

AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
33RD ANNUAL ORDINARY MEETING
ADDIS ABABA, ETHIOPIA, 23RD JUNE 2011

AFRICARE/GA/35/237



AFRICAN REINSURANCE CORPORATION
SOCIETE AFRICAINE DE REASSURANCE
(AFRICA RE)

Honourable Representatives
General Assembly
African Reinsurance Corporation

Date: 23rd June 2011

In accordance with the provisions of Articles 14 and 37 of the Agreement Establishing the African Reinsurance Corporation and Article 8 of the General Regulations of the Corporation, I have the honour, on behalf of the Board of Directors, to submit to you the Annual Report and Audited Accounts of the Corporation for the period from 1st January to 31st December, 2010.

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

MUSA S. AL NAAS

Chairman of the Board of Directors and General Assembly



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Africa Re Board of Directors



Mr. I. KAMUZORA
Vice-Chairman



Mr. M. AL NAAS
Chairman



Dr. A. MOUNIR



Mrs. N. KYIAMAH



Mr. B. TÜMMERS



Mrs. M. OLUGBADE



Mr. M. L. NATY



Mr. M. KAMEL



Mr. E. ENGOLO



Mr. F. DANIEL



Mr. T. EL-BARKI

ALTERNATE DIRECTORS

Mr. Fathi BALA, Mr. Ali AL-ASHRY, Mr. Basiru NJAI, Mr. Marcus BONN, Mr. Thami YAHYAOUJ, Mr. Moussa DIAW, Mr. Kamel MERAGHNI, Mr. Mamadou SARR, Mr. Bala ZAKARIYAU, Mr. Woldemichael ZERU.



Chairman's Statement

African Reinsurance Corporation

The 33rd Annual Report of the Board of Directors presents the African Reinsurance Corporation's consolidated financial statements for 2010, including the statement of financial position as at 31 December and the statement of comprehensive income for the financial year. It also includes a review of the Corporation's operating environment and the report of the External Auditors to the shareholders.



Mr. M. AL NAAS
Chairman

management expenses for the year amounted to US\$27.09 million, representing an increase of 18.61% over US\$22.84 million incurred in 2009.

The high premium income, coupled with a rigorous risk selection policy enabled the Corporation to post a net underwriting profit of US\$ 37.01 million for the year compared to US\$15.71 million in 2009 representing a 135.5% increase.

Gross written premium for the year grew by 16.99% to US\$ 627.53 million compared to US\$ 536.38 million, in 2009. The performance, taking cognizance of the impact of changes in exchange rates, is broadly in line with the Corporation's business development strategy. Gross earned premium, after adjusting for the movement in unearned premium provision, stood at US\$616.91 million compared to US\$ 514.48 million in 2009.

Premium ceded to retrocessionnaires during the year totalled US\$57.83 million against US\$49.23 million last year. The Corporation did not change its policy and continued to rely more on XL cover for the regular risks assumed while arranging special covers, in respect of the major oil and petrochemical risks accepted.

Claims paid during the year under review amounted to US\$322.86 million compared to US\$289.28 million in 2009 representing a 11.60% increase, which is below growth in 2010 production. Consequently, the claims experience dropped from 53.93% in 2009 to 51.45% in 2010. Adjusting for the movement in outstanding claims, including IBNR, net incurred loss ratio stood at 61.58% in 2010 compared to 65.69% last year.

During the year, the Board approved an upward review of a component of the retirement benefits of management and staff as well as the promotion and recruitment of new staff. Based on the foregoing,

Income from investment and other sources, including interest on reinsurance deposits, amounted to US\$32.56 million compared to US\$31.29 reported in the previous period, representing a 4% increase.

Shareholders' funds as at 31 December 2010 stood at US\$343.67 million as against US\$280.40 million in 2009 representing a 22.56% increase.

The beginning of the recovery from the world recession in 2009 did not suffice to ensure the much expected economic rebound. Indeed, capital mobility did not allow investment in the real economy and thus the financing of activities that create tangible assets.

If annual average world growth stood at 4.8%, it is mainly due to the performance of the emerging nations which henceforth are the locomotives of the world economy. China, which is presently the second largest economy, has become the world's financier. With about US\$2,600 billion foreign exchange reserves, China was able to assist European economies (Greece, Spain, Portugal and Ireland), while investing at the same time in major sectors of manufacturing and services in the United States of America.

The governance reform of the major multilateral financial institutions (IBRD and IMF), which started in 2009 without much success, seems to be



taking shape after voting powers of the emerging countries were increased and an additional seat given to Africa on the Executive Board of the World Bank.

The African continent witnessed a more rapid return to the performance of the previous decade, with an average annual GDP growth rate of more than 5%. This performance was the consequence of the reorientation of the continent's economic partnership from Europe to Asia following the high demand for raw materials by countries of this zone as a result of the recovery that started in 2009.

The stability of rates, conditions and terms of reinsurance led to a marked return to basic underwriting fundamentals and hence good profitability despite a first quarter that was very much marked by natural disasters. Reinsurers therefore recorded a second consecutive year of substantial profits. Africa Re had the best underwriting results in 2010, which amounted to US\$37 million, higher than the investment income. This performance is due to the good results obtained in all the classes and markets, with a remarkable return of underwriting profit to the South African subsidiary. The increase in premium income (16.99%) though lower than that of the previous year (34.5%) enabled the Corporation to write premium worth US\$ 627.53 million, making the target of US\$1billion by 2015 even more plausible.

During the period under review, the Corporation met its production targets and equally fulfilled other commitments, particularly participation in the development of the insurance sector in Africa.

Thus, the Corporation started the activities of the Islamic subsidiary (Africa Retakaful), signed the headquarters agreement of its local office in Addis Ababa to start operating in the first quarter of 2011 and improved its Enterprise Risk Management by using the most sophisticated tools to monitor the different types of risks it manages.

The Board of Directors had three meetings during this period and key decisions were taken. The decisions made were technical (adaptation of the retrocession programme, review of the underwriting guidelines); financial (review of investment policy and approval of investment projects) and with regard to human resources (reinforcing the policy of attracting, recruiting and retaining highly skilled insurance/reinsurance professionals). The Board finally decided to call up the first segment of the authorized capital increase from US\$100 million to US\$300 million after the distribution of bonus shares (1 million) and new shares (1 million) in order to finance the growth of the African Reinsurance Corporation in the coming years.

Mr Haile Michael KUMSA departed from the Corporation this year, after serving Africa Re with loyalty for eleven years. He was replaced by Mr. Corneille KAREKEZI, Chief Operating Officer. The latter, who will become Managing Director in the second quarter of 2011, will be the Technical Deputy Managing Director before this period.

Finally, Standard & Poor's and AM Best rating agencies renewed the A- rating of the Corporation thereby reaffirming the good perception that the African insurance industry has of the institution.

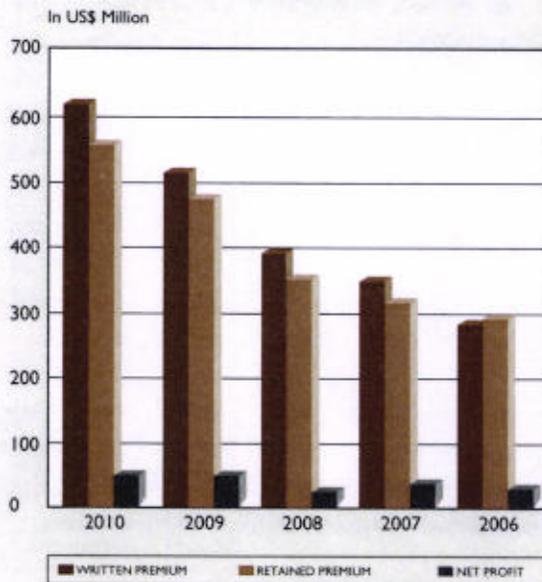


Financial Highlights

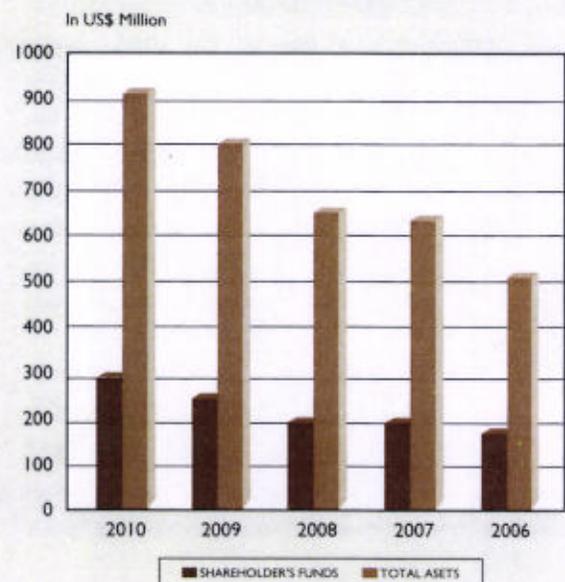
African Reinsurance Corporation

In US\$ '000	2010	2009	2008	2007	2006
RESULTS					
WRITTEN PREMIUM	627,532	536,382	401,041	369,512	293,491
RETAINED PREMIUM	569,700	487,150	365,176	335,716	258,066
EARNED PREMIUM (NET)	563,782	466,416	357,897	329,686	242,467
NET PROFIT	64,863	44,301	20,406	34,048	24,882
FINANCIAL POSITION					
SHAREHOLDERS' FUNDS	343,674	280,399	223,720	230,802	193,869
TOTAL ASSETS	958,367	836,017	686,857	668,566	549,060

RESULTS
2006 - 2010



FINANCIAL POSITION
2006 - 2010





EXECUTIVE MANAGEMENT



Mr. C. KAREKEZI
*Deputy Managing Director/
Chief Operating Officer*



Mr. B. KAMARA
Group Managing Director / CEO



Mr. G. MUSA
*Deputy Managing Director
Services*

CENTRAL DIRECTORS



Ms. E. N. AMADIUME
*Director of Central
Operations
& Special Risks*



Mr. M. ALI-KOTE
*Director of Administration &
Human Resources*



Mr. I. UDUMA
Director of Internal Audit



Mr. S. KONE
*Director of Finance &
Accounts*



Mr. M. KANTE
*Director of Information &
Communication Technology*



Mr. S. M. KABA
*Director of Technical
Inspection & Enterprise Risk
Management*

Corporation Secretary
(Vacant)



Africa Re Management Team

African Reinsurance Corporation

REGIONAL DIRECTORS AND LOCAL REPRESENTATIVE



Mrs. E. MBOGO
Regional Director, Nairobi



Mr. M. KANNOU
Regional Director, Casablanca



Mrs M. A. SANON
Regional Director, Mauritius



Mr. O. GOUDA
*Regional Director, Cairo
& Managing Director of
Africa ReKataful*



Mr. K. AGHOGHOVIA
*Regional Director, Anglophone
West Africa*



Mr. P. D. RAY
*Managing Director
Africa Re (South Africa Ltd.)*



Mr. O. N'GUESSAN
Regional Director, Abidjan



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



The recovery of the world's economy did not gain the expected momentum in 2010 in spite of the hopes aroused in late 2009. Indeed, governments invested about US\$500 billion to bail out and boost the financial sector. However, these measures only saved the global economy from the scenario of the Great Depression of 1929. The measures further increased budget deficits and the 4.8% average world growth in 2010 (0.6% in 2009) was not sufficient to cushion the effects of the economic crisis which persisted especially in developed countries.

Moreover, the liquidity generated in the previous years moved from one financial market to the other, thereby inflating prices of raw materials, real estate and bonds. These funds were not invested in the real economy and this situation could serve as a springboard for the next financial crisis. In addition, the weak consumption and investment in some major economies could hamper the fragile recovery, or even lead to deflation.

Emerging Economies: Locomotives of the World

However, the qualified success of the Cancun summit on global warming, governance reforms of the Bretton Woods Institutions (IMF and IBRD) as well as the coordination of economic policies introduced by the G-20, are signs of better regulation and the attendant shift towards a new world economic order.

The world is therefore undergoing major changes, with China becoming the second largest economy, ahead of Japan and behind the United States, despite what some perceive as an undervaluation of the yuan and the real industrial strength of the country.

Wealth is shifting to the emerging countries to the detriment of Europe and the United States of America. Thus, while average global GDP growth was 4.8%, that of developed countries was only 2.7% compared to 7.1% recorded by developing and emerging nations. To finance recovery or

simply preserve jobs, many industrialized countries now resort to foreign capital, particularly Chinese, creating for instance in the United States, a current account deficit of US\$466.5 billion in 2010. With US\$2,600 billion foreign exchange reserves, China is becoming the world's financier and is equally encouraging household consumption in order to create a domestic market that relies on a substantial middle class to sustain the double digit growth of its economy. The emerging countries are performing quite well as a result of the recovery of world trade. Consequently, the BRIC – Brazil, Russia, India and China - recorded growth rates of 7.5%, 4%, 7.5% and 10.5% respectively. Some economic analysts predict that by 2020, the seven largest emerging economies (BRIC, Mexico, Indonesia and Turkey) will overtake the G-7 (United States, Germany, Japan, France, Canada, United Kingdom and Italy).

These emerging economies amongst which are three African countries –(South Africa, Egypt and Tunisia) are characterized by several parameters: diversification of their economies (not based on a single sector), shift in wealth (minimum per capita income of US\$10,000), high growth potential (diversified industrial sector, middle class large enough to constitute a domestic market that can absorb a significant share of local production) and an institutional resilience capable of positively impacting national economic players.

It is established that many other African countries like Morocco, Ethiopia, Ghana, Uganda and Kenya could rapidly join this group, making the overall economic prospects of Africa brighter than ever before.

African Economic Performance and Ambitions

In 2010, contrary to expectations, Africa moved from the 2.5% average growth rate of 2009 to 5%, comparable to its pre-crisis rate. This performance, partly due to the continent's low level of integration into the world economy that protected it from the phenomenon, is however relative and contrasting. Furthermore, the performance is due to a rebound



Economic Environment

African Reinsurance Corporation

in exports and the rise in prices of raw materials. According to the McKinsey report, Africa should experience steady growth in exports in the coming years, about 18% over the previous decade.

Some examples can illustrate this contrast. East Africa had a 6% growth rate while West Africa recorded 5%. Southern Africa, which has the most developed economies in the continent, recorded about 4% only, while the continent's population growth stagnated at 3.4%.

The resilience of African economies was characterised by the satisfactory performance of the financial sector, relatively less exposed to the risks of global markets, and by moderate inflation of less than 8%. Some regulators such as the Central Bank of Nigeria did not hesitate to take drastic measures to restore public confidence in banking institutions weakened by poor governance and excessive risk-taking. This could not be achieved without dipping into the resources earmarked to cushion the effects of the crisis, thereby increasing budget deficits.

This performance of the continent is also due to the improved macro economic situation of a number of countries and the strength of domestic private demand. This revival is equally attributed to the reorientation of the economic partnership of Africa, which now sells most of its exports to the emerging markets of Asia (China and India) and Latin America (Brazil) instead of Europe. Indeed, the sound economies of these new partners enabled Africa to maintain and even increase its oil, mineral and other raw material exports and to sustain its growth.

However, if the global economy goes into double dip recession, Africa could suffer from dwindling remittances from the Diaspora in America and Europe, thereby diminishing local consumption. Foreign Direct Investment (FDI) would equally decline, preventing local production that can create jobs and generate income. FDI increased from US\$15 billion in 2000 to about US\$100 billion in 2010, with investments especially in the key sectors

of consumer goods and services, natural resources, agriculture and infrastructure. According to the McKinsey report, these investments could generate a cumulative amount of about US\$2,600 billion by 2020, sustained by an exceptional return on investment, unparalleled in the other regions of the world.

Although the continent had a commendable performance during the 2000s, future prospects seem more attractive. Indeed, with more than one billion inhabitants, Africa will become the destination of choice in the coming years, up to 2050. Though the "African Lions" are found mostly in the southern and northern parts of the continent (Algeria, Egypt, Libya, Morocco, Tunisia, South Africa and Botswana), the other sub regions are also destined for an enviable future. If the present economic policies are maintained and even improved, the economy of Nigeria will hopefully overtake that of Canada, Italy or South Korea in 2050. Meanwhile, Ghana, Ethiopia and Kenya could be the new continental powers as a result of the discovery of oil, agriculture and the industrial sector respectively.

International Supervision of Reinsurance

2010 was an excellent year for Africa Re - the first African reinsurer, ranked 13th out of 50 corporations operating in Nigeria, 209th out of the 500 largest companies of the continent (irrespective of sector) and 120th world reinsurer (in premium income) in the 2009 financial year.

To depict the world and African insurance landscape, it suffices to recall some figures. Though calmer than expected, the cyclone season however caused economic losses amounting to US\$222 billion, of which about US\$34 billion only was insured; representing however a 34% increase in the claims experience compared to 2009.

Nevertheless, the 2010 financial year could be as profitable as the previous one for the sector. The low interest rates in the financial markets since

for the year ended 31 December 2010



	2010	2009
	US\$'000	US\$'000
Profit for the year	64,863	44,301
Other comprehensive income		
Exchange differences on translating foreign operations	3,303	13,809
Net fair value gain on revaluing available-for-sale financial assets	40	802
Total other comprehensive income	3,343	14,611
Total comprehensive income for the year	68,206	58,912

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



Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

African Reinsurance Corporation

	Retained earnings	Trans-lation reserve	General reserve	Reserve for Market Value Adjustment	Reserve for exchange fluctuation	Reserve for loss fluctuation	Share premium	Share capital	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
At 1 January 2010	70,161	(5,114)	89,984	24	6,294	5,600	13,450	100,000	280,399
Profit for the year	64,863	-	-	-	-	-	-	-	64,863
Other comprehensive income	-	3,303	-	40	-	-	-	-	3,343
Total comprehensive income for the year	64,863	3,303	-	40	-	-	-	-	68,206
Issue of bonus shares	(67,661)	-	(18,889)	-	-	-	(13,450)	100,000	-
Buy-back of ordinary shares	-	-	(1,805)	-	-	-	-	(2,000)	(3,805)
Issue of ordinary shares	-	-	-	-	-	-	315	1,059	1,374
Dividend declared on 2009 accounts	(2,500)	-	-	-	-	-	-	-	(2,500)
Transfer to reserves	(33,231)	-	32,431	-	-	800	-	-	-
At 31 December 2010	31,632	(1,811)	101,721	64	6,294	6,400	315	199,059	343,674

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



Consolidated Statement of Changes in Equity

African Reinsurance Corporation

for the year ended 31 December 2009

	Retained earnings US\$ '000	Trans- lation reserve US\$ '000	General reserve US\$ '000	Reserve for Market Value Adjustment US\$ '000	Reserve for exchange fluctuation US\$ '000	Reserve for loss fluctuation US\$ '000	Share premium US\$ '000	Share capital US\$ '000	Total US\$ '000
At 1 January 2009	51,060	(18,923)	67,834	(778)	6,294	4,800	13,433	100,000	223,720
Profit for the year	44,301	-	-	-	-	-	-	-	44,301
Other comprehensive income	-	13,809	-	802	-	-	-	-	14,611
Total comprehensive income for the year	44,301	13,809	-	802	-	-	-	-	58,912
Appropriation:									
Premium on share transfer	-	-	-	-	-	-	17	-	17
Dividend declared on 2008 accounts	(2,250)	-	-	-	-	-	-	-	(2,250)
Transfer to reserves	(22,950)	-	22,150	-	-	800	-	-	-
At 31 December 2009	70,161	(5,114)	89,984	24	6,294	5,600	13,450	100,000	280,399

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



Consolidated Statement of Cash Flows

African Reinsurance Corporation

for the year ended 31 December 2010

	Notes	2010 US\$'000	2009 US\$'000
Cash flows from operating activities			
Cash generated from operations	22	99,038	88,672
Income tax paid		(3,402)	(1,814)
Net cash from operating activities		95,636	86,858
Cash flows from investing activities			
Purchase of property and equipment	9	(973)	(1,230)
Purchase of investments		(76,578)	(84,152)
Proceeds from disposal of property and equipment		42	39
Net cash used in investing activities		(77,509)	(85,343)
Cash flows from financing activities			
Proceed from shares subscription		1,374	17
Buy-back of ordinary shares		(3,805)	-
Dividends paid		(2,440)	(1,798)
Net cash used in financing activities		(4,871)	(1,781)
Net increase/(decrease) in cash and cash equivalents		13,256	(266)
Movement in cash and cash equivalents:			
At start of year		38,795	24,450
Net increase/(decrease) as above		13,256	(266)
Exchange gains on liquid assets		3,787	14,611
At end of year		55,838	38,795

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



I General information

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

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

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

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

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

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

2.1. Standards, amendments and interpretations effective in the current financial period

The following standards, amendments and interpretations, which became effective in 2010, are relevant to the Corporation:

IFRS 8 Operating Segments

IFRS 8, 'Operating segments', replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments will be reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. The application of IFRS 8 does not have any material effect on the Corporation's financial statements.

Amendments to IAS 1 Presentation of financial statements (as part of the improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Corporation had applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

The following new and revised standards and interpretations became effective in 2010, but are not relevant to the Corporation's operations;

- Amendments to IFRS 2 share-based payment-group cash-settled share-based payment transactions
- Amendments to IFRS 5 non-current assets held for sale and discontinued operations
- Amendments to IAS 7 statements of cash flows
- Amendments to IFRS7 financial instruments: disclosure
- IFRS 3; Business combinations
- Amendments to IAS 39 financial instruments: recognition and measurement –eligible hedged Items



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2010

- IFRIC 17 Distribution of non-cash assets to owners
- IFRIC 18 transfers of assets from customers

2.2. Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are effective for accounting periods beginning on or after 1 July 2010:

- Amendments to IFRS 1: limited exemption from comparative IFRS 7 disclosures for first time adopters
- Amendments to IFRS 7: disclosures-transfers of financial assets
- IFRS 9 (as amended in 2010) financial instruments
- IAS 24 (revised in 2009) related party disclosures
- Amendments to IAS 32 classification of rights issues
- Amendments to IFRIC 14 prepayments of minimum funding requirement
- IFRIC 19 Extinguishing financial liabilities with equity instruments

2.3. Early adoption of standards

The Corporation did not early-adopt new or amended standards in 2010.

3. Summary of significant accounting policies

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

(a) Basis of preparation

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

The financial statements are presented in United States dollars (US\$). They have been prepared under the historical cost convention, as modified by the carrying of certain investments at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgment in the process of applying the Corporation's accounting policies. Although estimates are determined on the basis of historical information, actuarial analyses and the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

(b) Consolidation

These consolidated financial statements include the assets, liabilities and results of African Reinsurance Corporation and its wholly owned subsidiary, African Reinsurance Corporation (South Africa) Limited.

All significant inter-company transactions and balances are eliminated.

(c) Use of estimates in the preparation of financial statements

The preparation of the consolidated financial statements require management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expense during the reporting period.



A significant degree of judgement has been used in the determination of the adequacy of provision for outstanding claims and claims incurred but not reported at the reporting date. In addition, the statement of comprehensive income includes estimates for premium, claims and charges data that were not received from ceding companies at the date of the financial statements.

These estimates are determined on the basis of historical information, actuarial analyses and other analytical techniques. Actual results could differ from these estimates.

(d) Classification of insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the ceding company or cedant) by agreeing to compensate the cedant or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

(e) Recognition and measurement of insurance contracts

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

(i) Short-term insurance contract premium

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

estimated on the basis of the latest available information. An estimate is made at the reporting date to recognise retrospective adjustments to premium or commission. Premium relating to the expired risk period is taken as earned and recognised as revenue for the period while premium relating to the unexpired risk period is treated as a provision for unearned premium.

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

(ii) Unearned premiums provision for short-term insurance contracts

The portion of gross written premium on short-term insurance contracts, which is estimated to be earned in the following or subsequent years, is accounted for as unearned premium provision. This is computed separately for each contract at the reporting date using principally the one-over-eighth basis for proportional treaty business and the pro-rata basis for non-proportional and facultative business. Where the nature of the underlying business and risk does not justify the use of the above methods, the unearned premium provision is calculated on bases relevant to the risk profile of the insurance contract.

(iii) Claims arising from short-term insurance contracts

Claims incurred in respect of short-term insurance contracts consist of claims and claims handling expenses paid during the financial year as well as movements in provision for outstanding claims and IBNR. Outstanding claims comprise provisions for all the Corporation's estimated ultimate costs of settling all claims incurred but unpaid at the reporting date whether reported or not and related claim handling expenses. Outstanding claims that have occurred at the reporting date and have been notified to the Corporation by the cedants are carried at



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2010

their face value. Adequate provisions are also made for claims incurred but not reported at the reporting date using historical experience and best available information. Outstanding claim provisions are disclosed at their carrying amounts and are not discounted except where there is a particularly long period from the claim incident to settlement in which case outstanding claims are discounted using a discount rate that best reflects current assessment of time value of money and associated risks. Anticipated reinsurance recoveries on claims are disclosed separately as assets.

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

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

(v) Claims arising from long-term insurance contracts

Claims incurred in respect of long-term insurance contracts consist of claims arising during the year including provision for policyholder liabilities. Outstanding claims on long-term insurance contracts that have occurred at the reporting date and have been notified to the Corporation by the cedants are carried at the claim amounts advised by the cedants.

The operating surpluses or losses arising from insurance contracts are determined by regular actuarial valuation. These surpluses or losses are arrived at after taking into account the movement in actuarial liabilities under unexpired policies, provisions for profit commissions accrued and adjustments to contingency and other reserves within the policyholder liabilities.

(f) Properties and equipment

Properties and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

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

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with their carrying amounts.

(g) Intangible assets

(i) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific



software. These costs are amortised on the basis of the expected useful life (4 years) of the software.

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

(ii) Deferred acquisition costs

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

(h) Investment properties

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

Investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses.

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

(i) Investments

Investments comprise equity investments, fixed and floating rate instruments and deposits. At the initial recognition of an investment,

management determines its classification, which is dependent on the purpose for which the investment was acquired, and re-evaluates that classification at every reporting date. Investments are classified as follows:

i) Fair value through profit or loss

An investment is classified into this category at inception if acquired principally for the purpose of selling in the short-term, or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking.

ii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, other than loans and receivables that the Group has the positive intention and ability to hold to maturity.

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

iv) Available-for-sale

Available-for-sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

(j) Reinsurance receivables

All amounts receivable are initially recognised at fair value.

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



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

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

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(l) Foreign currency translation

(i) Functional and presentation currencies

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

(ii) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences

on equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

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

- a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- b) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- c) all resulting exchange differences are recognised in the translation reserve in equity.

(m) Leases

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

(n) Employee benefits

Retirement benefit obligations

The Corporation operates a defined contribution retirement benefit and an unfunded defined benefit service gratuity scheme for its employees. Under the defined contribution scheme, the Corporation pays fixed contributions into a separate entity. Once the contributions have been paid, the Group retains no legal or constructive obligation to pay further contributions if the



fund does not hold sufficient assets to finance benefits accruing under the retirement benefit plan.

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

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

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

Other employee benefits

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

(o) Income tax

In accordance with Article 51 of the Agreement Establishing the African Reinsurance Corporation, the Corporation is not subject

to tax in member States. Tax expense/(income) therefore comprises current and deferred taxes arising in South Africa and is computed in accordance with South African tax laws.

Tax is recognised as an expense / (income) and included in the statement of comprehensive income, except to the extent that the tax arises from a transaction which is recognised directly in equity.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax basis 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 recognized only to the extent that is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

(p) Dividends

Dividends payable are recognised as a liability in the period in which they are approved by the shareholders.



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	2010 US \$'000	2009 US \$'000
4 Investments		
i) Investments by category		
Bank deposits	386,903	325,808
Deposits with ceding companies	114,244	111,072
Fixed rate securities at fair value through profit or loss	55,571	49,554
Fixed rate securities held to maturity	74,445	67,068
Floating rate securities at cost	12,004	15,397
Quoted equity investments at fair value through profit or loss	36,799	29,469
Unquoted equity investments at cost less impairment	8,842	7,750
	688,808	606,118

Investments held to maturity are presented in the Group's statement of financial position at their amortized costs. The fair value of the held- to- maturity assets at 31 December, 2010 was US\$73,516,340 (2009: US\$66,399,418).

Unquoted equity investments with a cost of US\$9,147,343 (2009: US\$8,054,372) are carried at cost less impairment because their fair value cannot be determined as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

ii) Weighted average effective interest rates

	2010 %	2009 %
Interest-bearing investments denominated in:		
US dollars	3.36	3.44
Euro	3.43	3.57
South African rand	7.01	8.35

iii) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of the Corporation's financial assets that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).



4 Investments (Continued)

iii) Fair value measurements recognised in the statement of financial position (Continued)

	31/12/2010			Total US\$'000
	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	
Financial assets at fair value through profit or loss				
Non-derivative financial assets held for trading	88,510	-	-	88,510
Available-for-sale financial assets				
Redeemable notes	3,860	-	-	3,860
Total	92,370	-	-	92,370

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

	2010 US \$'000	2009 US \$'000
5 Deferred Acquisition Costs		
At 1 January	28,980	22,416
Exchange rate impact on opening balance	739	1,271
	29,719	23,687
Released during the year	(29,719)	(23,687)
Deferred during the year	32,046	28,980
At 31 December	32,046	28,980
6 Reinsurance receivables		
Gross receivables arising from reinsurance arrangements	121,871	107,957
Provision for impairment	(10,870)	(9,136)
	111,001	98,821
Comprising:		
Current portion	51,864	52,655
Non-current portion	59,137	46,166
	111,001	98,821
7 Retrocessionaires share of technical provisions		
Claims recoverable	13,483	13,599
Deferred retrocession premiums	8,820	4,114
	22,303	17,713



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	2010 US\$'000	2009 US\$'000
8 Investment properties		
Cost		
At 1 January	10,475	10,475
Transfer	(180)	-
At 31 December	10,295	10,475
Depreciation		
At 1 January	1,411	1,180
Charge for the year	120	231
At 31 December	1,531	1,411
Net book value	8,764	9,064
The following amounts have been recognised in statement of comprehensive income in respect of investment properties:		
Rental income (Note 16)	1,473	1,700

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



9 Properties and equipment

	Assets under construction US\$'000	Buildings & freehold land US\$'000	Fittings & equip- ment US\$'000	Motor vehicles US\$'000	Total US\$'000
Year ended 31 December 2010:					
Net book value at 1 January 2010	1,032	8,074	3,170	436	12,712
Additions	102	32	537	302	973
	1,134	8,106	3,707	738	13,685
Disposals (Cost)	-	-	(88)	(240)	(328)
Disposals (Accumulated depreciation)	-	-	178	307	485
Depreciation	-	(189)	(1,055)	(250)	(1,494)
Net book value at 31 December 2010	1,134	7,917	2,742	555	12,348
Comprising:					
Cost	1,134	9,823	10,213	1,078	22,248
Accumulated depreciation	-	(1,906)	(7,471)	(523)	(9,900)
	1,134	7,917	2,742	555	12,348
Year ended 31 December 2009:					
Net book value at 1 January 2009	1,165	7,755	3,382	366	12,668
Additions	230	160	574	266	1,230
	1,395	7,915	3,956	632	13,898
Reclassifications/transfers	(363)	333	30	-	
Disposals (Cost)	-	-	(79)	(122)	(201)
Disposals (Accumulated depreciation)	-	-	79	102	181
Depreciation	-	(174)	(816)	(176)	(1,166)
Net book value at 31 December 2009	1,032	8,074	3,170	436	12,712
Comprising:					
Cost	1,032	9,580	9,764	1,016	21,392
Accumulated depreciation	-	(1,506)	(6,594)	(580)	(8,680)
	1,032	8,074	3,170	436	12,712

Included in buildings and freehold land is a total amount of US\$4,602,209 (2009: US\$4,714,682) representing the carrying amount of the owner-occupied part of the Group's headquarters building in Lagos and regional office buildings in Nairobi and Casablanca.

10 Reinsurance payables

	2010 US\$'000	2009 US\$'000
Payables under reinsurance arrangements	59,639	57,211
Payables under retrocession arrangements	10,660	9,398
	70,299	66,609



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11 Deferred tax

Deferred tax is calculated in full using the liability method and applying a principal tax rate of 29%. The movement on the deferred tax account is as follows:

	2010 US\$'000	2009 US\$'000
At 1 January	244	60
Exchange rate impact on opening balance	28	15
Charged to profit or loss (Note 20)	394	169
At 31 December	666	244

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

	01.01.10 US \$'000	Charged to P/L US \$'000	31.12.10 US \$'000	31.12.09 US \$'000
Properties and equipment	(21)	(11)	(32)	(20)
Unrealised gain on revaluation of investments	265	405	670	249
Exchange rate impact on opening balance	28	-	28	15
Net deferred tax liability	272	394	666	244

12 Technical provisions

i) Analysis of outstanding balances

	2010 US\$'000	2009 US\$'000
Provision for reported claims	338,186	308,233
Provision for claims incurred but not reported	65,405	45,897
Cumulative translation reserve	(5,566)	4,281
Total outstanding claims	398,025	358,411
Provision for unearned premium s	125,585	111,961
	523,610	470,372
Comprising:		
- current portion	261,164	209,347
- non-current portion	262,446	261,025
	523,610	470,372



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ii) Analysis of outstanding claims reserve development

U/W YR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	US\$'000										
Gross paid (Cumulative):	31,875	59,963	64,604	134,312	135,573	148,915	137,391	184,340	179,076	209,347	261,164
1 year later	18,278	26,429	31,313	51,705	57,284	62,705	67,544	101,635	129,787	97,119	
2 years later	24,285	41,756	46,869	108,364	82,214	84,301	103,671	150,639	169,220		
3 years later	26,975	45,040	51,766	120,900	88,984	94,188	120,671	173,387			
4 years later	28,063	47,619	54,390	126,063	96,259	102,347	127,358				
5 years later	29,914	49,086	55,970	130,004	101,007	106,503					
6 years later	31,556	50,602	63,019	131,686	103,649						
7 years later	32,588	51,105	64,921	132,977							
8 years later	32,530	51,885	66,744								
9 years later	33,074	52,383									
10 years later	33,322										
Re-estimated as of:											
Closed year	31,875	59,963	64,604	134,312	135,573	148,915	137,391	184,340	179,076	209,347	261,164
1 year later	29,213	46,458	71,092	131,985	128,836	102,876	117,432	174,442	212,563	204,840	
2 years later	33,128	57,352	74,086	132,575	114,114	136,360	137,660	205,816	213,216		
3 years later	33,342	53,824	70,714	137,471	132,279	120,260	143,870	214,133			
4 years later	32,415	55,422	65,032	144,008	111,528	124,345	142,926				
5 years later	34,867	54,499	79,765	137,500	112,969	117,327					
6 years later	36,876	59,444	70,005	139,522	110,112						
7 years later	41,167	54,242	71,670	137,489							
8 years later	34,442	55,930	69,071								
9 years later	35,449	53,713									
10 years later	34,376										
Gross redundancy/ (deficiency)	(2,501)	6,250	(4,467)	(3,177)	25,461	31,588	(5,535)	(29,793)	(34,140)	4,506	



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13 Other reserves

	2010 US\$'000	2009 US\$'000
General reserve	101,721	89,984
Reserve for exchange fluctuation	6,294	6,294
Reserve for loss fluctuation	6,400	5,600
Reserve for market value adjustment	64	24
Translation reserve	(1,811)	(5,114)
	112,668	96,788

(i) General reserve

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

(ii) Reserve for exchange fluctuation

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

(iii) Reserve for loss fluctuation

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

(iv) Translation reserve

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

(v) Reserve for Market Value Adjustment

Reserve for market value adjustment represents the unrealised gain or loss arising from the changes in the fair value of the non-derivative financial assets classified as available for sale.

Movements in the other reserves are shown in the statement of changes in equity on page 30

14 Share capital

	2010 Number	2009 Number
Authorised share capital	5,000,000	5,000,000
Issued and fully paid	1,990,594	1,000,000
	US\$'000	US\$'000
Issued and fully paid at 31 December	199,059	100,000
Nominal value per share	\$100	\$100

**15 Earned premium**

The premium income of the group can be analyzed into the main classes of business as shown below:

	2010			2009		
	Gross US\$'000	Retro- cession US\$'000	Net US\$'000	Gross US\$'000	Retro- cession US\$'000	Net US\$'000
Fire and accident	503,617	(29,408)	474,209	413,113	(35,098)	378,015
Marine and aviation	94,169	(21,089)	73,080	84,697	(8,581)	76,116
Life	19,123	(2,629)	16,494	16,673	(4,388)	12,285
	616,909	(53,126)	563,783	514,483	(48,067)	466,416

	2010	2009
	US \$'000	US \$'000
16 Investment income		
Interest income	20,258	22,980
Interest on reinsurance deposits	2,049	1,895
Rental income	1,473	1,700
Dividends from equity investments	1,035	1,040
Realized loss on investments	(47)	(1,788)
Fair value gains from investments at fair value through profit or loss	6,777	4,470
Management fees	(402)	(366)
	31,143	29,931

17 Other operating income

Fee income	1,350	1,272
Gain on disposal of property and equipment	42	19
Sundry income	21	69
	1,413	1,360



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18. Claims incurred

	2010			2009		
	Gross US\$'000	Retro- cession US\$'000	Net US\$'000	Gross US\$'000	Retro- cession US\$'000	Net US\$'000
Claims incurred by principal class of business						
Fire and Accident	299,861	(1,774)	298,087	272,591	(12,176)	260,415
Marine and Aviation	46,770	(8,174)	38,596	43,952	(2,584)	41,368
Life	11,936	(1,423)	10,513	5,788	(1,180)	4,608
Total	358,567	(11,371)	347,196	322,331	(15,940)	306,391

19 Administrative expenses

	2010 US \$'000	2009 US \$'000
Staff costs	17,490	13,586
Auditors' remuneration	243	296
Depreciation	1,614	1,397
Impairment charge on reinsurance receivables	1,734	1,564
Operating lease rentals	202	238
Repairs and maintenance expenditure	519	1,110
Consultancy fees and expenses	705	418
Travel costs and allowances	733	693
General Assembly and Board of Directors' meetings	661	569
Others	3,193	2,971
	27,094	22,842

Staff costs include retirement benefit costs amounting to US\$ 2,307,546 (2009: US\$ 1,489,673).

20 Income tax expense

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

Tax charged in the financial statements is made up of :

Taxation charges	2010 US\$'000	2009 US\$'000
Current income tax	3,008	1,669
Deferred income tax (Note 11)	394	169
	3,402	1,838



21 Dividends

At the Annual General Meeting (AGM) to be held on 24 June, 2011, a final dividend in respect of the year ended 31 December, 2010 of US\$2 (2009: US\$2.50) per share on 1,990,594 qualifying shares amounting to a total of US\$ 3,981,188 (2009: US\$2,500,000) is to be proposed. The dividend declared at the AGM held on 25 June 2010 was charged to shareholders' equity in these financial statements. The liability for the dividend payable on the 2010 results shall be treated as an appropriation of profit in the financial statements for the year ending 31 December 2011.

22 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2010	2009
	US\$'000	US\$'000
Profit before income tax	68,265	46,139
Adjustments for:		
Depreciation and Amortisation	1,614	1,397
Profit on sale of property and equipment	(42)	(19)
Change in fair value of financial assets	(2,938)	(3,668)
Changes in:		
- reinsurance payables	52,337	73,200
- reinsurance receivables	(19,637)	(29,317)
- other payables	1,666	9,176
- other receivables	(2,227)	(8,236)
Cash generated from operations	99,038	88,672

23 Related party transactions and balances

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

	2010	2009
	US\$ '000	US\$ '000
ii) Remuneration for key management personnel		
Directors' fees (non executive directors)	205	172
Other remuneration (elected members of management)		
- Salaries and other short term benefits	1,783	1,299
- Terminal benefits	604	329



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24 Management of Insurance and Financial Risks

Insurance risk

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

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

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

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

Financial risk

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

Interest rate risk

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

The table below analyses the Corporation's key financial assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2010 to the earlier of the repricing or contractual maturity date.


24 Management of Insurance and Financial Risks (continued)

At 31 December 2010 (IN US\$'000)	Up to 1 year	1-2 years	2-3 years	3-4 years	Over 4 years	Total
FINANCIAL ASSETS						
Cash and cash equivalents	55,838	-	-	-	-	55,838
Reinsurance receivables	63,765	23,984	4,396	12,118	6,738	111,001
Investments:						
- Bank deposits	386,903	-	-	-	-	386,903
- Deposits with ceding companies	16,340	30,121	12,355	10,494	44,934	114,244
- Fixed rate securities at fair value	5,228	3,532	4,535	10,594	31,682	55,571
- Fixed rate securities at amortized cost	592	10,041	4,665	10,591	48,556	74,445
- Floating rate securities at cost	1,000	1,865	500	3,021	5,618	12,004
Equity investments at fair value	36,799	-	-	-	-	36,799
Equity investments at amortised cost	-	-	-	-	8,842	8,842
Total	566,465	69,543	26,451	46,818	146,370	855,647
FINANCIAL LIABILITIES						
Reinsurance payables	51,864	6,139	2,022	6,340	3,934	70,299
Outstanding claims	135,579	107,721	43,997	40,746	69,982	398,025
Total	187,443	113,860	46,019	47,086	73,916	468,324



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2010

24. Management of Insurance and Financial Risks (continued)

	Up to 1 year	1-2 years	2-3 years	3-4 years	Over 4 years	Total
At 31 December 2009 (IN US\$'000)						
FINANCIAL ASSETS						
Cash and cash equivalents	38,795	-	-	-	-	38,795
Reinsurance receivables	52,654	16,126	6,732	14,614	8,695	98,821
Investments:						
- Bank deposits	325,808	-	-	-	-	325,808
- Deposits with ceding companies	16,272	23,706	17,797	11,625	41,672	111,072
- Fixed rate securities at fair value	3,841	2,800	2,681	3,384	36,848	49,554
- Fixed rate securities at amortized cost	5,522	592	12,043	4,805	44,106	67,068
- Floating rate securities at cost	4,043	3,000	-	-	8,354	15,397
Equity investments at fair value	29,469	-	-	-	-	29,469
Equity investments at amortised cost	-	-	-	-	7,750	7,750
Total	476,404	46,224	39,253	34,428	147,425	743,734
FINANCIAL LIABILITIES						
Reinsurance payables	30,653	10,453	9,760	7,377	8,366	66,609
Outstanding claims	113,108	86,875	62,505	26,344	69,579	358,411
Total	143,761	97,328	72,265	33,721	77,945	425,020

Currency risk

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

The group had the following significant foreign currency positions at 31 December.



Notes to the Financial Statements

for the year ended 31 December 2010

African Reinsurance Corporation

At 31 December 2010: (in US\$'000)

ASSETS	USD	Rand	MAD	CFA/EUR	EGP	NGN	KSH	MUR	OTHERS	TOTAL
Cash and cash equivalents	26,745	1,555	6,478	8,521	196	6,868	76	2,292	3,107	55,838
Reinsurance receivables	22,962	157	6,806	16,185	453	16,376	7,705	2,114	38,243	111,001
Investments										
- Bank deposits	115,491	199,321	7,766	33,783	5,227	2,617	11,834	4,682	6,182	386,903
- Deposits with ceding companies	11,878	6,309	26,947	35,093	4,937	12	739	89	28,240	114,244
- Fixed rate securities at fair value	24,118	24,283	-	4,085	-	-	-	-	3,085	55,571
- Fixed rate securities at amortised cost	57,562	13,592	-	3,291	-	-	-	-	-	74,445
- Floating rate securities at cost	11,613	-	-	-	-	-	-	-	391	12,004
- Equity investments at fair value	12,283	19,660	-	3,088	-	1,307	461	-	-	36,799
- Equity investments at amortised cost	8,205	-	-	-	-	637	-	-	-	8,842
Total	290,857	264,877	47,997	104,046	10,813	27,817	20,815	9,177	79,248	855,647
LIABILITIES										
Current income tax	58,059	2,768	1	3,263	1,076	-	-	-	5,132	70,299
Reinsurance payables	54,873	129,326	28,370	41,500	5,884	16,904	16,684	8,444	96,040	398,025
Outstanding claims										
Total	112,932	132,094	28,371	44,763	6,960	16,904	16,684	8,444	101,172	468,324



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2010

At 31 December 2009: (In US\$'000)

ASSETS

	USD	Rand	MAD	CFA/EUR	EGP	NGN	KSH	MUR	OTHERS	TOTAL
Cash and cash equivalents	23,473	632	4,732	3,469	489	2,385	461	1,265	1,889	38,795
Reinsurance receivables	29,927	10,021	5,723	18,281	3,639	11,614	6,735	1,745	11,136	98,821
Investments	-	-	-	-	-	-	-	-	-	-
- Bank deposits	66,939	146,436	5,111	20,897	3,609	1,787	6,685	8,210	66,134	325,808
- Deposits with ceding companies	10,751	6,416	27,021	31,009	6,438	13	1,044	89	28,291	111,072
- Fixed rate securities at fair value	22,590	19,137	-	4,171	-	-	-	-	3,656	49,554
- Fixed rate securities at amortised cost	51,835	11,216	-	4,017	-	-	-	-	-	67,068
- Floating rate securities at cost	15,397	-	-	-	-	-	-	-	-	15,397
- Equity investments at fair value	11,792	12,849	-	3,250	-	1,232	345	-	-	29,468
- Equity investments at amortised cost	7,113	-	-	-	-	637	-	-	-	7,750
Total	239,817	206,707	42,587	85,094	14,175	17,668	15,270	11,309	111,106	743,733

LIABILITIES

Current income tax	-	-	-	-	-	-	-	-	-	-
Reinsurance payables	25,095	11,272	3,806	6,783	850	1,532	699	278	16,294	66,609
Outstanding claims	42,502	101,909	26,844	42,552	6,018	12,590	14,402	10,606	100,988	358,411
Total	67,597	113,181	30,650	49,335	6,868	14,122	15,101	10,884	117,282	425,020



24 Management of insurance and financial risk (continued)

Credit risk

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

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

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

Credit risk relating to receivables is mitigated by the large number of cedants and their dispersion across the continent. A significant number of the companies from whom receivables are due are equally shareholders of the Group. In addition, the liability for outstanding claims is in respect of insurance contracts with the same counter parties. Receivables are presented at present value net of impairment provision. A periodic evaluation of cedants and retrocessionnaires is carried out to minimise exposure to significant losses from insolvencies. Transaction terms are also strictly monitored to keep balances as current as possible.

Liquidity risk

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

Equity price risk

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

25 Contingent liabilities

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



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2010

26 Commitments

(i) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised in the financial statements is as follows:

	2010 US\$'000	2009 US\$'000
Property and equipment	-	87

(ii) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2010 US\$'000	2009 US\$'000
Not later than 1 year	-	107
Later than 1 year and not later than 5 years	-	161
	-	268

Consolidated Statement of Comprehensive Income
by Class of Business

	Fire and accident US\$'000	Marine and aviation US\$'000	Life US\$'000	Total 2010 US\$'000	Total 2009 US\$'000
Underwriting income:					
Gross written premium	509,044	97,855	20,633	627,532	536,382
Gross earned premium	503,617	94,169	19,123	616,909	514,483
Retrocession premium	(29,408)	(21,089)	(2,629)	(53,126)	(48,067)
Net earned premium	474,209	73,080	16,494	563,783	466,416
Commissions & charges earned	5,109	3,103	982	9,194	4,758
Gross claims paid	(272,144)	(41,304)	(9,411)	(322,859)	(289,283)
Gross claims incurred	(299,861)	(46,770)	(11,936)	(358,567)	(322,331)
Less retrocessionaires' share	1,774	8,174	1,423	11,371	15,940
Net claims incurred	(298,087)	(38,596)	(10,513)	(347,196)	(306,391)
Acquisition expense	(135,215)	(22,278)	(4,189)	(161,682)	(126,233)
Management expenses	(21,544)	(4,337)	(1,213)	(27,094)	(22,842)
Underwriting profit	24,472	10,972	1,561	37,005	15,708
Net investment and other income				32,556	31,291
Finance costs – exchange losses				(1,296)	(860)
Profit before income tax				68,265	46,139
Income tax expense				(3,402)	(1,838)
Profit for the year				64,863	44,301

