

**AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
29TH ANNUAL ORDINARY MEETING
KIGALI, RWANDA, 30TH JUNE 2007**

AFRICARE/GA/31/208



**AFRICAN REINSURANCE CORPORATION
SOCIÉTÉ AFRICAINE DE REASSURANCE
(AFRICA RE)**

Honourable Representatives
General Assembly
African Reinsurance Corporation

Date: 30th June 2007

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, 2006.

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

MUSA S.AL NAAS

Chairman of the Board of Directors and General Assembly



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Composition of Africa Re Board of Directors



Mr. J. J. Githaka
Vice-Chairman



Mr. M. Al Naas
Chairman



Mr. H. M. Seba



Mr. T. Tilahun



Mr. J. B. Kouame



Mr. T. El-Barki



Mr. A. Mounir



Mr. O. E. Chukwulozie



Mr. M. Dkhili



Mr. T. Turner



Mr. B. Tümmers



Mr. A. Alli

ALTERNATE DIRECTORS

Mr. Farag NASHNUSH, Mr. Pa Alieu SILLAH, Mr. Gamal HAMZA, Mr. MARAMI Kamel, Mr. ONONEMANG Georges, Mr. YAHYAOUI Thami, Mr. Paul T. TSALA, Mr. Bala ZAKARIYAU, Mrs. Nyamikeh KYIAMAH, Mr. Mukaila OJELADE, Mr. Christoph BOTH, Mr. George MANYERE



Chairman's Statement

African Reinsurance Corporation

The 29th Annual Report of the Board of Directors presents the Corporation's consolidated financial statements for 2006, including the balance sheet as at 31st December and the income statement 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.

The Corporation recorded a 14.77% increase in gross written premium at US\$293.49 million compared to US\$255.72 million in 2005. This growth was however, influenced mainly by the first time application of pipeline premium provisioning in 2004, as actual premium booked in 2006 (US\$337.85 million) grew by only 2.21% over the US\$330.55 million recorded in 2005. After adjusting for the movement in unearned premium provision, gross earned premium amounted to US\$280.98 million compared to US\$299.88 million in 2005.

Total Premium ceded to retrocessionaires during the year was US\$35.43 million as against US\$35.04 million in 2005. With the phasing out of the African surplus treaty, retro premium consists of the cost of the XL programme as well as additional covers purchased to protect the major oil and petrochemical risks accepted. Adjustment for the impact of the movement in the unearned premium provision produced an incurred retrocession cost of US\$38.51 million as against US\$20.74 million and US\$37.93 million booked in 2005 and 2004 respectively. The sharp increase in the incurred retro cost was on account of pipelining activities.

Paid losses, net of reinsurance recoveries, stood at US\$134.44 million (2005: US\$148.85 million). The adjustment for the movement in the outstanding claims (including IBNR) provisions produced a net incurred loss of US\$155.47 million compared to US\$196.30 million recorded last year, representing a decrease of 20.80%. The year 2006 was relatively good for the Corporation in terms of loss experience; there were very few major losses reported and they were smaller in magnitude compared to 2005



Mr. M. Al Naas
Chairman

when the Corporation recorded the highest single loss of US\$24 million in the Skikda (Algeria) fire incident.

Management expenses for the year amounted to US\$12.84 million compared to US\$11.15 million in 2005, an increase of 15.16%. This increase was mainly due to the expansion of the subsidiary office and the settlement of Cairo office as a full-fledged regional office. In terms of budget performance, the core operating expenses were within the budget.

Consequently, a net underwriting profit of US\$3.52 million was posted compared to US\$2.92 million in 2005, representing an improvement of 20.36%.

Income from investment and other sources, including interest on reinsurance deposits amounted to US\$23.38 million compared to US\$17.45 million reported in 2005, mainly due to the increase in financial assets, higher interest rates and the performance of the professionally managed equity and fixed income portfolios.

The cumulative translation adjustment, which is being accounted for as a separate component of the shareholders' funds, recorded an unrealised gain of US\$6.48 million for the year as against a loss of US\$14.0 million in 2005. The gain, largely due to the appreciation of the CFA and Morocco Dirham by 10.55% and 8.84% respectively, against the Corporation's reporting currency, the United States dollar, was partly offset by the 11.17% depreciation in the South African Rand. A total amount of US\$3.56 million (2005: US\$5.28 million) was transferred to the technical reserves. As a result, shareholders' funds as at 31st December, 2006 was US\$193.87 million (2005: US\$168.60 million), representing an increase of 14.99%.

The year 2006 was characterised by contrasting fortunes in the different economic blocs of the world. Indeed, while the North American economy (the United States and Canada) was running out of steam and that of Europe continued to be weighed down by budget deficits and the non-performance of



its industries, the emerging countries, led by China, recorded impressive growth.

The economic growth rate in Africa stood at 5%, with a sustained improvement in South-South co-operation, as the continent's exchanges with China quadrupled in four years.

The African insurance industry, which did not record significant losses in 2006, is now undergoing a softening of prices, terms and conditions. South Africa attracted enormous reinsurance capacity and companies from that country diversified their operations and ventured into several other African markets (Angola, Mauritius, Nigeria etc.).

If the changes initiated by the National Insurance Commission in Nigeria are vigorously pursued, they should radically transform the national insurance landscape.

The gross written premium of the African Reinsurance Corporation increased from US\$255.72 million in 2005 to US\$293.49 million in 2006, i.e. a growth of 14.77%. However, on the one-year accounting basis adopted two years ago by the Corporation, actual booked premium stood at US\$337.85 million (2005: US\$330.55 million), representing only a 2.21% growth. That confirms the step, which Management took in 2005, to consolidate production and sanitise the Corporation's portfolio in the next two years.

Compulsory cessions stood at 11%, a clear testimony to the Corporation's commercial dynamism, as income from this source accounted for almost 60% of corporate premium income (US\$36 million) a decade ago.

The Southern African sub-region maintained its lead over other regions in the corporate premium production as it accounted for 40.15% of total income (49.81% in 2005). This represents a gradual restoration of balance in the contribution of the various underwriting centres to the total portfolio.

Anglophone West Africa, which in 2001 recorded a premium income of US\$12.46 million – representing 14.64% of total premium – ranked second with US\$37.44 million, i.e. 12.76% of total production in 2006.

However, one of the main features of 2006 is the predominant share of investment income in the net profit. Indeed, with US\$22.44 million, that source of income represented 84.76% of the profit before tax of US\$26.47 million, which represents an increase of 35.10% over the 2005 result.

On your behalf, the Board would like to congratulate Management and staff for that excellent performance and for the reaffirmed financial strength rating from Standard & Poor's (Good: BBB+) and AM Best (Excellent: A- with the restoration of the stable outlook). However, the African Reinsurance Corporation, which is becoming more credible and visible from year to year, would still like to solicit the continuous support of its shareholders, cedants and partners all over the continent and the world.

Good governance has always remained the Corporation's commercial credo and will continue to enjoy a privileged position in its management preoccupations. The different tools (code of conduct) and organs (audit, management, investment, underwriting and disciplinary committees) at both the Board and Management levels, scrupulously play their roles, while transparency has remained the guiding principle in the decision making process.

In 2006, as in the previous years, the Corporation continued with its social responsibility as stipulated in articles 3, 4 and 32 of its Establishment Agreement, including training the staff of ceding companies and Supervisory Authorities and providing technical assistance in management to new entities or the older ones that may wish to consolidate their operations. Africa Re also manages the Aviation and Energy pools and has innovated ways of involving players from different markets in the pools' activities, so as to create the synergies needed for the organic growth of the African insurance industry.

The Corporation draws its human resources from a wide geographical spread (150 Staff from 22 countries), which accounts for its multicultural outlook to operations. That, combined with the competence of its experts and the professional diversity of the Board of Directors, enhances its versatility, a requisite attribute for all great institutions, and reaffirms its relevance in the international reinsurance market.



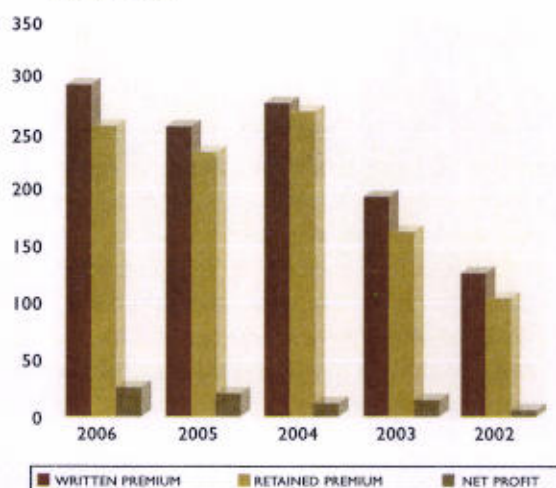
Financial Highlights

African Reinsurance Corporation

In US\$ '000	2006	2005	2004	2003	2002
RESULTS					
WRITTEN PREMIUM	293,491	255,716	277,928	198,123*	126,972*
RETAINED PREMIUM	258,066	238,535	268,956	164,232	104,267
EARNED PREMIUM (NET)	242,467	279,135	218,973	232,631	88,250
NET PROFIT	24,882	18,836	10,469	13,636	5,709
FINANCIAL POSITION					
SHAREHOLDERS' FUNDS	193,869	168,595	139,487	101,210	62,840
TOTAL ASSETS	549,060	501,106	506,589	393,131	215,851

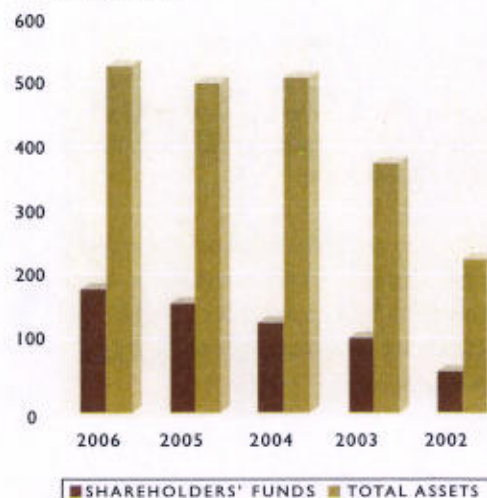
RESULTS 2002 - 2006

In US\$ Million



RESULTS 2002 - 2006

In US\$ Million



*Written premium for financial years 2004 – 2006 was computed on annual accounting basis in line with IFRS 4. The comparative figures for 2002 and 2003 financial years were booked premium based on fund accounting basis earlier in use.

Composition of Africa Re Management Team



Mr. Ganiyu Musa
*Deputy Managing Director
Services*



Mr. Ike Uduma
Director Internal Audit



Mr. Béné B. Lawson
*Regional Director
Abidjan*



Mr. Omar Gouda
Regional Director, Cairo



Mr. Mamadou Diallo
Acting Corporation Secretary



Mr. Bakary Kamara
Managing Director



Mr. Paul Ray
*Managing Director
Africa Re (South Africa) Ltd.*



**Ms. Elizabeth N.
Amadiume**
*Regional Director
Mauritius*



**Mr. Muhammed Ali-
Kote**
*Acting Director of Administration
and Human Resources*



Mr. Haile M. Kumsa
*Deputy Managing Director
Operations*



Mr. Alain G. Ravoaja
*Director Central Operations &
Inspection*



Mr. George Otieno
*Regional Director
Nairobi*



Mr. Ken Aghoghovbia
*Director West Africa &
Special Risks*



**Mr. Lazhar
Charffedine**
Regional Director Casablanca



Economic and Trading Environment

African Reinsurance Corporation

The year 2006 was characterized by contrasts in the economic situation and performances of different regions of the world and of countries within the same regional grouping. Sometimes, the difference lay in whether or not the country involved was an oil producer/exporter. Indeed, the emerging countries (and in particular China, India, Brazil, Russia and South Africa) seem to be leading the world economic train, as the American locomotive is fast running out of steam, the European engine is jerking, while the Japanese machine is becoming fragile.

Economic Downturn and Commercial Dynamism

For the third consecutive year, the world growth rate for 2006 was sustained at 5.1% (2005: 4.9% and 2004: 5.3%), due more to the performance of the emerging and developing countries (7.5%) than that of the industrialised nations (3.1%).

The downturn in the real estate market posed a threat to the American economy, which was further plunged into difficulty by the high price of oil (more than US\$65 per barrel) in the first half of the year.

Thus, while the United States, at 3.3% in 2006, recorded a slow down in growth, the Euro zone experienced a stagnation at 2.6%, whereas Japan slumped back to 2.4% after the slight improvement recorded in 2003, 2004 and 2005.

Despite the slowdown in the American economy due to the interdependence of the world economies, the growth in China persisted above the 10%, which it has constantly recorded over the last few years. This excellent performance was mainly due to the phenomenal increase in external trade, as a result of exports, which represented 40% of the Gross Domestic Product (GDP) in 2006. While India and Brazil, the other emerging countries and large consumers of energy and raw materials, recorded growth rates of 8.3% and 3.6% respectively, Russia and a number of African oil exporters grew by between 5.4% and 6.5%. Currently, the emerging and developing countries consume 30% of the world oil demand, account for 70% of exchange reserves, 50% of the world GDP (as measured against the purchasing power parity) and contribute up to 17%

of the Foreign Direct Investment with about US\$ 133 billion.

Companies from these countries were not left out, as they took advantage of the low production cost in their territories and the new financial windfall to export and increasingly achieve world scale transactions, thus rivalling long standing western competitors and indeed, acquiring the gem of the European, Canadian and American steel industries.

Thus, there was a consolidation of the South-South relationship, as China whose trade with sub-Saharan Africa quadrupled in four years accounted for up to 10% of African imports, while Brazil doubled its exchanges with the continent and abolished custom duties on imports from the poorest countries.

Sustained Growth of the African Economy

For the third consecutive year, Africa recorded an average growth of more than 5%, as a result of the oil boom and the increase in the prices of raw materials. That trend has been noticeable for the past six years in half of the countries of the continent that investors are now beginning to consider more favourably.

Indeed, a number of countries have implemented sound macro-economic policies, thereby improving the management of their assets and creating a more favourable climate for Foreign Direct Investment and therefore the birth of a private sector that can sustain durable development.

Whereas Angola, by dint of the increase in oil prices, recorded a growth rate of 15% and Sudan 8%, other producing countries (Algeria and Nigeria) took advantage of that opportunity to pay the bulk of their debt or embark on large social projects (Equatorial Guinea) or railway infrastructure (Nigeria). However, not all the success stories are traceable to the increase in oil prices. Indeed, countries such as Burkina Faso, Ghana, Mauritius, Mozambique and Tunisia – that have no oil - recorded remarkable economic progress due to the introduction or preservation of the rule of law and good governance, which are conditions that favour the blossoming of external investments. Indeed, if Africa is to achieve the Millennium Development Goals, especially the reduction of poverty by half



by the year 2015, it has to attain at least 7% GDP growth rate per annum. Undoubtedly, there are encouraging signs of economic well being, a prelude to sustainable development and the continent could further consolidate that effort if it decides to process the raw materials locally for added value and create small and medium scale industries so as to fill the gap that exists between the informal sector and the Multinationals that operate in the continent.

In addition to the above-mentioned countries, the case of others such as Libya needs to be highlighted. Following the lifting of embargo and the opening of its immense fields to American and European oil majors, that country now exports 1.7 million barrels per day (3 million in 2010) and recorded a growth rate of 5%.

On its part, Morocco expects a growth rate of between 6% and 7.3% - due to the boom in tourism (3.4 million visitors as against 2.8 million in 2005). Mauritania, following the discovery of oil off its coasts, expects a growth rate of 5% and Tunisia 4%.

In West Africa, apart from Burkina Faso (cotton), Ghana (gold and cocoa) and Nigeria which has already been referred to, Mali deserves a special mention following its average growth rate of 5.5% in the last ten years, which increased to 6% in 2006 and was attributable to a combination of factors such as good cotton and gold production as well as its judicious macro economic policy and transparent governance.

In Central Africa, with the Republic of Congo recording 9% growth rate due to oil export and the Democratic Republic of Congo attaining 7% together with the gradual extinction of the flames of the numerous conflicts that have characterised its history, there are hopes that the rehabilitation/construction of the Inga dams would make it the first hydroelectric super power in the continent in the coming years.

Despite the slight drop in the country's growth rate (4.5% in 2006 as against 5% in 2005), South Africa remains the main pole of economic attraction with a GDP of close to US\$ 200 billion, i.e. a quarter of the continent's. In addition, it continues to invest in other African countries in the areas of telecommunications,

mines, large-scale distribution and services (banks, hotels).

Kenya, the key economy in the Eastern region, recorded a growth of 6% in 2006 mainly due to tourism (15% increase in the number of visitors), despite the severe drought of 2005 and the acute successive flooding that followed. Except for Burundi (1%) which is in a post conflict situation, all the other countries recorded appreciable levels of growth (Rwanda: 5%, Uganda: 6% and Tanzania: 7%). In the Horn of Africa, Ethiopia led the pack with 9% due to agricultural production, which accounts for 62% of exports and close to 50% of the GDP.

In Egypt, there was also an increase in the growth rate which stood at 7% in 2006, from 5% in 2005 and 2004, despite an unemployment rate of 11% of the active population, while Foreign Direct Investment into that country amounted to US\$11 billion. In the African Indian Ocean Islands, Mauritius in spite of the rampant failure in the manufacturing sector (closure of textile and sugar factories), recorded a growth rate of 5% just like Madagascar (5%) and in contrast to Seychelles (-2%).

The other zones of operation of Africa Re, namely, the Middle East and Asia experienced different fortunes. While the political instability in the Middle East prevented the region from maximizing the benefits from oil income, Asia experienced a dynamism, which might result in an overheated economy, thus constituting a serious risk for the rest of the world, which is now driven by that continent.

Insurance Industry

While 2005 was characterised by natural catastrophes, which affected the Far East and the Gulf of Mexico and cost the international insurance/reinsurance community almost US\$75 billion in compensation, the year 2006 was relatively calm with regard to hurricanes and other major losses. Thus, the soft cycle, which all professionals had been expecting after the repair of the balance sheets of reinsurance companies, returned in the first half of the year under review. The second half of the year confirmed the trend, which was more or less serious depending on the particular market. Factors like the level of



Economic and Trading Environment

African Reinsurance Corporation

sophistication and the degree of competition of individual markets further aggravated the trend.

South Africa, which in 2006 generated 40% of the Corporation's income and accounted for more than 75% of the continent's premium income with US\$31.32 billion, recorded a growth of 12% in its non-life premium (US\$6.62 billion) compared to the previous year. However, this trend would have been more significant than the rate of penetration of 3.03% for this class of business, if income distribution had been more balanced. The premium growth recorded in the 1990's, a period that was characterized by serious competition that even led to rate cutting attests to that. Indeed, all indications seem to suggest a return to the era of commercial activism, which characterised the strategy of most of the players in the previous decade. The entry of various multinationals into this market corroborates this assertion, for a large number of players are sharing a stable volume of business or at best a slight increase. The positive results of 2004 and 2005, which were essentially due to the hard rate applied, the very positive behaviour of the local capital market together with the absence of catastrophe losses resulted in an appreciable return on investment. Thus, the situation increased the appetite of the international reinsurance market for South African business and engendered a return to the competition-induced lack of professionalism of the past. The trend, which began in the first quarter of 2005 and was slowed down during the third quarter of that year, following the hurricanes in the Gulf of Mexico, has been confirmed in 2006. Thus, the soft cycle has returned in full force and already after the first six months of the year, most insurers could hardly balance their accounts or, in fact, recorded technical losses, especially in the motor class.

Nigeria, which is the Corporation's second largest market, has since September 2005, embarked on a recapitalisation/restructuring process, which will, undoubtedly, radically transform the local insurance landscape, if it is vigorously pursued to the end. Indeed, by increasing the minimum capital from US\$1.5 million to about US\$ 25 million for direct underwriters and US\$2.5 million to US\$75 million for reinsurers, the National Insurance Commission expects a significant reduction in the number of players. Nevertheless, the accompanying measures taken, i.e. local content

policy in the oil and gas sector (45% in 2007 and 70% in 2010) and the increase in the minimum cover for Aviation insurance are such that could offer successful companies of this exercise the means to fully utilise their paid-up capital and produce an attractive return on equity for the investors that would be involved in the financial operation.

However, although one of the expected immediate effects would be the substantial increase in the retention capacity of insurers, thus reducing the volume of premium ceded to reinsurers, the ultimate consequence of the already mentioned accompanying measures would be the demand for reinsurance covers on the higher layers, as the sum insured for the peak risks would be very high and require larger and more sophisticated covers.

It has been noticed that strong and unbridled competition has returned to Kenya and Mauritius. The Egyptian market has grown reasonably, by 25% in Life insurance and 15% in non life and was dominated by the three direct parastatals that control 76% of the market share, despite the increasing involvement of private players, which could offer better designed and more attractive products. The decision to create a holding company to control all the parastatals (three insurers and one reinsurer) is a presage to significant changes in the Egyptian insurance landscape in the coming years, including the plan to privatise the companies.

The other key markets – such as the CIMA zone, Morocco, Algeria and Libya etc. – have remained rather stable. However, the Board and Management are of the view that the soft cycle observed in other markets would also affect most of the territories where the Corporation operates. That is why the option of prudent underwriting has been reinforced, which manifested in the consolidation of operational gains and the preservation of profitable market shares instead of a hasty growth of business whose quality might be lower than what Africa Re normally obtains. The Corporation intends to stick to this strategy in the coming years and, in any case, as long as the quality of risks appears inadequate to yield a reasonable profit that could ensure and sustain its organic development.



This section reviews the operating results of the Corporation for the year 2006 by analysing the growth in corporate premium on the basis of sectoral and geographical distribution as well as voluntary/ legal cessions. It also examines the impact of the retrocession covers on both the earned income and incurred losses in 2005 and 2006.

In the last few years, the Corporation has responded proactively to opportunities in the market by laying emphasis on Energy as a separate class of business as well as increasing strategically its network of offices in line with the dynamics of the business environment. Its present structure is considered appropriate in the medium term. Despite the turbulent business climate and structural changes, Africa Re has grown into a major player all over the continent and beyond. The Corporation has continued to adhere to the strictest underwriting practices in all its five regional offices, the subsidiary, and the West Africa production centre at its Headquarters.

Since 2005, acceptances have been re-classified as follows:

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

In order to achieve Africa Re's objectives of seeking profitable new markets and trading partners in Africa and certain Asian territories, as well as ensuring the closeness of its production centers to cedants for effective supervision of operations, production centers are classified as follows:

- 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)	2006			2005		
	Gross	Retro	Net	Gross	Retro	Net
INCOME						
Premium (less cancellations)	293,491	(35,425)	258,066	255,716	(17,181)	238,535
Change in unearned premium provision	(12,511)	(3,088)	(15,599)	44,160	(3,560)	40,600
Earned premium	280,980	(38,513)	242,467	299,876	(20,741)	279,135
OUTGO						
Losses paid	137,161	(2,721)	134,440	164,756	(15,903)	148,853
Change in outstanding claims provision (including IBNR)	19,906	1,124	21,030	26,940	20,507	47,447
Incurred losses	157,067	(1,597)	155,470	191,696	4,604	196,300



Operations

African Reinsurance Corporation

Premium Income

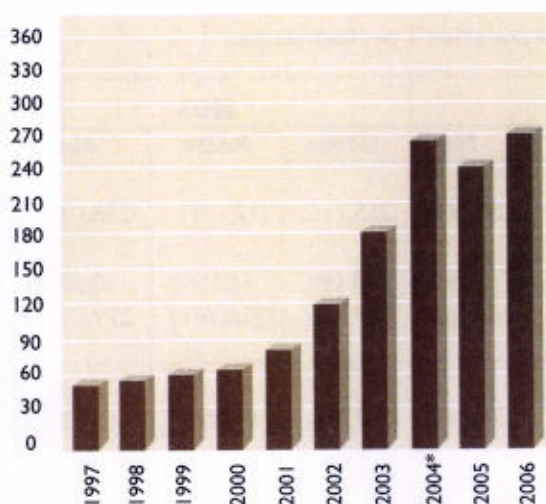
During the year under review, the Corporation's written premium income was US\$293.49 million, which translates to a growth of 14.77% over the 2005 figure of US\$255.72 million. It should be noted, however, that the booked premium income stood at US\$337.85 million as against US\$330.55 million in 2005.

As a result of exchange rate fluctuations, the overall corporate income dropped by US\$7.55m, due mainly to the depreciation of the Rand (a loss of US\$11.84m). Nevertheless, this was partly mitigated by the appreciation of the CFA Franc (a currency linked to the Euro).

Development of Gross Premium

The table below shows that between 1997 and 2004, Africa Re's income grew steadily following the opening up of many markets on the continent and in Asia. External factors such as the firming up of prices and the crises in major stock markets also contributed to that growth, which was achieved without a downside in operating results.

DEVELOPMENT OF GROSS PREMIUM INCOME IN US\$ MILLION

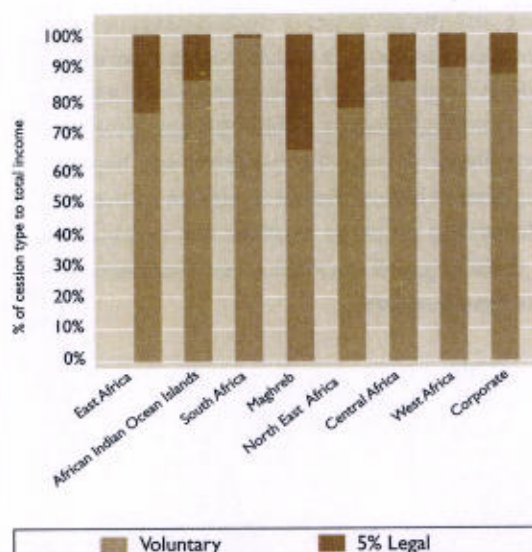


*First time application of one year accounting in 2004.

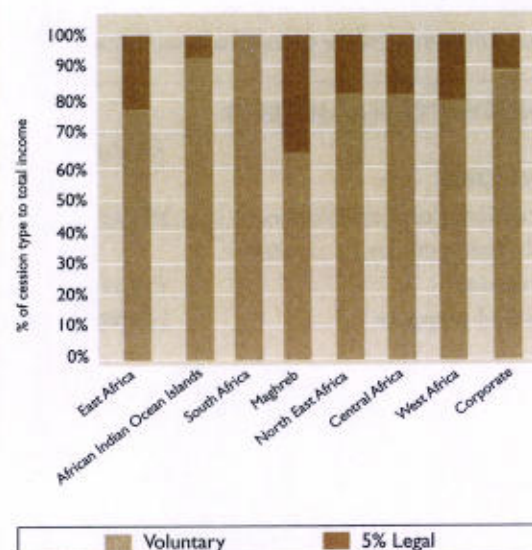
Voluntary Cessions

At this stage of its development with over thirty years of successful reinsurance service, Africa Re has weaned itself of its historical beginning, i.e. the over reliance on compulsory cessions. Within the last decade, voluntary cessions have increased from about 40% to stabilize at about 89%.

FINANCIAL YEAR 2006



FINANCIAL YEAR 2005





GEOGRAPHICAL DISTRIBUTION

In the changing world of reinsurance, Africa Re has demonstrated that its positive attributes, namely, its consistently good results, the loyalty of its trading partners, the strong security ratings as well as the quality and spread of shareholders are founded upon sound underwriting principles and a unique network of offices located in strategic markets on the continent. These enable the Corporation to offer first class services to its clientele in Africa, South Asia as well as the Middle and Far East.

Southern Africa

Since 2004 when the African Reinsurance Corporation (South Africa) Ltd commenced its operations, the Southern African region has, consistently, recorded the highest turnover with US\$117.83 million in 2006 (2005: US\$127.37 million), which represents 40.15% (2005: 49.81%) of the Corporation's total income. The drop in income was mainly due to the impact of the 11.17% depreciation of the Rand against the United States dollar.

Anglophone West Africa

Income from Anglophone West Africa increased from US\$21.92m in 2005 to US\$37.44 million in 2006 representing 12.76% of the corporate production. The apparent growth of 70.80% over the previous year was as a result of the first time application of pipeline income estimates at the end of 2004. On the basis of booked premium, the increase in 2006 was 27.38% over 2005.

East Africa

With 12.75% of the corporate premium income, production from East Africa rose from US\$26.80 million in 2005 to US\$37.42 million in 2006. In addition to increased Facultative acceptances, the first time application of pipeline income estimates contributed to the growth of 39.62%.

Maghreb

The Maghreb region consisting of five Northwest African countries recorded a premium of US\$36.29 million against US\$26.72 million in 2005, i.e. 12.36%

of corporate total. The year's income was partly boosted by the appreciation of the Algerian, Libyan, and Tunisian Dinar as well as the Moroccan Dirham against the United States Dollar. This growth was also due to an increased marketing drive.

Francophone West and Central Africa

This region's income of US\$23.11 million, which represents 7.87% of the corporate total, was slightly lower than the US\$23.42 million recorded in the previous year. The intense competition in the market outweighed the positive impact of a 10.55% appreciation of the CFA on production.

North East Africa

With a premium of US\$13.46 million, North East Africa accounted for 4.59% of the corporate income. This translates to an increase of 27.25% over 2005 income. The upgrading of the Cairo contact office to a full-fledged regional office contributed significantly to that impressive result.

African Indian Ocean Islands

Written premium from that region grew by 28.18% to US\$10.78 million as against US\$8.41 million in 2005, representing 3.67% of corporate production. However, compared to 2005, there was a 14.52% reduction in the business booked in 2006 as a result of:

- The intense competition and delocalisation of business from Mauritius.
- The depreciation of the Mauritius Rupee (6.31%) and the Seychelles Rupee (5.37%), accounting for a 4.30% drop in income.

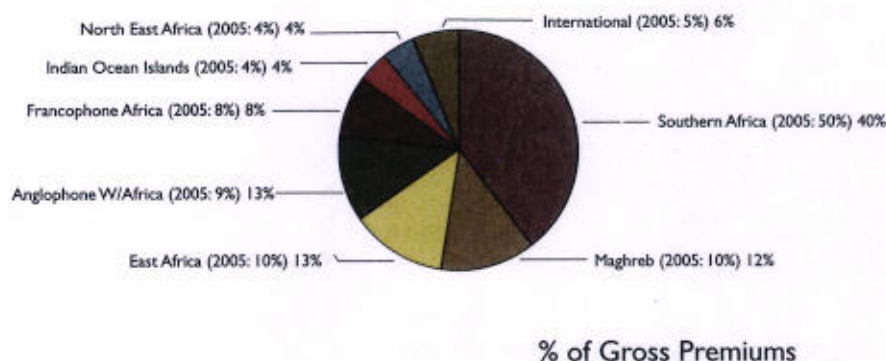
International Business

Premium income from International operations rose to US\$17.16 million (2005: US\$10.49 million), more than 55% of which emanated from the Middle East. International business grew by 63.58% (impact of booked premium: 20.08%) and accounted for 5.85% of the corporate premium income. This is a further testimony of Africa Re's acceptability in the international market.



Operations

African Reinsurance Corporation



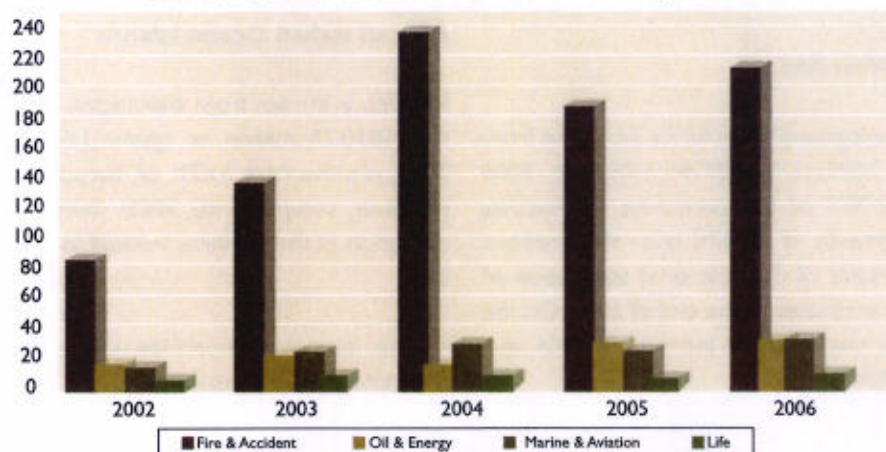
SECTORAL DISTRIBUTION

The Fire and Accident classes continued to generate the bulk of the Corporation's business with an income of US\$217.13 million (2005: US\$189.99 million) or 73.98% (2005: 74.30%) of Africa Re's income. Marine and Aviation classes overtook the Oil and Energy class

by posting US\$33.19 million or 11.31% (2005: 10.26%) against US\$32.57 million or 11.10% of corporate income (2005: 12.21%). Production from Life business stood at US\$10.60 million or 3.61% of the corporate income (2005: 3.24%).

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

PREMIUM INCOME BY CLASS IN - US\$ Million



INVESTMENT INCOME

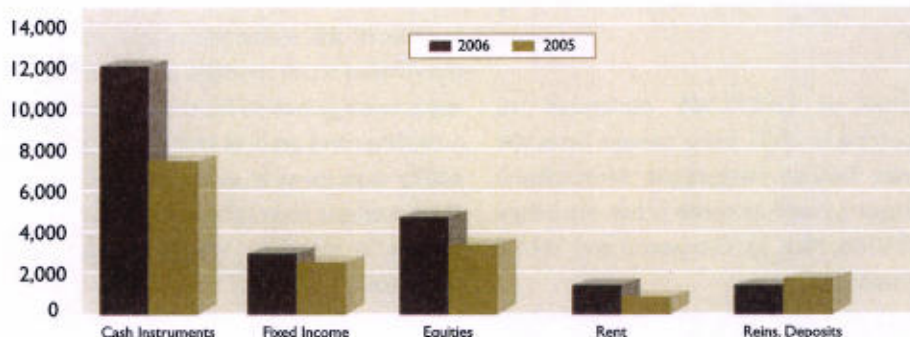
The Corporation's investment portfolio continued its impressive performance in 2006 with the overall investment income rising by 35.10% from US\$16.61 million in 2005 to US\$22.44 million. Net investment income generated by financial assets increased by 40.59% from US\$13.89 million in 2005 to US\$19.53 million yielding a return of 6.46%, while rental income and interest on reinsurance deposit increased by 6.99% from US\$2.72 million to US\$2.91 million over the same period. The result was largely driven by

favourable market conditions, positive operating cash flow and the cautious allocation of a small portion of its portfolio to African trade finance risks through top class international banks.

Income from short-term money market instruments maintained its dominance by posting US\$12.27 million (2005: US\$7.66 million), representing 54.69% (2005: 46.12%) of overall investment income, as the Corporation continued to earn attractive returns on its relatively large cash portfolio, notwithstanding the pause in the US federal reserves rates hike during



INVESTMENT INCOME BY ASSET CLASS

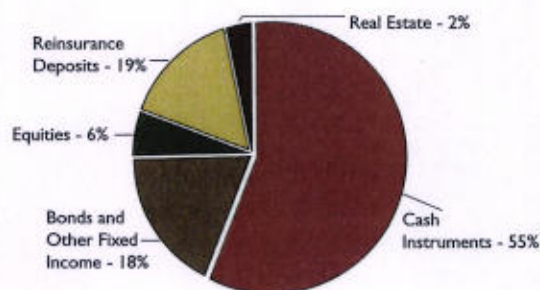


the second half of the year. Equities posted US\$4.51 million (2005: US\$3.75 million), whilst Bonds and other Fixed Income securities rose by 10.9% in 2006 to US\$2.74 million. Rent from property letting leaped to US\$1.16 million (2005: US\$0.83 million) as a result of the addition of the Casablanca office building, whilst interest on reinsurance deposits dipped slightly to US\$1.75 million (2005: US\$1.89 million).

At the end of 2006, the Corporation's investment portfolio including real estate and deposits retained by ceding companies on reinsurance accounts was valued at US\$428.78 million, 13.30% higher than 2005 levels, mostly due to currency movements and strong cash flow from operations and investments performance. An 11% depreciation of the South African Rand against the US Dollar, despite significant appreciation of the other currencies, resulted in an unrealized translation loss, but the impact on the portfolio was more than offset by strong investment performance and cash flow from operations.

In line with the implementation of the Corporation's short to medium term asset allocation strategy, which seeks to switch more funds into fixed income securities within approved target ranges, the composition of the investment portfolio as at 31 December 2006 shows a drop in cash instruments from 61% to 55%, while Bonds and other fixed income securities increased to 18% compared to 13% in 2005. The other asset classes remained relatively the same. Further realignments are expected in the coming years as the asset allocation strategy is continuously reviewed to ensure it is consistent with the Corporation's liability profile and liquidity requirements.

Allocation of investment as of December 2006



Long Term Investments

The Corporation's long-term investments comprise private equity and Real Estate portfolios, which are not tied to specific reinsurance liabilities. Whilst the private equity investments are made with long-term economic and commercial considerations, within the framework of the Corporation's objective of contributing to the economic development of the continent, the real estate investments, which are motivated primarily by office accommodation requirements and as a physical demonstration of its commitment to the host country, have nonetheless recorded solid returns over the years.

During the period under review, there was no new addition to the private equity portfolio except for honouring the Corporation's capital commitment to approved investments, notably the ARM Pension



Operations

African Reinsurance Corporation

Managers (PFA) Ltd and Capital Alliance Private Equity II (CAPE II) fund. Accordingly, the Net Book value of the portfolio grew from US\$1.86 million to US\$2.50 million.

Dividend income of US\$72,566 compared to US\$69,709 recorded in 2005 were earned from the two development finance institutions, Afreximbank and Shelter Afrique as well as three other insurance companies: CNA Vie, Mali, La Citoyenne and SNAC VIE both of Cameroon.

The Casablanca office building was completed and officially commissioned in April 2006 during the 101st meeting of the Corporation's Board of Directors. Due to its prime location, the Corporation was able to attract premium rent for the lettable space during the year and consequently boosted total rental income by 39.32% in 2006 to reach US\$1.16 million as against US\$0.83 million last year.

Equities

The World stock markets posted solid returns in 2006 in the wave of high liquidity, strong corporate earnings, crowded markets for merger and acquisition activities, leveraged buyouts and stock buybacks. The broader US market benchmark, the S&P 500 index, advanced 15.8% for the year, whilst investors in European and emerging markets achieved more than twice the US market returns, aided partly by a declining US Dollar. European and emerging markets measured by the MSCI index gained respectively 33.7% and 32.2% in US dollar terms, even though the original currency returns stood at 19.1% and 28.5% respectively. The South African market, for the second time sustained its bullish path and posted 40.9% in local currency although in US dollar terms it dipped due to the depreciation of the Rand.

Against this background, the Corporation's actively managed equity portfolio valued at US\$21.5 million and spread across North America, Europe and South Africa delivered strong returns with 22.79% gains in US dollars terms. In local currencies, the Euro portfolio posted 2.5% higher than the MSCI index, whilst the Rand portfolio mirrored the benchmark, JSE top 40 index, performance at 40.6%. Although the US dollar portfolio did very well with 17.51% gains,

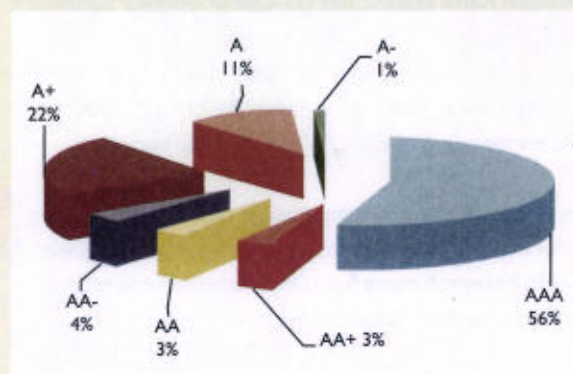
it underperformed the composite benchmark index of 20.1%.

In view of the tremendous opportunities offered by the African stock markets and on the strength of the experience gained so far, the Corporation would start a cautious and gradual build up of a portfolio to take equity exposures in some of the vibrant markets on the continent leveraging on relationship with market players in locations where Africa Re has physical presence.

Bonds and Other Fixed Income

Fixed income markets produced coupon-like returns for the year, with the Lehman Brothers Aggregate Bond Index rising 4.3%. For most part of the year and in most major currencies, bonds featured an inverted yield curve with short-term maturities posting higher returns than long term issues.

Africa Re's total bond portfolio, which is heavily weighed in US dollars and the South African Rand exhibited similar pattern. Whilst the portfolio comprises mostly government and agency issues, the very few corporates are of high quality giving an average rating of "AA" for the entire portfolio and a duration of 2.5 years, consistent with the average maturity profile of the reinsurance liabilities.



To moderate earnings and equity volatility resulting from market value adjustments of the actively managed fixed income securities, the entire fixed income portfolio was restructured with the establishment of a well laddered held-to-maturity bond portfolio consisting of high grade fixed and floating rate



securities. Consequently, the value of the portfolio witnessed a quantum leap to US\$74.61 million from US\$48.90 million in the previous year.

The total net investment income from the portfolio of US\$2.75 million represents a yield on average assets of 4.51%. Both the US Dollar and the Rand actively managed sub portfolios returned decent results of 4.35% and 4.73% in local currencies, compared to the related benchmarks of 4.0% and 4.6% respectively.

Cash Instruments

After two years of raising interest rates to combat the threat of inflation, the US Federal Reserve Board finally paused its rate hiking campaign in June 2006, leaving the Fed funds rate at 5.25% from 4.25% as of December 2005. In contrast, the European Central Bank pursued a steady rate hike throughout the year to 3.50% on five separate occasions, as inflation remained sticky within the Euro zone. The South African Reserve Bank also tightened its monetary policy during the second half of the year with the benchmark rate rising to 9.0% in December 2006 from a level of 7.5%.

Given the relatively high, albeit reducing concentration of financial assets in short term money market

instruments, the rate increases were favourable for the Corporation as they boosted the portfolio's performance with income from this asset class leaping for the second time by 60.2% from US\$7.66 million earned in 2005 to US\$12.27 million.

Other Operating Income

Other operating income increased by 11.63% during the year to US\$0.94 million from US\$0.84 million in 2005. This comprises mainly fees from the management of the Aviation as well as Oil & Energy insurance pools.

OUTGO

Losses

The total claims paid amounted to US\$137.16 million as against US\$164.76 million in 2005, representing a paid claims ratio of 46.73% compared to 64.43% in the previous year, while incurred losses, made up of paid claims and movement in outstanding claims provision (US\$19.91 million as against US\$26.94 million in 2005) amounted to US\$157.07 million (2005: US\$191.70 million).

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

GROSS LOSS RATIO BY CLASS - FINANCIAL YEAR 2006
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)	96.34	209.45	46.00	10.16	13.32	76.28	106.50	222.77	47.81
Marine & Aviation	40.00	44.44	90.01	1.94	4.48	43.30	41.94	48.92	85.73
Life	8.63	9.29	92.90	-	-	-	8.63	9.29	92.90
Total	144.97	263.18	55.08	12.10	17.80	67.98	157.07	280.98	55.90

Loss Experience by Trading Area

The gross incurred loss ratio of the South African production centre (run-off and subsidiary) stood at 60.52%, an increase from the 56.89% in 2005, due to

the return of weather hazards and the softening of the direct market. The net ratio of 69.23% for 2006 was also higher than the 60.72% recorded in the previous year.



Opérations

African Reinsurance Corporation

Anglophone West Africa's gross incurred claims ratio of 53.68% was more favourable than the 2005 figure (66.95%) with no major losses, while the net ratio at 70.60%, (2005: 81.67%) was high following the impact of retrocession cost of the oil account.

The claims experience in East Africa was much better than in 2005, with a gross ratio of 45.90% and net ratio of 48.07%, as against 79.49% and 84.25%, respectively in the previous year.

The incurred loss ratios for Maghreb (gross: 45.74%, net: 52.69%) were a marked improvement over 2005 (gross: 74.21%, net: 103.35%). The high ratios recorded in 2005 were attributable to the Skikda loss, paid mainly in that year.

The relative worsening of the gross incurred claims ratio of Francophone West and Central Africa - 63.10% as against 54.33% in 2005 - was due to a Fire loss, which affected a cotton warehouse in Cameroon and the breakdown of a turbo-generator in a power station in Côte d'Ivoire. The high net ratio of 78.26% (2005: 54.63%) was due to the purchase of specific cessions.

At 63.02% (gross) and 67.58% (net), there was no significant variance in the incurred loss ratios of the North East Africa region compared to 2005 (gross: 62.83%, net: 66.77%).

For Mauritius, the gross incurred claims ratio improved significantly from 102.79% (Net: 108.11%) in 2005 to 21.26% (Net: 29.77%) in 2006, with no major losses.

The gross incurred loss ratio of the international operations, at an average of 67.98%, fared better than in the previous year (98.0%), while the net ratios, at 71.89% in 2006 and 72.0% in 2005, revealed no substantial variance. The high gross ratio in 2005 is attributable to the settlement of claims relating to the Tsunami losses and Mumbai floods in India.

Commissions and Charges

During the period under review, gross commission and charges including movement in deferred acquisition costs amounted to US\$75.96million (2005: US\$74.93million), while recoveries from retrocessionaires stood at US\$5.32million (2005: US\$6.17million). As a result, net commission and charges increased from US\$68.76million in 2005 to

US\$70.64m in 2006, with corresponding increase in the net ratio from 24.63% to 29.13%.

RESULTS OF THE 2006 FINANCIAL YEAR

Gross written premium for the year amounted to US\$293.49 million compared to US\$255.72 million recorded in 2005, representing an increase of 14.77%. However, on the basis of the fund accounting method adopted in the previous years, actual premium booked in 2006 stood at US\$337.85 million as against US\$330.55 million achieved in 2005. While premium income in the Corporation's biggest market, South Africa, increased by 3.10% in original currency, the non participation in certain major oil accounts in Southern Africa and the reduction in the acceptances of thinly priced risks in Mauritius was offset by additional energy acceptances in West Africa and increased facultative underwriting by the Casablanca and Nairobi offices, leading to an overall increase of 2.21% in corporate booked premium.

Whereas the actual booked premium income increased marginally, the first time application of opening pipeline premium depressed the written premium for 2005, thereby leading to the relative increase in gross premium when compared to 2006. In addition, the acceptance of a higher share in a major life account in Nigeria, increased participation in facultative cessions in Kenya, Egypt, Sudan and Algeria all contributed to the rise in written premium. After adjusting for the movement in unearned premium provision, gross earned premium amounted to US\$280.98 million compared to US\$299.88 million in 2005.

Although the ongoing financial sector reforms in some of the Corporation's key markets are expected to throw up significant challenges, Africa Re is fully positioned to benefit from the resulting opportunities. The successful implementation of the new minimum capital requirement in Nigeria would reduce the number of ceding companies and lead to the emergence of bigger and stronger players with increased retention. It is expected that there would be a general flight to quality as the successful ceding companies seek to optimize their reinsurance spend. In the same vein, the enforcement of the local content regulation should deepen the insurance markets in the oil producing countries. Against this background, going forward, the Corporation would focus on expanding its oil underwriting and special risk capability to increase and diversify its acceptance



of these classes of risk and make up for the expected reduction in the cessions of the traditional lines of business.

Premium ceded to retrocessionnaires during the year amounted to US\$35.43 million, which was at par with US\$35.04 million outward retrocession for 2005. With the phasing out of the African surplus treaty, retro premium consists of the cost of the XL programmes as well as additional covers purchased to protect the major oil and petrochemical risks accepted. As in the previous years, great care is taken in selecting the panel of brokers and retrocessionnaires to ensure that they fully meet the approved counter-party acceptance criteria. Generally, such reinsurers would be expected to have financial strength ratings better than or at least equal to Africa Re's own rating.

Adjustment for the impact of the movement in the unearned premium provision produced an incurred retrocession cost of US\$38.51 million as against US\$20.74 million and US\$37.93 million booked in 2005 and 2004 respectively. The sharp increase resulted from the first time application of pipelining explained above. Accordingly, net written premium increased by 8.19% from US\$238.54 million in 2005 to US\$258.07 million, while net earned premium stood at US\$242.47 million (2005: US\$279.14 million).

Gross losses paid during the year amounted to US\$137.16 million representing a 16.75% reduction compared to the US\$164.76 million paid in the previous year. While the settlement of the Skikda (Algeria) loss affected the quantum of losses paid in 2005, there were far fewer major losses paid in 2006. The ARMA Foods (Egypt), Arnon Plastic Industries (Saudi Arabia), Dongbu Textiles (South Korea) and Maharashtra Flood (India) were of much smaller scale. Claims recoverable from retrocessionnaires stood at US\$2.72 million (2005: US\$15.90 million), mainly in respect of some energy accounts in West Africa, resulting in a net paid claims of US\$134.44 million as against US\$148.85 million last year. The adjustment for the movement in the outstanding claims (including IBNR) provisions produced a net incurred loss of US\$155.47 million compared to US\$196.30 million recorded in 2005.

Management expenses for the year amounted to US\$12.84 million compared to US\$11.15 million in 2005, representing an increase of 15.16%. The expansion of the South African subsidiary and the

Cairo regional office required the recruitment of new staff and the procurement of additional office space. In addition, the completion of the regional office project and movement of the Casablanca office to the new building entailed additional running costs, the bulk of which are being borne by the Corporation until all lettable spaces are fully taken up. The implementation of improved risk management and capital modeling programmes is expected to lead to further costs increases in the following years, although the long term benefits are expected to far outweigh the costs. Management expenses are rigorously budgeted and an effective system of budgetary control and performance measurement is in place to ensure that there is commensurate value for costs incurred and that expenses are in line with the approved budget.

Income from investment and other sources, including interest on reinsurance deposits improved by 33.97% from US\$17.45 million in 2005 to US\$23.38 million mainly due to the increase in financial assets, higher interest rates and the performance of the professionally managed equity and fixed income portfolio. There was also a realized loss on exchange of US\$0.42 million this year compared to a gain of US\$0.27 million in 2005.

Based on the foregoing, the net profit before taxation for the year amounted to US\$26.47 million, representing an increase of 28.26% over the US\$20.64 million produced in 2005.

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\$ 12,440,808 to the General Reserve in accordance with Resolution No. 4/1992;
- US\$ 3,000,000 to be paid as dividend at the rate of US\$3.00 (2005: US\$2.55) per qualifying subscribed and paid up share of US\$100 par value;
- The balance of US\$9,440,808 to be carried forward.



Board Members pose for a photograph with some Management Staff during the 105th Meeting of the Board of Directors held in Nairobi in April 2007



*Africa Re Insurance Workshop
April 2007 Seychelles*



The Board of Directors in session at a recent meeting

External Auditors' Report



Deloitte.

S.A. au capital de 37 500 000 FCFA
Compte contribuable 8104684 A RC Abidjan 156849
Imm. Alpha 2000 – 14è et 18è Etage
Rue Gourgas – Plateau
01 B.P. 224 Abidjan 01 – Côte d'Ivoire
Tél.: (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

We have audited the consolidated financial statements of the African Reinsurance Corporation (AFRICA RE) for the year ended 31 December 2006 which comprise the balance sheet, the statement of income and expenses, the statement of revenue account, the statement of changes in equity, the statement of cash flows and the related notes. These financial statements have been prepared under the accounting policies set out therein, for the purpose of submitting approved and audited financial statements to the Shareholders of the Corporation.

Respective responsibilities of Directors and Auditors

These consolidated financial statements are the responsibility of the Corporation's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates and judgments made by the Corporation's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the African Reinsurance Corporation as of 31 December 2006, and 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 2007.



Consolidated Balance Sheet

African Reinsurance Corporation

at 31 December 2006

ASSETS	Notes	2006 US\$ '000	2005 US\$ '000
Cash and cash equivalents		22,587	28,370
Investments	3	396,653	343,420
Premium income receivable		11,649	9,734
Deferred acquisition costs	4	20,771	18,760
Reinsurance receivables	5	64,400	65,153
Retrocessionaires' share of technical provisions	6	7,911	12,122
Sundry receivables		3,650	2,835
Investment property	7	9,537	6,645
Property, plant and equipment	8	11,902	14,067
Total assets		549,060	501,106

These consolidated financial statements were authorised for issue by the Board of Directors of the Corporation on 11 April, 2007 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 2006



LIABILITIES	Notes	2006 US\$ '000	2005 US\$ '000
Current income tax		854	1,206
Shareholders' Current Account		2,944	11,777
Sundry payables		4,070	5,208
Reinsurance payables	9	53,163	49,708
Deferred tax	10	710	734
Technical provisions	11	293,450	263,878
Total liabilities		355,191	332,511
Shareholders' equity			
Retained earnings		32,183	22,266
Other reserves	12	48,253	32,896
Share premium	13	13,433	13,433
Share capital	13	100,000	100,000
Total shareholders' equity		193,869	168,595
Total liabilities and shareholders' equity		549,060	501,106

These consolidated financial statements were authorised for issue by the Board of Directors of the Corporation on 11 April, 2007 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 Income Statement

African Reinsurance Corporation

for the year ended 31 December 2006

	Notes	2006 US\$ '000	2005 US\$ '000
Gross earned premium	14	280,980	299,876
Less: retrocession premium		(38,513)	(20,741)
Net earned premium		242,467	279,135
Investment income	15	22,439	16,609
Commissions earned under retrocession arrangements		4,964	6,170
Other operating income	16	941	843
Total revenue		270,811	302,757
Net claims incurred	17	(155,470)	(196,300)
Acquisition expenses		(75,604)	(74,934)
Administrative expenses	18	(12,840)	(11,149)
Finance costs – exchange (losses)/gain		(424)	266
Profit before income tax		26,473	20,640
Income tax expense	19	(1,591)	(1,804)
Profit for the year		24,882	18,836

Musa AL NAAS
Chairman

Bakary KAMARA
Managing Director

The accompanying notes form an integral part of these statements.



Consolidated Statement of Changes in Equity

for the year ended 31 December 2006

African Reinsurance Corporation

	Notes	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 1 January 2006		22,266	(4,764)	28,166	6,294	3,200	13,433	100,000	168,595
Net income / (expense) recognised directly in equity									
- Currency translation differences		-	2,916	-	-	-	-	-	2,916
Profit for the year		24,882	-	-	-	-	-	-	24,882
Total recognised income for 2006		24,882	2,916	-	-	-	-	-	27,798
Dividend declared on 2005 accounts		(2,524)	-	-	-	-	-	-	(2,524)
Transfer to general reserve		(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 statements.



Consolidated Statement of Changes in Equity

for the year ended 31 December 2005

African Reinsurance Corporation

	Notes	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 1 January 2005 - as previously reported		4,896	4,026	18,748	6,294	3,200	6,403	86,456	130,023
Changes in accounting policies	2c								
- Reinsurance income and expenditure		7,952	-	-	-	-	-	-	7,952
- Proposed dividend		1,512	-	-	-	-	-	-	1,512
- at 1 January 2005 as restated		14,360	4,026	18,748	6,294	3,200	6,403	86,456	139,487
Net income / (expense) recognised directly in equity									
- Currency translation differences			(8,790)						(8,790)
Profit for the year		18,836	-	-	-	-	-	-	18,836
Total recognised income for 2005		18,836	(8,790)	-	-	-	-	-	10,046
Dividend declared on 2004 accounts		(1,512)	-	-	-	-	-	-	(1,512)
Transfer to general reserve		(9,418)	-	9,418	-	-	-	-	-
Proceeds from shares issued	13	-	-	-	-	-	7,030	13,544	20,574
At 31 December 2005		22,266	(4,764)	28,166	6,294	3,200	13,433	100,000	168,595

The accompanying notes form an integral part of these statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2006



	Notes	2006 US\$ '000	2005 US\$ '000
Operating activities			
Cash generated from operations	21	45,701	63,922
Income tax paid		(1,966)	(315)
Net cash from operating activities		43,735	63,607
Investing activities			
Purchase of property and equipment		(1,861)	(2,587)
Purchase of investments		(40,711)	(102,699)
Proceeds from disposal of property and equipment		36	53
Net cash from investing activities		(42,536)	(105,233)
Financing activities			
Proceeds from share subscription		-	20,574
Dividends paid		(2,211)	(1,653)
Net cash from financing activities		(2,211)	18,921
Net decrease in cash and cash equivalents		(1,012)	(22,705)
Movement in cash and cash equivalents:			
At start of year		28,370	57,561
Net decrease as above		(1,012)	(22,705)
Exchange losses on cash and cash equivalents		(4,771)	(6,486)
At end of year		22,587	28,370

The accompanying notes form an integral part of these statements.



Notes to the Financial Statements

African Reinsurance Corporation

for the year ended 31 December 2006

I 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 Standard Board (IASB). The financial statements are presented in United

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgment in the process of applying the 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 a regular 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) 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.

(d) Recognition and measurement of insurance contracts

Short-term insurance contracts are accounted for on an annual basis. The Group also account 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 premium 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 claims 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 the claim amounts advised by the cedants. Adequate provisions are also made for claims incurred, but not reported at the balance sheet date using historical experience and best available information. Outstanding claims provisions are disclosed at their carrying amounts and are not discounted except where there is a particularly long period from the claim incident to settlement in which case outstanding claims are discounted using a discount rate that best reflects current assessment of time value of money and associated risks. Anticipated reinsurance recoveries on claims are disclosed separately as assets.

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



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African Reinsurance Corporation

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

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

(v) Claims arising from long-term insurance contracts

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

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

(vi) Liability adequacy test

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

(e) Property, plant and equipment

Property, plant and equipment comprise offices and other properties owned by the group.

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

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

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

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

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

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

**(f) Intangible assets****(i) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life (4 years) of the software.

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

(ii) Deferred acquisition costs

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

(g) Investment property

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

Investment property comprises freehold land and buildings. It is carried at cost less any accumulated depreciation and any accumulated impairment losses.

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

(h) Investments

Investments comprise equity investments, fixed and floating rate instruments and bank deposits. At the initial recognition of an investment, management determines its classification, which is dependent on the purpose for which the investment was acquired, and re-evaluates that classification at every reporting date. Investments are classified as follows:

i) Fair value through profit and loss

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

ii) Held-to-maturity

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

iii) Loans and receivables

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

iv) Available-for-sale

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

Purchases and sales of investments are recognised on the trade date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit and loss, transaction costs that are directly attributable to their acquisition. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.



Notes to the Financial Statements

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Investments at fair value through profit and loss are subsequently carried at fair value, unless fair value cannot be reliably determined, in which case they are carried at cost less accumulated impairment losses. Fair values are based on current bid prices in an active market, and changes in fair value are included in the income statement. If the market for a financial asset is not active, the Group establishes fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available for sale investments are subsequently carried at fair value, and unrealised gains and losses arising from changes in their fair value are recognised in a separate reserve in equity. When investments in this category are sold or impaired, the accumulated fair value adjustments are included in the income statement.

(i) Reinsurance receivables

All amounts receivable are initially recognised at face value.

Amounts recoverable under the retrocession contracts are recognised in the same year as the related claims and are disclosed in the income statement and balance sheet on a gross basis.

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

The carrying amounts of the assets are reduced

by the impairment losses and the impairment losses recognised in the income statement for the period.

(j) Cash and cash equivalents

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

(k) Foreign currency translation

(i) Functional and presentation currencies

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

(ii) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on equities held at fair value through profit and loss, are reported as part of the fair value gain or loss.

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

- a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- b) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates,



in which case income and expenses are translated at the dates of the transactions);

- c) all resulting exchange differences are recognised in the translation reserve in equity.

(l) Leases

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

(m) Employee benefits

Retirement benefit obligations

The Group operates a defined contribution scheme for its employees, under which it pays contributions into a separate entity. Once contributions have been paid the Group retains no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to finance benefits accruing under the retirement benefit plan.

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

Other employee benefits

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

(n) Income tax

In accordance with Article 51 of the Agreement Establishing the African Reinsurance Corporation, the Corporation is not subject to tax in member States. Tax expense/income therefore comprises current tax and deferred tax arising in South Africa and is computed in accordance with South African tax laws.

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

(o) Dividends

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

(p) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.



Notes to the Financial Statements

African Reinsurance Corporation

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	2006 US\$'000	2005 US\$'000
3 Investments		
i) Investments by category		
Bank deposits	214,449	204,324
Deposits with ceding companies	83,579	69,506
Fixed rate securities at fair value through profit and loss	40,896	38,572
Fixed rate securities held to maturity	17,476	2,987
Floating Rate Securities at cost	16,225	7,343
Quoted equity investments at fair value through profit and loss	21,532	18,825
Unquoted equity investments at cost less impairment	2,496	1,863
	396,653	343,420

Investments held to maturity are presented on the Group's balance sheet at their amortised costs. The fair value of the held to maturity assets at 31 December was US\$17,303,695 (2005: US\$2,905,770).

Unquoted equity investments with a cost of US\$2,800,688 (2005: US\$2,167,769) have been carried at cost less impairment because their fair value cannot be determined as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

ii) Weighted average effective interest rates	2006 %	2005 %
Interest-bearing investments denominated in:		
US Dollars	4.73	3.80
Pounds Sterling	4.92	5.36
Euros	3.39	2.19
South African Rand	8.28	7.31

4 Deferred Acquisition Costs	2006 US\$'000	2005 US\$'000
Balance at 1 January	18,760	23,873
Exchange Rate impact on opening balance	(556)	-
	18,204	23,873
Released during the year	(18,204)	(23,873)
Deferred during the year	20,771	18,760
At 31 December	20,771	18,760

5 Reinsurance receivables		
Gross Receivables arising from reinsurance arrangements	69,517	69,372
Provision for impairment	(5,117)	(4,219)
	64,400	65,153
Comprising:		
Current portion	38,607	42,330
Non-current portion	25,793	22,823
	64,400	65,153

Notes to the Financial Statements

for the year ended 31 December 2006



6 Retrocessionnaires' share of technical provisions	2006 US\$'000	2005 US\$'000
Claims recoverable	2,291	3,415
Unearned retro premium	5,620	8,707
	7,911	12,122
7 Investment property		
Cost		
At 1 January		
- as previously reported	7,291	-
- reclassified from property, plant and equipment (note 8)	3,089	7,168
- as restated	10,380	7,168
- additions	-	123
At end of year	10,380	7,291
Depreciation		
At 1 January		
- as previously reported	646	-
- reclassified from property, plant and equipment (note 8)	-	514
Charge for the year	197	132
At end of year	843	646
Net book value	9,537	6,645
The following amounts have been recognised in the profit and loss account in respect of investment properties:		
Rental income	1,155	830

Investment property represents the lettable portion of the Corporation's headquarters as well as Nairobi and Casablanca regional office buildings.

At December, 2006, the market value of the headquarters building was estimated at US\$15 million (net book value : US\$7.54 million) by Charles Zuberu & Associates, a firm of Estate Surveyors.



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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
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
Year ended 31 December 2005:					
Net book value at 1 January 2005					
- as previously reported	744	15,973	2,207	229	19,153
- reclassified to investment property	-	(6,654)	-	-	(6,654)
- as restated	744	9,319	2,207	229	12,499
Additions	1,622	217	507	120	2,466
Reclassifications/Transfers	(257)	(15)	141	20	(111)
Disposals	-	-	(15)	(8)	(23)
Depreciation	-	(125)	(539)	(100)	(764)
Net book value at 31 December 2005	2,109	9,396	2,301	261	14,067
Comprising:					
Cost	2,109	10,262	6,413	723	19,507
Accumulated depreciation	-	(866)	(4,112)	(462)	(5,440)
	2,109	9,396	2,301	261	14,067

Included in buildings and freehold land is a total amount of US\$4,863,422 (2005:US\$3,875,636) 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**

	2006 US\$'000	2005 US\$'000
Payables under reinsurance arrangements	41,499	34,297
Payables under retrocession arrangements	11,664	15,411
	53,163	49,708

10 Deferred tax

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

	2006 US\$'000	2005 US\$'000
At 1 January	734	76
Exchange Rate impact on opening balance	(74)	(8)
Income statement charge (Note 19)	50	666
	710	734

Deferred tax assets and liabilities, as well as deferred tax charge/(credit) in the Income Statement are attributable to the following items:

	01.01.06 US\$'000	Charged to P&L US\$'000	31.12.06 US\$'000	31.12.05 US\$'000
Property and equipment	47	(1)	46	47
Unrealised gain on revaluation of investments	687	51	738	687
Exchange Rate impact on opening balance	(74)	-	(74)	-
Net deferred tax liability	660	50	710	734

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

	2006 US\$'000	2005 US\$'000
Provision for outstanding Claims	176,261	164,003
Provision for Claims incurred but not reported	32,263	28,805
Cumulative translation reserve	3,519	(45)
Total outstanding claims	212,043	192,763
Provision for Unearned premium	81,407	71,115
	293,450	263,878
Comprising:		
- current portion	140,621	115,346
- non-current portion	152,829	148,532
	293,450	263,878



Notes to the Financial Statements

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African Reinsurance Corporation

ii) Analysis of outstanding claims and reserve development

U/WYR	1997 US\$'000	1998 US\$'000	1999 US\$'000	2000 US\$'000	2001 US\$'000	2002 US\$'000	2003 US\$'000	2004 US\$'000	2005 US\$'000	2006 US\$'000
Gross outstanding claims reserve	29,180	42,419	31,462	31,875	59,963	64,604	134,312	135,573	115,346	137,016
Gross paid (Cumulative):										
1 year later	13,079	25,346	18,317	18,278	26,429	31,313	51,705	57,284	62,705	
2 years later	17,470	30,009	24,801	24,285	41,756	46,869	108,364	82,214		
3 years later	19,827	32,960	27,383	26,975	45,040	51,765	120,900			
4 years later	21,384	34,229	29,695	28,063	47,618	54,390				
5 years later	21,903	35,231	32,561	29,914	49,086					
6 years later	22,696	36,444	33,962	31,556						
7 years later	23,835	37,572	35,646							
8 years later	24,920	37,723								
9 years later	25,214									
10 years later										
Re-estimated as of:										
Closed year	29,180	42,419	31,462	31,875	59,963	64,604	134,312	135,573	115,346	137,016
1 year later	25,590	39,427	30,726	29,213	46,458	71,092	131,985	128,836	102,876	
2 years later	24,661	38,886	34,390	33,128	57,352	74,086	132,575	114,114		
3 years later	24,541	39,559	33,363	33,342	53,824	70,714	137,471			
4 years later	25,361	38,536	34,501	32,415	55,422	65,032				
5 years later	24,392	38,664	35,996	34,867	54,499					
6 years later	24,751	39,242	38,209	36,876						
7 years later	25,829	39,941	44,973							
8 years later	26,058	40,765								
9 years later	26,831									
10 years later										
Gross redundancy/(deficiency)	2,349	1,653	(13,511)	(5,001)	5,464	(429)	(3,159)	21,459	12,470	

Notes to the Financial Statements

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**12 Other reserves**

	2006 US\$'000	2005 US\$'000
General reserve	40,607	28,166
Reserve for exchange fluctuation	6,294	6,294
Reserve for loss fluctuation	3,200	3,200
Translation reserve	(1,848)	(4,764)
	48,253	32,896

(i) General reserve

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

(ii) Reserve for exchange fluctuation

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

(iii) Reserve for loss fluctuation

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

(iv) Translation reserve

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

Movements in the other reserves are shown in the statement of changes in equity.

13 Share capital

	Number of shares	Ordinary shares US\$'000	Share premium US\$'000
Balance at 1 January 2005	864,562	86,456	6,403
Issue of shares	135,438	13,544	7,030
Balance at 1 January 2006	1,000,000	100,000	13,433
Issue of shares	-	-	-
Balance at 31 December 2006	1,000,000	100,000	13,433

The Authorised Capital of the Corporation is US\$100,000,000, comprising 1,000,000 ordinary shares of US\$100 each.



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African Reinsurance Corporation

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14 Earned premium

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

	2006			2005		
	Gross	Retro-	Net	Gross	Retro-	Net
	US\$'000	cession	US\$'000	US\$'000	cession	US\$'000
Fire and accident	222,767	(21,991)	200,776	246,296	(13,327)	232,969
Marine and aviation	48,925	(16,522)	32,403	42,507	(7,414)	35,093
Life	9,288	-	9,288	11,073	-	11,073
	280,980	(38,513)	242,467	299,876	(20,741)	279,135

15 Investment income

	2006	2005
	US\$'000	US\$'000
Interest income	15,961	10,574
Interest on reinsurance deposits	1,754	1,889
Rental income	1,155	830
Dividends from equity investments	500	434
Realised Gains on Investments	1,848	829
Fair value gains from investments at fair value through profit and loss	1,549	2,318
Management fee	(328)	(265)
	22,439	16,609

16 Other operating income

Fee income	879	795
Gain on disposal of property and equipment	36	19
Sundry income	26	29
	941	843

17 Claims incurred

	2006			2005		
	Gross	Retro-	Net	Gross	Retro-	Net
	US\$'000	cession	US\$'000	US\$'000	cession	US\$'000
Claims incurred by principal class of business						
- Fire and Accident	129,899	(199)	129,700	160,845	5,373	166,218
- Marine and Aviation	19,839	(1,398)	18,441	22,480	(769)	21,711
- Life	7,329	-	7,329	8,371	-	8,371
Total	157,067	(1,597)	155,470	191,696	4,604	196,300

**18 Administrative expenses**

	2006 US\$'000	2005 US\$'000
Staff costs	6,497	5,252
Auditors' remuneration	153	137
Depreciation	1,134	895
Impairment charge on reinsurance receivables	937	1,081
Operating lease rentals	159	174
Repairs and maintenance expenditure	491	488
Consultancy fees and expenses	369	537
Travel costs and allowances	459	376
General Assembly and Board of Directors' meetings	533	445
Others	2,108	1,764
	12,840	11,149

Staff costs include retirement benefit costs amounting to US\$534,740 (2005: US\$504,958).

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 :

	2006 US\$'000	2005 US\$'000
Current income tax	1,525	1,161
Prior year under/(over) provision for income tax	16	(23)
Deferred income tax (Note 10)	50	666
	1,591	1,804

20 Dividends

At the Annual General Meeting to be held on 30 June, 2007, a final dividend in respect of the year ended 31 December 2006 of US\$3.00 (2005: US\$2.55) per share on 1,000,000 (2005: 990,000) qualifying shares amounting to a total of US\$3,000,000 (2005: US\$2,524,500) is to be proposed. These financial statements do not reflect a liability for this dividend payable, which will be treated as an appropriation of profit in the financial statements for the year ending 31 December 2007.



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African Reinsurance Corporation

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21 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2006 US\$'000	2005 US\$'000
Profit before tax	26,473	20,640
Adjustments for:		
Depreciation	1,134	895
Profit on sale of property and equipment	(36)	(15)
Change in fair value of financial assets	(1,550)	(2,318)
Changes in:		
- reinsurance payables	43,092	(17,643)
- reinsurance receivables	(10,300)	48,070
- other payables	(10,285)	10,502
- other receivables	(2,827)	3,791
Cash generated from operations	45,701	63,922

22 Related party transactions and balances

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

	2006 US\$ '000	2005 US\$ '000
ii) Remuneration of key management personnel		
Directors' fees	126	127
Other remuneration		
- Salaries and other short term benefits	632	467
- Terminal benefits	75	112

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 of a short-tail nature.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

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 is 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 2006 to the earlier of the repricing or contractual maturity date.

	Up to 1 years	1-2 years	2-3 years	3-4 years	Over 4 years	Total
At 31 December 2006 (IN US\$'000)						
FINANCIAL ASSETS						
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



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African Reinsurance Corporation

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	Up to 1 years	1-2 years	2-3 years	3-4 years	Over 4 years	Total
At 31 December 2005 (IN US\$'000)						
FINANCIAL ASSETS						
Cash and cash equivalents	28,370	-	-	-	-	28,370
Reinsurance receivables	30,387	11,944	8,638	5,593	8,591	65,153
Investments:						
- Bank deposits	204,324	-	-	-	-	204,324
- Deposits with ceding companies	14,807	16,083	9,965	5,847	22,804	69,506
- Fixed rate securities at fair value	3,112	6,698	7,052	2,429	19,281	38,572
- Fixed rate securities at amortised cost	-	-	2,987	-	-	2,987
- Floating rate securities at cost	7,100	243	-	-	-	7,343
Total	288,100	34,968	28,642	13,869	50,676	416,255
FINANCIAL LIABILITIES						
Current income tax	1,146	60	-	-	-	1,206
Reinsurance payables	21,810	10,928	6,985	1,591	8,394	49,708
Outstanding claims	78,260	71,594	17,310	18,203	7,396	192,763
Total	101,216	82,582	24,295	19,794	15,790	243,677

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):



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African Reinsurance Corporation

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	USD	Rand	MAD	CFA/ EUR	EGP	NGN	KSH	MUR	OTHERS	TOTAL
At 31 December 2006: (in '000 US\$)										
ASSETS										
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	64,000
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
	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
	56,917	67,720	20,266	27,553	2,044	15,610	12,409	5,488	58,053	266,060



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African Reinsurance Corporation

for the year ended 31 December 2006

At 31 December 2005:
(in '000 US\$)

ASSETS

	USD	Rand	MAD	CFA/ EUR	EGP	NGN	KSH	MUR	OTHERS	TOTAL
Cash and cash equivalents	14,091	3,071	558	6,273	50	1,351	814	455	1,707	28,370
Reinsurance receivables	13,405	4,441	2,512	11,501	1,963	4,205	3,551	1,794	21,781	65,153
Investments										
- Bank deposits	121,987	63,713	-	7,127	3,427	-	1,725	-	6,345	204,324
- Deposits with ceding companies	7,880	739	19,094	16,297	2,560	-	-	1,225	21,711	69,506
- Fixed rate securities at fair value	19,057	13,200	-	3,605	-	-	-	-	2,710	38,572
- Fixed rate securities at amortised cost	2,987	-	-	-	-	-	-	-	-	2,987
- Floating rate securities at cost	7,343	-	-	-	-	-	-	-	-	7,343
- Equity investments at fair value	7,157	8,587	-	2,069	-	-	-	-	1,012	18,825
Equity investments at amortised cost	1,420	-	-	290	-	153	-	-	-	1,863
	195,327	93,751	22,164	47,162	8,000	5,709	6,090	3,474	55,266	436,943

LIABILITIES

Current income tax	-	1,206	-	-	-	-	-	-	-	1,206
Reinsurance payables	30,088	3,572	2,154	3,323	47	-	-	1,110	9,414	49,708
Outstanding claims	13,077	61,003	20,055	18,671	2,058	7,972	10,235	9,475	50,217	192,763
	43,165	65,781	22,209	21,994	2,105	7,972	10,235	10,585	59,631	243,677

**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 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 litigation and/or arbitration involving the Corporation for which no provisions have been made in these financial statements.



Notes to the Financial Statements

African Reinsurance Corporation

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25 Commitments

Capital commitments

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

	2006 US\$'000	2005 US \$'000
Property and equipment	92	155

Operating lease commitments

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

	2006 US\$'000	2005 US \$'000
Not later than 1 year	114	101
Later than 1 year and not later than 5 years	174	299
	288	400

Consolidated income statement by class of business



	Fire and accident US\$'000	Marine and aviation US\$'000	Life US\$'000	Total 2006 US\$'000	Total 2005 US\$'000
Underwriting income:					
Gross booked premium	266,565	59,519	11,761	337,845	330,547
Gross written premium	231,195	51,694	10,602	293,491	255,716
Gross earned premium	222,767	48,925	9,288	280,980	299,876
Retrocession premium incurred	(21,991)	(16,522)	-	(38,513)	(20,741)
Net earned premium	200,776	32,403	9,288	242,467	279,135
Commissions earned	990	3,974	-	4,964	6,170
Gross Claims paid	(115,321)	(16,501)	(5,339)	(137,161)	(164,756)
Gross Claims incurred	(129,899)	(19,839)	(7,329)	(157,067)	(191,696)
Less retrocessionaires' share of claims incurred	199	1,398	-	1,597	(4,604)
Net claims incurred	(129,700)	(18,441)	(7,329)	(155,470)	(196,300)
Acquisition expenses	(59,567)	(14,462)	(1,575)	(75,604)	(74,934)
Administrative expenses	(9,703)	(2,532)	(605)	(12,840)	(11,149)
Underwriting Profit	2,796	942	(221)	3,517	2,922
Net Investment and other income				23,380	17,452
Finance costs – exchange (losses)/gain				(424)	266
Profit before income tax				26,473	20,640
Income tax expense				(1,591)	(1,804)
Profit for the year				24,882	18,836

