed, while arranging special covers in respect of the major oil and petrochemical risks accepted.

Gross claims paid during the year under review amounted to US\$ 344.56 million, almost the same amount paid in 2013 (344.43 million), despite catastrophe losses settled by the South African subsidiary following hail and wind storms in 2013. Other production centres experienced a rather mild claims activity in frequency and size. Consequently, the net paid claims ratio decreased to 52.73% from 57.64% in 2013. Adjusting for the movement in outstanding claims, including incurred but not reported (IBNR) claims, the net incurred loss ratio improved significantly to 55.69% from 58.76% in 2013.

During the year, operating expenses and capital expenditure were kept within acceptable levels and aligned with the volume of activity, the prevailing economic and commercial environment, as well as business strategy and prospects. The Corporation's management expenses for the year 2014 increased by 10.61% to US\$ 37.78 million. The need to maintain competitiveness in personnel remuneration and steady investment in the modernization of our IT platform accounted for the increase. The management expense ratio remained stable at 6.15% (2013: 6.14%).



Underwriting discipline remained our top priority. This deliberate strategic approach, in addition to a clement claims activity, yielded a record net underwriting profit (after management expenses) of US\$ 68.65 million in 2014, compared to US\$ 41.26 million last year, an increase of 66.38%. This excellent performance demonstrates 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, increased by 8.84% to stand at US\$ 50.50 million compared to US\$46.40 million in 2013. Investment performance continues to be driven mainly by the equity and bond markets while interest rates on term deposits remained extremely low. Currency translation negatively impacted investment income. On an annualized basis, the return on investment was 4.78% compared to 4.53% as at same period last year. The Corporation's financial assets grew slightly by 3.01% from US\$ 1,033.61 million in 2013 to US\$ 1,064.68 million in 2014. This figure includes the impact of the 10.45% depreciation of the South African rand in which 31% of the financial assets are held.

Shareholders' funds as at 31 December 2014 stood at US\$ 736.92 million as against US\$ 677.53 million in 2013, representing an increase of 8.77% mainly due to the significant retained earnings from the profit of the period.

During the year 2014, the global economy grew by 3.3% and continued to strengthen as advanced economies improved. However, the economic expansion remained weak in various economies and varied widely across the globe. Unemployment remained high while mounting geopolitical risks in many parts of the world increased the fragility of the recovery. Macroeconomic policies continued to be used to stabilize the global economy. However, slowdown in emerging markets and the risk of very low inflation in Europe threatened the global financial stability.

Emerging markets and developing economies grew in 2014 at 4.4% ( 2013: 4.7%) with China still leading the growth with 7.4% (2013: 7.8%), followed by emerging and

developing Asia at 6.5% (2013: 6.6%), India at 5.8% (2013: 5.0%) and sub-Saharan Africa at 4.8% (2013: 5.2%).

The African economy grew by nearly 5.0% in 2014. Generally, growth was driven by strong domestic investment and consumption demand. Despite a less supportive external environment, domestic supply constraints, increased security concerns and macroeconomic imbalances, some countries (Ethiopia, DR Congo, Mozambique, Côte d'Ivoire, Niger, Rwanda, Tanzania, etc.) had record growth rates of 7% and above. Economic activity in the Ebola-affected countries (Liberia, Sierra Leone and Guinea) has been seriously disrupted. Moderate to low growth rates were recorded by most middle income countries such as Morocco (2.7%), Egypt (2.2%) and South Africa (1.4%). The few exceptions among the middle income countries include Zambia and Nigeria, with the latter posting a decent growth of 6.1% supported by the resilient non-oil sectors, especially services, although security conditions in the north of the country remained a serious concern.

The South African economy, the second largest on the continent, and from where more than a quarter of the Corporation's income is derived, performed poorly at 1.4% GDP growth due to a combination of global and domestic factors. The poor growth in the Eurozone and the slowdown of the Chinese economy impacted adversely a domestic economy which was facing challenges on the demand side aggravated by subdued local trading conditions. Household expenditure, one of the drivers of the economy, deteriorated with credit extension to households on the decline. On the supply side, industrial action in the mining and manufacturing sectors led to the mining output contraction by more than 10%. An ongoing electricity crisis disrupted business prompting fears of tariff increase to support the much needed investment in power generation. It is the sum of all these which prompted rating agencies to lower the credit assessments of the country. The South African currency remained under pressure and lost 10.75% in 2014, translating into a reduction of the Corporation's premium income by US\$ 16.40 million.



Faced with a sharp deterioration of African currencies in 2014, especially towards the end of the year, the Board actively considers to minimise the impact on the Corporation's assets.. A policy of converting excess funds denominated in local currencies into US dollar denominated investment instruments is being implemented.

The global reinsurance industry had another very good year in 2014 with strong profits recorded by most of the regional and international reinsurers, thanks notably to a low catastrophe claims activity. Global insured losses from natural and man-made catastrophes were US\$ 35 billion last year, down from US\$ 44 billion in 2013 compared with a 10-year average of US\$ 64 billion. The price of traditional reinsurance continued to fall due to disruptive alternative capital estimated at US\$ 62 billion and to an all-time high reinsurers' capital of US\$ 575 billion. Capital supply growth outpaced reinsurance demand, with declining rates as a corollary. These were some of the negative factors, coupled with low investment yields, which adversely impacted risk-adjusted returns and convinced most rating agencies to maintain their negative outlook for the reinsurance sector.

Underwriting profitability was very strong in 2014 as Africa Re posted an excellent underwriting profit ratio of 11.17% (after management expenses), much higher than the 7.42% recorded in the previous year. The underwriting profit of US\$ 68.65 million (2013: US\$ 41.26 million), together with investment income and other income of US\$ 50.50 million (2013: US\$46.40 million), generated an overall net profit of US\$ 118.50 million compared to US\$ 84.80 million last year. This strong profit, above the US\$ 100 million threshold for the first time, was largely due, as has been earlier said, to overall favourable claims experience, reasonable premium income growth and steady investment income. The overall profit translates into an average return on equity of 16.51% (2013: 13.19%) an excellent performance and certainly among the top in the industry.

During the period under review, the Corporation continued to be a leading force in the development, transformation and empowerment of the insurance and reinsurance industry in Africa. The Corporation initiated multiple activities and provided many ideas and solutions to raise insurance awareness, technical capacity in insurance, reinsurance and risk management through seminars, workshop, customized training and in-house attachments. The Corporation initiated and sponsored the first compendium on African insurance legislation and regulation.

In line with its mission, the Corporation started a corporate social responsibility (CSR) Trust Fund which

will be financed by up to 2% of its annual net profit. Initial CSR initiatives have been an online platform to train young African insurance professionals, the first African Insurance Awards programme to celebrate excellence and innovation.

These efforts to increase the involvement in our community development, together with the excellent performance, did not go unnoticed by industry analysts. The Corporation was again awarded, for the third consecutive year, the 'Best Regional Takaful Company" by the International Takaful Summit in London due to its benevolent efforts in the development of Takaful market in Africa. Other awards, such as the 'Best Reinsurance Company Africa 2014" by Capital Finance and the 'Leadership – Finance" by Thought Leaders, applauded the sustained effort of Africa Re to assist in the development of a strong and sustainable African insurance industry which, in turn, facilitates business, trade, and overall economic development. Besides the two African insurance pools (Oil & Energy and Aviation) managed by the Corporation, Africa Re was chosen by the Nigerian Insurance Association to manage the nascent Energy & Allied Insurance Pool of Nigeria (EAIPN). We also continued to lead the efforts at continental level to create new insurance pools for catastrophe and war & terrorism.

Internally, technical capacity development and enterprise risk management contributed to the enhancement of the Corporation's value proposition and security. Efforts to improve our risk pricing tools and risk models continued with the aim of moving from 'adequate" to 'adequate with strong improvements" in our rating by specialized agencies. The Corporation strengthened the skills of its professionals in special risks such as agricultural insurance and oil and energy through collaboration with our business partners. The existing IT platform has been overhauled with the ongoing investment in its centralization and modernization.

The Board of Directors held four meetings during which key decisions were taken and guidance provided to Management. In addition to the usual supervision of strategy implementation and critical operational matters, the Board adopted the retrocession programme, approved some investment projects, including the purchase of a piece of land in Abuja, Nigeria for the construction of a new head office of the Corporation as envisaged many years ago. Policies on performance management and reward system for the staff and the executive management were reviewed and adopted with the intention to emphasize the link between performance and reward and to increase the variable pay.

The Board undertook a number of initiatives to strengthen corporate governance by adopting various best practices in the industry and its evolving regulatory framework. Our South African subsidiary successfully completed its long preparation to apply the new Solvency Assessment and Management (SAM), which will be enforced in 2015 in South Africa. SAM is a regulatory regime that is equivalent to the European Solvency II.

During the year, the Board and Management successfully managed the exit of two of development finance institutions (DFIs), IFC and DEG, from the Corporation's capital. This new development was in line with the agreement signed with the two parties from the onset, which allowed the two DFIs to exit after a certain period according to their investment philosophy. The process was fully discussed and well planned to protect the interests of the Corporation and both parties. I take this opportunity to sincerely thank IFC and DEG for their contribution to Africa Re over the years by providing capital, governance and visibility and for their mature, responsible and supportive attitude during their exit process.

In its pursuit for strategic business partnership with global industry leaders, the Board seized the opportunity of the exit of IFC and DEG to carefully select new partners to replace them. After a thorough competitive process, AXA, a French company and global leader in insurance, and FAIRFAX, a group of insurance and reinsurance companies across the globe, were allowed to purchase the shares put back by the exiting DFIs (14.30%) in order to maintain the 25% maximum shareholding allocated to non-African institutions. The transaction documents signed between Africa Re, AXA and FAIRFAX were based on a win-win approach. Issues of technical cooperation and business exchange were fully addressed to take advantage of each other's market, technical and governance knowledge, expertise and strength, for the success of the partnership. I am pleased to welcome aboard AXA and FAIRFAX in this venture for the benefit of our shareholders, the African insurance market and other stakeholders.

The Corporation's rating by A.M. Best was reaffirmed at A – with a 'positive' outlook for the first time. The rating with Standard & Poor's was also reaffirmed at A – with a stable outlook for the Corporation. The same rating was extended to the South African subsidiary separately for the first time as a 'core' entity of the Corporation. This continuous positive performance over the years has put the Corporation at a unique position in the African competitive landscape. We take pride in this achievement and commit ourselves to keeping and even improving the security we offer to our customers.

The year 2014 and its good profit will give the Corporation an additional strength by raising its capital base through retained earnings. With the new business and technical partnerships, we will be able to offer high value and quality services to ceding companies. With indicators predicting a slightly stable economic growth, especially in Africa, we are hopeful that 2015 will be another good year in terms of growth and profit for the corporation despite the fact that rating agencies have maintained a negative outlook for the reinsurance sector. This hope is based on our strong diversification in our core markets, internal strengths and distinctive competences proven over the years.

On behalf of the Board of Directors I would like to thank all the staff and Management, led by Mr. Corneille Karekezi, throughout our 8 locations on the African continent, for their dedication and hard work which contributed to the excellent results in 2014.

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

I thank you all.

**HASSAN BOUBRIK**  
CHAIRMAN



# MANAGEMENT REPORT



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

## I. ECONOMIC & TRADE ENVIRONMENT IN 2014

### Global Economy: Varying and Fragile Recovery Process

The global economy grew at a fairly modest rate of 3.3% in 2014, with different growth rates across countries and regions. The growth momentum was hampered by weak demand and low investment conditions in many countries, fiscal constraints and limited room for further monetary policy stimulation, high levels of unemployment and increased geo-political risks. Lower oil prices, which came too late in the year, and the solid recovery in the United States (US) economy, could not offset the above-mentioned negative factors.

The US economy recorded its strongest growth rate of the last five years at 2.4% in 2014, driven by improving household consumption expenditure, a higher private sector fixed investment and a rather solid export performance. On the back of a strong economic performance and decreasing unemployment, the US Federal Reserve announced the end of its quantitative easing and the beginning of a gradual normalisation of monetary policy.

In Europe, the United Kingdom economy expanded rapidly at 2.6% in 2014 as domestic demand rebounded. A weak GDP growth rate of 0.8% was recorded in the Eurozone in 2014 due to a subdued performance by Germany, marginal expansion in France and a small contraction in Italy. On the contrary, economic recovery was significant in Spain.

In Japan, the economy fell into technical recession in 2014 after household demand was adversely impacted by a substantial hike in consumption taxes despite a cushion from increased infrastructure spending.

Emerging markets and developing economies, with a combined growth rate of 4.4% in 2014, did not contribute significantly to global growth as in the recent past when they shored up the global economy from the Great Recession of 2008/09. The dissipating contribution towards global growth was better demonstrated by a lower growth in China where investment declined and other leading factors pointed to a further slowdown. Real GDP growth in China decelerated to 7.4% in 2014, its worst performance in 24 years. Brazil experienced a substantial slowdown to 0.1% and the Russian economy was on the brink of recession at 0.6%. In sharp contrast, the Indian economy expanded at a fairly robust pace of 5.8%. Sub-Saharan Africa recorded a relatively strong growth in 2014, underpinned by rising domestic consumption and investment spending. However, softer commodity prices, subdued global demand for export products, fiscal space limitations and weaker foreign direct investment (FDI) inflows adversely impacted growth.

### African Economy: Moderate Growth amid mounting Downside Risks

Growth remained reasonably moderate in the region at an estimated 4.8% in 2014, largely driven by strong domestic investment and consumption demand. However, soft commodity prices, subdued global demand, capacity constraints, particularly on the infrastructure side, and weak FDI inflows resulted in a slower rate of economic expansion in some of the region's economies in 2014. Simultaneously, the Ebola outbreak dramatically reduced economic activity in Guinea, Liberia and Sierra Leone.

South Africa experienced a very difficult economic environment in 2014 as reflected by the weak growth in real GDP (1.5%), thus continuing the contraction trend of recent years. Various factors weighed negatively on consumer spending, the private sector's production activity, investment and employment plans, while subdued demand in key external markets held back export growth. The deteriorating economic climate was reflected in low levels of business confidence, particularly amongst manufacturers.

In the context of a less supportive external environment and domestic supply constraints, 4.9% GDP growth is forecast by the IMF for sub-Saharan Africa in 2015, rising to 5.2% in 2016. Infrastructure investments, expanding service sectors and higher agricultural production in some countries should support this growth.

Most low-income countries are expected to register robust expansion, but softer commodity prices (sharply lower in the case of oil) and adverse developments in key external sources of demand, especially China, may dampen the performance of commodity-exporting countries, notably Nigeria and Angola.

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

The global economy and financial markets received a boost from lower oil prices in 2014. The Brent Crude Oil index decreased by 48.3% prodding the world economy to grow by 3.3% compared to the 3.1% earlier estimated. In general, the advanced financial markets again, in 2014, outperformed emerging markets.

US Equity markets continued to perform much better in 2014 (S&P 500: + 13.7%) than other markets such as the equity market of developed markets outside of the U.S. & Canada (MSCI EAFE: - 4.5%) and that of emerging markets (MSCI EM: - 1.8%).

African equity markets recorded mixed returns. Nigeria, Kenya and South Africa recorded the following returns: Nigeria All Shares Index (ASI) - 16.1%, Nairobi ASI + 3.8% and South Africa Top 40 + 9.2%.

The global bond market performed better in 2014 than the previous year as the US economy showed good signs. The year ended with strong yields (Bank of America Merrill Lynch 10-year Treasury: 3.6%, Barclays US Aggregate Bond Index: 5.9%).

During the year, the euro and UK pound weakened by 13.88% and 6.22% respectively against the US dollar. The South African rand, Nigerian naira, Kenyan shilling and Egyptian pound all depreciated against the US dollar by 10.45%, 14.41%, 4.92% and 2.9% respectively. Other transactional currencies XOF, MAD, MUR and ETB equally weakened by 13.88%, 11.04%, 5.66% and 5.52% respectively.

The Corporation's financial assets grew by 3.15% from (US\$ 1,041.29 million) in 2013 to (US\$ 1,074.08 million) in 2014 despite the negative impact of the depreciation of the major currencies against the US dollar, in particular the euro and the Nigerian naira.

Accordingly, investment income & other income for the year 2014 recorded US\$ 50.70 million constituting a return on investment (ROI) of 4.79%. The results were largely driven by the equity and bond markets and the impact of exchange rate depreciation.

The general view of financial analysts is that the global economy would improve. Global growth should remain moderate at 3.5 percent in 2015, with uneven prospects across the main countries

and regions. Relative to last year, the outlook for advanced economies is improving, while growth in emerging markets and developing economies is projected to be lower, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries.

### Global Reinsurance: Intense Market Pressure but Financial Strength and Strong Profits

International reinsurers recorded another good year as natural and man-made catastrophe losses remained low in 2014 (US\$ 35 billion) compared with last year (US\$ 44 billion) and 10-year average (US\$ 64 billion). Despite a higher number of natural catastrophes, economic and insured losses from these events, as well as loss of lives, were lower than the long-term average.

Global premium growth was moderate, at an estimated average of 3% for Property and Casualty (P&C) companies, despite difficult market conditions, especially the industry's pricing pressure. The declining trend in pricing is expected to remain in 2015.

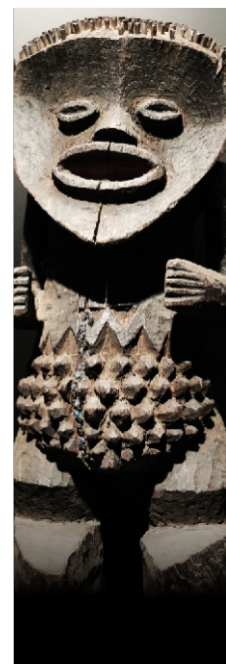
Despite the impact of weakening pricing and increased volumes of longer tail proportional business, underwriting performance remained strong, given low global catastrophe losses, with estimated combined ratios of 89% (calendar-year) or 95% (accident-year), well below the long-term average, supported by favourable net prior-year reserve development.

Investment returns have been resilient, despite the impact of low interest rates. The total investment average yield of 3.7% estimated for 2014 was slightly higher than last year.

With the above underwriting and investment results, the return on average equity (RoE) of international reinsurers averaged 11%.

The African reinsurance market recorded in general, strong performance as a result of low claims activity both catastrophes and man-made. The market continued to attract a lot of interest from the international market players who contributed to the increase in traditional capital through equity participation as well as provision of capacity. While pricing was better than in the international catastrophe risk market, premium rates have continued to deteriorate in mature markets like South Africa.

From a regulatory perspective, the year 2014 saw much preparation for the implementation of the Solvency II in Europe and the Solvency Assessment and Management (SAM) in South Africa which started in 2015. The year 2015 will be a busy year for insurers and reinsurers around the world. From the finalisation of Solvency II to the development of risk-based international capital standards, our industry will be engaged in a wide range of regulatory developments.



To achieve the advantages of a greater global scale and diversified product lines and distribution, as well as the pressure to grow in a low-growth environment, major reinsurance companies vigorously pursued opportunities for mergers & acquisitions (M&A) leading to increased sector consolidation. Another important reason behind the M&A activity in the (re)insurance industry is the financial regulation.

Solvency II in Europe is believed to have prompted (re)insurers that might struggle to meet their capital requirements to seek to sell or merge to solve the problem.

The 'sector outlook' for global reinsurance has been kept at negative while 'rating outlook' is stable. This is in spite of the strong results recorded in 2014 which did not impress most rating agencies given the mounting downside pressures. Indeed, operating fundamentals will be likely weakened by the decline in pricing adequacy, intense market competition, low investment yields, risky search for higher returns, increasing bargaining power of insurers and increasing pressure from alternative reinsurance capital. Alternative capital and changes in reinsurance purchasing will certainly drive catastrophe risk transfer costs down and threaten the market position of traditional reinsurers with substitute products (catastrophe bonds, industry loss warranty, collateralized reinsurance, side cars, etc.).

#### **The Corporation in 2014: Strong Premium Income Growth and Excellent Underwriting Results**

The Corporation recorded its highest premium income growth rate of the last four years (7%) despite a systemic depreciation of all the operating currencies against the reporting currency (US dollar). All production centres recorded a growth except the Lagos and Cairo Regional Offices. The underlying growth rate in operating currencies was above 12%.

Strong underwriting and investment results led to a 39% increase in overall net profit from US\$ 84.80 million in the previous year to US\$ 118.50 million.

Indeed, claims experience, both at attritional and catastrophe levels, was very good with an incurred loss ratio of 55.69% (2013: 58.76%), which led to an excellent net technical margin (underwriting profit) of 11.17% compared to 7.42% in 2013, an excellent combined ratio of 88.83% (2013: 92.58%), one of the best ever achieved, and a strong underwriting result of US\$ 68.65 million (US\$ 41.26 million).

In addition, the investment income of US\$ 50.50 million in 2013 was higher than the 2013 figure (US\$ 46.40 million).

This strong performance was achieved despite adverse circumstances similar to previous years 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.

The return on average equity (RoAE) of 16.76% recorded in 2014, was higher than that of 2013 (13.19%) and certainly among the best the Corporation has ever made.

The level of capitalization, which continued to increase in 2014 due to significant earnings retention, ended at US\$ 736.93 million, 8.8% above US\$ 677.54 million at end of 2013.

## **OUTLOOK FOR 2015**

### **Sustained Premium Income Growth and Stable Profitability for the Corporation.**

In the global reinsurance industry, 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 will 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 changes are expected.

Although the global reinsurance sector outlook is negative for reasons discussed above, the Corporation remains confident that the targets set in the 5th Strategic Business Plan will be achieved. These are: premium income growth (7.5% - 10%), combined ratio (89% - 95%) and return on average equity (11% - 16%).

Such confidence is based on the expected resilience of African economies and the relative isolation of African markets from the international reinsurance sector.

Growth, which is expected to be around 5% in Africa, would vary across sub-regions and countries with larger economies such as Nigeria and Kenya witnessing further expansion of their services sectors (e.g. construction, telecommunications, transportation), while countries like Zambia, Tanzania and Mozambique should continue benefitting from investments in their mining sectors on the back of mineral, gas and oil discoveries. The risks to this outlook remain on the downside, particularly with respect to demand for commodities, oil prices, South African economy, FDI and official development assistance and heightened security concerns in some parts of the continent.

The Corporation expects the impact of most of the ongoing market challenges and pressures seen at the global level to be low in the African reinsurance sector. The global challenges are: oversupply of capacity, new entrants in the form of non-traditional capital, more substitute products, low interest rates and greater bargaining power of buyers. The reasons why the African reinsurance sector is relatively shielded, at least for now, from such pressures

may be found in the low sophistication of reinsurance products on the continent, predominance of stable basic treaties over facultative business, low demand of catastrophe risk covers, strong growth of top lines and the relatively low level of capitalization of most insurers.

In the Corporation's core markets, competition is likely to remain or even intensify in some markets due to increased capitalization of African reinsurers and the yearning for growth and diversification. Markets like South Africa, Mauritius and Egypt are also likely to remain very competitive with low premium rates. However, it is expected that rates, terms and conditions will remain generally adequate as witnessed during the December 2014 / January 2015 renewal. Finally, there is no indication that claims experience will worsen significantly as much of Africa is not prone to major natural catastrophes. Even though there may be single large losses, the Corporation's highly diversified portfolio is resilient enough to produce a fairly good bottom line.

The negative fluctuation of African currencies against the Corporation's reporting currency will continue to be a major determinant of the Corporation's financial performance and solvency. Fortunately, the Corporation has resolved to improve its foreign exchange risk (translational and not transactional one) mitigation strategy through natural hedging mechanisms aimed at maintaining most of its assets in the reporting currency going forward.

With strong capitalization, emphasis will be laid on implementing profitable expansion strategies by further penetrating untapped markets. The Corporation will more than ever before focus on enhancing internal competencies and reinforcing differentiation through the development of its distinctive competences in its core markets.

Accordingly, the Corporation expects a good premium income growth in 2015 and a decent bottom line in accordance with the 5th Strategic Business Plan for the period 2014-2018.



## II. TECHNICAL OPERATIONS.

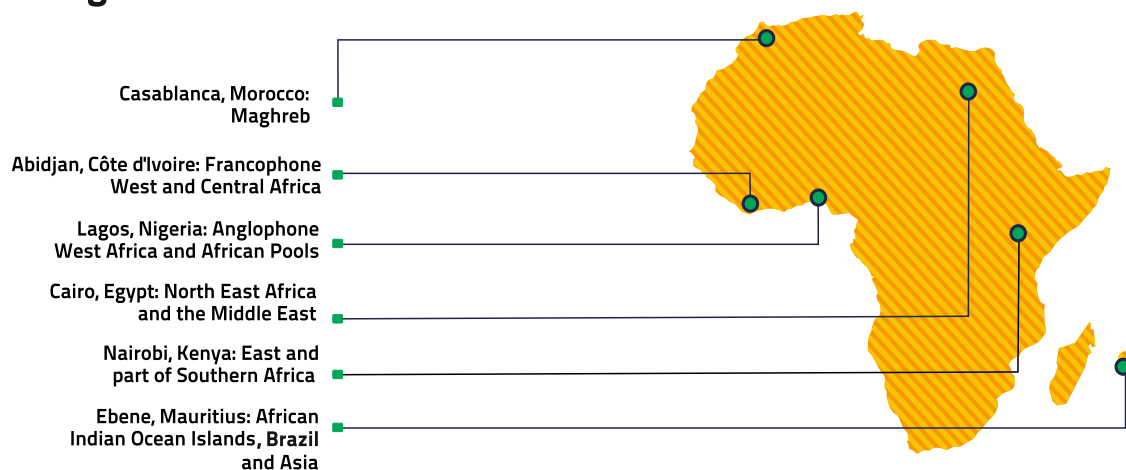
This section reviews the Corporation's operating results for the year 2014 compared to the performance of the previous year.

Africa Re operates from eight strategic locations on the continent. Each of these offices oversees specific markets within a geographical location, thereby ensuring

that every insurance market in Africa is catered for by the Corporation. The proximity of Africa Re to its clients and its adherence to best practices give the Corporation a unique access to diversified and profitable business from Africa, and to a lesser extent, Asia and the Middle East.

The Corporation operates from the following production centres:

### 6 Regional Offices



## 2 wholly owned subsidiaries    One local office

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

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

Addis Ababa, Ethiopia.

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

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

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

DESCRIPTION (US\$000)	2014			2013		
	GROSS	RETRO	NET	GROSS	RETRO	NET
<b>INCOME</b>						
Premium (less cancellations)	717,525	-93,138	624,387	670,458	-101,318	569,140
Change in unearned premium provision	-8,944	-998	-9,942	-18,313	5,235	-13,078
Earned Premium	708,582	-94,137	614,445	652,145	-96,083	556,062
<b>OUTGO</b>						
Losses paid	344,560	-15,326	329,234	344,429	-16,378	328,051
Change in outstanding claims provision (incl. IBNR)	5,929	6,996	12,925	-494	-839	-1,333
Incurred losses	350,490	-8,331	342,159	343,935	-17,217	326,718

### Premium Income

In 2014, the Corporation generated a gross written premium income of US\$717.525 million (2013: US\$670.458 million) exceeding the 2013 performance by 7.02%.

The fluctuation in exchange rates negatively impacted the turnover to the tune of US\$34.6 million, mainly due the weakening of the South African rand, the Nigerian naira, the Sudanese pound and the Kenyan shilling.

The future of the African economy is positive despite the headwinds in some countries. The World Bank predicts that the sub-Saharan African economy which grew by 4.5% in 2014 should rise to 5.1% in 2017. This growth is expected to be fuelled by investment in infrastructure and agricultural production as well as a buoyant service sector.

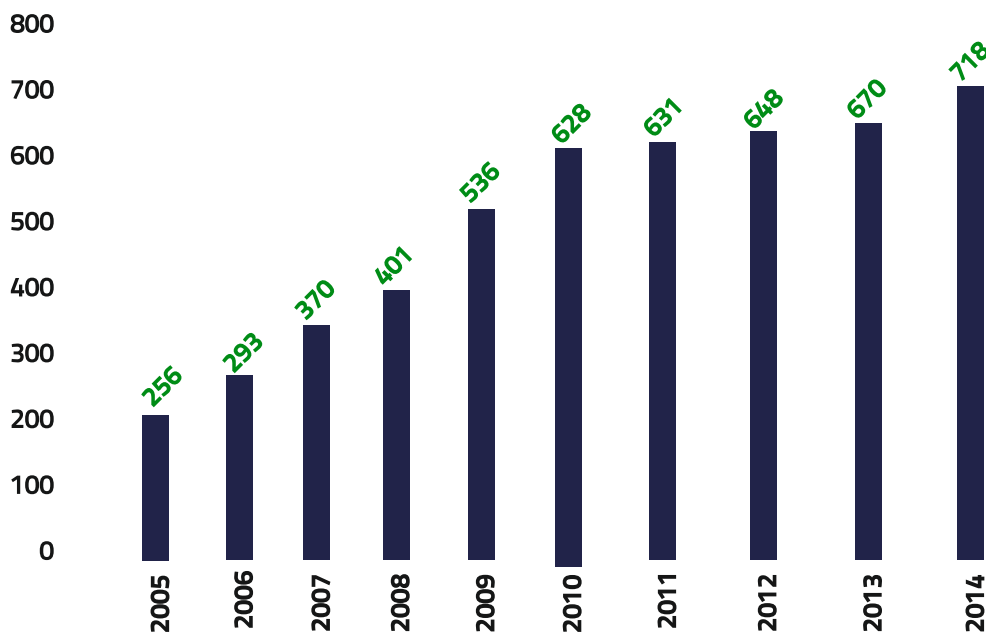
According to the World Bank, the economies of North Africa will pick up from 2015 as a number of reforms are underway. The GDP growth in the region is expected to rise to about 4.0% in 2017.

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

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



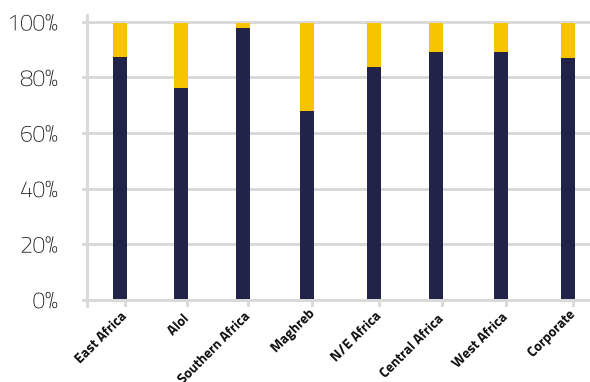
## Development of Gross Written Premium in US\$ Million



## Legal Cessions

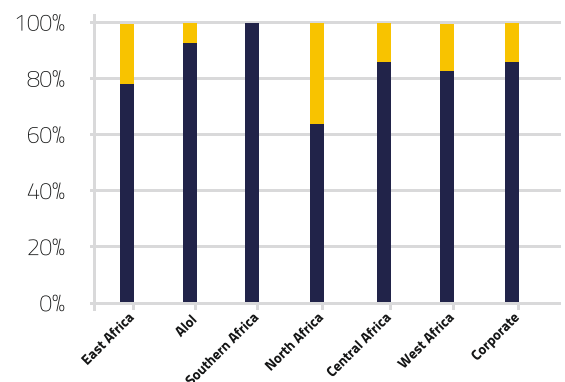
The provision of legal cessions stems from Africa Re's background in 1976 as a new pan-African reinsurer in a field dominated by foreign reinsurers with long ties to the continent. In order to survive in its early years, the founding fathers ensured from inception that the Corporation was granted 5% of every reinsurance treaty emanating from member States. This greatly assisted Africa Re to retain a small slice of the African reinsurance premium income from these more established reinsurers. Compulsory cessions presently account for only 9.1% of its income.

Financial Year, 2014



■ Voluntary ■ 5% Legal

Financial Year, 2005



■ Voluntary ■ 5% Legal

## GEOGRAPHICAL DISTRIBUTION

The Corporation started writing business in Brazil in 2013 in addition to acceptances from Africa, Asia and the Middle East. These businesses are serviced 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 consistently been Africa Re's highest income contributor. Since 2010, ARCSA's contribution to the group's turnover has gradually declined from 41.56% to 27.15% as at 2014. This situation is largely due to the depreciation of the rand against the US dollar.

### East Africa

Production from this region increased from US\$139.49 million in 2013 to US\$160.04 million in 2014, resulting in a growth of 14.74% and representing 22.30% of the corporate income. This performance was driven by increased voluntary acceptances particularly in Fire/Accident classes of business from Kenya, Tanzania and Ethiopia. This growth was achieved despite currency fluctuations translating into a loss of US\$5.5 million.

### West Africa Regional Office

The income from this region was US\$106.59 million (2013: 111.52 million), representing 14.86% of corporate production. The drop of 4.41% compared to 2013, was due essentially to some non-renewable facultative business written in 2013 as well as the postponement of some major projects in Anglophone West Africa's largest market Nigeria, till after the country's general elections in 2015.

### Maghreb

There was a drop of 25.81% in income from Libya due to the ongoing political challenges in the country. However, other Maghreb countries recorded income growth, thereby ensuring an increase in turnover of 7.05% from US\$59.96 million in 2013 to US\$64.18 million in 2014. The income from the Maghreb represents 8.94% of corporate premium income.

### North East Africa

The domestic production from the Cairo Regional Office was US\$40.36 million in 2014 (2013: US\$42.43 million). The reduction in income by 4.86% was as a result of a slowdown in economic activity in Egypt and the transfer of part of the production to Africa Retakaful in Egypt. The income from North East Africa represents 5.62% of corporate production.

### Francophone West and Central Africa

The Abidjan Office is responsible for this predominantly French-speaking region of West and Central Africa, which also includes Portuguese-speaking Guinea Bissau and Cape Verde. The turnover increased slightly by 3.18%, from US\$63.73 in 2013 to US\$65.76 million in 2014, representing 9.16% of corporate production.

### African Indian Ocean Islands

Income from the African Indian Ocean Islands increased marginally from US\$13.21 million in 2013 to US\$13.67 million in 2014 representing 1.91% of the Corporation's turnover.

### Africa Retakaful

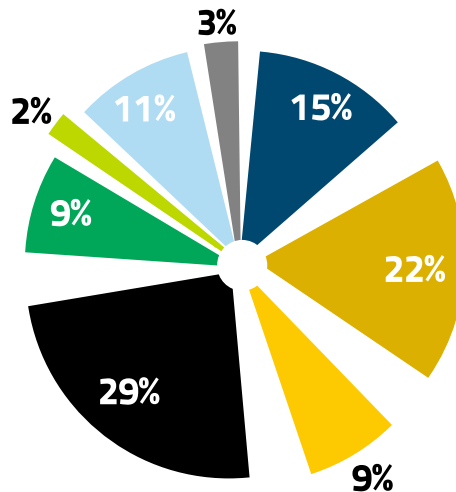
The turnover of Africa Retakaful increased significantly by 41.95% from US\$27.28 million in 2013 to US\$38.73 million in 2014 despite the depreciation of the Sudanese currency in a portfolio where 74% of the income emanates from Sudan.

### International Business & African Pools

Africa Re's income from international business increased from US\$19.70 million in 2013 to US\$21.59 million in 2014. The Middle East production of US\$10.99 million was slightly above last year's figure of US\$10.69 million. The income from Asia also increased marginally from US\$8.01 million in 2013 to US\$8.34 million in 2014. Production from Brazil which stood at US\$0.19 million in 2013 increased significantly to US\$1.27 million in 2014.

## GEOGRAPHICAL DISTRIBUTION OF GROSS PREMIUM

Region	2013 Performance
International	3%
North-East Africa	10%
Indian Ocean Island	2%
Francophone Africa	9%
Southern Africa	29%
Maghreb	9%
East Africa	21%
Anglophone West Africa	17%



## Sectoral Distribution

Fire and Engineering class continued to produce the highest turnover with US\$281.42 million representing 39.22% of corporate production as against US\$254.22 million or 37.92% in 2013. This was followed by the Accident and Motor class which stood at US\$226.68 million or 31.59% of corporate income (2013: US\$210.17 million representing 31.35%).

Oil & Energy class was third with a production of US\$113.39 million or

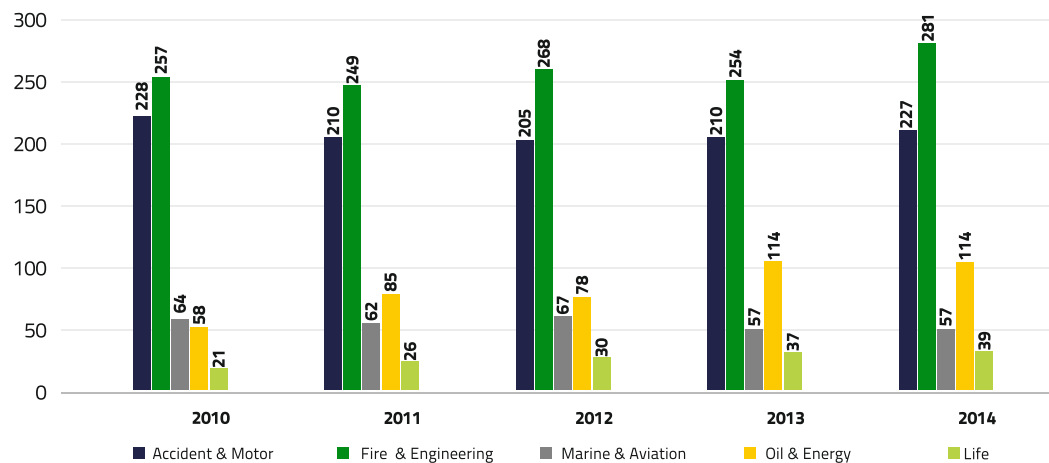
15.80% of turnover (2013: US\$113.94 million representing 16.99%).

The Marine and Aviation class was fourth with US\$56.71 million or 7.90% (2013: US\$56.91 million or 8.49%) while the Life class followed with US\$39.32 million representing 5.48% of corporate production (2013: US\$35.22 million representing 5.25%).

The premium income from the African Oil & Energy and Aviation Pools managed by the Corporation reduced from US\$817,137 to US\$694,022.



## Premium by Class in US\$million



## Technical Expenses

### Losses

The total claims paid increased slightly from US\$344.43 million in 2013 to US\$344.56 million in 2014. Claims paid ratio decreased from 51.37% in 2013 to 48.02% in 2014. Incurred losses, which include movement in outstanding claims provision (US\$5.93 million as against US\$0.49 million in 2013), amounted to US\$350.49 million in 2014 (US\$343.94 million in 2013). The following table provides insight into the above mentioned indicators.

### Gross loss ratio by class - financial year 2014

Currency: US\$m

CLASS OF BUSINESS	REGIONAL BUSINESS			INTERNATIONAL INWARD			TOTAL CORPORATE		
	Incurred Loss	Earned Premium	Loss Ratio %	Incurred Loss	Earned Premium	Loss Ratio %	Incurred Loss	Earned Premium	Loss Ratio %
Fire/Eng	146.95	270.90	54.25%	6.89	9.34	73.73%	153.84	280.25	54.90%
Accident/Motor	137.19	214.88	63.84%	4.17	4.84	86.07%	141.35	219.72	64.33%
Energy	17.54	111.85	15.68%	2.39	2.61	91.41%	19.92	114.46	17.41%
Marine & Aviation	17.95	53.33	33.65%	1.77	2.61	67.70%	19.72	55.94	35.24%
Life	15.66	38.22	40.98%	0.00	0.00	0.00%	15.66	38.22	40.98%
Total	335.29	689.18	48.65%	15.20	19.40	78.36%	350.49	708.58	49.46%

### Loss Experience by Trading Area

The gross incurred loss ratio for the subsidiary in South Africa increased from 70.85% in 2013 to 75.22% in 2014 and the net incurred loss ratio also increased from 73.43% to 76.96% during the same period. The high loss ratio was the result of the hail and flood catastrophe losses that largely impacted the Property and Motor classes in the last quarter of 2013.

The incurred gross loss ratio of the West Africa Regional Office decreased from 44.64% in 2013 to 30.55% in 2014, as a result of improvement in the loss experience of the Energy class. The net incurred claims ratio also decreased from 51.90% in 2013 to 42.96% in 2014.

The incurred loss ratios (gross and net) from East Africa decreased from 53.64% and 55.46% respectively in 2013 to 46.04% and 47.17% in 2014. Unlike 2013 where the region suffered major losses totalling US\$12.3 million, the year under review was much milder as recorded claims exceeding US\$200,000 amounted only to US\$2.5 million.

The Maghreb region's gross loss ratio decreased from 43.97% in 2013 to 39.46% in 2014, while the net loss ratio increased slightly from 42.58% to 44.45% during the same period.

The incurred loss ratios of North East Africa increased from 42.48% (net: 47.37%) in 2013 to

54.03% (net: 66.90%) in 2014 as a result of large losses affecting Fire and Energy classes.

The gross and net incurred claims ratio of the Francophone West and Central Africa decreased slightly from 19.92% (net: 35.83%) in 2013 to 19.65% (net: 31.48%) in 2014.

The gross claims experience of the African Indian Ocean Islands decreased significantly from 60.89% in 2013 to 37.04% in 2014. In a region where half of its income comes from the property class, the absence of large Fire losses was responsible for the reduction in claims experience in 2014 compared to the previous years. Consequently, the net incurred claims also decreased from 65.77% to 39.38% in 2014.

The incurred claims ratio of Africa Retakaful Company dropped from a gross and net ratio of 48.10% and 51.81% to 44.72% and 46.40% respectively.

The gross and net incurred loss ratios of the international operations increased from 66.90% and 69.48% in 2013 to 82.40% and 76.91% respectively. Since the premium basis is shrinking due to a deliberate effort to cleanse its books of loss making accounts, the international market is less diversified and very sensitive to slight increases in claims magnitude.

## Commissions and Charges

During the period under review, gross commissions and charges including movement in deferred acquisition costs amounted to US\$180.91 million (2013: 164.48 million), while retro commissions stood at US\$15.05 million (2013: US\$10.55 million). Accordingly, net commissions and charges increased from US\$153.93 million in 2013 to US\$165.86 million in 2014.

## III. INVESTMENT INCOME

### Portfolio Performance

The global economy received a boost from lower oil prices in the year 2014. The fall in oil prices may go down as the single most important development of the year. Accommodative supply faced with weaker demand pushed oil prices some 42% lower over the year. The Brent Crude Oil index decreased by 48.3% enabling the world economy to grow by 3.3% as against the 3.1% earlier estimated.

Central bank actions were very mixed. In the United States, the New Federal Reserve (Fed) Chairperson, Janet Yellen, brought an end to the Federal reserves' quantitative easing (QE) programme and hinted monetary tightening in 2015, all without significant market volatility. Meanwhile, the European Central Bank (ECB) relaxed monetary policy and started seriously considering whether to start buying sovereign debt towards the end of the year. Sharp and sudden falls in emerging market currencies were a topic throughout the year.

The outperformance of the US economy and end of QE purchases helped drive the US dollar up against its main trading partners. The euro effective exchange rate depreciated, but more aggressive monetary stimulus in some countries meant that the depreciation was relatively small.

Sub-Saharan Africa's growth improved, for the second consecutive year, to 4.5 percent in 2014. Despite headwinds,

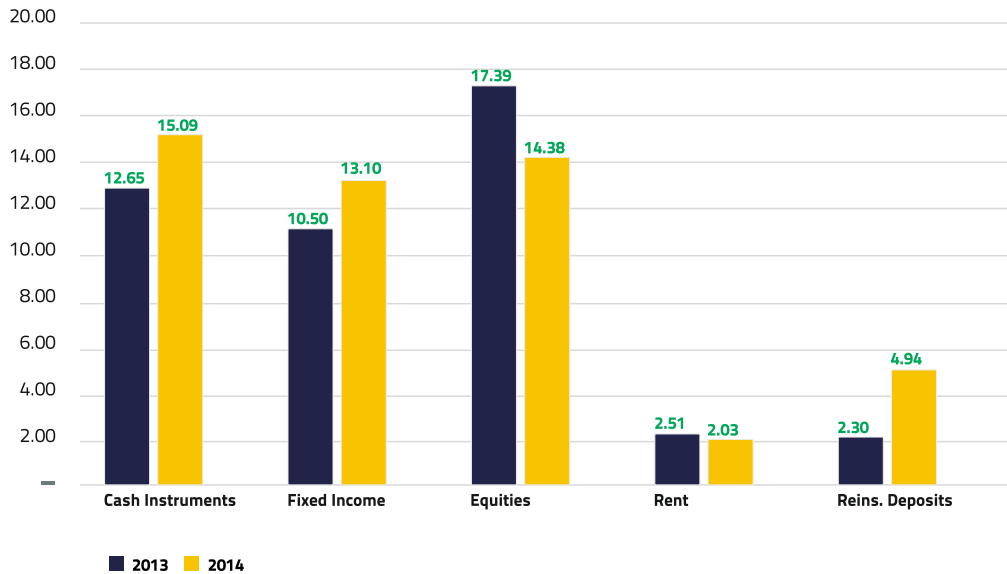
growth is projected to pick up to 5.1 percent by 2017, lifted by infrastructure investment, increased agriculture production, and buoyant services. The outlook is subject to downside risks arising from a renewed spread of the Ebola epidemic, violent insurgencies, lower commodity prices, and volatile global financial conditions. Policy priorities include a need for budget restraint for some countries and a shift of spending to increasingly productive ends, as infrastructure constraints are acute.

The Corporation's financial assets grew by 3.01% from US\$ 1,041.61 million in 2013 to US\$ 1,064.68 million in 2014 despite the negative impact of the depreciation of major operating currencies against the US dollar in particular, the euro, the Nigerian naira and the South African rand. Management continues to prudently manage the assets of the Corporation in line with the approved investment policy guidelines.

The Corporation recorded its highest ever total investment and other income of US\$50.50 million, compared to US\$46.40 million achieved in the previous year. The breakdown of the investment income reveals that return on cash and cash equivalents amounted to US\$15.09 million compared to US\$12.65 million recorded last year. There was a deliberate effort during the year to reallocate some funds from long-dated fixed income securities to short-dated fixed income securities. The idea was to minimise the impact of global interest rate adjustments, in particular the US dollar, on the Corporation's fixed income portfolio. The effort paid off as the Corporation recorded unrealized gain on the fixed income portfolio of US\$1.788 million as compared to the US\$3.940 million loss incurred same period last year. Earnings from reinsurance deposit stood at US\$4.94 million. Rental income of US\$2.03 million was equally lower than the 2013 figure of (US\$2.51 million).



## Investment Income by Asset Class in US\$ Million

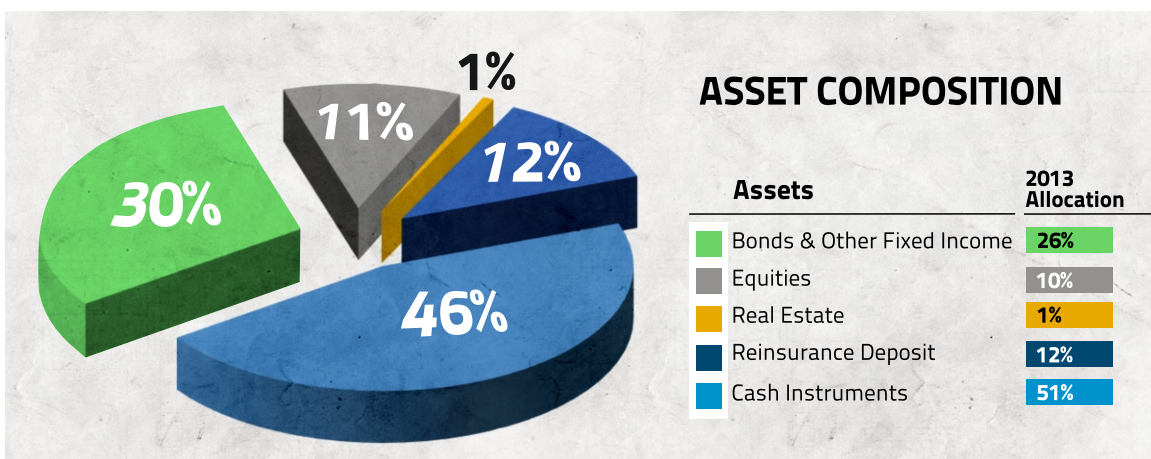


### Asset Composition

The Corporation ended the year with a total investment portfolio value of US\$1,072.33 million (inclusive of investment properties) compared to US\$1,041.30 million as at 31 December 2013. This 2.98% growth rate in the investment portfolio was attained despite the negative currency translation loss adjustment of US\$38 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 depreciation of the South African rand, Nigerian naira and the euro by 10.45%, 14.41% and 13.88% respectively against the US dollar in 2014 was mainly responsible for the currency translation loss.

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

The cash instrument asset class continues to dominate the asset composition accounting for 46% (2013: 51%). This asset class is invested primarily in treasury and other money market securities with highly-rated counterparties. Bonds and other fixed income securities followed suit at 30% (2013: 26%) while the composition of the equity portfolio moved up 100 basis points to 11% at the end of the year.



## Long Term Investments

The Corporation continues to support the socio-economic development of Africa by, among others, allocating its long term equity investments to African entities or those contributing directly or indirectly to the growth of economic activities on the continent. During the year, the Corporation made an investment of US\$3 million in PTA Bank, a regional financial institution operating in the ZEP zone. As at December 31st, 2014, the Corporation's total commitment to private equity stood at US\$31.56 million (2.9% of total investment portfolio) invested in a portfolio of 15 companies including 8 private equity funds. These private equity investments are made up of:

- 03 international development finance institutions: Shelter Africa, PTA Bank and Afreximbank,
- 02 insurance companies: AGF Assurance Vie / Allianz Vie (Cameroon) and ATI Agency (Kenya),
- 01 hospital project in Lagos,
- 01 pension fund administration company (ARM PFA in Nigeria)
- 08 privately managed equity funds (CAPE II, CAPE III, ACRF, ECP Africa Fund III, Adlevo Capital, PAHF, Carlyle Africa fund and AAF SME Fund).

## Rental Income

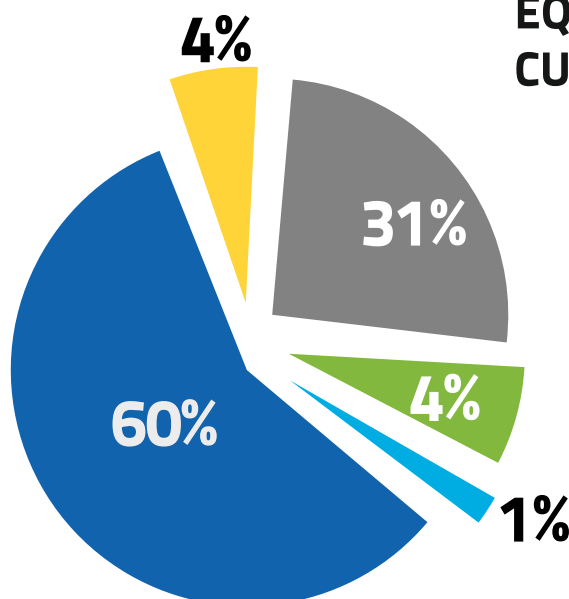
Rental income from the Corporation's three office buildings in Lagos, Nairobi and Casablanca amounted to US\$2.03 million compared to the US\$2.51 million in 2013, representing a decrease of 19.1%.

## Equities

In 2014, US Equity markets continued to perform much better than other markets. The returns on major indices were as follows: S&P500 index 13.7%, MSCI EAFE index -4.5% and MSCI EM index -1.8%.

African equity markets recorded mixed returns. Nigeria, Kenya and South Africa recorded the following returns: Nigeria All Shares Index (ASI) -16.1%, Nairobi ASI 3.8% and South Africa Top40 9.2%.

The Corporation's actively managed equity portfolio generated a positive performance of US\$14.38 million, compared to US\$17.40 million recorded the previous year. Dividend income for the year grew significantly to record US\$6.26 million (2013: US\$2.56 million); the unrealized gain amounted to US\$3.04 million compared to US\$11.85 million posted last year.



## EQUITY PORTFOLIO CURRENCY EXPOSURE

### KEY INDICATOR

	Kenyan Shilling (2013: 1%)
	Nigerian Naira (2013: 3%)
	South African Rand (2013: 37%)
	Euro (2013: 4%)
	US Dollar (2013: 55%)

**Bonds and other Fixed Income**

The bond market performed better in 2014 than the previous year as the American economy showed good signs. The year ended with BoAM ML 10-year Treasury and Barclays US Aggregate Bond Index posting a yield of 10.7% and 5.9% respectively.

The bonds and fixed income portfolio was valued at US\$311.20 million as at December 31 2014 (2013: US\$274.28 million). The bonds and fixed income portfolio share in the investment asset increased by 400 basis points to 30% in 2014 as a result of the reallocation of funds towards that category of asset.

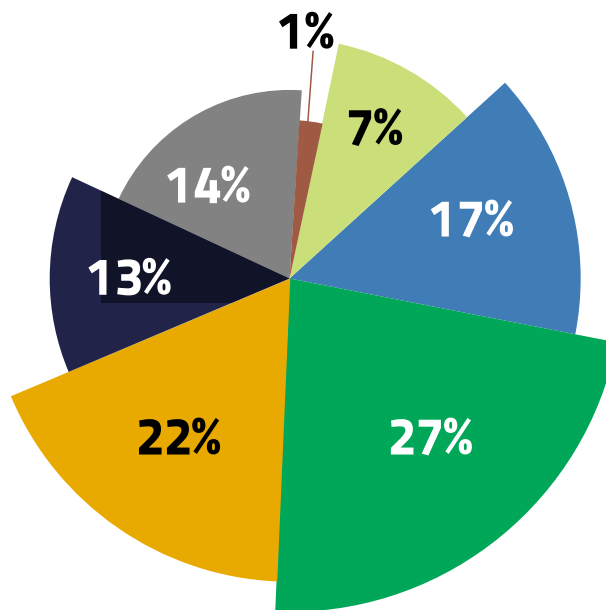
The performance of the externally managed North American US dollar bond portfolio posted a yield of 4.9%, compared to the benchmark index return of 6.1%, while the performance of the South African rand portfolio posted a return of 6.4% as against a benchmark of 7.6%.

In line with the Corporation's investment policy, the primary emphasis remains on safety and liquidity of principal by minimizing risks. The investment 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 three years ago.

Consequently, the portfolio is made up of 7% AAA - rated bonds, 17% AA - rated bonds and 49% (A and BBB) rated bonds as at the end of the year compared to 4%, 17% and 51% respectively as at end of 2013. 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.

**BOND PORTFOLIO RATING PROFILE**

2013 Allocation	
NR	4%
AAA	4%
AA	17%
A	29%
BBB	22%
BB	9%
B	15%



**Cash and Cash Instruments**

The performance of cash instruments asset class continues to be impacted by the near zero interest rates in the money market. Income from cash and cash instruments stood at US\$ 15.09 million and underperformed the budget estimates (US\$ 21.66 million) by 30.32% due to the gradual reallocation of funds into fixed income securities and the drop in interest rates, particularly the euro.

**Other Operating Income**

Other operating income comprises management fees from Aviation, Oil & Energy insurance pools and sundry income. The income recorded during the year amounted to US\$0.95 million compared to US\$1.05 million in 2013 in line with the performance of the pools.



## IV. RESULTS OF THE 2014 FINANCIAL YEAR

Gross written premium grew by 7.02% from US\$670.46 million in 2013 to US\$ 717.53 million. The growth trend continues to be impacted by the depreciation of the major transaction currencies of the Corporation and a competitive operating environment. The Corporation's performance during the year under review was 1.74% below the projection in the corporate five year plan.

The Corporation's retrocession policy continues to rely on Excess of Loss programmes to protect its traditional acceptances, while purchasing additional covers for the major oil and petrochemical risks as well as other special risks. Premium ceded to retrocessionnaires on proportional and non- proportional business decreased slightly by 2.03% from US\$96.08 million last year to US\$94.14 million representing a retention ratio of 86.71% (2013: 85.27%). The decrease is in line with the drop in proportional retrocession.

Adjustment for the movement in the provision for unearned premiums, net of retrocessionnaires' share thereof, produced a net earned premium of US\$614.45 million (2013: US\$556.06 million).

Gross claims paid in 2014 amounted to US\$344.56 million compared to US\$344.43 million in 2013, representing an increase of 0.04%. Of the total losses paid, US\$15.33 million (2013: US\$16.38 million) was recovered from retrocessionnaires, resulting in net losses paid of US\$329.23 million, compared to US\$328.05 million in 2013. The adjustment for the movement in the outstanding claims (including Incurred But Not Reported - IBNR) provisions resulted in a net incurred loss of US\$342.16 million, compared to US\$326.72 million in 2013, representing a claims ratio of 55.69% (2013: 58.76%).

Management expenses for the year amounted to US\$37.78 million, representing an increase of 10.61% compared to US\$34.16 million in 2013. The need to maintain competitiveness in

personnel remuneration and steady investment in the modernization of our IT platform accounted for the increase..

Consequently, the management expense ratio rose marginally to 6.15% in 2014 up from 6.14% in 2013.

Income earned by the Corporation from investment and other sources, including interest on reinsurance deposits and fee income increased by 8.84% to stand at US\$50.50million compared to US\$46.40 million in 2013.

Profit after tax amounted to US\$118.50 million in 2014 compared to US\$84.80 million in 2013, representing an increase of 39.74%. This impressive performance was 7.37% above the corporate five year plan projections.

## V. APPROPRIATION OF RESULTS

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

US\$59,252,152 to the general reserve in accordance with Resolution No. 4/1992;

US\$16,155,205 to be paid as dividend at the rate of US\$ 5.5 (2013: US\$4.5) per subscribed and paid-up share of US\$100 par value.

US\$8,000,000 to be transferred to the reserve for loss fluctuation;

US\$1,303,547 to be transferred to a corporate social responsibility fund; and

The balance of US\$33,793,400 to be added to retained earnings.



## VI. CAPITAL MANAGEMENT

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

It is worth mentioning that the successful fourth capital increase improved the Corporation's solvency position in 2013. This situation continued in the year 2014 as the Corporation maintained its strong capitalization.

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

### 1. Financial strength ratings and capital adequacy

Due to its supranational nature, Africa Re Group is not legally subject to any national regulatory constraints. However, it should be noted that its subsidiary company, African Reinsurance Corporation South Africa Ltd (ARCSA), is supervised by the

Financial Services Board (FSB) of South Africa. ARCSA will soon be required to comply with the new regime called Solvency Assessment and Management (SAM), which is similar to the European Solvency II and is based on economic principles in the measurement of assets and liabilities. Solvency Assessment Management sets out requirements for governance, risk management, supervision, disclosure and transparency. Africa Re continues to follow the development of SAM in order to comply with the requirements in South Africa and adopt best practices for its Group operations.

Standard & Poor's and A.M. Best rating agencies have been assigning financial strength rating, counterparty and issuer credit rating to Africa Re for more than a decade. The evaluations of the rating agencies are based on a set of criteria including the assessment of our capital adequacy. They require an annual solvency probability of 99.6%, which entails a high level of capital that should enable the company endure exceptional losses once in every 250 years.

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

## Africa Re's financial strength ratings

Rating Agency	Financial strength rating	Counter party / issuer credit Rating	Outlook	Last press release/report date
A.M. Best	A-	a-	Positive	June 12, 2014
Standard & Poor's	A-	A-	Stable	August 11, 2014

A.M. Best affirmed the Financial Strength and Issuer Credit ratings of Africa Re as A- /a- respectively while revising its outlook to positive from stable. According to A.M. Best, the ratings of Africa Re reflect its strong risk-adjusted capitalisation and improved underwriting results.

Standard & Poor's affirmed the Financial Strength and the Counterparty Credit Rating of Africa Re on 11 August 2014. The rating reflects the risk profile of Africa Re as follows:

**Business risk profile –**

- Moderate risk, balancing diversified premium across relatively higher risk African countries;
- Strong franchise across Africa with solid market shares in key African markets;
- Strong operating performance.

**Financial risk profile**

- Very strong capitalization and earnings;
- Excellent liquidity and strong financial flexibility.

**Africa Re's internal capital adequacy**

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

As at 31 December 2014, the shareholders' funds (available capital) amount to US\$736.925 million and the required capital is estimated at US\$243.644 million, resulting in an internal capital adequacy of 302.5%

## VII. ENTERPRISE RISK MANAGEMENT (ERM)

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

The ENTERPRISE RISK MANAGEMENT (ERM) function supports value creation by enabling Management to deal effectively with potential future events that create uncertainty and to respond in a manner that reduces the likelihood of downside outcomes while leveraging on opportunities. Consequently, the Corporation has in place a process it needs to become more anticipatory and effective at evaluating and managing the uncertainties it faces as it works towards creating sustainable value for stakeholders.

### 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' operational framework which operates as follows:

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

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

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

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

## 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:** Risk of loss arising from the Corporation's core business as a result of inadequate underwriting or reserving.

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

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

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

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

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

**Group 7- Reputational risk:** Risk of loss arising

from damages to the Corporation's brand, leading to loss of business and competitive advantage.

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

**Group 9- Operational risk:** The risk of loss resulting from inadequate or failed internal processes, people, systems and external events.

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

## 3. RISK MANAGEMENT PROCESSES

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

### Financial Risks

Insurance, credit, liquidity, currency fluctuation and market risks have been classified as financial risks. The management of these risks is covered under "**Management of Insurance and Financial Risks**" (Pages 71 - 76).

### Operational Risk

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

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

Africa Re is committed to properly mitigating and managing its exposure to operational and other non-financial risks. The operational risk management model involves the following cyclical process:

identification, assessment, response & control, reporting and monitoring of risks. Dedicated officers (Risk Champions) from production centres are responsible for overseeing the management of operational risks which arise in their area of control. The Corporation applies a centrally coordinated methodology to identify and assess risks through the use of an effective Operational Risk Solution, an IT platform called ARC Logics (Sword). The Operational Risk Solution assists the Corporation in implementing the tools and techniques provided in the Group Operational Risk Policy Document: Risk and Control Self-Assessment (RCSA), Internal Loss Data Capturing, Key Risk Indicators (KRIs), Stress and Scenario Testing, etc. It is used in the Corporation's head office and production centres. The modules installed include the Platform, Risk & Control Assessment, Loss & Incident Recording, Control Assurance and Enterprise Reporting.

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

#### Emerging risks

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

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

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

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

management framework are robust in response to changing exposure to known risks and other emerging risks.

#### 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 insurance, investment and credit risks.

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

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

##### Catastrophe Modelling

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

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

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



## 5. ERM EVALUATION BY RATING AGENCIES

Enterprise Risk Management in Africa Re received ratings from two top rating agencies in 2014, namely: A.M. Best and Standard & Poor's. Below are some excerpts from the ratings:

### A.M. Best: **Adequate**

'We assess ARC's enterprise risk management (ERM) as adequate. Given the regional focus of ARC, its predominance focus on proportional reinsurance of retail motor/property, low life business, and modest complexity and risk in investments, we consider the company's ERM as having low importance to the overall rating. Nevertheless, we think there have been improvements in the ERM framework and controls over the past few years. We view as supportive the increase of the risk culture awareness operated these past few years. ARC has, in our opinion, capabilities to identify and manage most of its major risk exposures and losses, but the process has not been comprehensively extended to all significant risks faced by the company. We view positively the commitment of the senior management, which is well informed on risk issues, and its willingness to instill a risk culture in the company"

### Standard & Poor's: **Adequate**

'The favourable trend in technical results is attributable to Africa Re's evolving risk management, which has resulted in strengthened risk controls and monitoring capabilities to support its operations. The corporation now actively reviews and responds to loss-making risks, as demonstrated by the considerable contraction of the weaker-performing international portfolio."

## VIII. CORPORATE GOVERNANCE

### 1. OVERVIEW

The African Reinsurance Corporation is regulated by the Agreement Establishing the Corporation and other statutory documents detailed below. There are various corporate governance policy documents in force which are based on international best practices. The Corporation's subsidiary in South Africa is locally

incorporated and in addition, complies with the applicable local corporate governance codes such as the King III Report.

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

### 2. CORPORATE GOVERNANCE FRAMEWORK

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

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

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

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

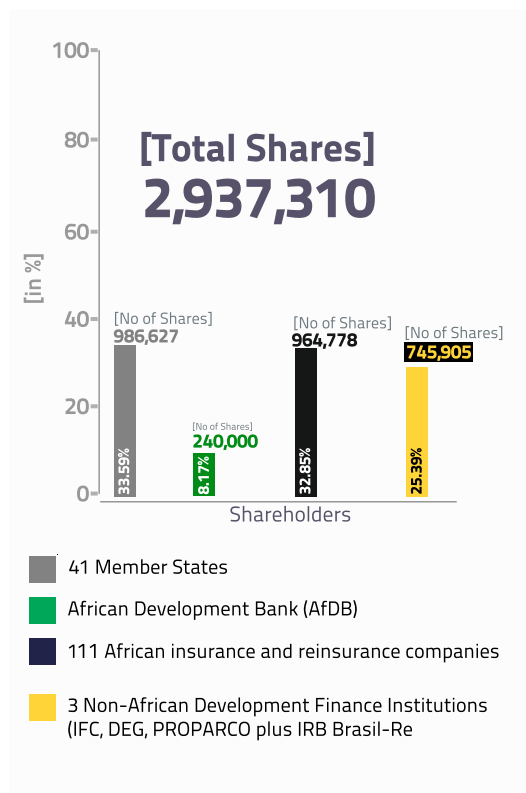
- A new Board Charter integrating the latest best practices in board functioning;
- Separate Committees for the following oversight functions (hitherto combined):
  - Audit and Finance
  - Risk Management and IT Governance

- Extension of the scope of the Remuneration Committee, in charge of defining the compensation system of the elected Management members, to cover all the other Human Resources affairs of the Corporation. Accordingly, the Human Resources and Remuneration Committee was set up.
- Regular and formal Board Evaluation;
- Reinforcement of the Declaration of Interest by Board members;
- Appointment of the Corporate Secretary.

The Corporation also ensured that its South African subsidiary adopted the same approach to integrate the new local requirements in corporate governance based on the forthcoming Solvency Assessment and Management regime and the new Companies Act.

### 3. SHAREHOLDING AND BOARD OF DIRECTORS

#### 3.1 Shareholding Structure as at 31 December 2014



#### 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 2014 with US\$ 293,731,000 fully paid-up. The capital is divided into 2,937,310 shares, each with a nominal value of US\$100.

The Annual General Meeting of Shareholders and the Board of Directors approved the 4th capital increase to enable the Corporation to seize business opportunities that will certainly emerge as a result of the following:

- Expected rapid economic growth in its core market;
- The much awaited hardening of the reinsurance market following the ongoing long low cycle; and
- The consistently strong/excellent financial rating of the Corporation that is unique in the African insurance/reinsurance industry.

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

#### 3.3. Board of Directors – Composition

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

The table below contains the current members of the Board of Directors of the Corporation as at 31 December 2014.



Name & Nationality	Constituency	Current Term Ends in
<b>Mr Hassan BOUBRIK</b> Moroccan	Morocco: State and Companies	June 2017
<b>Mr Woldemichael ZERU</b> Eritrean	East and Southern Africa and Sudan (12 States)	June 2017
<b>Dr Mohamed Ahmed MAAIT</b> Egyptian	Egypt: State and Companies	June 2015
<b>Mr Moussa DIAW</b> Senegalese	Companies of Francophone West and Central Africa plus Mauritania & Tunisia (States and Companies)	June 2015
<b>Mr Mamadou DEME</b> Senegalese	Francophone Africa (18 States)	June 2015
<b>Mr Kamel MARAMI</b> Algerian	Algeria: State and 4 companies	June 2015
<b>Mr Karanja KABAG E</b> Kenyan	Anglophone West Africa (4 States and Companies) and East and Southern Africa (Companies)	June 2017
<b>Mr Fathi Sanoussi Guma BALA</b> Libyan	Libya: State and Companies	June 2015
<b>Mr Fola DANIEL</b> Nigerian	Nigeria: State and Companies	June 2015
<b>Mr P ierre VAN PETEGHEM</b> Belgian	African Development Bank (AfDB)	June 2015
<b>Mr Bernd TUEMMERS</b> German	German Investment and Development Corporation (DEG)	June 2015
<b>Mr John BURBIDGE</b> British	International Finance Corporation (IFC)	June 2015

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

- Ten (10) for Class "A" Shareholders (41 African member States, AfDB and 111 African insurance and reinsurance companies), with AfDB entitled to a permanent seat.
- Two (2) for Class "B" Shareholders (3 non-African Development Finance Institutions) plus IRB-Brasil Re

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

### 3.4. Board of Directors – Committees

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

#### Members

- Mr John Burbidge (Committee Chairman)
- Mr Bernd Tuemmers
- Mr Pierre Van Peteghem
- Dr Mohamed Ahmed Maait



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

#### Members

Mr Moussa Diaw (Committee Chairman)  
Mr Karanja Kabage  
Mr Fathi Bala

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

#### Members

Mr Fola Daniel (Committee Chairman)  
Mr Woldemichael Zeru  
Mr Mamadou Deme

### 3.5 Board Evaluation and Training

Evaluating the performance of the Board was part of the recommendations of the last corporate governance review exercise. The Board has decided that its performance shall be evaluated through a self-assessment exercise. Accordingly, self-assessment forms and performance criteria were prepared. As regards training, new Board members are provided with induction packs on the functions of the Board and the Committees.

### 3.6 Board of Directors – Activities in 2014

The Board of Directors met four times in 2014. The first meeting was held in Abidjan, Côte d'Ivoire in April 2014. The second and the third meetings took place in Cairo, Egypt in June 2014 and the fourth was held in Nairobi, Kenya in November 2014. The average attendance rate was 97%.

## 4. EXECUTIVE MANAGEMENT

Executive Management comprises the following members as at 31/12/2014:

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

## 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. Notice & Agenda of the General Assembly

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



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

## IX COMPLIANCE

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

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

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

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

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

The following are the 2014 updates in the compliance function of the Corporation:

- **The formal creation of a compliance function:** The Corporation formally created a compliance function to manage all the relevant compliance issues of the Corporation.
- **Identification of key compliance areas:** The key compliance areas relevant to the business of the Corporation were identified and reports on the

compliance status to these areas were presented to Executive Management and the Board. The identified areas include regulatory compliance in South Africa, anti-money laundering (AML)/combating terrorist financing (CTF), know your customer (KYC), UN Security Council Resolutions and other sanctionable practices.

## X CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

### Activities carried out in 2014

#### 1) Community Support

Africa witnessed the deadliest outbreak of the dreaded Ebola Virus Disease (EVD) in 2014, which persisted over long periods affecting the health, social and economic lives of the affected countries.

Africa Re supported the most affected countries in the fight against the disease with a donation to the governments of Liberia, Guinea and Sierra Leone. This was at the meeting of the African Ambassadors Group during its session of 3 December 2014 in Abuja, Nigeria.

The meeting was hosted by His Excellency Maurice Peter Kagimu Kiwanuka, the Ugandan High Commissioner at the High Commission of Uganda in Abuja, Nigeria. Over 50 Ambassadors and Diplomats of African countries were in attendance.

Further financial assistance was given through the West Africa Regional Office to some Non-Governmental Organisations (NGOs) that were directly working on the field in the affected countries.

## 2) The Training Programme for Young Insurance Professionals

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

## 3) African Insurance Awards

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

The three categories of the Awards are as follows:

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

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

## 4) Emergency Fund for Risk Prevention and Disaster Relief

The Corporation will initiate and sponsor an awareness programme on major risk prevention through risk communication and risk dialogue for prevention, preparedness, response and recovery as equal measures to traditional risk management practices. The objective will be to reduce the impact of risks on the people, communities and their properties. Indirectly, these programmes can even have a positive impact on the likelihood and severity of the claims reported to the Corporation.



**RESPONSIBILITY FOR EXTERNAL FINANCIAL REPORTING  
STATEMENT OF MANAGEMENT'S RESPONSIBILITY****Management responsibility regarding Effectiveness of Internal Controls  
over Financial Reporting**

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

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

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

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

Key procedures that Management has established, which are designed to provide effective internal financial control within the Group include the preparation, review and Board approval of the annual financial plans that align with strategic plans. Results are monitored regularly and progress reports on performance compared to the 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.

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**HASSAN BOUBRIK**

Chairman

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**CORNEILLE KAREKEZI**

Managing Director

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFRICAN REINSURANCE CORPORATION

**Deloitte.**

**Deloitte Côte d'Ivoire**  
S.A. au capital de 37 500 000 FCFA  
Compte contribuable 9104684 A RC Abidjan B 156849  
Imm. Alpha 2000 – 14<sup>e</sup> et 18<sup>e</sup> Etage  
Rue Gourgas – Plateau  
01 B.P. 224 Abidjan 01 – Côte d'Ivoire  
Tél.: (225) 20.250 250  
Fax: (225) 20.250 260 / 20.250 270  
www.deloitte.com

To the Shareholders,

We have audited the accompanying consolidated financial statements of African Reinsurance Corporation which comprise the Consolidated Statement of financial position as at December 31, 2014, the Consolidated Statement of profit or loss and other comprehensive income, the Consolidated Statement of Changes in Equity and consolidated Statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Director's 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 December 31, 2014 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Specific verification**

As required by law, we must also verify in accordance with International standards on Auditing, the information presented in the Group's management report.

We have no comment to make on the fair presentation and consistency with the consolidated financial statements, of the information contained in the group management report.

Abidjan, March 20th, 2015

Certified public Accountants

Deloitte Côte d'Ivoire



Marc WABI  
Chartered Accountant  
Partner

## Consolidated Statement of Financial Position As at 31 December 2014

	Notes	2014 US\$'000	2013 US\$'000
<b>Assets</b>			
Cash and cash equivalents	24	184,014	154,413
Investments	4	880,663	879,192
Premium income receivable		56,906	51,040
Deferred acquisition costs	5	47,146	44,776
Reinsurance receivables	6	144,276	152,262
Retrocessionaires' share of technical provisions	7	56,164	64,158
Sundry receivables		5,258	5,900
Tax recoverable	22	309	2,374
Investment properties	8	7,655	7,688
Property and equipment	9	16,951	15,287
Intangible assets	10	3,924	741
Total assets		<u>1,403,266</u>	<u>1,377,831</u>
<b>Liabilities</b>			
Sundry payables		16,646	12,258
Dividend payable	23	3,694	4,044
Reinsurance payables	11	36,516	57,721
Deferred tax	12	2,920	2,603
Technical provisions	13	<u>606,565</u>	<u>623,667</u>
Total liabilities		<u>666,341</u>	<u>700,293</u>
<b>Shareholders' funds</b>			
Retained earnings		149,293	112,961
Other reserves	14	223,201	211,675
Share premium		70,700	58,862
Share capital	15	293,731	294,040
Total shareholders' funds		<u>736,925</u>	<u>677,538</u>
Total liabilities and shareholders' equity		<u>1,403,266</u>	<u>1,377,831</u>

The financial statements on pages 45 to 83 were approved and authorised for issue by the Board of Directors of the Corporation on 13 April 2015 and were signed on its behalf by:

\_\_\_\_\_  
**HASSAN BOUBRIK**  
 Chairman

\_\_\_\_\_  
**CORNEILLE KAREKEZI**  
 Managing Director

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 2014**

	Notes	2014 US\$'000	2013 US\$'000
Gross earned premium	16	708,582	652,145
Less: retrocession premium	16	<u>(94,137)</u>	<u>(96,083)</u>
Net earned premium	16	614,445	556,062
Investment income	17	49,548	45,341
Commissions earned under retrocession arrangements		15,052	10,550
Other operating income	18	<u>948</u>	<u>1,054</u>
Total income		679,993	613,007
Net claims incurred	19	(342,159)	(326,718)
Acquisition expenses	20	(180,910)	(164,477)
Administrative expenses	21	(37,780)	(34,157)
Net foreign exchange gain/(loss)		<u>1,280</u>	<u>(486)</u>
Profit before income tax		120,424	87,169
Taxation charge	22	<u>(1,920)</u>	<u>(2,368)</u>
Profit for the year		<u>118,504</u>	<u>84,801</u>
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Exchange differences on translating foreign operations		(38,060)	(16,991)
Net fair value gain /(loss) on revaluation of available-for-sale financial assets		91	(4)
Total other comprehensive (loss)/income		<u>(37,969)</u>	<u>(16,995)</u>
Total comprehensive income for the year		<u>80,535</u>	<u>67,806</u>

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



### Consolidated statement of changes in equity for the year ended 31 December 2014

	Retained earnings US\$ '000	Translation 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 US\$ '000
At 1 January 2014	112,961	(36,390)	218,498	73	6,294	23,200	211,675	58,862	294,040	677,538
Total comprehensive income for the year	118,504	(38,060)	-	91	-	-	(37,969)	-	-	80,535
Buy back of ordinary shares	-	-	(17,757)	-	-	-	(17,757)	-	(10,000)	(27,757)
Issue of ordinary shares	-	-	-	-	-	-	-	11,838	9,691	21,529
Dividend declared in 2013	(13,224)	-	-	-	-	-	-	-	-	(13,224)
Corporate social responsibility fund	(1,696)	-	-	-	-	-	-	-	-	(1,696)
Transfer to reserves	(67,252)	-	59,252	-	-	8,000	67,252	-	-	-
At 31 December 2014	149,293	(74,450)	259,993	164	6,294	31,200	223,201	70,700	293,731	736,925
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	-	-	-	-	-	-	-	6,410	7,376	13,786
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

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

**Consolidated statement of cash flows for the year ended 31 December 2014**

	Notes	2014 US\$'000	2013 US\$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	24	91,685	41,191
Income tax paid	22	(708)	(1,983)
		-----	-----
Net cash from operating activities		90,977	39,208
		-----	-----
<b>Cash flows from investing activities</b>			
Purchase of investment property	8	(70)	(20)
Purchase of property and equipment	9	(3,374)	(4,286)
Purchase of intangible assets	10	(3,287)	(741)
Sale of investments		3,077	28,800
Proceeds of disposal of property and equipment		50	39
		-----	-----
Net cash (used in)/generated from investing activities		(3,604)	23,792
		-----	-----
<b>Cash flows from financing activities</b>			
Proceeds of shares subscription		21,528	13,786
Buy back of ordinary shares		(27,757)	-
Dividends paid	23	(13,574)	(13,932)
		-----	-----
Net cash (used in)/generated from in financing activities		(19,803)	(146)
		-----	-----
<b>Net increase in cash and cash equivalents</b>		<b>67,570</b>	<b>62,854</b>
		-----	-----
<b>Movement in cash and cash equivalents:</b>			
At start of year		154,413	108,554
Net increase in cash and cash equivalents		67,570	62,854
Net exchange (losses)/gains on liquid assets		(37,969)	(16,995)
		-----	-----
At end of year	24(b)	184,014	154,413
		=====	=====

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

## Notes

### 1 General information

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

- a) mobilise financial resources from insurance and reinsurance operations;
- b) invest such funds in Africa to help accelerate economic development; and
- c) foster the development of the insurance and reinsurance industry in Africa by promoting the growth of national, regional and sub-regional underwriting and retention capabilities.

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

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

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

### 2 Accounting policies

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

##### 1) New standards and amendments to published standards effective for the year ended 31 December 2014

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 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 Measure ment

The Group has applied IFRS 13 for the first time in 2013. 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 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 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 Comprehensive 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.

Amendments to IAS 1  
Presentation of Items of Other Comprehensive Income  
(Continued)

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 has 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 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.

IAS 19

Employee Benefits (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.

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.

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 2015
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 2014 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.

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'.

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 2014.

#### **(a) 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 recognizes 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 recognized in profit or loss.

Any contingent consideration to be transferred by the group is recognized at fair value at the acquisition date.

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

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

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

##### **(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 re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized 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 recognized 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 recognized 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.

**(b) 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.

**(c) 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.

**(d) Recognition and measurement of insurance contracts**

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

**(i) Short-term insurance contract premium**

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

date to recognise retrospective adjustments to premium or commission. Premium relating to the expired risk period is taken as earned and recognised as revenue for the period while premium relating to the unexpired risk period is treated as a provision for unearned premium.

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

**(ii) Unearned premium provision for short-term insurance contracts**

The portion of gross written premium on short-term insurance contracts, which is estimated to be earned in the following or subsequent years, is accounted for as unearned premium provision. For proportional treaty business, this is computed separately for each contract at the reporting date, using 50% of written premium in respect of the current underwriting year for Africa Re Group excluding the South African subsidiary, where computation is based on the one-over-eighth method. For non-proportional and facultative business this is computed on the pro-rata basis. Where the nature of the underlying business and risk does not justify the use of the above methods, the unearned premium provision is calculated on 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 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.

<b>4 Investments</b>	<b>2014</b> <b>US \$'000</b>	<b>2013</b> <b>US \$'000</b>
<b>i) Investments by category</b>		
<b>Held to maturity</b>		
Bank deposits	318,896	373,576
Deposits with ceding companies	129,575	129,104
Fixed rate securities held to maturity	139,256	137,733
Floating rate securities at cost	12,914	4,418
	<u>600,641</u>	<u>644,831</u>
<b>Fair value through profit or loss</b>		
Fixed rate securities at fair value through profit or loss	159,029	132,128
Quoted equity investments at fair value through profit or loss	94,691	85,130
	<u>253,720</u>	<u>217,258</u>
<b>Available for sale</b>		
Redeemable preference shares	4,665	3,294
Unquoted equity investments at cost less impairment losses	21,637	13,809
	<u>26,302</u>	<u>17,103</u>
	<u><b>880,663</b></u>	<u><b>879,192</b></u>

Fixed rate securities held to maturity are presented in the Group's statement of financial position at their amortized costs as at 31 December 2014 of US\$139,256,440 (2013–US\$137,733,400). The fair value of the held -to- maturity assets as at 31 December, 2014 was US\$ 137,140,162 (2013: US\$ 137,304,983).

Unquoted equity investments with a cost of US\$21,636,939 (2013: US\$13,808,966) are carried at cost because their fair value cannot be determined as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

The Group's overall commitment in unquoted private equity investments as at 31 December 2014 was US\$ 31,562,000 (2013: US\$ 26,461,241).

<b>ii) Weighted average effective interest rates</b>	<b>2014</b>	<b>2013</b>
	%	%
Interest -bearing investments denominated in:		
US dollars	2.44	2.67
Euro	0.80	1.40
South African rand	<u>11.01</u>	<u>8.32</u>

**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:

**4 Investments (Continued)**

- 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).

	<b>31/12/2014</b>			
	Level 1	Level 2	Level 3	<b>Total</b>
	US\$'000	US\$'000	US\$'000	<b>US\$'000</b>
<b>Financial assets at fair value through profit or loss</b>				
Non-derivative financial assets held for trading	253,720	-	-	<b>253,720</b>
Available -for-sale financial assets				
Redeemable preference shares	4,665	-	-	<b>4,665</b>
<b>Total</b>	<b>258,385</b>	-	-	<b>258,385</b>

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

	<b>31/12/2013</b>			
	Level 1	Level 2	Level 3	<b>Total</b>
	US\$'000	US\$'000	US\$'000	<b>US\$'000</b>
<b>Financial assets at fair value through profit or loss</b>				
Non-derivative financial assets held for trading	217,258	-	-	<b>217,258</b>
<b>Available -for-sale financial assets</b>	-			
Redeemable preference shares	3,294	-	-	<b>3,294</b>
<b>Total</b>	<b>220,552</b>	-	-	<b>220,552</b>

<b>5 Deferred Acquisition Costs</b>	<b>2014</b>	<b>2013</b>
	<b>US \$'000</b>	<b>US \$'000</b>
Balance at 1 January	44,776	43,386
Exchange rate impact on opening balance	(398)	(1,286)
	44,378	42,100
Released during the year	(44,378)	(42,100)
Deferred during the year	47,146	44,776
At 31 December	<b>47,146</b>	<b>44,776</b>

	<b>2014</b> <b>US \$'000</b>	<b>2013</b> <b>US \$'000</b>
<b>6 Reinsurance receivables</b>		
Gross receivables arising from reinsurance arrangements	167,258	172,737
Provision for impairment	(22,982)	(20,475)
	<u><b>144,276</b></u>	<u><b>152,262</b></u>
Comprising:		
Current portion	56,094	59,385
Non-current portion	88,182	92,877
	<u>144,276</u>	<u>152,262</u>
<b>7 Retrocessionaires share of technical provisions</b>		
Claims recoverable	34,115	41,111
Deferred retrocession premiums	22,049	23,047
	<u><b>56,164</b></u>	<u><b>64,158</b></u>
<b>8 Investment properties</b>		
<b>Cost</b>		
At 1 January	9,730	9,710
Additions	70	20
At 31 December	9,800	9,730
<b>Depreciation</b>		
At 1 January	2,042	1,875
Charge for the year	103	167
At 31 December	2,145	2,042
<b>Net book value</b>	<u><b>7,655</b></u>	<u><b>7,688</b></u>
The following amounts have been recognised in statement of profit or loss and other comprehensive income in respect of investment properties:		
<b>Net rental income (Note 17)</b>	<u><b>2,032</b></u>	<u><b>2,513</b></u>

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

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

At 1 April 2012, the market value of the Casablanca regional office building was estimated at US\$ 4.831 million (net book value: US\$ 1.86 million) based on a valuation by Elodie Cantarel SARL, a firm of Estate Surveyors.

At 24 May 2012, the market value of the Nairobi regional office building was estimated at US\$ 8.13 million (net book value: US\$ 2.05 million) based on a valuation by Knight Frank, a firm of Estate Surveyors.

**8 Investment properties (Continued)**

Details of the group's investment properties and information about the fair value hierarchy as at 31 December 2014 as follows:

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

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value as at 31/12/2013</b>
	<b>US \$'000</b>	<b>US \$'000</b>	<b>US \$'000</b>	<b>US \$'000</b>
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.



## 9. Property and equipment

	Assets under construction US\$'000	Buildings & freehold Land US\$'000	Fittings & equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
<b>Year ended 31 December 2014:</b>					
<b>Cost</b>					
At 1 January	2,384	11,597	12,512	1,271	27,764
Additions	1,719	340	822	493	3,374
Disposals	-	-	(570)	(340)	(910)
Transfer from assets under construction	(646)	484	162	-	-
	<b>3,457</b>	<b>12,421</b>	<b>12,926</b>	<b>1,424</b>	<b>30,228</b>
<b>Depreciation</b>					
At 1 January	-	2,182	9,371	924	12,477
Depreciation charge	-	301	1,208	197	1,706
Disposals	-	-	(566)	(340)	(906)
	<b>-</b>	<b>2,483</b>	<b>10,013</b>	<b>780</b>	<b>13,277</b>
<b>Net Book Value</b>	<b>3,457</b>	<b>9,938</b>	<b>2,913</b>	<b>644</b>	<b>16,951</b>
<b>Year ended 31 December 2013:</b>					
<b>Cost</b>					
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	-	-
	<b>2,384</b>	<b>11,597</b>	<b>12,512</b>	<b>1,271</b>	<b>27,764</b>
<b>Depreciation</b>					
At 1 January	-	2,001	8,459	945	11,405
Depreciation charge	-	181	1,203	215	1,599
Disposals	-	-	(291)	(236)	(527)
	<b>-</b>	<b>2,182</b>	<b>9,371</b>	<b>924</b>	<b>12,477</b>
<b>Net Book Value</b>	<b>2,384</b>	<b>9,415</b>	<b>3,141</b>	<b>347</b>	<b>15,287</b>

Included in buildings and freehold land is a total amount of US\$4,342,887 (2013: 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\$ 6,988,137 (2013: US\$ 6,023,483) which were fully depreciated as at 31 December 2014. The normal depreciation charge on these assets would have been US\$ 1,162,993 (2013: US\$ 1,153,413).

**10. Intangible Assets**

	<b>Computer Software</b>	<b>Computer Software in progress</b>	<b>Total</b>
	<b>US \$'000</b>	<b>US \$'000</b>	<b>US \$'000</b>
<b>Year ended 31 December 2014:</b>			
<b>Cost</b>			
At 1 January	971	741	1,712
Additions	289	2,998	3,287
Additions	127	(127)	-
<b>At 31 December</b>	<b>1,387</b>	<b>3,612</b>	<b>4,999</b>
<b>Amortisation</b>			
At 1 January	971	-	971
Charge for the year	104	-	104
<b>At 31 December</b>	<b>1,075</b>	<b>-</b>	<b>1,075</b>
<b>Net book value</b>	<b>312</b>	<b>3,612</b>	<b>3,924</b>
<b>Year ended 31 December 2013:</b>			
<b>Cost</b>			
At 1 January	971	-	971
Additions	-	741	741
<b>At 31 December</b>	<b>971</b>	<b>-</b>	<b>1,712</b>
<b>Amortisation</b>			
At 1 January	971	-	971
Charge for the year	-	-	-
<b>At 31 December</b>	<b>971</b>	<b>-</b>	<b>971</b>
<b>Net book value</b>	<b>-</b>	<b>741</b>	<b>741</b>

Included above are assets with a total cost of US\$971,303 (2013: US\$ 971,303) which were fully depreciated as at 31 December 2014. The normal depreciation charge on these assets would have been US\$ 194,260 (2013: US\$ 194,260).

**11 Reinsurance payables**

	<b>2014 US\$'000</b>	<b>2013 US\$'000</b>
Payables under reinsurance arrangements	35,797	40,471
Payables under retrocession arrangements	719	17,250
	<b>36,516</b>	<b>57,721</b>

## 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:

	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
At 1 January	2,603	2,627
Exchange rate impact on opening balance	(246)	(499)
Charged to profit or loss (Note 22)	<u>563</u>	<u>475</u>
<b>At 31 December</b>	<b><u>2,920</u></b>	<b><u>2,603</u></b>

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

	<b>01.01.14</b> <b>US \$'000</b>	<b>Charged</b> <b>to P/L</b> <b>US \$'000</b>	<b>31.12.14</b> <b>US \$'000</b>	<b>31.12.13</b> <b>US \$'000</b>
Excess depreciation over capital allowances	(68)	2	(66)	(80)
Unrealised gain on revaluation of investments	2,671	561	3,232	3,182
Exchange rate impact on opening balance	(246)	-	(246)	(499)
<b>Net deferred tax liability</b>	<b><u>2,357</u></b> <b>=====</b>	<b><u>563</u></b> <b>=====</b>	<b><u>2,920</u></b> <b>=====</b>	<b><u>2,603</u></b> <b>=====</b>

## 13 Technical provisions

### i) Analysis of outstanding balances

	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Provision for reported claims	370,697	374,181
Provision for claims incurred but not reported	70,479	68,963
Cumulative translation reserve	<u>(32,400)</u>	<u>(9,962)</u>
Total outstanding claims	408,776	433,182
Provision for unearned premiums	<u>197,789</u>	<u>190,485</u>
	<b><u>606,565</u></b>	<b><u>623,667</u></b>
Comprising:		
- current portion	377,451	320,708
- non-current portion	<u>229,114</u>	<u>302,959</u>
	<b><u>606,565</u></b>	<b><u>623,667</u></b>

## ii) Analysis of outstanding claims reserve development

U/W YR	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Gross outstanding claims reserve	135,573	148,915	137,391	184,340	179,076	209,347	261,164	273,011	332,025	320,708	377,451
Gross paid (Cumulative):											
1 year later	48,968	51,265	61,065	82,410	121,336	116,271	107,963	91,909	108,649	126,366	
2 years later	70,452	67,657	92,138	129,566	167,922	152,433	163,498	153,569	154,306	-	
3 years later	77,164	76,434	108,658	153,827	188,457	169,968	182,869	173,006	-	-	
4 years later	83,147	83,881	115,327	169,617	197,253	189,701	194,440	-	-	-	
5 years later	87,641	87,836	120,486	176,689	200,887	193,590	-	-	-	-	
6 years later	90,263	90,633	121,607	179,563	203,935	-	-	-	-	-	
7 years later	91,596	93,188	123,010	180,369	-	-	-	-	-	-	
8 years later	93,284	97,255	125,602	-	-	-	-	-	-	-	
9 years later	94,223	98,407	-	-	-	-	-	-	-	-	
10 years later	94,396	-	-	-	-	-	-	-	-	-	
Re-estimated as of:											
Closed year	135,573	148,915	137,391	184,340	179,076	209,347	261,164	273,011	332,025	320,708	377,451
1 year later	128,836	102,876	117,432	174,442	212,563	204,840	130,291	133,668	211,016	151,443	
2 years later	114,114	136,360	137,660	205,816	213,216	193,863	215,433	201,879	207,014	-	
3 years later	132,279	120,260	143,870	203,417	205,401	212,347	216,229	208,458	-	-	
4 years later	111,528	124,345	139,407	192,482	224,140	211,157	218,241	-	-	-	
5 years later	112,969	116,445	137,316	192,446	224,929	211,533	-	-	-	-	
6 years later	109,417	101,320	135,838	191,527	222,622	-	-	-	-	-	
7 years later	99,287	105,155	134,042	190,083	-	-	-	-	-	-	
8 years later	99,018	103,706	134,285	-	-	-	-	-	-	-	
9 years later	98,905	103,764	-	-	-	-	-	-	-	-	
10 years later	98,079	-	-	-	-	-	-	-	-	-	
Gross redundancy/ (deficiency)	37,494	45,151	3,106	(5,743)	43,546	(2,186)	42,923	64,553	125,010	169,265	

## 14 Other reserves

	2014 US\$'000	2013 US\$'000
General reserve	259,993	218,498
Reserve for exchange fluctuation	6,294	6,294
Reserve for loss fluctuation	31,200	23,200
Reserve for market value adjustment	164	73
Translation reserve	(74,450)	(36,390)
	<b><u>223,201</u></b>	<b><u>211,675</u></b>

### (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 47**

## 15 Share capital

	2014 Number	2013 Number
Authorised share capital	<b><u>5,000,000</u></b>	<b><u>5,000,000</u></b>
Issued and fully paid	<b><u>2,937,310</u></b>	<b><u>2,940,405</u></b>
	<b>US\$'000</b>	<b>US\$'000</b>
Issued and fully paid at 31 December	293,731	294,040
<b>Nominal value per share</b>	<b>\$100</b>	<b>\$100</b>

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

	2014 USD '000	2013 USD '000
At start of year	294,040	286,664
Buy back of ordinary shares	(10,000)	
Issue of ordinary shares	9,691	7,376
	<b><u>293,731</u></b>	<b><u>294,040</u></b>
<b>At end of year</b>	<b>=====</b>	<b>=====</b>

**16 Earned premium**

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

	2014			2013		
	Gross US\$'000	Retro- cession US\$'000	Net US\$'000	Gross US\$'000	Retro- cession US\$'000	Net US\$'000
Fire and accident	536,043	(34,507)	501,536	483,570	(32,124)	451,446
Marine and aviation	134,324	(56,943)	77,381	136,380	(58,804)	77,576
Life	38,215	(2,687)	35,528	32,195	(5,155)	27,040
	<b>708,582</b>	<b>(94,137)</b>	<b>614,445</b>	<b>652,145</b>	<b>(96,083)</b>	<b>556,062</b>

**17 Investment income**

	2014 US\$000	2013 US\$000
<b>Held to maturity</b>		
Interest income from bank deposits	15,095	12,637
Interest income from deposits with ceding companies	4,935	2,296
Interest income from fixed rate securities HTM	8,277	6,435
interest income from Floating rate Notes	240	119
	<b>28,547</b>	<b>21,487</b>
<b>Fair value through profit or loss</b>		
Interest income from fixed rate securities at fair value through profit or loss	4,408	8,100
Dividend from quoted equity investments at fair value through profit or loss	6,263	2,566
Fair value gains from quoted equity investments	3,038	11,855
Fair value gains/(losses) from listed bonds	1,788	(3,940)
	<b>15,497</b>	<b>18,581</b>
<b>Available for sale</b>		
Dividend from unquoted equity investments at cost less impairment losses	<b>1,197</b>	<b>1,139</b>
Rental Income	2,032	2,513
Realized gains or losses on equity portfolios	4,259	2,339
Realized gains or losses on bond portfolios	(917)	291
Management fees from equity portfolio	(373)	(504)
Management fees from bonds portfolios	(694)	(505)
	<b>4,307</b>	<b>4,134</b>
	<b>49,548</b>	<b>45,341</b>
<b>18 Other operating income</b>		
Fee income	814	606
Gain /(Loss) on disposal of property and equipment	46	(61)
Sundry income	88	509
	<b>948</b>	<b>1,054</b>

19 Claims incurred	2014			2013		
	Gross US\$'000	Retro- cession US\$'000	Net US\$'000	Gross US\$'000	Retro- cession US\$'000	Net US\$'000
Claims incurred by principal class of business;						
Fire and Accident	304,264	(3,575)	300,689	285,767	(7,433)	278,334
Marine and Aviation	30,567	(3,956)	26,611	41,471	(7,215)	34,256
Life	15,659	(800)	14,859	16,697	(2,569)	14,128
	<b>350,490</b>	<b>(8,331)</b>	<b>342,159</b>	<b>343,935</b>	<b>(17,217)</b>	<b>326,718</b>

20 Acquisition costs	2014 US \$'000	2013 US \$'000
Commission paid	160,605	149,099
Charges paid	23,042	19,488
Movement in deferred acquisition cost	(2,737)	(4,110)
	<b>180,910</b>	<b>164,477</b>

21 Administrative expenses	2014	2013
Staff costs	21,220	20,965
Auditors' remuneration	263	262
Depreciation on properties and equipment	1,745	1,599
Depreciation on investment property	168	167
Impairment charge on reinsurance receivables	5,179	2,442
Operating lease rentals	204	365
Repairs and maintenance expenditure	1,148	1,145
Consultancy fees	855	773
Travel costs and allowances	748	772
General Assembly and Board of Directors' meetings	1,449	1,245
Electricity and water	447	617
Insurance	580	582
Communication expenses	359	394
Advertisement and entertainment	657	615
Training and subscriptions	632	366
Technical assistance	227	126
Medical	507	491
Computer and word processing	594	454
Transport and maintenance	137	158
Bank charges and other fees	371	322
Office	191	197
Legal	36	64
Donations	63	36
	<b>37,780</b>	<b>34,157</b>

Staff costs include retirement benefit costs amounting to US\$ 2,415,705 (2013: US\$2,518,347).

**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:

	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Current income tax charge	1,357	1,893
Deferred income tax (credit)/charge (Note 12)	<u>563</u>	<u>475</u>
	<b><u>1,920</u></b>	<b><u>2,368</u></b>

The movement in the tax recoverable account is as follows:

At 1 January	2,374	2,284
Current tax charge for the year	(1,357)	(1,893)
Tax paid	<u>(708)</u>	<u>1,983</u>
At December	<b><u>309</u></b>	<b><u>2,374</u></b>

**23 Dividends**

At the Annual General Meeting (AGM) to be held on 18 June, 2015, a final dividend in respect of the year ended 31 December, 2014 of US\$ 5.5 per share on 2,937,310 existing shares amounting to a total of US\$ 16,155,205 (2013: Total dividend; US\$ 13,224,183.75 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 20 June 2014 was charged to shareholders' equity in these financial statements. The liability for the dividend payable on the 2014 results shall be treated as an appropriation of profit in the financial statements for the year ending 31 December 2015.

The movement in the dividends payable account is as follows:

	<b>2014</b> <b>USD '000</b>	<b>2013</b> <b>USD '000</b>
At 1 January	4,044	5,309
Final dividends declared	13,224	12,667
Dividends paid	<u>(13,574)</u>	<u>(13,932)</u>
<b>At 31 December</b>	<b><u>3,694</u></b> =====	<b><u>4,044</u></b> =====



## 24 Notes to the statement of cash flows

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

	Notes	2014 US\$'000	2013 US\$'000
Profit before income tax		120,425	87,169
Adjustments for:			
Depreciation on investment property	8	103	167
Depreciation on property and equipment	9	1,706	1,599
Amortisation of intangible assets	10	104	-
Loss/ (gain) on disposal of property and equipment		(46)	61
Change in fair value of financial assets		(4,826)	(7,915)
Working capital changes;			
Premium income receivable		(5,866)	(6,534)
Deferred acquisition costs		(2,370)	(1,390)
Reinsurance receivables		7,986	(21,086)
Retrocessionaires' share of technical provisions		7,994	(6,069)
Sundry receivables		640	(201)
Sundry payables		4,388	(3,084)
Exchange difference on deferred tax opening balance	12	(246)	(499)
Deposits due to retrocessionaires		(3,980)	-
Reinsurance payables		(17,226)	4,148
Technical provisions		(17,101)	(5,175)
Cash generated from operations		<b>91,685</b>	<b>41,191</b>
		=====	=====
b) Cash and cash equivalents			
Cash and bank balances		77,849	90,969
Bank deposits with financial institutions maturing within 90 days		106,165	63,444
Cash and cash equivalents		<b>184,014</b>	<b>154,413</b>
		=====	=====

## 25 Related party transactions and balances

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

ii) Remuneration for key management personnel	2014 US\$ '000	2013 US\$ '000
Directors' fees (non executive directors)	691	604
Other remuneration (elected members of management)		
- Salaries and other short term benefits	1,324	1,302
- Terminal benefits	203	192
	=====	=====

**26 Management of Insurance Risk****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

**31 December 2014****Class of business**

	<b>Gross exposure</b>	<b>Net exposure</b>
	<b>US\$' 000</b>	<b>US\$' 000</b>
Property risk excess of loss	80,000	20,000
Property catastrophe excess of loss	215,000	25,000
Marine & Energy excess of loss	60,000	15,000
Aviation excess of loss	15,000	3,000

**31 December 2013****Class of business**

	<b>Gross exposure</b>	<b>Net exposure</b>
	<b>US\$' 000</b>	<b>US\$' 000</b>
Property risk excess of loss	80,000	20,000
Property catastrophe excess of loss	215,000	25,000
Marine & Energy excess of loss	60,000	15,000
Aviation excess of loss	15,000	3,000

## 27 Financial risk management

### Financial risk management

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

#### a) Credit risk

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

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

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

Credit risk relating to receivables is mitigated by the large number of cedants and their dispersion across the continent. A significant number of the companies from whom receivables are due are equally shareholders of the Group. In addition, the liability for outstanding claims is in respect of insurance contracts with the same counter parties.

Receivables are presented at present value net of impairment provision. A periodic evaluation of cedants and retrocessionnaires is carried out to minimise exposure to significant losses from insolvencies. Transaction terms are also strictly monitored to keep balances as current as possible.

#### b) Liquidity risk

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

The table below analyses the Corporation's key financial assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2014 to the earlier of the repricing or contractual maturity date.

## 27 Financial risk management (Continued)

	Up to 1 year	1-2 Years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
<b>At 31 December 2014</b>							
<b>(IN US\$'000)</b>							
<b>FINANCIAL ASSETS</b>							
Cash and cash equivalents	184,014	-	-	-	-	-	184,014
Reinsurance premiums receivables	67,945	29,095	23,383	17,014	6,839	-	144,276
Claims recoverable	7,908	3,682	9,667	6,082	578	6,198	34,115
Deferred retrocession premiums	18,642	3,186	210	-	2	9	22,049
	<b>278,509</b>	<b>35,963</b>	<b>33,260</b>	<b>23,096</b>	<b>7,419</b>	<b>6,207</b>	<b>384,454</b>
<u>Investments</u>							
- Bank deposits	318,896	-	-	-	-	-	318,896
- Deposits with ceding companies	9,888	29,562	15,724	11,596	13,708	49,097	129,575
- Fixed rate securities at fair value	18,491	18,820	19,888	22,724	5,620	73,486	159,029
- Fixed rate securities at amortized cost	11,208	17,767	20,968	12,255	10,137	66,921	139,256
- Floating rate securities at cost	2,394	506	-	-	10,014	-	12,914
Redeemable notes	94,691	-	-	-	-	-	94,691
Equity investments at fair value	4,665	-	-	-	-	-	4,665
Unquoted equity investments at cost less impairment losses	-	-	-	-	-	21,637	21,637
	<b>460,233</b>	<b>66,655</b>	<b>56,580</b>	<b>46,575</b>	<b>39,479</b>	<b>211,141</b>	<b>880,663</b>
<b>Total</b>	<b>738,742</b>	<b>102,618</b>	<b>89,840</b>	<b>69,671</b>	<b>46,898</b>	<b>217,348</b>	<b>1,265,117</b>
<b>FINANCIAL LIABILITIES</b>							
Reinsurance payables	23,099	4,258	2,442	2,894	3,823	-	36,516
Outstanding claims	187,871	93,295	52,999	27,474	16,530	30,607	408,776
<b>Total</b>	<b>210,970</b>	<b>97,553</b>	<b>55,441</b>	<b>30,368</b>	<b>20,353</b>	<b>30,607</b>	<b>445,292</b>

	Up to 1 year	1-2 Years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
<b>At 31 December 2013</b>							
<b>(IN US\$'000)</b>							
<b>FINANCIAL ASSETS</b>							
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
	<b>568,807</b>	<b>66,268</b>	<b>40,684</b>	<b>10,149</b>	<b>968</b>	<b>7,667</b>	<b>694,543</b>
<b>Investments</b>							
- 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
	<b>170,441</b>	<b>70,263</b>	<b>45,819</b>	<b>46,736</b>	<b>44,633</b>	<b>177,590</b>	<b>555,482</b>
<b>Total</b>	<b>739,248</b>	<b>136,531</b>	<b>86,503</b>	<b>56,885</b>	<b>45,601</b>	<b>185,257</b>	<b>1,250,025</b>
<b>FINANCIAL LIABILITIES</b>							
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
<b>Total</b>	<b>167,830</b>	<b>113,255</b>	<b>53,108</b>	<b>37,343</b>	<b>42,933</b>	<b>76,434</b>	<b>490,903</b>

## 27 Financial risk management (Continued)

### c) MARKET RISK

#### i) Interest rate risk

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

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

#### ii) Equity price risk

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

#### iii) Currency risk

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

The Corporation transacts business with counterparties in a number of countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro, South African rand, Kenyan shilling and

Nigerian naira. However, the Corporation's primary exposure is to the South African rand. Foreign exchange risk arises from reinsurance transactions recorded in local currencies, investments in non-reporting currencies and recognised assets and liabilities in foreign operations.

**"The tables on pages 75 and 76 show the various currencies in which the group's assets and liabilities were denominated as at 31 December 2014 and 2013. The non US dollar balances reflect the significant foreign currency exposures."**

27. Financial risk management (Continued)

Currency risk (continued)

At 31 December 2014:  
(in US\$'000)

ASSETS	USD	Rand	UK Pounds	CFA/EUR	MAD	EGP	NGN	KES	MUR	OTHERS	TOTAL
Cash and cash equivalents	30,730	24,446	10,866	47,978	623	8,116	21,000	8,069	2,118	8,078	184,014
Reinsurance receivables	41,444	13,677	1,067	14,027	5,992	8,944	13,618	11,902	3,237	30,368	144,276
Claims recoverable	29,338	45	14	826	673	754	11	241	3	2,210	34,115
Deferred retrocession premium	17,519	-	45	920	34	162	19	86	27	3,237	22,049
<b>Investments:</b>											
- Bank deposits	91,649	50,003	4,457	48,031	53,073	5,884	20,187	21,794	477	23,341	318,896
- Deposits with ceding companies	12,542	(263)	435	38,558	34,234	7,800	10	783	(186)	35,662	129,575
- Fixed rate securities at fair value	94,665	41,212	3,376	4,086	-	-	14,000	1,690	-	-	159,029
- Fixed rate securities at amortised cost	113,059	9,853	-	12,479	-	-	-	3,865	-	-	139,256
- Floating rate securities at cost	12,523	-	391	-	-	-	-	-	-	-	12,914
- Redeemable notes	3,839	-	-	826	-	-	-	-	-	-	4,665
- Equity investments at fair value	47,527	38,095	-	3,633	-	-	4,561	875	-	-	94,691
- Equity investments at amortised cost less impairment losses	21,637	-	-	-	-	-	-	-	-	-	21,637
<b>Total</b>	<b>516,472</b>	<b>177,068</b>	<b>20,651</b>	<b>171,364</b>	<b>116,619</b>	<b>31,660</b>	<b>73,406</b>	<b>49,305</b>	<b>5,676</b>	<b>102,896</b>	<b>1,265,117</b>
<b>LIABILITIES</b>											
Reinsurance payables	917	54	1,051	1,421	-	-	-	-	-	33,073	36,516
Outstanding claims	108,607	88,383	804	34,035	33,249	18,328	9,430	28,729	7,762	79,449	408,776
<b>Total</b>	<b>109,524</b>	<b>88,437</b>	<b>1,855</b>	<b>35,456</b>	<b>33,249</b>	<b>18,328</b>	<b>9,430</b>	<b>28,729</b>	<b>7,762</b>	<b>112,522</b>	<b>445,292</b>

Key to currency abbreviations:

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

## 27. Financial risk management (Continued)

## Currency risk (continued)

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

	USD	Rand	UK Pounds	CFA/EUR	MAD	EGP	NGN	KES	MUR	OTHERS	TOTAL
<b>ASSETS</b>											
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
<b>Total</b>	<b>590,772</b>	<b>184,789</b>	<b>17,242</b>	<b>145,370</b>	<b>66,506</b>	<b>26,383</b>	<b>63,317</b>	<b>55,435</b>	<b>3,953</b>	<b>96,258</b>	<b>1,250,025</b>
<b>LIABILITIES</b>											
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
<b>Total</b>	<b>131,914</b>	<b>85,867</b>	<b>1,962</b>	<b>40,686</b>	<b>33,575</b>	<b>15,819</b>	<b>21,589</b>	<b>29,909</b>	<b>7,504</b>	<b>122,078</b>	<b>490,903</b>

## Key to currency abbreviations:

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



## 28 Investments in subsidiary companies

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

	Principal Activity	Share capital US\$ '000	Holding	2014 US\$'000	2013 USD'000
African Reinsurance Corporation (South Africa) Limited	Reinsurance services	*	100%	*	*
African Takaful Reinsurance Company	Reinsurance services	12,000	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 on 9 January 2004. The principal activity of the company is provision of reinsurance services to the countries of the rand zone as well as Mozambique, Botswana and Angola. It made a profit of US \$ 6,621,663 during the year ended 31 December 2014 (2013 - US \$ 7,974,697). The relevant activities of African Reinsurance Corporation (South Africa) Limited are determined by its board of directors based on simple majority votes where each share carries one vote.

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

Set out below is the summarised financial information for the subsidiary

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

	2014	2013
<b>Summarised statement of financial position</b>	US \$'000	US \$'000
Total assets	276,080	279,843
Total liabilities	(222,332)	(227,789)
	<hr/>	<hr/>
Net assets	<u>53,748</u>	<u>52,054</u>
<b>Summarised statement of profit or loss and other comprehensive income</b>		
Net earned premium	54,477	53,258
	<hr/>	<hr/>
Profit before income tax	8,495	10,287
Income tax expense	(1,873)	(2,312)
Other comprehensive income	-	-
	<hr/>	<hr/>
Total comprehensive income	<u>6,622</u>	<u>7,975</u>
<b>Summarised statement of cash flows</b>		
Net cash generated from / (used in) operating activities	5,124	(15,719)
Net cash (used in)/ generated from investing activities	(5,027)	15,492
	<hr/>	<hr/>
Net increase/ (decrease) in cash and cash equivalents	97	(227)
Net (loss)/ gain on liquid assets	(18)	(96)
Cash and cash equivalents at beginning of year	185	508
	<hr/>	<hr/>
Cash and cash equivalents at end of year	<u>264</u>	<u>185</u>

**African Takaful Reinsurance Company**

African Takaful Reinsurance Company was incorporated on 1 September 2010. The principal activity of the company is provision of reinsurance products which are fully sharia compliant. The company made a profit of US \$1,338,393 during the year ended 30 June 2014 (December 2013 - US \$1,733,007). The relevant activities of African Takaful Reinsurance Company are determined by its board of directors based on simple majority votes where each share carries one vote.

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

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

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

	2014	2013
	US \$'000	US \$'000
<b>Sum marised statement of financial position</b>		
Total assets	55,463	49,791
Total liabilities	(49,288)	(43,687)
	<hr/>	<hr/>
Net assets	6,175	6,104
	<hr/> <hr/>	<hr/> <hr/>
<b>Summarised statement of profit or loss and other comprehensive income</b>		
Net interest income	9,520	5,489
	<hr/>	<hr/>
Profit before income tax	1,316	1,601
Other comprehensive income	22	132
	<hr/>	<hr/>
Total comprehensive income	1,338	1,733
	=====	=====
<b>Summarised statement of cash flows</b>		
Net cash generated (used in)/from operating activities	5,477	5,929
Net cash from investing activities	297	234
Net cash generated from financing activities	-	(1,032)
	<hr/>	<hr/>
Net increase in cash and cash equ ivalents	5,774	5,131
Net (loss) on liquid assets	(166)	(97)
Cash and cash equivalents at beginning of year	10,965	8,880
	-----	-----
Cash and cash equivalents at end of year	16,573	13,914
	=====	=====

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

Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited was purchased by African Reinsurance Corporation in October 2012. The principal activity of the company is property holding. The company made a profit of US \$ 110,259 during the year ended 31 December 2014 (2013 – US \$ 100,334). The relevant activities of Sherborne Number Ten Parktown Investments Proprietary (South Africa) Limited are determined by its board of directors based on simple majority votes where each share carries one vote.

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

Set out below is the summarised financial information for the subsidiary

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

	2014 US \$'000	2013 US \$'000
<b>Summarised statement of financial position</b>		
Total assets	2,539	1,978
Total liabilities	(106)	(64)
	_____	_____
Net assets	2,433	1,914
	=====	=====
<b>Summarised statement of profit and loss and other comprehensive income</b>		
Net Income	203	187
	_____	_____
Profit/(loss) before income tax	158	139
Income tax (expense)/credit	(48)	(39)
Other comprehensive income	-	-
	_____	_____
Total comprehensive income	110	100
	=====	=====
<b>Summarised statement of cash flows</b>		
Net cash generated (used in)/from operating activities	-	-
Net cash used in from investing activities	-	-
Net cash generated from financing activities	-	-
	_____	_____
Net increase in cash and cash equivalents	-	-
	_____	_____
Net (loss) on liquid assets	-	-
Cash and cash equivalents at beginning of year	-	-
	_____	_____
Cash and cash equivalents at end of year	-	-
	=====	=====

**29 Contingent liabilities**

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

## 30 Operating lease Commitments

### Operating lease payables

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

	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Not later than 1 year	296	199
Later than 1 year and not later than 5 years	427	67
	<b>723</b>	<b>266</b>

### 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:

	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Not later than 1 year	1,571	1,883
Later than 1 year and not later than 5 years	1,627	1,249
	<b>3,198</b>	<b>3,132</b>

## 31 Capital management

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

The corporation's objectives in managing its capital are:

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- To maintain financial strength to support new business growth;
- To satisfy the requirements of its reinsured and rating agencies;
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;

To safeguard the corporation's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

To provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The corporation has a number of sources of capital available to it and seeks to optimise its retention capacity in order to ensure that it can consistently maximise returns to shareholders. The corporation considers not only the traditional sources of capital funding but the alternative sources of capital including retrocession, as appropriate, when assessing its deployment and usage of capital. The corporation manages as capital all items that are eligible to be treated as capital.

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

	<b>2014</b> <b>US\$'000</b>	<b>2013</b> <b>US\$'000</b>
Share capital	293,731	294,040
Share premium	70,700	58,862
Other reserves	223,201	211,675
Retained earnings	149,293	112,961
	<b>736,925</b>	<b>677,538</b>

## Appendix

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

	Fire and accident	Marine and aviation	Life	Total 2014	Total 2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Underwriting income:</b>					
Gross written premium	545,716	132,491	39,318	717,525	670,458
<b>Gross earned premium</b>	536,043	134,324	38,215	708,582	652,145
Retrocession premium	(34,507)	(56,943)	(2,687)	(94,137)	(96,083)
<b>Net earned premium</b>	<b>501,536</b>	<b>77,381</b>	<b>35,528</b>	<b>614,445</b>	<b>556,062</b>
<b>Commissions &amp; charges earned under retrocession arrangements</b>	<b>6,453</b>	<b>7,690</b>	<b>909</b>	<b>15,052</b>	<b>10,550</b>
<b>Gross claims paid</b>	<b>(297,037)</b>	<b>(32,803)</b>	<b>(14,720)</b>	<b>(344,560)</b>	<b>(344,429)</b>
Gross claims incurred	(304,264)	(30,567)	(15,659)	(350,490)	(343,935)
Less retrocessionaires' share	3,575	3,956	800	8,331	17,217
<b>Net claims incurred</b>	<b>(300,689)</b>	<b>(26,611)</b>	<b>(14,859)</b>	<b>(342,159)</b>	<b>(326,718)</b>
Acquisition expense	(143,558)	(27,797)	(9,555)	(180,910)	(164,477)
Management expenses	(27,604)	(8,015)	(2,161)	(37,780)	(34,157)
<b>Underwriting profit</b>	<b>36,138</b>	<b>22,648</b>	<b>9,862</b>	<b>68,648</b>	<b>41,260</b>
Net investment and other income				50,496	46,395
Realised gain / (loss) on exchange				1,280	(486)
<b>Profit before income tax</b>				<b>120,424</b>	<b>87,169</b>
Taxation charge				(1,920)	(2,368)
<b>Profit for the year</b>				<b>118,504</b>	<b>84,801</b>









