

AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
30TH ANNUAL ORDINARY MEETING
TUNIS, TUNISIA, 26TH JUNE 2008

AFRICARE/GA/32/216



AFRICAN REINSURANCE CORPORATION
SOCIÉTÉ AFRICAINE DE REASSURANCE
(AFRICA RE)

Honourable Representatives
General Assembly
African Reinsurance Corporation

Date: 26th June 2008

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, 2007.

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

MUSA S. AL NAAS

Chairman of the Board of Directors and General Assembly



Table of Contents

African Reinsurance Corporation

Chairman's Statement	4
Financial Highlights	6
Economic and Trading Environment	8
Operations	13
Premium Income	14
Development of Gross Premium	14
Voluntary Cessions	14
Geographical Distribution	15
Sectoral Distribution	16
Investment Income	16
- Long-term Investments	17
- Equities	18
- Bonds and Other Fixed Income	18
- Cash Instruments	19
- Other Operating Income	19
Outgo	19
- Losses	19
- Loss Experience by Trading Area	20
- Commissions and Charges	20
Results of the 2007 Financial Year	20
Appropriation of Results	21
Statement of Management Responsibility	22
Auditors Report	25
Consolidated Balance Sheet at 31st December, 2007	26
Consolidated Income Statement	28
Consolidated Statement of Changes in Equity - Year ended 31st December, 2007	29
Consolidated Statement of Changes in Equity - Year ended 31st December, 2006	30
Consolidated Cash Flow Statement	31
Notes to the 2007 Financial Statements	32
Appendix - Consolidated Income Statement by Class of Business	54

Composition of Africa Re Board of Directors



Mrs. E. MBOGO
Vice-Chairman



Mr. M. AL NAAS
Chairman



Mr. A. MOUNIR



Mr. T. TURNER



Mr. B. TÜMMERS



Mr. J. B. KOUAME



Mr. M. M. DKHILI



Mrs. N. KYIAMAH



Mr. T. EL-BARKI



Mr. M. KAMEL



Mr. B. ZAKARIYAU



Mr. G. MANYERE

ALTERNATE DIRECTORS

Mr. Farag NASHNUSH, Mr. Basiru NJAI, Mr. GAMAL HAMZA, Mr. Mukaila A. OJELADE, Mr. ONONEMANG Georges, Mr. Paul T. TSALA, Mr. Arthur YASKEY, Mr. YAHYAOUI Thami, Mr. Bala ZAKARIYAU, Mr. George MANYERE.



Chairman's Statement

African Reinsurance Corporation

The 30th Annual Report of the Board of Directors presents the Corporation's consolidated financial statements for 2007, including the balance sheet as at 31st December and the profit and loss account for the year then ended. 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

Gross written premium for the year grew by 25.90% to US\$369.51 million compared to US\$293.49 million in 2006. The performance was driven by improved marketing effort that led to higher participation in both treaty and facultative business. Gross earned premium, after adjusting for the movement in unearned premium provision, also witnessed an improvement of 30.40% to stand at US\$366.40 million compared to US\$280.98 million in 2006.

Premium ceded to retrocessionnaires during the year totaled US\$33.80 million as against US\$35.43 million in the previous year. The Corporation has continued to utilise Excess of Loss retrocessions for all the regular risks assumed and supplemented by special covers in respect of the major oil and petrochemical risks accepted.

For the second consecutive year, Africa Re recorded a moderate loss experience with total losses paid, net of reinsurance recoveries, increasing by 17.25% to US\$157.63 million from US\$134.44 million in 2006. In spite of this, the Corporation maintained its prudent approach to reserving and consequently reported a net incurred loss of US\$215.70 million, representing an increase of 38.74% over the US\$155.47 million recorded in the previous year.

Management expenses for the year amounted to US\$16.45 million compared to US\$12.84 million in 2006, an increase of 28.12%. The increase was due in part to the implementation of the recently

approved performance bonus and gratuity scheme as additional staff compensation. In terms of budget performance, the core operating expenses were within budget.

The Corporation posted a net underwriting profit of US\$7.17 million for the year compared to US\$3.52 million in 2006, an improvement of 103.69%.

Income from investment and other sources, including interest on reinsurance deposits amounted to US\$29.05 million compared to US\$23.38 million in the previous year. The 24.25% improvement on prior year performance was mainly due to the impressive premium collection as well as the performance of the fixed income portfolio.

The cumulative translation adjustment, which is being accounted for as a separate component of the shareholders' funds, recorded an unrealised gain of US\$14.95 million (2006: US\$6.48 million), as a result of the continuing weakness of the U.S. Dollar. As in the prior years, a total amount of US\$9.07 million (2006: US\$3.56 million) was transferred to technical provision. Consequently, shareholders' funds as at 31st December, 2007 stood at US\$230.80 million (2006: US\$193.87 million), representing an increase of 19.05%.

With no major natural catastrophes and losses arising from peak risks, the year 2007 was characterised by the subprime mortgage crisis, estimated to cost the world economy between US\$400 billion and US\$2 trillion in direct and indirect losses. That crisis occurred when the global economy was showing signs of running out of steam and even fast tracked the decline.

Despite the negative effect of the increase in the prices of oil and cereals which resulted in significant inflation, Africa recorded an average GDP growth rate of 5.7% for the fourth consecutive year. The



influx of new partners from Asia restored the continent's trade balance with other continents. Indeed, with a Sino-African exchange of US\$55 billion, the continent recorded a positive balance of US\$2.1 billion, although this comprised mainly of the import of finished products and export of raw material.

In the insurance sector, despite the confirmation of the trend of rate softening, reinsurance company stocks continued to attract international and African investors and capital markets. That fascination seems to be attributable to the prudent management of those companies, notably in claims estimation and reserve constitution, resulting in sound and secure institutions.

Having adopted the one-year accounting method for the past three years in place of the three year method, African Reinsurance Corporation recorded a production of US\$369.51 million (2006: US\$293.49) representing a growth of 25.90%, despite the soft cycle and fierce competition. The Corporation was able to attain this level of performance and a net profit of US\$34.05 million, representing an increase of 36.84% compared to 2006 (US\$24.88 million), due to a combination of sound and disciplined underwriting, dynamic and selective investment policy and prudence in management expenses.

The Corporation's portfolio structure remained unchanged in terms of cession type (Voluntary: 90% and legal: 10%), classes of business (Fire & Accident: 75%, Marine: 11%, Oil and Energy: 10% and Life: 4%) and geographical spread (Southern Africa: 44%, West Africa: 13%, East Africa: 12%, Maghreb: 11%, Francophone Africa: 7%, North East Africa: 4%, African Indian Ocean Islands: 3% and International business: 6%).

The Corporation, whose security rating (A- by AM Best and BBB+ by Standard & Poor's) was reaffirmed in 2007, continues to enjoy the support of its shareholders, who while discussing the increase of the capital from US\$100 million to US\$500 million at the 29th Annual Ordinary Meeting,

enthusiastically pledged their confidence in the Corporation by insisting that they be offered pre-emptive rights to shares, before the capital is opened to other investors. The Board and Management will ensure strict compliance with the wishes of existing shareholders, while remaining receptive to new strategic or institutional investors that are willing to key into Africa Re's underwriting, marketing and developmental vision.

During the year under review, the Corporation paid a total of US\$2.68 million (2006: US\$2.21 million) as dividends to shareholders, while fulfilling its fundamental objectives of promoting the development of national insurance and reinsurance activities, assisting the growth of underwriting and retention capacities and contributing to the economic development of the continent. By organising and facilitating seminars as well as industrial attachments both in its premises and in individual reinsurance markets, Africa Re during the year under review, contributed to the training of over a hundred African Executives. In the same vein, the African Reinsurance Forum which was initiated by the Corporation but currently organized under the auspices of the African Insurance Organisation (AIO) took place in Madagascar with the theme "Climate Change and the Insurance/Reinsurance Industry", which is very topical in the World, in general and Africa, in particular.

The 'African Aviation Pool' and the 'African Oil and Energy Pool', managed by the Corporation since inception, have grown into major players on the African insurance scene, thus providing requisite solutions to insurers of these peak and complex risks.

On behalf of the shareholders, the Board would, once again, like to congratulate Management and staff of the Corporation for the positive results recorded during the year under review and encourage them to continue on this path of excellence.

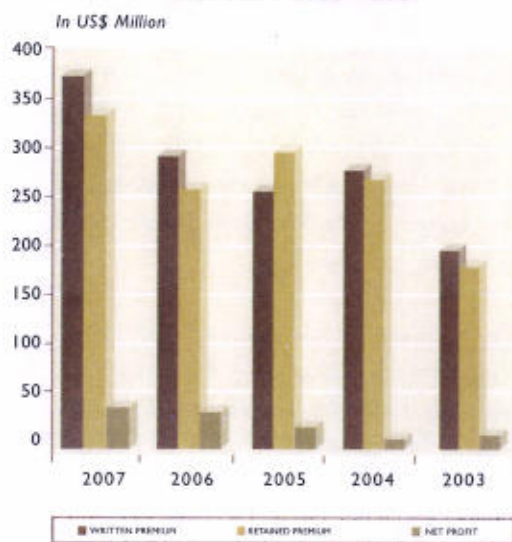


Financial Highlights

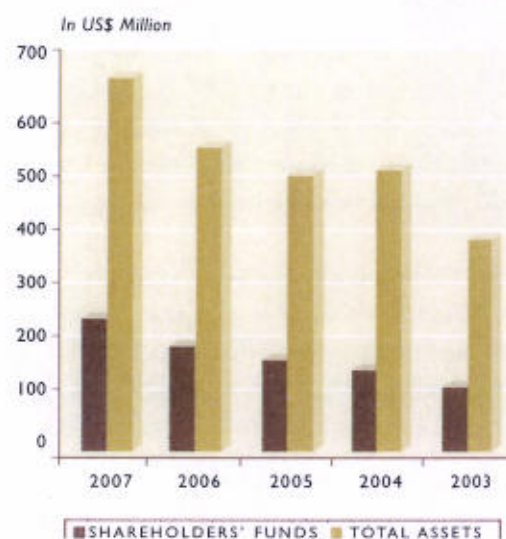
African Reinsurance Corporation

In US\$'000	2007	2006	2005	2004	2003
RESULTS					
WRITTEN PREMIUM	369,512	293,491	255,716	277,928	198,123*
RETAINED PREMIUM	335,716	258,066	295,506	268,956	164,232
EARNED PREMIUM (NET)	329,686	242,467	279,135	218,973	232,631
NET PROFIT	34,048	24,882	18,836	10,469	13,636
FINANCIAL POSITION					
SHAREHOLDERS' FUNDS	230,802	193,869	168,595	139,487	101,210
TOTAL ASSETS	668,566	549,060	501,106	506,589	393,131

RESULTS 2003 - 2007



FINANCIAL POSITION 2003 - 2007



*Written premium for financial years 2004 – 2007 was computed on annual accounting basis in line with IFRS 4. The comparative figures for 2003 financial year was booked premium, based on fund accounting basis earlier in use.

Composition of Africa Re Management Team



Mr. H. M. KUMSA
Deputy Managing Director
Operations



Mr. A. G. RAYOAJA
Director Central Operations &
Inspection



Mr. K. AGHOGHOVIA
Director West Africa &
Special Risks



Ms. E. N. AMADIUME
Regional Director
Mauritius



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



Mr. B. KAMARA
Group Managing Director / CEO



Mr. M. HAIDARA
Regional Director
Abidjan



Mr. M. KANNOU
Regional Director
Casablanca



Mr. M. DIALLO
Corporation Secretary



Mr. G. MUSA
Deputy Managing Director
Services



Mr. I. UDUMA
Director Internal Audit



Mr. G. O. OTIENO
Regional Director
Nairobi



Mr. O. GOUDA
Regional Director, Cairo



Mr. M. ALI-KOTE
Director of Administration and
Human Resources



Economic and Trading Environment

African Reinsurance Corporation

One of the benefits of globalisation is that, often, when the economy of one part or geographical area of the world goes through a difficult spell, the baton of growth is handed over to one or several other zones. Therefore, while the American locomotive has been driving the economic wagon of the rest of the world since the beginning of the 21st century, Europe and Japan - the Land of the Rising Sun, encountered structural and ad hoc difficulties. As at now, whereas that key economy seems to be recoiling into recession, China and India have taken over the lead with GDP growth rates of 11.6% and 9.4%, respectively.

Capital, An Essential Link In The World Economy

The year 2007 was characterised by the subprime mortgage crisis, which revealed the relative volatility of the capitalist system as it failed to withstand the changes in the housing market and the increase in interest rates. At the same time, the crisis amply demonstrated the interconnectivity of different national and regional economies.

Indeed, that crisis demonstrated that emerging countries of Asia (China and Singapore) and the Middle East (Saudi Arabia, the United Arab Emirates and Kuwait) have now taken over the role of lenders to the world economy; it revealed the weakness of securitisation - which encouraged the housing bubble - and underlined international financial imbalance (deficits in the American balance of payment and trade).

Indeed, at the peak of the subprime crisis in America, sovereign funds from China, Singapore, Saudi Arabia and Kuwait did not hesitate to come to the aid of large investment banks that were weakened by the turbulence, following their heavy involvement in enormous debts arising from unbridled household consumption, encouraged by the inventiveness of lenders who often put profit above every other prudential or precautionary consideration. The direct loss from the subprime crisis which is currently estimated at US\$400 billion could increase to US\$2 trillion, by some estimates, if the indirect costs are taken into account. One of the consequences is the doubt created with regard to the level of liabilities borne by commercial banks, which on their own, are

reluctant to lend to one another, thus compelling the Central Banks to play the role of lenders.

The period under review marked yet another year, indeed the fourth in which the average world growth rate rose up to 5%. That dynamism was due mainly to the performance of the emerging countries and the progress recorded in several other developing countries. That rate of growth was, in fact, dampened by the increase in the prices of oil, other raw materials (gold, copper, platinum and cobalt) and agricultural produce, which kept surging throughout the year.

If the growth rate of the emerging countries has reached an average of 8% despite these challenges, it is due to the implementation of a more accommodating monetary policy built on the strong links between their currencies and the dollar, thus making their exports more competitive than those from the Euro zone, for instance. Nevertheless, the inflationary trend which had been absent since the beginning of the 1990s has resurfaced and is threatening several economies. That situation compelled a number of states to take temporary measures aimed at jacking up prices. Thus, the European Union has decided to suspend for six months with effect from 1st January 2008, customs duties on cereal importation while Morocco has opted to reduce duties on the purchase of wheat. Indeed, as a result of the growing appetite of the developing world, the emerging countries and even the developed countries for these products, the prices of oil, plumb and wheat have surged by 30%, 50% and 100%, respectively, in a single year.

That inflation which attained a decisive average of 2% in most countries, stood at 3% in 2007 in Europe, 4.9% in the United States and 6.9% in China. The successive and sometimes drastic interest rate cuts by the American Federal Reserve, since the end of the first half of that year are not likely to reverse that trend. It could certainly help to revive the American economy by easing inter bank lending, thus preventing the risk of recession but it would also indirectly result in price instability and an annual growth of more than 7% in the cost of raw materials.

Africa which exports oil and imports various products especially wheat and rice, has been affected both positively and negatively by that situation.



Consequently, the continent recorded an increase in inflationary trend, which was already noticeable in some economies. Similarly, the breakdown of the World Trade Organisation negotiations has reinforced the need for a permanent and satisfactory solution to the issue of agricultural exports as the Economic Partnership Agreements signed individually by certain countries with the European Union can only be a short term palliative.

Continuous Growth of African Economies

For the fourth consecutive year, Africa has recorded an average growth rate of more than 5% (5.7% in 2007). Nevertheless, the return of the inflationary trend in the world arising from the increase in the prices of agricultural products and the 'black gold' has further impoverished the most deprived population while there has undoubtedly been an improvement in the standard of living of the middle class, a situation that has further increased the already palpable social tension.

This economic well being is attributable to a number of factors, namely, the cessation of conflicts notably in the Great Lakes region, the entrenchment of peace in West Africa (Liberia and Sierra Leone), improvement in public and private governance brought about by the new generation of political leaders and company executives who are better equipped in the concept, and the increase in the revenue from exported raw material. Thus, the continent has become a preferred destination for investors who injected about US\$36 billion by way of Foreign Direct Investment (FDI), i.e. double what was invested in 2005, despite the failure to keep to the commitment made by the Group of 7 industrialised countries in Gleeneagles. Such a level of investment is due mainly to the influx of Chinese companies, supported by the state. The Sino-African trade increased to US\$55 billion in 2007 with a positive balance of US\$2.1 billion in favour of the continent. Thus, the warning from the West that the continent runs the risk of quickly repiling its debts has not dissuaded African countries (South Africa, Angola, Congo, Nigeria and Sudan) from approaching this partner which grants them significant loans, within a short time, whereas their traditional lenders (Western countries and the Bretton Woods Institutions) take a long time to respond to only a few

of their needs and often with stringent conditions. Meanwhile, when analysed on a case by case basis, the performance of African economies revealed as much contrast in 2007 as in the previous year.

Thus, South Africa, the leading economy in the continent, experienced a 4.5% increase in its GDP growth in 2007, after an average of 3% for the past ten years. This was due to an improvement in the national budget from a deficit of 2.8% in 1999 to only 0.6% at the end of the year under review and a better debt management (30% of the GDP instead of 50% in 1994), although inflation which at that time stood at less than 6% has now increased to about 8%, following the surge in the prices of oil and food products.

Angola attained a 24% growth in its GDP due mainly to the sharp increase in the price of a barrel of oil and other minerals. The non-oil sector (agriculture, mines, industry and construction) has regained its vitality following the resurgence of subsistence and export agriculture (coffee), diamond extraction (+30%) and the onset of reconstruction programmes necessitated by the destruction caused by the civil war that had ravaged that country for the past three decades.

However, Kenya which recorded a growth of 7% due to the transfer of funds from the diaspora, tourism and tea cultivation has, since the end of the year, experienced political disturbances, thus endangering its celebrated stability. There is the fear that, should the difficulties persist, the country's economic performance would be durably affected, particularly as the country is witnessing an inflation of 11.7% due to the high volume of money in circulation. Despite the deficit in energy supply, the GDP of Uganda increased by 6.2% while Tanzania with the same difficulty attained a growth rate of 8%.

The economy of Ethiopia is beginning to overheat following an 8% growth performance in 2007 for the third consecutive year, while the rate of inflation stood at 16%, mitigated by the purchase of cereal to be resold at a price subsidised by the State. That exceptional growth is attributable to vibrant agriculture (Coffee, horticulture and oilseeds) which generated foreign exchange that is 25% higher than in 2006.



Economic and Trading Environment

African Reinsurance Corporation

Sudan has recorded a sustained growth for the past three years (8.6% in 2005, 13% in 2006 and 11.25% in 2007) due to its oil revenue. Egypt, its neighbouring country, has recorded a similar trend (5% in 2005, 6.8% in 2006 and 7% in 2007), following a gradual liberalisation of the economic system (removal of customs duties and the privatization of some parastatals). These reforms have attracted foreign investors who have injected more than US\$10 billion into the national economy.

The 5% growth in the GDP of Algeria is essentially due to the increase in the price of oil, while Morocco could only record 3.5% after the 7% in 2006 due to the decline in agriculture, although the tourism sector grew by 13% with revenue of US\$ 6 billion.

With a growth rate of 7%, Libya performed slightly better than Tunisia, which at 6.3% improved on its average score of 5% recorded over the last decade. That country was able to attain that level of performance due to continuity in its economic policy instituted in the 1990s which has obviously attracted Foreign Direct Investment of more than US\$1 billion, a sizeable amount considering the size and potentialities of the Tunisian economy.

There has also been robust growth in West Africa – Burkina Faso (4%), Ghana (6.5%), Mali (5%) and Nigeria (11%) – despite climatic difficulties (drought and flooding), the non-competitiveness of the price of cotton due to the subvention granted by the United States and Europe to their cotton farmers and many other reasons including the increase in oil prices. The growth can be attributed to the diversification of the economy, good macroeconomic management by some governments and the increase in the price of gold and cocoa.

In Central Africa, especially in Cameroon, the performance was average (3.9% in 2006 and 4% in 2007), while the Democratic Republic of Congo, which is gradually getting out of over one decade of conflict, grew by 6.2% having reduced the rate of inflation (12%). Gabon is also pursuing its policy of economic diversification, thus contributing to the acceleration of growth (5%).

Outside the continent, Africa Re underwrites business in the Middle East and Asia. Whereas in the former, the wealth of the oil producing countries can be juxtaposed with poverty aggravated by conflicts in other Arab nations, China remains the leading economy among the Asian dragons, followed by India, although South East Asia has not been left out (an average of 5.7%, with Vietnam recording 8.5%).

Islamic finance, which is fast gaining grounds especially in the Middle East and Malaysia, controls about US\$500 billion in line with the rules of sharia which prescribes five principles with which all investments must comply to be considered as « halal » or authorised. Thus, specific financial techniques have been drawn up to ensure that the instruments created are in compliance with the rules, under the watchful eyes of the sharia Boards. As at now, Islamic securities (sukuk) have been introduced into the financial market by both Islamic establishments as well as traditional financial institutions. Similarly, companies specialised in Islamic Insurance (takaful) and reinsurance (retakaful) are being licensed. While sukuk already control more than US\$100 billion, the takaful and retakaful market which is at its onset only accounts for US\$2 to 5 billion, with a potential for US\$15 to 20 billion at the end of the next decade.

Both of these represent remarkable business prospects such that several mega banks as well as traditional insurance/reinsurance companies are now rushing to maximize the opportunities presented by that opening in the Muslim world. Africa Re would not be left out, as it intends to open a specialised subsidiary that would cover its domestic markets as well as those of the Middle East and South Asia.

Flexibility or Stabilisation of The International Reinsurance Market

The international reinsurance market seems to be experiencing the beginning of the long awaited soft cycle but in a more disciplined and professional manner. It appears that the overcapitalised international reinsurers have not been seriously affected by the subprime crisis - both from investment and operational points of view - although the impact of that event is yet to be fully determined.



Already, rates seem to have dropped remarkably in the property class and it is almost certain that this trend would neither be reversed, nor indeed, stabilised in the short term, as most market players have adopted the strategy of continually increasing their market share. However, investor returns expectation and efficient management of the capital combined with the pressure from rating agencies and supervisory authorities for better risk management, would impose a certain level of underwriting discipline on market players.

Furthermore, the increase in retention levels in 2007 confirms the firming up of reinsurance cost, especially in the property class, while the demand for catastrophe protection remains high. Indeed, despite the credit crunch and the weakening of the dollar, the trend, already noticeable in 2005/2006, was towards an increase in retention levels. Better still, the reduction of capital or refund of surplus funds of about US\$20 billion to shareholders demonstrates, if any proof was required, a shift in reinsurers' financial and modeling flexibility since 11 September 2001. Despite the drop in premium rates in some classes of business and the subprime mortgage crisis, insurance company shares in the capital market are still appreciably attractive. There seems to be a durable convergence of reinsurance and financial market operations going by the already stated emergence of new products to replace or complement the conventional ones. The reaction of investors after hurricanes Katrina, Rita and Wilma i.e. the ability to raise US\$2 billion within a record time, especially when the industry had refunded US\$1.5 billion as surplus capital at the beginning of the said year, has confirmed investors' interest in the insurance industry in general and reinsurance in particular.

From operational point of view, the year 2007 was characterized by large floods, especially in the United Kingdom, resulting in economic losses of US\$8 billion out of which US\$6 billion was in insured losses. Africa, the Indian sub-continent, the Far East (China and Korea) and Central America have not been spared by these natural catastrophes whose impact has not been seriously felt by insurers due to low insurance penetration.

Flood statistics reveal an increase from 100 floods at the beginning of the previous decade to 250 in the mid 2000s, thus confirming the already known fact of climate change and subsequent global warming, caused mainly by human activities such as deforestation. Insurers/reinsurers that are becoming more and more conscious of their role are now pooling their precautionary and preventive efforts to finance research centres on climatology and participate more actively in study groups such as the Insurance Working Group of the United Nations Environment Programme Finance Initiative.

It should be recalled that Africa Re has joined the initiative taken by some of its traditional partners to establish a reinsurance company to underwrite weather and other natural catastrophe risks in response to the need for cover in that specialized domain. Apart from the commercial and financial viability of the project, the Corporation, by participating in it as shareholder and retrocessionnaire, would fulfil its social mandate of covering the risks which affect the most vulnerable population of its domestic markets. Indeed, in addition to increasing the insurance awareness among Africans, that class of business would also be profitable in the long term.

By far the largest market in the continent, South Africa with about US\$30.5 billion in direct premium (US\$23 billion from Life Assurance and US\$7.5 billion from non-Life business) in 2006 and is expected to grow by 6% in 2007 (to US\$32.4 billion), is also Africa Re's leading production centre with US\$156.60 million, representing 42.27% of its corporate premium income. Compared to 2006, the market structure has remained unchanged, with an even distribution of income from the main classes of the non-life business, namely, Motor 44%, Fire and Property Damage 32%. Africa Re's share in the total locally retained reinsurance premium remained unchanged at 16%. However, in absolute terms, there was a significant increase in production over the 2006 figure, although it still fell below the 2005 income of US\$165.92 million.

Although the South African insurance industry has, for the past few years, become a preferred destination for international insurance groups, it has maintained its previous configuration. Indeed, the maturity and



Economic and Trading Environment

African Reinsurance Corporation

professionalism of the players have enabled the market to preserve its identity characterized by the high presence of independent local operators.

By contrast, both Nigeria and Egypt witnessed remarkable changes in 2007. The decision taken in September 2005 by the Nigerian Supervisory Authority to recapitalize insurance companies to unprecedented levels – US\$25 million for non-life insurance companies, US\$15 million for life insurers and US\$75 million for reinsurance companies – resulted in the drastic reduction of the number of players to 51 (49 direct life and/or non-life companies and 2 local reinsurers). Another consequence of this revolution was that, following the strengthening of insurers' financial bases, the underwriting and retention capacities of the companies have increased so substantially that they can afford to reinsure only peak risks, thus reducing the volume of business ceded to reinsurers. Similarly, the introduction of the local content policy in oil risks insurance has opened up substantial underwriting prospects for Nigerian companies by enabling them to access risks which, hitherto, were placed directly with the international market.

By virtue of its capitalization and Establishment Agreement, Africa Re was spared the supervisory grill of the Nigerian Authority and could even warehouse some market share for the local reinsurers, pending when more of them would meet the laid down solvency and security requirements.

On its part, the Egyptian Government, by deciding to merge the top three insurance and reinsurance parastatals in that country, preparatory to privatization in the medium term, formed a market player with considerable capital base (shareholders' funds of US\$750 million), which is capable of initiating trends and significantly influencing the future of that market. Furthermore, the Egyptian insurance landscape is changing significantly with the licensing of Islamic insurance (takaful) companies, which offer tremendous growth potentials to that market, comparable to what obtains in the neighbouring countries of the Middle East.

Conscious of its role on the African insurance scene and the need to anticipate changes within

its environment, Africa Re has developed a growth strategy and increased its authorised capital to US\$500 million, so as to meet the growth challenges of its domestic markets.

Indeed, soon after the third capital increase from US\$50 million to US\$100 million, it occurred to Management and the Board that the Foreign Direct Investment which Africa has been attracting would open a new era of economic growth and significant need for cover in the areas where the investments are most directed, namely energy, infrastructure and telecommunication. By being the only region that recorded up to 12.5% growth in premium income in 2006, Africa is attempting to close the gap, although its contribution to the world premium volume still stands at slightly more than 1.1%. Thus, it became imperative to strengthen the financial base of the regional reinsurer to match if not exceed the requirements arising from the status and demands of its clients. That capital shall be paid up in 2 instalments by individual effort including rights issue to its existing members as well as further opening of its shareholding.

The recruitment of more specialized and younger talents remains the centre piece of the Corporation's human resource management policy and succession planning. Thus, the employment of more Actuaries, Engineers and other specialists in Asset Management together with the acquisition of new governance tools has enabled the Corporation not only to improve its enterprise risk management but also control its portfolio.

With a 26% increase in production at a time of noticeable rate reduction, although terms and conditions remained stable, Africa Re has proven its ability to adapt to an increasingly stringent, dynamic and competitive environment. Furthermore, the 2007 growth in underwriting margin and net profit is, once again, a demonstration of sound business approach, prudent underwriting strategy, and well thought out investment policy.



This section reviews the Corporation's operations for the year 2007 and examines the impact of its retrocession covers on earned income and incurred losses in 2006 and 2007.

The unique and strategic positioning of Africa Re's offices on the continent coupled with the present and emerging opportunities available to the Corporation in certain classes such as Energy, enables the organisation to analyse its business not only along sectoral, but geographical lines as well.

Africa Re has been able to sustain the tremendous growth recorded over the past few years, even though it continues to adhere to very stringent and uniform underwriting practice in all its five regional offices, subsidiary, and West Africa production centre at the Headquarters.

The Corporation's acceptances are classified as follows:

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

While acknowledging the impact of technological

advancement in the market place, the African Reinsurance Corporation, in its quest for an in-depth understanding of its markets, has continued to ensure proximity to its cedants by the geographical location of its production centres as indicated below.

- Lagos, Nigeria: Anglophone West Africa;
- Abidjan, Côte d'Ivoire: Francophone West and Central Africa;
- Casablanca, Morocco: Maghreb;
- Cairo, Egypt: North East Africa and the Middle East;
- Nairobi, Kenya: East and part of Southern Africa;
- Johannesburg, South Africa: South Africa and neighbouring markets, handled by the subsidiary, African Reinsurance Corporation (South Africa) Limited; and,
- Port Louis, Mauritius: African Indian Ocean Islands and Asia.

The Lagos, Cairo and Port Louis offices also write "International" or "Worldwide" business from the Middle East, Asia and the Far East.

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

DESCRIPTION (US\$'000)	2007			2006		
	Gross	Retro	Net	Gross	Retro	Net
INCOME						
Premium (less cancellations)	369,512	(33,796)	335,716	293,491	(35,425)	258,066
Change in unearned premium provision	(3,112)	(2,918)	(6,030)	(12,511)	(3,088)	(15,599)
Earned premium	366,400	(36,714)	329,686	280,980	(38,513)	242,467
OUTGO						
Losses paid	160,065	(2,438)	157,627	137,161	(2,721)	134,440
Change in outstanding claims provision (including IBNR)	61,544	(3,467)	58,077	19,906	1,124	21,030
Incurred losses	221,609	(5,905)	215,704	157,067	(1,597)	155,470



Operations

African Reinsurance Corporation

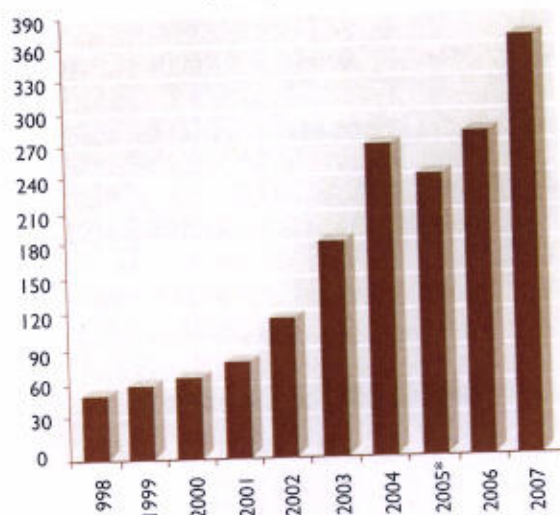
Premium Income

In the year under review, the Corporation's written premium income grew by 25.90% from US\$293.49 million to US\$369.51 million. The impact of exchange rate fluctuation accounted for about 5% or US\$15.38 million of this growth.

Development of Gross Premium

The graph below shows that Africa Re's income has grown steadily over the last 10 years. This achievement was essentially due to its ability to respond positively to the dynamics of the African insurance terrain and other regions with similar characteristics, leading to the opening up of a number of markets on the continent and in Asia. While the longest soft cycle in the history of insurance was still on, the occurrence of large claims coupled with the 2002 financial crisis led to a hard market which benefited the global insurance industry until the middle of the decade when terms and conditions started softening again. Africa Re's underwriting discipline as well as the relative pricing stability of the era provided the stimulus for favourable technical balances and income growth.

Development of Gross Premium Income
In US\$ millions

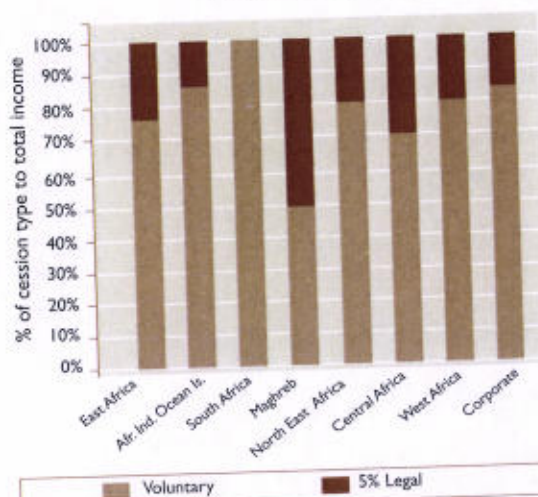


*First time application of one year accounting in 2004.

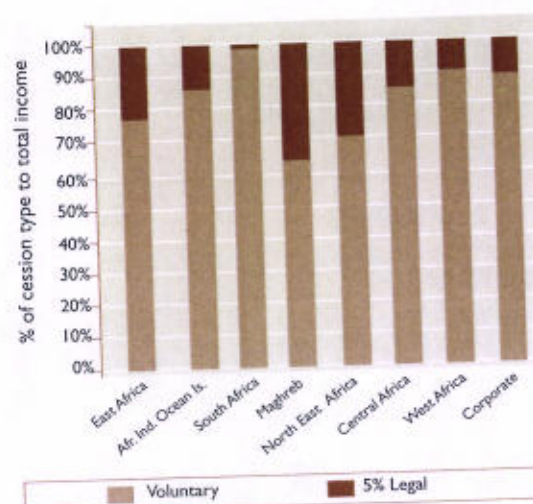
Voluntary Cessions

Although, at inception, many African governments had taken protective measures in a bid to reduce capital flight and establish local expertise and capacity, Africa Re has fully established itself as a profit oriented concern with its firm presence in strategic locations on the African landscape. This development demonstrates that legal cession has little impact on its turnover. Currently, 86.7% of the treaty business ceded to Africa Re is voluntary and this is expected to improve further in the years to come as the organization continues to focus on clients' needs and aspirations.

Financial Year 2007



Financial Year 2006





Board Members pose for a photograph with some Management Staff during the 105th Meeting of the Board of Directors held in Casablanca in April 2008



plan are prepared quarterly. The system of internal controls includes written policies and procedures, proper delegation of authority, accountability through establishing responsibility, and segregation of duties.

In addition, Management is developing a risk management profile that would continue to ensure effective coordination and monitoring, within the Group, of all the risk management policies and procedures approved by the Board of Directors and/or by the Executive Management such as underwriting and reserving policies, staff rules and regulations, investment policy guidelines and the accounting and financial reporting procedures.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statements preparation. Furthermore, because of changes in circumstances, the effectiveness of internal control may vary over time.

The Board of Directors of the African Reinsurance Corporation has set up an Audit and Risk Committee to monitor the internal controls and risk management practices within the group. The Committee is made up of non-executive directors who are independent of Management. It meets periodically with Management, the external auditors, the internal auditors, and the technical inspectors to review their reports and ensure that they are carrying out their respective responsibilities. The external auditors, the internal auditors and the technical inspectors have free access to the Committee with or without the presence of Management; to discuss the adequacy of internal control over financial reporting and any other matters which they believe should be brought to the attention of the Committee.

Bakary Kamara
Group Managing Director and CEO



Statement of Management Responsibility

African Reinsurance Corporation



AFRICAN REINSURANCE CORPORATION SOCIÉTÉ AFRICAINE DE REASSURANCE (AFRICA RE)

TELEGRAMS: AFRICARE LAGOS
TELEX: 22647, 28716 (AFRICA) NG
TEL : + 234-1-266 3323 / 262 6660-2
TEL : + 234-1-461 6820 / 461 6828
FAX : +234-1-266 8802 / 266 3282 / 262 6664
E-mail : info@africa-re.com
Web site : <http://www.africa-re.com>

PLOT 1679
KARIMU KOTUN ST.
VICTORIA ISLAND
PMB 12765
LAGOS, NIGERIA

RESPONSIBILITY FOR EXTERNAL FINANCIAL REPORTING

MANAGEMENT'S RESPONSIBILITY

Management's Responsibility Regarding Effectiveness of Internal Controls Over Financial Reporting

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

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

The responsibility of Management includes designing, implementing and maintaining effective internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Management believes that internal controls for external financial reporting, which are subject to scrutiny by Management and the internal auditors, and are revised as considered necessary, support the integrity and reliability of the external financial statements.

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



strategic alliance with a major cedant having strong black economic empowerment credentials enabled the Corporation to achieve a substantial increase in premium, while the recruitment of a facultative underwriter also led to a significant increase in the facultative portfolio. West Africa production centre also benefited from the positive impact of the recently concluded insurance recapitalization exercise and the gradual implementation of the local content policy in the energy sector in Nigeria to record an increase of 30.04% in its premium income over the previous year. This trend is not expected to continue in 2008 when the full impact of the recapitalisation exercise and the attendant increase in cedants' retention would be expected to lead to a reduction in reinsurance utilization in the traditional classes of business.

Premium ceded to retrocessionnaires during the year totaled US\$33.80 million compared to US\$35.43 million recorded in the previous year. The relative drop in the cost of retrocession despite the increase posted on the inward account was partly due to the non renewal of a major energy account in Angola on which about US\$4.12 million retrocession cost was incurred in 2006. However, the restructuring of the basic Excess of Loss (XL) programme coupled with strong bargaining and the softening of the market also contributed to the overall improvement in the total retrocession cost. The Corporation continues to utilise XL retrocession to protect its traditional acceptances while also obtaining special covers to protect the major oil and petrochemical risks accepted.

Adjustment for the impact of the movement in the provision for deferred retro premium produced an incurred retrocession cost of US\$36.71 million as against US\$38.51 million reported in 2006, representing a retention ratio of 89.98% as against 86.29% recorded in 2006. Consequently, net written premium for the year stood at US\$335.72 million (2006: US\$258.07 million) while net earned premium was US\$329.69 million (2006: US\$242.47 million), an increase of 30.09% and 35.97% respectively.

A total of US\$160.07 million was paid as losses on the inward account during the year, representing a 16.70% increase over the US\$137.16 million paid in the prior year. Although the overall loss experience remained moderate as in the previous year, there were a few major losses paid on the property, energy and life accounts in South Africa and West Africa. Of the total losses paid, US\$2.43 million (2006: US\$2.72 million) was recovered from retrocessionnaires, resulting in net losses paid of US\$157.63 million as against US\$134.44 million in 2006. The adjustment for the movement

in the outstanding claims (including IBNR) provisions produced a net incurred loss of US\$215.70 million compared to US\$155.47 million recorded in 2006.

Total management expenses in 2007 amounted to US\$16.45 million, an increase of 28.16 % over the US\$12.84 in 2006. In furtherance of the Corporation's commitment to continue to attract and retain top quality professionals, the Board approved additional compensation schemes for all echelons of staff, including a performance based variable pay component. The implementation of these schemes during the year accounted for a significant part of the increase in total management expenses.

Income from investment and other sources, including interest on reinsurance deposits amounted to US\$29.05 million compared to US\$23.38 million achieved in 2006, representing an improvement of 24.25% (2006: 33.97%). The performance was mainly due to the increase in financial assets driven by impressive cash flow from operations and good performance of the fixed income portfolios. The performance was particularly laudable given the general depression in the global financial market caused by the subprime mortgage crisis and the resulting interest rate cuts by the Federal Reserve in the second half of the year. There was a realized loss on exchange of US\$1.02 million (2006: US\$0.42 million).

Consequently, net profit before taxation for the year increased by 32.97% from US\$26.47 million in 2006 to US\$35.20 million.

APPROPRIATION OF RESULTS

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

- US\$17,023,852 to the General Reserve in accordance with Resolution No. 4/1992;
- US\$3,750,000 to be paid as dividend at the rate of US\$3.75 (2006: US\$3.00) per subscribed and paid up share of US\$100 par value;
- US\$800,000 to be transferred to the Reserve for Loss Fluctuation in line with the approved self insurance scheme
- The balance of US\$12,473,852 to be carried forward.



Operations

African Reinsurance Corporation

Gross Loss Ratio by Class - Financial Year 2007 CURRENCY: US\$M

CLASS OF BUSINESS	REGIONAL BUSINESS			INTERNATIONAL INWARD			TOTAL CORPORATE		
	Loss Incurred	Earned Premium	Loss Ratio %	Loss Incurred	Earned Premium	Loss Ratio %	Loss Incurred	Earned Premium	Loss Ratio %
Fire & Accident (Including Eng)	165.61	275.78	60.05	19.08	12.72	150.0	184.69	288.50	64.02
Marine & Aviation	24.09	58.44	41.22	4.70	8.06	58.31	28.79	66.50	43.29
Life	8.13	11.40	71.32	-	-	-	8.13	11.40	71.32
Total	197.83	345.62	57.24	23.78	20.78	114.44	221.61	366.40	60.48

Loss Experience By Trading Area

The gross incurred loss ratio of the South African production centre (run-off and subsidiary) was 71.70%, an increase from the 60.52% in 2006, due to the return of weather hazards and the softening of the direct market. The net ratio of 73.95% for 2007 was also higher than that of the previous year (69.23%).

With no major losses, Anglophone West Africa's gross and net incurred claims ratios were quite low at 26.81% and 35.96%, respectively, compared to 53.68% and 70.60% in 2006.

East Africa's claims experience was just slightly higher than last year's with a gross of 46.98% (2006: 45.90%) and a net of 48.67% (2006: 48.07%).

In the last two years, the Maghreb region has witnessed an improved claims experience with gross ratios falling from 74.21% in 2005 to 45.74% in 2006 and 39.82% in 2007. The net claims ratios followed the same trend from 103.35% in 2005 to 52.69% in 2006 and 42.23% in 2007.

The Francophone West and Central Africa gross incurred claims ratio was 35.05%, a far decent result to the 63.10% of 2006 which was marked by a few major losses. The net ratio was 32.72% compared with 78.26% in 2006.

The North East African region's gross ratio of 56.28% (2006: 63.02%) and net ratio of 64.12% (2006: 67.58%) showed some improvement over 2006.

The claims experience of the African Indian Ocean islands deteriorated from a gross ratio of 21.26% in 2006 to 61.08% in 2007 and from a net ratio of 29.77% in 2006 to 63.22% in 2007. It should be noted that the 2007 ratios were more in line with the trend in the region.

The gross and net incurred loss ratios of the international operations, at an average of 114.49% and 116.12%, respectively deteriorated compared with 2006 ratios of 67.98% (gross) and 71.89% (net). The main reasons for these high ratios were two large losses in Asia reported in 2007, namely, Kumho Chemical and Senoko Power both totaling US\$1.32 m as well as Cyclone Gonu in Oman causing havoc to the tune of US\$3.35m.

Commission and Charges

During the period under review, gross commission and charges including movement in deferred acquisition costs amounted to US\$93.37million (2006: US\$75.96million), while recoveries from retrocessionaires stood at US\$3.01million (2006: US\$5.32million). As a result, net commission and charges increased from US\$70.64 million in 2006 to US\$90.36million in 2007, with corresponding reduction in the net ratio from 29.13% to 28.44%.

RESULTS OF THE 2007 FINANCIAL YEAR

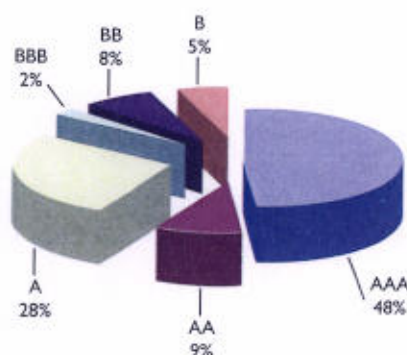
Gross written premium for the year amounted to US\$369.51 million, representing a 25.90% improvement over the US\$293.49 million reported in 2006. The performance cuts across practically all the production centres due to the continued weakness of the U.S. Dollar, increased share and the disciplined underwriting of facultative business resulting in a higher volume of written premium, even though the advent of the soft market meant that premium rates came under pressure or at best stabilized in most markets.

South Africa remains the Corporation's largest market with a total contribution of 42.27% to corporate premium and an improvement of 42.02% over its 2006 production. In addition to the 3% appreciation of the South African Rand against the U.S. Dollar, the strengthening of the



Compared to last year, the Corporation's fixed income portfolio fared better in 2007 registering a return of US\$5.06 million or 6.13% yield on average asset against the US\$2.75 million and 4.51% yield posted in 2006. The bulk of the results, US\$2.91 million came from the laddered Held-to-maturity bond portfolio which comprised fixed and floating rate securities. The actively managed portion accounted for the difference with the North American Portfolio gaining 5.0% against the benchmark return of 7.27% mainly due to quality and duration restrictions written into the contractual management agreement. The South African Rand portfolio also gained about 4.0% but underperformed the 5.2% benchmark returns primarily due to rebalancing the portfolio's duration with that of the benchmark in the wake of interest rate hikes.

The portfolio's value increased from US\$74.6 million in 2006 to US\$89.97 million in the year under review mainly from the Held-to-maturity securities on account of a US\$10million exposure in high yields African Eurodollar Bonds. Although the African issues are generally rated below investment grade instruments on the full international rating scale, they did not impact adversely on the entire portfolio quality which stood at AA- by the year end. The modified duration of the portfolio is broadly consistent with the average maturity of the technical liabilities at less than three years.



Cash Instruments

Cash instruments portfolio continued its dominance in corporate investment income in line with its significant weight in the overall asset allocation. The

portfolio's strong results of US\$17.32 million posted in the year compared to US\$12.27 million in 2006 did not occur without challenges in the face of the subprime turmoil. As part of the moves to checkmate the volatility as well as the credit and liquidity crunch that hit financial markets, the US Federal Reserve stepped in with a total of 100bps interest rate cut on three separate occasions to reduce the benchmark rate from 5.25% as at June 2007 to 4.25% by the year end. The European Commercial Bank on the other hand paused its rate hikes at 4.0%.

On the contrary, short term interest rates on the continent maintained an upward trend with the South African Repo, for instance ending the year at 11% from 9.5% at the beginning of the year. The high local currency interest rates combined with the robust liquidity growth recorded during the year and a weak US dollar strengthened the currency adjusted returns from this asset class to more than offset the adverse effect of the US interest rate cuts.

Other Operating Income

Other operating income comprises predominantly fees from the management of the Aviation and Oil & Energy insurance pools. Total income earned during the year amounting to US\$0.98 million represents 3.72% increase over the US\$0.94 million recorded in the prior year.

OUTGO

Losses

The total claims paid amounted to US\$160.07 million (2006: US\$137.16 million) representing a paid claims ratio of 43.32% (2006: 46.73%). Incurred losses, on the other hand, made up of paid claims and movement in outstanding claims provision (US\$61.54 million as against US\$19.91 million in 2006) amounted to US\$221.61million (US\$157.07 million in the previous year).

The following table provides some useful insights into the foregoing indicators:



Operations

African Reinsurance Corporation

Afreximbank and Shelter Afrique therefore reduced to US\$2.35million compared to US\$2.50 million in 2006. By its investment in private equity funds, Africa Re is fulfilling one of its fundamental objectives of contributing to the economic development of the continent.

Income from the private equity portfolio during the year amounted to US\$279,189 made up of US\$70,766 dividend income and US\$208,422 realized gains from the sale of the two insurance companies. The dividend payments were made by AGF Assurance Vie of Cameroon, SONA Vie of Mali and the two development finance institutions mentioned above.

Rental income from the lettable spaces in the three office buildings in Lagos, Nairobi and Casablanca recorded a remarkable 61.21% growth from US\$1.16 million in 2006 to US\$1.87 million. Whilst returns from the real estates have proved very attractive over the years, it is not the Corporation's desire to increase its exposure beyond the present investment in the near term. This is consistent with its policy of investing in such projects only when a compelling case for its own office accommodation needs has been established.

Equities

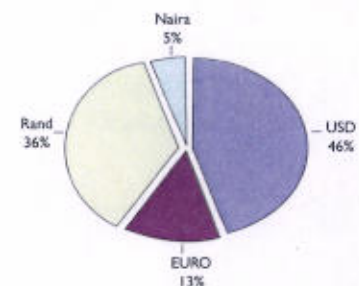
Stock markets succumbed to the unpleasant news of massive write-offs by large financial institutions of sub-prime investments although overall results were not severely affected. The broad US equity market index, the S&P 500 posted a moderate return of 5.49%, while the narrower blue-chip focused Dow Jones Industrial Average advanced 8.8%. European markets, measured by the MSCI Euro, also slipped during the year but ended with a decent 6% gains, with Germany DAX 22.30% leading the gains chart on account of export boom.

On the contrary, the impact of the sub-prime crisis was less noticeable in most emerging markets, particularly in Africa due to stronger policy frameworks, rising inter-regional trade, high commodity prices and the time lag for it to filter through. The MSCI emerging market index went up by nearly 40% on account of rising commodity prices and weak US dollar. Activities on the continent's major stock markets

also remained bullish with star performances coming from Nigeria 74.7%, the highest in nearly a decade, following a successful banking and insurance sectors reforms and Egypt CASE 30 index 51.3%. The South African large capitalized stocks index, JSE Top 40 sustained its bullish drive for the third consecutive year to post 21.78%.

In the light of the above, the Corporation's North American, European and African based actively managed equity portfolios posted a net return of US\$1.88million representing a yield of 9.65% compared to a composite benchmark of 10.84%. The North American portfolio slipped with a loss of 0.39% against 0.67% composite benchmark positive return comprising Russell 1000 value and S&P 500 indices. The Euro currency portfolio was restructured in the later part of the year from a segregated and discretionary portfolio into a fund based approach and in the process suffered a loss of nearly 3% essentially from transaction costs. The Rand portfolio in South Africa outperformed the JSE top 40 index by 2.8% whereas the small Naira portfolio in Nigeria underperformed the benchmark.

Currency Composition of US\$32m Active Equity Portfolio



Bonds and Other Fixed Income

The US fixed income market measured by the investment grade Lehman Brothers Aggregate Bond Index performed very well by returning 7.0% to outperform US stocks for the first time since 2002. Investors' growing concerns about the outlook of the US economy led to a flight to quality as they sought for a safe haven from the widespread subprime contagion. The action benefited Treasury securities to rally high and registered 9.0% return for the year.



INVESTMENT INCOME BY ASSET CLASS - US\$ MILLION

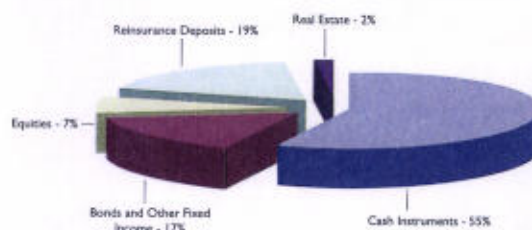


The breakdown of the investment income shows that short-term money market instruments edged up 8.52% to US\$17.32 million from the US\$15.96 million recorded in the previous year, despite successive interest rate cuts by the US Federal reserve in the wake of the subprime crisis. Equity performance slipped to US\$2.15 million (2006: US\$4.5 million), down by 52.20%, whilst earnings from Bonds and other Fixed Income portfolio closed the year with an impressive 84.67% growth to US\$5.06 million (2006: US\$2.74 million) driven mainly by the laddered Held-to-maturity bond portfolio and the moderate exposure to African trade finance risks. For the second consecutive year, there was an increase in the rent from property letting which leaped to US\$1.87 million (2006: US\$1.16 million) whilst interest on reinsurance deposits registered a 4% decline to \$1.68 million.

Corporate financial assets witnessed tremendous growth in 2007 leading to a 12.22% rise in total investment portfolio value (inclusive of investment property and reinsurance deposits) to US\$537.29 million from the US\$478.77 million reported in 2006. Whilst significant efforts were made to realign the Corporation's asset allocation in line with planned targets, the robust growth in financial assets and the uncertainty that characterised global markets during the second half of the year dampened the achievement of that goal.

As a result, the composition of the total investment portfolio remained relatively unchanged from the previous years' weights, except for Bonds and other fixed income securities which reduced by 1% to 17% in favour of equities which inched up to 7%.

Composition of investment as of December 2007



Long Term Investments

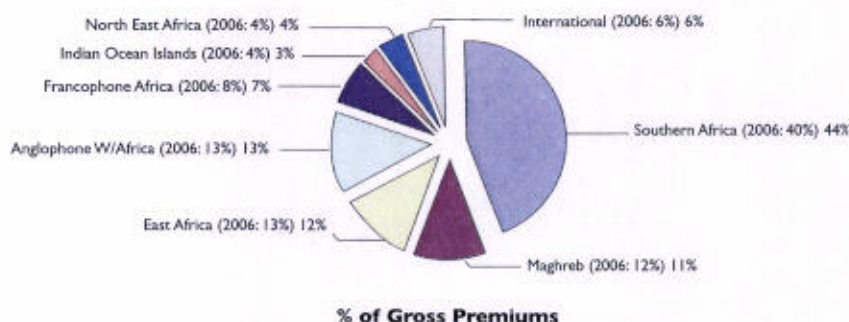
During the year, the Corporation successfully exited from two of its private equity holdings; La Citoyenne of Cameroun and SONA Vie of Mali, whilst Atlantic Coast Regional Fund (ACRF) was added to the private equity portfolio with a US\$2million capital commitment. ACRF is a private equity fund targeting private equity and related investments on the African continent. The transactions are part of the ongoing restructuring program aimed at repositioning the private equity portfolio to become much more profitable and contribute meaningfully to long term corporate investment income.

Total capital commitment to private equity funds thus stood at US\$3million out of which US\$0.11million in respect of the Capital Alliance Private Equity II (CAPE II) Fund were disbursed during the year, bringing its cumulative disbursements to US\$0.51million. Net Book Value of the total private equity portfolio, inclusive of the two development finance institutions,



Operations

African Reinsurance Corporation



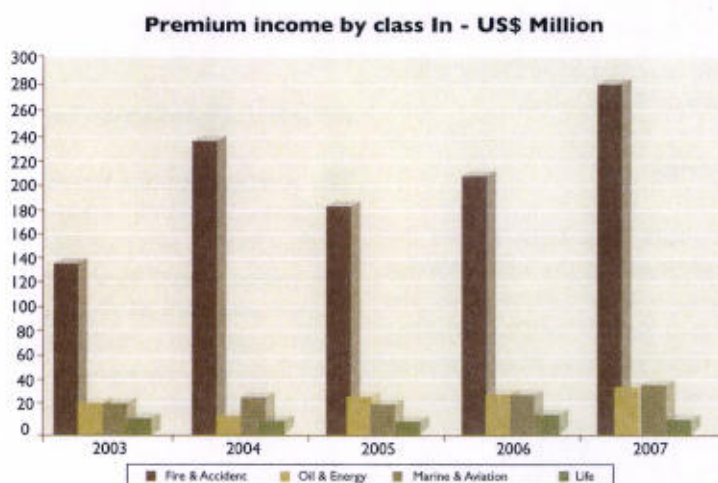
SECTORAL DISTRIBUTION

With 77.76% of the Corporation's production income, the Fire and Accident classes continued to generate the largest inflow with a written premium income of US\$287.34 million (2006: US\$217.13 million or 73.98%). Marine and Aviation classes came second followed by the Oil and Energy class which

produced US\$37.49 million or 10.15% (2006: 11.31%) and US\$34.97 million or 9.46% (2006: 11.10%) of corporate income, respectively.

Income from Life business dropped from US\$10.60 million or 3.61% in 2006 to US\$9.71 million or 2.63% of the corporate income, due to the cancellation of certain unproductive business.

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



INVESTMENT INCOME

The Corporation's investment portfolio recorded yet another successful year in 2007, despite the strong volatility that engulfed global financial markets from the meltdown of the U.S. sub-prime mortgage market. Whilst some firms including insurance companies lost heavily from direct exposure to subprime mortgage loans and related securities, the Corporation ended the year without any of such losses due to its prudent investment selection restrictions. The only loss suffered however was from the indirect impact

on general stock market declines which affected the small actively managed portfolios in North America and Europe.

Accordingly, total investment income amounted to US\$28.07 million, representing a 25.12% increase over the 2006 results of US\$22.44 million; comprising US\$24.52 million returns from financial assets (2006: US\$19.59 million) representing 25.17% growth rate and US\$3.55 million from non-financial assets, up by 30.37%. Yield on financial assets for the year also went up to 7.30% compared to 6.46% recorded in 2006.



GEOGRAPHICAL DISTRIBUTION

Africa Re continues to provide first class capacity to its loyal trading partners on the continent and beyond. The Corporation's positive technical balances over the years, the secure ratings from reputable agencies, as well as the trust of its shareholders, including international bodies with proven pedigree lend credence to its client loyalty.

Southern Africa

African Reinsurance Corporation (South Africa) Ltd, a fully owned subsidiary of Africa Re, has consistently posted the highest income since it started operations in 2004. This is in line with the size of the South African market which accounts for over 85% of Africa's insurance business. From US\$117.83 million in 2006, the production of the sub-region rose by 37.75% to US\$162.30 million, representing 43.93% (2006: 40.15%) of the Corporation's total income, although that performance was lower than the US\$165 million recorded in 2005. The acceptance of the subsidiary by the security panels of prominent reinsurance brokers in South Africa contributed to that performance. The appreciation of the Rand against the US Dollar added a further US\$4.83million to the turnover.

Anglophone West Africa

The uncertainty of available local capacity and the subsequent flight to safety during the consolidation process in Nigeria were a major impetus to the 30% increase over last year's income, yielding US\$48.69million or 13.18% (2006: US\$37.44 million or 12.76%) of the corporate turnover. The strengthening of the Naira to the US Dollar boosted the income of the West African region by US\$2.26million.

East Africa

The written income from East Africa rose by 15.28% to US\$43.14million (2006: US\$37.42million), representing 11.67% (2006: 12.75%) of the corporate premium income. In addition to the region's increase in facultative acceptances, about one third of the growth over last year's premium income was due to exchange rate variations.

Maghreb

The Maghreb region posted a premium income of US\$42.05million as against US\$36.29 million (i.e. 15.87% increase) in 2006, representing 11.38% of corporate total (2006: 12.36%). This was aided by an increased marketing drive as well as the appreciation of all the operating currencies within the sub region.

Francophone West and Central Africa

Francophone West and Central Africa wrote an income of US\$25.54 million (2006: US\$23.11million) which translates to a growth of 10.51% over the year and 6.91% (2006: 7.87%) of Africa Re's total income for 2007. This growth was as a result of the 10.87% appreciation of the FCFA.

North East Africa

North East Africa accounted for 4.24% (2006: 4.59%) of the total income of the Corporation, with US\$15.68 million (2006: US\$13.46 million). The upgrade of the Cairo office to regional status was responsible for the growth of 16.49% over 2006 figures.

African Indian Ocean Islands

The written premium from these islands rose by just 2.78% to US\$11.08 million in 2007 translating to 3.00% (2006: 3.67%) of the corporate production. The region would have fallen short of the previous year's income of US\$10.78 million but for the impact of exchange rate variations to the tune of 10.27% of 2007 income. Intense competition and the conversion of some proportional treaties to excess of loss covers were mainly responsible for the modest result.

International Business

Written income from Africa Re's international business grew from US\$17.16 million (5.85% of corporate total) in 2006 to US\$21.03 million in 2007, which translated to 5.69% of corporate income. 55.07% of the business emanated from the Middle East, while 36.80% came from other parts of Asia and the balance (8.13%) from the Aviation & Energy Pools managed from the Head office. The 22.55% increase over last year's performance is further evidence that the corporation is steadily making inroads into the Middle East and Asia.



Deloitte.

S.A. au capital de 37 500 000 FCFA
Compte contribuable 9104634 A RC Abidjan 156548
Imm. Alpha 2000 - 14^e et 18^e Etage
Rue Gourgas - Plateau
01 B.P. 224 Abidjan 01 - Côte d'Ivoire
Tel.: (225) 20.25.02.50
Fax: (225) 20.21.84.46 / 20.25.02.80
www.deloitte.com

**REPORT OF THE EXTERNAL AUDITORS TO THE SHAREHOLDERS
OF AFRICAN REINSURANCE CORPORATION
FINANCIAL STATEMENTS AS AT 31 DECEMBER 2007**

We have audited the accompanying financial statements of the African Reinsurance Corporation (AFRICA RE), which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the African Reinsurance Corporation (AFRICA RE) as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche

Deloitte & Touche
Abidjan, Côte d'Ivoire
11 April 2008



Consolidated Balance Sheet

African Reinsurance Corporation

at 31 December 2007

ASSETS	Notes	2007	2006
		US\$'000	US\$'000
Cash and cash equivalents		22,994	22,587
Investments	3	504,831	396,653
Premium income receivable		14,422	11,649
Deferred acquisition costs	4	22,540	20,771
Reinsurance receivables	5	68,768	64,400
Retrocessionaires' share of technical provisions	6	8,135	7,911
Sundry receivables		5,216	3,650
Investment property	7	9,469	9,537
Property, plant and equipment	8	12,191	11,902
Total assets		668,566	549,060

These consolidated financial statements were authorised for issue by the Board of Directors of the Corporation on 14 April, 2008 and signed on its behalf by:

Musa AL NAAS
Chairman

Bakary KAMARA
Managing Director

The accompanying notes form an integral part of these statements.

Consolidated Balance Sheet

at 31 December 2007



		2007 US\$'000	2006 US\$'000
Liabilities			
Current income tax		86	854
Sundry payables		8,419	7,014
Reinsurance payables	9	58,959	53,163
Deferred tax	10	777	710
Technical provisions	11	369,523	293,450
Total liabilities		437,764	355,191
Shareholders' equity			
Retained earnings		45,407	32,183
Other reserves	12	71,962	48,253
Share premium		13,433	13,433
Share capital	13	100,000	100,000
Total shareholders' equity		230,802	193,869
Total liabilities and shareholders' equity		668,566	549,060

These consolidated financial statements were authorised for issue by the Board of Directors of the Corporation on 14 April, 2008 and signed on its behalf by:

Musa AL NAAS
Chairman

Bakary KAMARA
Managing Director

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



Consolidated Income Statement

African Reinsurance Corporation

for the year ended 31 December 2007

	Notes	2007 US\$'000	2006 US\$'000
Gross earned premium	14	366,400	280,980
Less: retrocession premium		(36,714)	(38,513)
Net earned premium		329,686	242,467
Investment income	15	28,073	22,439
Commissions earned under retrocession arrangements		3,059	4,964
Other operating income	16	972	941
Total income		361,790	270,811
Net claims incurred	17	(215,704)	(155,470)
Acquisition expenses		(93,424)	(75,604)
Administrative expenses	18	(16,445)	(12,840)
Finance costs – exchange losses		(1,015)	(424)
Profit before income tax		35,202	26,473
Income tax expense	19	(1,154)	(1,591)
Profit for the year		34,048	24,882

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



Consolidated Statement of Changes in Equity

for the year ended 31 December 2007

African Reinsurance Corporation

	Retained earnings	Translation reserve	General reserve	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
At 1st January 2007	32,183	(1,848)	40,607	6,294	3,200	13,433	100,000	193,869
Net income recognised directly in equity								
- Currency translation differences	-	5,885	-	-	-	-	-	5,885
- Profit for the year	34,048	-	-	-	-	-	-	34,048
Total recognised income for 2007	34,048	5,885	-	-	-	-	-	39,933
Appropriation:								
Dividend declared on 2006 accounts	(3,000)	-	-	-	-	-	-	(3,000)
Transfer to reserves	(17,824)	-	17,024	-	800	-	-	-
At 31 December 2007	45,407	4,037	57,631	6,294	4,000	13,433	100,000	230,802

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



Consolidated Statement of Changes in Equity

for the year ended 31 December 2006

African Reinsurance Corporation

	Retained earnings US\$'000	Translation reserve US\$'000	General reserve 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 1st January 2006	22,266	(4,764)	28,166	6,294	3,200	13,433	100,000	168,595
Net income recognised directly in equity	-	2,916	-	-	-	-	-	2,916
- Currency translation differences	-	-	-	-	-	-	-	-
- Profit for the year	24,882	-	-	-	-	-	-	24,882
Total recognised income for 2006	24,882	2,916	-	-	-	-	-	27,798
Appropriation:								
Dividend declared on 2005 accounts	(2,524)	-	-	-	-	-	-	(2,524)
Transfer to reserves	(12,441)	-	12,441	-	-	-	-	-
At 31 December 2006	32,183	(1,848)	40,607	6,294	3,200	13,433	100,000	193,869

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

Consolidated Cash Flow Statement

for the year ended 31 December 2007



	Notes	2007 US\$'000	2006 US\$'000
Operating activities			
Cash generated from operations	21	81,856	45,701
Income tax paid		(1,878)	(1,966)
Net cash from operating activities		79,978	43,735
Investing activities			
Purchase of property and equipment		(1,630)	(1,861)
Purchase of investments		(82,651)	(40,711)
Proceeds from disposal of property and equipment		189	36
Net cash on investing activities		(84,092)	(42,536)
Financing activities			
Dividends paid		(2,683)	(2,211)
Net cash from financing activities		(2,683)	(2,211)
Net decrease in cash and cash equivalents		(6,797)	(1,012)
Movement in cash and cash equivalents:			
At start of year		22,587	28,370
Net decrease as above		(6,797)	(1,012)
Exchange gains / (losses) on cash and cash equivalents		7,204	(4,771)
At end of year		22,994	22,587

The accompanying notes form an integral part of these financial statements



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2007

1. General information

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 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 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. 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 and comply with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards 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 company'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 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 requires Management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amount of income and expense during the reporting period.

A significant degree of judgement has been used in the determination of the adequacy of provision for outstanding claims and claims incurred but not reported at the balance sheet



date. In addition, the consolidated income statements include 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 analysis 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 contracts 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 insured for contracts in force at the end of the period. Where statements of insurance contracts 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 balance sheet 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 balance sheet 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 company's estimated ultimate costs of settling all claims incurred but unpaid at the balance sheet date whether reported or not and related claim handling expenses. Outstanding claims that have occurred at the balance sheet date and have been notified to the company by the cedants are carried at their face value. Adequate provisions are also made for claims incurred, but not reported at the balance sheet 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



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2007

8 Property, plant and equipment

	Assets under construction US\$'000	Buildings & freehold land US\$'000	Fittings & equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
Year ended 31 December 2007:					
Net book value at 1 January 2007	383	8,147	3,144	228	11,902
Additions	702	33	716	84	1,535
	1,085	8,180	3,860	312	13,437
Reclassifications/Transfers	(545)	-	457	88	-
Disposals (Cost)	-	-	(518)	(78)	(596)
Disposals (Accumulated Depreciation)	-	-	363	77	440
Depreciation	-	(275)	(694)	(121)	(1,090)
Net book value at 31 December 2007	540	7,905	3,468	278	12,191
Comprising:					
Cost	540	9,006	8,645	784	18,975
Accumulated depreciation	-	(1,101)	(5,177)	(506)	(6,784)
	540	7,905	3,468	278	12,191
Year ended 31 December 2006:					
Net book value at 1 January 2006	2,109	9,396	2,301	261	14,067
Additions	1,069	-	729	63	1,861
	3,178	9,396	3,030	324	15,928
Reclassified to investment property	-	(3,089)	-	-	(3,089)
Reclassifications/Transfers	(2,795)	1,988	807	-	-
Disposals (Cost)	-	-	(27)	(97)	(124)
Disposals (Accumulated Depreciation)	-	-	27	97	124
Depreciation	-	(148)	(693)	(96)	(937)
Net book value at 31 December 2006	383	8,147	3,144	228	11,902
Comprising:					
Cost	383	9,136	7,945	690	18,154
Accumulated depreciation	-	(989)	(4,801)	(462)	(6,252)
	383	8,147	3,144	228	11,902

Included in buildings and freehold land is a total amount of US\$4,807,725 (2006:US\$4,863,422) representing the carrying amount of the owner-occupied part of Group's headquarters building in Lagos and regional office buildings in Nairobi and Casablanca.

9 Reinsurance payables

	2007 US\$'000	2006 US\$'000
Payables under reinsurance arrangements	39,713	41,499
Payables under retrocession arrangements	19,246	11,664
	58,959	53,163

**10 Deferred tax**

Deferred tax is calculated in full using the liability method and applying a principal tax rate of 29% (2006: 30%). The movement on the deferred tax account is as follows:

	2007 US\$'000	2006 US\$'000
At 1st January	710	734
Exchange Rate impact on opening balance	23	(74)
Income statement charge (Note 19)	44	50
	777	710

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

	01.01.07 US \$'000	Charged US \$'000	31.12.07 US \$'000	31.12.06 US \$'000
Property and equipment	42	-	42	46
Unrealised gain on revaluation of investments	668	44	712	738
Exchange Rate impact on opening balance	23	-	23	(74)
Net deferred tax liability	733	44	777	710

11 Technical provisions**i) Outstanding claims and unearned premium**

	2007 US\$'000	2006 US\$'000
--	------------------	------------------

Provision for outstanding claims	227,958	176,261
Provision for claims incurred but not reported	43,646	32,263
Cumulative translation reserve	12,588	3,519

Total outstanding claims	284,192	212,043
Provision for unearned premium	85,331	81,407

	369,523	293,450
--	----------------	----------------

Comprising:

- current portion	184,340	140,621
- non-current portion	185,183	152,829

	369,523	293,450
--	----------------	----------------



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2007

	2007			2006		
	Gross US\$'000	Retrocession US\$'000	Net US\$'000	Gross US\$'000	Retrocession US\$'000	Net US\$'000
Fire and Accident	288,501	(14,526)	273,975	222,767	(21,991)	200,776
Marine and Aviation	66,501	(22,188)	44,313	48,925	(16,522)	32,403
Life	11,398	-	11,398	9,288	-	9,288
	366,400	(36,714)	329,686	280,980	(38,513)	242,467

	2007 US \$'000	2006 US \$'000
15 Investment income		
Interest income	22,978	15,961
Interest on reinsurance deposits	1,678	1,754
Rental income	1,867	1,155
Dividends from equity investments	684	500
Realised Gains on Investments	723	1,848
Fair value gains from investments at fair value through profit and loss	455	1,549
Management fee	(312)	(328)
	28,073	22,439

16 Other operating income

Fee income	934	879
Gain on disposal of property and equipment	32	36
Sundry income	6	26
	972	941

17 Claims incurred

	2007			2006		
	Gross US\$'000	Retrocession US\$'000	Net US\$'000	Gross US\$'000	Retrocession US\$'000	Net US\$'000
Claims incurred by principal class of business						
Fire and Accident	184,692	(2,225)	182,467	129,899	(199)	129,700
Marine and Aviation	28,786	(3,680)	25,106	19,839	(1,398)	18,441
Life	8,131	-	8,131	7,329	-	7,329
	221,609	(5,905)	215,704	157,067	(1,597)	155,470



18 Other operating expenses	2007 US \$'000	2006 US \$'000
Staff costs	9,484	6,497
Auditors' remuneration	177	153
Depreciation	1,253	1,134
Impairment charge on reinsurance receivables	1,067	937
Operating lease rentals	270	159
Repairs and maintenance expenditure	468	491
Consultancy fees and expenses	251	369
Travel costs and allowances	523	459
General Assembly and Board of Directors' meetings	509	533
Others	2,443	2,108
	16,445	12,840

Staff costs include retirement benefit costs amounting to US\$1,124,468 (2006: US\$534,740).

19 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 :

	2007 US\$'000	2006 US\$'000
Current income tax	1,110	1,525
Prior year under provision for income tax	-	16
Deferred income tax (Note 10)	44	50
	1,154	1,591

20 Dividends

At the Annual meeting of the General Assembly to be held on 26 June, 2008, a final dividend in respect of the year ended 31 December 2007 of US\$3.75 (2006: US\$3.00) per share on 1,000,000 qualifying shares amounting to a total of US\$3,750,000 (2006: US\$3,000,000) is to be proposed. The dividend declared at the 2007 AGM was charged to shareholders' equity in these financial statements. The liability for the dividend payable on the 2007 results shall be treated as an appropriation of profit in the financial statements for the year ending 31 December 2008.



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2007

21 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2007 US\$'000	2006 US\$'000
Profit before tax	35,202	26,473
Adjustments for:		
Depreciation	1,253	1,134
Profit on sale of property and equipment	(32)	(36)
Change in fair value of financial assets	(455)	(1,550)
Changes in:		
- reinsurance payables	71,719	43,092
- reinsurance receivables	(24,016)	(10,300)
- other payables	1,519	(10,285)
- other receivables	(3,334)	(2,827)
Cash generated from operations	81,856	45,701

22 Related party transactions and balances

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

	2007 US\$'000	2006 US\$'000
ii) Remuneration of key management personnel		
Directors' fees (Non executive directors)	135	126
Other remuneration (Elected members of management)		
- Salaries and other short term benefits	895	632
- Terminal benefits	241	75

23 Management of insurance and financial risk

Insurance risk

African Reinsurance 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 as well as with an 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

The Corporation in the normal course of business 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 manual. 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 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 2007 to the earlier of the repricing or contractual maturity date.



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2007

At 31 December 2007

(IN US\$'000)

FINANCIAL ASSETS

	Up to 1 year	1 - 2 years	2 - 3 years	3 - 4 years	Over 4 years	Total
Cash and cash equivalents	22,994	-	-	-	-	22,994
Reinsurance receivables	23,169	17,467	17,490	2,324	8,318	68,768
Investments:						
- Bank deposits	279,860	-	-	-	-	279,860
- Deposits with ceding companies	25,127	22,893	11,016	7,987	34,424	101,447
- Fixed rate securities at fair value	4,700	4,138	4,133	3,124	27,703	43,798
- Fixed rate securities at amortised cost	6,492	3,509	2,983	1,098	21,457	35,539
- Floating rate securities at cost	-	703	5,382	-	4,545	10,630
Total	362,342	48,710	41,004	14,533	96,447	563,036

FINANCIAL LIABILITIES

Current income tax	86	-	-	-	-	86
Reinsurance payables	34,701	5,012	3,278	2,698	13,270	58,959
Outstanding claims	109,858	49,496	33,316	18,161	73,361	284,192
Total	144,645	54,508	36,594	20,859	86,631	343,237

At 31 December 2006

(IN US\$'000)

FINANCIAL ASSETS

	Up to 1 year	1 - 2 years	2 - 3 years	3 - 4 years	Over 4 years	Total
Cash and cash equivalents	22,587	-	-	-	-	22,587
Reinsurance receivables	21,929	17,321	6,935	6,809	11,406	64,400
Investments:						
- Bank deposits	214,449	-	-	-	-	214,449
- Deposits with ceding companies	17,890	18,634	8,827	10,021	28,207	83,579
- Fixed rate securities at fair value	8,262	7,277	2,592	9,996	12,769	40,896
- Fixed rate securities at amortised cost	998	6,460	2,507	1,999	5,512	17,476
- Floating rate securities at cost	6,743	-	2,755	6,727	-	16,225
Total	292,858	49,692	23,616	35,552	57,894	459,612

FINANCIAL LIABILITIES

Current income tax	838	16	-	-	-	854
Reinsurance payables	20,620	7,649	2,106	8,910	13,878	53,163
Outstanding claims	57,479	64,722	31,881	16,527	41,434	212,043
Total	78,937	72,387	33,987	25,437	55,312	266,060

Notes to the Financial Statements

for the year ended 31 December 2007



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. Africa Re does not apply hedging techniques in mitigating 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 about 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 (all amounts expressed in US Dollars):



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2007

At 31 December 2007:
(in US\$'000)

ASSETS

	USD	RAND	MAD	CFA/ EUR	EGP	NGN	KSH	MUR	OTHERS	TOTAL
Cash and cash equivalents	8,737	5,827	572	2,785	864	789	1,250	654	1,516	22,994
Reinsurance receivables	15,397	7,068	4,513	13,300	1,852	7,513	6,011	1,795	11,319	68,768
Investments										
- Bank deposits	126,397	110,058	2,534	24,992	642	4,184	580	1,595	8,828	279,860
- Deposits with ceding companies	5,917	11,853	24,485	25,370	4,587	16	1,121	96	28,002	101,447
- Fixed rate securities at fair value	20,316	16,341	-	4,219	-	-	-	-	2,922	43,798
- Fixed rate securities at amortised cost	31,476	-	-	4,063	-	-	-	-	-	35,539
- Floating rate securities at cost	10,630	-	-	-	-	-	-	-	-	10,630
- Equity investments at fair value	14,140	11,211	-	4,200	-	1,567	-	-	83	31,201
- Equity investments at amortised cost	1,930	-	-	40	-	386	-	-	-	2,356

Total 234,940 162,358 32,104 78,969 7,945 14,455 8,962 4,140 52,720 596,593

LIABILITIES

Current income tax	-	86	-	-	-	-	-	-	-	86
Reinsurance payables	33,056	5,256	831	5,520	955	421	1,016	142	11,762	58,959
Outstanding claims	75,964	90,203	18,366	22,150	7,225	6,913	8,661	7,642	47,068	284,192

Total 109,020 95,545 19,197 27,670 8,180 7,334 9,677 7,784 58,830 343,237



Notes to the Financial Statements

for the year ended 31 December 2007

At 31 December 2006:
(in US\$'000)

ASSETS

	USD	RAND	MAD	CFA/ EUR	EGP	NGN	KSH	MUR	OTHERS	TOTAL
Cash and cash equivalents	11,878	1,712	2,140	3,632	31	897	37	868	1,392	22,587
Reinsurance receivables	12,941	5,788	3,490	13,079	2,875	8,884	3,615	953	12,775	64,400
Investments										
- Bank deposits	98,812	81,225	-	17,154	2,626	734	1,384	2,188	10,326	214,449
- Deposits with ceding companies	9,901	1,375	22,271	20,527	2,622	15	1,236	97	25,535	83,579
- Fixed rate securities at fair value	19,730	13,969	-	3,997	-	-	-	-	3,200	40,896
- Fixed rate securities at amortised cost	17,476	-	-	-	-	-	-	-	-	17,476
- Floating rate securities at cost	16,225	-	-	-	-	-	-	-	-	16,225
- Equity investments at fair value	8,749	8,658	-	2,682	-	-	-	-	1,442	21,531
- Equity investments at amortised cost	1,820	-	-	290	-	386	-	-	-	2,496
Total	197,532	112,727	27,901	61,361	8,154	10,916	6,272	4,106	54,670	483,639

LIABILITIES

Current income tax	-	854	-	-	-	-	-	-	-	854
Reinsurance payables	11,754	11,168	1,221	4,213	62	397	708	206	23,434	53,163
Outstanding claims	45,163	55,698	19,045	23,340	1,982	15,213	11,701	5,282	34,619	212,043
Total	56,917	67,720	20,266	27,553	2,044	15,610	12,409	5,488	58,053	266,060



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2007

23 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 financial regulations prescribe minimum acceptable credit rating and maximum allowable exposure to any single counter-party.

The Corporation's fixed income portfolio is managed following 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. The Corporation's investment guidelines prescribe minimum levels of financial assets to be held in cash and cash instruments. Cash instruments include bank deposits of maturities 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 in stock prices. 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.

24 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.

**25 Commitments****(i) Capital commitments**

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

	2007 US\$'000	2006 US \$'000
Property and equipment	412	92

(ii) Operating lease commitments

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

	2007 US\$'000	2006 US\$'000
Not later than 1 year	79	114
Later than 1 year and not later than 5 years	91	174
	170	288



Appendix

African Reinsurance Corporation

Consolidated income statement by class of business

	Fire and Accident US\$'000	Marine and Aviation US\$'000	Life US\$'000	Total 2007 US\$'000	Total 2006 US\$'000
Underwriting income:					
Gross written premium	298,992	60,810	9,710	369,512	293,491
Gross earned premium	288,501	66,501	11,398	366,400	280,980
Retrocession premium incurred	(14,526)	(22,188)	-	(36,714)	(38,513)
Net earned premium	273,975	44,313	11,398	329,686	242,467
Commissions earned	902	2,157	-	3,059	4,964
Gross Claims paid	(136,952)	(17,215)	(5,898)	(160,065)	(137,161)
Gross Claims incurred	(184,692)	(28,786)	(8,131)	(221,609)	(157,067)
Less retrocessionaires' share of claims incurred	2,225	3,680	-	5,905	1,597
Net claims incurred	(182,467)	(25,106)	(8,131)	(215,704)	(155,470)
Commissions expense	(76,749)	(14,537)	(2,138)	(93,424)	(75,604)
Management expenses	(12,516)	(3,347)	(582)	(16,445)	(12,840)
Underwriting Profit	3,145	3,480	547	7,172	3,517
Net Investment and other income				29,045	23,380
Finance Costs – exchange losses				(1,015)	(424)
Profit before income tax				35,202	26,473
Income tax expense				(1,154)	(1,591)
Profit for the year				34,048	24,882