

African Reinsurance Corporation (South Africa) Limited

Annual Report

for the year ended 31 December 2014



**Prepared by Glen Peters, B Compt., under the supervision of
Ibrahim Ibisomi, BSc (Hons) Econs, LL B (Hons), MBF, FCA
General Manager, Finance and Administration**

These financial statements have been audited in compliance with section 30 of the South African Companies Act 71 of 2008



African Reinsurance Corporation (South Africa) Limited

(Reg. No. 2003/031630/06)

Annual Report

for the year ended 31 December 2014

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Declaration by Company Secretary

In my capacity as Company Secretary, I hereby confirm and certify, in terms of the Companies Act, 2008, as amended, that for the year ended 31 December 2014, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

Ibrahim Ibisomi
Company Secretary

13 March 2015



African Reinsurance Corporation (South Africa) Limited

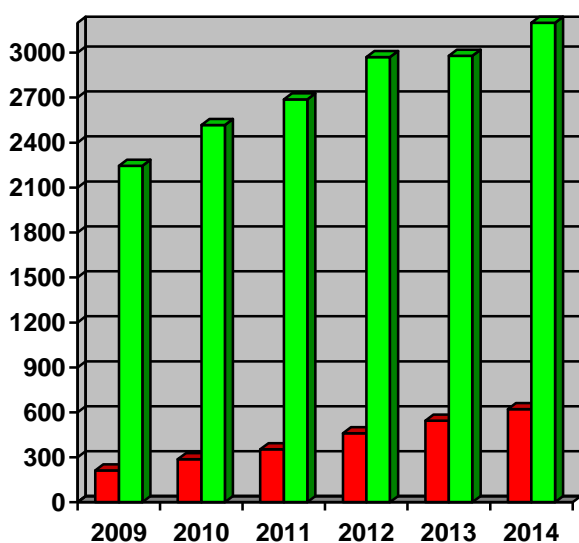
Financial highlights

for the year ended 31 December 2014

In R'000	2014	2013	2012	2011	2010
RESULTS					
GROSS WRITTEN PREMIUMS	2 146 143	1 879 305	1 687 667	1 785 810	1 671 976
NET WRITTEN PREMIUMS	622 780	548 255	489 379	517 017	480 965
NET EARNED PREMIUMS	630 232	557 814	479 796	512 821	489 205
NET PROFIT	76 604	83 526	108 120	66 613	73 659
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	621 803	545 199	461 673	353 553	286 940
TOTAL ASSETS	3 223 906	2 978 400	2 968 992	2 688 195	2 516 782
INTERNATIONAL SOLVENCY MARGIN ^{N1}	100%	99%	94%	68%	60%

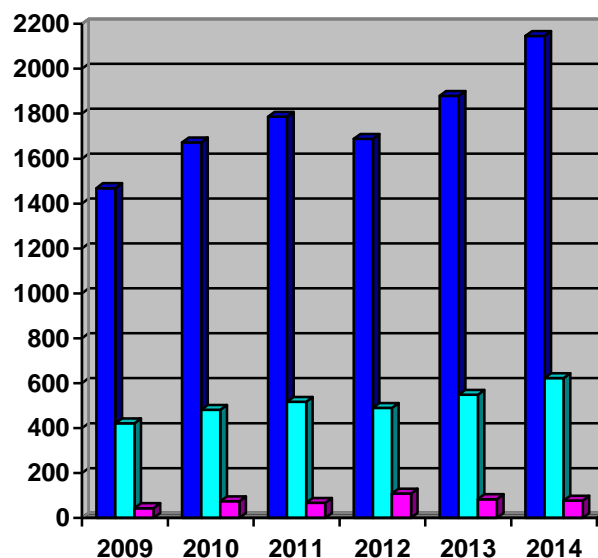
^{N1} International solvency margin is calculated as the net assets expressed as a percentage of the net written premium.

FINANCIAL POSITION 2009 - 2014
In Rand' Million



■ SHAREHOLDERS' FUNDS ■ TOTAL ASSETS

RESULTS 2009 - 2014
In Rand' Million



■ GROSS WRITTEN PREMIUMS ■ NET WRITTEN PREMIUMS ■ NET PROFIT



African Reinsurance Corporation (South Africa) Limited

Chairman and executive management statement

for the year ended 31 December 2014

On behalf of the Board of Directors, it is our honour and privilege to as usual present the annual financial statements of African Reinsurance Corporation (South Africa) Limited (“Africa Re (SA)”) for the year ended 31 December 2014. The year 2014 marks the first year of the Company’s new five-year strategic plan 2014 – 2018, which thus sets the tone for the implementation of the new plan.

The economic environment in which the Company operated during 2014 was characterised by muted growth in the markets served by the Company. In particular, South Africa, which contributes more than ninety percent of the company’s business, recorded a marginal 1.8% (2013 – 1.9%) GDP growth when the required growth trajectory postulated by many analysts for a meaningful impact on the dire unemployment and poverty situation was to be a minimum of 5%. The spate of strikes in the mining industry and in the motor vehicle sub-sector of the manufacturing industry together with limited export growth, despite the weakening of the Rand, largely accounted for this disappointing performance.

Indeed, the disruptive labour-relations environment contributed to the net capital outflows that compounded the country’s balance of payments deficit situation resulting in a weaker and volatile rand, with the tapering of the quantitative easing programme by the US being the key external factor for capital outflows. The inadequacies of power supply to spur economic activities witnessed in the last quarter of the year were an unwelcome addition to the strains on the economy. Reviving the economy and accelerating GDP growth is a key policy challenge that must be addressed by both government and key economic players in order for the country to address the persisting problems of high unemployment, widespread poverty and income distribution inequalities that threaten social stability and sustainability in the long term.

On the political front, South Africa recorded another successful set of national general elections during the year that returned the ruling party to power but introduced new political personalities and a fairly stronger opposition. This bodes well for policy continuity and political stability – ingredients we consider essential for generating faster and sustainable economic growth in the social democracy that the country practises. Similar stability prevailed in the remaining countries of the Southern Africa region with successful elections in Namibia and Mozambique (where the respective ruling parties retained their governing mandates but under new leaders) and with the skirmishes in Lesotho effectively contained by timely intervention at the sub-regional level. It is hoped that the stability that obtains on the political front will serve as a springboard to catalyse higher rates of economic growth.

On the larger African regional level, economic growth remained robust at more than 5% GDP growth but the political and security fronts were less salutary. Insurgency and unrest dominated key countries such as Egypt and Libya in the North, Kenya in the East, Nigeria in the West as well as the DR Congo and Central African Republic in Central Africa. A massive outbreak of the highly contagious Ebola virus in some West African countries resulted in the death of thousands of people and threatened the already fragile but vital economic integration process on the continent. Indeed, the Ebola outbreak was both an opportunity and a threat for the insurance sector as it underscores the need for higher levels of insurance penetration in Africa while also threatening the profitability and long-term survival of this important financial intermediation mechanism in many African countries. It is our hope that South Africa will take advantage of the sustained robust economic growth in the rest of the continent to advance its own growth through greater economic integration and intra-regional economic activities. Africa Re SA will continue to provide a veritable platform for promoting regional economic integration and development across the entire continent in line with the mandate of the parent Africa Re Group.

Despite the challenges of a distraught-laden labour relations environment, weak national currency, muted domestic demand, unfavourable externalities, substantial net capital outflows, huge current account deficits, worsening power supply interruptions and the resulting sluggish economic growth, the South African insurance industry managed to return a modest growth of some 9% in premium income and an improved



African Reinsurance Corporation (South Africa) Limited

Chairman and executive management statement

for the year ended 31 December 2014

underwriting performance overall in the primary market. This was largely as a result of rate increases arising from the poor claims ratio of the preceding year in the primary market and the absence of catastrophic claims of the nature and scale recorded in 2013. The performance also defied intense competition, increased regulation and sustained skills shortage that prevailed during the year. However, the reinsurance sector, which naturally lags the direct insurance sector, could not immediately benefit from these improvements during 2014 especially on the back of the prevailing soft reinsurance market. It is hoped that the improved claims environment of 2014 will filter into the underwriting performance of reinsurers from 2015.

In this circumstance, the Company recorded another mixed performance in 2014. Through the careful execution of its growth strategy under the new strategic plan, the Company was able to grow its written premium by more than 14% over the level attained in 2013. This demonstrates the continued level of trust and confidence in the Company's security by its clients. However, the Company recorded a higher level of underwriting loss compared to the preceding year on the back of the inclement claims environment of the preceding year that filtered into the current year performance. Happily, the Company recorded another handsome investment performance to generate an overall positive return on equity in the region of 14% (2013 – 18%) to further strengthen its solvency and capital base. The Board remains supportive of Management's efforts at improving the underwriting performance for an effective management and utilisation of the Company's capital and other resources.

Gross written premium for the year under review was R2,146 million compared to R1,879 million recorded in 2013, representing a growth of R267 million (or 14%). Similarly, the company recorded a R75 million (or 14%) increase in its net written premium, from R548 million in 2013 to R623 million in 2014. The Company has thus sustained its premium growth trajectory with the gross and net written premiums of 2014 higher than the previous record levels attained in 2013.

The inclement claims environment driven mainly by weather-related losses that commenced in 2012 and that continued into the last quarter of 2013 further extended the Company's poor claims experience for a third consecutive year. This was however in line with the overall market experience for reinsurers, who traditionally lag the direct market in the impact of claims on their books. Net claims incurred increased from the R385 million suffered in 2013 to the R489 million recorded in 2014. The Board and Management remain committed to a number of remedial measures and industry-wide initiatives to improve the claims experience within the ambit of the law.

Although gross commission expenses increased by 6% largely in line with premium growth in the commission-based treaty business, net commission incurred fell by 4% from the R121 million recorded in 2013 to R116 million in 2014. This was on the back of the increased rate of overriding commission received from the retrocessionaire. On its part, Management expenses rose by 11% from R67 million incurred in 2013 to R75 million in 2014, a reflection of the Company's sustained investment in human and material resources to support growth, improve client service and meet the increasing regulatory compliance obligations. Overall, in line with the preceding year and largely as a result of the sustained deterioration in the claims environment, the Company recorded a net underwriting loss in 2014. It is expected that the market cycle will turn positively to reverse this poor claims trend in the coming year especially given that there was no substantial catastrophe loss event during 2014.

Net investment income grew substantially by 20% in 2014 compared to 2013. There was an all-round improvement in the income earned on equity and bond instruments while the 50 basis points increase in the base interest rate during the year resulted in improved yields on deposits and money market instruments. Consequently, the Company recorded a net investment income of R148 million in 2014 compared to the R123 million earned in 2013. The Board is satisfied with the performance of the asset managers but will continue to steer the company's investment activities to relatively secure instruments and competitive returns. The overall



African Reinsurance Corporation (South Africa) Limited

Chairman and executive management statement

for the year ended 31 December 2014

positive performance of the asset managers was also confirmed by an independent review of their activities undertaken during the year.

Profit before tax for the year under review was R98 million compared to the R108 million recorded in 2013. Accrued income tax expense charged to the income statement for the period was R22 million (2013: R24 million) resulting in an after tax profit of R77 million compared to the R84 million recorded in 2013.

The Board and Management remain confident that the South African economy has recovered from the recession experienced in 2009 although the GDP growth rate around the 2% mark remains inadequate to meet the acute need for substantial job creation and poverty alleviation. The vulnerability of the economy to both internal and external shocks has continued to prevent stronger growth. Frosty labour relations and weak domestic demand are harming productivity and economic growth locally. The key growth constraints in the export sector include low prices and weak demand for commodities (especially due to slow growth in China) as well as the tapering of quantitative easing in the US. Still, the Board considers that the South African economy remains a strong and attractive investment destination that is capable of sustaining the Company's operations in the long term.

Also, the government has restated its commitment to infrastructure spending and a gradual implementation of the National Development Plan in order to stimulate GDP growth. Foreign diversification by many leading companies continues to yield good returns for the capital market and the larger economy of South Africa. The remaining countries of the sub-region have not been lagging in taking appropriate measures to enhance their growth prospects to higher levels. The Board and Management are therefore convinced that the Company's future remains bright and full of opportunities for sustained growth in the leading, emerging-market economy in which it is located as well as in the rest of the sub-region served by the Company.

During 2014, the design phase of the impending new regulatory framework for insurance in South Africa was concluded and the partial implementation phase commenced in earnest. This gave further credence to the prospect of a successful full implementation as proposed for January 2016, subject only to the successful enactment of the required enabling legislation. Dubbed Solvency Assessment and Management (SAM), this new framework is a principles-based supervisory regime that focuses on risk-based capital, improved governance and risk management as well as transparent reporting by insurance and reinsurance companies in South Africa. It is substantially an adaptation of the Solvency II regime designed in Europe and has been developed in a consultative manner involving participation by all industry players. The Company has been actively involved in all aspects of the design and implementation phases to date and, with the conduct of its Own Risk and Solvency Assessment (ORSA) exercise, is virtually ready for the new regime. The Board has continued to support Management in ensuring that the Company's record of absolute regulatory compliance remains unbroken and the Board will lead Management to drive the wholesale and successful implementation of the new regime once rolled out. All required measures and resources to achieve this objective will be duly authorised by the Board.

The Company undertook its first stand-alone rating exercise by Standard & Poor's in 2014 and achieved a rating of A- (Excellent) with a stable outlook. This was a watershed development and a reaffirmation of the Company's strength and the reliability of its security offering. We have every confidence that clients will continue to take good advantage of this positive international endorsement of the Company's strength and resilience as a reinsurance security provider. The Board and Management will continue to steer the affairs of the Company in a manner that enhances this highly regarded security rating.

We remain grateful to all of our valued partners, cedants and intermediaries who have continued to show confidence in Africa Re (SA) and the African Reinsurance Corporation Group as a whole which is reflected in the sustained growth of the company's income over the years.



African Reinsurance Corporation (South Africa) Limited

Chairman and executive management statement

for the year ended 31 December 2014

Our appreciation also goes to our colleagues on the Board, who continue to assist in their effective oversight of the development of the company.

During the year, the composition of the Board and its Committees remained in full compliance with the applicable requirements of the Companies Act 2008 and the Short-Term Insurance Act 1998 as amended. The Board of Directors met three times with all serving directors present at each meeting. The directors who served during the year were:

B H Kamara	-	(Non-executive Chairman)
C Karekezi	-	(Non-executive Deputy Chairman)
A F W Peters	-	(Independent, Non-executive Director)
E N Amadiume	-	(Non-executive Director)
P Pettersen	-	(Independent, Non-executive Director)
H M Kumsa	-	(Independent, Non-executive Director)
S Mzimela	-	(Independent, Non-executive Director)
D N De Vos	-	(Managing Director)
I A Ibisomi	-	(Executive Director)

On its part, the Audit Committee under the Chairmanship of A F W Peters met twice during the course of the 2014 financial year. The Committee's report is separately included elsewhere in these financial statements just as is the report of the Social and Ethics Committee under the chairmanship of S Mzimela. The Board has further constituted an Administration and Human Resources Committee under the chairmanship of C Karekezi, a Risk and Underwriting Committee under the chairmanship of P Pettersen as well as a new Nominations and Remuneration Committee under the chairmanship of B H Kamara. The Board is satisfied with the performance of all the Committees and believes that their work has greatly strengthened the effectiveness of its oversight responsibilities.

Corporate Social responsibility continues to be one of our priorities and Africa Re (SA) regularly sets aside funds for the promotion and development of education and training through the Liberty Life JSE Investment Challenge. The company also seeks out worthy individuals and causes and provides ongoing support to a number of these initiatives.

Our employees are undoubtedly our most important capital and we believe that each and every staff member contributes meaningfully towards the development of Africa Re (SA). The company in turn provides support to the self-development initiatives of staff through which a number of employees have achieved important milestones in their academic and professional pursuits. We will continue to develop a conducive and supportive environment where each employee is able to reach their full potential and to share in the success of our business.

In this regard, Africa Re (SA) will continue to strive to attract, develop and retain the very best talent focussing on the right rewards and incentives whilst allowing staff to achieve a balance between both personal and professional capabilities.

We wish to extend our sincere appreciation to all staff for all their valued efforts and commitment to the company.

Bakary H Kamara
Chairman

Daryl De Vos
Managing Director

African Reinsurance Corporation (South Africa) Limited



PHOTOGRAPHS

Board of directors and executive management

PHOTOGRAPHS

Staff



African Reinsurance Corporation (South Africa) Limited

Directors' responsibility for the financial statements

for the year ended 31 December 2014

The directors are responsible for the preparation and fair presentation of the annual financial statements of African Reinsurance Corporation (South Africa) Limited, comprising the statement of financial position at 31 December 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary information included in these financial statements.

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of annual financial statements

The annual financial statements of African Reinsurance Corporation (South Africa) Limited, as identified in the first paragraph, were approved by the board of directors on 13 March 2015 and signed on their behalf by:

Bakary H Kamara
Chairman

Daryl De Vos
Managing Director



African Reinsurance Corporation (South Africa) Limited

Report by the Audit Committee

for the year ended 31 December 2014

The Audit Committee is pleased to present this report on its activities for 2014 to the Board and to the Shareholder.

The Audit Committee discharged its responsibilities unhindered during the year and was able to confirm the effectiveness and adequacy of the company's system of financial accounting, internal controls, statutory and regulatory compliance, and financial reporting. The Committee reviewed reports presented by Management as well as by the internal and external audit functions and was satisfied with explanations provided on its observations.

The Audit Committee met twice during the year with all members in attendance. Apart from its members, the Committee's meetings are also regularly attended on its invitation by the Managing Director, the General Manager Finance & Administration, the General Manager Operations as well as by internal and external audit personnel. The Committee received the internal auditor's three-year audit plan and commented on its scope. The internal auditor attended and presented his report at the Committee's meeting held in October 2014. The internal and external audit personnel have unrestricted access to the Committee and to its chairperson.

The Audit Committee reviewed the terms of engagement of KPMG Inc. as external auditor and was satisfied with their independence as well as with the adequacy of the audit procedures applied in their audit of the company's financial statements together with their judgment thereon and the recommendations contained in their management letter. On this basis, the Committee has recommended KPMG Inc. for reappointment as external auditor for 2015.

During the year, the Committee's membership remained fully compliant with the requirements of the Companies Act 2008. The composition of the Committee during the year was as follows:

A F W Peters	-	Independent non-executive Director (Chairman)
E N Amadiume	-	Non-executive Director (Member)
P Pettersen	-	Independent non-executive Director (Member)
H M Kumsa	-	Independent non-executive Director (Member)
S Mzimela	-	Independent non-executive Director (Member)

Members of the Committee are satisfied with the processes followed, resources in place and assurances obtained in relation to the financial management of the company; we believe that the accounting practices are effective and would therefore recommend the approval of these audited financial statements for the year ended 31 December 2014.

For and on behalf of the Audit Committee:

Allan F W Peters
Chairman
13 March 2015



African Reinsurance Corporation (South Africa) Limited

Report by the Social and Ethics Committee

for the year ended 31 December 2014

The Social and Ethics Committee is pleased to present this report on its activities for 2014 to the Board and to the Shareholder. Although the Social and Ethics Committee is a creation of the Companies Act 2008 and the King III Report, the Company as a member of the Africa Re Group has always voluntarily subscribed to the highest levels of ethics and substantial social responsibility. The implementation of the statutory requirements has therefore not posed any difficulty for the Company.

The Committee has a Charter that complies with the Companies Act and King III requirements and that is approved by the Board of Directors. Copies of the Charter are available on request from the Company Secretary. The key responsibilities of the Committee which are amplified in the Charter include the following:

- Responsible corporate citizenship
- Stakeholder relations
- Employment, labour relations and employee welfare
- Ethics and code of conduct compliance
- Empowerment and transformation
- Environment, health and public safety
- Sustainability, social and economic development
- Regulatory and statutory compliance

The Social and Ethics Committee discharged its responsibilities unhindered during the year. The Committee reaffirmed its purpose and the continued relevance of its Charter. It approved its workplan and reconfirmed the existing structures and documents relevant to its work. The Committee remained accessible to all Company staff on matters within its mandate. At the request of the Committee, a Wellness Day was held in which all employees participated. This would be held annually. The Committee instructed the verification of the Company's BBBEE status and the results would guide the Committee in assisting the Company improve on its compliance. Also during the year, the Company assisted in the development of a formal Procurement and Asset Disposal Policy that the Board approved for the Company.

The Social and Ethics Committee met three times during the year with no absences recorded. Apart from its members, the Committee's meetings are to be attended by other personnel on the invitation of the Committee, who may be required to assist the Committee in its work. No such invitation has been extended to date. The members of staff of the Company have unrestricted access to the Committee and to its chairperson.

During the year, the Committee's membership was reconstituted but remained fully compliant with the requirements of the Companies Act 2008. The composition of the Committee during the year was as follows:

Sizakele Mzimela	-	Independent non-executive Director (Chairperson)
Phillip Pettersen	-	Independent non-executive Director (Member)
Daryl De Vos	-	Managing Director (Member)
Ibrahim Ibisomi	-	Executive Director (Member)
Delia Wood	-	Manager, Treaty (Member)
Sarah Matlabe	-	Claims Officer (Member)



African Reinsurance Corporation (South Africa) Limited

Report by the Social and Ethics Committee

for the year ended 31 December 2014 (continued)

Members of the Committee are satisfied with the Company's initial implementation of processes, resources, activities and assurances in relation to the social responsibility, ethics, employee relations and other matters within the scope of the Committee's work, that the Committee has fulfilled its objectives, and that the requirements of the Companies Act in relation to the statutory responsibilities of the Committee have been complied with during the year ended 31 December 2014. The Committee will continue to fulfil its role in guiding the Company on social and ethical matters in accordance with its statutory mandate and international best practice.

For and on behalf of the Social and Ethics Committee:

Sizakele Mzimela

Chairperson

13 March 2015



African Reinsurance Corporation (South Africa) Limited

Directors' report

for the year ended 31 December 2014

The directors are pleased to present the directors' report of the company for the year ended 31 December 2014.

Business

The business of the company is that of a professional reinsurer for short-term reinsurance business.

Share capital

The issued and fully-paid share capital of the company including share premium is R80.3 million. The issued share capital comprises of seven ordinary shares of R0.01 each of which one share was issued at a premium of R80.3 million.

Statement of financial position

The company's shareholder funds represented by share capital and share premium, contingency reserve and retained earnings as at 31 December 2014 amounts to R621.8 million (2013: R545.2 million). Net technical liabilities under insurance contracts at 31 December 2014 amount to R336.6 million (2013: R305.4 million).

Statement of comprehensive income

Total profit and comprehensive income for the year is R76.6 million (2013: R83.5 million). The results for the year are presented in the accompanying statement of comprehensive income and notes to the accounts and require no further amplification.

Holding company

The company is a wholly owned subsidiary of African Reinsurance Corporation established under the auspices of the African Union with its headquarters in Lagos, Nigeria.

Dividend

The directors did not declare or pay a dividend during the year (2013: Nil).

Directors

The directors who served the company during the year were:

Bakary H Kamara	Non-executive Chairman (Mauritanian)
Corneille Karekezi	Non-executive Deputy Chairman (Rwandese)
Allan F W Peters	Independent non-executive Director (British)
Elizabeth Amadiume	Non-executive Director (Nigerian)
Phillip Pettersen	Independent non-executive Director
Haile M Kumsa	Independent non-executive Director (Ethiopian)
Sizakele Mzimela	Independent non-executive Director
Daryl De Vos	Managing Director
Ibrahim Ibisomi	Executive Director (Nigerian)



African Reinsurance Corporation (South Africa) Limited

Directors' report

for the year ended 31 December 2014 (continued)

Company Secretary

Ibrahim Ibisomi

Africa Re Place
10 Sherborne Road
Parktown
2193

PO Box 3013
Houghton
2041

Auditor

KPMG Inc. were appointed the statutory auditor of the company and have expressed their willingness to continue in office.

By order of the Board

Ibrahim Ibisomi
Company Secretary



African Reinsurance Corporation (South Africa) Limited

Report of the independent auditor

To the shareholder of African Reinsurance Corporation (South Africa) Limited

We have audited the financial statements of African Reinsurance Corporation (South Africa) Limited, which comprise the statement of financial position at 31 December 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 16 to 59.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 about 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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, these financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation (South Africa) Limited at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.



African Reinsurance Corporation (South Africa) Limited

Report of the independent auditor

Other Reports Required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2014, we have read the Directors' Report, the report by the Audit committee and the declaration by the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc.
Registered Auditor

Per Antoinette Malherbe
Chartered Accountant (SA)
Registered Auditor
Director
20 April 2015

KPMG Crescent
85 Empire Road
Parktown
South Africa, 2193



African Reinsurance Corporation (South Africa) Limited

Statement of financial position

at 31 December 2014

	Note	2014 R'000	2013 R'000
Assets			
Equipment	6	5 067	5 693
Intangible assets	7	16	-
Financial assets	8	2 174 975	1 947 973
- Held-to-maturity instruments at amortised cost		1 094 067	967 978
- Instruments at fair value through profit or loss		1 080 908	979 995
Technical assets under insurance contracts	9	840 780	784 538
- Retroceded outstanding claims reserve		695 651	613 494
- Retroceded unearned premium reserve		109 629	127 016
- Deferred acquisition costs		35 500	44 028
Amounts due from companies on reinsurance accounts	10	174 109	190 897
Deposits retained by ceding companies	11	141	136
Accounts receivable		21 221	21 890
Current income tax asset	18	4 536	25 337
Cash and cash equivalents	12	3 061	1 936
Total assets		3 223 906	2 978 400
Equity			
Share capital and share premium	13	80 300	80 300
Contingency reserve		51 702	51 702
Retained earnings		489 801	413 197
Total equity attributable to equity holders of the company		621 803	545 199
Liabilities			
Technical liabilities under insurance contracts	9	1 177 358	1 089 940
- Gross outstanding claims reserve		992 067	873 866
- Gross unearned premium reserve		156 612	181 451
- Deferred retrocession commission income		28 679	34 623
Amounts due to companies on reinsurance accounts	14	31 164	117 827
Deposits due to retrocessionaire	15	1 241 975	1 108 810
Amount due to holding company		108 411	80 275
Other provisions and accruals	16	9 409	9 081
Deferred tax liability	17	33 786	27 268
Total liabilities		2 602 103	2 433 201
Total equity and liabilities		3 223 906	2 978 400



African Reinsurance Corporation (South Africa) Limited

Statement of comprehensive income

for the year ended 31 December 2014

	Note	2014 R'000	2013 R'000
Gross written premiums		2 146 143	1 879 305
Retroceded written premiums		(1 523 363)	(1 331 050)
Net written premiums		622 780	548 255
Change in gross unearned premium reserve		24 839	31 861
Change in retroceded unearned premium reserve		(17 387)	(22 302)
Net earned premiums		630 232	557 814
Net investment income		147 562	122 842
Dividend income		15 287	12 173
Interest income on investments		108 397	91 770
Interest expense on investments		(22 115)	(23 722)
Net realised gain on disposal of investments		22 422	20 221
Net unrealised gain on investments		28 756	27 224
Investment management expenses		(5 185)	(4 824)
Total net income		777 794	680 656
Gross claims paid		1 510 867	1 358 059
Retroceded claims received		(1 057 722)	(958 587)
Change in gross provision for outstanding claims		118 201	(56 208)
Change in retroceded provision for outstanding claims		(82 157)	41 553
Net incurred claims		489 189	384 817
Net commission incurred	19	115 709	120 753
Management expenses		74 624	67 339
Total technical expenses		679 522	572 909
Net profit before taxation	20	98 272	107 747
Taxation	21	(21 668)	(24 221)
Total profit and comprehensive income for the year		76 604	83 526



African Reinsurance Corporation (South Africa) Limited

Statement of changes in equity for the year ended 31 December 2014

	Share capital and share premium R'000	Contingency reserve R'000	Retained earnings R'000	Total R'000
Balance as at 1 January 2013	80 300	51 702	329 671	461 673
Comprehensive income for the year			83 526	83 526
Balance as at 31 December 2013	80 300	51 702	413 197	545 199
Comprehensive income for the year			76 604	76 604
Balance as at 31 December 2014	80 300	51 702	489 801	621 803



African Reinsurance Corporation (South Africa) Limited

Statement of cash flows

for the year ended 31 December 2014

	<i>Note</i>	2014 R'000	2013 R'000
Cash flows from operating activities			
Cash generated/(utilised) by operations	25.1	75 742	(115 709)
Interest expense		(22 115)	(23 722)
Taxation received/(paid)	25.2	5 651	(25 200)
Net cash inflow/(outflow) from operating activities		59 278	(164 631)
Cash flows from investment activities			
Net purchases and disposals of equipment and intangible assets		(828)	(6 329)
Net purchases of investments		(175 824)	69 470
Interest received net of investment management fees		103 212	86 946
Dividends received		15 287	12 173
Net cash (outflow)/inflow from investment activities		(58 153)	162 260
Net increase/(decrease) in cash and cash equivalents		1 125	(2 371)
Cash and cash equivalents at the beginning of the year		1 936	4 307
Cash and cash equivalents at the end of the year		3 061	1 936



African Reinsurance Corporation (South Africa) Limited

Categories of assets and liabilities

for the year ended 31 December 2014

	Notes	Designated upon initial recognition at fair value through profit or loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
R'000								
December 2014								
Assets								
Equipment	6					5 067	5 067	
Intangible assets	7					16	16	
Financial assets	8	1 080 908	1 094 067				2 174 975	1 202 035
Listed bonds		476 660	113 983				590 643	58 400
Listed ordinary shares		440 697					440 697	
Money market funds		163 551					163 551	163 551
Fixed and call deposits			980 084				980 084	980 084
Technical assets under insurance contracts	9					840 780	840 780	662 346
Retroceded outstanding claims reserve						695 651	695 651	517 217
Retroceded unearned premium reserve						109 629	109 629	109 629
Deferred acquisition costs						35 500	35 500	35 500
Amounts due from companies on reinsurance accounts	10			174 109			174 109	174 109
Deposits retained by ceding companies	11			141			141	141
Accounts receivable				21 221			21 221	21 221
Current income tax asset	18					4 536	4 536	4 536
Cash and cash equivalents	12			3 061			3 061	3 061
Total assets		1 080 908	1 094 067	198 532		850 399	3 223 906	2 067 449



African Reinsurance Corporation (South Africa) Limited

Categories of assets and liabilities

for the year ended 31 December 2014 (continued)

	Notes	Designated upon initial recognition at fair value through profit or loss	Held-to- maturity	Loans and receivables	Financial liabilities at amortised cost	Non- financial instruments	Total	Current
R'000								
Liabilities								
Technical liabilities under insurance contracts	9					1 177 358	1 177 358	922 893
Gross outstanding claims reserve						992 067	992 067	737 602
Gross unearned premium reserve						156 612	156 612	156 612
Deferred retrocession commission revenue						28 679	28 679	28 679
Amounts due to companies on reinsurance accounts	14				31 164		31 164	31 164
Deposits due to retrocessionaire	15				1 241 975		1 241 975	1 241 975
Amount due to holding company					108 411		108 411	108 411
Other provisions and accruals	16				6 538	2 871	9 409	9 409
Creditors and accruals					6 538	-	6 538	6 538
Accrual for leave pay						2 871	2 871	2 871
Deferred tax liability	17					33 786	33 786	
Total liabilities					1 388 088	1 214 015	2 602 103	2 313 852

African Reinsurance Corporation (South Africa) Limited



Categories of assets and liabilities

for the year ended 31 December 2014 (continued)

	Notes	Designated upon initial recognition at fair value through profit or loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
R'000								
December 2013								
Assets								
Equipment	6					5 693	5 693	
Financial assets	8	979 995	967 978				1 947 973	1 082 430
Listed bonds		427 760	103 295				531 055	63 900
Listed ordinary shares		398 388					398 388	
Money market funds		153 847					153 847	153 847
Fixed and call deposits			864 683				864 683	864 683
Technical assets under insurance contracts	9					784 538	784 538	586 011
Retroceded outstanding claims reserve						613 494	613 494	414 967
Retroceded unearned premium reserve						127 016	127 016	127 016
Deferred acquisition costs						44 028	44 028	44 028
Amounts due from companies on reinsurance accounts	10			190 897			190 897	190 897
Deposits retained by ceding companies	11			136			136	136
Accounts receivable				21 890			21 890	21 890
Current income tax asset	18					25 337	25 337	25 337
Cash and cash equivalents	12			1 936			1 936	1 936
Total assets		979 995	967 978	214 859		815 568	2 978 400	1 908 637



African Reinsurance Corporation (South Africa) Limited

Categories of assets and liabilities

for the year ended 31 December 2014 (continued)

	Notes	Designated upon initial recognition at fair value through profit or loss	Held-to-maturity	Loans and receivables	Financial liabilities at amortised cost	Non-financial instruments	Total	Current
R'000								
Liabilities								
Technical liabilities under insurance contracts	9					1 089 940	1 089 940	807 157
Gross outstanding claims reserve						873 866	873 866	591 083
Gross unearned premium reserve						181 451	181 451	181 451
Deferred retrocession commission revenue						34 623	34 623	34 623
Amounts due to companies on reinsurance accounts	14				117 827		117 827	117 827
Deposits due to retrocessionaire	15				1 108 810		1 108 810	1 108 810
Amount due to holding company					80 275		80 275	80 275
Other provisions and accruals	16				6 210	2871	9 081	9 081
Creditors and accruals					6 210	-	6 210	2 163
Accruals						2 871	2 871	2 871
Deferred tax liability	17					27 268	27 268	
Total liabilities					1 313 122	1 120 079	2 433 201	2 123 150



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014

1. General information

Africa Re (SA) is a professional reinsurer underwriting non-life insurance risks in the domestic and regional markets. The Company is a public company incorporated and domiciled in the Republic of South Africa. The Company is a wholly owned subsidiary of African Reinsurance Corporation established under the auspices of the African Union with its headquarters in Nigeria.

The financial statements were authorised for issue by the directors on 13 March 2015.

2. Accounting policies

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and its interpretations issued by the International Accounting Standards Board (“IASB”) that are effective at the date of reporting. The Company’s year end is 31 December and it publishes comparative information for one year.

(b) Basis for preparation

The financial statements are prepared in South African Rand rounded to the nearest thousand. They are prepared on the historical cost basis except for financial assets that are stated at fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses at the date of the financial statements and the reporting period. The estimates and associated assumptions are based on historical experience and management’s best knowledge of current events. These are believed to be reasonable under the circumstances and as a result actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis to take account of new and available information. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of revision and future years if the revision affects current and future years.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

2. Accounting policies (continued)

(c) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk. Contracts that do not transfer significant insurance risk are recorded using the deposit method of accounting.

(d) Recognition and measurement of insurance contracts

Insurance business is accounted for on an annual basis.

Insurance premiums

Written premium income comprises premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of acquisition costs payable to intermediaries and other third parties and is accounted for net of value added taxation. Premiums written for the period also include adjustments to premiums written in prior accounting periods and estimates for pipeline or premium not yet advised by the insured for contracts in force at the end of the period. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Premium relating to the expired risk period is recognised as income for the period while premium relating to the unexpired risk period is recognised as a provision for unearned premium. The outward retrocession premiums relating to earned premiums are recognised as an expense in accordance with the retrocession services received. The unearned portion is disclosed as retrocessionaire's share of unearned premium provision.

Unearned premiums provision for insurance contracts

The portion of gross written premiums on insurance contracts which is estimated to be earned in the following or subsequent years is recognised as an unearned premium provision. This is computed separately for each contract at the balance sheet date using principally the one-over-eighth basis for treaty business and the 365 days basis for facultative business. Where the nature of the underlying business and risk does not justify the use of the above methods, the unearned premium reserve is calculated on bases relevant to the risk profile of the specific insurance contract.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

2. Accounting policies (continued)

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

Claims arising from insurance contracts

Claims incurred in respect of insurance contracts consist of claims and claims handling expenses paid during the financial year and movements in provision for outstanding claims.

Outstanding claims comprise provisions for all the company'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 Company by the cedants are carried at the claim amounts advised by the cedants. Adequate provisions are also made for claims incurred, but not reported at the reporting date using historical experience and best available information. Outstanding claims provisions are disclosed at their carrying amounts 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 the current assessment of time value of money and associated risks. Anticipated retrocession recoveries on outstanding claims are disclosed separately as assets.

Whilst the directors and management consider that the gross provision for outstanding claims liabilities and the related retrocession recoveries are fairly stated on the basis of information currently available to them at the reporting date, the ultimate claims liability may vary as a result of subsequent events and information and may result in significant adjustments to the amount provided. Adjustments to the amounts of claims provision established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used to determine the estimates and the estimates made are reviewed regularly to take into account new information to arrive at the most accurate estimates at the time of reporting.

Unexpired risk provision for 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 acquisition costs, provision is made for unexpired risk liabilities for the estimated excess liabilities.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

2. Accounting policies *(continued)*

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

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to profit or loss initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (unexpired risk provision as referred to above).

Reinsurance contracts and assets

The Company buys reinsurance cover in the normal course of business through retrocession contracts for the purpose of limiting its net potential loss through the diversification of its risks. Retrocession arrangements do not relieve the Company from its direct obligation to its cedants. Amounts recoverable under retrocession arrangements are assessed at each reporting date. These assets are deemed impaired if there is objective evidence, as a result of an event that occurred subsequent to its initial recognition, that the Company 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 retrocessionaire. The carrying amounts of the assets are reduced by the impairment losses and the impairment losses are recognised in the profit or loss account for the period.

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

Retrocession assets include balances due from the retrocessionaires for ceded insurance business. Premiums on reinsurance assumed are recognised as income and accounted for as if the reinsurance was considered direct business, taking into account the product classification of the reinsured business. Amounts recoverable from retrocessionaires are estimated in a manner consistent with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each retrocession contract.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

2. Accounting policies (continued)

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

Deferred acquisition costs

The costs of acquiring new and renewed insurance business that is primarily related to the production of that business are deferred.

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. Assumptions of anticipated premiums are made at the inception or acquisition of the contracts and are consistently applied over the expected duration of the contracts.

Commission income

Commission received or receivable which do not require the Company to render further service are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies. However, when it is probable that the Company will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognised as revenue over the period during which the policy is in force.

(e) Contingency reserve

A contingency reserve was provided for in terms of the Short-term Insurance Act, 1998, and represented 10% of gross written premium less approved reinsurance (as defined in the Act). The reserve is treated as a separate component of shareholder's equity in the statement of financial position and transfers to or from the reserve as an appropriation in the statement of changes in equity. No adjustment has been made to the reserve subsequent to the 2012 financial year due to the change in legislation whereby capital requirements are determined in terms of Board Notice 169 issued by the Financial Services Board.

(f) Operating lease payment

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases.

The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This asset or liability is not discounted. Any contingent rents are expensed in the period they are incurred.

(g) Employee benefits under defined contribution plan

A defined contribution plan is a plan under which the company and employees of the company pay fixed contributions into a separate fund. The company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods. Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

2. Accounting policies (continued)

(h) Short-term employee benefits

The cost of short-term employee benefits are recognised in the period in which the service is rendered and are not discounted.

(i) Foreign currencies transactions

Transactions in foreign currencies are converted at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Rand at the exchange rate ruling at that date. Foreign exchange differences arising on translations are recognised in profit or loss in the period in which the difference occurs.

(j) Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated and charged to profit or loss on a straight-line basis over the estimated useful life of each item of equipment. The estimated useful lives of each category of equipment are as follows:

Motor vehicles	4 years
Computer equipment	3 years
Furniture and fittings	8 years
Office equipment	3 years

The depreciation method, residual value and useful life, if not insignificant, is reassessed annually at each reporting period. Where the carrying amount of an asset is greater than its estimated recoverable amount being, higher of value in use and fair value less costs to sell, impairment losses are recognised to write down the value of the asset to its recoverable amount.

Gains and losses on disposal of equipment are determined by reference to sales proceeds and their carrying amounts at the date of sale and are recognised in profit or loss.

(k) Intangible assets

Intangible assets consist of purchased software. Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful life of intangible assets. The estimated useful life of intangible assets is 3 years.

(l) Financial instruments

Investments

The Company's investments are classified into the following categories, depending on the purpose for which the assets were acquired:

- Financial instruments at fair value through profit or loss are financial assets which on initial recognition are designated by the Company as being at fair value through profit or loss.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

2. Accounting policies (continued)

(1) Financial instruments (continued)

Investments (continued)

Purchases of financial assets are recognised on the trade date, which is when the Company commits to purchase the assets. Financial assets are derecognised when contractual rights to receive cash flows from the assets expire, or where the assets, together with substantially all the risks and rewards of ownership have been transferred.

Financial instruments are initially measured at fair values plus, in the case of financial instruments not at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. After initial recognition the Company measures financial instruments at fair values without any deduction for transaction costs that it may incur on disposal.

The fair value of quoted financial assets is their quoted bid price at the reporting date. Held-to-maturity financial assets are measured at amortised cost using the effective interest method, less impairment losses.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in profit or loss in the period in which they arise. Where the financial assets are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. Fair value movements will therefore exclude the interest.

The Company derecognises an asset:

- when the contractual rights to the cash flows from the asset expire;
- where there is a transfer of contractual rights to receive cash flows on the asset in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred; or
- where the Company retains the contractual right to the cash flows from these assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all of the risks and benefits associated with the assets.

Where the Company retains substantially all the risks and rewards of ownership of the financial asset, the Company continues to recognise the asset.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Other receivables

Trade and other receivables and deposits retained by ceding companies are measured at amortised cost net of impairment for any amounts expected to be irrecoverable.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

2. Accounting policies (continued)

(l) Financial instruments (continued)

Deposits retained on reinsurance ceded

Deposits retained on reinsurance ceded are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of less than three months and are measured at fair value and subsequently measured at amortised cost.

(m) Impairment of non-financial assets

The carrying amounts of the Company's assets are reviewed at the reporting date to determine whether there is any indication of impairment. If any such indication exists, the carrying value of the asset is reduced to the estimated recoverable amount by means of an impairment charge to profit or loss. The recoverable amount is the higher of its fair value less the cost to sell and its value in use.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that such loss event (or events) has (or have) an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or a delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the recognition of those assets, although the decrease may not be identified with the individual financial assets in the Company. This may include adverse changes in the payment status of issuers or debtors in the Company, or national or local economic conditions that correlate with defaults on the assets of the Company.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

2. Accounting policies (continued)

Impairment of financial assets (continued)

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment account and the amount of the loss is recognised in the statement of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the impairment account. The amount of the reversal is recognised in the statement of comprehensive income.

(n) Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(o) Taxation

Income tax for the period includes both current and deferred taxation. Normal income and deferred taxes are determined using taxation rates that have been enacted or substantively enacted by the reporting date.

Current tax is the expected tax payable on the taxable profit for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, providing for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the reporting date are used to determine deferred tax.

Deferred tax assets are recognised for tax losses carried forward only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

(p) Share capital

Shares are classified as equity where there is no obligation to transfer cash or other assets.

Incremental costs directly attributable to the issue of the equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

2. Accounting policies *(continued)*

(q) Standards and interpretations issued not effective

At the date of authorisation of these financial statements the following standards and interpretations were in issue, but not yet effective.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard will have a significant impact on the company, which will include changes in the measurement bases of the company's financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model, which is expected to increase the provision for bad debts recognised in the company.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application. Early adoption is permitted.

African Reinsurance Corporation (South Africa) Limited



Notes to the financial statements

for the year ended 31 December 2014 (continued)

3. Accounting policies application

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2014 and the comparative information presented in these financial statements.

4. Accounting estimates and judgements

Management discussed with the audit committee the development, selection and disclosure of the Company's critical accounting policies, estimation methods and the application of these policies and estimation methods.

The critical accounting judgements and assumptions used in applying the Company's accounting policies are described below:

Policyholder claims for insurance contracts

The Company's estimates for reported and unreported losses and the resulting provisions and related retrocession receivables are reviewed and updated regularly to take into account new information to determine the most accurate estimates at the time of reporting. Adjustments resulting from this review are reported in profit or loss in the period the adjustments are made. The process relies on the basic assumption that past experience adjusted for effects of current developments and likely trends, is an appropriate basis for predicting future events. Estimation of claims provision is a complex process and significant uncertainty exists as to the ultimate settlement of claim liabilities (refer to note 9).

Insurance contract estimates

As a result of the time delay experienced by reinsurers in the receipt of bordereau or treaty account statements from their cedants, they are required to estimate insurance results where bordereau or treaty account statements have not yet been received.

In the calculation of these estimates, cognisance is taken of the past performance of the treaty adjusted by the relevant current information. A well-developed pipeline policy has been applied in the calculation of these estimates and its maturity over the years has resulted in it producing robust results.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

5. Risk management of insurance contracts and financial instruments

5.1 Insurance contracts

Africa Re (SA) underwrites business both on a treaty and facultative basis in all classes of business, but mainly focuses on the property and motor sectors where cover is provided to protect the insured's material property and possible business interruption following defined loss events. The most significant portion of the business is written on a treaty basis. These risks are accepted proportionally and non-proportionally.

Africa Re (SA) continues to strive towards writing a balanced account across all classes, but limits its exposure to business of a long-tail nature thus avoiding the uncertainty regarding claims provisions for long-tail business. Most of the losses on the business written by Africa Re (SA) are expected to be reported within a fairly short period and as a result the bulk of the business underwritten by the Company is regarded as being short-tail in nature.

The return to the shareholder on insurance business arises from the difference between total premium income generated from cedants less amounts reserved and paid in respect of claims and expenses incurred by the Company. There is also the possibility that the shareholder may earn income from the investment of the premium income, but as losses are reported within a fairly short period, such income is limited in respect of short-tail business.

5.2 Insurance risk management objectives and policies for mitigating risks

(a) Introduction

The key insurance risks faced by Africa Re (SA) are underwriting risks relating to premium pricing adequacy, event exposure and concentration risk, negative claims development or reserving risk as well as reinsurance risk.

(b) Premium pricing adequacy risk

This is the risk that premiums relating to current and past periods will not be sufficient to fund liabilities arising from that business. With regard to the adequacy of premiums, Africa Re (SA) determines the appropriateness of the rates and/or premiums charged by the leading office by carefully examining past experience with market practice, rates and the Company's return expectations. Africa Re (SA) does not accept or underwrite risks where the premiums are not considered adequate or commensurate to the risk.

Africa Re (SA) makes underwriting decisions in accordance with the group's underwriting guidelines. These guidelines set the criteria for assessing insurance risk before acceptance and approval levels for underwriting decisions. Compliance with the group's underwriting guidelines is verified through periodic audits by the group's Directorate of Central Operations and Inspection which in turn reports its findings to both Executive Management and the Audit Committee.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

5. Risk management objectives and policies (continued)

5.2 Insurance risk management objectives and policies for mitigating risks (continued)

(c) Event exposure and concentration risk

Africa Re (SA) is exposed to large or catastrophic losses and loss accumulation from single loss events. The largest exposure to significant losses to Africa Re (SA) relates to losses arising from catastrophic events such as floods and earthquakes. In this regard, Africa Re (SA) has identified that the greatest likelihood of a loss of this nature would result from an earthquake in the Gauteng region. Using international modelling tools, Africa Re (SA) has established that its exposure to a loss of this nature is limited to a one-in-three hundred-year event.

The group underwriting guidelines set the criteria for assessing insurance risk and exposure limits for single and portfolio risks before acceptance. In order to further minimise the insurance exposure risk to the Company's net results, Africa Re (SA) has retrocession arrangements with its holding Company which provide protection on a proportional and non-proportional basis. This is then further protected under the group's retrocession programme which is largely placed into the international and Lloyd's markets.

(d) Claims development or reserving risk

This is the risk that actual ultimate claims costs will be significantly different from the estimated outstanding claims.

The determination of reserves for the ultimate claims costs is done with reference to previous years' data and past experience, adjusted with the information and data available at the time of reporting. Although these assumptions and estimation bases are set on management's best judgement and information available at the time of reporting, estimation of claims provisions is a complex process and the ultimate claims settlement costs may differ from these estimates.

To reduce the risk of inadequate reserving, the Company takes a conservative view in estimating unreported losses due to the limited past experience.

(e) Reinsurance risk

The Company retrocedes insurance risk to limit exposure to underwriting losses and accumulation of losses through proportional and excess of loss or stop loss cover agreements. These retrocession agreements spread the risk and minimise the effect of losses.

Under the terms of the retrocession agreements, the retrocessionaires agree to reimburse their share of paid claims and acquisition costs. However, the Company remains liable to its cedants with respect to retroceded insurance liabilities if the retrocessionaires fail to meet the obligations they assume. This is a credit risk and as noted under the credit risk section, except for one retrocession contract which is not significant, the retrocessionaires' share of insurance liabilities is fully secured by deposits held by the Company in accordance with the regulatory solvency requirements and the retrocession agreements.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

5. Risk management objectives and policies (continued)

5.3 Financial risk management objectives and policies for mitigating risks

(a) Introduction

Transactions in financial instruments will result in the Company assuming financial risks. These include market risk, credit risk and liquidity risk. Each of these financial risks is described below, together with a summary of the ways in which the Company manages these risks.

(b) Market risk

Market risk is the risk of change in the fair value or future cash flows of financial instruments because of changes in market conditions and prices of those financial instruments. Market risk comprises currency risk, interest rate risk and other price risk which include equity market price risk.

(i) Currency exchange risk

Most of the Company's transactions are in Rand and currencies pegged to the Rand, which is the functional and presentation currency. All assets and liabilities are held in Rand and the Company is not exposed to any significant currency exchange risk.

(ii) Interest rate risk

Fluctuations in interest rates impact on the value and cash flows from interest bearing assets and liabilities. The Company has no borrowings. Interest rate risk exposure is therefore limited to the Company's investments in fixed interest rate instruments such as fixed deposits, call deposits, bonds and cash and cash equivalents.

Other than actively ensuring optimum money market rates for deposits, the Company does not make use of other financial instruments to manage this risk.

(iii) Equity price risk

The Company is exposed to market price risk through fluctuation of the value of financial instruments due to changes in their market prices. Equity price risk can be described as the risk of changes in the fair value of equity financial instruments due to changes in market conditions and prices of these instruments. The Company's investments in marketable securities are stated at fair value and are therefore susceptible to changes in market prices.

Africa Re (SA) conducts a sensitivity analysis on the effect of changes in market prices of its equity investment to determine the maximum risk it can tolerate without adversely affecting its operating performance and financial position, and this, together with the investment guidelines determine the proportion of funds to be invested in equity instruments. The Company does not make use of financial instruments to manage this risk, but has engaged the services of investment managers with a mandate to actively trade in the marketable equity investments partly to minimise risk. The Company's maximum exposure to equity market price risk is limited to investments held in those marketable securities.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

5. Risk management objectives and policies (continued)

5.3 Financial risk management objectives and policies for mitigating risks (continued)

(iv) Market risk sensitivity analysis

The Company conducts sensitivity analyses to estimate the possible effect of movements in the market prices of its equity financial instruments on the fair values of those instruments. All the Company's equity financial instruments are listed on the Johannesburg Stock Exchange. The Company's bonds are listed on the Bond Exchange of South Africa. The sensitivity analysis on market price movement of equity financial instruments indicates that a change of 10% on the Johannesburg Stock Exchange index would result in a change in fair value of those financial instruments and profit before tax of R44.1 million (2013: R39.8 million). The sensitivity analysis of the effects of movements in market prices and interest rates on the Company's financial assets and liabilities in millions as at 31 December 2014 are presented in the table below:

Asset class	Cost R'm	Market Value R'm	Risk factor	% change	Impact on equity * R'm	Impact on profit or loss R'm
December 2014						
Equity	290.0	440.7	Market price	10%	31.7	44.1
Bonds at fair value	468.4	476.7	Interest rate movement	5%	17.2	23.8
Bonds at amortised cost	114.0	114.0	Interest rate movement	5%	4.1	5.7
Money market unit trusts	164.2	163.6	Market price	5%	5.9	8.2
Fixed deposit	980.0	980.0	Interest rate movement	5%	35.3	49.0

December 2013						
Equity	272.0	398.4	Market price	10%	28.7	39.8
Bonds at fair value	426.0	427.8	Interest rate movement	5%	15.4	21.4
Bonds at amortised cost	103.3	103.3	Interest rate movement	5%	3.7	5.2
Money market unit trusts	153.2	153.8	Market price	5%	5.5	7.7
Fixed deposit	864.7	864.7	Interest rate movement	5%	31.1	43.2

* assumed tax rate of 28% has been used



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2013 (continued)

5. Risk management objectives and policies (continued)

5.3 Financial risk management objectives and policies for mitigating risks (continued)

(iv) Market risk sensitivity analysis (continued)

The Company also conducts sensitivity analyses to estimate the possible effect of movements of interest rates on the fair value of interest rate bearing financial instruments and cash flows relating to those instruments. The sensitivity analysis of the effect on interest rate movements indicates that a change of 5% in interest rates would change the value of fixed income investments and profit before tax by R23.8 million (2013: R21.4 million) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R49.0 million (2013: R43.2 million).

(c) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The key areas where the Company is exposed to credit risk are:

- retrocessionaire's share of insurance liabilities;
- balances and deposits due from insurers and retrocessionaire;
- amounts due from insurance contract intermediaries; and
- investments held with financial institutions.

Retrocessionaires' share of insurance liabilities classified as reinsurance assets in the financial statements are fully secured by deposits withheld by the Company. This is in accordance with the regulatory solvency requirements and the retrocession agreements.

Management has an active credit control policy and procedures in place where balances due from cedants and retrocessionaires are monitored on an ongoing basis. There has been no default on settlement of balances due from retrocessionaires.

The fixed income investments held by the Company are issued by the South African government and are considered secure. Reputable financial institutions are used for investing and cash handling purposes within the Company's strict guidelines on investments and institution exposure limits. The probability of default is expected to be extremely low.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each class of financial and reinsurance assets in the statement of financial position. The analysis of the credit exposure and credit quality of the Company's financial assets, based on Standard & Poor's, Moody's, Fitch and AM Best local currency credit ratings at the end of the year, is presented in the table below:



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

5. Risk management objectives and policies (continued)

5.3 Financial risk management objectives and policies for mitigating risks (continued)

(c) Credit risk (continued)

	AAA to AA R'm	A+ to A R'm	BBB+ to BBB- R'm	Not indicated R'm	Total R'm
December 2014					
Financial assets	175.4	836.3	681.0	41.5	1 734.2
Insurance receivables				174.1	174.1
Insurance deposits				0.1	0.1
Accounts receivable				21.2	21.2
Cash and cash equivalents		3.1			3.1
Total	175.4	839.4	681.0	236.9	1 932.7

December 2013

Financial assets	349.6	728.5	416.6	54.9	1 549.6
Insurance receivables				190.9	190.9
Insurance deposits				0.1	0.1
Accounts receivable				21.9	21.9
Cash and cash equivalents		1.9			1.9
Total	349.6	730.4	416.6	267.8	1 764.4

Aging analysis of insurance receivables

There are no individually significant balances that are past due older than 12 months. The carrying amount of reinsurance receivables was reviewed at the reporting date and there was no indication of impairment. The Company does not hold collateral against any of its financial assets.

(d) Liquidity risk

The Company is exposed to daily cash payment calls on its available cash resources arising mainly from claims. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company has set limits on the minimum proportions of assets held as short-term investments and limits on the minimum proportions of maturing funds available to meet such cash payment calls and unexpected levels of cash payment demand.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

5. Risk management objectives and policies (continued)

5.3 Financial risk management objectives and policies for mitigating risks (continued)

(d) Liquidity risk (continued)

Maturity profile of financial and insurance assets and liabilities

A distinction is drawn between insurance and shareholders' funds. The overall philosophy governing the investment of insurance funds is driven by liquidity considerations and a strong emphasis on capital preservation. Most of the Company's investments are held in readily realisable investments in line with the short-tail nature of the Company's business. The maturity profile of investments will approximate the average term of operational liabilities. The maturity of the Company's financial assets and liabilities are based on contractual cash flows while the Company's insurance assets and liabilities are based on expected cash flows. The maturities of the Company's assets and liabilities at the end of the year are analysed in the table below:

December 2014

Asset maturities	On demand R'm	1 Year R'm	2 Year R'm	3 Year R'm	>4 Year R'm	Total R'm
Cash and cash equivalents	3.1					3.1
Fixed and call deposit		980.0				980.0
Money market funds		163.6				163.6
Debt securities		58.5	33.7	87.5	410.9	590.6
Equities	440.7					440.7
Insurance contracts assets		662.3	111.8	27.3	39.4	840.8
Amounts due from companies on reinsurance accounts		174.1				174.1
Deposits retained by ceding companies		0.1				0.1
Accounts receivable		21.2				21.2
Total financial and insurance assets	443.8	2 059.8	145.5	114.8	450.3	3 214.2
Liability maturities						
Insurance contracts liabilities		922.9	159.3	39.0	56.2	1 177.4
Reinsurance account balance		31.2				31.2
Reinsurance deposits		1 242.0				1 242.0
Due to holding company		108.4				108.4
Other provision and accruals		6.5				6.5
Total financial and insurance liabilities		2 311.0	159.3	39.0	56.2	2 565.5
Net maturities	443.8	(251.2)	(13.8)	75.8	394.1	648.7



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

5. Risk management objectives and policies (continued)

5.3 Financial risk management objectives and policies for mitigating risks (continued)

(d) Liquidity risk (continued)

Maturity profile of financial and insurance assets and liabilities (continued)

December 2013

	On demand R'm	1 Year R'm	2 Year R'm	3 Year R'm	>4 Year R'm	Total R'm
Asset maturities						
Cash and cash equivalents	1.9					1.9
Fixed and call deposit		864.7				864.7
Money market funds		153.8				153.8
Debt securities		63.9	58.7	27.2	381.3	531.1
Equities	398.4					398.4
Insurance contracts assets		586.0	124.1	32.6	41.8	784.5
Amounts due from companies on reinsurance accounts		190.9				190.9
Deposits retained by ceding companies		0.1				0.1
Accounts receivable		21.9				21.9
Total financial and insurance assets	400.3	1 881.3	182.8	59.8	423.1	2 947.3
Liability maturities						
Insurance contracts liabilities		807.2	176.8	46.3	59.6	1 089.9
Reinsurance account balance		117.8				117.8
Reinsurance deposits		1 108.8				1 108.8
Due to holding company		80.3				80.3
Other provision and accruals		6.2				6.2
Total financial and insurance liabilities		2 120.3	176.8	46.3	59.6	2 403.0
Net maturities	400.3	(239.0)	6.0	13.5	363.5	544.3

(e) Categories and classes of financial assets and financial liabilities

The company's categories and classes of financial assets and financial liabilities are included on pages 22 to 25.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

	2014 R'000	2013 R'000
6. Equipment		
Cost		
Motor vehicles	694	694
Computer equipment	2 009	1 681
Office equipment	737	737
Furniture & fittings	6 280	5 798
	9 720	8 910
Accumulated depreciation		
Motor vehicles	424	290
Computer equipment	1 387	967
Office equipment	553	397
Furniture & fittings	2 289	1 563
	4 653	3 217
Carrying values		
Motor vehicles	270	404
Computer equipment	622	714
Office equipment	184	340
Furniture & fittings	3 991	4 235
	5 067	5 693
Reconciliation of carrying values		
Opening balance	5 693	589
Additions	810	6 329
Depreciation	(1 436)	(1 225)
Closing balance	5 067	5 693



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

	2014 R'000	2013 R'000
6. Equipment (continued)		
Motor vehicles		
Net carrying value at beginning of year	404	4
Additions	-	535
Depreciation	(134)	(135)
Net carrying value at end of year	270	404
Computer equipment		
Net carrying value at beginning of year	714	102
Additions	328	907
Depreciation	(420)	(295)
Net carrying value at end of year	622	714
Office equipment		
Net carrying value at beginning of year	340	1
Additions	-	469
Depreciation	(156)	(130)
Net carrying value at end of year	184	340
Furniture & fittings		
Net carrying value at beginning of year	4 235	482
Additions	482	4 418
Depreciation	(726)	(665)
Net carrying value at end of year	3 991	4 235
7. Intangible assets		
Computer software - purchased		
Cost	600	582
Accumulated amortisation		
Opening balance	582	546
Amortisation – software in use	2	36
Closing balance	584	582
Net carrying value	16	-



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

8. Financial assets	2014 R'000	2013 R'000
Held-to-maturity instruments at amortised cost		
Fixed and call deposits	980 084	864 683
Listed bonds	113 983	103 295
	1 094 067	967 978
Instruments at fair value through profit or loss		
Listed instruments		
– bonds	476 660	427 760
– equities	440 697	398 388
– money market funds	163 551	153 847
	1 080 908	979 995
Total financial assets	2 174 975	1 947 973

Fair value of the held-to-maturity instruments

Fixed and call deposits	980 084	864 683
Listed bonds	115 099	105 560
	1 095 183	970 243

Cost of instruments disclosed at fair value through profit or loss

Bonds	468 429	426 044
Equities	289 978	272 056
Money market funds	164 228	153 257
	922 632	851 357

Presented below are the maturity profiles and interest rate exposures of the Company's interest bearing investments.

Maturity period	Effective interest rate %	Market value R'000
At 31 December 2014		
On demand	4.75% to 5.50%	163 551
Within 1 year	5.90% to 6.49%	980 084
1 to 3 years	6.16% to 9.39%	162 036
3 to 7 years	6.89% to 8.68%	185 867
7 to 12 years	8.11% to 8.69%	242 740
>12 years	8.11% to 8.69%	-
		1 734 278



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

8. Financial assets (continued)

Maturity period At 31 December 2013	Effective interest rate %	Market value R'000
On demand	5.25% to 5.90%	153 847
Within 1 year	4.75% to 5.30%	864 683
1 to 3 years	1.97% to 9.39%	149 739
3 to 7 years	2.27% to 9.99%	219 994
7 to 12 years	1.56% to 11.85%	82 199
>12 years	2.27% to 12.52%	79 123
		<u>1 549 585</u>

Fair values of financial assets and liabilities

Determination of fair value

Fair values are determined according to the following hierarchy based on the requirements in [IFRS 7: 'Financial Instruments: Disclosures']

- Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.
- Level 2 – valuation techniques using observable inputs: financial assets and liabilities with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.
- Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, a valuation technique is used.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid / offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets, which in certain circumstances includes using quotations from independent third parties such as brokers and pricing services, and offer prices for liabilities.

In general, none of the carrying amounts of financial assets carried at amortised cost have a fair value significantly different to their carrying amounts. Such assets are primarily comprised of variable-rate financial assets that re-price as interest rates change, short-term deposits or current assets.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

8. Financial assets (continued)

Fair values of financial assets and liabilities (continued)

Analysis of instruments at fair value

Financial assets

December 2014	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Designated at fair value through profit or loss	917 357	163 551	-	1 080 908
December 2013				
Designated at fair value through profit or loss	826 148	153 847	-	979 995

Investments and securities

The fair values of investments and securities designated at fair value through profit or loss are based on bid prices. For unlisted investments and securities, fair values are determined using valuation techniques that refer as far as possible to observable market data.

Other financial assets and liabilities

The fair values of other financial assets and liabilities are reasonably approximated by the carrying amounts reflected in the statement of financial position.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

	2014 R'000	2013 R'000
9. Technical assets and liabilities under insurance contracts		
Technical liabilities		
-Gross claims reported but not yet settled	772 418	669 186
-Gross claims incurred but not reported	219 649	204 680
-Gross unearned premium provision	156 612	181 451
-Deferred retrocession commission income	28 679	34 623
	<u>1 177 358</u>	<u>1 089 940</u>
Technical assets		
-Retrocessionaire's share of claims reported but not yet settled	541 896	470 218
-Retrocessionaire's share of claims incurred but not reported	153 755	143 276
-Retrocessionaire's share of unearned premium provision	109 629	127 016
-Deferred acquisition costs	35 500	44 028
	<u>840 780</u>	<u>784 538</u>
Net technical liabilities		
-Claims reported but not yet settled	230 522	198 968
-Claims incurred but not reported	65 894	61 404
-Unearned premium provision	46 983	54 435
-Deferred acquisition costs	(6 821)	(9 405)
	<u>336 578</u>	<u>305 402</u>

African Reinsurance Corporation (South Africa) Limited



Notes to the financial statements

for the year ended 31 December 2014 (continued)

9. Technical assets and liabilities under insurance contracts (continued)

9.1 Movements in technical assets and liabilities under insurance contracts

Outstanding claims

	2014		
	Gross R'000	Reinsurance R'000	Net R'000
Claims reported but not yet settled	669 186	470 218	198 968
Claims incurred but not reported	204 680	143 276	61 404
Total outstanding at beginning of year	873 866	613 494	260 372
Movement in outstanding claims	118 201	82 157	36 044
-arising from current year claims	394 925	276 448	118 477
-arising from prior period claims	(276 724)	(194 291)	(82 433)
Total at end of year	992 067	695 651	296 416
Notified claims	772 418	541 896	230 522
Incurred but not reported	219 649	153 755	65 894
Total at end of year	992 067	695 651	296 416

	2013		
	Gross R'000	Reinsurance R'000	Net R'000
Claims reported but not yet settled	737 015	519 906	217 109
Claims incurred but not reported	193 059	135 141	57 918
Total outstanding at beginning of year	930 074	655 047	275 027
Movement in outstanding claims	(56 208)	(41 553)	(14 655)
-arising from current year claims	(303 664)	(212 565)	(91 099)
-arising from prior period claims	247 456	171 012	76 444
Total at end of year	873 866	613 494	260 372
Notified claims	669 186	470 218	198 968
Incurred but not reported	204 680	143 276	61 404
Total at end of year	873 866	613 494	260 372



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

9. Technical assets and liabilities under insurance contracts (continued)

9.1 Movements in technical assets and liabilities under insurance contracts (continued)

Gross claims settlement development run-off results for the last five years

	2010 R'000	2011 R'000	2012 R'000	2013 R'000	2014 R'000
Claim settlement for each year:					
- first year	374 629	253 690	438 949	467 121	582 143
- one year later	595 973	385 661	584 614	676 459	
- two years later	232 826	227 255	172 742		
Provision for gross outstanding claims after two years run-off	295 037	109 387	113 080	307 782	394 925
- three years later	40 433	42 928			
- four years later	13 657				
Provision for gross outstanding claims at year end	47 142	55 026	113 080	307 782	394 925
Claim development run-off result at year end	193 805	11 433	-	-	-

Unearned premium provision

	2014		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	181 451	127 016	54 435
Premiums written during the year	2 146 143	1 523 363	622 780
Premiums earned during the year	(2 170 982)	(1 540 750)	(630 232)
Total at end of year	156 612	109 629	46 983

	2013		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	213 312	149 318	63 994
Premiums written during the year	1 879 305	1 331 050	548 255
Premiums earned during the year	(1 911 166)	(1 353 352)	(557 814)
Total at end of year	181 451	127 016	54 435

The unearned premium provision is earned within a twelve month period from the date it was provided for.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

9. Technical assets and liabilities under insurance contracts (continued)

9.1 Movements in technical assets and liabilities under insurance contracts (continued)

Deferred acquisition costs

	2014		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	44 028	34 623	9 405
Acquisition costs paid during the year	556 669	443 544	113 125
Transferred to costs incurred during the year	(565 197)	(449 488)	(115 709)
At the end of year	35 500	28 679	6 821

	2013		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	57 417	44 678	12 739
Acquisition costs paid during the year	522 086	404 667	117 419
Transferred to costs incurred during the year	(535 475)	(414 722)	(120 753)
At the end of year	44 028	34 623	9 405

9.2 Short-term insurance contracts – assumptions, change in assumptions and sensitivity

The principal assumptions and estimation methods applied that will affect future cash flows on insurance contracts are as follows:

Estimates and outstanding claims

The bases applied in the determination of accrued pipeline premiums, claims, acquisition costs and outstanding claims are the historical data and past experience. These estimation bases and assumptions are adjusted with information and data available from cedants at the time of reporting. Due to the retrocession arrangement with the holding company it is anticipated that changes in the underlying assumptions will not have a significant impact on the net result on a year to year basis. Estimates are particularly sensitive towards quantum of unreported losses.

Unearned premium provision

The most significant portion of the business underwritten is short-tail in nature. Premiums are earned within a twelve month period, and no non-constant risks are currently underwritten. As a result, the earning pattern of the written premiums can be accurately determined and the assumptions underlying the calculation are limited. The same assumptions underpin the calculation of the deferred acquisition cost.

The assumptions and estimation bases are believed to be reasonable under the circumstances while actual results may differ from those estimates. There has been no change in the principle assumptions and estimation bases from those applied in the previous reporting period.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

	2014 R'000	2013 R'000
10. Amounts due from companies on reinsurance accounts		
Amounts due from ceding companies	<u>174 109</u>	<u>190 897</u>
	174 109	190 897
11. Deposits retained by ceding companies		
At beginning of year	<u>136</u>	<u>134</u>
New deposits retained	<u>5</u>	<u>2</u>
At the end of year	141	136
12. Cash and cash equivalents		
Cash on hand	<u>53</u>	<u>13</u>
Current bank account balances	<u>3 008</u>	<u>1 918</u>
	3 061	1 936



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

	2014 R'000	2013 R'000
13. Share capital and share premium		
Share capital	_*	_*
Share premium	80 300	80 300
	80 300	80 300
<i>Authorised</i>		
7 ordinary shares of R0,01 each	_*	_*
<i>Issued</i>		
7 ordinary shares of R0,01 each	_*	_*
Share capital comprises of seven ordinary shares of R0.01 each of which one share was issued at a premium of R80.3 million. No changes occurred during the year.		
* less than R1 000		
14 Amounts due to companies on reinsurance accounts		
Amounts due to ceding companies	12 061	9 772
Amounts due to retrocessionaire	19 103	108 055
	31 164	117 827
15. Deposits due to retrocessionaire		
At beginning of year	1 108 810	1 092 147
New deposits retained	1 241 975	1 108 810
Deposits released	(1 108 810)	(1 092 147)
At the end of the year	1 241 975	1 108 810



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

	2014 R'000	2013 R'000
16. Other provisions and accruals		
Other creditors and accruals	6 538	6 210
Accrual for leave pay	2 871	2 871
	9 409	9 081

Accrual for leave pay is calculated based on the number of days leave due to employees multiplied by their cost to company. The maturity profile of the provision is dependent on the utilisation of leave days by the employees or any resignations.

	2014 R'000	2013 R'000
17. Deferred tax liability		
Opening balance	27 268	22 290
Current year	6 518	4 978
	33 786	27 268

The net deferred tax liability balance at the end of the period comprises:

– capital allowance	109	87
– provisions	(803)	(803)
– unrealised gains on revaluation of investments	34 480	27 984
	33 786	27 268

18. Current income tax asset

The current income tax asset of R4.5 million (2013: R25.3 million) represents the amount of income taxes payable in the current year less provisional tax payments made.

	2014 R'000	2013 R'000
19. Commission paid and received		
Gross commission and brokerage paid	556 669	522 086
Gross deferred acquisition costs	8 528	13 389
Commission incurred	565 197	535 475
Commission earned	(449 488)	(414 722)
Retrocession commission and brokerage received	(389 714)	(365 539)
Retroceded overriding commission received	(53 830)	(39 128)
Retroceded deferred commission revenue	(5 970)	(9 372)
Retroceded deferred overriding commission revenue	26	(683)
	115 709	120 753



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

20. Profit before taxation	2014 R'000	2013 R'000
Profit before taxation is arrived at after charging the following items:		
Auditor's remuneration:		
– for audit services in the current year	1 540	1 400
Consultancy fees	1 371	489
Depreciation	1 436	1 225
Gain on disposal of equipment	2	27
Amortisation		36
Directors remuneration	9 343	9 691
Executive – for services rendered	5 207	4 761
Non executive – for services as directors	4 136	2 930
Lease payments	2 571	2 427
Secretarial fees	125	107
Staff costs including contribution to pension fund, UIF, SDL and allowances	20 382	19 856
Number of staff	35	32
21. Taxation		
South African normal taxation – current year		
Corporate tax	15 150	19 243
Deferred tax	6 518	4 978
	21 668	24 221
Tax rate reconciliation	%	%
Effective tax rate	22.0	22.4
Exempt income	4.4	3.2
Disallowed expenses	(0.3)	(0.2)
Capital gains tax	1.9	2.6
South African standard corporate tax rate	28.0	28.0



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

22. Related party transactions

Remuneration of directors and prescribed officers

Directors

The Directors who served during the year together with the respective gross remunerations paid to them for services rendered to the Company are as follows:

Name	Status	2014	2013
		R	R
Bakary Kamara	Non-executive Chairman	708 987	750 812
Corneille Karekezi	Non-executive Deputy Chairman	638 089	757 381
Allan F W Peters	Independent, non-executive Director	567 190	353 600
Elizabeth Amadiume	Non-executive Director	531 740	372 498
Phillip Pettersen	Independent, non-executive Director	567 190	335 340
Sindisiwe Mabaso-Koyana	Independent, non-executive Director (Resigned 24 October 2013)	-	217 808
Haile M Kumsa	Independent, non-executive Director	531 740	142 524
Sizakele Mzimela	Independent, non-executive Director (appointed 17 December 2013)	590 822	-
Daryl De Vos	Managing Director	3 377 361	3 119 598
Ibrahim Ibisomi	Executive Director (appointed 17 December 2013)	1 829 188	1 640 918

The payments to certain directors in 2013 include arrears of some of their entitlements and adjustments relating to the year 2012 while the payment to one director in 2014 included the remuneration for the half-month period served in 2013.

Prescribed officers

Apart from Mr Daryl De Vos who served as Managing Director and Mr Ibrahim Ibisomi who served as an Executive Director, the only other prescribed officer of the Company together with the remuneration paid for services rendered to the Company during the year was as follows:

	2014	2013
	R	R
John C Izegbu – General Manager Operations	1 829 188	1 640 918

Holding company

The Company conducts reinsurance business with its holding company. The holding company also charges management fees for services provided by the group and license fees to cover the cost of insurance and accounting software used by the Company. The Company rented its premises from an associated company that is similarly wholly owned by the holding company. Transactions carried out with the holding company and with the associated company are on commercial terms and conditions no less favourable to the public.

African Reinsurance Corporation (South Africa) Limited



Notes to the financial statements

for the year ended 31 December 2014 (continued)

22. Related party transactions (continued)

Details of the balances and transactions with the holding Company included in the annual financial statements are as follows:

Statement of financial position	2014 R'000	2013 R'000
Assets		
Technical assets under insurance contracts	805 280	740 510
Liabilities		
Deferred retrocession commission revenue	(28 679)	(34 623)
Deposits due to retrocessionaire	(1 241 975)	(1 108 810)
Amounts due to companies on reinsurance accounts	(19 103)	(108 055)
Amount due to holding company	(108 411)	(80 275)
Net liabilities	(592 888)	(591 253)

Statement of comprehensive income

Retroceded premiums	(1 523 363)	(1 331 050)
Retrocessionaire's share of provision for unearned premiums	(17 387)	(22 302)
Retroceded claims received	1 057 723	958 587
Retrocessionaire's share of provision for outstanding claims	82 156	(41 553)
Retrocessionaire's share of net commission incurred	449 488	414 722
Interest expense	(22 115)	(23 722)
Management expenses	(29 987)	(26 957)

23. Retirement benefits costs

The Company contributes to a defined contribution pension plan for all its employees. The Company's contributions to the defined contribution pension plan for its employees during the period were R1 470 069 (2013: R1 367 048).

24. Operating lease commitments

The Company leases photocopiers, fax equipment. The minimum non-cancellable operating lease payments are payable as follows:

	2014 R'000	2013 R'000
– less than one year	146	175
– between one and five years	48	194
	194	369



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

25. Notes to the cash flow statement	2014	2013
	R'000	R'000
25.1 Reconciliation of cash generated/(utilised) by operations		
Profit before taxation	98 272	107 747
Adjusted for :		
- depreciation and amortisation	1 438	1 261
- investment income net of management fees	(169 677)	(146 564)
- interest expenses	22 115	23 722
- net unearned premium reserve net of deferred acquisition costs	(4 868)	(6 225)
Cash generated/(utilised) by changes in working capital	128 462	(95 650)
Net amounts due from companies on reinsurance accounts	(69 875)	(112 712)
Deposits retained by ceding companies	(5)	(2)
Accounts receivable	669	(14 582)
Amount due to holding company	28 136	24 821
Other provision and accruals	328	4 817
Deposits due to retrocessionaire	133 165	16 663
Net outstanding claims reserve	36 044	(14 655)
	75 742	(115 709)
25.2 Reconciliation of taxation received/(paid)		
Balance recoverable at the beginning of the period	25 337	19 380
Current tax charge in profit or loss	(15 150)	(19 243)
Balance recoverable at the end of the period	(4 536)	(25 337)
Taxation received/(paid)	5 651	(25 200)

26. Other Matters

26.1 Business activities

The Company is duly licensed by the Financial Services Board to undertake the business of non-life reinsurance under the Short Term Insurance Act Number 53 of 1998 as amended. The Company has conducted its business with due regard to, and in accordance with, the provisions of the Act and the Directors are not aware of any actions or activities in contravention of the prevailing legislation.



African Reinsurance Corporation (South Africa) Limited

Notes to the financial statements

for the year ended 31 December 2014 (continued)

26. Other Matters *(continued)*

26.2 Dividends

The Directors are conscious of on-going regulatory changes under the Solvency Assessment and Management project of the Financial Services Board, with potential impact on the capital requirements of insurance industry practitioners the nature and extent of which is difficult to ascertain at this time. The Directors have therefore decided not to recommend the payment of dividends despite the excellent results achieved during the year.

26.3 Going concern

The Directors are confident that the Company will continue to operate successfully into the foreseeable future. These financial statements have therefore been prepared on a going concern basis.

26.4 Events after the reporting date

The Directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report that would warrant any changes to the financial statements or any other disclosure in this report.