
AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
26TH ANNUAL ORDINARY MEETING
ASMARA, ERITREA, 24TH JUNE 2004

AFRICARE/GA/28/184



Report of the Board of Directors
Covering the Period
1st January to 31st December 2003



African Reinsurance Corporation

Société Africaine de Réassurance

Tour Atlas
Place Zallaqa
BP 7556
Casablanca
Morocco

Tel: (212-2) 2317114/2306154
Telex: 28079 M
Fax: (212-2) 2301964
Email: casablanca@africa-re.com

12, Khan Yunus Street
Off Shehab Street
Mohandeseen - Giza
Cairo
Egypt

Tel: (20-2) 3456611/3034880/3034281
Fax: (20-2) 3034180
Email: info@africa-re.com

Africa Re Centre
Hospital Road,
Upper Hill
P O Box 62328 - 00200
Nairobi
Kenya

Tel: (254-20) 2730660 - 3
Telex: 23289 AFRICARE
Fax: (254-20) 2724896/2730608
Email: nairobi@africa-re.com

Rue Viviane
A24- Cocody Ambassade
20 BP 1623
Abidjan 20
Cote d'Ivoire

Tel: (225) 22404480/1
Telex: 22345 AFRE CI
Fax: (225) 22 40 44 82
Email: abidjan@africa-re.com

AFRICA RE
Plot 1679 Karimu Kotun Street
Victoria Island
P.M.B. 12765
Lagos
Nigeria

Tel: (234-1) 266 3323, 262 6660-2, 618820
Fax: (234-1) 266 3282, 2626664
Email: info@africa-re.com

3rd Floor (North Wing)
Oakhurst Building
11 - 13, St. Andrew's Road
Parktown 2193
P O Box 3013
Houghton 2041
Johannesburg
South Africa

Tel: (27-11) 484 3764 / 1970 / 1606
Fax: (27-11) 484 1001
Email: africare@africare.co.za

Room 214-215, 2nd Floor
St. James Court
Vishnu Khetra Street
(Ex St. - Denis Street)
Port Louis
Mauritius

Tel: (230) 210 0795
Fax: (230) 210 2496
Email: p.louis@africa-re.com



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

TELEGRAMS: AFRICARE LAGOS
TELEX: 22647, 28716 (AFRICA) NG
TEL : +234 - 1 - 266 3323
TEL : +234 - 1 - 262 6660 - 3
FAX : +234 - 1 - 266 8802 / 266 3282 / 262 6664
E-MAIL : info@africa-re.com

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

Honourable Representatives
General Assembly
African Reinsurance Corporation

Date: 24th June, 2004

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, 2003.

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

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



Composition of Africa Re Board of Directors



Mr. M. Al Naas
Chairman



Mr. K. Selim



Mr. W. Zeru
Vice - Chairman



Mr. R. Lowe



Mr. A. Augusto



Mr. O. Bailey



Mrs. A. T. Soudre



Mr. C. Karekezi



Mr. M. H. Seba



Mr. A. O. Ibrahim



Mr. B. Purohit



Mr. C. Sao Vicente

ALTERNATE DIRECTORS

Mr. Mohammed Lemine OULD NATY, Mr. Guillaume RAKOTOSON, Mr. Souleymane MEITE, Mr. Abdul El Rezaf El Megrab, Mr. Fayek Hanna Twadros, Mr. Arthur N. YASKEY, Mr. Sylvestre GAZIAMODO, Mr. Thami EL-BARKI, Mr. Frederick MAGEZI, Mr. Eusébio Domingos VUNGE, Mr. Jackson MWAIKINDA

Composition of Africa Re Management Team



Mr. Bakary Kamara
Managing Director



Mr. Isidore Kpenou
*Director of Administration/
Corporation Secretary*



Mr. Haile M. Kumsa
*Deputy Managing
Director*



Mr. Ganiyu Musa
*Director
Finance & Accounts*



Mr. Ike Uduma
*Director
Internal Audit*



Mr. George Otieno
*Director
Central Operations &
Inspection*



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



Mr. Béné B. Lawson
*Regional Director
Abidjan*



Mr. Moncef Manai
*Regional Director
Casablanca*



Mr. A. G. Ravoaja
*Regional Director
Mauritius*



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



Mr. I. G. Nursinghdass
*Regional Director
Nairobi*

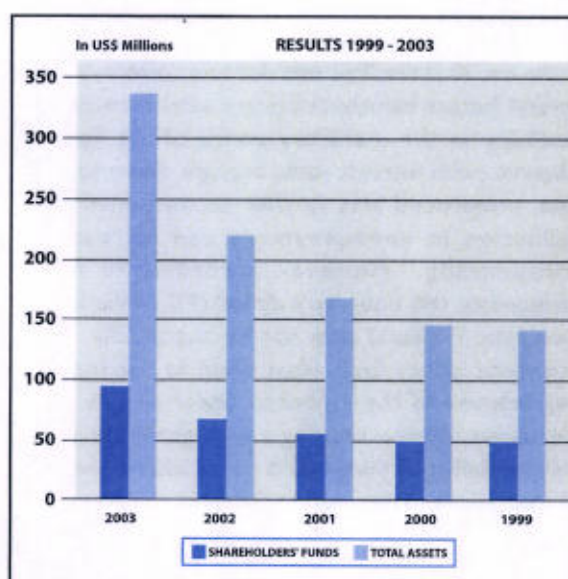
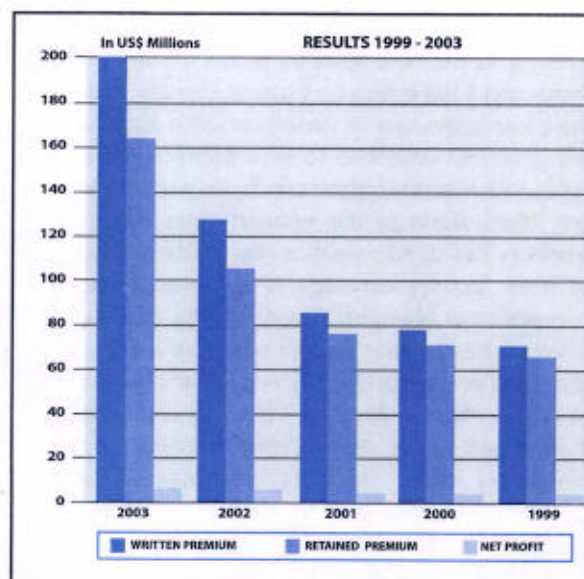
TABLE OF CONTENTS

Chairman's Statement	4
Financial Highlights.....	9
Economic and Trading Environment.....	10
Operations.....	14
Premium Income	15
Development of Gross premium.....	15
Voluntary Cessions	15
Geographical Distribution	16
Sectoral Distribution.....	17
Other Income.....	18
- Long-term Investments.....	18
- Income from Short-term Investments and other Sources.....	18
Outgo	18
- Losses.....	18
- Loss experience by Trading Area.....	19
- Commissions and charges	19
- Management Expenses.....	19
- Other Expenses Not Charged to the Underwriting Revenue Account.....	19
Results of the 2001 Underwriting Year.....	20
Results of the 2003 Financial Year.....	20
Appropriation of Results.....	21
External Auditor's Report on the Accounts.....	23
Balance Sheet As At 31st December 2003	24
Profit And Loss Account for the Year Ended 31st December 2003	26
Revenue Account for the Year Ended 31st December 2003	28
Underwriting Results By Class of Business for the Year Ended 31st December 2003.....	30
Statement of Changes in Equity for the Year Ended 31st December 2003	31
Statement of Cash Flows for the Year Ended 31st December 2003	32
Notes to the 2003 Financial Statements	33
Summary of Financial Statements for the Past 5 years.....	39

Financial Highlights



In US\$ '000	2003	2002	2001	2000	1999
RESULTS					
WRITTEN PREMIUM	198,123	126,972	85,114	78,060	70,920
RETAINED PREMIUM	164,232	104,267	75,512	71,718	65,879
EARNED PREMIUM (NET)	142,104	88,250	66,163	67,121	69,123
NET PROFIT	6,502	5,709	5,540	4,281	3,874
FINANCIAL POSITION					
SHAREHOLDERS' FUNDS	94,077	62,840	51,617	50,049	50,088
TOTAL ASSETS	331,155	215,851	164,057	148,988	145,608



After three successive years of decline, the world economy witnessed a slight improvement during the year under review and was characterised, towards the end of the period, by the emergence of positive macro-economic indicators and upswing in financial markets, which may not however suffice to absorb all the deficits of 2003. Indeed, the numerous political and security apprehensions that gripped the international community have not totally disappeared. Added to these uncertainties are the obstacles resulting from the failure of the World Trade Organisation (WTO) conference in Cancún (Mexico).

Gradual recovery of the world economy

The United States, which for most of the 1990s was the tugboat of the world economy has, once again, regained leadership in growth, ahead of continental Europe and other countries of the Organisation for Economic Cooperation and Development (OECD). The projections on the growth rates of America and Europe turned out to be inaccurate as the former recorded a 3% increase in Gross Domestic Product in 2003, instead of the projected 2.6%, while the latter achieved 0.5% as against the anticipated 1.8%. On its part, Japan produced a 3% growth in exports mainly to China, which is fast becoming a leading market in the world. America's performance was confirmed at the end of the third quarter with the announcement of an impressive 8.2% annual growth rate, the highest in the last 20 years. This was due to a combination of several factors namely, budgetary assertiveness and flexibility in the monetary policy of the Federal Reserve (with interest rates brought down to 1%). This turnaround was further accompanied by a reduction in unemployment and increase in consumption. However, according to many economists, this budgetary deficit (5% of the Gross Domestic Product) may not be sustainable. This economic policy finds illustration in the massive depreciation of the American dollar against most currencies, thereby creating a wide gap in the trade balance deficit of third world countries vis-à-vis the United States. Thus, during the year, the American currency depreciated by 17.5% against the euro. The principle whereby the strength of the currency is a reflection of the health of the economy has thus been invalidated by the political will of the only super power, because American exports would gain from the weakness of the dollar to the detriment of other trading partners.

Consequently, the appreciation of the Euro led to a serious decline in sales outside the European continent, including sales from the key economy of that region, namely Germany. In addition, the polemics surrounding the stability pact and the compliance with the 3% benchmark for public deficit did not facilitate

relations within the European Union. China, which is gradually getting integrated into the world economy in general and that of South-East Asia in particular, has once again demonstrated its exceptional dynamism by recording a growth rate as high as 8% due to the increase in exports (32%) and imports (41%), as well as the surge in internal consumption. Its refusal to devalue its currency (the Yuan) has amongst other things increased its trade balance surplus with the United States (US\$120 billion). This boom in Chinese production is partly responsible for the increase in crude oil demand and subsequent rise in the barrel price.

After a decade of decline, Japan, on its part, returned to the path of growth, whereas in Latin America, Brazil and Argentina in particular seem to have benefited from the American demand.

African economy and issues of good governance

The year 2003 was ordinary, with an average growth of 2.8%, which was not enough to cater for the population growth of 3% for the entire continent. The year was marked by symbolic economic and political events.

First of all, there was the resistance mounted in Cancún by cotton producing countries against developed countries, which are highly subsidising their farmers to the tune of \$300 billion for the United States and \$100 billion for Europe, thereby reducing the competitiveness of African textiles and causing the producer countries to lose \$1 billion. This is a serious issue to the cotton producers in Africa, which are, often, amongst the poorest countries in the world, as this sector which accounts for almost 30% of their export earnings, is exposed to unfair competition brought about by the policies of Governments that, otherwise, advocate the liberalisation of world economy, under the auspices of WTO. Meanwhile, even while implementing this inequitable policy, destabilizing theories such as "Singapore issues" are being promoted to impose on developing countries equal access of all players, irrespective of nationality, to public contracts for supply of goods and services as well as the liberalisation of industrial sectors, a requirement that does not take into consideration the principle of patronising budding industries in the least advanced, emerging and poor countries.

This double standard has strengthened the belief of Africans that they only stand to lose by the implementation of such liberalisation. Nevertheless, the Cancún conference has demonstrated that it is only by presenting a common front that they can better defend their economic interests and create a negotiating force that will have to be reckoned with.

Economic and Trading Environment



With this awakening to the intricacies of multilateral negotiations, Africa has chosen to open itself up and adopt transparency.

Consequently, African leaders have made commitments to the international community not only to account for the utilisation of oil windfall but also on how the funds recovered as part of anti-corruption policies have been applied to the improvement of water supply, health and education. Better still, some countries, for instance Nigeria, have pledged to publish revenue from crude oil. If implemented, this will mark a first essential step towards the practice of good governance in the public sector. It will perhaps also help to stem capital flight, a real cankerworm that is weighing down development financing. It is evident that with the recent oil discoveries in the Gulf of Guinea, the sub-region would in the nearest future become one of the most strategic for America, to which it already supplies about 15% of its energy needs and this could rise to 25% by 2015, as American oil companies envisage an annual investment of US\$ 10 billion in the zone over a period of ten years. If better utilised than in the past decades, this investment could be an important source of financing economic and human development.

Taken individually, the performances of African countries were contrasting.

Thus, in the Maghreb, Algeria recorded positive economic results due to a good cereal harvest and the rise in the price of crude oil. Indeed, following the increase in exports (+7.5%) and the price of oil (40%), the Algerian budget recorded a US\$3 billion surplus as against a US\$1.5 billion deficit in 2002, although the industrial sector still stagnates with a growth rate of 1.9%. However, the Tunisian economy, which had hitherto been a model of development, currently seems to be losing steam. In spite of a growth of 4% in 2003, the country's indebtedness remains high (61.5% of the GDP) while the textile industry is already feeling the effect of competition from Asia, in particular China.

The lifting of UN sanctions opened new and better prospects for Libya which is presently considering opening up the energy and industrial sectors to private capital (local and foreign) to the tune of 30% to 40%, thereby attracting about US\$ 10 billion into the oil sector.

Morocco recorded a growth of 6% following a good agricultural season (16% of the GDP) and an inflation rate of 1.6% while Mauritania, part of whose debt was cancelled following the multilateral initiative of "the Highly Indebted Poor Countries" (HIPC), recorded a 5.4% increase in GDP and an inflation rate of 3.5%.

The good cotton harvest in the Sahelian sub-region enabled Benin to record a 6.7% growth in GDP, Chad 5.5% due partly to the prospect of oil drilling in Doba, while that of Mali was 4% as a result of the discovery of new gold mines and Burkina Faso recorded only 1% following the crisis in Côte d'Ivoire.

Ghana attained its 4.6% growth target in 2003, with better management of the economy, thus qualifying for financial aid, which will lead to poverty reduction.

Nigeria, the second largest economy in sub-Saharan Africa, could not attain its 7% GDP growth objective, in spite of the increase in the price of crude oil, which generated an income of billions of US dollars.

Cameroon has remained the driving force of Central Africa, as it accounts for half of the sub-region's GDP, even if its economy depends largely on cash crops, given the low performance of the industrial sector, in spite of food self-sufficiency, which has enabled the country to save the hard-earned foreign exchange.

With an average annual growth rate of 3% since the democratisation of the country in 1994, South Africa remained the leading economy of the southern part of the continent, in spite of the recession inherited from the apartheid regime. Budget deficit was reduced from 9.5% to 1% of the GDP and debt brought down from 64% to 50%. The value of the Rand, which had depreciated by 37% between 2001 and 2002, increased by 20% in 2003, thus negatively affecting motor vehicle exports, which has remained one of the lifelines of South African commerce. However, it is worth noting that manpower development has not been proportional with the economic performance of the country: 30% of the working population is unemployed, while the income of the poorest has dropped by about 20% in 5 years.

In Angola, the restoration of peace stimulated the export of oil as well as diamond which earn the country US\$350 million in the 1st quarter of 2003.

Botswana remained one of the emerging countries that attracted more private capital, due to proper management of public affairs, the strength of its currency and a GDP growth rate of 4.1%. Mozambique recorded a 7% increase in GDP coupled with a 2% reduction in inflation, although it still occupies the 170th (out of 175 countries) position in the world human development index.

In the Indian Ocean, the Malagasy economy started its recovery after a lost year, 2002 (-12.7%), with a positive rate of 9.6% due to good agricultural results

Economic and Trading Environment

as well as exports from the free trade zone, where factories have resumed production and rehabilitation of the road network.

In Mauritius, despite the increase in unemployment (10.50%) and the high public debt (6% of the GDP), the economy improved by 4.4%.

The power shift in Kenya yielded the dividends of good governance towards the end of the year under review. Moreover, despite the increase in the export of coffee (35%) and horticultural produce (25%), the country recorded a modest GDP growth that was below the population growth. These same sectors, together with manufacturing, gave Uganda a 5.4% leap in 2003.

In North-East Africa, Sudan recorded a 5% increase in GDP, while inflation fell below 10% and unemployment remained at 18.7%. The year 2003 was marked by the devaluation of the Egyptian pound, which led to an increase in prices and consequently an inflation rate of 4.5%. However, tourist activities on the Red Sea and discoveries in the Energy sector (gas) resulted in an improvement in the macro-economic sector.

The political uncertainties, which characterised the Middle East, did not allow for significant economic progress in the sub-region unlike the Indian sub-continent and countries of South-East Asia, which were able to draw from internal resources to revitalise or strengthen their economies. Indeed, performance has been laudable in most of the markets where Africa Re operates namely, India, Bangladesh, Thailand and Malaysia.

This summary of the economic and trading environment would not present a clear picture of the opportunities and constraints that the African Reinsurance Corporation had to face, without an analysis, albeit inexhaustive, of continental and international reinsurance operations.

Resolutions and uncertainties in the international reinsurance industry

Events of the years 2002 and 2003 have seriously changed the international reinsurance landscape in many ways. In fact, in addition to the hardening of the market (rates, conditions and terms), several considerations have determined or dictated the conduct of underwriters, including the withdrawal of many reinsurers from certain classes, or discontinuation of business, the return to the fundamentals of the industry, for example, writing for profit, more clarity and transparency in data disclosure as well as flight to quality.

In effect, although the events of 11th September 2001 sent a shockwave, which compelled reinsurers to become more conscious of the need to return to the fundamentals of the profession, signs of the deterioration of financial results had been noticed several months before that fateful date. Indeed, reactions have been diverse and varied. Whereas some reinsurers stopped writing certain classes of business, others withdrew from specific markets due to accumulated losses, or as a result of their size for global players. The international reinsurance community seems to have returned to the professional preoccupation, which is to make profit.

Whether as specialists in particular products (alternative risk transfer) or in specific territories, reinsurers seem to have resolved to objectively price the products.

Therefore, market conditions became harder, prices escalated, while the exigencies for the right volume and accuracy of statistical information became more stringent.

Thus, the cedant while accepting to pay the high price, became more concerned with the quality of the security and the reinsurer's financial strength rating or claims paying ability.

However, faced with this rise in price, a number of direct insurers decided to increase their retention, while others opted to pay a higher cost for multi-annual programmes, thus avoiding the tedious, long and periodic negotiations.

The hardening of terms and conditions as well as the increase in the cost of covers made it possible to correct the imbalance in the business relationship between cedants and reinsurers in the past few years. As a result, the year 2003 held better prospects for reinsurers.

Meanwhile, interactive security rating has gained more grounds. Rather than a fad, it has become a requirement for good governance. Independent rating agencies henceforth have a more important role to play and have not hesitated in fulfilling it. Thus, following heavy losses in the financial markets and what many considered as under reserving, several reinsurers were downgraded to the extent that AAA-rated companies became a rarity.

However, it must be admitted that in spite of these major and repeated downgrading, there has been no contraction in capacity, even though the quality of cover has become an imperative for both direct underwriters and intermediaries.

This situation could persist because insurance and reinsurance companies are not certain to make

Economic and Trading Environment



enough returns on investment to allow for substantial reduction in the cost of covers.

Reinsurers who need to improve their balance sheets should not succumb to the temptation of hastening the softening of reinsurance terms and conditions, when even accounts and audit professionals concur on the need for more rigour in the analysis, estimation of reserve and preparation of final accounts of insurance companies in the coming years.

During the year under review, the International Accounting Standards Board published a draft (No 5) of the International Financial Reporting Standard, (IFRS), which, when finalised, would apply to all insurers/reinsurers in the European Union as from 2005. The second phase is expected to be completed in 2007. This initiative will surely have a marked impact on insurance companies because they are engaged in a business where the price of the service (premium) is fixed and received before its exact and final cost (compensation) is known, which implies a degree of approximation. While the implementation of the new norms would lead to increased consistency, transparency and uniformity in the presentation of accounts, it might lead to more volatility if the valuation of assets and liabilities is based on fair value, when available. That is because the profit for a year would be the difference between the value of assets at the beginning and closing of business, which according to insurers would lead to uncertainties, should there be a drop in their share value (in the stock market) and an increase in the capital employed.

Similarly, the tendency of the authorities of different countries to impose checks on the reinsurance business seems to be increasing by the day. African reinsurance, which is a part - albeit little - of international business, has benefited and also suffered on account of these developments.

Indeed, although generally, the insurance business in Africa has been profitable and generated substantial gains for reinsurers over the years, it has been unable to avoid the high rates and stringent reinsurance terms. Rates and conditions proposed to the industry were aligned to those of the international

market. As a result, reinsurers operating in the continent benefited from the new development, although they (particularly local and regional players) paid very high prices for their retrocession, without having all the usual covers, including the Acts of Terrorism and Sabotage (ATS).

The African Reinsurance Corporation, which is present all over the continent, faced these constraints, although it also benefited from the opportunities offered. Thus, the Corporation stamped its presence more visibly in almost all national territories, through its network of local and regional offices. At the same time, it was better accepted by cedants including the most demanding with regard to the quality of reinsurers' security. In the same vein, in order to establish a stronger presence in South Africa, preparations were in top gear to open an autonomous subsidiary to operate in that market as well as neighbouring countries with effect from 1st January 2004.

During the year under review, Standard and Poor's reaffirmed the Corporation's BBB+ (good) rating, while AM Best in its first rating of the Corporation awarded it an A- (excellent). This recognition by two of the best rating agencies in the world, to a large extent, helped the Corporation in its marketing drive and enabled it to record a premium income of US\$ 198.12million, representing a growth of 56.03% over the previous year or 43.96%, at constant exchange rates.

The Corporation was able to record an underwriting profit of US\$3.32 million, while its shareholders funds rose to US\$94.1 million and its total assets to US\$331.2 million. The capital increase, which was decided in June 2002 commenced during the year under review, with the existing shareholders exercising their right of first offer, well above the initial allocation to African investors (US\$ 25million). This is a tangible proof that the founding members and partners have bestowed their absolute faith and confidence in Africa Re.

Therefore, the Board, Management and Staff of the Corporation remain committed to earn this trust by working harder to maintain the path of excellence marked out by successive management teams.



Operations

The performance of the Corporation during the period in terms of the premiums, claims and other underwriting expenses is reviewed under this section. While adhering to its policy of cautious underwriting, the Corporation is making tremendous effort to boost income especially from voluntary cessions.

Operating from its Headquarters in Lagos and a network of four Regional and two underwriting/contact Offices, the decentralised structure and proximity to its cedants enabled the Corporation to respond promptly and efficiently to their needs.

With the growing significance of Oil business in Africa Re's portfolio, it has become necessary to highlight the contribution of this class.

Acceptances are therefore grouped as follows:

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

Similarly, to facilitate effective service and enhanced Management control the markets are classified as follows:

- ✓ Anglophone West Africa, managed from the Headquarters;
- ✓ Francophone West and Central Africa under the Abidjan production centre;
- ✓ Maghreb, serviced by the Casablanca Office which also supervises the Cairo underwriting office;
- ✓ North East Africa and the Middle East covered by Cairo;
- ✓ East and part of Southern Africa, under the jurisdiction of the Nairobi Office which also supervises the Johannesburg and Mauritius offices;
- ✓ South Africa and neighbouring markets are handled by the Johannesburg contact office; and;
- ✓ African Indian Ocean Islands and South Asia covered by Port Louis (Mauritius), which was upgraded to a regional office, in the course of the year.

"International" or "Worldwide" portfolio includes business generated by non-African markets and is mainly written by three production centres (Cairo, Lagos and Port Louis).

The following figures provide a summary of the Corporation's performance:

DESCRIPTION (US\$000)	2003			2002		
	Gross	Retro	Net	Gross	Retro	Net
INCOME:						
Premium (less cancellations)	198,123	33,891	164,232	126,972	22,705	104,267
Movement In Premium reserve	(38,321)	(16,193)	(22,128)	(29,784)	(13,767)	(16,017)
Earned Premium	159,802	17,698	142,104	97,188	8,938	88,250
OUTGO						
Losses paid	79,990	3,309	76,681	49,800	2,324	47,476
Movement in loss reserve	10,490	-	10,490	1,633	(1,250)	2,883
Incurred losses	90,480	3,309	87,171	51,433	1,074	50,359

Operations



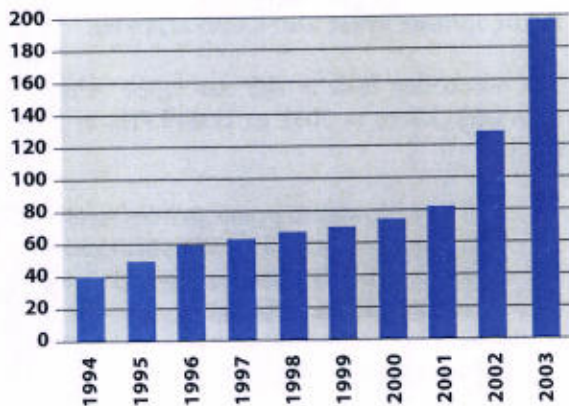
Premium Income:

The production in 2003 stood at US\$198.12million, thus exceeding the US\$126.97million recorded in 2002 by 56.03%. The shrink in global capacity and back to basics approach of the market, justify and explain the steep growth.

Development of Gross Premium:

As can be seen in the following graph, there has been a steady increase in the Corporation's written premium in the last decade with the ten year average growth rate rising to 17.78% compared to 13.83% in the previous year.

**DEVELOPMENT OF GROSS PREMIUM INCOME
IN US\$ MILLIONS**



The growth recorded for the period under review, which is the highest in two decades could be attributed to the following factors:

- The period under review continued to witness the disciplined underwriting approach adopted by market players following the September 11 attacks and Stock Markets crises, which led to high premium volumes (+56.03%). However, it must be noted that after adjusting the Corporation's production for exchange rate variations, the growth rates for 2002 and 2003 was between 44% and 45%.
- Following the withdrawal of some major players from the African terrain, coupled with the Corporation's improved financial strength, greater inroads were made into certain markets and risks.
- The weak dollar (the Corporation's unit of Account) led to sizeable gains in premium

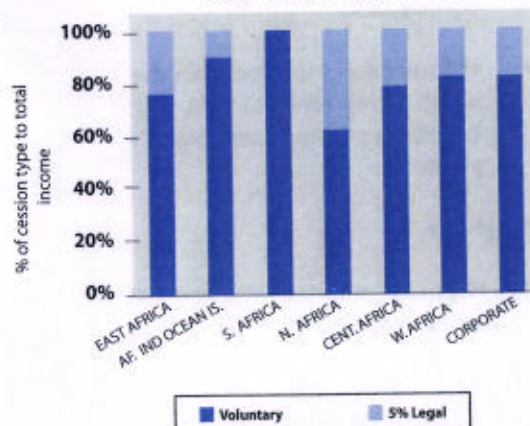
income. Indeed, exchange rate movement accounted for 7.56% of gross premium.

- At a time when buyers of reinsurance have become more demanding on credit quality, in the wake of downgrades in financial strength ratings, the award of an initial rating A- by A.M.Best, and a reaffirmed BBB+ from Standard & Poor's, have reinforced the confidence of Africa Re's trading partners in the Corporation.
- An effective marketing strategy designed to enhance the Corporation's visibility and acceptability, leading to an increase in voluntary cessions.

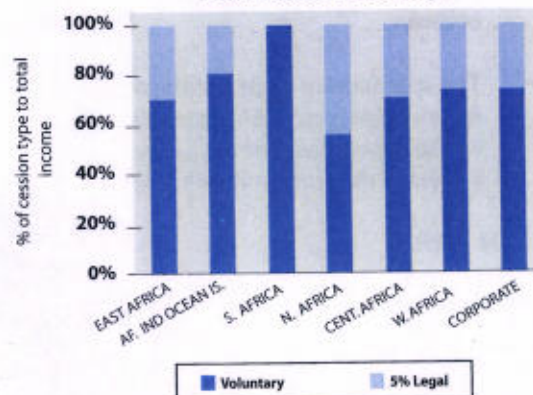
Voluntary cessions

The ratio of voluntary cessions increased from 47.56% in 1994 to 81.34% in 2003. It has been a deliberate strategy for the Corporation to reduce its reliance on legal cessions. This positive trend is a reflection of the effectiveness of the Corporation's marketing strategy in this regard. The levels of cessions achieved in 2003 and 2002 are presented in the following charts.

FINANCIAL YEAR 2003



FINANCIAL YEAR 2002





Operations

Geographical distribution

The industry's reaction to the September 11 disaster and other recent catastrophe events that reduced worldwide reinsurance capacity, created opportunities for Africa Re, which is seen as a regional reinsurer of first choice, and therefore was well positioned in 2003 to once again reap gains as a result of such developments.

This section shall consider each of the regions.

Southern Africa

This area consists of countries of the Rand zone as well as Mozambique, Botswana and Angola. The sub-region's premium income grew by 103.40% from US\$30.29m in 2002 to US\$61.61m in 2003. Reasons for the enhanced growth are as follows:

- Appreciation of the Rand by about 23.63% against the Dollar at year-end 2003, with the premium growth rate excluding the impact of exchange rate movement standing at 65.11%.
- In a broker driven market, the Corporation's improved rating led to a wider acceptance within the sub region, thus attracting new cedants, new business and increased share participation.
- Oil and Energy income from the sub-region, which increased by 25.95%, is gradually becoming an important part of the office's portfolio.

Maghreb

The Maghreb countries recorded a 49.37% growth in premium income from US\$23.92m in 2002 to US\$35.73m due to the following reasons:

- A substantial increase in the income from most classes of business, especially Oil as a result of sustained marketing drive resulting in increased shares in a number of accounts, and new business.
- The appreciation of the national currencies of Algeria, Morocco and Tunisia, mitigated slightly by the depreciation of the Libyan Dinar, increased the Corporation's income by 8.45%.

East Africa

Premium income rose from US\$19.86m in 2002 to US\$26.52m. This was in spite of the loss of US\$2.3m due mainly to the massive devaluation of the Zimbabwean Dollar.

The increase was due to higher share participation in two major accounts in a leading market and sizeable new businesses from ceding companies and brokers, as a result of wider acceptability of the Corporation.

Anglophone West Africa

The premium income from this sub-region rose by 30.86% to US\$22.09m in 2003, despite a 6.98% depreciation of the Nigerian Naira following:

- The continued hardening of rates in the international Oil and Energy market, with a subsequent 37.15% increase in premium income from that sector.
- Higher participation in existing accounts coupled with an 88.18% rise in facultative business.

Francophone West and Central Africa

The production level in this sub-region increased from US\$13.36m in 2002 to US\$19.91m in 2003, due to:

- A 63.16% increase in premium from facultative reinsurance, resulting from the continuation of its strategy to fully optimize the opportunities offered by this line of business,
- The appreciation of the CFA Franc (which is linked to the Euro) against the US dollar by 17.5%, leading to an increase in premium of 20.06%.

African Indian Ocean Islands

The premium income from that market rose by 72.15% to US\$12.98m in 2003, as a result of the appreciation of all currencies in the sub-region and increased market share.

North East Africa

This sub-region, comprising Egypt and Sudan, produced an income of US\$9.79m in 2003 as against US\$8.26m in 2002, in spite of the 33.08% devaluation of the Egyptian Pound with a consequent reduction of income by US\$1.2 million.

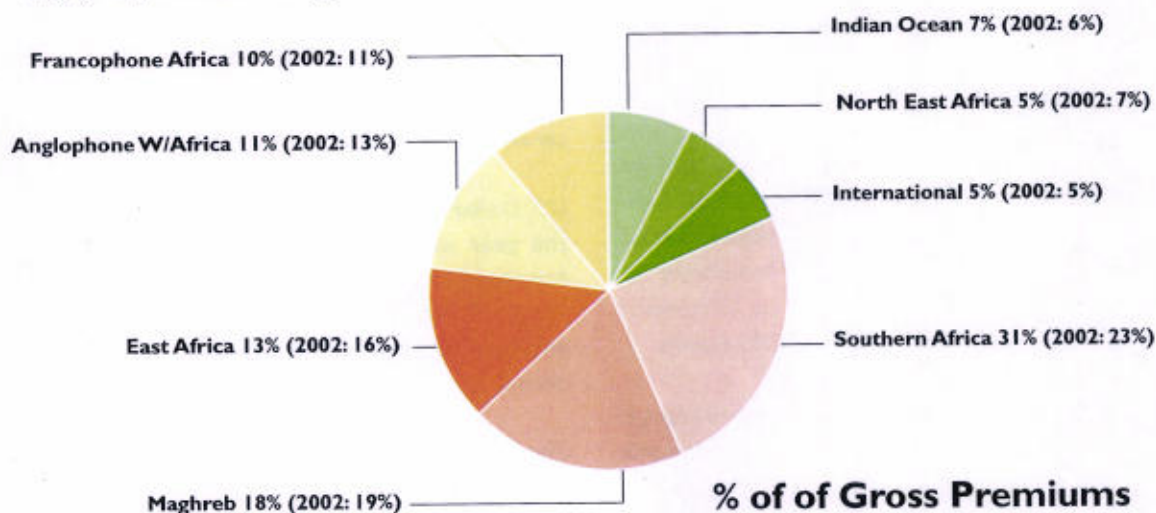
The higher share in treaty and facultative participation in the sub-region due to the proximity of the Cairo office to cedants, the dynamic marketing drive and the participation in some Energy Accounts explain this increase.

Operations



International business

Premium income from international operations increased from US\$6.77m in 2002 to US\$9.49m in 2003. The gradual expansion into the Middle East market spearheaded by the Cairo office, coupled with the slight increase in its underwriting limits as well as the contraction of capacity in the international market were largely responsible for the growth.



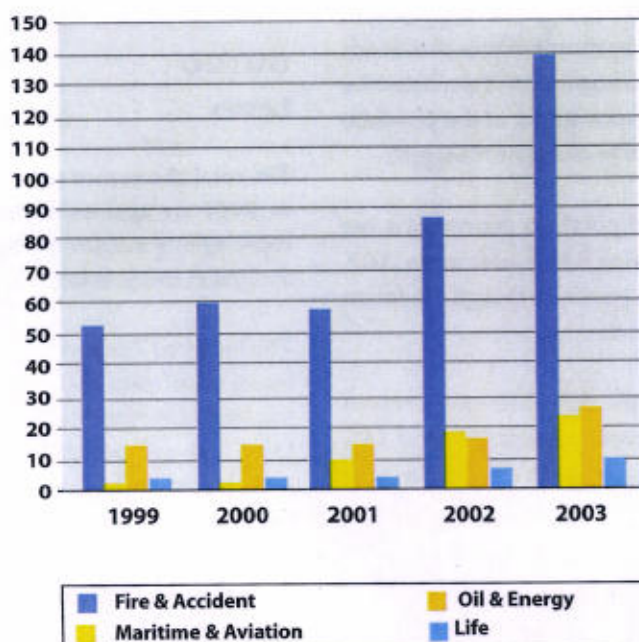
Sectoral distribution

The bulk of the Corporation's premium income, emanated from the Fire and Accident classes, which generated US\$140.23 million (2002: US\$88.50 million) or 70.78% (2002: 69.73%). While Oil and Energy share was US\$22.81 million (2002: US\$16.69 million) or 11.51% (2002: 13.15%), the Marine and Aviation classes contributed US\$25.42 million (2002: US\$15.12 million) or 12.83% (2002: 11.92%).

Lastly, life business produced US\$9.66 million (US\$6.60 million in 2002) or 4.88% (2002: 5.20%).

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

PREMIUM INCOME BY CLASS US\$ MILLION





Operations

OTHER INCOME

Long term investments

The Corporation maintained its investment in Afreximbank and Shelter Afrique as well as the direct underwriting companies at 2002 levels. The development finance institutions continue to pay regular dividends, even though the efforts to get Afreximbank to open its export credit facility have still not yielded the desired results. The business development objectives behind the investment in the direct underwriting companies have been achieved. In addition, Société Nationale d'Assurance du Cameroun-Vie (SNAC-VIE) and La Citoyenne (Cameroon) paid dividend on their 2002 results.

The Corporation's Headquarters Building in Lagos is fully let and generating satisfactory rental income while the Nairobi office building, completed in the course of 2003, is expected to achieve full letting during 2004.

Income from Short-Term Investments and other sources

Total financial investment increased by 63% from US\$96.67m as at 31 December 2002 to US\$157.60m at the end of the reporting period. While there is a noticeable currency translation impact, the on-going capital increase programme as well as improved operational cash flow contributed to this performance.

During the year, the Corporation invested US\$3m in a 5-year bond issued by the African Development Bank. However, the view by most analysts that bonds look somewhat expensive underpinned the defensive positioning of the fixed income part of the portfolio managed by Merrill Lynch Investment Managers.

The U.S. Dollar managed portfolio generated a net return of 5.81% compared to 3.56% achieved in 2002. The equity portion of the portfolio, though moderate in size, performed very well.

The South African Rand portfolio achieved a return of 17.39% in local currency compared to 7.56% recorded in the previous year. Both the fixed income and equity components produced positive returns of 18.90% and 12.29% respectively. The strength of the Rand versus the U.S. Dollars led to a much higher return in dollar terms.

On the whole, the investment in bonds and other fixed income instruments generated US\$0.94m compared to US\$1.13m in 2002, while the equity investment produced a gain of US\$0.53m compared to a loss of US\$0.35m in 2002.

Rental income increased by 35.94%, from US\$0.24m in 2002 to US\$0.32m in the year under review. Other income, including fees earned for management services amounted to US\$0.52m (2002:US\$0.45m).

U.S. Dollar interest rates remained very low during the year under review. Although bond yields continued to rise in response to stronger economic data, indications from the Federal Reserve are that interest rates may remain low for a considerable period.

The Corporation remained prudent in its approach to investment management, holding a significant part of its portfolio in deposits with reputable financial institutions. Interest on deposits for the year therefore amounted to US\$1.79m compared to US\$1.62m in 2002.

In line with the third plan of action approved by the Board of Directors, the Corporation envisages to set up an in-house investment unit in the course of 2004. Given the respectable level of financial resources available to the Corporation, coupled with its physical presence in the major financial centres across the continent, Africa Re expects to be able to tap into the investment opportunities in the region. In so doing, it will seek to work with reputable investment managers/financial advisers and remain guided by the key requirements of security, profitability and liquidity.

OUTGO

Losses

The total claims paid amounted to US\$79.99 million in 2003 as against US\$49.80 million in 2002, representing a claims ratio of 40.37% compared to 39.22% in the previous year.

The incurred losses amounted to US\$90.48 million, made up of paid losses of US\$ 79.99 million and movement in reserves of US\$10.49 million as against US\$51.43 million, US\$49.80 million and US\$1.63 million respectively in 2002.

The following table provides useful insights into the foregoing indications:

Operations

Gross loss ratio by class - financial year 2003 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 Engi. and Oil)	67.24	111.27	60.43%	2.82	4.66	60.52%	70.06	115.93	60.43%
Marine & Aviation	12.14	31.87	38.09%	0.97	2.55	38.04%	13.11	34.42	38.09%
Life	7.31	9.45	77.35%	-	-	-	7.31	9.45	77.35%
Total	86.69	152.59	56.81%	3.79	7.21	52.57%	90.48	159.80	56.62%

Loss experience by trading area:

The claims paid ratios for Anglophone West Africa were more favourable than the previous year, which was affected by the Lagos Bomb blast. The gross and net ratios were 20.38% and 34.12% as against 27.41% and 61.08% in 2002.

From a gross claims paid ratio of 41.69% (net: 33.72%) in 2002, Francophone West and Central Africa's gross ratio improved to 32.32% (net: 37.31%).

In the Maghreb zone, the claims paid ratios in the period under review were less favourable than the previous year due to some major claims paid during the year. The net claims paid ratio increased from 41.93% to 60.0% due to some claims paid during the year (SAMIR and Earthquake in Algeria), while the gross ratio also went up (49.24% as against 36.43% in 2002).

The North East Africa Underwriting Office also experienced the same trend as its regional office: Gross, 48.34% (2002: 27.44%) and net, 41.87% (2002: 30.19%). A major claim was paid in Sudan.

The claims experience in East Africa improved over the previous year. The gross ratio was 43.49% (2002: 47.24%) and the net ratio was 44.75% (2002: 49.43%).

The La Plantation/Oberoi Hotels and Jumbo Supermarket claims paid in Mauritius shot up the gross claims ratio to 52.26% (2002: 47.88%). The net claims ratio however was 49.46% (2002: 52.26%).

The ratios of the South African office for 2003 also improved to 41.92% gross and 49.73% net. The ratios for 2002 were 49.64% and 52.21% respectively indicating a trend towards better results.

Commission and charges

Gross commission and charges recorded during the year amounted to US\$52.61m as against US\$32.45m

in the previous year, while recoveries from retrocessionaires stood at US\$7.00m (2002: US\$3.16m). As a result, net commission and charges increased by 55.72% from US\$29.29m in 2002 to US\$45.61m in 2003. However, the resulting net ratio improved slightly from 28.09% to 27.77%.

Management expenses

Management expenses charged to the underwriting revenue account increased by 11% from US\$5.41m in 2002 to US\$6.01m in 2003. This increase is in line with the Corporation's expectation, considering the change in the underlying volume of business, depreciation of the U.S. Dollar against most of the operational currencies and escalating cost of utilities and services in some of the office locations. Indeed, the level of expenses would have been higher but for the Corporation's continued commitment to the implementation of stringent control measures aimed at optimizing resource allocation.

On the back of a 58% increase in net premium, the management expenses to retained premium ratio improved significantly from 5.19% in 2002 to 3.66%. For the first time in the history of the Corporation, management expenses ratio fell below the benchmark of 5%.

Other expenses not charged to the underwriting revenue account

The cost of the meetings of the Board of Directors and Annual General Assembly stabilized at US\$0.41m, while audit fees increased by 7% from US\$42,000 in 2002 to US\$45,000. The increase in the charge for depreciation and amortisation is a reflection of the rise in the underlying depreciable assets, while other expenses include a general provision for balances doubtful of recovery.



Operations

RESULTS OF THE UNDERWRITING YEAR 2001

As in the previous years, the Corporation applied the three open year policy, deferring the recognition of the net income of an underwriting year until the end of the third financial year. Accordingly, the 2001 underwriting year, which commenced on 1 January 2001, was closed on 31 December 2003.

During that period, the underwriting year generated total premium income of US\$111.36m, representing a 46.57% increase over the US\$75.98m recorded by underwriting year 2000 when it was closed for the first time in the previous year. While the contribution of the Fire/Engineering and Aviation classes stabilized at about 44% and 2% respectively, Accident and Marine Cargo classes reduced from 34.14% and 11.12% for underwriting year 2000 to 28.52% and 8.14% for 2001. There was, however a noticeable increase in the Life and Marine Hull contribution from 3.81% to 7.80% and 5.97% to 9.75% respectively over the same period.

Premium ceded to retrocessionaires for the underwriting year increased by 59% from US\$7.86m in respect of 2000 to US\$12.51m. The rise in cost was due to a combination of the hardening retrocession market and the Corporation's increasing participation in the Oil and Petrochemical risks, especially in Southern Africa.

Accordingly, retained premium for the underwriting year stood at US\$98.85m, a growth of 45.12% over the US\$68.12m retained on underwriting year 2000.

Gross claims paid amounted to US\$44.69m (2000:US\$33.29m) while recovery from retrocessionaires remained virtually unchanged at US\$2.25m (2000:US\$2.27m). The resulting net claims ratio improved from 45.55% for underwriting year 2000 to 42.93% for 2001. Commission and charges, net of reinsurance amounted to US\$28.70m (2000:US\$21.79m), representing a ratio of 29.04% compared to 31.99% recorded for underwriting year 2000.

Management expenses charged to the underwriting year amounted to US\$4.95m (2000:US\$4.52m), generating a technical surplus of US\$22.76m (2000:US\$10.78m). Based on the estimate of outstanding claims, including IBNR, a reserve of US\$18.21m (2000:US\$7.59m) was established in respect of the underwriting year. The resulting underwriting surplus of US\$4.55m (2000:US\$3.19m) was transferred to the profit and loss account.

To ensure that it is able to achieve full compliance

with the International Accounting Standards on Insurance, when completed, and enhance the comparability of reported figures with the other industry players, the Corporation plans to adopt the annual accounting as against the current three open year method for its future financial statements.

RESULTS OF THE 2003 FINANCIAL YEAR 2003

Gross written premium during the year amounted to US\$198.12m, representing a 56.03% increase over the US\$126.97m generated last year. Although this year's performance was assisted, in part, by the currency gain recorded by a number of the Corporation's trading currencies against the reporting currency (U.S. Dollars), the year on year increase in production is a reflection of Africa Re's rising profile as a credible and professional reinsurer throughout the continent of Africa and beyond. Buoyed by the assignment of an "A-" rating by AM Best and the re-affirmation of its "BBB+" rating by Standard and Poor's, the Corporation is gaining wider market acceptance on new and existing businesses.

However, due to the modest size of its capital and retention capacity, and the prudent utilization of same, the Corporation continued to make extensive use of the retrocession market to protect its increasing book of Oil and Energy business. Premium ceded to retrocessionaires therefore increased by 49% from US\$22.70m in 2002 to US\$33.89m.

Accordingly, retained premium for the year stood at US\$164.23m compared to US\$104.27m in 2002, an increase of 57.51% and a retention ratio of 82.89% (2002:82.12%).

Gross claims booked during the year amounted to US\$79.99m, representing a 60.62% increase over the US\$49.80m recorded last year. Recoveries from retrocessionaires stood at US\$3.31m (2002:US\$2.32m), leaving a net claims and ratio of US\$76.68m (2002:US\$47.68m) and 46.69% (2002:45.53%) respectively. Commission and charges, net of recoveries, amounted to US\$45.61m (2002:US\$29.29m), with the ratio stabilizing at 28%.

Management expenses allocated to the underwriting revenue account increased by 11% from US\$5.41m in 2002 to US\$6.01m.

Based on the foregoing, total underwriting outgo for the year stood at US\$128.30m compared to US\$82.18m in the previous year. The resulting excess of income over outgo therefore improved by 62.65% from US\$22.09m in 2002 to US\$35.93m this year,



while the reinsurance and reserve funds at the end of the year grew by 34.55% from US\$94.41m to US\$127.03m. As a result, the underwriting surplus transferred to the profit and loss account amounted to US\$3.32m compared to US\$3.19m recorded in 2002.

Income from investment and other sources increased by 33%, from US\$3.11m earned in 2002 to US\$4.13m. Net interest on reinsurance deposits also grew by 27% to reach US\$1.48m compared to US\$1.17m in 2002. There was therefore a 14% improvement in the net profit of US\$6.50m achieved for the year as against US\$5.71m in the previous year.

APPROPRIATION OF RESULTS

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

- **US\$3,251,246** to the General Reserve in accordance with Resolution No. 4/1992;
- **US\$699,762** to Other Reserves;
- **US\$1,057,330** to be paid as dividend at the rate of US\$1.60 per subscribed and paid up share of US\$100 par value;
- **US\$2,283,889** be carried forward.



Board and Staff members at a recent meeting



Guests at the Cocktail hosted to launch African Reinsurance Corporation (South Africa) Limited, January 2004



Participants and facilitators at the Reinsurance Workshop held for the Zambia market in May 2003



Pioneer Board and Staff Members of African Reinsurance Corporation (South Africa) Limited, January 2004

External Auditors' Report



Chartered Accountants
235, Ikorodu Road,
P. O. Box 965, Lagos,
Nigeria.

Tel: +234 1 4930720-4
Fax: +234 1 4970023
www.deloitte.com

**Akintola Williams
Deloitte
& Touche**

REPORT OF THE EXTERNAL AUDITORS

TO THE SHAREHOLDERS OF AFRICAN REINSURANCE CORPORATION

We have audited the accompanying balance sheet of African Reinsurance Corporation as of 31 December 2003 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Corporation's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides us with a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation as of 31 December, 2003 and the results of its operations and cash flows for the year then ended, in conformity with International Accounting Standards.

Akintola Williams Deloitte & Touche

Lagos, Nigeria
15 April 2004

Deloitte
Touche
Tohmatsu

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

A list of partners' names is available at 235, Ikorodu Road, Lagos.



African Reinsurance Balance Sheet at

ASSETS	Note	2003 US\$	2002 US\$
Cash and bank balances	3	29,465,562	9,234,094
Investments	4	128,134,869	87,433,389
Amounts due from companies on reinsurance accounts	5	44,795,714	31,276,716
Deposits retained by ceding companies	6	68,122,516	45,897,184
Sundry debtors		953,481	567,119
		271,472,142	174,408,502
Retrocessionnaires' share in reserve funds	10	41,894,861	25,701,288
Fixed assets	7	17,788,152	15,741,416
		331,155,155	215,851,206

The financial statements were approved by the Board of Directors on 15th April, 2004 and signed on its behalf by:

Musa AL NAAS
Chairman



LIABILITIES, CAPITAL AND RESERVES	Note	2003 US\$	2002 US\$
Amounts due to companies on reinsurance accounts	8	53,574,172	24,636,622
Dividend payable	9	1,933,835	1,788,608
Deposits due to retrocessionaires		3,236,393	3,253,161
Other creditors, accruals and provisions		3,143,542	3,220,947
		61,887,942	32,899,338
Reinsurance and reserve funds	10	175,190,293	120,111,440
Shareholders' funds			
Paid up capital	11	66,083,100	50,282,200
Share premium		2,782,835	74,969
General reserve	12	13,922,832	10,671,586
Other reserves	13	8,794,000	8,094,238
Retained earnings		2,283,889	789,735
Cumulative translation adjustment	14	210,264	(7,072,300)
		94,076,920	62,840,428
		331,155,155	215,851,206

The financial statements were approved by the Board of Directors on 15th April, 2004 and signed on its behalf by:

Bakary KAMARA
Managing Director



African Reinsurance

Profit and Loss Account for the year ended

EXPENDITURE	Note	2003 US\$	2002 US\$
General Assembly and Board of Directors' Meetings		411,384	410,178
Audit Fees		45,000	42,000
Depreciation and Amortisation		954,857	847,276
Other expenses and provisions		821,000	500,434
Profit for the year		6,502,492	5,709,481
		8,734,733	7,509,369
APPROPRIATIONS:			
Proposed dividend		1,057,330	754,233
Transfer to general reserves		3,251,246	2,854,740
Transfer to reserve for exchange fluctuation		499,762	500,000
Transfer to reserve for loss fluctuation		200,000	200,000
Transfer to cumulative translation adjustment		-	1,000,000
Applied for bonus issue		-	1,000,000
Retained earnings at 31st December		2,283,889	789,735
		7,292,227	7,098,708

The accompanying notes form an integral part of this statement

Corporation

31st December 2003



INCOME	Note	2003 US\$	2002 US\$
Underwriting profit		3,315,838	3,191,780
Income from investments and other sources	15	4,129,952	3,106,892
Interest on reinsurance deposits		1,479,466	1,166,536
Realised (loss)/gain on exchange		(190,523)	44,161
		8,734,733	7,509,369
Retained earnings at 1st January		789,735	1,389,227
Profit for the year		6,502,492	5,709,481
		7,292,227	7,098,708

The accompanying notes form an integral part of this statement



African Reinsurance

Revenue Account for the year ended

OUTGO	Gross	Retrocession	NET	NET
	US\$	US\$	2003	2002
			US\$	US\$
LOSSES PAID	79,989,705	3,308,844	76,680,861	47,475,853
Add:				
Outstanding loss reserve at the end of the year	43,927,673	3,482,464	40,445,209	29,954,566
Deduct:				
Outstanding loss reserve at the beginning of the year	33,437,030	3,482,464	29,954,566	27,071,748
LOSSES INCURRED	90,480,348	3,308,844	87,171,504	50,358,671
COMMISSIONS	48,715,748	6,743,583	41,972,165	26,228,285
CHARGES	3,889,823	253,783	3,636,040	3,059,549
TOTAL OUTGO	143,085,919	10,306,210	132,779,709	79,646,505
MANAGEMENT EXPENSES			6,008,584	5,411,478
Underwriting profit transferred to profit & loss account			3,315,838	3,191,780
			142,104,131	88,249,763

Corporation

31st December 2003



INCOME	Gross	Retrocession	NET	NET
	US\$	US\$	2003	2002
			US\$	US\$
PREMIUM NET OF CANCELLATIONS	198,122,854	33,891,352	164,231,502	104,267,377
Add:				
Reinsurance fund at the beginning of the year	86,674,410	22,218,824	64,455,586	48,437,972
Deduct:				
Reinsurance fund at the end of the year	124,995,354	38,412,397	86,582,957	64,455,586
EARNED PREMIUM	159,801,910	17,697,779	142,104,131	88,249,763
			142,104,131	88,249,763



African Reinsurance Corporation Underwriting Results by Class of Business for the year ended 31st December 2003

	Fire and Accident	Marine and Aviation	Life	TOTAL 2003	TOTAL 2002
	US\$	US\$	US\$	US\$	US\$
Underwriting income:					
Gross premium	150,961,678	37,501,026	9,660,150	198,122,854	126,972,266
Retrocession premium	(23,432,768)	(10,458,584)	-	(33,891,352)	(22,704,889)
	127,528,910	27,042,442	9,660,150	164,231,502	104,267,377
Underwriting outgo:					
Losses paid	59,186,593	10,724,735	6,769,533	76,680,861	47,475,853
Commissions	32,621,949	7,195,653	2,154,563	41,972,165	26,228,285
Charges	2,954,292	539,790	141,958	3,636,040	3,059,549
Management expenses	4,578,302	1,137,313	292,969	6,008,584	5,411,478
	99,341,136	19,597,491	9,359,023	128,297,650	82,175,165
Excess of income over outgo	28,187,774	7,444,951	301,127	35,933,852	22,092,212
Reinsurance & reserve funds					
At 1st January	65,701,962	23,904,349	4,803,841	94,410,152	75,509,720
	93,889,736	31,349,300	5,104,968	130,344,004	97,601,932
At 31st December	(97,806,853)	(23,663,422)	(5,557,891)	(127,028,166)	(94,410,152)
Underwriting (loss)/profit transferred to profit & loss account	(3,917,117)	7,685,878	(452,923)	3,315,838	3,191,780

The accompanying notes form an integral part of this statement

African Reinsurance Corporation

Statement of Changes in Equity

for the year ended 31st December 2003

	Share Capital US\$	Share Premium US\$	General Reserve US\$	Other Reserves US\$	Cumulative Translation Adjustment US\$	Retained Earnings US\$	Total US\$
Balance at 31st December 2001	24,597,500	5,879,765	25,573,659	7,394,238	(13,217,544)	1,389,227	51,616,845
Profit for the year	-	-	-	-	-	5,709,481	5,709,481
New shares subscribed	754,700	368,391	-	-	-	-	1,123,091
Currency translation Adjustment	-	-	-	-	5,145,244	-	5,145,244
Proposed dividend	-	-	-	-	-	(754,233)	(754,233)
Transfer to reserves	-	-	2,854,740	700,000	1,000,000	(4,554,740)	-
Bonus issue	24,930,000	(6,173,187)	(17,756,813)	-	-	(1,000,000)	-
Balance at 31st December 2002	50,282,200	74,969	10,671,586	8,094,238	(7,072,300)	789,735	62,840,428
Profit for the year	-	-	-	-	-	6,502,492	6,502,492
New shares subscribed	15,800,900	2,707,866	-	-	-	-	18,508,766
Currency translation Adjustment	-	-	-	-	13,549,830	-	13,549,830
Transfer to technical reserves	-	-	-	-	(6,267,266)	-	(6,267,266)
Proposed dividend	-	-	-	-	-	(1,057,330)	(1,057,330)
Transfer to reserves	-	-	3,251,246	699,762	-	(3,951,008)	-
Balance at 31st December 2003	66,083,100	2,782,835	13,922,832	8,794,000	210,264	2,283,889	94,076,920

The accompanying notes form an integral part of this statement





African Reinsurance Corporation
Statement of Cash Flows
for the year ended 31st December 2003

	2003	2002
	US\$	US\$
CASH FLOWS FROM OPERATIONS:		
Profit for the year	6,502,492	5,709,481
Adjustments to reconcile operating profit to net cash generated from operations:		
Depreciation and amortisation	954,857	847,276
Profit on sale of fixed assets	(16,498)	(6,293)
Reinsurance & reserve funds	38,885,279	18,900,432
Amounts due from companies on reinsurance accounts	(13,518,998)	(6,960,795)
Deposits retained by ceding companies	(22,225,331)	(5,863,965)
Sundry debtors, accrued interest & prepayments	(386,360)	717,655
Amounts due to companies on reinsurance accounts	28,937,550	8,875,863
Deposits due to retrocessionaires	(16,768)	64,521
Other creditors, accruals & provisions	(77,406)	(282,518)
	32,536,325	16,292,176
Net cash generated from operations	39,038,817	22,001,657
Adjustments for non-cash items taken to shareholders funds:		
Cumulative translation adjustment	7,282,564	5,145,244
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	37,764	7,224
Purchase of fixed assets	(3,022,860)	(1,961,447)
Purchase of investments	(40,701,480)	(22,795,100)
	(43,686,576)	(24,749,323)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from share subscription	18,508,766	1,123,090
Dividend Paid	(912,103)	(258,701)
	17,596,663	864,389
Net increase in cash and short term maturities	20,231,468	3,261,967
CASH AND SHORT TERM MATURITIES:		
At 1st January	9,234,094	5,972,127
At 31st December	29,465,562	9,234,094

The accompanying notes form an integral part of this statement

Notes to the Financial Statements for the year ended 31st December 2003



NOTE 1

OPERATIONS

The African Reinsurance Corporation was established 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 capacities.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue Recognition

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

(b) Underwriting Revenue Account and Reinsurance and Reserve Funds

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

(c) Currency Translation

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

(d) Investments

Unlisted investments are shown at fair value, unless their fair value cannot be reliably determined, in which case they are shown at cost less accumulated impairment losses.

Listed investments are classified as available-for-sale financial assets and are carried at fair value, which is calculated by reference to stock exchange quoted bid prices at the close of business on the balance sheet date.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are carried at fair value.

Investments with fixed maturity date that management has the intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortised cost.

Other investments purchased in the primary market are carried at amortised cost.

Gains and losses arising from a change in the fair value of available-for-sale financial assets are included in the profit and loss account for the period in which it arises.

(e) Fixed Assets and Depreciation

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

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



Notes to the Financial Statements for the year ended 31st December 2003

(f) Debtors

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

(g) Retirement Benefit Obligations

The Corporation operates a defined contribution scheme for its employees. The assets of the scheme are held in a separate trustee administered fund which is funded by contributions from both the Corporation and the employees.

The Corporation's contributions to the retirement benefit scheme are charged to the profit and loss account in the year to which they relate.

(h) Management Expenses

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

NOTE 3

CASH AND BANK BALANCES

The balances include an equivalent of **US\$5,093,337** (2002: **US\$6,593,380**) representing cash and current accounts in member States' currencies.

NOTE 4

INVESTMENTS

	2003 US\$	2002 US\$
Unlisted equity investments	2,014,365	2,014,365
Listed equity investments	3,142,873	1,765,485
	5,157,238	3,779,850
Bonds and other fixed income securities	14,475,457	10,706,040
Short-term bank deposits	108,502,174	72,947,499
	122,977,631	83,653,539
	128,134,869	87,433,389

Bonds and other fixed income securities include investments classified as held-to-maturity with amortised cost amounting to **US\$4,937,600** (2002: **US\$1,962,500**)

Notes to the Financial Statements for the year ended 31st December 2003



NOTE 5

AMOUNT DUE FROM COMPANIES ON REINSURANCE ACCOUNTS

The balances are spread over a large number of cedants and include no undue concentrations of credit risks. These balances are subject to normal credit terms generally applicable in the industry.

NOTE 6

DEPOSITS RETAINED BY CEDING COMPANIES

	2003 US\$	2002 US\$
Premium deposits	20,621,370	12,618,491
Loss deposits	47,501,146	33,278,693
	68,122,516	45,897,184

NOTE 7

FIXED ASSETS

	Fixed Assets in Progress US\$	Freehold & Leasehold Property US\$	Furniture Fittings & Equipment US\$	Motor Vehicles US\$	Total 2003 US\$	Total 2002 US\$
COST						
At 1st January	2,422,365	11,409,294	5,184,444	561,155	19,577,258	17,736,538
Additions	560,726	2,130,243	190,418	141,473	3,022,860	1,961,447
Reclassifications	(2,983,091)	2,424,236	558,855	-	-	-
Disposals	-	(10,192)	(208,394)	(148,452)	(367,038)	(120,727)
At 31st December	-	15,953,581	5,725,323	554,176	22,233,080	19,577,258
DEPRECIATION						
At 1st January	-	747,626	2,623,958	464,258	3,835,842	3,108,363
Charge for the year	-	260,873	631,178	62,806	954,857	847,276
On disposals	-	-	(197,621)	(148,150)	(345,771)	(119,797)
At 31st December	-	1,008,499	3,057,515	378,914	4,444,928	3,835,842
NET BOOK VALUE						
At 31st December	-	14,943,212	2,669,678	175,262	17,788,152	15,741,416

- Included in freehold property is an amount of US\$8.24 million, the cost of the Corporation's headquarters building. The Corporation occupies 43% of the building and lets out the balance to third parties.
- The Nairobi Regional office building was commissioned during the year. The total cost of the building included in freehold property as at 31 December, 2003 is US\$2.71 million. The regional office presently occupies about 20% of the total available space.



Notes to the Financial Statements for the year ended 31st December 2003

NOTE 8

AMOUNT DUE TO COMPANIES ON REINSURANCE ACCOUNTS

	2003 US\$	2002 US\$
Due to ceding companies	32,246,945	15,938,513
Due to retrocessionnaires	21,327,227	8,698,109
	53,574,172	24,636,622

NOTE 9

DIVIDEND PAYABLE

	2003 US\$	2002 US\$
Balance at 1st January	1,788,608	1,293,076
Proposed dividend	1,057,330	754,233
	2,845,938	2,047,309
Amount paid during the year	(912,103)	(258,701)
	1,933,835	1,788,608

NOTE 10

REINSURANCE AND RESERVE FUNDS

	Fire & Accident US\$	Marine & Aviation US\$	Life US\$	Total 2003 US\$	Total 2002 US\$
Gross					
Reinsurance fund	95,190,015	28,094,797	1,710,542	124,995,354	86,674,410
Reserve for outstanding claims	32,658,864	7,421,460	3,847,349	43,927,673	33,437,030
Transfer from Cumulative Translation Adjustment	5,309,075	958,191	-	6,267,266	-
	133,157,954	36,474,448	5,557,891	175,190,293	120,111,440
Less retrocessionnaires' share in:					
Reinsurance fund	26,804,302	11,608,095	-	38,412,397	22,218,824
Reserve for outstanding claims	3,237,724	244,740	-	3,482,464	3,482,464
	30,042,026	11,852,835	-	41,894,861	25,701,288
Net reinsurance and reserve funds	103,115,928	24,621,613	5,557,891	133,295,432	94,410,152

Notes to the Financial Statements for the year ended 31st December 2003



NOTE 11

PAID-UP CAPITAL

	2003 US\$	2002 US\$
Capital allotted and subscribed	80,203,000	51,153,000
Called up and unpaid	(14,119,900)	(870,800)
Subscribed and paid-up capital	66,083,100	50,282,200

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

NOTE 12

GENERAL RESERVE

	2003 US\$	2002 US\$
Balance at 1st January	10,671,586	25,573,659
Transfer from profit & loss account	3,251,246	2,854,740
Applied for bonus issue	-	(17,756,813)
Balance at 31st December	13,922,832	10,671,586

NOTE 13

OTHER RESERVES

	Reserve for Exchange Fluctuation US\$	Reserve for Loss Fluctuation US\$	Total 2003 US\$	Total 2002 US\$
Balance at 1st January	5,294,238	2,800,000	8,094,238	7,394,238
Transfer from profit & loss account	499,762	200,000	699,762	700,000
Balance at 31st December	5,794,000	3,000,000	8,794,000	8,094,238

NOTE 14

CUMULATIVE TRANSLATION ADJUSTMENT

	2003 US\$	2002 US\$
Balance at 1st January	(7,072,300)	(13,217,544)
Translation adjustment for the year	13,549,830	5,145,244
Transfer from profit & loss account	-	1,000,000
Transfer to technical reserves	(6,267,266)	-
Balance at 31st December	210,264	(7,072,300)



Notes to the Financial Statements for the year ended 31st December 2003

NOTE 15

INCOME FROM INVESTMENTS AND OTHER SOURCES

	2003 US\$	2002 US\$
Interest on term deposits	1,790,595	1,618,152
Income from equities and fixed income securities	1,474,082	783,024
Rental income	321,559	236,542
Other income	543,716	469,174
	4,129,952	3,106,892

NOTE 16

TAXATION

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

NOTE 17

RELATED PARTY TRANSACTIONS

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

NOTE 18

CAPITAL COMMITMENTS

Commitments in respect of approved capital projects at the end of the year amounted to US\$1,701,431 (2002: US\$601,635).

NOTE 19

CONTINGENT LIABILITIES

Contingent liabilities in respect of pending litigation and/or arbitration involving the Corporation for which no provisions have been made in these accounts amounted to US\$300,000 (2002: US\$ 300,000). However, the actions are being defended and the Directors are of the opinion that no material liability would arise therefrom.

NOTE 20

POST BALANCE SHEET EVENT

A wholly owned subsidiary company, African Reinsurance Corporation (South Africa) Limited was registered by The Financial Services Board, South Africa on 9 January, 2004 to carry on insurance business.

African Reinsurance Corporation

Financial Statements for the year ended 31st December 2003



FIVE-YEAR FINANCIAL SUMMARY

	2003 US\$	2002 US\$	2001 US\$	2000 US\$	1999 US\$
BALANCE SHEET					
ASSETS					
Financial assets	157,600,431	96,667,483	70,610,416	58,755,777	56,301,739
Reinsurance debtors and deposits	112,918,230	77,173,900	64,349,140	63,662,506	60,092,566
Sundry debtors	953,481	567,119	1,284,774	1,759,628	1,628,949
Fixed assets	17,788,152	15,741,416	14,628,175	14,029,793	12,259,016
Retrocessionaires' share in reserve funds	41,894,861	25,701,288	13,184,824	12,035,173	15,326,649
	331,155,155	215,851,206	164,057,329	150,242,877	145,608,919

LIABILITIES					
Other creditors	5,077,377	5,009,555	4,796,541	3,081,179	1,632,194
Term loan	-	-	-	500,000	700,000
Reinsurance creditors and deposits	56,810,565	27,889,783	18,949,399	15,128,065	13,423,987
Reinsurance & reserve funds	175,190,293	120,111,440	88,694,544	81,484,774	79,764,964
	237,078,235	153,010,778	112,440,484	100,194,018	95,521,145

SHARE CAPITAL AND RESERVES

Paid up capital	66,083,100	50,282,200	24,597,500	23,940,000	23,707,500
Reserves	27,783,556	19,630,528	40,236,889	35,662,817	36,158,164
Cumulative translation adjustment	210,264	(7,072,300)	(13,217,544)	(9,553,958)	(9,777,890)
Shareholders' funds	94,076,920	62,840,428	51,616,845	50,048,859	50,087,774
	331,155,155	215,851,206	164,057,329	150,242,877	145,608,919

PROFIT & LOSS ACCOUNT

Written Premium	198,122,854	126,972,266	85,114,364	78,060,023	70,920,129
Retained Premium	164,231,502	104,267,377	75,511,696	71,717,657	65,879,437
Underwriting Profit	3,315,838	3,191,780	3,026,107	1,362,244	333,797
Net Profit	6,502,492	5,709,481	5,540,364	4,281,280	3,874,023



NOTES
