AFRICAN REINSURANCE CORPORATION
SOCIETE AFRICAINE DE REASSURANCE

2013
ANNUAL REPORT

Celebrating 10 years of incorporation in South Africa, 2003 - 2013

- Lagos, Nigeria – 1978
- Casablanca, Morocco – 1980
- Nairobi, Kenya – 1982
- Abidjan, Ivory Coast – 1987
- Johannesburg, South Africa – 1995
- Port Louis, Mauritius – 1997
- Cairo, Egypt – 2001
- Addis Ababa, Ethiopia – 2011

AFRICAN REINSURANCE CORPORATION – NETWORK IN AFRICA

Regional Offices

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Tel: +212-2 22 43 77 00
Fax: +212-2 22 43 77 29
Email: casablanca@africa-re.com

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+254-20 2970776
Email: nairobi@africa-re.com

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Fax: +20 2 22685667
Email: cairo@africa-re.com

MAURITIUS
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Fax: +230 454 7067
Email: p.louis@africa-re.com

Subsidiaries

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Email: africare@africare.co.za

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Fax: +20 2 22685667
Email: cairo@africa-re.com

Local Office

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Kirkos Sub City, Kebele 05
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Tel: +251 11 416 5803/4
Mobile: +251 922122473
Email: addisababa@africa-re.com

African Reinsurance Corporation (South Africa) Limited

Annual Report

for the year ended 31 December 2013

Audited

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

African Reinsurance Corporation (South Africa) Limited

(Reg. No. 2003/031630/06)

Annual Report for the year ended 31 December 2013

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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 2013, 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
Secretary

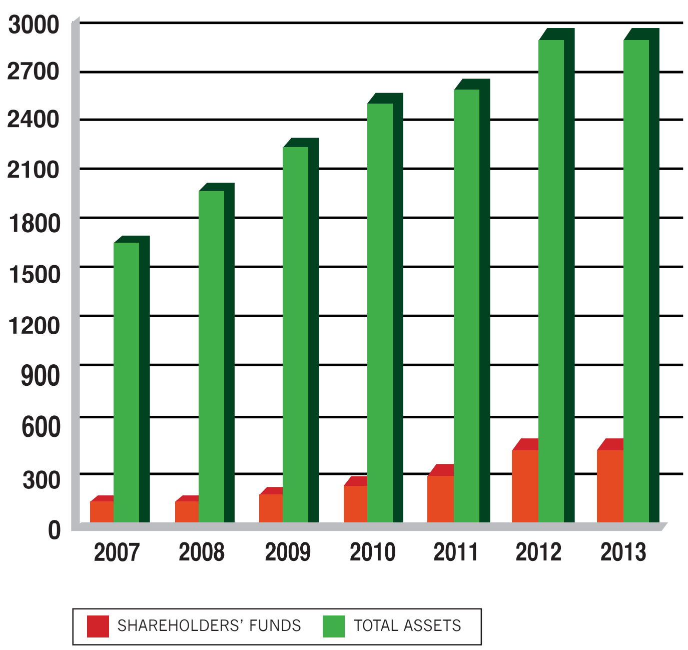
13 March 2014

for the year ended 31 December 2013

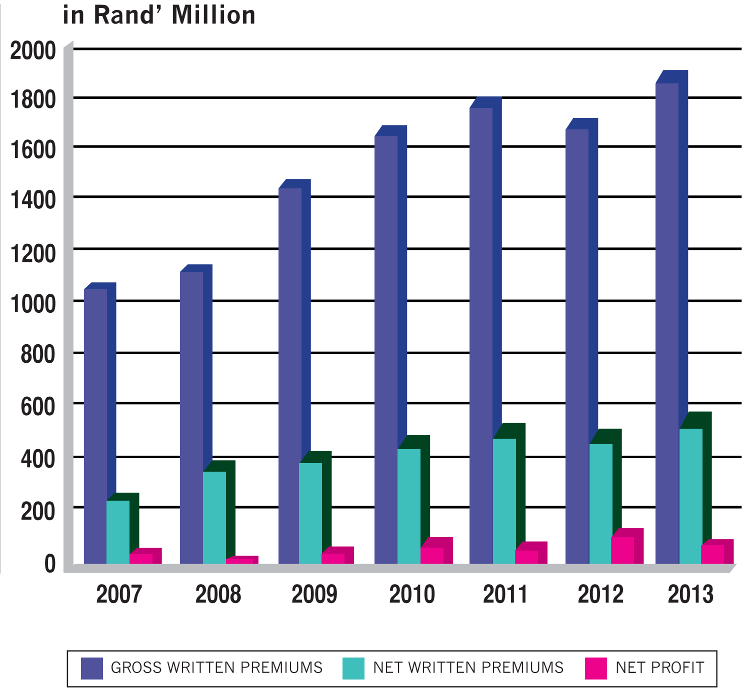
In R'000	2013	2012	2011	2010	2009
RESULTS					
GROSS WRITTEN PREMIUMS	**1 879 305**	1 687 667	1 785 810	1 671 976	1 468 527
NET WRITTEN PREMIUMS	**548 255**	489 379	517 017	480 965	420 974
NET EARNED PREMIUMS	**557 814**	479 796	512 821	489 205	421 800
NET PROFIT	**83 526**	108 120	66 613	73 659	43 081
FINANCIAL POSITION					
SHAREHOLDER'S FUNDS	**545 199**	461 673	353 553	286 940	213 281
TOTAL ASSETS	**2 978 400**	2 968 992	2 688 195	2 516 782	2 244 508
INTERNATIONAL SOLVENCY MARGIN[N1]	**99%**	94%	68%	60%	51%

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

FINANCIAL POSITION 2007 – 2013
in Rand' Million



RESULTS 2007 – 2013
in Rand' Million



Chairman and executive management statement

for the year ended 31 December 2013

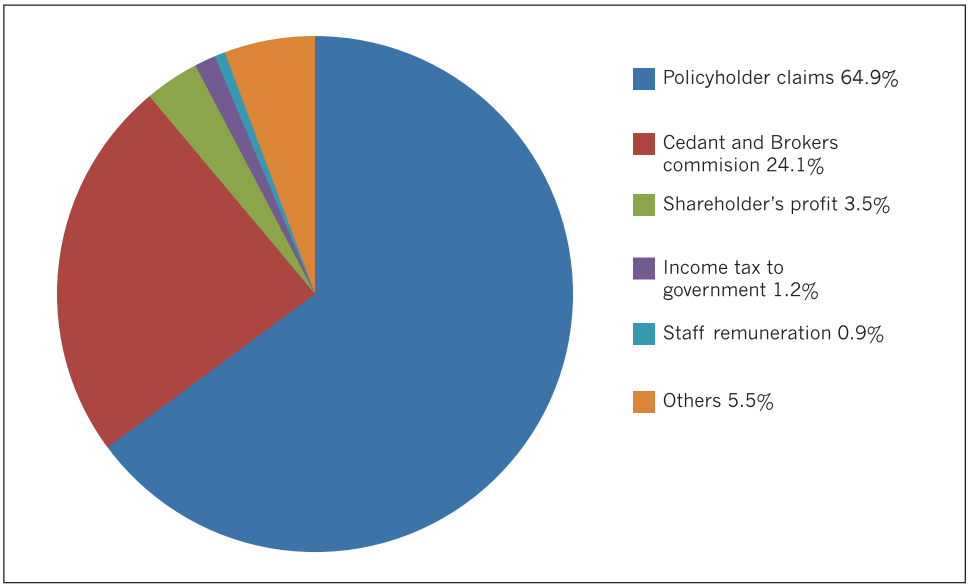
On behalf of the Board of Directors, it is a privilege for us to as usual present the annual financial statements of African Reinsurance Corporation (South Africa) Limited ("Africa Re (SA)") for the year ended 31 December 2013, which represents the Company's tenth year in business as an incorporated entity. It is particularly a proud and pleasing moment for us to be part of the Company's tenth year of successfully providing reinsurance capacity in this rainbow nation and its neighbours, having been part of the pioneer team that started it off in December 2003.

Clearly, ten years is a short time in the life of a company but can be significant when it is the company's first. We shall therefore begin with some introspection and reflections on the company's first ten years in business.

Africa Re (SA) was incorporated in December 2003 and formally commenced writing business in its own name in January 2004. In these ten years, the Company has cumulatively written R12.7 billion in premium and generated a total of R474 million in cumulative profit after tax. The Company started with a paid-up capital and shareholder's funds of R80m, which has increased nearly seven-fold to R545m at the end of its first ten years in business. This has thus been a very rewarding investment for the Africa Re Group. Other stakeholders have similarly benefited as indicated in the chart below. Cumulative claims paid to policyholders over the ten-year period amounted to R7.8 billion while an additional R1 billion is held in technical reserves to meet unpaid claims at different stages of development. Never left behind in sharing economic fortunes, the Receiver of Revenue has been paid a cumulative R157 million in company income tax, aside from the several millions in VAT and employee PAYE obligations collected on its behalf.

The Company has also faithfully met its obligations to employees, suppliers, consultants, the regulatory authorities, industry associations and other service providers, while voluntary contributions under its corporate social responsibility programme has been made without fail.

Distribution of Value added, 2004 - 2013



Chairman and executive management statement

for the year ended 31 December 2013 *(continued)*

The vision of our founding fathers that resulted in the decision to incorporate a separately capitalised entity a decade ago has generated handsome returns to all stakeholders. We hasten to thank all our partners and colleagues who have been part of this journey over the past ten years. We extend our appreciation to those who also contributed to the preceding nine-year period from 1995, when Africa Re first opened a contact office in Johannesburg. We trust they share our joy that their efforts have not been in vain. They surely have our assurance that the Company's success story to date is but a solid foundation for greater successes ahead. Our colleagues on the Board, the Management and staff, and the entire Africa Re family are determined to take the Company to greater heights in the years and decades to come. The first step has been taken with the Board approval of a carefully crafted five-year strategic plan for the period 2014 – 2018, which is to guide the Company on a path of steady, profitable and sustainable growth into the future.

As a board we now present the usual annual review of the Company's performance. The 2013 financial year marked a second successive difficult year for the insurance industry in South Africa and, indeed, the rest of the sub-region. Against the backdrop of sluggish economic growth, the insurance industry which hardly increased its premium income suffered substantial largely weather-related losses from hailstorms, floods and fire in 2013 similar to the 2012 loss events. Latest estimates show that South Africa recorded GDP growth of some 2.1%, thereby keeping the average annual growth rate at that level over the past six years. This level of growth has been unable to stem the rising level of unemployment while rising cost-push inflation has added to the other challenges of poverty and inequality. It is simply a difficult environment for businesses to thrive in.

On the global front, there has been a bitter-sweet story all over. The United States appeared to have achieved a return to sustainable growth – which is good for the world economy – but has in consequence embarked on tapering its stimulus package – which has so far proved harmful for the rest of the world especially emerging market economies. Europe appears to be out of recession but has yet to deliver on an impacting growth from the perspective of the rest of the global economy. Growth in Japan remained subdued while the slowdown in China, India and Brazil (rather than the dreaded hard landing, especially in China) continued throughout 2013 though at levels that have not significantly impacted the rest of the world.

Against this background, the insurance industry did not have much room to deliver strong growth as it suffered from the impact of weather extremities ranging from fire to floods in different parts of the world. The world was a largely paradoxical place in 2013: while some areas burned, others froze; while some areas suffered drought others were flooded; while some areas returned to (or continued to flourish in) good growth others dipped in economic performance. This picture was not different in many areas of Southern Africa in which the Company operates, particularly its largest market being, South Africa.

Chairman and executive management statement

for the year ended 31 December 2013 *(continued)*

The spate of hailstorms and floods that was witnessed in 2012 as well as a number of fire incidents that caused both economic and insured losses continued in 2013 and the Company suffered its largest single claim in its ten-year history.

Despite these events the Company was able to grow its written premium but posted another slight underwriting loss that was more than offset by a substantial level of investment income to generate another handsome return on equity to strengthen its capital base. The Company's efforts at improving the performance of its books of business remain on course to delivering the desired results especially as the industry's experience of the past two years are sure to elicit taking premium rates to economic levels in the short term. The Board is committed to supporting Management's initiatives through a strong focus on performance improvement and good use of the Company's capital.

Gross written premiums for the year under review was R1,879 million compared to R1,688 million recorded in 2012 representing a growth of R191 million (or 11%). Similarly, the company recorded a R59 million (or 12%) increase in its net written premium, from R489 million in 2012 to R548 million in 2013. The Company has thus returned to its premium growth trajectory with the gross and net written premiums of 2013 higher than the previous record levels attained in 2011.

The inclement claims environment driven mainly by weather-related losses that started in 2012 continued into 2013 and further extended the Company's poor claims experience for a second consecutive year. This was however in line with overall market experience. Net claims incurred increased from the R356 million suffered in 2012 to the R385 million recorded in 2013. The Board and Management are committed to a number of remedial measures and industry-wide initiatives to improve the claims experience within the ambit of the law.

In line with the increased level of premium driven largely by commission-based property treaty business, net commission incurred rose substantially from the R87 million recorded in 2012 to R121 million in 2013. The Company continued to invest in human and material resources to support its expanding business requirements and to meet the ever increasing regulatory compliance obligations. Management expenses thus increased in 2013 by R21 million (46%) – up from the R46 million incurred in 2012 to R67 million in 2013. Overall, largely as a result of the sustained deterioration in the claims environment, the company posted a marginal decline in its core underwriting performance in 2013 compared to 2012. It is hoped that the market cycle will turn positively to reverse this poor claims trend.

Net investment income remained substantial although at a lower level than the record levels earned in 2012. It was to be expected that the significant turnaround of the capital markets recorded in 2012 could not be sustained for another year. Yet, the market remained on a growth path overall in 2013 though at a slower pace than in 2012, recording a mixed performance in yields between equities and bonds. Consequently, the Company recorded a net investment income of R123 million in 2013 compared to the R155 million earned in 2012. 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.

Profit before tax for the year under review was R108 million compared to the R145 million recorded in 2012. Accrued income tax expense charged to the income statement for the period was R24 million (2012: R37 million) resulting in an after tax profit of R84 million compared to R108 million in 2012.

Chairman and executive management statement

for the year ended 31 December 2013 *(continued)*

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 spate of disruptive strikes especially in the mining sector that hurt the economy badly in 2012 subsided somewhat during 2013. However, industrial relations issues remain a key concern among investors some of whom announced a cancellation of certain planned new investments in 2013.

Meanwhile, the government has indicated its disposition not to allow any longer the unnecessary disruptions to productivity that are directly harming economic growth, which is particularly reassuring to investors and other economic players. A firm commitment to infrastructure spending and the commencement of the conscious and gradual implementation of the National Development Plan after the 2014 elections should deliver the much needed stimulus to raise GDP growth. Foreign diversification by many leading companies should also yield handsome returns for the economy of South Africa. The remaining countries of the sub-region are also taking measures to enhance their growth prospects to higher levels. The Board and Management are therefore convinced that the Company's future remains bright and filled with many opportunities for sustained growth in the leading, emerging-market economy in which it operates as well as in the rest of the sub-region.

Progress continues to be made by both the industry and the regulatory authorities towards the implementation of the Solvency Assessment and Management framework in January 2016. This new principles-based supervisory regime that focuses on risk-based capital, improved governance and risk management and transparent reporting by insurance and reinsurance companies in South Africa is substantially an adaptation of the Solvency II regime designed in Europe and is being developed in a consultative manner involving participation by all industry players. The Company has been actively involved and is substantially prepared for the new regime. The Board is committed to playing its role in ensuring that the Company's record of absolute regulatory compliance remains unbroken with a wholesale and successful implementation of the new regime once rolled out eventually. All required measures and resources to achieve this aim will be duly authorised by the Board.

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.

Our thanks also go 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 except for one absence at the July Board meeting.

Chairman and executive management statement

for the year ended 31 December 2013 *(continued)*

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 – appointed 1 July 2013)
S Mabaso-Koyana	-	(Independent, Non-executive Director – resigned 24 Oct 2013)
S Mzimela	-	(Independent, Non-executive Director – appointed 17 Dec 2013)
D N De Vos	-	(Managing Director)
I A Ibisomi	-	(Executive Director – appointed 17 December 2013)

On its part, the Audit Committee under the Chairmanship of A F W Peters met twice during the course of the 2013 financial year. The Committee's report is separately included elsewhere in these financial statements just as is the report of the new Social and Ethics Committee under the chairmanship of P Pettersen. The Board has further constituted a Remuneration and Human Resources Committee under the chairmanship of C Karekezi as well as a Risk and Underwriting Committee under the chairmanship of P Pettersen. 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

Board of Directors, Executive Management

Ibrahim Ibisomi
General Manager,
Finance & Admin

Allan F W Peters
Independent,
Non-Executive Director

Phillip Pettersen
Independent,
Non-Executive Director

John Izegbu
General Manager,
Operations

Daryl N De Vos
Managing Director

Bakary H Kamara
Non-Executive Chairman

Corneille Karekezi
Non-Executive Deputy Chairman

Elizabeth N Amadiume
Non-Executive Director

Sindi Mabaso-Koyana
Independent,
Non-Executive Director
(Resigned 24 October 2013)

Siza Mzimela
Independent,
Non-Executive Director
(Appointed
17 December 2013)

Haile Michael Kumsa
Independent,
Non-Executive Director
(Appointed 1 July 2013)

The Africa Re South Africa team – photographed inside the new office premises in Parktown.

Directors' responsibility for the financial statements

for the year ended 31 December 2013

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 2013, 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 2014 and signed on their behalf by:

Bakary H Kamara
Chairman

Daryl De Vos
Managing Director

Report by the Audit Committee

for the year ended 31 December 2013

The Audit Committee is pleased to present this report on its activities for 2013 to the Board and to the Shareholder. Until July 2013 when the Risk and Underwriting Committee was separately constituted, the Audit Committee's activities extended to the realm of underwriting and risk management. This report is therefore the first to be issued as a purely Audit Committee.

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 only one absence recorded by one member in one of the meetings. 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 internal auditor and the technical inspector could not, however, attend any of the meetings of the Committee held during 2013 but the Committee nonetheless considered the technical inspector's report satisfactorily. 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 2014.

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),
S Mabaso-Koyana	-	independent non-executive Director (Member), resigned 24 Oct 2013
H M Kumsa	-	independent non-executive Director (Member), appointed 17 Dec 2013
S Mzimela	-	independent non-executive Director (Member), appointed 17 Dec 2013

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 2013.

For and on behalf of the Audit Committee:

Allan F W Peters
Chairman, Audit and Risk Committee
13 March 2014

Report by the Social and Ethics Committee

for the year ended 31 December 2013

The Social and Ethics Committee is pleased to present this maiden report on its activities for 2013 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 commenced with an agreement of its purpose, the development of its Charter for Board approval and a confirmation of the existing structures and documents relevant to its work. The Board kindly approved the Committee's Charter. The Committee then caused the distribution of its Charter and the Company's Code of Ethics to all staff to enable them to understand and utilize the purpose, resources and availability of the Committee as and when necessary. At the instance of the Committee, health and safety notices have been prominently displayed in the Company's premises. The Committee also shared a number of documents (including the Financial Sector Charter) amongst its members for review ahead of subsequent meetings.

The Social and Ethics Committee met three times during the year with one absence recorded in each of two meetings. 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 remained fully compliant with the requirements of the Companies Act 2008. The composition of the Committee during the year was as follows:

P Pettersen	-	Independent non-executive Director (Chairman)
H M Kumsa	-	Independent non-executive Director (Member)
Daryl De Vos	-	Managing Director (Member)
Ibrahim Ibisomi	-	General Manager, Finance & Administration (Member)
D Wood	-	Assistant Manager, Treaty (Member)
S Matlabe	-	Claims Officer (Member – appointed 14 October 2013)

Report by the Social and Ethics Committee

for the year ended 31 December 2013

Members of the Committee are satisfied with the Company's 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 2013.

For and on behalf of the Social and Ethics Committee:

Phillip Pettersen
Chairman
13 March 2014

Directors' report

for the year ended 31 December 2013

The directors are pleased to present the directors' report of the company for the year ended 31 December 2013.

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 2013 amounts to R545.2 million (2012: R461.7 million). Net technical liabilities under insurance contracts at 31 December 2013 amount to R305.4 million (2012: R326.3 million).

Statement of comprehensive income

Total profit and comprehensive income for the year is R83.5 million (2012: R108.1 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 (2012: R0).

Directors

The directors who served the company during the year were:

Bakary H Kamara	Non-executive Chairman (Mauritanian)
Daryl De Vos	Executive Director
Allan F W Peters	Independent non-executive Director (British)
Corneille Karekezi	Non-executive Director (Rwandese)
Elizabeth Amadiume	Non-executive Director (Nigerian)
Phillip Pettersen	Independent non-executive Director
Haile M Kumsa	Independent non-executive Director (Ethiopian) (appointed 1 July 2013)
Sindisiwe Mabaso-Koyana	Independent non-executive Director (resigned 24 October 2013)
Sizakele Mzimela	Independent non-executive Director (appointed 17 December 2013)
Ibrahim Ibisomi	Executive Director (Nigerian) (appointed 17 December 2013)

Directors' report

for the year ended 31 December 2013 *(continued)*

Company Secretary

Ibrahim Ibisomi

Africa Re Place
10 Sherborne Road
Parktown
2193

PO Box 3013
Houghton
2041

Auditors

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

Report of the independent auditor

for the year ended 31 December 2013

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 2013, 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 18 to 61.

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 2013, 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.

Report of the independent auditor

for the year ended 31 December 2013 *(continued)*

Other Reports Required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2013, 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
13 March 2014

KPMG Crescent
85 Empire Road
Parktown
South Africa, 2193

Statement of financial position

at 31 December 2013

	Note	2013 R'000	2012 R'000
Assets			
Equipment	6	5 693	589
Intangible assets	7	-	36
Financial assets	8	**1 947 973**	1 969 998
– Held-to-maturity instruments at amortised cost		**967 978**	1 061 542
– Instruments at fair value through profit or loss		**979 995**	908 456
Technical assets under insurance contracts	9	**784 538**	861 782
– Retroceded outstanding claims reserve		**613 494**	655 047
– Retroceded unearned premium reserve		**127 016**	149 318
– Deferred acquisition costs		**44 028**	57 417
Amounts due from companies on reinsurance accounts	10	**190 897**	105 458
Deposits retained by ceding companies	11	**136**	134
Accounts receivable		**21 890**	7 308
Current income tax asset	18	**25 337**	19 380
Cash and cash equivalents	12	**1 936**	4 307
Total assets		**2 978 400**	2 968 992
Equity			
Share capital and share premium	13	**80 300**	80 300
Contingency reserve		**51 702**	51 702
Retained earnings		**413 197**	329 671
Total equity attributable to equity holders of the company		**545 199**	**461 673**
Liabilities			
Technical liabilities under insurance contracts	9	**1 089 940**	1 188 064
– Gross outstanding claims reserve		**873 866**	930 074
– Gross unearned premium reserve		**181 451**	213 312
– Deferred retrocession commission income		**34 623**	44 678
Amounts due to companies on reinsurance accounts	14	**117 827**	145 100
Deposits due to retrocessionaire	15	**1 108 810**	1 092 147
Amount due to holding company		**80 275**	55 454
Other provisions and accruals	16	**9 081**	4 264
Deferred tax liability	17	**27 268**	22 290
Total liabilities		**2 433 201**	2 507 319
Total equity and liabilities		**2 978 400**	2 968 992

Statement of comprehensive income

for the year ended 31 December 2013

	Note	2013 R'000	2012 R'000
Gross written premiums		**1 879 305**	1 687 667
Retroceded written premiums		**(1 331 050)**	(1 198 288)
Net written premiums		**548 255**	489 379
Change in gross unearned premium reserve		**31 861**	(31 942)
Change in retroceded unearned premium reserve		**(22 302)**	22 359
Net earned premiums		**557 814**	479 796
Net investment income		**122 842**	154 600
Dividend income		**12 173**	11 091
Interest income on investments		**91 770**	92 521
Interest expense on investments		**(23 722)**	(22 669)
Net realised gain on disposal of investments		**20 221**	18 364
Net unrealised gain on investments		**27 224**	59 135
Investment management expenses		**(4 824)**	(3 842)
Total net income		**680 656**	**634 396**
Gross claims paid		**1 358 059**	1 157 269
Retroceded claims received		**(958 587)**	(812 619)
Change in gross provision for outstanding claims		**(56 208)**	23 903
Change in retroceded provision for oustanding claims		**41 553**	(12 360)
Net incurred claims		**384 817**	356 193
Net commission incurred	*19*	**120 753**	86 836
Management expenses		**67 339**	46 316
Net profit before taxation	20	**107 747**	145 051
Taxation	21	**(24 221)**	(36 931)
Total profit and comprehensive income for the year		**83 526**	108 120

Statement of changes in equity

for the year ended 31 December 2013

	Share capital and share premium R'000	Contingency reserve R'000	Retained earnings R'000	Total R'000
Balance as at 1 January 2012	80 300	51 702	221 551	353 553
Comprehensive income for the year			108 120	108 120
Balance as at 31 December 2012	**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**

Statement of cash flows

for the year ended 31 December 2013

	Note	2013 R'000	2012 R'000
Cash flows from operating activities			
Cash (utilised)/generated by operations	*25.1*	**(115 709)**	136 623
Interest expense		**(23 722)**	(22 669)
Taxation paid	25.2	**(25 200)**	(36 400)
Net cash inflow from operating activities		**(164 631)**	77 554
Cash flows from investment activities			
Net purchases and disposals of equipment and intangible assets		**(6 329)**	(41)
Net purchases of investments		**69 470**	(173 271)
Interest received net of investment management fees		**86 946**	88 679
Dividends received		**12 173**	11 091
Net cash outflow from investment activities		**162 260**	(73 542)
Net (decrease)/increase in cash and cash equivalents		**(2 371)**	4 012
Cash and cash equivalents at the beginning of the year		**4 307**	295
Cash and cash equivalents at the end of the year		**1 936**	4 307

Categories of assets and liabilities

for the year ended 31 December 2013

	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	
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**

Categories of assets and liabilities

for the year ended 31 December 2013

R'000	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
Liabilities								
Technical liabilites 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	2 871	9 081	9 081
Creditors and accruals					6 210	–	6 210	6 210
Accrual for leave pay						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**

Categories of assets and liabilities

for the year ended 31 December 2013

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 2012**								
Assets								
Equipment	6					589	589	
Intangible assets	7					36	36	
Financial assets	8	**908 456**	**1 061 542**				**1 969 998**	**1 151 256**
Listed bonds		404 815	97 874				502 689	32 500
Listed ordinary shares		348 553					348 553	
Money market funds		155 088					155 088	155 088
Fixed and call deposits			963 668				963 668	963 668
Technical assets under insurance contracts	9					**861 782**	**861 782**	**646 300**
Retroceded outstanding claims reserve						655 047	655 047	439 565
Retroceded unearned premium reserve						149 318	149 318	149 318
Deferred acquisition costs						57 417	57 417	57 417
Amounts due from companies on reinsurance accounts	10			105 458			105 458	105 458
Deposits retained by ceding companies	11			134			134	134
Accounts receivable				7 308			7 308	7 308
Current income tax asset	18					19 380	19 380	19 380
Cash and cash equivalents	12			4 307			4 307	4 307
Total assets		**908 456**	**1 061 542**	**117 207**		**881 787**	**2 968 992**	**1 934 143**

Categories of assets and liabilities

for the year ended 31 December 2013 *(continued)*

R'000	*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
Liabilities								
Technical liabilites under insurance contracts	9					**1 188 064**	**1 188 064**	**882 200**
Gross outstanding claims reserve						930 074	930 074	624 210
Gross unearned premium reserve						213 312	213 312	213 312
Deferred retrocession commission revenue						44 678	44 678	44 678
Amounts due to companies on reinsurance accounts	14				145 100		145 100	145 100
Deposits due to retrocessionaire	15				1 092 147		1 092 147	1 092 147
Amount due to holding company					55 454		55 454	55 454
Other provisions and accruals	16				**2 163**	2 101	4 264	4 264
Creditors and accruals					2 163	-	2 163	2 163
Accruals						2 101	2 101	2 101
Deferred tax liability	17					22 290	22 290	
Total liabilities					**1 294 864**	**1 212 455**	**2 507 319**	**2 179 165**

Notes to the financial statements

for the year ended 31 December 2013

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 2014.

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.

Notes to the financial statements

for the year ended 31 December 2013 *(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.

Notes to the financial statements

for the year ended 31 December 2013 *(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.

Notes to the financial statements

for the year ended 31 December 2013 *(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 cost 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.

Notes to the financial statements

for the year ended 31 December 2013 *(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.

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.

Notes to the financial statements

for the year ended 31 December 2013 *(continued)*

2. Accounting policies *(continued)*

(l) 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 rate method.

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 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.

Notes to the financial statements

for the year ended 31 December 2013 *(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.

2. Accounting policies *(continued)*

(q) New standards and interpretations issued but not yet effective and not yet adopted

Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities

The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

IFRS 9 Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The effective date of IFRS 9 was 1 January 2015. The effective date has been postponed and a new date is yet to be specified. The company will adopt the standard in the first annual period beginning on or after the mandatory effective date (once specified). The impact of the adoption of IFRS 9 has not yet been estimated as the standard is still being revised and impairment and macro-hedge accounting guidance is still outstanding.

The company will assess the impact once the standard has been finalised and the effective date is known.

Notes to the financial statements

for the year ended 31 December 2013 *(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 2013 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.

Notes to the financial statements

for the year ended 31 December 2013 *(continued)*

5. Risk management objectives and policies *(continued)*

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.

Notes to the financial statements

for the year ended 31 December 2013 *(continued)*

5. Risk management of insurance contracts and financial instruments

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 provision 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' shares of insurance liabilities are fully secured by deposits held by the company or bank guarantees in accordance with the regulatory solvency requirements and the retrocession agreements.

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

(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.

Notes to the financial statements

for the year ended 31 December 2013

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 R39.8 million (2012: R34.9 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 2013 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 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	153.2	Market price	5%	5.5	7.7
Fixed deposit	864.7	864.7	Interest rate movement	5%	31.1	43.2

December 2012						
Equity	272.4	348.6	Market price	10%	25.1	34.9
Bonds at fair value	380.9	404.8	Interest rate movement	5%	43.9	61.0
Bonds at amortised cost	97.9	97.9	Interest rate movement	5%	3.5	4.9
Money market unit trusts	154.8	155.1	Market price	5%	5.6	7.8
Fixed deposit	963.7	963.7	Interest rate movement	5%	27.5	38.2

* assumed tax rate of 28% has been used

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 R21.4 million (2012: R61 million) while a change of 5% in interest rate would change the cash flows from interest bearing fixed deposits at year end by R43.2 million (2012: R38.2 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:

Notes to the financial statements

for the year ended 31 December 2013

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 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**
December 2012					
Financial assets	189.4	821.0	511.4	99.6	**1 621.4**
Insurance receivables				105.5	**105.5**
Insurance deposits				0.1	**0.1**
Accounts receivable				7.3	**7.3**
Cash and cash equivalents		4.3			**4.3**
Total	**189.4**	**825.3**	**511.4**	**212.5**	**1 738.6**

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 investment and limits on the minimum proportions of maturing funds available to meet such cash payment calls and unexpected levels of cash payment demand.

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)*

(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 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 deposits		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 provisions and accruals		6.2				6.2
Total financial and insurance liabilities		**2 120.3**	**176.8**	**46.3**	**59.6**	**2 403**
Net maturities	**400.3**	**(239)**	**6.0**	**13.5**	**363.5**	**544.3**

Notes to the financial statements

for the year ended 31 December 2013

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 2012	On demand R'm	1 Year R'm	2 Year R'm	3 Year R'm	>4 Year R'm	Total R'm
Asset maturites						
Cash and cash equivalents	4.3					4.3
Fixed and call deposit		963.7				963.7
Money market funds		155.1				155.1
Debt securities		32.5	26.9	59.1	384.2	502.7
Equities	348.6					348.6
Insurance contracts assets		646.3	145.9	44.2	25.4	861.8
Amounts due from companies on reinsurance accounts		105.5				105.5
Deposits retained by ceding companies		0.1				0.1
Accounts receivable		7.3				7.3
Total financial and insurance assets	**352.9**	**1 910.5**	**172.8**	**103.3**	**409.6**	**2 949.1**
Liability maturities						
Insurance contracts liabilities		882.2	207.1	62.7	36.1	1 188.1
Reinsurance account balance		145.1				145.1
Reinsurance deposits		1 092.1				1 092.1
Due to holding company		55.5				55.5
Other provision and accruals		2.1				2.1
Total financial and insurance liabilities		**2 177.0**	**207.1**	**62.7**	**36.1**	**2 482.9**
Net maturities	**352.9**	**(266.5)**	**(34.3)**	**40.6**	**373.5**	**466.2**

(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.

Notes to the financial statements

for the year ended 31 December 2013 *(continued)*

6. Equipment

	2013 R'000	2012 R'000
Cost		
Motor vehicles	**694**	546
Computer equipment	**1 681**	774
Office equipment	**737**	268
Furniture & fittings	**5 798**	1 381
	8 910	2 969
Accumulated depreciation		
Motor vehicles	**290**	542
Computer equipment	**967**	672
Office equipment	**397**	267
Furniture & fittings	**1 563**	899
	3 217	2 380
Carrying values		
Motor vehicles	**404**	4
Computer equipment	**714**	102
Office equipment	**340**	1
Furniture & fittings	**4 235**	482
	5 693	589
Reconciliation of carrying values		
Opening balance	**589**	941
Additions	**6 329**	41
Depreciation	**(1 225)**	(393)
Closing balance	**5 693**	589

Notes to the financial statements

for the year ended 31 December 2013

		2013	2012
6.	**Equipment** (continued)	**R'000**	R'000
	Motor vehicles		
	Net carrying value at beginning of year	**4**	102
	Additions	**535**	–
	Depreciation	**(135)**	(98)
	Net carrying value at end of year	**404**	4
	Computer equipment		
	Net carrying value at beginning of year	**102**	167
	Additions	**907**	41
	Depreciation	**(295)**	(106)
	Net carrying value at end of year	**714**	102
	Office equipment		
	Net carrying value at beginning of year	**1**	5
	Additions	**469**	–
	Depreciation	**(130)**	(4)
	Net carrying value at end of year	**340**	1
	Furniture & fittings		
	Net carrying value at beginning of year	**482**	665
	Additions	**4 418**	-
	Depreciation	**(664)**	(185)
	Net carrying value at end of year	**4 235**	**482**
7.	**Intangible assets**		
	Computer software		
	Cost	**582**	582
	Accumulated amortisation		
	Opening balance	**546**	476
	Amortisation – software in use	**36**	70
	Closing balance	**582**	546
	Net carrying value	**-**	36

Notes to the financial statements

for the year ended 31 December 2013 *(continued)*

8.

Financial assets	2013 R'000	2012 R'000
Held-to-maturity instruments at amortised cost		
Fixed and call deposits	**864 683**	963 668
Listed bonds	**103 295**	97 874
	967 978	1 061 542
Instruments at fair value through profit or loss		
Listed instruments		
– bonds	**427 760**	404 815
– equities	**398 388**	348 553
– money market funds	**153 847**	155 088
	979 995	908 456
Total financial assets	**1 947 973**	1 969 998
Fair value of the held-to-maturity instruments		
Fixed and call deposits	**864 683**	963 667
Listed bonds	**105 560**	106 040
	970 243	1 069 707
Cost of instruments disclosed at fair value through profit or loss		
Bonds	**426 044**	380 858
Equities	**272 056**	272 410
Money market funds	**153 257**	154 845
	851 357	808 113

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

Maturity period At 31 December 2012	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**
		1 549 585

Notes to the financial statements

for the year ended 31 December 2013 *(continued)*

8. Financial assets *(continued)*

Maturity period At 31 December 2012	Effective interest rate %	Market value R'000
On demand	5.63% to 5.87%	155 088
Within 1 year	4.75% to 5.30%	963 667
1 to 3 years	9.17% to 10.80%	123 068
3 to 7 years	7.17% to 9.39%	166 326
7 to 12 years	7.73% to 8.56%	142 703
>12 years	2.31% to 8.84%	70 593
		1 621 445

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.

Notes to the financial statements

for the year ended 31 December 2013 *(continued)*

Analysis of instruments at fair value

Financial assets

December 2013	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Designated at fair value through profit or loss	**826 148**	**153 847**	**–**	**979 995**
December 2012				
Designated at fair value through profit or loss	753 368	155 088	–	908 456

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 (see above).

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.

Notes to the financial statements

for the year ended 31 December 2013

9. Technical assets and liabilities under insurance contracts	2013 R'000	2012 R'000
Technical liabilities		
· Gross claims reported but not yet settled	**669 186**	737 015
· Gross claims incurred but not reported	**204 680**	193 059
· Gross unearned premium provision	**181 451**	213 312
· Deferred retrocession commission income	**34 623**	44 678
	1 089 940	1 188 064
Technical assets		
· Retrocessionaire's share of claims reported but not yet settled	**470 218**	519 906
· Retrocessionaire's share of claims incurred but not reported	**143 276**	135 141
· Retrocessionaire's share of unearned premium provision	**127 016**	149 318
· Deferred acquisition costs	**44 028**	57 417
	784 538	861 782
Net technical liabilities		
· Claims reported but not yet settled	**198 968**	217 109
· Claims incurred but not reported	**61 404**	57 918
· Unearned premium provision	**54 435**	63 994
· Deferred acquisition costs	**(9 405)**	(12 739)
	305 402	326 282

Notes to the financial statements

for the year ended 31 December 2013 *(continued)*

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

9.1 Movements in technical assets and liabilities under insurance contracts

Outstanding claims

	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**

	2012		
	Gross R'000	**Reinsurance R'000**	**Net R'000**
Claims reported but not yet settled	580 986	414 689	166 297
Claims incurred but not reported	325 184	227 998	97 186
Total outstanding at beginning of year	906 170	642 687	263 483
Movement in outstanding claims	23 904	12 360	11 544
-arising from current year claims	325 841	228 089	97 752
-arising from prior period claims	(301 937)	(215 729)	(86 208)
Total at end of year	930 074	655 047	275 027
Notified claims	737 015	519 906	217 109
Incurred but not reported	193 059	135 141	57 918
Total at end of year	930 074	655 047	275 027

Notes to the financial statements

for the year ended 31 December 2013

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

	2009 R'000	2010 R'000	2011 R'000	2012 R'000	2013 R'000
Claim settlement for each year:					
- first year	385 542	374 629	253 690	438 949	467 121
- one year later	363 391	595 973	385 661	584 614	
- two years later	109 895	232 826	227 255		
Provision for gross outstanding claims after two years run-off	271 420	295 037	109 387	296 042	303 664
- three years later	33 875	40 433			
- four years later	23 291				
Provision for gross outstanding claims at year end	39 759	59 319	109 387	296 042	303 664
Claim development run-off result at year end	**174 495**	**195 285**	**–**	**–**	**–**

Unearned premium provision

	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**

	2012		
	Gross R'000	Reinsurance R'000	Net R'000
At the beginning of year	181 370	126 959	54 411
Premiums written during the year	1 687 667	1 198 288	489 379
Premiums earned during the year	(1 655 725)	(1 175 929)	(479 796)
Total at end of year	213 312	149 318	63 994

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

Notes to the financial statements

for the year ended 31 December 2013 *(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	Gross R'000	2013 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**

	Gross R'000	2012 Reinsurance R'000	Net R'000
At the beginning of year	40 849	31 758	9 091
Acquisition costs paid during the year	413 731	323 247	90 484
Transferred to costs incurred during the year	(397 163)	(310 327)	(86 836)
At the end of year	57 417	44 678	12 739

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.

Notes to the financial statements

for the year ended 31 December 2013

		2013 R'000	2012 R'000
10.	**Amounts due from companies on reinsurance accounts**		
	Amounts due from ceding companies	**190 897**	105 458
		190 897	105 458
11.	**Deposits retained by ceding companies**		
	At beginning of year	**134**	37 499
	New deposits retained	**2**	134
	Deposits released	**-**	(37 499)
	At the end of year	**136**	134
12.	**Cash and cash equivalents**		
	Cash on hand	**18**	13
	Current bank account balances	**1 918**	4 294
		1 936	4 307

Notes to the financial statements

for the year ended 31 December 2013 *(continued)*

		2013 R'000	2012 R'000
13.	**Share capital and share premium**		
	Share capital	–*	–*
	Share premium	80 300	80 300
		80 300	80 300
	Authorised		
	7 ordinary shares of R0,01 each	–*	–*
	Issued		
	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	9 772	11 901
	Amounts due to retrocessionaire	108 055	133 199
		117 827	145 100
15.	**Deposits due to retrocessionaire**		
	At beginning of year	1 092 147	1 085 330
	New deposits retained	1 108 810	1 092 147
	Deposits released	(1 092 147)	(1 085 330)
	At the end of the year	1 108 810	1 092 147

Notes to the financial statements

for the year ended 31 December 2013

16. Other provisions and accruals	2013 R'000	2012 R'000
Other creditors and accruals	**6 210**	2 163
Accrual for leave pay	**2 871**	2 101
	9 081	4 264

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.

17. Deferred tax liability	2013 R'000	2012 R'000
Opening balance	**22 290**	6 494
Current year	**4 978**	15 796
Closing balance	**27 268**	22 290
The net deferred tax liability balance at the end of the period comprises:		
– capital allowance	**87**	25
– provisions	**(803)**	(588)
– unrealised gains on revaluation of investments	**27 984**	22 853
	27 268	22 290

18. Current income tax asset

The current income tax asset of R19.4 million (2011: R4.1 million) represents the amount of income taxes payable in the current year less provisional tax payments made.

19. Commission paid and received	2013 R'000	2012 R'000
Gross commission and brokerage paid	**522 086**	413 731
Gross deferred acquisition costs	**13 389**	(16 568)
Commission incurred	**535 475**	397 163
Commission earned	**(414 722)**	(310 327)
Retroceded commission and brokerage received	**(365 539)**	(289 774)
Retroceded overriding commission received	**(39 128)**	(33 473)
Retroceded deferred commission received	**(9 372)**	11 608
Retroceded deferred overriding commission revenue	**(683)**	1 312
Net commission incurred	**120 753**	86 836

Notes to the financial statements

for the year ended 31 December 2013 *(continued)*

20. Profit before taxation

Profit before taxation	2013 R'000	2012 R'000
Profit before taxation is arrived at after charging the following items:		
Auditors remuneration:		
– for audit services in the current year	**1 400**	1 272
Consultancy fees	**489**	1 780
Depreciation	**1 225**	393
Net loss on disposal of equipment	**27**	-
Amortisation	**36**	70
Directors remuneration	**6 050**	4 271
Executive – for services rendered	**4 761**	2 854
Non executive – for services as directors	**2 930**	1 417
Lease payments	**2 427**	897
Secretarial fees	**107**	68
Staff costs including contribution to pension fund, UIF, SDL and allowances	**19 856**	19 344
Number of staff	**32**	32

21. Taxation

	2013	2012
South African normal taxation – current year		
Corporate tax	**19 243**	21 135
Deferred tax	**4 978**	15 796
	24 221	36 931

Tax rate reconciliation	**%**	%
Effective tax rate	**22.4**	26.5
Exempt income	**3.2**	2.1
Disallowed expenses	**(0.2)**	(0.1)
Capital gains tax	**2.6**	(0.5)
South African standard corporate tax rate	**28.0**	28.0

Notes to the financial statements

for the year ended 31 December 2013

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	2013	2012
		R	R
Bakary Kamara	Non-executive Chairman	**750 812**	400 002
Corneille Karekezi	Non-executive Deputy Chairman	**757 381**	256 591
Allan F W Peters	Independent, non-executive Director	**353 600**	256 591
Kung'u Gatabaki	Independent, non-executive Director (Retired 12 July 2012)	**-**	115,763
Elizabeth Amadiume	Non-executive Director	**372 498**	198 451
Phillip Pettersen	Independent, non-executive Director	**335 340**	106 913
Sindisiwe Mabaso-Koyana	Independent, non-executive Director (Resigned 24 October 2013)	**217 808**	82 688
Haile M Kumsa	Independent, non-executive Director (Appointed 1 July 2013)	**142 524**	-
Sizakele Mzimela	Independent, non-executive Director (Appointed 17 December 2013)	**-**	-
Daryl De Vos	Managing Director	**3 119 598**	2 853 838
Ibrahim Ibisomi	Executive Director (Appointed 17 December 2013)	**1 640 918**	1 493 838

Prescribed officers

Apart from Mr. Daryl De Vos who served as Managing Director and Mr. Ibrahim Ibisomi who was appointed Executive Director on 17 December 2013, 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:

		2013	2012
		R	R
John C Izegbu	– General Manager Operations	**1,640,918**	1,493,838

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.

Notes to the financial statements

for the year ended 31 December 2013 *(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	2013 R'000	2012 R'000
Assets		
Technical assets under insurance contracts	**740 510**	804 365
Liabilities		
Deferred retrocession commission revenue	**(34 623)**	(44 678)
Deposits due to retrocessionaire	**(1 108 810)**	(1 092 147)
Amounts due to companies on reinsurance accounts	**(108 055)**	(133 199)
Amount due to holding company	**(80 275)**	(55 454)
Net liabilities	**(591 253)**	(521 113)

Statement of comprehensive position	2013 R'000	2012 R'000
Retroceded premiums	**(1 331 050)**	(1 198 288)
Retrocessionaire's share of provision for unearned premiums	**(22 302)**	22 359
Retroceded claims received	**958 587**	812 619
Retrocessionaire's share of provision for outstanding claims	**(41 553)**	12 360
Retrocessionaire's share of net commission incurred	**414 722**	310 327
Interest expense	**(23 722)**	(22 669)
Management expenses	**(26 957)**	(9 152)

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

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 367 048 (2012: R1 294 624).

24. Operating lease commitments

The Company leases photocopiers, fax equipment, office premises and an uninterrupted power supply. The minimum non-cancellable operating lease payments are payable as follows:

	2013 R'000	2012 R'000
– less than one year	**175**	58
– between one and five years	**194**	88
	369	146

Notes to the financial statements

for the year ended 31 December 2013

25. Notes to the cash flow statement	2013 R'000	2012 R'000
25.1 Reconciliation of cash generated by operations		
Profit before taxation	**107 747**	145 051
Adjusted for :		
– depreciation and amortisation	**1 261**	463
– investment income net of management fees	**(146 564)**	(177 269)
– interest expenses	**23 722**	22 669
– net unearned premium reserve net of deferred acquisition costs	**(6 225)**	5 935
Cash (utilised)/generated by changes in working capital	**(95 650)**	139 774
Amounts due from companies on reinsurance accounts	**(112 712)**	84 917
Deposits retained by ceding companies	**(2)**	37 365
Accounts receivable	**(14 582)**	(7 009)
Amount due to holding company	**24 821**	10 236
Other provisions and accruals	**4 817**	(4 096)
Deposits due to retrocessionaire	**16 663**	6 817
Net outstanding claims reserve	**(14 655)**	11 544
	(115 709)	136 623
25.2 Reconciliation of taxation paid		
Balance recoverable at the beginning of the period	**19 382**	4 115
Current tax charge in profit or loss	**(19 243)**	(21 135)
Balance recoverable at the end of the period	**(25 337)**	(19 380)
Taxation paid	**(25 200)**	(36 400)

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.

Notes to the financial statements

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.

ESTABLISHED SUPPORTIVE RESILIENT
PROMOTING THE GROWTH OF INSURANCE IN AFRICA

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