



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

**TEL : +234 - 1 - 266 3323 / 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: 23rd June, 2005

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, 2004.

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. W. Zeru
Vice - Chairman



Mr. M. Al Naas
Chairman



Mr. K. Selim



Mr. M. H. Seba



Mr. R. Lowe



Mr. A. Augusto



Mr. M. L. O. Naty



Mr O. Maman



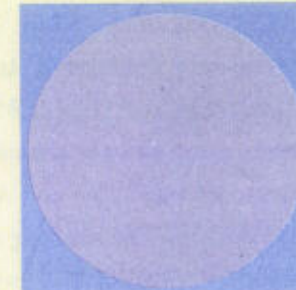
Mr. C. Karekezi



Mr. T. Turner



Mr. O. Bailey



Vacant

ALTERNATE DIRECTORS

Mr. Lamara LATROUS, Mr. Ahmed OULD SIDI BABA, Mr. Guillaume RAKOTOSON, Mr. Jean Kacou DIAGOU, Mrs. Aminata SAMAKE, Mrs. Amna Ali MOHAMED, Mr. Arthur N. YASKEY, Mr. Sylvestre GAZIAMODO, Mr. Thami EL-BARKI, Mr. Frederick MAGEZI, Mr. Zondo SAKALA



Chairman's Statement

The 27th Annual Report of the Board of Directors presents the Corporation's consolidated financial statements for 2004, including the balance sheet as at 31st December and the profit and loss account for the year then ended. In addition, it contains the results of the 2002 Underwriting year, those of the previous years (1978-2001) as well as the accounts for the still open years of 2003 and 2004.

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

The Corporation recorded another year of impressive growth, with premium income increasing by 50.95% to reach US\$299.07m compared to US\$198.12m achieved in 2003. The success of the capital increase, which enabled the restructuring of the retrocession protection, led to a less than proportionate increase in the premiums ceded. Accordingly, retained premium increased by 60.76% from US\$164.23m in 2003 to US\$264.01m, corresponding to a retention ratio of 88.28% (2003: 82.90%). After adjusting for the movement in reinsurance fund, net earned premium amounted to US\$209.62m (2003: US\$142.10m). Paid losses, net of reinsurance recoveries, stood at US\$121.69m (2003: US\$76.68m), while adjustment for the movement in outstanding claims reserve produced an incurred loss of US\$127.89m (2003: US\$87.17m). Other outgo includes commissions of US\$64.49m, charges of US\$5.75m and management expenses of US\$7.53m. The resulting underwriting profit of US\$3.96m (2003: US\$3.32m) was transferred to the profit and loss account.



Mr. M. Al Naas
Chairman

Income from investment and other sources grew by 87.41% from US\$4.13m in 2003 to US\$7.74m, while interest on reinsurance deposits stood at US\$1.68m (2003: US\$1.48m). A realised loss on exchange of US\$0.43m (2003: US\$0.19m) was recorded. Operating income for the year therefore amounted to US\$12.94m (2003: US\$8.73m).

Other expenses not charged to the underwriting revenue account amounting to US\$2.78m (2003: US\$2.23m) were then deducted from the operating income to arrive at a net profit before taxation of US\$10,155,369 for the year compared to US\$6,502,492 in 2003.

The excess of income over outgo for the still open years 2003 and 2004 amounted to US\$140.97m (2003: US\$86.58m) and this has been carried forward as reinsurance funds in line with the Corporation's standing accounting practice. Similarly, reserve for outstanding losses, including IBNR at the end of the year was established at US\$46.65m (2003: US\$40.45m).

The cumulative translation adjustment for the year resulted in an unrealised gain of US\$7.54m, compared to US\$13.55m recorded in 2003, out of which US\$3.72m (2003 : US\$6.27m) were transferred to the technical reserves. As at 31st December 2004, cumulative translation adjustment, which has been accounted for as a separate component of the shareholders' funds, therefore amounted to a gain of US\$4.03m (2003 : US\$0.21m).

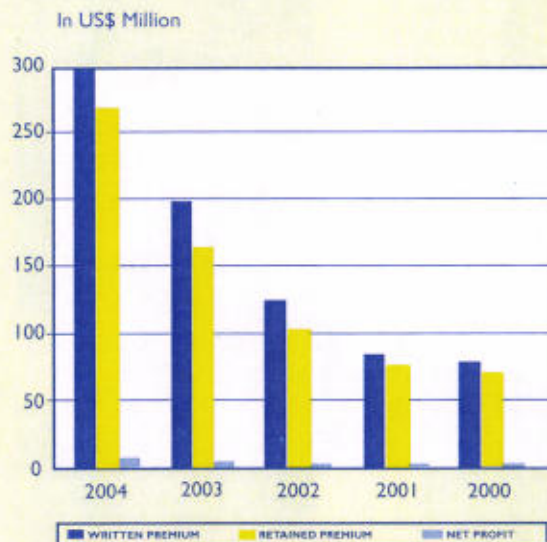
Shareholders' funds as at 31st December 2004 stood at US\$130.02m (2003: US\$94.08m).

Financial Highlights

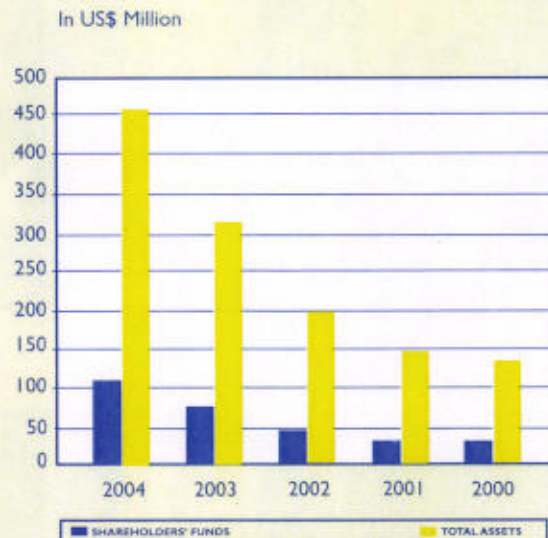


In US\$ '000	2004	2003	2002	2001	2000
RESULTS					
WRITTEN PREMIUM	299,067	198,123	126,972	85,114	78,060
RETAINED PREMIUM	264,006	164,232	104,267	75,512	71,718
EARNED PREMIUM (NET)	209,621	142,104	88,250	66,163	67,121
NET PROFIT	9,650	6,502	5,709	5,540	4,281
FINANCIAL POSITION					
SHAREHOLDERS' FUNDS	130,023	94,077	62,840	51,617	50,049
TOTAL ASSETS	476,316	331,155	215,851	164,057	150,243

RESULTS 2000 - 2004



RESULTS 2000 - 2004





Composition of Africa Re Management Team



Mr. Haile M. Kumsa
Deputy Managing Director



Mr. Bakary Kamara
Managing Director



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



Mr. A. G. Rovoaja
*Director Central Operations
& Inspection*



Mr. Ganiyu Musa
Director Finance & Accounts



Mr. Ike Uduma
Director Internal Audit



Mr. Moncef Manai
*Regional Director
Casablanca*



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



Mr. Béné B. Lawson
*Regional Director
Abidjan*



Mr. George Otieno
*Regional Director
Nairobi*



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



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

Corporate Governance



During the year under review, the Board and Management took steps to improve the level of corporate governance in the Corporation. Therefore, in addition to the usual reports submitted at its meetings, the Board also considered two policy documents on the basis of which it reformulated the guidelines on corporate governance, reviewed certain policies, and created special committees to assist in its duties of defining strategic guidelines and supervising Management. An audit/risks committee comprising three Board Directors was constituted, with the responsibility of selecting and recommending an external auditor, reviewing financial statements prior to their adoption by the Board, assessing internal controls in conjunction with the internal auditor who also reports to the Managing Director, analysing, defining and mitigating risks. This committee meets at least twice a year, on the eve of the Board's plenary sessions.

Furthermore, as some Directors had completed their term, the committee on Management's conditions of service, which comprises three Board members including the Vice-Chairman, was reconstituted. Its terms of reference include defining the general remuneration policy for elected members of Management, determining and fixing salary structures, allowances, and other incentive plans.

In line with its statutory prerogatives, the Board may decide to set up as many committees as the circumstances and corporate management would require.

As part of its normal functions, the Board adopted the 2003 Annual Report, which was submitted to the General Assembly of shareholders (26th Annual Meeting), fixed the value of the Corporation's shares based on the financial statements as at 31st December 2003, selected the External Auditors,

Deloitte & Touche (Abidjan), which was approved by the General Assembly to audit the 2004 financial statements, renewed Mr. Haile M. KUMSA's term of office as Deputy Managing Director following the Managing Director's recommendation, adopted the 2005 Income and Expenditure Budget, approved the 2005 retrocession programme and authorised Management to finalise it in line with its directives.

Another significant development worth mentioning is the capital increase/opening up exercise, which was carried out successfully, with an encouraging response from current shareholders, who now hold 80% of the shares, instead of the 50% initially envisaged. The Board and Management are of the opinion that the increased participation despite the modest financial capacity of member companies and the divestment policies of several member states is a mark of confidence, which they would strive to preserve.

The Corporation's staff strength as at 31st December 2004 stood at 133 employees from 19 countries across the various sub-regions of the continent and is broken down as follows:

- 42 Senior staff (10 Directors and 32 Professionals)
- 72 General Services Staff, and
- 19 Manual Staff.

The African Reinsurance Corporation, which continues to be rated by the international agencies, Standard & Poor's and AM Best, had its rating reaffirmed as BBB+ and A- respectively. The Corporation has a website www.africa-re.com where the financial statements of the past three years, information relating to the Corporation's shareholding, Board and Management composition as well as recent publications in the "African Reinsurer", have been posted.



Economic and Trading Environment

Several economists believe that with a world GDP growth of about 4%, the year 2004 recorded the highest rate in the past two decades despite a high increase in energy bill, sharp currency fluctuations – particularly the unprecedented depreciation of the dollar against the euro – as well as deterioration in the geopolitical environment (the situation in Iraq). This increase is mainly due to the significant boom (+10%) in world trade, a phenomenon which affected all the regions of the globe: 3.1% in North America, 4.7% in South America, 3.2% in Africa and 6% in South Asia. Only the euro zone recorded a modest growth of 1.8% whereas countries such as China, Russia and India experienced a 9.3%, 6.8% and 6.5% increase in their trade respectively. Africa's share, although considerable, can be partly attributed to the increase in the prices of strategic products such as oil and gas. However, on the other hand, the price of cotton dropped drastically during the period under review.

For the industrialised world, the United States once again outpaced other countries with a GDP growth rate of 4.4%, despite the huge downturn in public finances, a budget deficit representing 3.6% of the GDP and a shortfall of USD 660 billion in the external accounts. After losing a decade, Japan, the second largest economy, also experienced an upsurge (+4%) during the year due to the astounding dynamism of the Chinese market, which now consumes close to a third of Japanese products. Nevertheless, China's internal consumption also contributed significantly to this performance, resulting in business profitability and growth in employment.

On the whole, although growth was low in most European countries, the world economic recovery is significantly linked to the vigour of developing countries, which is a sign of internal dynamism as well as the high level of exchanges between these new partners (G 20). As a result, the volume of trade amongst countries of the South grew from 19% to 23% in less than a decade.

Africa on its part experienced a two-thirds decline in its share of global trade over 55 years (1949-2004) as a result of the following factors:

- Concentration of continental trade on export of raw materials (cocoa, coffee, timber, iron ore, copper etc) with volatile prices, as the manufacturing sector accounts for only 28.5% of the economy compared to 57% for minerals (including energy), and 14.5% for agricultural products. Although some oil producing countries took advantage of hikes in oil prices, most other countries suffered severely.
- Low competitiveness of products from the continent, which explains why countries such as Liberia, Gabon, Cameroon, for instance, lost market shares on timber and rubber to Thailand, Vietnam, Malaysia and Indonesia – the latest entrants to these sectors;
- Europe, whose growth has continued to be low, has remained the main destination of African products (49%), whereas markets in full bloom (China, India and other Asian countries) buy only 18% of products from this region.
- The low level of intra-African trade (10%) compared to Western Europe - 65 %, Asia- 50%, North America - 40%, Central and Southern Europe - 25% and Latin America - 16%.

Although the entire continent recorded a growth rate of 3.2%, it did not attain the level of 5%, which, according to the Millennium Development Goals adopted by the United Nations, would have ensured a significant reduction in poverty.

However, despite the hike in crude prices, oil-producing countries did not record exceptional economic performances. Botswana followed by Tunisia, South Africa, Mauritius, Namibia, Ghana and Burkina Faso, without being large exporters of raw materials, are in this regard the continent's tigers. Indeed, although gold and diamond rank highly among exports of some of these countries, Tunisia and Mauritius depend mainly on their workforce and know-how. Although some of these countries harbour prospects for significant growth, their future may be compromised by violence and debt burden together with the termination of the Multi-Fibre Agreement under the WTO.

Economic and Trading Environment



Reinsurance Industry

Although rates, conditions and terms of the international market hardened after the events of September 11 2001 and the financial crises of 2002, many players expected a soft market right from the beginning of 2004 following the repair of reinsurers' balance sheets at the 2002 and 2003 closings. However, during the 2004 renewals, most underwriters fortunately renewed their portfolios at similar rates and terms. Nevertheless, during the year under review, the cost of reinsurance covers dropped slightly, while conditions and terms became more flexible, although the alarming predictions of a sharp decline in prices at the beginning of the year did not materialise. Rates were maintained at technically acceptable levels as a result of the underwriters' discipline. The cyclones and other tropical storms in Japan, the Caribbean and southern part of the United States, which occurred during the second half of 2004 confirmed the conviction of all stakeholders that it was not yet time to initiate a soft cycle.

On the whole, apart from catastrophe underwriters, most other players expected a combined ratio of between 35 and 85% for short-term risks and between 95 to 100% for long-tail risks. Despite the above-mentioned events, ratios for short-term reinsurers were on the average close to 95%, due to the anticipated withdrawal of a number of catastrophe players, resulting in a reduction of capacity as well as the number of reinsurers in these classes of business.

Africa Re, which operates primarily in its domestic market (95% of its portfolio) and also in Asia and the Middle East, was not affected by the catastrophes in the Far East and the Americas. The tsunami disaster occurred on December 26, 2004 and did not therefore affect the year's financial statements.

Although the African market accounts for only 1.05% of direct gross premiums, its share in the world reinsurance stands at 7.09%. This reveals the heavy dependence of African insurers on the international reinsurance market. The highest share of reinsurance premium emanates from

the southern and northern regions due to the sophisticated level of development in countries such as South Africa (USD 25 billion worth of direct premium on all classes), Morocco (USD 1.3 billion), Algeria and Libya (due to energy risks). The high demand for reinsurance is attributable to the low level of capitalisation, the complex nature of risks and the high exposures.

Despite the profitability of African businesses, several players have withdrawn from the continent in the past five years, as a result of the size of acceptances and the difficulty encountered by mega reinsurers in attaining meaningful economies of scale. Therefore, regional and national insurers have been offered the opportunity to increase their premiums and further diversify their portfolios both geographically and in terms of the classes of business written. In addition, the continent is, generally, not prone to catastrophes or other natural hazards and the level of insurance awareness is the lowest in the world, while, given their closeness to the market, underwriters deliver quality services to cedants.

Nevertheless, international players remain active on the continent and provide retrocession protection as well as covers for energy and peak risks. Unless they increase their financial bases substantially and develop their know-how in these fields, domestic insurers and reinsurers would be reduced to fronting agents thereby encouraging risk delocalisation and capital flight to the international reinsurance market. Aware of this need, Africa Re then decided to re-capitalise, review its shareholding and structures in order to admit new investors and introduce innovations inherent in service globalisation.

The other zones of the Corporation's operations, namely the Middle East and South Asia, have the following characteristics:

- for the former, a low level of direct premium (0.42% of world total in 2003), a high volume of reinsurance cession (41% of direct premiums), and attractive growth prospects mainly by the wide acceptance of Takaful (Islamic insurance) in particular and the opening up of countries such as Saudi Arabia to commercial insurance thereby



Economic and Trading Environment

offering tremendous business opportunities to all the players in such markets with an estimated production figure of USD 16 billion by 2010.

- markets of the Indian sub-continent, Malaysia, Thailand and Indonesia, where Africa Re has established symbolic presence for about ten years now, more frequently purchase proportional treaties, even though non-proportional reinsurance has spread widely in these areas during the last three financial years.

With close to 5% of its portfolio being written in the markets of these two regions, Africa Re intends to develop its business relations within reasonable and acceptable limits for historical, commercial and economic reasons (profitability).

During the year under review, the African Reinsurance Corporation established a subsidiary in South Africa – African Reinsurance Corporation, (South Africa) Ltd – ARCSA. By that gesture, the Corporation decided to identify with the largest market on the continent and thus reassure its clientele of its loyalty and continued commitment

at a time when other players have withdrawn only to resume later when profits improve.

Unlike other offices of the Corporation, ARCSA, a locally incorporated company, is supervised by the Financial Services Board – the insurance supervisory authority – as is the case in the United States and some European countries such as the United Kingdom, Portugal, Finland and Denmark. This would further attest to the transparency of its operations. The Board, Management and Staff of Africa Re are convinced that the reinsurance community would gain if the insurance supervisory authorities regulate the activities of the industry. This innovation, which made its debut in Europe, is now considered by a number of African cedants to be an essential requirement, which will undoubtedly strengthen their confidence, the basis on which business relationships are built. This has been the conviction of the African Reinsurance Corporation for more than ten years now, which it would like to share with all players in Africa so as to further develop the cause of corporate governance and ensure that the continent, as well as the reinsurance profession are anchored on modern economic realities.

Operations



This section highlights the performance of the Corporation in terms of the premiums generated, claims paid and other underwriting expenses incurred during the period under review. It examines the development of voluntary cessions and reflects the continuous effort of the Corporation to increase the share of its income from this source, while adhering to its established underwriting discipline.

Operating from its Headquarters in Lagos and a network of one subsidiary, four regional offices, and an underwriting office, the Corporation has reinforced its proximity to its cedants to enable it to respond promptly and efficiently to their needs.

Acceptances are 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 the Cairo underwriting office;
- East and part of Southern Africa, under the jurisdiction of the Nairobi Office which is also in charge of the run-off of the Johannesburg contact office;
- South Africa and neighbouring markets are handled by the new subsidiary, African Reinsurance Corporation (South Africa) Limited; and;
- African Indian Ocean Islands and South Asia covered by Port Louis (Mauritius).

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

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

DESCRIPTION (US\$'000)	2004			2003		
	Gross	Retro	Net	Gross	Retro	Net
INCOME						
Premium (Less cancellations)	299,067	35,061	264,006	198,123	33,891	164,232
Movement in premium reserve	(78,748)	(24,363)	(54,385)	(38,321)	(16,193)	(22,128)
Earned premium	220,319	10,698	209,621	159,802	17,698	142,104
OUTGO						
Losses paid	126,724	5,033	121,691	79,990	3,309	76,681
Movement in loss reserve	6,201	-	6,201	10,490	-	10,490
Incurred losses	132,925	5,033	127,892	90,480	3,309	87,171



Operations

Premium Income

The premium income of US\$299.07 million written in 2004 exceeded the US\$198.12 million recorded in 2003 by 50.95%. The robust premium growth was mainly a result of activities in the Rand zone (responsible for 49.12% of the Corporation's income), which were as follows:

- Increased confidence in the Corporation following the incorporation of the subsidiary in South Africa producing an increase of US\$42.30m in income at 2003 prices and conditions,
- The 15.6 % appreciation of the Rand which culminated in a premium growth of US\$21.88m for the Corporation, and,
- The introduction of pipeline premiums in line with South African regulations resulting in an additional US\$24.83m (US\$20.95m at 2003 prices).

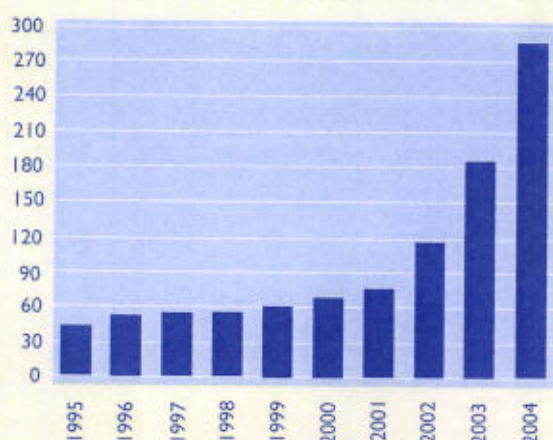
The other regions together had a growth rate of 11.48%.

Taking the foregoing into consideration, the adjusted premium growth rate is 28.43% as against 44.23% in 2003.

Development of Gross Premium

As may be observed in the graph below, the growth in the Corporation's written premium income, especially in the last three years, has been tremendous, culminating in a ten-year average growth rate of 20.32%.

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



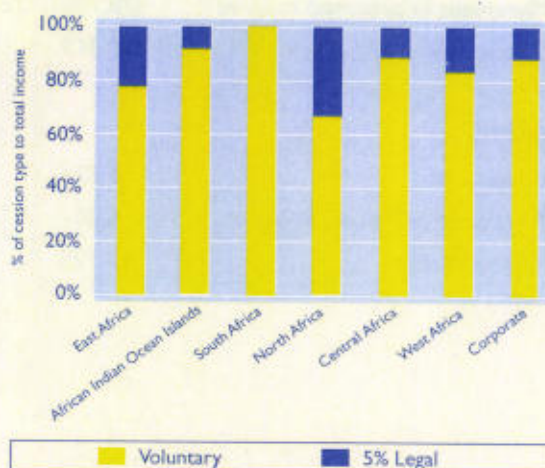
In addition to the above factors, the significant growth recorded in the last three years could be attributed to the following:

- The disciplined underwriting approach adopted by market players following the September 11 attacks and Stock Markets crises continued to yield positive consequences on the Corporation's premium volume.
- The weak dollar (the Corporation's unit of Account) continued to lead to sizeable gains in premium income. Indeed, exchange rate movement accounted for 7.57% and 7.88% of gross premium in 2003 and 2004 respectively.
- The provision of ancillary services to cedants, such as customised training programmes, technical assistance on special risks (including surveys), and annual seminars on topical issues such as Oil and Gas, Reinsurance Management, etc.

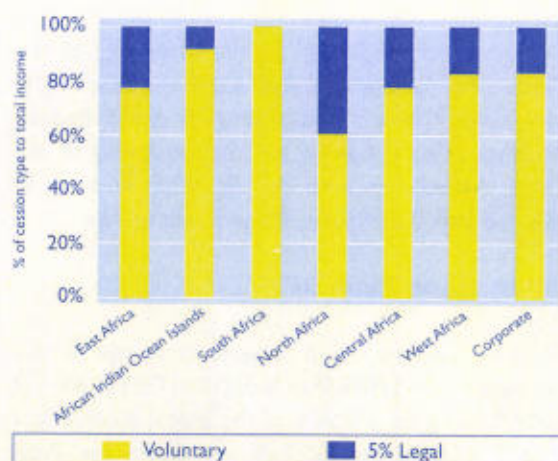
Voluntary Cessions

As would be observed from the chart below, the Corporation's desire to maximise the level of income emanating from voluntary cessions is being gradually realised. From a ratio of 47.56% in 1994, voluntary cessions increased steadily to 88.81% in 2004. The positive trend indicates the effectiveness of the Corporation's marketing strategy, designed among other things, to improve income from this source.

FINANCIAL YEAR 2004



FINANCIAL YEAR 2003



Geographical Distribution

Over the past few years, Africa Re has consistently shown itself to be a clear leader in the African terrain, with its efficient client service that derives from its proximity to local markets, and its good security ratings.

This section shall consider each of the regions.

Southern Africa

This area covered by the subsidiary consists of countries of the Rand zone as well as Mozambique, Botswana and Angola. As in the previous year, this sub-region recorded the highest income for the Corporation. With US\$146.89m in 2004 (subsidiary and run-off), the region's production represents 49.12% of the Corporation's total income and exceeds that of 2003 by 138.40%. Reasons for the increased growth are among others:

- The incorporation of the African Reinsurance Corporation (South Africa) Limited, which enhanced the Corporation's acceptability as an "approved reinsurer", and its proximity to its clientele that facilitated prompt handling of accounts.
- The acceptance of Africa Re (South Africa) on the security panel of leading brokers and cedants of the market as a result of the localisation of its operations coupled with the reaffirmed ratings of the parent company.

Maghreb

The Maghreb countries recorded a premium income of US\$38.49m, which is 12.87% of the corporate figure. This year's income is 7.71% above that of 2003. The increase was due to:

- A substantial growth in the income from Morocco due to the marketing drive and new opportunities in that market, which compensated for the reduction in income from Algeria and Libya following changes in their reinsurance programmes.
- The appreciation of national currencies, which boosted the regional office's income by 3.35%.

East Africa

Premium income from this zone rose by 2.13% to US\$27.08m, representing 9.06% of the corporate figure.

This modest increase was due to the loss of substantial income in Kenya, arising from the restructuring of treaties ceded by some major partners from proportional to non-proportional, despite appreciable growth from other markets.

Anglophone West Africa

The premium income from this sub-region was US\$25.57m representing 8.55% of the corporate income. The increase of 15.73% was due to a higher participation in voluntary cessions especially from Nigeria and the Gambia.

Francophone West and Central Africa

A total premium income of US\$24.77m was written by this sub-region, which works out to 8.28% of the corporate total. This represents an increase of 24.43% over the previous year's income. The following are the reasons for the increase:

- A substantial increase in business emanating from Cameroon and Senegal as a result of the economic growth evidenced in these countries.
- The continued appreciation of the CFA Franc (which is linked to the Euro) against the US Dollar by 7.21%.



Operations

African Indian Ocean Islands

The sub-region recorded a premium of US\$13.75m, representing 4.60% of the corporate production and 5.92% in excess of the income recorded in 2003 in spite of:

- The decision to suspend the underwriting of new facultative business relating to the property class in Mauritius due to poor results,
- The depreciation of the three local currencies, especially the Malagasy Franc and Mauritian Rupee, leading to a 10.95% drop in income.

North East Africa

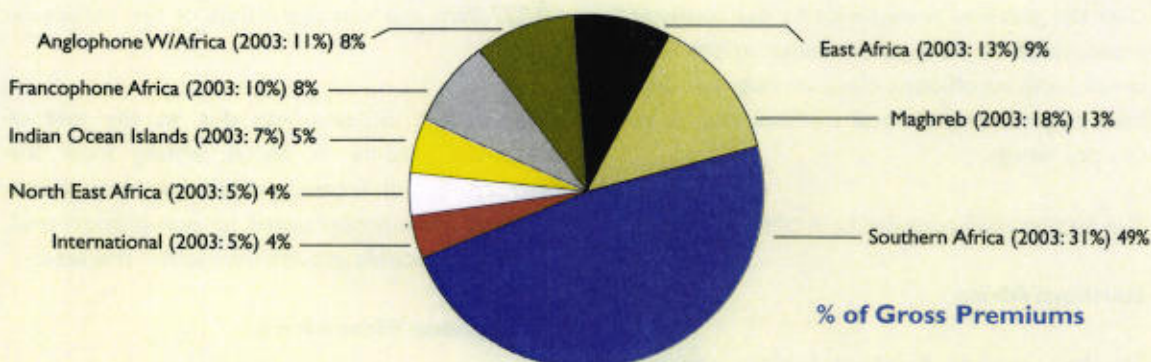
This sub-region achieved a production level of US\$10.63m. This works out to 3.55% of the

Corporations' income and translates to an increase of 8.58% over 2003 income for this region.

The growth is explained by the proximity of the Cairo office to cedants. It is expected that in the foreseeable future, its upgrading to a full fledged Regional office following the recent signing of the Office Agreement with the Egyptian Authorities would boost the income of the profit centre.

International Business

Premium income from international operations increased from US\$9.49m in 2003 to US\$11.89m in 2004. This figure is 3.98% of the global income and 25.31% (Middle East, 31.01% and South East Asia, 14.77%) more than the receipts of the previous year. This is due to the acceptance of Africa Re as a sound security.



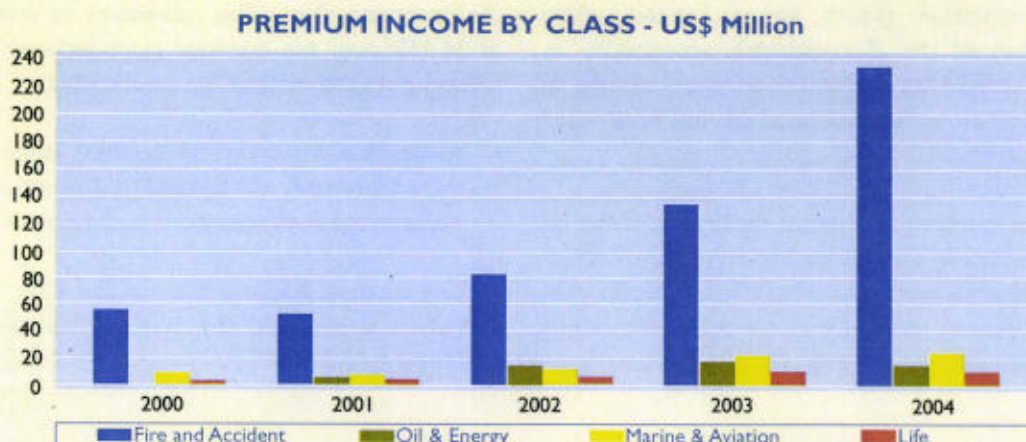
Sectoral Distribution

The bulk of the Corporation's premium income, emanated from the Fire and Accident classes, which generated US\$240.93million (2003: US\$140.23 million) or 80.56% (2003: 70.78%). While Oil and Energy share was US\$17.03 million (2003: US\$22.81 million) or 5.71% (2003: 11.51%), the

Marine and Aviation classes contributed US\$30.23 million (2003: US\$25.42 million) or 10.11% (2003: 12.83%).

Finally, Life business produced US\$10.88 million (US\$9.66 million in 2003) or 3.64% (2003: 4.88%).

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



Operations



OTHER INCOME

Long Term Investments

There were no new private equity investments in 2004 as the Corporation maintained its holdings in the two development financing institutions as well as the direct insurance companies at previous year levels. Both Shelter Afrique and Afreximbank declared and paid dividends during the year, even though the latter is yet to commence its export credit facility. It is hoped that the recent changes in the Management of the Bank will enable a more constructive engagement on the issue. As in the previous year, Societe Nationale d'Assurance du Cameroun – Vie (SNAC-VIE) and La Citoyenne (Cameroun) paid dividends.

With the Headquarters building in Lagos fully let and significant progress made in letting out the available space in the Nairobi office building, rental income increased by 28% from US\$0.32million last year to US\$0.41million. The construction of the Casablanca office building is progressing satisfactorily and when completed later in 2005 should provide a further boost to rental income.

Income From Investments and Other Sources

Total financial assets stood at US\$231.09million as at 31 December 2004, compared to US\$157.60million achieved at the end of the previous year. The 46.63% improvement was due to the very strong positive net operating cashflow, receipts in respect of the on-going capital raising programme as well as year-end unrealised currency translation gains.

The world's stock markets performed well in 2004, though gains were more muted than in the recovery year of 2003. The United States recorded a second straight year of positive results, as the recovery from the 2000 – 2002 bear market continued during the year under review. The S&P 500 achieved a total return of 10.9% compared to 28.7% in 2003 and a loss of 22.1% in 2002. The Dow Jones Industrial Average on the other hand generated a modest gain of 3.1%.

It was against this background that the Corporation's U.S. Dollar managed portfolio, which consists of 80% fixed income and 20% equity, achieved a return of 4.13% compared to 5.81% last year and a benchmark

of 4.99%. The credit quality floor, counter-party exposure ceilings and other constraints written into the investment agreement caused the portfolio to under-perform the benchmark on the upside but out-perform on the downside. The South African Rand portfolio achieved a total return of 15.50% in original currency. While the fixed income generated 13.80% against a benchmark of 14.30%, the equity portion realised 23.52% against the benchmark of 23.46%. The appreciation of the Rand increased the net returns in dollar terms.

Total income from bonds and other fixed income instruments amounted to US\$1.27 million compared to US\$0.94million in 2003, while the equity investments generated US\$0.93million as against US\$0.53million in the previous year.

Having left interest rates at a 45-year low of 1% following successive rate cuts, the Fed's rate-setting Open Market Committee raised interest rates five times in the six month period to December 2004, moving the federal funds rate to 2.25% by the end of the reporting period. With the bulk of the Corporation's financial assets in term deposits and other money market instruments, the Corporation benefited significantly from the increase in interest rates. As a result, income from this asset class received a major boost, from US\$1.79million in 2003 to US\$4.43million.

Following the establishment of an in-house investment unit and the recruitment of an investment professional, the Corporation carried out a review of the investment policy and asset allocation parameters during the second half of the year. While no major policy changes were considered necessary at this point, additional allocation was made to the fixed income and equity classes and new external asset managers were selected to complement existing ones. The objective of the exercise was to ensure that the Corporation earns a reasonable return on invested assets and continues to provide a sufficient level of liquidity to meet maturing obligations as and when due with the minimum risk of loss of capital. Clearly defined and documented objectives, constraints, exclusions and performance benchmarks were agreed with each asset manager and monitoring will be on an on-going basis. These measures should lead to further improvements in the investment income in the years ahead.



Operations

Overall income from investment and other sources grew by 87.40% from US\$4.13million in 2003 to US\$7.74million. While the returns from all asset classes improved over prior year's, the most notable increase occurred in the income earned on term deposits. Net interest on reinsurance deposits amounted to US\$1.68million compared to US\$1.48million for financial year 2003. Others, including rental income as well as fees from the management of the pools increased by 28.24%, from US\$0.87million in 2003 to US\$1.11million.

OUTGO

Losses

The total claims paid amounted to US\$126.72 million in 2004 as against US\$79.99 million in 2003, representing a claims ratio of 42.37% compared to 40.37% in the previous year.

The incurred losses amounted to US\$132.92 million, made up of paid losses of US\$126.72 million and movement in reserves of US\$6.20 million as against US\$90.48 million, US\$79.99 million and US\$10.49 million respectively in 2003.

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

GROSS LOSS RATIO BY CLASS - FINANCIAL YEAR 2004
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)	105.70	170.66	61.94%	6.00	8.76	68.49%	111.70	179.42	62.26%
Marine & Aviation	12.11	28.39	42.66%	1.32	1.59	83.02%	13.43	29.98	44.80%
Life	7.79	10.92	71.34%	-	-	-	7.79	10.92	71.34%
Total	125.60	209.97	59.82%	7.32	10.35	70.72%	132.92	220.32	60.33%

Loss Experience By Trading Area

The gross claims paid ratio (33.02%) for Anglophone West Africa was less favourable than the previous year's (20.38%). However, the net ratio was 31.15% as against 34.12% in 2003.

From a gross claims paid ratio of 32.32% (net: 37.31%) in 2003, Francophone West and Central Africa's gross ratio improved to 25.51% (net: 25.01%).

In the Maghreb zone, the gross claims paid ratio was 40.74% (2003:49.24%) in the period under review, while the net claims paid ratio was 41.47% (2003: 60.0%). The paid claims ratios of the sub-region are expected to deteriorate in 2005 when Africa Re's share (Gross:US\$22.5m Net: US\$5m) of the Algeria SKIKDA loss of 19th January 2004 (the biggest insured loss ever in Africa and the Arab

world with a provisional estimate of US\$470m from ground up) would be settled.

The North East Africa Underwriting Office also experienced an improvement in its claims ratios: Gross, 36.94% (2003:48.34%) and net, 36.47% (2003:41.87%).

The claims experience in East Africa deteriorated over the previous year's. The gross ratio was 46.81% (2003:43.49%) and the net ratio was 47.32% (2003: 44.75%).

The La Plantation/Oberoi Hotels and Jumbo Supermarket claims paid in Mauritius shot up the gross claims ratio to 66.71% (2003:52.26%). The net claims ratio however was 54.37% (2003:49.46%).

The gross claims paid ratio of the South African production centre (run off and subsidiary)

Operations



deteriorated to 45.32%, from 41.92% recorded for 2003. However, the net ratio was stable between 49.46% in 2004 and 49.73% in 2003.

The paid loss ratio of the international operations stood at 33.13% as against 29.50% in 2003. The 26th December 2004 Tsunami disaster, the cost of which is estimated for Africa Re's share at US\$2.9m for South East Asia and US\$1.1m for Africa (Seychelles), is expected to be paid from 2005.

Commission and Charges

Gross commission and charges recorded during the year amounted to US\$73.65m as against US\$52.61m in the previous year, while recoveries from retrocessionaires stood at US\$3.41m (2003: US\$7.00m). As a result, net commission and charges increased by 54.00% from US\$45.61m in 2003 to US\$70.24m in 2004. However, the resulting net ratio improved slightly from 27.77% to 26.61%.

RESULTS OF THE UNDERWRITING YEAR 2002

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 2002 underwriting year, which commenced on 1 January 2002, was closed on 31 December 2004.

Total premium income generated by the underwriting year amounted to US\$145.94million compared to US\$111.36million for underwriting year 2001. While the non-life premium increased by 37.68% from US\$102.67million to US\$141.36million, the life branch income reduced by half, from US\$8.69million recorded for underwriting year 2001 to US\$4.58million for underwriting year 2002. The reduction in life premium occurred in South Africa where the Corporation discontinued with a product line due to its unsatisfactory result.

Outward premium for the underwriting year stood at US\$24.38million as against US\$12.51million paid in respect of the previous year. The continuation of the hard retrocession market conditions coupled

with the acceptance of major oil and petrochemical cessions led to the significant increase in the cost of reinsurance cover. Indeed, the cost of the excess of loss and special risk covers placed with the international market increased from US\$3.9million in respect of underwriting year 2001 to US\$11.2million, while the proportional cessions to the African surplus treaty stood at US\$13.1million for 2002 compared to US\$8.6million for the preceding year.

Accordingly, retained premium grew by only 22.98% from US\$98.58million to US\$121.56million, in spite of the 37.68% increase on the gross account.

Gross claims paid in respect of the underwriting year amounted to US\$ 62.80million (2001:US\$ 44.69million), while US\$2.96million (2001:US\$ 2.25million) was recovered from retrocessionaires, mainly on the surplus programme, leaving a net paid loss of US\$59.83million (2001:US\$42.44million). The resulting net paid claims ratio therefore deteriorated from 42.93% for underwriting year 2001 to 49.22%. A refinery fire in Morocco as well as hotel fire claims in Mauritius contributed to this higher loss ratio.

Commission and other charges, net of reinsurance recovery stood at US\$34.63million compared to US\$28.70million, while management expenses of US\$ 5.4million (2001:US\$4.95million) was charged to the revenue account to generate an excess of income over outgo before outstanding claims provision of US\$ 21.69million (2001: US\$22.76million). On the basis of the estimate of outstanding claims for the underwriting year, a reserve of US\$17.73million was established, while the resulting underwriting surplus of US\$3.96million was transferred to the profit and loss account.

The run-off accounts of the underwriting years 1978 - 2001 showed a net loss (run-off premiums less paid claims) of US\$11.53million, which is sufficiently covered by the reserve for outstanding claims. The balance on the reserve account is considered adequate to meet the future run-off claims expected to be paid on those old underwriting years.



Operations

The reinsurance fund account in respect of the open underwriting years (2003 and 2004) showed a net surplus of US\$140.97million as at 31 December, 2004 compared to US\$ 86.58million in the previous year. Although the gross account of the open years will be affected by the SKIKDA loss in Algeria as well as the Tsunami in Asia and the African Indian Ocean Islands, the two years are expected to generate a reasonable technical profit on the net account.

With effect from the 2005 financial year, Africa Re will discontinue with the three open years and move to the annual accounting method of income recognition. Therefore, in addition to the results of the underwriting year 2005, next year's financial statements will also contain the underwriting results of the open years. This is expected to lead to a major jump in reported profit next year, but results will then normalise thereafter.

RESULTS OF THE 2004 FINANCIAL YEAR

Gross premium booked during the year amounted to US\$299.07million compared to US\$198.12million recorded in the previous year. As indicated earlier in this report, the main driver of the 50.95% increase in premium is the Southern African operations, especially in South Africa where the incorporation of the local subsidiary, withdrawal of some reinsurers, retention of very sound financial strength ratings from the top two insurance rating agencies, as well as the vigorous but controlled marketing drive of the underwriters combined to create a sizeable window of opportunities. Following its acceptance on the security panels of most brokers as well as cedants, the Corporation now writes a broader spectrum of business. In addition, the first time application of the pipeline income recognition by the subsidiary accelerated the booking of premium in 2004.

The way forward looks very bright and the region is expected to continue to lead the corporate performance. Management is however aware of the competitiveness of the market and the volatility of its results. Therefore, appropriate procedures are in place to manage the risks and exposures.

The local management is very well experienced in the South African market and receive strong support from the Head office where policies are defined and implementation / adherence monitored on an on-going basis. The Corporation works with top class external advisers / consultants to benefit from competencies that are not readily available from within.

Due to the huge success recorded in the capital increase / opening exercise, the Corporation reviewed its risk retention levels, cancelled the proportional retrocession programme and strengthened its excess of loss protection. As a result, even though gross booked income increased by 50.95%, retrocession premium recorded a marginal 3.45% increase from US\$33.89million in 2003 to US\$35.06million. The reinsurance utilisation ratio therefore reduced to 11.72% from 17.11%, leading to a 60.75% increase in retained premium which attained US\$264.01million compared to US\$164.23million in the previous year.

Losses paid, net of reinsurance recovery, stood at US\$121.69million (2003:US\$76.68million), while the resulting claims ratio was relatively stable at 46.69% in 2003 to 46.09%. Following the cancellation of the surplus retrocession programme, a comprehensive portfolio transfer is being carried out in line with the treaty wording. Net commission and other charges amounted to US\$70.24million representing an increase of 54.01% over the US\$45.61million recorded in the previous year, with the resulting ratio improving slightly from 27.77% to 26.61%.

Management expenses charged to the underwriting revenue account amounted to US\$7.53million compared to US\$6.01million in 2003, an increase of 25.37%. The staffing requirements for the take-off and full functioning of the subsidiary in South Africa as well as the review of the salary and allowances of some staff categories, coupled with the impact of the appreciation of most of the Corporation's operating currencies led to a 25% increase in staff costs. In addition, there was a significant increase in the costs of providing and maintaining infrastructural facilities due in part to the higher levels of operation and currency impact.

Operations



Based on the foregoing, total underwriting outgo for the year amounted to US\$199.47million (2003: US\$128.30million) while the excess of income over outgo increased by 79.61% from US\$35.93million in 2003 to US\$64.54million. Out of this surplus, US\$54.39million and US\$6.20million were transferred to the reinsurance funds and outstanding claims reserve accounts respectively. The balance of US\$3.96million represents the underwriting profit earned on the underwriting year 2002 accounts closed at the end of the year under review.

The increase in the costs of the General Assembly and Board Meetings as well as audit fees is essentially due to the inclusion of the costs of the subsidiary. While cost structures in South Africa are generally higher than most of the other parts of the continent, the appreciation of the Rand against the U.S. Dollars escalated reported costs. The charge for depreciation and amortisation is computed in line with the Corporation's accounting policy on fixed assets while other expenses and provisions include a general provision for doubtful balances.

The net profit for the year amounted to US\$9.65million, representing an increase of 48.41% over the US\$6.50million achieved the year before.

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\$ 4,825,017 to the General Reserve in accordance with Resolution No. 4/1992;
- US\$ 700,000 to Other Reserves;
- US\$ 1,512,984 to be paid as dividend at the rate of US\$1.75 per subscribed and paid up share of US\$100 par value;
- US\$ 2,612,034 be carried forward.



African Reinsurance

Consolidated Balance Sheet at

ASSETS	Note	2004	2003
		US\$	US\$
Cash and bank balances	3	57,560,536	29,465,562
Investments	4	173,532,623	128,134,869
Amounts due from companies on reinsurance accounts	5	64,052,995	44,795,714
Deposits retained by ceding companies	6	94,246,172	68,122,516
Sundry debtors		1,513,051	953,481
		390,905,377	271,472,142
Retrocessionnaires' share in reserve funds	10	66,257,438	41,894,861
Fixed assets	7	19,152,691	17,788,152
		476,315,506	331,155,155

The consolidated financial statements were approved by the Board of Directors on 11th April, 2005 and signed on its behalf by:

Musa AL NAAS
Chairman

The accompanying notes form an integral part of this statement

Corporation

31 December 2004



LIABILITIES, CAPITAL AND RESERVES		2004	2003
	Note	US\$	US\$
Amounts due to companies on reinsurance accounts	8	69,888,562	53,574,172
Dividend payable	9	2,678,675	1,933,835
Deposits due to retrocessionaires		3,979,683	3,236,393
Other creditors, accruals and provisions		5,882,893	3,143,542
		82,429,813	61,887,942
Reinsurance and reserve funds	10	263,863,144	175,190,293
Shareholders' funds			
Paid up capital	11	86,456,200	66,083,100
Share premium		6,403,069	2,782,835
General reserve	12	18,747,849	13,922,832
Other reserves	13	9,494,000	8,794,000
Retained earnings		4,895,923	2,283,889
Cumulative translation adjustment	14	4,025,508	210,264
		130,022,549	94,076,920
		476,315,506	331,155,155

The consolidated financial statements were approved by the Board of Directors on 11th April, 2005 and signed on its behalf by:

Bakary KAMARA
Managing Director

The accompanying notes form an integral part of this statement



African Reinsurance

Consolidated Profit and Loss Account for

EXPENDITURE	Note	2004 US\$	2003 US\$
General Assembly and Board of Directors' Meetings		471,155	411,384
Audit Fee		129,860	45,000
Depreciation and Amortisation		1,032,311	954,857
Other expenses and provisions		1,150,875	821,000
Taxation	15	505,334	-
Profit on ordinary activities after taxation		9,650,035	6,502,492
		12,939,570	8,734,733
APPROPRIATIONS:			
Proposed dividend		1,512,984	1,057,330
Transfer to general reserves		4,825,017	3,251,246
Transfer to reserve for exchange fluctuation		500,000	499,762
Transfer to reserve for loss fluctuation		200,000	200,000
Retained earnings at 31st December		4,895,923	2,283,889
		11,933,924	7,292,227

The accompanying notes form an integral part of this statement

Corporation

the year ended 31 December 2004



INCOME	Note	2004 US\$	2003 US\$
Underwriting profit		3,955,050	3,315,838
Income from investments and other sources	16	7,739,572	4,129,952
Interest on reinsurance deposits		1,677,952	1,479,466
Realised (loss)/gain on exchange		(433,004)	(190,523)
		12,939,570	8,734,733
Retained earnings at 1st January		2,283,889	789,735
Profit for the year		9,650,035	6,502,492
		11,933,924	7,292,227

The accompanying notes form an integral part of this statement



African Reinsurance

Consolidated Revenue Account for

OUTGO	Gross	Retrocession	NET	NET
	US\$	US\$	2004	2003
			US\$	US\$
LOSSES PAID	126,723,973	5,032,634	121,691,339	76,680,861
Add:				
Outstanding loss reserve at the end of the year	50,128,401	3,482,464	46,645,937	40,445,209
Deduct:				
Outstanding loss reserve at the beginning of the year	43,927,673	3,482,464	40,445,209	29,954,566
LOSSES INCURRED	132,924,701	5,032,634	127,892,067	87,171,504
COMMISSIONS	67,633,968	3,144,285	64,489,683	41,972,165
CHARGES	6,016,353	265,119	5,751,234	3,636,040
TOTAL OUTGO	206,575,022	8,442,038	198,132,984	132,779,709
MANAGEMENT EXPENSES	7,532,773	-	7,532,773	6,008,584
Underwriting profit transferred to profit & loss account	6,211,125	2,256,075	3,955,050	3,315,838
	220,318,920	10,698,113	209,620,807	142,104,131

The accompanying notes form an integral part of this statement

Corporation

the year ended 31 December 2004



INCOME	Gross	Retrocession	NET	NET
	US\$	US\$	2004 US\$	2003 US\$
Premium net of cancellations	299,066,764	35,060,690	264,006,074	164,231,502
Add:				
Reinsurance fund at the beginning of the year	124,995,354	38,412,397	86,582,957	64,455,586
Deduct:				
Reinsurance fund at the end of the year	203,743,198	62,774,974	140,968,224	86,582,957
Earned Premium	220,318,920	10,698,113	209,620,807	142,104,131
	220,318,920	10,698,113	209,620,807	142,104,131

The accompanying notes form an integral part of this statement



African Reinsurance Corporation

Consolidated Underwriting Results by Class of Business for the year ended 31st December 2004

	Fire and Accident US\$	Marine and Aviation US\$	Life US\$	TOTAL 2004 US\$	TOTAL 2003 US\$
Underwriting income:					
Gross premium	251,629,986	36,556,118	10,880,660	299,066,764	198,122,854
Retrocession premium	(25,316,562)	(9,744,128)	-	(35,060,690)	(33,891,352)
	226,313,424	26,811,990	10,880,660	264,006,074	164,231,502
Underwriting outgo:					
Losses paid	105,912,052	8,578,041	7,201,246	121,691,339	76,680,861
Commissions	54,413,689	7,507,125	2,568,869	64,489,683	41,972,165
Charges	5,016,680	572,540	162,013	5,751,233	3,636,040
Management expenses	6,337,954	920,761	274,058	7,532,773	6,008,584
	171,680,375	17,578,467	10,206,186	199,465,028	128,297,650
Excess of income over outgo	54,633,049	9,233,523	674,474	64,541,046	35,933,852
Reinsurance & reserve funds					
At 1st January	97,806,852	23,663,422	5,557,891	127,028,165	94,410,152
	152,439,901	32,896,945	6,232,365	191,569,211	130,344,004
At 31st December	(149,299,697)	(32,209,507)	(6,104,957)	(187,614,161)	(127,028,166)
Underwriting profit transferred to profit & loss account	3,140,204	687,438	127,408	3,955,050	3,315,838

The accompanying notes form an integral part of this statement

African Reinsurance Corporation

Consolidated Statement of Changes in Equity

for the year ended 31st December 2004

	Share Capital US\$	Share Premium US\$	General Reserve US\$	Cumulative Other Reserves US\$	Translation Adjustment US\$	Retained Earnings US\$	Total US\$
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
Profit for the year	-	-	-	-	-	9,650,035	9,650,035
New shares subscribed	20,373,100	3,620,234	-	-	-	-	23,993,334
Currency translation Adjustment	-	-	-	-	7,539,523	-	7,539,523
Transfer to technical reserves	-	-	-	-	(3,724,279)	-	(3,724,279)
Proposed dividend	-	-	-	-	-	(1,512,984)	(1,512,984)
Transfer to reserves	-	-	4,825,017	700,000	-	(5,525,017)	-
Balance at 31st December 2004	86,456,200	6,403,069	18,747,849	9,494,000	4,025,508	4,895,923	130,022,549

The accompanying notes form an integral part of this statement





Africa Reinsurance Corporation

Consolidated Statement of Cash Flows

for the year ended 31st December 2004

	2004 US\$	2003 US\$
CASH FLOWS FROM OPERATIONS:		
Profit before taxation	10,155,369	6,502,492
Adjustments to reconcile operating profit to net cash generated from operations:		
Depreciation and amortisation	1,032,311	954,857
Change in fair value of quoted shares and fixed income securities	(1,049,217)	(439,231)
Profit on sale of fixed assets	(25,343)	(16,498)
Reinsurance & reserve funds	64,310,274	38,885,279
Amounts due from companies on reinsurance accounts	(19,257,281)	(13,518,998)
Deposits retained by ceding companies	(26,123,656)	(22,225,331)
Sundry debtors, accrued interest & prepayments	(559,570)	(386,360)
Amounts due to companies on reinsurance accounts	16,314,390	28,937,550
Deposits due to retrocessionaires	743,290	(16,768)
Other creditors, accruals & provisions	2,288,510	(77,406)
	37,673,708	32,097,095
Tax paid	(54,493)	-
Net cash generated from operations	47,774,584	38,599,588
Adjustments for non-cash items taken to shareholders funds:		
Cumulative translation adjustment	3,815,244	7,282,564
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	56,909	37,764
Purchase of fixed assets	(2,428,416)	(3,022,860)
Purchase of investments	(44,348,537)	(40,262,251)
	(46,720,044)	(43,247,346)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceed from share subscription	23,993,334	18,508,766
Dividend Paid	(768,144)	(912,103)
	23,225,190	17,596,663
Net increase in cash and short term maturities	28,094,974	20,231,468
CASH AND SHORT TERM MATURITIES:		
At 1st January	29,465,562	9,234,094
At 31st December	57,560,536	29,465,562

The accompanying notes form an integral part of this statement

Notes to the Financial Statements for the year ended 31st December 2004



NOTE 1

OPERATIONS

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) currently in force, which comprise standards and interpretations approved by International Accounting Standards Board (IASB) and practices prevailing within the insurance industry. The Corporation prepares its financial statements under the historical cost convention as modified by the measurement of 'financial assets at fair value through profit and loss'.

(b) Scope of consolidation

The financial statements include assets, liabilities and the results of African Reinsurance Corporation and its only wholly owned subsidiary, African Reinsurance Corporation (South Africa) Limited (ARCSA). The subsidiary is required to comply with the guidelines stipulated by the South African Accounting Practices Board and the Financial Services Board. Where the requirement of the guidelines is at variance with the group policy, the result of the subsidiary is adjusted to comply with the group policy. All significant inter-company transactions and balances have been eliminated.

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

The preparation of financial statements requires the use of certain estimates and

assumptions that affect the reported amounts of assets, liabilities, income and expenses as well as the related disclosure including contingent liabilities. Although management determines these estimates on the basis of historical information, actuarial analyses and its best knowledge of current events and actions, the ultimate actual results may differ from the estimates.

(d) Investments

Unlisted equity 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 equity investments and fixed income securities are classified as 'fair value through profit and loss account' and are carried at fair value, which is calculated by reference to quoted market prices at the balance sheet date. Unrealised gains and losses arising from valuation therefrom are included in the profit and loss account. 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.

Short-term investments purchased in the primary market are carried at amortised cost. Highly liquid investments purchased with an original maturity of one year or less, but within three months are classified as Short-term investments.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and Short-term investments purchased with an original maturity below three months.

(f) Capitalised software costs

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.

External direct costs of materials and services (including fees) incurred to develop or obtain internal use software are capitalised and amortised on a straight-line basis over a period of four years through profit and loss account.

All other costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred.



Notes to the Financial Statements for the year ended 31st December 2004

(g) 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.

(h) 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.

i) Retrocession

The Corporation enters into retrocession arrangements with reputable retrocessionnaires to diversify its risks and reduce the risk of catastrophic loss on reinsurance assumed. The retrocession arrangement does not relieve the Corporation of its obligations to the ceding companies. As part of its annual renewals, the financial conditions of the retrocessionnaires are also reviewed.

Premium and losses ceded under retrocession contracts are reported as reductions of premium earned and losses incurred. Retrocession premium paid are charged to the applicable underwriting year results. Amount recoverable for ceded claims and premium paid on account of open years are reported as assets in the accompanying financial statements.

(j) 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.

(k) Fixed Assets and Depreciation

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

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

(l) 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.

(m) 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.

(n) 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\$ 10,667,000** (2003: **US\$5,093,337**) representing cash and current accounts in member States' currencies.

Notes to the Financial Statements for the year ended 31st December 2004



NOTE 4

INVESTMENTS

4.1 Investment by class

	2004 US\$	2003 US\$
Unlisted equity investments	1,837,032	2,014,365
Listed equity investments	9,904,714	3,142,873
	11,741,746	5,157,238
Bonds and other fixed income securities	18,859,537	14,475,457
Short-term bank deposits	142,931,340	108,502,174
	161,790,877	122,977,631
	173,532,623	128,134,869

4.2 Investments by original currency

	Fixed Income Securities USD	Equity Securities USD	Short-term Bank Deposits USD	2004 Total USD	2003 Total USD
USD	8,621,453	3,763,027	88,790,569	101,175,049	85,340,826
GBP	-	-	8,018,992	8,018,992	8,152,285
EUR	-	-	9,297,858	9,297,858	8,587,581
ZAR	10,238,084	7,561,688	35,016,733	52,816,505	20,611,410
OTHER AFRICAN CURRENCIES	-	417,031	1,807,188	2,224,219	5,442,767
TOTAL	18,859,537	11,741,746	142,931,340	173,532,623	128,134,869

4.3 Bonds and Fixed Income Securities by Maturity

	2004		2003	
	Amortised cost/cost US\$	Fair Value US\$	Amortised cost/cost US\$	Fair Value US\$
Due in one year or less	455,520	439,496	2,494,163	2,490,260
Due after one year through five years	9,310,186	9,546,894	9,105,993	9,453,927
Due after five year through seven years	7,103,620	7,353,843	1,340,120	1,441,152
Due after seven years	1,387,373	1,519,304	1,022,396	1,090,118
	18,256,699	18,859,537	13,962,672	14,475,457



Notes to the Financial Statements for the year ended 31st December 2004

NOTE 5

AMOUNTS 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

	2004 US\$	2003 US\$
Premium deposits	26,038,259	20,621,370
Loss deposits	68,207,913	47,501,146
	94,246,172	68,122,516

NOTE 7

FIXED ASSETS

	Fixed Assets in Progress US\$	Freehold & Leasehold Property US\$	Furniture Fittings & Equipment US\$	Motor Vehicles US\$	Total 2004 US\$	Total 2003 US\$
COST						
At 1st January	-	15,953,581	5,725,323	554,176	22,233,080	19,577,258
Additions	744,094	1,275,924	264,903	143,495	2,428,416	3,022,860
Disposals	-	(1,148)	(68,458)	(45,023)	(114,629)	(367,038)
At 31st December	744,094	17,228,357	5,921,768	652,648	24,546,867	22,233,080
DEPRECIATION						
At 1st January	-	1,008,499	3,057,515	378,914	4,444,928	3,835,842
Charge for the year	-	246,786	695,249	90,276	1,032,311	954,857
On disposals	-	-	(38,040)	(45,023)	(83,063)	(345,771)
At 31st December	-	1,255,285	3,714,724	424,167	5,394,176	4,444,928
NET BOOK VALUE						
At 31st December	744,094	15,973,072	2,207,044	228,481	19,152,691	17,788,152

Included in freehold property are US\$8.24 million and US\$2.71 million representing the costs of the Corporation's headquarters building in Lagos and regional office building in Nairobi respectively. The Corporation occupies 43% of the headquarters' and 20% of the Nairobi buildings while the balance is let out to third parties.

Notes to the Financial Statements for the year ended 31st December 2004



NOTE 8

AMOUNTS DUE TO COMPANIES ON REINSURANCE ACCOUNTS

	2004 US\$	2003 US\$
Due to ceding companies	46,391,940	32,246,945
Due to retrocessionnaires	23,496,622	21,327,227
	69,888,562	53,574,172

NOTE 9

DIVIDEND PAYABLE

	2004 US\$	2003 US\$
Balance at 1st January	1,933,835	1,788,608
Proposed dividend	1,512,984	1,057,330
	3,446,819	2,845,938
Amount paid during the year	(768,144)	(912,103)
	2,678,675	1,933,835

Proposed dividend is based on 864,562 (2003:660,831) subscribed and paid-up ordinary shares at the rate of US\$1.75 (2003: US\$1.60) per share.

NOTE 10

REINSURANCE AND RESERVE FUNDS

	Fire & Accident US\$	Marine & Aviation US\$	Life US\$	Total 2004 US\$	Total 2003 US\$
Gross					
Reinsurance fund	167,405,036	34,672,283	1,665,879	203,743,198	124,995,354
Reserve for outstanding claims	35,537,120	10,152,203	4,439,079	50,128,402	43,927,673
Transfer from Cumulative Translation Adjustment	8,301,154	1,690,390	-	9,991,544	6,267,266
	211,243,310	46,514,876	6,104,958	263,863,144	175,190,293
Less retrocessionnaires' share in:					
Reinsurance fund	50,396,447	12,378,527	-	62,774,974	38,412,397
Reserve for outstanding claims	3,237,724	244,740	-	3,482,464	3,482,464
	53,634,171	12,623,267	-	66,257,438	41,894,861
Net reinsurance and reserve funds	157,609,139	33,891,609	6,104,958	197,605,706	133,295,432



Notes to the Financial Statements for the year ended 31st December 2004

NOTE 11

PAID-UP CAPITAL

	2004 US\$	2003 US\$
Capital allotted and subscribed	88,687,900	80,203,000
Called up and unpaid	(2,231,700)	(14,119,900)
Subscribed and paid-up capital	86,456,200	66,083,100

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

	2004 US\$	2003 US\$
Balance at 1st January	13,922,832	10,671,586
Transfer from profit & loss account	4,825,017	3,251,246
Balance at 31st December	18,747,849	13,922,832

NOTE 13

OTHER RESERVES

	Reserve for Exchange Fluctuation US\$	Reserve for Loss Fluctuation US\$	Total 2004 US\$	Total 2003 US\$
Balance at 1st January	5,794,000	3,000,000	8,794,000	8,094,238
Transfer from profit & loss account	500,000	200,000	700,000	699,762
Balance at 31st December	6,294,000	3,200,000	9,494,000	8,794,000

Notes to the Financial Statements for the year ended 31st December 2004



NOTE 14

CUMULATIVE TRANSLATION ADJUSTMENT

	2004 US\$	2003 US\$
Balance at 1st January	210,264	(7,072,300)
Translation adjustment for the year	7,539,523	13,549,830
Transfer to technical reserves	(3,724,279)	(6,267,266)
Balance at 31st December	4,025,508	210,264

NOTE 15

TAXATION

In accordance with Article 51 of the Establishment Agreement, the Corporation is not subject to tax in member States except in South Africa where the subsidiary operates. Taxation charged to the accounts is made up of:

	2004 US\$
Income taxation	429,639
Deferred tax liability	75,695
	505,334
The deferred tax liability balance at the end of the year comprises :	
- Capital allowance	(756)
- Unrealised gain on revaluation of investments	76,451
	75,695

NOTE 16

INCOME FROM INVESTMENTS AND OTHER SOURCES

	2004 US\$	2003 US\$
Interest on term deposits	4,409,315	1,790,595
Income from equities and fixed income securities	2,220,654	1,474,082
Rental income and other income	1,109,603	865,275
	7,739,572	4,129,952



Notes to the Financial Statements for the year ended 31st December 2004

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\$1,741,250 (2003: US\$1,701,431).

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 (2003: 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 EVENTS

African Reinsurance Corporation and International Finance Corporation, the private sector arm of the World Bank, signed an agreement on 16 February 2005 for the latter to acquire 80,000 ordinary shares in the Corporation's equity capital.

Included in Paid-up capital are 95,000 ordinary shares that the Corporation will buy back in August, 2005.

African Reinsurance Corporation

Financial Statements for the year ended 31st December 2004



FIVE YEAR FINANCIAL SUMMARY

	2004 US\$	2003 US\$	2002 US\$	2001 US\$	2000 US\$
BALANCE SHEET					
ASSETS					
Financial assets	231,093,159	157,600,431	96,667,483	70,610,416	58,755,777
Reinsurance debtors and deposits	158,299,167	112,918,230	77,173,900	64,349,140	63,662,506
Sundry Debtors	1,513,051	953,481	567,119	1,284,774	1,759,628
Fixed Assets	19,152,691	17,788,152	15,741,416	14,628,175	14,029,793
Retrocessionaires' share in reserve funds	66,257,438	41,894,861	25,701,288	13,184,824	12,035,173
	476,315,506	331,155,155	215,851,206	164,057,329	150,242,877
LIABILITIES					
Other Creditors	8,561,568	5,077,377	5,009,555	4,796,541	3,081,179
Term loan	-	-	-	-	500,000
Reinsurance creditors and deposits	73,868,245	56,810,565	27,889,783	18,949,399	15,128,065
Reinsurance & reserve funds	263,863,144	175,190,293	120,111,440	88,694,544	81,484,774
	346,292,957	237,078,235	153,010,778	112,440,484	100,194,018
SHARE CAPITAL AND RESERVES					
Paid up capital	86,456,200	66,083,100	50,282,200	24,597,500	23,940,000
Reserves	39,540,841	27,783,556	19,630,528	40,236,889	35,662,817
Cumulative translation adjustment	4,025,508	210,264	(7,072,300)	(13,217,544)	(9,553,958)
Shareholders' funds	130,022,549	94,076,920	62,840,428	51,616,845	50,048,859
	476,315,506	331,155,155	215,851,206	164,057,329	150,242,877
PROFIT & LOSS ACCOUNT					
Written Premium	299,066,764	198,122,854	126,972,266	85,114,364	78,060,023
Retained Premium	264,006,074	164,231,502	104,267,377	75,511,696	71,717,657
Underwriting Profit	3,955,050	3,315,838	3,191,780	3,026,107	1,362,244
Net Profit	9,650,035	6,502,492	5,709,481	5,540,364	4,281,280
Proposed Dividend	1,512,984	1,057,330	754,233	614,938	-



Notes