



**AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
24th ANNUAL ORDINARY MEETING
OUAGADOUGOU, BURKINA FASO, 27TH JUNE 2002**

AFRICARE/GA/26/169

**Report of the Board of Directors
Covering the Period
1st January to 31st December 2001**



AFRICAN REINSURANCE CORPORATION SOCIETE AFRICAINE DE REASSURANCE

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Honourable Representatives
General Assembly
African Reinsurance Corporation

Date : 27th June, 2002

Your Excellencies,

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, 2001.

Please accept, Your Excellencies, the assurances of my highest consideration.

MUSA S. AL NAAS
Chairman of the Board of Directors
and General Assembly

COMPOSITION OF AFRICA RE BOARD OF DIRECTORS



Mr. M. Al Naas
Chairman



Mrs. M. Ikongo
Vice-Chairman



Mr. A. Bayala



Mr. M.H. Seba



Mr. C. Enweze



Mr. A.O. Ibrahim



Chief O.A. Bailey



Mr. L. P. N'Goulakia



Mr. R. Rasamoely



Mrs. A.T. Soudre



Mr. K. Selim



Mr. W. Zeru

ALTERNATE DIRECTORS

Mrs H.A SALLA, Mr. Habtamu H. Mariam, Mr. Hassan FARAH, Mr. Mohamed Lemine OULD NATY, Mr. Nashnush FARG, Mr. Peter KENNETH, Mr. Calvin FOINDING, Mr. Fayek Hanna Tawdros, Mr. Séré Mady KABA, Mr. Corneille KAREKEZI, Mr. Thami EL-BARKI, Mr. Frederick MAGEZI.



COMPOSITION OF AFRICA RE MANAGEMENT



Mr. Bakary Kamara
Managing Director



Mr. Haile M. Kumsa
Deputy Managing
Director



Mr. George Otieno
Acting Director
Technical Operations



Mr. Isidore Kpenou
Director of Administration/
Corporation Secretary



Mr. Ganiyu Musa
Director
Finance & Accounts



Mr. Moncef Manai
Regional Director
Casablanca



Mr. Indre Vin Nursinghdass
Regional Director
Nairobi



Mr. Béné B. Lawson
Regional Director
Abidjan

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EXECUTIVE SUMMARY



The 24th Annual Report of the Board of Directors presents the Corporation's financial statements for 2001, including the balance sheet as at 31st December and the profit and loss account for the year then ended. In addition, it contains the results of the 1999 Underwriting

year (closed for the first time), those of the previous years (1978-1998) as well as the accounts for the still open years of 2000 and 2001.

It includes a review of the Corporation's operating environment and the report of the External Auditors to the shareholders.

During the financial year 2001, gross written premium, net of cancellations amounted to US\$85,114,364 which represents a growth of 9.03% over the 2000 production of US\$78,060,022. As in the previous year, the increase in the Corporation's share in some peak risks, especially oil and energy business in West and North Africa, necessitated the purchase of additional reinsurance protection. Accordingly, retrocession premium rose from US\$6,342,363 in 2000 to US\$9,602,668. The retained premium therefore stood at US\$75,511,696 (2000: US\$71,717,659) corresponding to a ratio of 88.72% compared to 91.88% in 2000. After adjusting for the movement in unearned premium reserves, net earned premium amounted to US\$66,162,798 (2000: US\$67,121,108). Paid losses, net of reinsurance recoveries, stood at US\$38,662,248 (2000: US\$37,108,052), while adjustment for the movement in outstanding claims reserve produced an incurred loss of US\$35,373,470 (2000: US\$37,522,786). Other outgo includes commissions of US\$20,238,947, charges of US\$2,579,219 and management expenses of US\$4,945,055. The resulting underwriting profit of US\$3,026,107 (2000: US\$1,362,244) was transferred to the profit and loss account.

Income from investment and other sources amounted to US\$3,484,129, as against US\$3,607,881 in 2000, while interest on reinsurance deposits stood at US\$1,093,433 (2000: US\$1,053,485). A realised loss on exchange of US\$285,990 was recorded, compared to US\$305,327 in 2000. Operating income for the year therefore amounted to US\$7,317,679 (2000: US\$5,718,283). Other expenses not charged to the underwriting revenue account amounting to

US\$1,777,314 (2000: US\$1,437,003) were then deducted from the operating income to arrive at a net profit of US\$5,540,365 for the year compared to US\$4,281,280 in 2000.

The excess of income over outgo for the still open years 2000 and 2001 amounted to US\$48,437,972 (2000: US\$39,089,074) and this has been carried forward as reinsurance funds in line with the Corporation's standing accounting practice. Similarly, reserve for outstanding losses, including IBNR at the end of the year was established at US\$27,071,748 (2000: US\$ 30,360,526).

The cumulative translation adjustment for the year resulted in an unrealised loss of US\$4,663,586, compared to US\$4,776,068 recorded in 2000, out of which US\$1,000,000 was written off by way of transfer from the profit and loss account. As in previous years, this is being treated as a separate component of the shareholders' funds in accordance with the International Accounting Standards No. 21 (IAS 21). As at 31st December 2001, cumulative translation adjustment therefore amounted to US\$13,217,544 (2000: US\$9,553,958).

Shareholders' funds as at 31st December 2001 stood at US\$51,616,845 as against US\$50,048,859 at the end of the previous year.

The slowdown of the world economy was aggravated in 2001, especially after the tragic events of September 11. The down turn in the American economy, which was already perceptible in 2000, became pronounced during the first eight months of the year, following which a recession was declared in the last quarter. That quarter was characterised by the collapse of the economic and financial system as well as the political regime in Argentina, as a result of the adoption of inappropriate developmental options.

The New Partnership for African Development (NEPAD), which hinges the development of the continent on regional integration and international co-operation, was presented to the industrialised nations in Genoa. The development of infrastructure, the enhancement of natural and human resources as well as the adoption of good governance and transparency in the management of public assets would form the backbone of international co-operation and integrated regional development. The consolidation of existing sub-regional bodies (ECOWAS, CEMAC, COMESA, SADC, MAU) seems to have been recognised as an initial step towards the setting up of a bigger regional organ, similar to what was achieved in Europe (the European Union) or what the North Americans are trying to set up (ALENA).

FINANCIAL HIGHLIGHTS



In US\$ '000	2001	2000	1999	1998	1997
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RESULTS

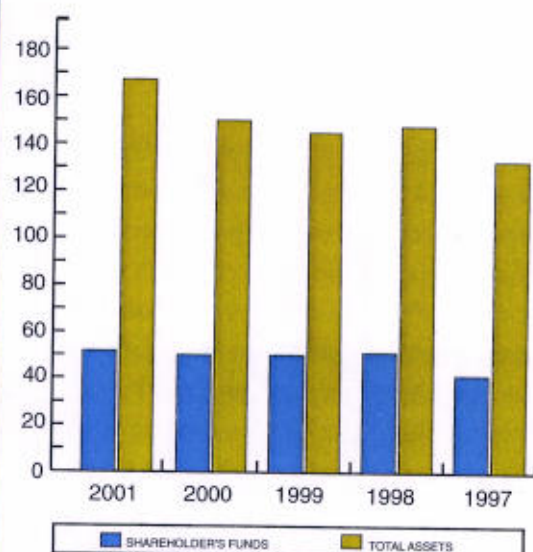
WRITTEN PREMIUM	85,114	78,060	70,920	66,126	62,900
RETAINED PREMIUM	75,512	71,718	65,879	62,440	57,960
EARNED PREMIUM (NET)	66,163	67,121	69,123	60,468	55,932
NET PROFIT	5,540	4,281	3,874	7,411	5,685

FINANCIAL POSITION

SHAREHOLDERS' FUNDS	51,617	50,049	50,088	50,216	41,519
TOTAL ASSETS	164,057	150,243	145,608	146,546	130,501

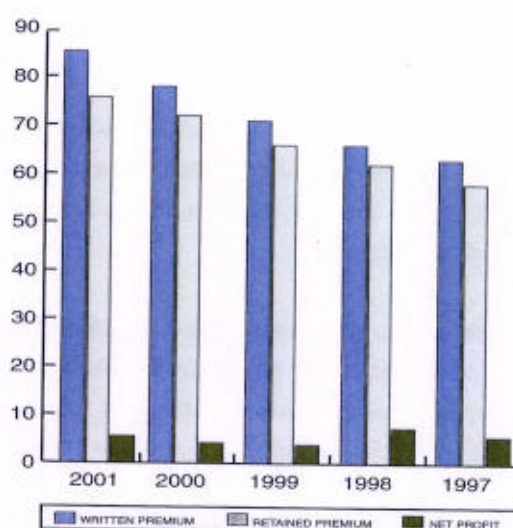
RESULTS 1997 - 2001

In US\$ Million



RESULTS 1997 - 2001

In US\$ Million





ECONOMIC AND TRADING ENVIRONMENT

In that respect, the revival of the economies or at least the adoption of uniform standards of governance remains a necessity. Indeed, although Africa offers one of the best rates of return on investment, the continent's image is marred by civil wars, democratic set back, political instability or substantial currency fluctuations which do not encourage private Foreign Direct Investors. However, following the drastic fall in public aid to poor nations - less than 0.20% as against a target of 0.7% set by donor nations - that form of investment remains the main source of financing economic development.

Therefore, African countries must instill confidence into investors through a reliable judicial and legal system, if they hope to reverse the current trend of negative capital flow into the continent, whereby for every US\$1 received, US\$1.06 is repatriated on account of deteriorating terms of trade, debt servicing, transfer of profit and excessive provisions.

Economic globalisation and the interplay of policy choices by nations were reassessed in the light of the shock wave sent through the entire world by the destruction of the twin tower of the World Trade Centre on September 11. Not only are the economic losses from this event enormous (US\$80 billion) but also that event seems to have caused changes that may persist in the geopolitical structure of the world for a long time to come.

On its part, the international community of insurers would have to settle a large portion of the losses - US\$50 billion - the bulk of which will be borne by professional reinsurers.

That catastrophe occurred at a time when a long cycle of stiff competition in the international market ended with several major losses, including the storm in Europe which cost about US\$28.6 billion in 1999. Under these circumstances, the year 2001 confirmed the need to go back to strict professionalism, which is the only approach that can restore the equilibrium of the world insurance industry.

It was against this background that Africa Re's **BBB** (Secure) financial strength rating was reaffirmed by

Standard & Poor's, following the agency's re-assessment of all its ratings in the light of the exposure to the events earlier mentioned. The African Reinsurance Corporation, which was not directly affected by that major loss recorded a production of US\$85.11 million, representing an increase of 9.03% over that of the previous year. Following the marketing effort of Management and Staff, voluntary cessions accounted for 72.58% of the written premium. The increase in production would have been up to 15.40% but for the severe depreciation of some of the trading currencies. These results are attributable to several factors: increased level of acceptances, sound capitalisation, an efficient marketing strategy and modest increase in reinsurance rates. A total amount of US\$41.76 million was paid out as losses, representing a ratio of 49.06%, while the technical margin stood at US\$ 3.03 million. This represented a 122.80% improvement compared to the previous year. The investment income of US\$3.48 million and interest on reinsurance deposits of US\$1.09 million were added to the underwriting profit from which a realised exchange loss of US\$0.29 million and other expenses totalling US\$1.78 million were deducted to arrive at a net profit of US\$ 5.5 million. A dividend of US\$2.50 per share of US\$100 par value will be paid out of that profit.

ECONOMIC AND TRADING ENVIRONMENT

In the coming years and for a very long time thereafter, the year 2001 will, in the minds of political leaders and various economic operators, be one of a trauma that sent shock waves from one end of the planet to the other. While the September 11 attacks on the World Trade Centre and the Pentagon gave the United States the opportunity to further assert its political and diplomatic leadership of the world, the year did not start off on a good economic note. Indeed, after recording continuous growth from 1994, the American economy in 2001 definitely began to experience the slowdown that had been signalled in 2000. With the notable exception of Ireland, European countries were in turn affected as they slipped into an unexpected recession.



In analysing the year 2001, economic observers will bear the following facts in mind:

- Economic slowdown, as the American economy ran out of steam, while several analysts had expected Europe to take over and become the global tugboat for goods and services.
- A new round of multilateral negotiations within the framework of the World Trade Organisation, after the failure of the Seattle conference and the Institution became increasingly aware of the concerns of other countries, as observed in Doha.
- The onset of a new African economic order in an environment of worsening terms of trade, acute lack of ready investment capital and the depreciation (which in some cases was severe) of national currencies.
- The hardening reinsurance market in general, dwindling retrocession capacity in particular and the rather timid but unquestionable return of reinsurance professionals to the fundamentals of their trade.

Slowdown In Global Economic Growth

The sharp downturn in America's economic growth during the first eight months of 2001 inevitably dragged down the rest of the world. The National Bureau of Economic Research officially admitted in November that the economy had been shrinking since March. This recession put an end to almost a decade of economic growth that was characterised by unavoidable globalisation, an unprecedented surge on the New York Stock Exchange and a wave of speculation around the new economy. The attacks of September 11 worsened the slowdown. For several months, the downturn was manifested in a sharp downward swing in industrial activity (-6%) and high unemployment. Indeed, over 1.4 million jobs were lost between September 2000 and January 2001, affecting 5.7% of the active population in November of the year under review. Lower household incomes meant a drop in consumption and, therefore, a contraction of the wholesale and retail trade.

Canada, 85% of whose exports is absorbed by its closest neighbour, the United States, recorded a growth rate of less than 1.5%.

In Asia, with the exception of China (7% growth rate) whose domestic demand remains strong, the dependence of all the other countries on world trade and exports worsened the slowdown and even the recession imported from North America.

Japan, which for the past few years had been undergoing a crisis, recorded a regression in 2001, thus aggravating the economic decline of that country.

In spite of all denials, Western Europe also suffered a recession in 2001, though the introduction of the Euro, which opened broad prospects for the integration and harmonisation of the economic policies of the Union, cushioned the effects of this phenomenon. Germany, the leading European power, slid into recession by the spring of 2001, following a sudden slow down of its economic growth towards the end of the previous year. Its budgetary and public deficits came dangerously close to the 3% limit that the various countries had pledged not to cross when they signed the agreement on stability and growth.

In South America, the crisis in Argentina deepened, provoking large-scale political and social upheavals. With a growth rate of less than 1.4% in 2001 and a distortion of the economic equilibrium, Argentina could no longer service its colossal public debt of close to US\$130 billion. This situation necessitated a readjustment of the parity of that country's currency against the dollar, thus confirming the fragility of establishing links without a veritable economic partnership.

Regional Integration: The New Partnership for African Development

The 1991 Abuja treaty provided for the creation of an Economic Community of Africa. This concept, which had been wishful thinking for about a decade, now seems possible within the framework of the African Union, which is bound to replace the Organisation of African Unity (OAU) on the basis of the ideas and projects encapsulated in the New Partnership for African Development (NEPAD).

With international aid, it should be possible to strengthen the infrastructure and develop the human and natural resources of the countries. The continent, on its part, would have to make transparency and good governance the watchword for the running of public affairs.

This new approach to development, which was adopted in Lusaka in July and presented at the meeting of the Group of 8 in Genoa, heralds the end of the crisis for Africa, even though investors and strong advocates of unbridled globalisation seem to ignore the signals for such a development, which have been on for some time now. Indeed, as crises and conflicts die down in West Africa (Guinea, Liberia, Sierra Leone and Côte d'Ivoire) and Central Africa (the Democratic Republic of Congo and Congo Republic), sub-regional common markets are gradually being put in place as a prelude to the formation of a single continental economic bloc.

The continent also needs to further upgrade its image. Although Africa has one of the highest returns on investment on the planet, it does not attract enough private Foreign Direct Investment mainly because of political instability, low purchasing power and the negative effects of corruption. With the exception of Botswana, South Africa, Mauritius, Tunisia, Morocco and Egypt, the average country risk is high.

Also, in its 2001 Development Report, UNCTAD pointed out that 80% of the region's exports are made up of raw materials, that is, unprocessed products without added value. The agency noted that at constant prices (1980), the continent's share in World Trade would have doubled and its per capita income would have been 50% higher than its present level. One of the solutions would be to locally process the raw materials produced in the continent. This would not only add value to the continent's exports, but break the vicious cycle of excessive dependence on raw materials with fluctuating prices. The report finally established that for each US dollar invested in the continent, there was a net outflow of US\$1.06 on account of deteriorating terms of trade, debt servicing and repatriation of profits and for the provision of excessive reserves.

In 2001, Africa recorded a creditable but insufficient growth rate of 3%. A brief review of the individual performances of some countries would give a clearer picture of Africa's economy in 2001.

In North Africa, Morocco recorded a GDP growth rate of about 6% as against the projected 12%. This was mainly due to the drought and an oil bill that was too high for a country whose agricultural and industrial exports compete with those of richer nations.

With the continued increase in the price of oil over a period of two years (2000 and 2001), Algeria earned about US\$20 billion in foreign exchange which enabled it to record a substantial trade surplus and a debt-service ratio of only 25% of exports, as against 70% at the beginning of the last decade.

Tunisia recorded a 5.2% growth rate, compared to the projected 8%, while Libya generated more than US\$15 billion in foreign currency reserves and Egypt saw its growth slow down further, especially after September 11 and the resultant loss of earnings (US\$2 billion) in the tourism sector.

In West Africa, the stability of the CFA franc did not spur on the economy because of the low level of exports and private Foreign Direct Investment. Economic performances in the sub-region present a contrasting picture: a drop in Côte d'Ivoire's GDP (1% in 2001), Nigeria's heavy annual debt burden (US\$1.5 to 2.5 billion), a sustained growth (5%) in Senegal, Mali's gold production (second in Africa with 34 tonnes) and a good cereal crop after cotton farming had been reduced because of low prices.

In Central Africa, the 2% inflation and 5.5% growth rate have confirmed predictions made a year earlier by multilateral organisations on the future of Cameroon. Gabon has been preparing for the post-oil period by processing its timber locally and streamlining public finances. The internal debt has been reduced by half and the outstanding external payments made.



Kenya, with a 0.4% increase in GDP and Tanzania, which recorded 5.9% (4.9% in 2000) and maintained inflation at 6%, remain the leading economies in the East African sub-region. Indeed, Tanzania's economic upswing is reflected in the debt service (19% of earnings in 2001 and the forecast of 7.7% in the coming years) and the higher private Foreign Direct Investments (US\$212 million as against US\$200 million in 2000).

In the SADC countries, worthy of note is South Africa's performance - a mere 2.6% as against the projected 3.5% - and the speculative raids on the Rand, which resulted in a 36% depreciation of that currency against the dollar. The combined effect of these two factors discouraged investors, although exporters and the tourism sector benefitted from the currency depreciation. Car exports to the rest of the continent increased by 18.3% in 2001. The weak Rand helped in selling these products even to more industrialised countries (United States, Japan, Australia, New Zealand, Hong Kong, Taiwan, Singapore etc.).

However, other countries in the Rand zone (Botswana, Lesotho, Namibia and Swaziland) suffered from the drop in value of the South African currency.

After the floods of the previous year that halted its high growth rate, Mozambique, once again recorded a 9.2% increase in its GDP in 2001. This growth was boosted by a substantial influx of private Foreign Direct Investments, although the effect was dampened by a negative performance in the traditional sectors of agriculture and fisheries.

In the Indian Ocean, Mauritius continued to benefit from a favourable economic environment. After the 1999 drought, the country recorded a growth rate of 8.3% and only 4.4% inflation. This achievement was possible through an increase in the performance of the sugar industry (56%), an up-market tourism sector and a controlled population growth. Madagascar, on its part, recorded positive achievements in the building sector and trade, with a highly productive free zone (25% growth) and increased exports (14%) especially in the textile sector, which succeeded in penetrating the American market thanks to the advantages granted by the "African Growth and Opportunity Act".

These performances resulted in a 6.7% increase in the GDP, a 1.8% inflation, foreign currency reserves in excess of the forecasts and a controlled budget deficit.

However, the weakening of the American economy could hurt textile-exporting countries in the months ahead. The events of September 11 intensified and spurred on the slowdown that has led to the current recession. They also generated the highest loss that the global insurance industry has ever been faced with.

Back to the Fundamentals of Insurance

For several years to come, insurers around the world will remember 2001 as a very expensive year because of the losses from the World Trade Centre disaster.

Indeed, while the economic cost of the destruction could be estimated at about US\$80 billion, the insured part is estimated at US\$30 to US\$50 billion. Before that event, the most expensive disaster caused by man that insurers had to settle was the loss of the Piper Alpha in 1988 (an oil rig in the North Sea) that cost US\$2.9 billion.

Faced with an event of such magnitude, therefore, insurance professionals, and reinsurers in particular, had no choice but to set more stringent terms and conditions. This is more so as the losses accumulated throughout the period of soft market that began in the reinsurance sub-sector in 1996 call for a review of underwriting policies: granting of cover, pricing and provision of capacity.

In fact, after suffering serious losses in 1999 (US\$28.6 billion in catastrophe losses) and the Lothar and Martin storms that hit northern Europe, professional reinsurers resolved to demand adequate prices from buyers of reinsurance cover at the next renewals. So, on 1st January 2001, the world average rate went up by 16% after a slight 7.2% rise in 2000, which was the first time rates were going up since 1994.



OPERATIONS

There were several reasons for these adjustments, amongst which were:

- i. The long soft cycle that began in 1996 and was sustained by substantial earnings on the world's financial markets. For example, during those years, the American insurance market made about US\$6.5 billion in investment returns.
- ii. Because of their huge reserves, several insurers and reinsurers were able to make up for the lower rates they charged their clients. But as this financial cushion thinned out, the effects of lower returns on investment compared to the middle of the decade, a drop in activity especially in the liability classes, and the financial pressure from mergers and acquisitions made during this period began to hit home, thus forcing reinsurers to review their underwriting policies.
- iii. The storms of December 1999 in Northern Europe cost US\$6.7 billion, compelling underwriters to evaluate their commitments once faced with the consequences of natural phenomena and the cost of such cover.
- iv. The unexpected resurgence of asbestos-related losses also ate into the reserves that insurance/reinsurance operators had prudently constituted.

These operators began the year 2001 in a less favourable financial and technical environment than before and saw the trend grow worse from one quarter to the next until the fateful date of September 11. That explains the attempts at rate adjustment made by some reinsurers who later felt that their underwriting policy proved justified because of the events of the World Trade Centre and the drop in investment earnings.

It will be several years before the full impact of the WTC events is known and quantified. There is no doubt, however, that these events confirmed the need to adhere to the fundamentals of insurance, especially in pricing. Increases that have been made so far, however, have not been up to the expected level because fresh capital (US\$16 billion) had immediately been injected into the reinsurance

sector to meet the pressing need for capacity.

The African insurance industry, which is part of the international market, also felt the effects of this disaster although, except in a few cases, it was not directly exposed and therefore not involved in the settlement of the losses. As it occurred at a time when the African insurance industry was finalising the review of its structure, capital requirement and regulations, the biggest insured human catastrophe of all times accelerated the pace of these changes. Efforts that had begun earlier to bring back to the home front some of the delocalised risks of multinational companies were sustained.

The African Reinsurance Corporation (Africa Re), which is an active player on the international reinsurance scene, also felt indirectly the after-effects of this catastrophe when buying retrocession cover for 2002.

Amendments to the Agreement Establishing the Corporation, which henceforth open up to 25% of its capital to non-African investors and strategic partners, would certainly consolidate the option taken a few years back to selectively and prudently write business outside its domestic market. With its good knowledge of the African insurance industry, Africa Re now feels ready to underwrite non-African risks by establishing, if necessary, profitable partnerships.

OPERATIONS:

This section highlights the performance of the Corporation in terms of the premiums generated and claims paid during the period under review. It examines the area of voluntary cessions and notes the significant strides made by the Corporation in its efforts to boost income from this source. The claims recorded by production centres are then reviewed. The improvements achieved reflect the Corporation's cautious underwriting policy.

With its Headquarters in Lagos and a network of three Regional and three Underwriting/Contact Offices, the Corporation's proximity to its cedants has enabled it to respond quickly and more effectively to their needs.

OPERATIONS



The following statistics provide a summary of the Corporation's performance.

DESCRIPTION (US\$000)	2001			2000		
	Gross	Retro	Net	Gross	Retro	Net
INCOME:						
Premium (Less Cancellations)	85,114	9,602	75,512	78,060	6,342	71,718
Movement in Premium Reserve	(11,748)	(2,399)	(9,349)	(8,414)	(3,817)	(4,597)
Earned Premium	73,366	7,203	66,163	69,646	2,525	67,121
OUTGO:						
Losses Paid	41,757	3,095	38,662	39,300	2,192	37,108
Movement in Loss Reserve	(4,539)	(1,250)	(3,289)	(6,694)	(7,109)	415
Incurred Losses	37,218	1,845	35,373	32,606	(4,917)	37,523

In line with the established practice, acceptances are classified as follows:

- Fire and Accident (including Engineering & Motor);
- Marine & Aviation; and
- Life.

Over 95% of the acceptances emanate from Africa and the balance comes from sources outside the continent.

The markets are categorised as follows:

- Anglophone West Africa, managed from the Head Office;
- Francophone West and Central Africa under the Abidjan Office;
- North Africa, serviced by the Casablanca Office which also supervises the Cairo underwriting office;
- East and Southern Africa, under the jurisdiction of the Nairobi Office which also supervises the Johannesburg and Mauritius offices;
- South Africa and neighbouring Rand zone handled by the Johannesburg contact office; and
- African Indian Ocean Islands and South Asia covered by Port Louis (Mauritius) Office.

Business emanating from non-African sources falls under the Corporation's "International" or "Worldwide" portfolio and may be written by all production centres.

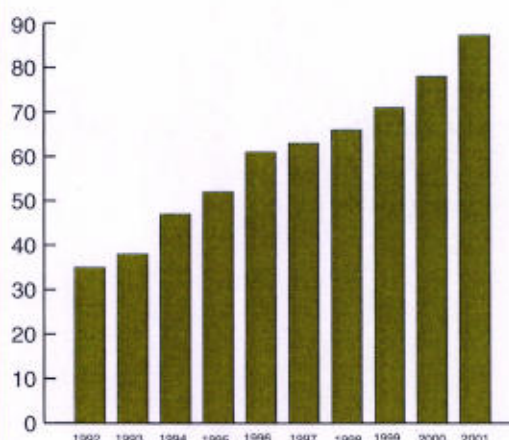
Premium Income:

The premium income of US\$85.11million, written in 2001 exceeded the US\$78.06 million recorded in 2000 by 9.03%. As in the previous year, an ever increasing competition and the depreciation of a number of major local currencies against the United States Dollar constrained the growth rate achieved. In response, the Corporation has taken appropriate measures, aimed at improving the present growth trend of premium income.

Development of Gross Premium:

The following graph indicates a steady development of the Corporation's production in the last decade. As noted earlier, income reached a level of US\$85.11 million in 2001 from US\$35 million in 1992.

DEVELOPMENT OF GROSS PREMIUM INCOME IN US\$ MILLIONS





OPERATIONS

An average growth rate of 8.68% was achieved during the period, in spite of the difficult economic environment within which the Corporation operated.

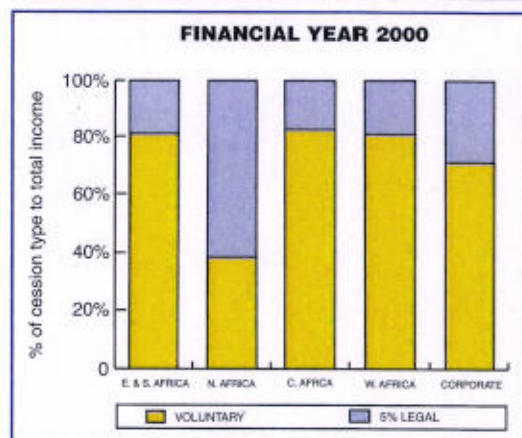
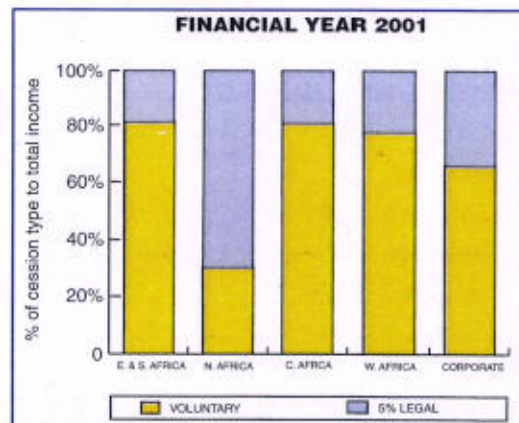
It is of interest to note that, in original currencies, the Corporation's performance was much more impressive, with some markets achieving growth rates in excess of 20%.

As noted in previous years, the following factors were mainly responsible for the performance highlighted above:

- The Corporation's ability to accept higher shares of peak risks, following the restructuring of its reinsurance programme.
- Its capital adequacy coupled with an investment grade financial strength rating, as assessed by Standard and Poor's. These factors have strengthened the confidence of Africa Re's trading partners in the ability of the Corporation to meet its obligations.
- The sound marketing strategy, designed to provide ancillary services in support of the growth of ceding companies has endeared the Corporation to its cedants and increased the levels of voluntary cessions.
- Improved reinsurance terms and conditions witnessed at the beginning of the year and confirmed after the events of September 11.

Voluntary Cessions

From a ratio of 39.77% in 1992, voluntary cession increased steadily to 72.58% in 2001. The positive trend indicates the effectiveness of the Corporation's marketing strategy, designed among other things, to boost income from this source. The levels of cessions achieved in 2001 and 2000 are presented in the following charts.



The significant difference between the North African Office and the other production centres is attributable to the fact that a large proportion of business in that region is made up of peak risks and the Corporation was able to accommodate only mandatory shares.

Geographical Distribution

The premium generated by the East and Southern African region increased by 8.52% in 2001, amounting to US\$34.25million as against US\$31.56 million in 2000. The region accounted for 40.24% (2000: 40.43%) of the corporate gross premium income. This was as expected since it consists of over 40% of the countries in Africa, including some of the leading markets in the continent (South Africa, Kenya and Mauritius) and is serviced by three underwriting/contact offices. A breakdown of the 2001 premiums is as follows:

- | | |
|----------------|-------------------|
| • Nairobi | US\$16.54 million |
| • Johannesburg | US\$11.68 million |
| • Mauritius | US\$ 6.03 million |

As in the previous year, North Africa followed with an income of US\$24.28 million compared to US\$23.72 million achieved in 2000, which represents an increase of 2.37%. The region generated 28.53% of the corporate production as against 30.39% in 2000.

OPERATIONS

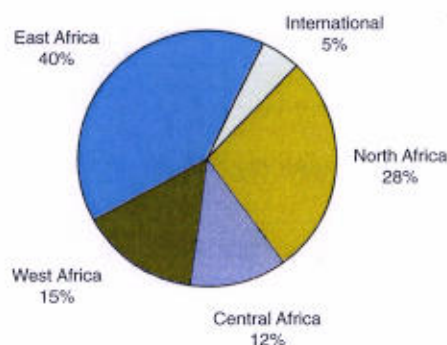


Anglophone West Africa retained the third position with an income of US\$12.46 million representing an increase of 24.47% over the figure of US\$10.01 million for 2000. The rise in income was partly due to higher premium from some major accounts. The region generated 14.64% of the corporate premium income, as against 12.82% in 2000.

Next was Francophone West and Central Africa with US\$ 10.05 million or 11.81% of the corporate figure compared with US\$ 9.64 million and 12.35% in 2000. The increase was 4.25% compared to 2000.

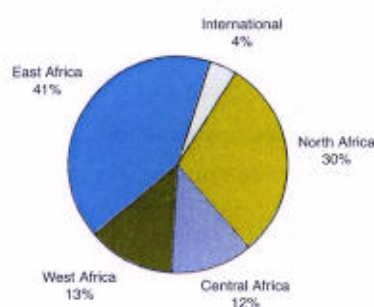
Non-African business accounted for the balance of US\$4.07 million as against US\$3.13 million in 2000, representing an increase of 30% due to new and higher acceptances. This source generated 4.78% of the corporate premium income (2000: 4.01%). The opening of the Cairo office is expected to further develop this market. The following charts illustrate the foregoing :

FINANCIAL YEAR 2001



% of Gross Premium

FINANCIAL YEAR 2000



% of Gross Premium

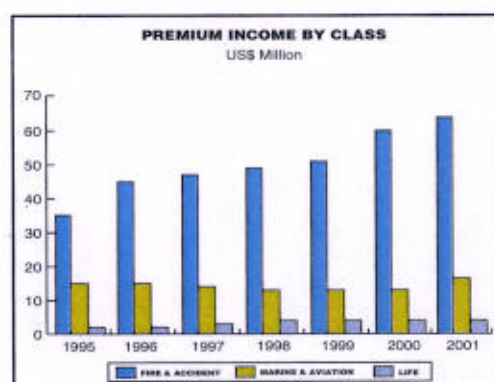
Sectoral Distribution

The bulk of the Corporation's premium income emanated from the Fire and Accident classes, which generated US\$64.18 million (2000: US\$60.57 million) or 75.41% (2000: 77.59%) of the corporate income.

The Marine and Aviation classes contributed US\$17.20 million (2000: US\$13.38 million) or 20.21% (2000: 17.78%).

The balance of US\$3.73 million (US\$3.61 million in 2000) or 4.38% (2000: 4.63%) emanated from Life business.

The following graph provides a distribution of premium income by class.



OTHER INCOME

Long-Term Investments

For the first time in its history, Shelter Afrique declared a dividend, the Corporation's share of which stood at US\$7,255, while the dividend earned from the investment in Afreximbank amounted to US\$9,589. As in the previous years, the bank did not call the outstanding instalments on the shares subscribed. The second half of the Corporation's US\$50,000 contribution to the African Insurance Organisation (AIO) computerisation project was paid during the year. When fully completed, the project is expected to impact on the industry positively and raise the level of computerization for the small to medium sized companies across the continent. In addition, Africa Re acquired a modest stake in Compagnie Nationale d'Assurance et de Réassurance, Mali for US\$33,691. This is in line with the Corporation's policy of investing, on a limited basis, in organizations where such will complement the business development strategy.

Income from short-term investment and other sources

While the Corporation's financial investment increased by 20% from US\$58.76 million in 2000 to



OPERATIONS

US\$70.61 million in 2001, overall investment income however reduced from US\$3.61 million to US\$3.48 million over the same period. Since a significant part of the investment portfolio continues to be held in bank deposits of less than 365 days maturity, the wave of interest rate cuts in Europe and the United States directly impacted on the returns. With almost a dozen interest rate cuts by the Federal Reserve in 2001, U.S. short term interest rate moved from 6.5% at the beginning of the year to 1.75% by year end, the lowest level in 40 years. The effect of this dramatic reduction in rates on the Corporation's investment income would have been stronger but for the additional asset allocation to fixed income in the last quarter of 2000.

This figure represents a ratio of 49.06% compared to 50.35% in the previous year.

The incurred losses amounted to US\$37.22 million, made up of paid losses of US\$41.76 million and movement in reserves of US\$4.54 million as against US\$32.61 million, US\$39.30 million and US\$6.69 million in 2000 respectively.

The following table provides some insights into the foregoing indications.

GROSS LOSS RATIO BY CLASS - FINANCIAL YEAR 2001 CURRENCY: US\$M

CLASS OF BUSINESS	REGIONAL BUSINESS			INTERNATIONAL INWARD			TOTAL CORPORATE			2000
	Loss Incurred	Earned Premium	Loss Ratio %	Loss Incurred	Earned Premium	Loss Ratio %	Loss Incurred	Earned Premium	Loss Ratio %	Loss Ratio %
Fire & Accident (Including Eng.)	24.86	53.28	46.66%	0.92	2.18	42.20%	25.78	55.46	46.48%	57.65%
Marine & Aviation	8.20	12.99	63.13%	0.77	1.28	60.16%	8.97	14.27	62.86%	0.72%
Life	2.47	3.63	68.04%	-	-	-	2.47	3.63	68.04%	67.12%
TOTAL	35.53	69.90	50.83%	1.69	3.46	48.84%	37.22	73.36	50.74%	46.82%

Accordingly, while interest on bank deposits reduced to US\$2.1 million from US\$2.85 million in 2000, interest on the fixed income portfolio during the year increased to US\$0.78 million compared to US\$0.43 million in the previous year.

With all the available space in the Head Office building fully let out, rental income during the year amounted to US\$0.24 million compared to US\$0.15 million earned in 2000.

In line with the increase in the level of activity, the management fee receivable from the African Aviation and Oil & Energy Insurance Pools doubled to US\$0.33 million compared to US\$0.17 million recorded in 2000.

OUTGO: Losses:

The total claims paid amounted to US\$41.76 million in 2001 as against US\$39.30 million in 2000.

Loss Experience By Trading Area:

- Anglophone West Africa recorded a loss ratio of 28.25%, which is an improvement on the 37.95% attributed to that region in 2000.
- From 37.71% in 2000, the loss ratio recorded by Francophone West and Central Africa rose to 41.69%.
- North Africa's loss ratio also increased from 46.37% in 2000 to 52.76%.
- The figure recorded by the East and Southern Africa production centre dropped from 59.94% to 56.91%.

Commissions and Charges

The net commission and charges amounted to US\$22.82 million compared to US\$23.72 million for 2000. This figure represents 30.22% of the net premium as against a corresponding ratio of 33.07% in the previous year.



Management Expenses

Management expenses allocated to the underwriting revenue account during the year amounted to US\$4.95 million as against US\$4.52 million in 2000. In line with the Corporation's objective of seeking to attract and retain top quality professionals across the continent, the emoluments of the professional and management cadres were reviewed during the year. The financial impact of the remuneration adjustment as well as the generally high cost of doing business, especially in the Head office location, contributed to the 9.40% increase in management expenses. As a result, Management expenses ratio increased from 6.30% in 2000 to 6.55% in 2001.

Other Expenses not charged to the Underwriting Revenue Account

The cost of the meetings of the Shareholders and Board of Directors in 2001 amounted to US\$0.42 million compared to US\$0.39 million in 2000. Depreciation and amortisation charge for the year increased from US\$0.59 million in 2000 to US\$0.81 million, mainly due to the commencement of the amortisation of the costs of the new Reinsurance Management Software implemented by the Corporation as well as the new management residence. A provision of US\$0.50 million was made to cover balances doubtful of recovery.

RESULTS OF THE CLOSED UNDERWRITING YEAR 1999

The Corporation continued with its three-open year policy, whereby the recognition of the net income of an underwriting year is deferred until the end of the third financial year. Accordingly, the 1999 underwriting year, which had been open for the past three years was closed on 31st December, 2001.

Total written premium for the underwriting year amounted to US\$71.43 million as against US\$62.85 million generated for 1998. Retrocession premium stood at US\$5.50 million (1998: US\$3.5 million), generating a retained premium of US\$65.93 million compared to US\$59.35 million in 1998. The increase in outward premium resulted from the special

retrocession arrangement on some of the higher acceptances on peak risks as well as excess of loss back up cover purchased for that year. Accordingly, retention ratio decreased from 94.43% for underwriting year 1998 to 92.30%.

Claims paid, net of reinsurance recoveries stood at US\$30.65 million as against US\$28.08 million for 1998, representing a claims ratio of 46.49% (1998: 47.31%). Net commission and charges amounted to US\$21.37 million compared to US\$19.36 million in 1998, producing a ratio of 32.41% (1998: 32.62%).

Management expenses charged to the underwriting year stood at US\$4.19 million (1998: US\$4.20 million), generating a technical surplus of US\$9.72 million (1998: US\$7.71 million). Based on the estimate of the outstanding claims, including IBNR, a reserve of US\$6.66 million was established for the underwriting year. The balance of US\$3.06 million, representing the underwriting surplus was transferred to the profit and loss account.

RESULTS OF THE 2001 FINANCIAL YEAR

Gross written premium for the year amounted to US\$85.11 million representing a 9.03% increase over the US\$78.06 million produced in the previous year. The premium growth was in line with the Corporation's expectation, bearing in mind the continued depreciation of a number of its trading currencies and the stiff competition across the continent. With the general increase in rates witnessed during the 2002 renewals, the outlook for premium growth in the years ahead remains positive.

As already explained, greater participation in higher acceptances in the North and West African Regions and the rising cost of purchasing special excess of loss cover, led to a 51% increase in retrocession premium from US\$6.34 million in 2000 to US\$9.60 million. Accordingly, retained premium stood at US\$75.51 million (2000: US\$71.72 million) representing a retention ratio of 88.72% (2000: 91.88%).



OPERATIONS

Paid claims, net of reinsurance recoveries amounted to US\$38.66 million (2000:US\$37.11 million) producing a claims ratio of 51.20%, which is a slight improvement over the 51.74% recorded in the previous year. Commission and other charges stood at US\$22.82 million compared to US\$23.72 million in 2000, representing a ratio of 30.22% (2000: 33.07%).

Total underwriting outgo for the financial year amounted to US\$61.48 million compared to US\$60.82 million in 2000, while management expenses stood at US\$4.95million. The excess of income over outgo therefore increased from US\$6.37 million in 2000 to US\$9.09 million. Technical reserves at the end of the year stood at US\$75.51 million, an increase of 8.73% compared to US\$69.45 million in the previous year.

The net underwriting income for 2001 amounted to US\$3.03 million as against US\$1.36 million achieved in 2000.

Income from investment and other sources stood at US\$3.48 million compared to US\$3.61 million in 2000, while interest on reinsurance deposits increased to US\$1.09 million from US\$1.05 million in 2000. There was a slight reduction in the realised loss in exchange from US\$0.31 million in 2000 to US\$0.29 million this year. The Corporation recorded an overall profit of US\$5.54 million for the year, compared to US\$4.28 million achieved in 2000.

APPROPRIATION OF RESULTS

The Corporation did not have any direct exposure to the losses from the terrorist attacks of September 11, and having fully accounted for the claims of 1999, there are clear indications that the results in the years to come will remain positive. Bearing in mind the need to further consolidate the financial position of the Corporation while remunerating the capital invested in the Corporation's equity, the Board recommends that the unappropriated profits be distributed as follows:

- US\$2,770,183 to the General Reserve in accordance with Resolution No. 4/1992;
- US\$1,000,000 to the Cumulative Translation Adjustment;
- US\$700,000 to Other Reserves;
- US\$614,938 to be paid as dividend at the rate of US\$2.50 per subscribed and paid up share of US\$100 par value;
- US\$1,389,227 be carried forward.

The Africa Re Regional Office Building in Abidjan - completed in July 2000.



Le Bâtiment du Bureau Régional d'Africa Re à Abidjan - achevé en Juillet 2000.



Participants at the Africa Re Seminar - Casablanca, September 2001.



The Managing Director joins Cabinet Ministers from Kenya and Cameroon to cut the 25th Anniversary Cake - Nairobi, November 2001.



Guests at the 25th Anniversary cocktails - Mauritius, November 2001.

EXTERNAL AUDITORS REPORT



Chartered Accountants

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Nigeria

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www.deloitte.com

**Akintola Williams
Deloitte
& Touche**

REPORT OF THE EXTERNAL AUDITORS

TO THE SHAREHOLDERS OF AFRICAN REINSURANCE CORPORATION

We have audited the accompanying financial statements of **African Reinsurance Corporation** as at 31 December, 2001, which have been prepared on the basis of the accounting policies set out on page 30. The directors are responsible for the preparation of the financial statements. Our responsibility is to express an independent opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Corporation's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement. We believe that our audit provides us with a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation at 31 December, 2001 and the results of its operations and its cash flows for the year ended on that date in conformity with International Accounting Standards.

Akintola Williams Deloitte & Touche

Lagos, Nigeria

15 April, 2002

**Deloitte
Touche
Tohmatsu**

Offices at Abuja, Benin, Enugu, Jos, Kaduna, Kano, Maiduguri, Owerri, Port Harcourt

A list of partners' names is available at 1 Town Planning Way, Ilupeju, Lagos.



AFRICAN REINSURANCE BALANCE SHEET AT

ASSETS	Note	2001 US\$	2000 US\$
Cash and Short Term Maturities	3	5,972,127	3,071,182
Investments	4	64,638,289	55,684,594
Amounts due from companies on Reinsurance Accounts		24,315,921	22,562,614
Deposits retained by Ceding Companies		40,033,219	41,099,892
Sundry Debtors, Accrued Interest and Prepayments		1,284,774	1,759,628
		136,244,330	124,177,910
FIXED ASSETS	5	14,628,175	14,029,793
RETROCESSIONAIRES' SHARE IN RESERVE FUNDS	12	13,184,824	12,035,173
		164,057,329	150,242,876

Musa AL NAAS
Chairman

The accompanying notes form an integral part of this statement

CORPORATION
31ST DECEMBER 2001



LIABILITIES, CAPITAL AND RESERVES	Note	2001	2000
		US\$	US\$
Other Creditors, Accruals & Provisions		3,503,465	2,355,360
Dividend Payable	6	1,293,076	725,819
Amounts due to Companies on Reinsurance Accounts		15,760,759	12,040,361
Deposits due to Retrocessionaires		3,188,640	3,087,704
		23,745,940	18,209,244
Term Loan	7	-	500,000
PAID-UP CAPITAL	8	24,597,500	23,940,000
RESERVES			
Share Premium		5,879,765	5,231,120
General Reserve	9	25,573,659	22,803,476
Other Reserves	10	7,394,238	6,694,238
Retained Earnings		1,389,227	933,983
Cumulative Translation Adjustment	11	(13,217,544)	(9,553,958)
		27,019,345	26,108,859
SHAREHOLDERS' FUNDS		51,616,845	50,048,859
REINSURANCE AND RESERVE FUNDS	12	88,694,544	81,484,773
		164,057,329	150,242,876


Bakary KAMARA
Managing Director

The accompanying notes form an integral part of this statement



AFRICAN REINSURANCE PROFIT & LOSS ACCOUNT FOR THE YEAR

EXPENDITURE	Note	2001 US\$	2000 US\$
General Assembly and Board of Directors' Meetings		418,973	386,081
Audit Fee		42,000	40,000
Depreciation and Amortisation	5	813,835	593,785
Other Expenses and Provisions		502,506	417,137
Profit for the Year		5,540,365	4,281,280
		7,317,679	5,718,283
APPROPRIATIONS:			
Proposed Dividend	6	614,938	-
Transfer to General Reserves	9	2,770,183	2,140,640
Transfer to Reserve for Exchange Fluctuation	10	500,000	500,000
Transfer to Reserve for Loss Fluctuation	10	200,000	200,000
Transfer to Cumulative Translation Adjustment	11	1,000,000	5,000,000
Retained Earnings at 31st December		1,389,227	933,983
		6,474,348	8,774,623

The accompanying notes form an integral part of this statement

CORPORATION
ENDED 31ST DECEMBER 2001



INCOME	Note	2001 US\$	2000 US\$
Underwriting Profit		3,026,107	1,362,244
Income from Investments and Other sources		3,484,129	3,607,881
Interest on Reinsurance Deposits		1,093,433	1,053,485
Realised Loss on Exchange		(285,990)	(305,327)
		7,317,679	5,718,283
Retained Earnings at 1st January		933,983	4,493,343
Profit for the Year		5,540,365	4,281,280
		6,474,348	8,774,623

The accompanying notes form an integral part of this statement



AFRICAN REINSURANCE REVENUE ACCOUNT FOR THE YEAR ENDED

O U T G O	Gross	Retrocession	NET	NET
	US\$	US\$	2001	2000
			US\$	US\$
LOSSES PAID	41,756,772	3,094,524	38,662,248	37,108,052
Add:				
Outstanding Loss Reserve at the end of the year	31,804,212	4,732,464	27,071,748	30,360,526
Deduct:				
Outstanding Loss Reserve at the beginning of the year	36,342,990	5,982,464	30,360,526	29,945,792
LOSSES INCURRED	37,217,994	1,844,524	35,373,470	37,522,786
COMMISSIONS	22,844,104	2,605,157	20,238,947	21,858,572
CHARGES	2,626,746	47,527	2,579,219	1,857,140
	<u>62,688,844</u>	<u>4,497,208</u>	58,191,636	61,238,498
MANAGEMENT EXPENSES			4,945,055	4,520,366
Underwriting Profit transferred to Profit & Loss Account			3,026,107	1,362,244
			<u>66,162,798</u>	<u>67,121,108</u>

The accompanying notes form an integral part of this statement

CORPORATION
31ST DECEMBER 2001



I N C O M E	Gross	Retrocession	NET	NET
	US\$	US\$	2001	2000
			US\$	US\$
PREMIUM NET OF CANCELLATIONS	85,114,364	9,602,668	75,511,696	71,717,659
Add:				
Reinsurance Fund at the beginning of the year	45,141,783	6,052,709	39,089,074	34,492,523
Deduct:				
Reinsurance Fund at the end of the year	56,890,332	8,452,360	48,437,972	39,089,074
EARNED PREMIUM	73,365,815	7,203,017	66,162,798	67,121,108
			66,162,798	67,121,108

The accompanying notes form an integral part of this statement



AFRICAN REINSURANCE CORPORATION

UNDERWRITING RESULTS BY CLASS OF BUSINESS FOR THE YEAR ENDED 31ST DECEMBER 2001

	Fire and Accident US\$	Marine and Aviation US\$	Life US\$	TOTAL 2001 US\$	TOTAL 2000 US\$
Underwriting Income:					
Gross Premium	64,185,612	17,200,091	3,728,661	85,114,364	78,060,022
Less: Retrocession Premium	7,424,290	2,178,378	-	9,602,668	6,342,363
	56,761,322	15,021,713	3,728,661	75,511,696	71,717,659
Underwriting Outgo:					
Losses Paid	30,285,427	6,400,558	1,976,263	38,662,248	37,108,052
Commissions	15,246,808	4,202,716	789,423	20,238,947	21,858,572
Charges	2,049,661	552,125	(22,567)	2,579,219	1,857,140
Management Expenses	3,729,117	999,307	216,631	4,945,055	4,520,366
	51,311,013	12,154,706	2,959,750	66,425,469	65,344,130
Excess of income over outgo	5,450,309	2,867,007	768,911	9,086,227	6,373,529
Reinsurance & Reserve Funds:					
At 1st January	49,484,438	16,297,915	3,667,247	69,449,600	64,438,315
	54,934,747	19,164,922	4,436,158	78,535,827	70,811,844
At 31st December (Note 12)	50,184,991	21,060,711	4,264,018	75,509,720	69,449,600
Underwriting Profit transferred to Profit & Loss Account	4,749,756	(1,895,789)	172,140	3,026,107	1,362,244

AFRICAN REINSURANCE CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2001



	2001 US\$	2000 US\$
CASH FLOWS FROM OPERATIONS:		
Profit for the Year	5,540,365	4,281,280
Adjustments to reconcile operating profit to net cash generated from operations:		
Depreciation and Amortisation	813,835	593,785
(Profit)/Loss on sale of fixed assets	(5,996)	21,983
Reinsurance & Reserve Funds	6,060,120	5,011,285
Amounts due from Companies on Reinsurance Accounts	(1,753,307)	1,082,028
Deposits Retained by Ceding Companies	1,066,673	(4,651,968)
Sundry Debtors, Accrued Interest & Prepayments	474,854	(130,679)
Amounts due to Companies on Reinsurance Accounts	3,720,398	1,612,205
Deposits due to Retrocessionaires	100,936	91,873
Other Creditors, Accruals & Provisions	1,148,105	1,668,385
	11,625,618	5,298,897
Net Cash generated from Operations	17,165,983	9,580,177
Adjustments for non-cash items taken to Shareholders Funds:		
Cumulative Translation Adjustment	(4,663,586)	(4,776,068)
CASH FLOWS FROM INVESTING ACTIVITY:		
Proceeds on sale of Fixed Assets	5,996	4,613
Purchase of Fixed Assets	(1,412,217)	(2,391,158)
Investments made	(8,953,695)	(13,677,921)
	(10,359,916)	(16,064,466)
CASH FLOWS FROM FINANCING ACTIVITY:		
Proceeds on sale of Shares	1,306,145	455,873
Long Term Loan repaid	(500,000)	(200,000)
Dividend Paid	(47,681)	(219,400)
	758,464	36,473
Net Increase/(Decrease) in Cash and Short Term Maturities	2,900,945	(11,223,884)
CASH AND SHORT TERM MATURITIES:		
At 1st January	3,071,182	14,295,066
At 31st December	5,972,127	3,071,182

The accompanying notes form an integral part of this statement



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2001

NOTE 1

OPERATIONS

The African Reinsurance Corporation was established by Member States of the Organisation of African Unity and the African Development Bank as an inter-governmental institution for the purposes of:

- (a) mobilising financial resources from insurance and reinsurance operations;
- (b) investing in Africa such funds to help accelerate economic development; and
- (c) fostering the development of the insurance and reinsurance industry in Africa by promoting the growth of national, regional and sub-regional underwriting and retention capacities.

NOTE 2

ACCOUNTING POLICIES

The Corporation's accounting policies are in general in conformity with standards adopted by the International Accounting Standards Committee and practices prevailing within the insurance industry. The following is a summary of the significant accounting policies adopted in the preparation of the financial statements:

(a) Revenue Recognition

Premiums and underwriting expenses are credited and debited respectively to the underwriting revenue account when advised by ceding companies. Where statements of account are not received by the year end, estimates are made based on latest available information.

(b) Underwriting Revenue Account and Reinsurance and Reserve Funds

All underwriting accounts are maintained on an underwriting year basis. The accounts of each underwriting year are kept open for three years during which the surplus of income over outgo is carried forward as Reinsurance Funds. By that time a sufficiently accurate determination of outstanding liabilities can generally be made to permit the account to be "closed" and the underwriting profit or loss determined. At the end of the third year of each underwriting year when the underwriting accounts are closed, the reinsurance funds are brought back to the revenue accounts of the said year and a Reserve Fund created on the basis of the Corporation's loss experience, to meet any outstanding claims. The adequacy of the Reserve Fund is reviewed

at the end of each subsequent year in the light of projections of the ultimate development of premiums and claims and adjustments made accordingly.

(c) Currency Translation

The financial statements expressed in the various functional currencies of the Member States are translated into the Corporation's reporting currency, the United States Dollar, using the closing rate method. Operational expenses are translated at rates prevailing at the date such expenses are incurred. The resultant unrealised translation adjustment is recorded as a separate component of Shareholders' Funds. Exchange differences arising from the settlement of monetary items are taken to profit and loss account.

(d) Investments

Short-term investments are stated at the lower of cost or market value. Long term investments are stated at cost unless there is a permanent decrease in their value, in which case a provision is made therefor.

(e) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of fixed assets in equal annual instalments over the estimated useful life of each category of fixed assets using the following annual rates:

- *Freehold Land:* Nil
- *Freehold and Leasehold Property:* 2% or over the leasehold period if less than 50 years.
- *Furniture, Fittings and Equipment:* Between 6.67% and 33.33%
- *Motor Vehicles:* 25%.

(f) Debtors

Debtors are stated at their realisable value. Debts considered irrecoverable are written off into the profit and loss account during the year in which they are identified. Provisions are made for debts doubtful of recovery based on a review of outstanding amounts.

(g) Management Expenses

Management expenses are apportioned to the classes of business in the Revenue Account on the basis of the net premium and wholly charged to the current underwriting year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2001



NOTE 3

CASH AND SHORT TERM MATURITIES

The balances include an equivalent of US\$4,212,000 (2000: US\$1,812,295) representing short term deposits in Member States' currencies.

NOTE 4

INVESTMENTS

Investments at cost which include Bonds and other fixed income securities with a market value of US\$13,014,475 at 31st December, 2001 (2000: US\$11,367,795) are made up of:

	2001 US\$	2000 US\$
• <u>Equity Participation</u>		
Shelter-Afrique	1,020,000	1,020,000
The African Export - Import Bank	400,000	400,000
Others (Non-quoted companies)	561,413	502,722
	1,981,413	1,922,722
• <u>Other Investments</u>		
Bonds and other fixed income securities	12,932,279	11,151,339
Short-term deposits	49,724,597	42,610,533
	62,656,876	53,761,872
	64,638,289	55,684,594

NOTE 5

FIXED ASSETS

	Fixed Assets in Progress US\$	Freehold & Leasehold Property US\$	Furniture Fittings & Equipment US\$	Motor Vehicles US\$	Total 2001 US\$	Total 2000 US\$
COST						
At 1st January	327,906	11,011,451	4,548,494	477,996	16,365,847	14,572,363
Additions during the year	748,014	67,640	537,457	59,106	1,412,217	2,391,158
Disposals during the year	-	-	(41,526)	-	(41,526)	(597,674)
Transfers during the year	(327,906)	315,052	12,854	-	-	-
At 31st December	748,014	11,394,143	5,057,279	537,102	17,736,538	16,365,847
DEPRECIATION						
At 1st January	-	342,536	1,613,684	379,834	2,336,054	2,313,347
Charge for the year	-	205,489	548,437	59,909	813,835	593,785
On disposals during the year	-	-	(41,526)	-	(41,526)	(571,078)
At 31st December	-	548,025	2,120,595	439,743	3,108,363	2,336,054
NET BOOK VALUE						
At 31st December	748,014	10,846,118	2,936,684	97,359	14,628,175	14,029,793

- Included in freehold property is an amount of US\$8.24 million, the cost of the Corporation's Headquarters building. The Corporation occupies 43% of the building and lets out the balance to third parties.
- Fixed assets in progress relates to the Nairobi Regional office building under construction.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2001

NOTE 6

DIVIDEND PAYABLE

	2001 US\$	2000 US\$
Balance at 1st January	725,819	945,219
Proposed Dividend	614,938	-
	1,340,757	945,219
Amount paid during the year	(47,681)	(219,400)
Balance at 31st December	1,293,076	725,819

NOTE 7

TERM LOAN

The balance on the loan obtained from Shelter Afrique, to part finance the construction of the Corporation's Headquarters building, was fully repaid during the year.

NOTE 8

CAPITAL STOCK AND PAID-UP CAPITAL

(i) At the 23rd Annual Ordinary Meeting on 27 and 28 June 2001, Shareholders approved a resolution amending the capital structure and reducing the par value of Africa Re's shares from US\$10,000 to US\$100 per share. Accordingly, the Authorised Capital of the Corporation was increased to US\$ 100 million made up of 1,000,000 shares of US\$ 100 each distributed as follows:

- a) Forty percent (40%) of the authorised capital to be issued to Class A shareholders, made up of the African Development Bank, Member States of the OAU, their constituents and institutions designated to represent them;
- b) Thirty five percent (35%) to Class B shareholders, made up of national or locally incorporated insurance/reinsurance institutions;
- c) Twenty five percent (25%) to Class C shareholders, made up of institutional or private investors.

(ii) The paid-up capital is made up as follows:

	2001 US\$	2000 US\$
Capital Allotted and Subscribed	25,330,000	24,890,000
Called up and Unpaid	(732,500)	(950,000)
Subscribed and Paid-up Capital	24,597,500	23,940,000

NOTE 9

GENERAL RESERVE

	2001 US\$	2000 US\$
Balance at 1 st January	22,803,476	20,662,836
Transfer from Profit & Loss Account	2,770,183	2,140,640
Balance at 31st December	25,573,659	22,803,476

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2001



NOTE 10

OTHER RESERVES

	Reserve for Exchange Fluctuation US\$	Reserve for Loss Fluctuation US\$	Total 2001 US\$	Total 2000 US\$
Balance at 1st January	4,294,238	2,400,000	6,694,238	5,994,238
Transfer from Profit & Loss Account	500,000	200,000	700,000	700,000
Balance at 31st December	4,794,238	2,600,000	7,394,238	6,694,238

NOTE 11

CUMULATIVE TRANSLATION ADJUSTMENT

	2001 US\$	2000 US\$
Balance at 1st January	9,553,958	9,777,890
Translation Adjustment for the year	4,663,586	4,776,068
Transfer from Profit & Loss Account	(1,000,000)	(5,000,000)
Balance at 31st December	13,217,544	9,553,958

NOTE 12

REINSURANCE AND RESERVE FUNDS

These represent the underwriting results of the still open years and reserves for outstanding claims for the closed underwriting years respectively. The composition is as follows:

	Fire & Accident US\$	Marine & Aviation US\$	Life US\$	Total 2001 US\$	Total 2000 US\$
GROSS					
Reinsurance Fund	41,025,476	14,402,271	1,462,585	56,890,332	45,141,783
Reserve for outstanding claims	20,514,356	8,488,423	2,801,433	31,804,212	36,342,990
	61,539,832	22,890,694	4,264,018	88,694,544	81,484,773
LESS: Retrocessionaires' share in Reinsurance Fund	6,867,117	1,585,243	-	8,452,360	6,052,709
Reserve for outstanding claims	4,487,724	244,740	-	4,732,464	5,982,464
	11,354,841	1,829,983	-	13,184,824	12,035,173
Net Reinsurance and Reserve Funds	50,184,991	21,060,711	4,264,018	75,509,720	69,449,600



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2001

NOTE 13

TAXATION

No provision for tax is made in the financial statements, as the Corporation is not subject to tax in the markets in which it operates in accordance with Article 51 of the Establishment Agreement.

NOTE 14

RELATED PARTY TRANSACTIONS

A portion of the Corporation's underwriting business is transacted with ceding companies, which are shareholders of the Corporation.

NOTE 15

CAPITAL COMMITMENTS

Commitments in respect of approved capital projects at the end of the year amounted to US\$2,189,619 (2000: US\$1,516,192).

NOTE 16

CONTINGENT LIABILITIES

Contingent liabilities in respect of pending litigation and/or arbitration involving the Corporation for which no provisions have been made in these accounts amounted to US\$2,090,000 (2000: US\$2,090,000). However, the actions are being defended and the Directors are of the opinion that no material liability would arise therefrom.