



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

Honourable Representatives
General Assembly
African Reinsurance Corporation

Date: 20th June 2006

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, 2005.

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

MUSA S. AL NAAS

Chairman of the Board of Directors
and General Assembly

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Composition of Africa Re Board of Directors



Mr. J. J. Githaka
Vice-Chairman



Mr. M. Al Naas
Chairman



Mr. R. Lowe



Mr. H. M. Seba



Mr. J. B. Kouame



Mr. T. El-Barki



Mr. A. Mounir



Mr. O. E. Chukwulozie



Mr. T. Tilahun



Mr. T. Turner



Mr. B. Tümmers



Mr. A. Alli

ALTERNATE DIRECTORS

Mr. Farag NASHNUSH, Mr. Pa Alieu SILLAH, Mr. DIAGOU Kacou Jean, Mr. MARAMI Kamel, Mr. ONONEMANG Georges, Mr. YAHYAOU I Thami, Mr. Zondo SAKALA, Mr. Bala Zakariyau, Mrs. Nyamikeh Kyiamah, Mr. Hamam BADR, Mr. Dirk MEURER, Mr. George MANYERE



Chairman's Statement

The 28th Annual Report of the Board of Directors presents the Corporation's consolidated financial statements for 2005, including the balance sheet as at 31st December and the profit and loss account for the year then ended. It includes a review of the Corporation's operating environment and the report of the External Auditors to the shareholders. Certain changes were made to the presentation of the financial statements this year

in line with the change in the underwriting income recognition method from the three open years to the annual method as well as the adoption of new and/or revised International Financial Reporting Standards (IFRS), especially IFRS 4 on insurance contracts.

The Corporation recorded a 10.53% increase in gross written premium for the year, from US\$299.07 million in 2004 to US\$330.55 million. Following the full migration of its underwriting revenue account to annual accounting basis, gross earned premium increased by 16.73% from US\$256.91 million to US\$299.88 million over the same period.

Total Premium ceded to retrocessionnaires during the year amounted to US\$35.04million, representing an increase of 16.37% from US\$30.11 million ceded in 2004. However, in line with the new accounting basis and after adjusting for movement in pipeline accounts, retrocession cost charged to the 2005 underwriting result reduced to US\$20.74million from US\$37.93 million in 2004. The sharp decline resulted from the conversion of the retrocession accounts from the three open years to the annual accounting method and the complete phasing out of the African surplus retro programme. Accordingly, earned premium net of retrocession stood at US\$279.14 million, representing an increase of 27.48% over the US\$218.97 million achieved in 2004.



Mr. M. Al Naas
Chairman

Paid losses, net of reinsurance recoveries, stood at US\$148.85 million (2004:US\$121.69). The adjustment for the movement in the outstanding claims (including IBNR) provisions produced a net incurred loss of US\$196.30million compared to US\$139.80 million recorded last year, representing an increase of 40.41%. The increase in paid claims was accounted for by the payment of US\$24 million being the Corporation's share of the Skikda (Algeria) loss as well as

the partial settlement of some of the claims arising out of the 26th December 2004 Asian Tsunamis.

Management expenses for the year amounted to US\$11.15 million compared to US\$10.32 million in 2004 - an increase of 8.06%.

Consequently, a net underwriting profit of US\$2.92 million was reported compared to US\$1.99 million under the same accounting basis, representing an improvement of 46.86% over 2004 result.

Income from investment and other sources, including interest on reinsurance deposits amounted to US\$17.45 million compared to US\$9.42million achieved in 2004, mainly due to the increase in financial assets, higher interest rates and the performance of the professionally managed equity and fixed income portfolios. There was also a realized gain on exchange of US\$0.27 million this year compared to a loss of US\$0.43 million in 2004.

The cumulative translation adjustment for the year resulted in an unrealised loss of US\$14.00 million compared to a gain of US\$7.54m in 2004. In line with the prior year basis, a total amount of US\$5.28 million (2004: US\$3.72m) was transferred to the technical reserves. As at 31st December 2005, cumulative translation adjustment, which has

Chairman's Statement



been accounted for as a separate component of the shareholders' funds, therefore amounted to a deficit of US\$4.76m compared to credit of US\$4.03 million in 2004. As a result, shareholders' funds as at 31st December 2005 stood at US\$168.60m (2004: US\$139.49m).

For the African Reinsurance Corporation, the year 2005, which was characterised by the growth of the world economy, the positive performance of the African economy and the rude trial that the international reinsurance industry had to undergo as a result of natural catastrophes (US\$60 – US\$80 billion in losses), was a year of consolidation.

This resulted in a more modest production growth rate (10.53%) than in previous years (49.18% in 2002, 56.03% in 2003 and 50.95% in 2004) following a deliberate policy of portfolio sanitisation including the suspension of new facultative acceptances in the property class by one of the production centres due to unacceptable results, the withdrawal of another production unit from life business in a major market on account of the high cost of servicing that class of reinsurance, the unprecedented control of the volume of premiums generated and the diversification of the peak risks written in several countries, especially the Energy risk. Year after year, South Africa, the leading market in the continent, accounts for an ever increasing share of Africa Re's premium income, thus anticipating and taking its natural place in the future of the Corporation. The strategy of developing the Oil and Energy business following the discovery and exploitation of larger oilfields in the West coast of the continent seems to hold some promise with some US\$40.33 million (US\$17.03 million in 2004). The same is also true of International business, which grew in 2005 by 29.02% over 2004, representing US\$15.35 million of the premium income for the year under review.

Furthermore, the establishment of an in-house investment unit and a more efficient use of independent Managers together with the gradual increase in interest rates resulted in an investment

income of US\$16.61 million representing 90.49% growth over that of the previous year.

That performance is attributable to the higher level of liquidity (US\$302.28 million) due, on the one hand, to the successful completion of the capital increase and opening-up exercise, which attracted worldwide reputable investors into the capital who hold a total share of 21% and, on the other hand, by the timely collection of reinsurance balances.

These new members who are all AAA rated are injecting not only a substantial share of the capital but also their well-known financial expertise and governance rules that would be of benefit to Africa Re whose practices are already of international standard.

During the year under review, the various Board Committees (Audit and Risks/Remunerations and Conditions of Service) set up to improve good governance, functioned to the satisfaction of Directors. Indeed, the detailed analysis of the Accounts at 31 December 2005 and review of the Investment Guidelines with a view to integrating the challenges and seizing the opportunities derivable from new investment instruments and other derivatives, had been completed.

Following the expiry of the tenure of a number of Directors, the Board of Directors was reconstituted with the election of new members to represent the non-regional institutional investors.

As at 31 December 2005, the Corporation had an establishment status of 143 staff from 21 countries, 48 of whom were in professional category including 11 Directors, 76 in the Support staff category and 19 in the Manual staff category.

The financial strength ratings of A- (Excellent) and BBB+ (Good) awarded by AM Best and Standard & Poor's respectively were reaffirmed in 2005. The detailed ratings as well as other information on the Institution are posted on its web site www.africa-re.com

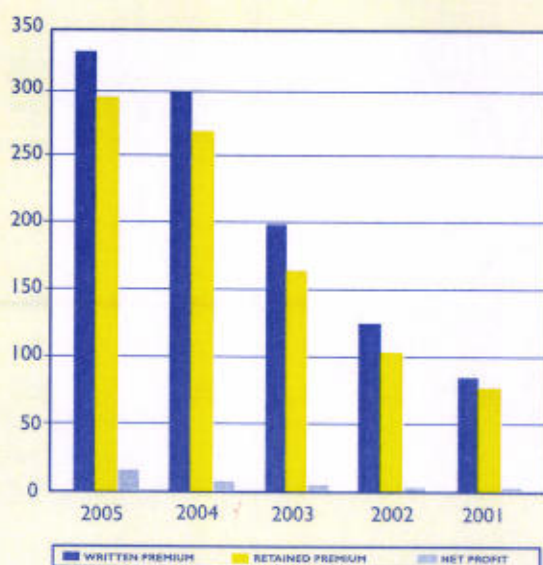


Financial Highlights

In US\$ '000	2005	2004	2003	2002	2001
RESULTS					
WRITTEN PREMIUM	330,547	299,067	198,123	126,972	85,114
RETAINED PREMIUM	295,506	268,956	164,232	104,267	75,512
EARNED PREMIUM (NET)	279,135	218,973	232,631	88,250	66,163
NET PROFIT	18,836	10,469	13,636	5,709	5,540
FINANCIAL POSITION					
SHAREHOLDERS' FUNDS	168,595	139,487	101,210	62,840	51,617
TOTAL ASSETS	501,106	506,589	393,131	215,851	164,057

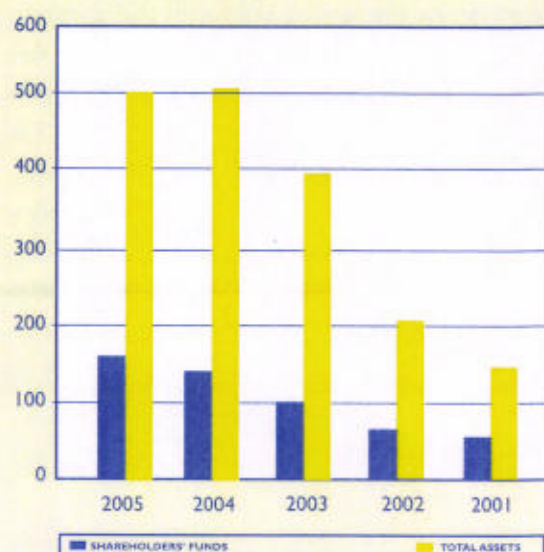
RESULTS 2001 - 2005

In US\$ Million



RESULTS 2001 - 2005

In US\$ Million



Composition of Africa Re Management Team



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



Mr. Bakary Kamara
Managing Director



Mr. Haile M. Kumsa
Deputy Managing Director



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



Mr. Ganiyu Musa
Director Finance & Accounts



Mr. Ike Uduma
Director Internal Audit



Mr. George Otieno
*Regional Director
Nairobi*



Mr. Béné B. Lawson
*Regional Director
Abidjan*



Mr. Moncef Manai
*Regional Director
Casablanca*



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



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



Mr. Omar Gouda
*Regional Director,
Cairo*



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



Economic and Trading Environment

Despite the natural disasters that occurred during the third quarter of 2005, the United States once again confirmed its status as the driving force of the world economy, while China recorded remarkable performance, ranking 6th amongst the world economic superpowers, despite the skyrocketing price of oil and the country's insatiable energy needs.

On its part, the African economy also recorded appreciable growth despite its size, not to mention its marginalized status and the factors mentioned above.

Growth in World Economy

Further to the exceptional 5% growth in 2004, the world economy on the whole weathered the oil hikes as well as the consequences of the 22 hurricanes/cyclones that devastated the Mexican Gulf and Far East Asia in 2005. Indeed, despite the effects of hurricanes KATRINA, RITA and WILMA, which swept across the Mexican Gulf where 30% of the country's energy infrastructure is located, the United States recorded a growth rate of 3.5%. However, its trade balance deficit further widened to almost USD 800bn, representing 6.5% of the Gross Domestic Product (GDP).

China took a number of measures to avoid upsurge in investment and consumption but these did not achieve the desired results. As a matter of fact, there was only a slight improvement in the country's economic growth with a rate of 9.3% to 9.6% in 2005; the GDP stood at USD 1,971bn, while textile export quotas and currency (Yuan) adjustment issues remained the Gordian knot of all multilateral discussions. Although deceleration seems imminent following contractions in energy consumption and cutbacks in imports, what is now known as "Chinindia" (China and India) accounted for 40% of world growth. In effect, both China and India remain very competitive, represent preferred destinations for Foreign Direct Investment and have become strong rivals for countries with cheap labour. Meanwhile, India's GDP also grew by 7% in 2005. Compared with the three giants (USA, China & India), Europe and Japan appear to be losing steam, with a growth rate of 2% for the former and a sluggish recovery for the latter.

Despite the slight drop in 2005, growth in developing countries remained generally sustained. Once again, the difficulty in trade liberalisation constituted a stumbling block to WTO negotiations, which started in Doha and continued in Hong Kong. It was indeed agreed that agricultural subsidies would be removed by 2013; however, third world countries believe that this target date is too far-off to urgently meet the demands of farmers.

Positive Performance of the African Economy

Together with the debt burden in poor countries, the issue of cotton and hike in oil bill dominated international negotiations and remained the main concern of the continent's leaders. At the Hong Kong conference, it was agreed in the preliminary discussions that developed countries would remove all forms of subsidies for cotton export in 2006 and allow free access (no duties or quotas) for products from less advanced countries to western markets by 2008. The African cotton industry may have lost about USD 250million in 2005, which further heightened poverty in the producing countries.

The initiative for the highly indebted poor countries (HIPC), which was launched in 1996 and reviewed in 1999 by the Bretton Woods institutions, has revealed its limitations, as it has failed to reduce debt servicing to less than 150% of exports and imposed conditions that are difficult for the economies of such nations to bear.

The adoption of the Millennium Development Goals reaffirmed the urgent and pressing need to find a realistic and acceptable solution to the issue of debt which, as at end of 2004 stood at almost USD 220 billion, the same amount as in 1999, despite payments and relief granted.

Therefore, having observed the spread of extreme poverty from the 90's, lending agencies had to review the role of public development aid, which is expected to stand at USD 50bn by 2010, half of which would be devoted to the African continent as part of the "Plan for Africa" that was adopted at the G8 summit in Gleneagles (United Kingdom). Since then, the IMF and IBRD have cancelled the multilateral debts of 13 African countries.

Economic and Trading Environment



On the whole, the African economy grew by 5% in 2005, as against the 7% needed for significant poverty reduction and a revival of the continent. All the same, this performance deserves to be commended, having been achieved despite an upsurge in the cost of energy. It is mainly attributable to the cessation of conflicts in several regions or countries, reorientation of public spending as well as the implementation of austerity measures in some countries and increase in international aid (+13%).

For example, while the increase in cost of crude oil enabled Algeria to achieve a GDP growth rate of 5% (5.2% in 2004), thereby generating a total external income of USD 40 billion (including income from migrants) and bringing its foreign reserves to USD 61.5bn, the Libyan economy grew by 7% in 2005 with income from exports amounting to USD 20.5bn. Other African oil producing countries were not left out, for instance, Nigeria (+4%), which obtained a cancellation of 60% of its debt following an agreement to pay some USD 12bn to the Paris Club, Congo-Brazzaville (+9.2%), Equatorial Guinea (+30% in 2004 and 6.2% in 2005), Chad (36% in 2004 and +13% in 2005) and Angola (+16%) with a budget surplus of 4%.

The continent's largest economy (South Africa), with a GDP representing one third of that of the entire sub-Saharan Africa and three quarters of the southern sub-region's recorded a growth rate of 3.7%, while production in Mauritius, one of the stars of the continent, has been declining from one year to the other (4% in 2005 compared to 6% in 2004). This is the outcome of the implementation of the MultiFibre Agreement in the textile industry and the expiry of preferential terms for its sugar sector under the Convention between the European Union and the African, Caribbean, and Pacific states (EU/ACP).

The increase in prices of raw materials, in addition to the drop in cereal harvests in Morocco, hindered the growth of that country's economy. Its textile industry, just like its Tunisian counterpart's, recorded a sharp decline as a result of competition from China. Burkina Faso, a country with limited resources, which had reorganised its agricultural sector, against all odds has quadrupled its cotton

production within ten years, thereby becoming the leading producer of this commodity (613,000 tons) in Africa, while Mali is gradually withdrawing from this sector and consolidating its position as the 3rd largest gold producing country after South Africa and Ghana.

Cameroon, which has still not been able to control its public spending, experienced a decline in economic growth rate, which dropped from 3.5% (2004) to 2.8% (2005), to equal the country's population growth, while in East Africa, Kenya attained a growth rate of 5% with horticulture becoming the leading export product, followed by tea and then tourism, which attracts more than 1.2 million visitors.

Due to oil windfall and despite the conflict ravaging the country, Sudan achieved a growth of 8.3% and raked in USD 3.6bn in oil revenue, while Egypt, following in-depth reforms of its legislation and economic environment, recorded a growth rate of 4.8% to attract Foreign Direct Investment.

International Reinsurance in the Face of Natural Catastrophes

According to the various estimates published in professional reviews, natural catastrophes in 2005 claimed almost 112,000 human casualties and resulted in material damages worth USD 230bn. The 22 hurricanes, which occurred in 2005, coincided with the onset of a soft cycle. Claims arising from the most devastating and popular ones, namely KATRINA, RITA and WILMA are estimated at between USD 62 to 82 billion. At between USD 40 and 60 billion, the cost of KATRINA to the industry would almost double claims paid (USD 23bn at current value) for hurricane Andrew in 1992.

However, unlike many other industries, which may not have been able to survive such a financial shock, the American insurance sector as well as the international reinsurance industry not only met their obligations stoutly, but also the latter succeeded in recapitalising with USD 15bn raised in 2005, the outcome of which is a clear indication of investors' confidence in the industry's capacity to generate more premium and profit. Indeed, the

Economic and Trading Environment



success recorded in the mobilisation of funds from a number of financial institutions is a testimony to growth opportunities. The emergence of new players on the reinsurance scene corroborates this confidence and the financial strength of the operators, as well as the expectation of a good return on investment following an increase in premium rates and the hardening of terms and conditions in the coming years.

This is very attractive for a number of Hedge funds because reinsurance spreads risks efficiently, as there is no correlation between risks emanating from its core activity and those from portfolio investments. However, these kinds of investment lack stability, continuity and commitment to the insurance industry. They will exit to other opportunities just as quickly as they came into the sector and as soon as the next soft cycle begins.

Insurance operations, which are cyclical and currently in a hardening phase, owe a lot to the professionalism and discipline of underwriters who are very concerned with applying technical standards and procedures. A significant underwriting deficit was recorded in 2005, with the combined ratio of the members of the American Reinsurance Association standing at 124.1% during the first three quarters of the year, and underwriting losses amounting to USD 412 million for the same period. As meteorological forecasts indicate increased climatic activity (hurricanes) in the Mexican Gulf region as well as other parts of the world in 2006, property insurance/reinsurance rates will remain high for some time. This explains the rise in the value of publicly quoted reinsurance companies, after the drop that occurred as a result of natural disasters in the third quarter of the year.

The African insurance industry has not been left out of the changes on the international scene. As a matter of fact, while in South Africa the cost of reinsurance covers rose by 5% for Motor & Accident classes, 10% for CAT XL, terms and conditions have remained the same in other sub-regions. Like reinsurers, direct insurers by dint of discipline and hard work, maintained rates at 2004 year-end levels, although the soft cycle had started

at the beginning of the year under review only to be contained in the third quarter when climatic hazards began to erode the accumulated surplus, which had encouraged the underwriters to believe that they could grant rebate in premium and thereby capture market shares. Costs of reinsurance covers would have been higher if cedants had not increased their own retentions significantly. Indeed, this is one of the solutions that direct insurers resorted to, as they were constrained under several national laws to increase their capitals substantially. This directive from supervisory authorities was issued particularly in Nigeria, Uganda and in CIMA countries in order to minimise the number of players and financial failures in various markets.

The merger initiative by the shareholders of two of the largest companies in Morocco justifies the principle of increasing companies' capital so as to bring them closer to international norms. As at now, with two complementary portfolios, this new company controls more than one third of production in the second largest market in Africa.

Committed to its creed of profitably developing the insurance profession on the continent, the African Reinsurance Corporation has successfully completed its third capital increase and opened its shareholding to non-regional investors. Consequently, four of the most prominent development finance agencies in the world today hold 21% of share capital, alongside the ADB, African states and local insurance companies. In an environment where the rating of both the company and its shareholders remains a major criterion for business relations, the equity participation of some of the best rated (AAA) financial institutions, as well as the reaffirmation of ratings (A- from AM Best and BBB+ from Standard & Poor's) provides Africa Re with more leverage in terms of its strategy for developing and consolidating its portfolio. The bulk of the Corporation's production emanates from the African continent, which is its domestic market, although year after year, neighbouring regions such as the Middle East and Asia (South, South East and Far East) play a more significant role in its growth prospects.

Operations



This section reviews the operating performance of the Corporation during the year 2005.

The highlights reveal the development of business by segment and location, as it relates to premiums generated, claims paid, incurred losses and other underwriting expenses. It also examines the development of voluntary cessions, which reflects a conscious effort to increase the volume of business from this source of income vis-à-vis the present business trend of creating a level playing ground, in line with the dictates of globalisation. However, the Corporation has continued to maintain its traditional adherence to strict underwriting discipline.

For the first time, the results of the technical operations are determined using the one-year accounting method, in line with modern international standards, which differs from the three-year accounting, in that it takes the results of all underwriting years into account.

The Corporation's strategic network of offices, made up of a subsidiary, five regional offices and its Headquarters in Lagos, ensures proximity to cedants in order to effectively respond to their needs.

Acceptances are classified as follows:

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

In order to facilitate effective delivery of service and control supervision, while taking advantage of the uniqueness of the African terrain and its similarity with certain Asian territories, the markets and corresponding production centers are grouped as follows:

- Anglophone West Africa - Lagos, Nigeria
- Francophone West and Central Africa - Abidjan, Cote D'Ivoire;
- Maghreb - Casablanca, Morocco
- North East Africa and the Middle East - Cairo, Egypt, which was upgraded to a Regional Office in July 2005.
- East and part of Southern Africa - Nairobi, Kenya
- South Africa and neighbouring markets, handled by the subsidiary, African Reinsurance Corporation (South Africa) Limited in Johannesburg; and
- African Indian Ocean Islands and South Asia - Port Louis, Mauritius.

"International" or "Worldwide" is the portfolio of business generated mainly by non-African markets in the Middle East, South Asia and the Far East, and is mainly written by three production centres (Lagos, Cairo and Port Louis).

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

DESCRIPTION (US\$'000)	2005			2004		
	Gross	Retro	Net	Gross	Retro	Net
INCOME						
Premium (less cancellations)	330,547	(35,041)	295,506	299,067	(30,111)	268,956
Change in unearned premium provision	(30,671)	14,300	(16,371)	(42,162)	(7,821)	(49,983)
Earned premium	299,876	(20,741)	279,135	256,905	(37,932)	218,973
OUTGO						
Losses paid	164,756	(15,903)	148,853	126,724	(5,033)	121,691
Change in outstanding claims provision (including IBNR)	26,940	20,507	47,447	36,354	(18,248)	18,106
Incurred losses	191,696	4,604	196,300	163,078	(23,281)	139,797



Operations

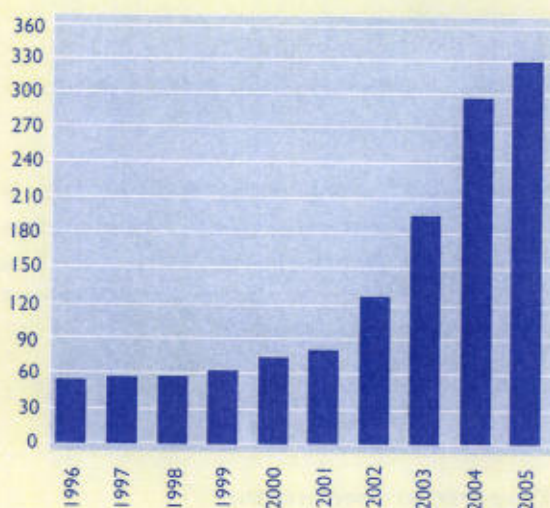
Premium Income

During the year under review, the Corporation's written premium income was US\$330.55 million. This was an increase of 10.53% over the 2004 figure of US\$299.07m. The relatively moderate growth compared with the over 50% hike in the three year period, 2002-2004, resulted from the need to consolidate the gains acquired during the period. Furthermore, rate of exchange losses across the continent with gains only in East Africa and North East Africa, led to a reduction in corporate income by US\$23.61m.

Development of Gross Premium

As may be observed in the graph below, the growth in the Corporation's written premium income has been rather significant, with a ten-year average of 20.01%.

DEVELOPMENT OF GROSS PREMIUM INCOME IN US\$ MILLIONS



Between 2002 and 2004, the Corporation took advantage of certain exogenous factors, to increase its income without sacrificing the excellence for which it is known. These were:

- The back-to-the-basics approach by market players after 9/11 and major Stock Market crises.
- The withdrawal of some players from the African market due mainly to pressure from their mother companies to refocus their energies along other paths, provided the additional opportunity to offer quality technical assistance.

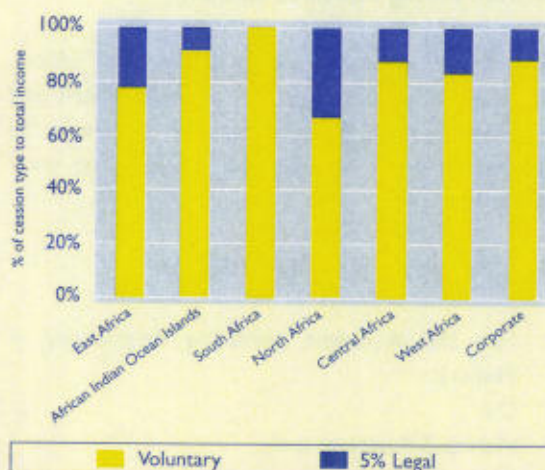
- The appreciation of major African currencies against the United States dollar (the Corporation's unit of Account).

The year 2005 witnessed what may have been the beginning of a soft market cycle. However, the trend was abruptly stopped by hurricanes Katrina, Rita and Wilma.

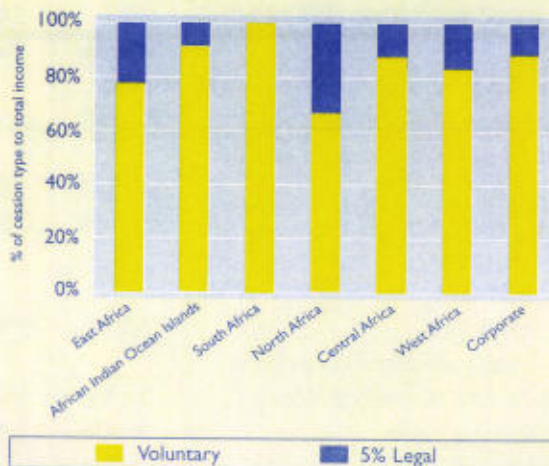
Voluntary Cessions

The effectiveness of the Corporation's strategy to successfully compete in its core markets may be observed from the continued upward movement of voluntary as against legal cessions from inception of the Corporation till date. From a rate of 67.45% in 1995, voluntary cessions increased steadily to 89.44% in 2005.

FINANCIAL YEAR 2005



FINANCIAL YEAR 2004



Operations



GEOGRAPHICAL DISTRIBUTION

With its strategic network of offices and good security ratings, Africa Re has consistently shown in recent years that it is a credible reinsurer within and outside the shores of Africa, especially in South Asia, the Middle East and the Far East.

Southern Africa

The subsidiary, African Reinsurance Corporation (SA) Ltd, is in charge of the business emanating from the countries of the Rand zone as well as Mozambique, Botswana and Angola. For the third consecutive year, this sub-region recorded the highest turnover for the Corporation. With US\$165.92m in 2005 (subsidiary and run-off), the production represents 50.20% of the Corporation's total income and exceeds that of 2004 by 12.95%.

Expectedly, the main driver of the premium production in this sub-region is the Republic of South Africa whose premium income grew by 23% in original currency, essentially due to the 5% rate increase in Motor & Accident as well as 10% on Catastrophe Excess of Loss treaties.

The United States Dollar reported income would have been considerably higher but for the consolidation of the portfolio and the restructuring of major accounts, cessation of new life underwriting as well as a 12.6% depreciation in the rand (US\$17.73m).

Maghreb

The countries making up the Maghreb recorded a premium of US\$33.30m, which is 10.08% of the corporate figure. This year's income is 13.48% below that of 2004. The drop was due to rate of exchange losses and the effect of redesigning part of their programmes in favour of non-proportional treaties, by a number of players in the sub-region.

East Africa

Premium income from this zone rose by 21.94% to US\$33.02m, representing 9.99% of the corporate figure.

This significant increase was due to a general growth of income in the markets serviced by the Regional Office, aided by the appreciation of the Kenya Shilling.

Anglophone West Africa

Income from the five English-speaking countries in West Africa, increased from US\$25.57m in 2004 to US\$30.58m in 2005, representing 9.25% of the corporate figure and a growth of 19.59% over the previous year's production. The increase was due mainly to additional premium from Fire/Engineering, Marine and Aviation and Life classes in Nigeria.

Francophone West and Central Africa

This sub-region wrote a total premium income of US\$25.96m, representing 7.85% of the corporate total. The modest increase of 4.80% over the previous year's income was attributable to the 15.24% depreciation of the CFA Franc against the US Dollar.

African Indian Ocean Islands

Premium income amounted to US\$14.81m, as against US\$13.75m in 2004, which is 4.48% of the corporate production and 7.71% in excess of the income recorded in the previous year. The growth would have been higher but for:

- The suspension of underwriting of new facultative business relating to the property class in Mauritius due to poor results, for the second consecutive year.
- The depreciation of the Mauritian Rupee, (8.51%) and the Malagasy Ariary (16%), accounting for a drop of income of 8.10%.

North East Africa

With US\$11.61m, production from North East Africa represents 3.51% of the Corporate premium, an increase of 9.13% over 2004.

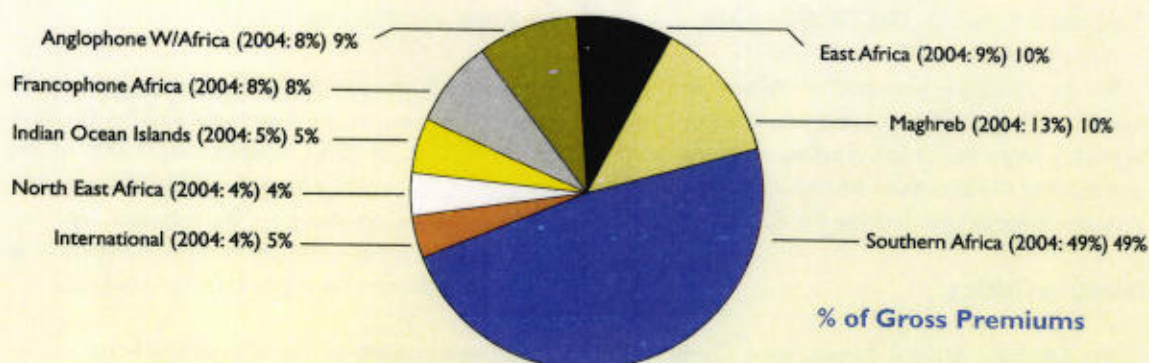
This growth was achieved despite a very competitive environment. The upgrading of the profit centre to a full-fledged Regional Office should boost its income in the medium term.

International Business

Premium income from international operations rose to US\$15.35m, as against US\$11.89m in 2004. This figure is 4.64% of the global income and 29.10% above last year's production. This may be seen as a testimony of Africa Re's acceptance as a sound security.



Operations

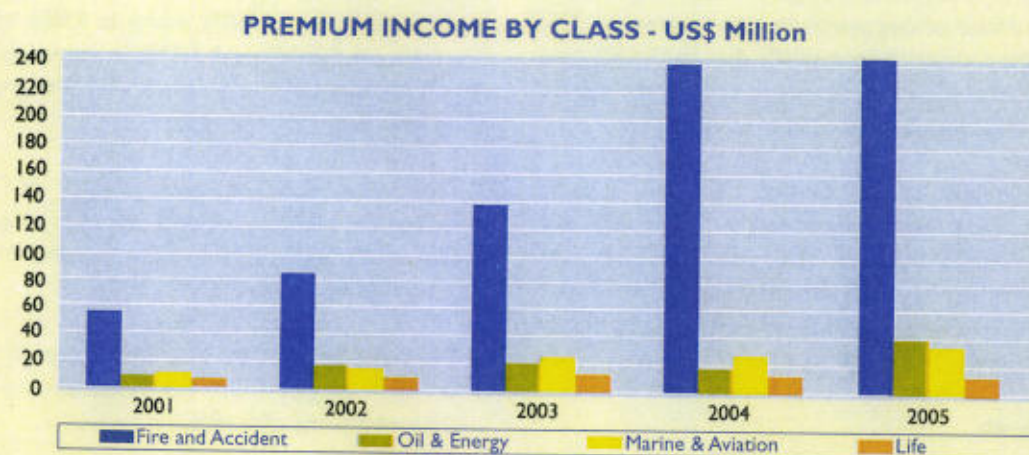


SECTORAL DISTRIBUTION

The bulk of the Corporation's premium income emanated from the Fire and Accident classes, which generated US\$245.47 million (2004: US\$240.93 million) or 74.26% (2004: 80.56%). While Oil

and Energy share was US\$40.33 million (2004: US\$17.03 million) or 12.20% (2004: 5.69%), the Marine and Aviation classes contributed US\$33.89 million (2004: US\$30.23 million) or 10.25% (2004: 10.11%). Life business produced US\$10.86 million (US\$10.88 million in 2004) or 3.29% (2004: 3.64%).

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



INVESTMENT INCOME

The Corporation recorded a marked improvement in the value of its financial assets with a 30.81% increase over the previous years' level of US\$231.09 million to US\$302.28 million at the end of the year. This impressive performance was due to the receipts from the capital-raising programme, which was successfully concluded during the year as well as a strong net cash flow from operations and investment activities, notwithstanding translation losses on major operating currencies, especially in South Africa where the Corporation now has a sizeable part of its financial assets. Indeed, in line with the emergence of South Africa as the dominant contributor to the group premium income, 29.30%

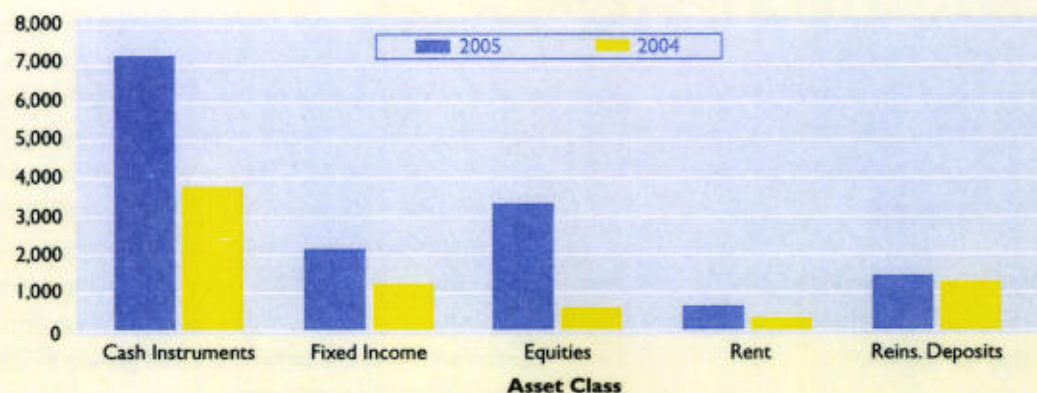
of the total financial assets is held in South African Rand.

The initiatives embarked upon in the previous year to establish a full-fledged investment unit and review the investment policy guidelines have started to yield positive results. The Corporation was able to restructure its investment programs to take advantage of a number of profitable opportunities and leverage on the relationship with existing financial institutions that have strong brand presence in Africa. Accordingly, income from investments witnessed a quantum leap from the US\$8.72 million achieved in 2004 to US\$16.61 million, representing a growth rate of 90.49%.

Operations



INVESTMENT INCOME BY ASSET CLASS



Total investment income comprises US\$3.75 million from equity investments compared to US\$0.93 million in 2004, due to the excellent performance of the South African portfolio; US\$2.48 million (2004: US\$1.58 million) from bonds and other fixed income investments and US\$7.66 million (2004: US\$4.12 million) from short-term money market instruments. Other incomes, mainly rent from property letting which doubled from US\$ 0.41 million to US\$ 0.83 million during the year and interest on reinsurance deposits from US\$ 1.68 million to US\$ 1.89 million up by 12.56%.

Long Term Investments

Against the backdrop of the enormous investment potentials created by the economic reform agenda being pursued in some member countries, the Corporation reviewed its strategy on private equity investments during the year, with a view to gradually and cautiously creating a profit-oriented private equity portfolio that promises superior real returns in the long-term. To this end, the Corporation took a minority stake in ARM Pension Managers (PFA) Ltd, a Nigerian based Pension Fund Administration company under the country's pension reform programme. The Board also approved the investment in a private equity fund, although the first disbursement was made after the financial year under review. Plans are underway to extend such investment initiatives to the rest of the continent, taking advantage of the Corporation's presence in the major financial centres across Africa.

The existing investments in the two development finance institutions, Afreximbank and Shelter Afrique, as well as those in direct insurance companies were maintained at their current levels. While Shelter Afrique continued to record positive, albeit modest performance in absolute terms, the management crisis that rocked Afreximbank since the beginning of 2005 has not shown any signs of abating. Although there seems to be no immediate material direct financial impact, Management is following the developments with keen interest and appropriate recommendations would be made to the Board should there be a need for specific actions to be taken and shareholders shall be advised.

Total dividends earned during the year amounted to US\$69,709 compared to US\$50,707 recorded in 2004, up by 37%. The increase was however dampened by provisions made in respect of some direct insurance companies.

Investment properties generated a rental income of US\$0.83million, double the US\$0.41million earned in the previous year, mainly due to the attainment of full occupancy in the lettable space in both the Headquarters and Nairobi office buildings. The Casablanca office building, which was almost completed at the end of 2005, is also expected to boost rental income in 2006 and beyond.

Equities and Bonds

Having appointed two additional external fund managers in 2005, the Corporation now has a



Operations

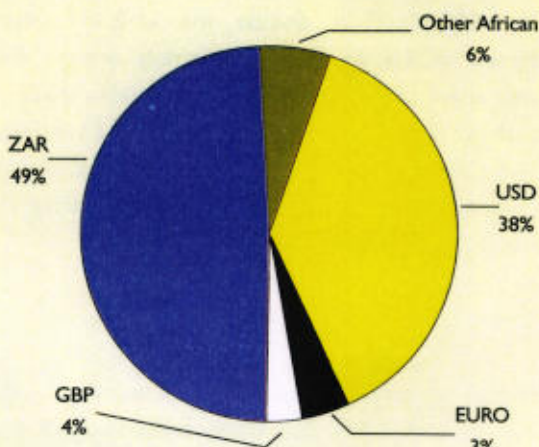
better geographical and management spread of its actively managed equity and bond portfolios in North America, Europe and South Africa. Total funds under management at market values therefore increased from US\$29.74 million in 2004 to US\$58.26 million with an average asset mix of 68% in high grade fixed income securities and 32% in well diversified equity.

The average S&P credit rating for the fixed income portfolio remains "AA", whilst the average duration was kept below 3.5 years.

Generally, stock markets outside the United States of America recorded excellent performance in 2005 in local currency terms but the strong US dollar significantly diluted most of the gains, which were nevertheless higher than the performance of US equities. In local currency terms, Euro zone stock markets posted 26.3%, the UK 20.1% and South Africa surged to an impressive level, gaining 45.77%. By contrast, the US stock markets continued their lackluster performance for the second successive year since the 2003 gains of 28.7%, as measured by the S&P 500 index.

The index finished the year with modest returns at 4.93%, compared to 10.9% it achieved in 2004. The US bond market defied the odds in the wake of rising Fed fund rates to post 2.43% as measured by the Lehman Brothers Aggregate Bond Index. Elsewhere in Europe, Government bonds returned 5.2% and 8.0% in Euros and UK Pound Sterling respectively compared to their corporate counterparts of 4.0% and 8.8%.

INVESTMENT INCOME BY CURRENCY



The Corporation's portfolio's overweight in fixed income securities across the board weakened the overall results, although it remained consistent with benchmark performance. The US dollar portfolio posted 2.64% against a benchmark of 2.96%, the Euro portfolio advanced 10.62% whilst the Sterling bond portfolio returned 4.2% compared to benchmarks of 11.7% and 4.3% respectively. The South African Rand portfolio outperformed the benchmark by 1% closing the year at 25.52%. The equity component of the portfolio generated a return of 51% against a benchmark of 48.2% whilst the bond gained 9.72% versus a benchmark of 9.69%.

Cash Instruments

The US Federal Reserve Board continued the monetary policy tightening agenda it started in June 2004 and increased the Fed fund rates eight times by 25 basis points each in the course of 2005 to end the year at 4.25%. As in the previous year, the interest rate hike boosted income from this asset class as it rose by 86.4% from US\$4.12 million in 2004 to US\$7.66 million due to the high proportion of US dollar short-term money market instruments in the financial assets.

Other Operating Income

Other income represents mainly fees from the management of the Aviation as well as Oil & Energy insurance pools which increased by 22.9% to US\$0.80 million (2004: US\$0.65 million) essentially due to a corresponding increase in premium written by the pools.

OUTGO

Losses

The total claims paid amounted to US\$164.76 million in 2005 as against US\$126.72 million in 2004, representing a paid claims ratio of 49.84% compared to 42.37% in the previous year.

The incurred losses amounted to US\$191.70 million, made up of paid claims of US\$164.76 million and movement in outstanding claims provision of US\$26.94 million as against US\$163.08 million, US\$126.72 million and US\$36.36 million, respectively in 2004.

Operations



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

GROSS LOSS RATIO BY CLASS - FINANCIAL YEAR 2005 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)	156.29	240.66	64.94	4.56	5.64	80.85	160.65	246.30	65.31
Marine & Aviation	19.96	38.98	51.21	2.52	3.53	71.39	22.48	42.51	52.88
Life	8.37	11.07	75.61	-	-	-	8.37	11.07	75.61
Total	184.62	290.70	63.51%	7.08	9.17	77.21	191.70	299.88	63.93%

Loss Experience By Trading Area

Anglophone West Africa's gross claims paid ratio of 30.18% was more favorable than the previous year's 33.02%. However, the net ratio was 41.94% as against 31.15% in 2004.

Francophone West and Central Africa's gross claims paid ratio stood at 40.29% (net: 45.50%), which was more adverse than the 2004 ratio of 25.51% (net: 25.01%).

The Skikda loss of 19th January 2004, which was the biggest insured loss ever (US\$474m) in Africa and the Arab world was responsible for the gross claims paid ratio in the Maghreb zone rising to 108.02% from 40.74% in 2004. The net claims paid ratio was 76.28% (2004: 41.47%).

The North East Africa region's gross claims paid ratio of 20.09% was a marked improvement from the 2004 figure of 36.94%. The net ratio was 31.16% (2004: 36.47%).

The claims experience in East Africa fared better in 2005 than in 2004, with a gross ratio of 39.92% (2004: 46.81%) and a net ratio of 40.76% (2004: 49.32%).

The gross claims paid ratio also significantly improved in Mauritius from 66.71% (Net: 54.37%) in 2004 to 47.20% (Net: 46.17%) in 2005 in the absence of major losses.

The South African production centre (run-off and subsidiary) had a gross claims ratio of 49.04%, an increase from the 45.32% recorded for 2004. The net ratios were 54.42% in 2005 and 49.46% in 2004.

The paid loss ratio of the international operations deteriorated to 35.45% from 33.13% in 2004, mainly as a result of the part settlement of the Tsunami losses for an amount of US\$1.11m and of Africa Re's share in the Mumbai flood of July 2005 amounting to US\$0.44m. As the Corporation does not write European or North American risks, there was no direct inward underwriting exposure to the large losses arising from the devastating hurricanes that swept through parts of the United States during the period under review.

Commission and Charges

During the period under review, gross commission and charges was US\$74.93m (2004: US\$73.65m). Recoveries from retrocessionaires amounted to US\$6.17m (2004: US\$3.41m). As a result, net commission and charges reduced from US\$70.24m in 2004 to US\$68.76m in 2005. Therefore, the resulting net ratio increased from 26.61% to 23.27%.

RESULTS OF THE 2005 FINANCIAL YEAR

Up until the last financial year, the Corporation accounted for its underwriting income using the



Operations

fund accounting basis, deferring the recognition of the net income of an underwriting year until the end of the third financial year. As indicated in the 2004 report to shareholders, Africa Re discontinued the use of the fund basis with effect from the current year. Accordingly, the 2005 financial statements have been prepared using the annual accounting method of income recognition where the result is determined at the end of the accounting period and reflects the profit or loss from providing reinsurance cover during that period as well as any adjustments in respect of the earlier accounting periods. This method, which is in line with IFRS 4 on Insurance Contracts, will enhance the relevance of financial reporting and facilitate the comparability of reported figures as most reinsurers prepare their financial statements on this basis.

Actual gross premium for the year increased by 10.5% from US\$299.07 million in 2004 to US\$330.55 million, representing 94.8% of the budgeted income of US\$348 million. While the income target in West Africa and East Africa were achieved, the increasing use of excess of loss cover to replace proportional treaties, especially in some markets in North Africa as well as the depreciation in the exchange rates of some of the Corporation's trading currencies (CFA Franc 15.2%, South African Rand 12.6%, Moroccan Dirham 12.5%, Tunisian Dinar 13.5% and Mauritian Rupee 8.5%) contributed to the negative budget performance variance. With the significant increase in the minimum capital requirement for insurers and reinsurers in a number of countries, it is expected that reinsurers will be able to get the cedants to use more of excess of loss to meet their reinsurance requirements in the years ahead.

The restatement of the 2004 underwriting revenue account on an annual basis involved the one-off booking of additional pipeline and run-off income, especially on certain major accounts in Southern Africa. After adjusting for the movement in unearned premium provision, earned premium, net of retrocession, amounted to US\$279.14 million, representing an increase of 27.47% over the US\$218.97 million achieved in 2004.

Premium ceded to retrocessionnaires during the year amounted to US\$35.04 million compared to the US\$30.11 million outward retrocession for last year. With the phasing out of the African surplus treaty, retro premium consists of the cost of the XL programme as well as additional covers purchased to protect the major oil and petrochemical risks accepted. The Corporation takes great care in selecting its panel of retrocessionnaires to ensure that they fully meet the approved counter-party acceptance criteria. Generally, such reinsurers would be expected to have ratings that are equal to or better than Africa Re's own financial strength rating.

Adjustment for the impact of the movement in the retro pipeline premium and unearned premium provision produced an earned premium to retrocessionnaires of US\$20.74 million as against US\$37.93 million booked in 2004. The sharp decline resulted from the conversion of the retrocession accounts from the three open years to the annual accounting method and the conclusion of the phasing out of the African surplus retro programme. From 2006, both pipeline premium and unearned premium provision are expected to stabilize.

Gross losses paid during the year amounted to US\$164.76 million representing a 30.01% increase over the US\$126.72 million paid in the prior year. The Corporation's payment of its US\$24 million share of the Skikda (Algeria) loss as well as the partial settlement of some of the claims arising out of the December 2004 Asian Tsunamis explain the increase in paid claims. Claims recoverable from retrocessionnaires stood at US\$15.90 million (2004: US\$5.03 million), mainly in respect of the Skikda, resulting in a net paid claims of US\$148.85 million as against US\$121.69 million last year. The adjustment for the movement in the outstanding claims (including IBNR) provisions produced a net incurred loss of US\$196.3 million compared to US\$139.80 million recorded in 2004.

Operations



Management expenses for the year amounted to US\$11.15 million compared to US\$10.32 million in 2004, representing an increase of 8.06%. In line with the new financial reporting format adopted, management expenses have been redefined to include all administrative charges, as well as the statutory and audit costs previously accounted for outside the underwriting revenue account. The 2004 figures have been restated on the same basis to enhance comparability. The review of the emoluments of management and staff, the conversion of the Cairo contact office to regional status as well as the recruitment of additional staff in Johannesburg and Mauritius led to a 19.89% increase in payroll cost. On the whole however, total management expenses remain well within approved budget.

Income from investment and other sources, including interest on reinsurance deposits amounted to US\$17.45 million compared to US\$9.42 million achieved in 2004, mainly due to the increase in financial assets, higher interest rates and the performance of the professionally managed equity and fixed income portfolio. There was also

a realized gain on exchange of US\$0.27 million this year compared to a loss of US\$0.43 million in 2004.

Based on the foregoing, the net profit before taxation for the year nearly doubled, from US\$10.97million achieved in 2004 to US\$20.64 million.

APPROPRIATION OF RESULTS

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

- US\$ 9,418,209 to the General Reserve in accordance with Resolution No. 4/1992;
- US\$ 2,524,500 to be paid as dividend at the rate of US\$2.55 (2004: US\$1.75) per qualifying subscribed and paid up share of US\$100 par value;
- The balance of US\$6,893,709 to be carried forward.



Inauguration of the Casablanca Regional Office Building by H. E. The Minister of Finance of the Kingdom of Morocco.



*Africa Re Building, Casablanca
Inaugurated in April 2006*

External Auditors' Report

Deloitte.

S.A. au capital de 37 500 000 FCFA
Compte contribuable 9104684 A RC Abidjan 158849
Imm. Alpha 2000 – 14^e et 18^e Etage
Rue Gourgas – Plateau
01 B.P. 224 Abidjan 01 – Côte d'Ivoire

Tél.: (225) 20.25.02.50
Fax: (225) 20.21.84.46 / 20.25.02.60
www.deloitte.com



REPORT OF THE EXTERNAL AUDITORS TO THE SHAREHOLDERS OF AFRICAN REINSURANCE CORPORATION

We have audited the consolidated financial statements of the African Reinsurance Corporation (AFRICA RE) for the year ended 31 December 2005 which comprise the balance sheet, the statement of income and expenses, the statement of revenue account, the statement of changes in equity, the statement of cash flows and the related notes. These financial statements have been prepared under the accounting policies set out therein, for the purpose of submitting approved and audited financial statements to the Shareholders of the Corporation.

Respective responsibilities of Directors and Auditors

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

Basis of audit opinion

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the African Reinsurance Corporation as of 31 December 2005, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche
Deloitte & Touche
Abidjan,
Côte d'Ivoire
13 April 2006



African Reinsurance

Consolidated Balance Sheet at

ASSETS	Notes	2005	2004
		US\$ '000	US\$ '000
Cash and cash equivalents		28,370	57,561
Investments	3	343,420	267,779
Premium income receivable		9,734	36,468
Sundry receivables		2,835	1,513
Deferred acquisition costs	4	18,760	23,873
Reinsurance receivables	5	65,153	64,053
Retrocessionaires' share of technical provisions	6	12,122	36,189
Investment property	7	6,645	6,654
Property, plant and equipment	8	14,067	12,499
Total assets		501,106	506,589

These consolidated financial statements were authorised for issue by the Board of Directors of the Corporation on 13 April, 2006 and signed on its behalf by:

Musa AL NAAS
Chairman

Bakary KAMARA
Managing Director

The accompanying notes form an integral part of these statements.

Corporation

31 December 2005



LIABILITIES	Notes	2005	2004
		US\$ '000	US\$ '000
Current income tax		1,206	375
Shareholders' Current Account		11,777	-
Sundry payables		5,208	6,599
Reinsurance payables	9	49,708	68,918
Deferred tax	10	734	76
Technical provisions	11	263,878	291,134
Total liabilities		332,511	367,102
Shareholders' equity			
Retained earnings		22,266	14,360
Other reserves	12	32,896	32,268
Share premium	13	13,433	6,403
Share capital	13	100,000	86,456
Total shareholders' equity		168,595	139,487
Total liabilities and shareholders' equity		501,106	506,589

These consolidated financial statements were authorised for issue by the Board of Directors of the Corporation on 13 April, 2006 and signed on its behalf by:

Musa AL NAAS
Chairman

Bakary KAMARA
Managing Director

The accompanying notes form an integral part of these statements.

African Reinsurance Corporation
Consolidated Income Statement
for the year ended 31st December 2005

	Notes	2005 US\$ '000	2004 US\$ '000
Gross earned premium	14	299,876	256,905
Less: retrocession premium		(20,741)	(37,932)
Net earned premium		279,135	218,973
Investment income	15	16,609	8,719
Commissions earned under retrocession arrangements		6,170	648
Other operating income	16	843	698
Total revenue		302,757	229,038
Net claims incurred	17	(196,300)	(139,797)
Acquisition expenses		(74,934)	(67,517)
Administrative expenses	18	(11,149)	(10,317)
Finance costs - exchange gain/(losses)		266	(433)
Profit before income tax		20,640	10,974
Income tax expense	19	(1,804)	(505)
Profit for the year		18,836	10,469

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

African Reinsurance Corporation

Consolidated Statement of Changes in Equity

for the year ended 31st December 2005

	Notes	Retained earnings US\$ '000	Translation reserve US\$ '000	General reserve US\$ '000	Reserve for exchange fluctuation US\$ '000	Reserve for loss fluctuation US\$ '000	Share premium US\$ '000	Share capital US\$ '000	Total US\$ '000
At 1 January 2005 – as previously reported		4,896	4,026	18,748	6,294	3,200	6,403	86,456	130,023
Changes in accounting policies:	2c								
- reinsurance income and expenditure		7,952	-	-	-	-	-	-	7,952
- proposed dividend		1,512	-	-	-	-	-	-	1,512
- at 1 January 2005 as restated		14,360	4,026	18,748	6,294	3,200	6,403	86,456	139,487
Net income / (expense) recognised directly in equity									
- currency translation differences		-	(8,790)	-	-	-	-	-	(8,790)
Profit for the year		18,836	-	-	-	-	-	-	18,836
Total recognised income for 2005		18,836	(8,790)	-	-	-	-	-	10,046
Dividend declared on 2004 accounts		(1,512)	-	-	-	-	-	-	(1,512)
Transfers to general reserve		(9,418)	-	9,418	-	-	-	-	-
Proceeds from shares issued	13	-	-	-	-	-	7,030	13,544	20,574
At 31 December 2005		22,266	(4,764)	28,166	6,294	3,200	13,433	100,000	168,595

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



African Reinsurance Corporation
Consolidated Statement of Changes in Equity
for the year ended 31st December 2004

	Retained earnings US\$ '000	Translation reserve US\$ '000	General reserve US\$ '000	Reserve for exchange fluctuation US\$ '000	Reserve for loss fluctuation US\$ '000	Share premium US\$ '000	Share capital US\$ '000	Total US\$ '000
At 1 January 2004 – as previously reported	2,284	210	13,923	5,794	3,000	2,7823	66,083	94,077
Changes in accounting policies:								
- reinsurance income and expenditure	7,132	-	-	-	-	-	-	7,132
- proposed dividend	1,057	-	-	-	-	-	-	1,057
- at 1 January 2004 as restated	10,473	210	13,923	5,794	3,000	2,783	66,083	102,266
Net income / (expense) recognised directly in equity	-	3,816	-	-	-	-	-	3,816
- currency translation differences	-	-	-	-	-	-	-	-
Profit for the year	10,469	-	-	-	-	-	-	10,469
Total recognised income for 2004	10,469	3,816	-	-	-	-	-	14,285
Dividend declared on 2003 accounts	(1,057)	-	-	-	-	-	-	(1,057)
Transfers to general and other reserves	(5,525)	-	4,825	500	200	-	-	-
Proceeds from shares issued	13	-	-	-	-	3,620	20,373	23,993
At 31 December 2004	14,360	4,026	18,748	6,294	3,200	6,403	86,456	139,487

African Reinsurance Corporation
Consolidated Cash Flow Statement
for the year ended 31st December 2005



	Notes	2005 US\$'000	2004 US\$'000
Operating activities			
Cash generated from operations	21	63,922	46,317
Income tax paid		(315)	(54)
Net cash from operating activities		63,607	46,263
Investing activities			
Purchase of property and equipment		(2,587)	(2,427)
Purchase of investments		(102,699)	(44,350)
Proceeds from disposal of property and equipment		53	57
Net cash from investing activities		(105,233)	(46,720)
Financing activities			
Proceeds from share subscription		20,574	23,993
Dividends paid		(1,653)	(768)
Net cash from financing activities		18,921	23,225
Net (decrease)/increase in cash and cash equivalents		(22,705)	22,768
Movement in cash and cash equivalents:			
At start of year		57,561	29,466
Net (decrease)/increase as above		(22,705)	22,768
Exchange (losses)/gains on cash and cash equivalents		(6,486)	5,327
At end of year		28,370	57,561

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

Notes to the Financial Statements for the year ended 31st December 2005



I General information

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

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

The Corporation is domiciled in Lagos, Nigeria at the following address:

Plot 1679 Karimu Kotun Street
Victoria Island
PMB 12765
Lagos, Nigeria

The Corporation carries out reinsurance business through its constituent offices in Abidjan, Cairo, Casablanca, Lagos, Nairobi, Port Louis, and Johannesburg through its wholly owned subsidiary, African Reinsurance Corporation (South Africa) Limited, a company incorporated in the Republic of South Africa.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below:

(a) Basis of preparation

These consolidated financial statements are prepared in accordance and comply with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standard Board (IASB).

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgment in the process of applying the company's accounting policies. Although estimates are determined on the basis of historical information, actuarial analyses and the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis to take account of new and available information. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

(b) Adoption of new and revised International Financial Reporting Standards

The financial statements had in the past been prepared in compliance with International Accounting Standards (IAS) which are relevant to its operations. The group has adopted all International Financial Reporting Standards that are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2005.

These are the Group's first IFRS financial statements and IFRS 1 has been adopted in the preparation. The Group's year-end is 31 December and publishes comparative information for one year.

The initial application of the new and revised Standards has resulted in restatements to financial information in the areas set out in note 2(c) and appendix 2 below.

(c) Change in accounting policies

Following the adoption of IFRS 4, Insurance Contracts, the Group changed its accounting policy for reinsurance income and expenditure. Previously, the accounts for each underwriting year were kept open for three years, during which period the surplus of income over expenditure was carried forward within reserve funds. The Group now determines technical income and expenditure for each underwriting year on an annual basis, as described in accounting policies (e)

Notes to the Financial Statements for the year ended 31st December 2005



and (f) below, as in the view of the directors this provides more relevant and reliable information about the financial performance of the business. The financial statements for 2004 have been restated to reflect the change.

The adoption of revised IAS 10, Events after the balance sheet date, has also affected the Group's basis of recognising dividends payable as liability in the period in which they are approved by the shareholders. Previously, dividends were recognised as a liability in the period they were proposed by the directors.

Similarly, the relevant part of real property held to earn rentals hitherto included as part of Property, plant and equipment has been separately recognised as Investment property in compliance with revised IAS 40.

(d) Consolidation

These consolidated financial statements include the assets, liabilities and results of African Reinsurance Corporation and its subsidiary, African Reinsurance Corporation (South Africa) Limited.

All significant inter-company transactions and balances are eliminated.

(e) Classification of insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the ceding company or cedant) by agreeing to compensate the cedant or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

(f) Recognition and measurement of insurance contracts

Short-term insurance contracts are accounted for on an annual basis. The Group also accounts for long-term insurance contracts on an annual basis.

(i) Short-term insurance contracts premium

Written premium on short-term insurance contracts comprises premiums on contracts

entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premium income for the period includes adjustments to premiums written in prior accounting periods and estimates for pipeline or premium not yet advised by the insured for contracts in force at the end of the period. Where statements of insurance contracts accounts have not been received at year-end, pipeline premiums are estimated on the basis of the latest available information. An estimate is made at the balance sheet date to recognise retrospective adjustments to premium or commission. Premium relating to the expired risk period is taken as earned and recognised as revenue for the period while premium relating to the unexpired risk period is recognised as a provision for unearned premium.

The outward reinsurance premiums relating to earned premiums are recognised as expense in accordance with the reinsurance services received.

(ii) Unearned premiums provision for short-term insurance contracts

The portion of gross written premium on short-term insurance contracts, which is estimated to be earned in the following or subsequent years, is recognised as unearned premium provision. This is computed separately for each contract at the balance sheet date using principally the one-eighth basis for proportional treaty business and the pro-rata basis for non-proportional and facultative business. Where the nature of the underlying business and risk does not justify the use of the above methods, the unearned premium provision is calculated on bases relevant to the risk profile of the insurance contract.

(iii) Claim arising from short-term insurance contracts

Claims incurred in respect of short-term insurance contracts consist of claims and claims handling expenses paid during the financial year including movements in provision for outstanding claims and IBNR. Outstanding claims comprise provisions for all the company's estimated ultimate costs of settling all claims incurred but unpaid at

Notes to the Financial Statements for the year ended 31st December 2005



the balance sheet date whether reported or not and related claim handling expenses. Outstanding claims that have occurred at the balance sheet date and have been notified to the company by the cedants are carried at the claim amounts advised by the cedants. Adequate provisions are also made for claims incurred at the balance sheet date, but not reported at the balance sheet date using historical experience and best available information. Outstanding claim provisions are disclosed at their carrying amounts and are not discounted except where there is a particularly long period from the claim incident to settlement in which case outstanding claims are discounted using a discount rate that best reflects current assessment of time value of money and associated risks. Anticipated reinsurance recoveries on claims are disclosed separately as assets.

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

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

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

(v) Claims arising from long-term insurance contracts

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

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

(vi) Liability adequacy test

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

(g) Property, plant and equipment

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

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable

Notes to the Financial Statements for the year ended 31st December 2005



that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

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

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

(h) Intangible assets

(i) Computer software

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

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

(ii) Deferred acquisition costs

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

(i) Investment property

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

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

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

(j) Investments

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

i) Fair value through profit and loss

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

ii) Held-to-maturity

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



Notes to the Financial Statements for the year ended 31st December 2005

iii) Loans and receivables

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

iv) Available-for-sale

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

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

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

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

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

(k) Receivables

All amounts receivable are initially recognised at face value.

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

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

The carrying amounts of the assets are reduced by the impairment losses and the impairment losses recognised in the profit and loss account for the period

(l) Cash and cash equivalents

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

(m) Foreign currency translation

(i) Functional and presentation currencies

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

(ii) Foreign currency translation

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

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) are

Notes to the Financial Statements for the year ended 31st December 2005



translated into the presentation currency as follows:

a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

b) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

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

(n) Leases

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

(o) Employee benefits

Retirement benefit obligations

The Group operates a defined contribution scheme for its employees, under which it pays contributions into a separate entity. Once contributions have been paid the Group retains no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to finance benefits accruing under the retirement benefit plan. The Group's contributions to the defined contribution scheme are charged to the profit and loss account in the year to which they relate.

Other employee benefits

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

(p) Income tax

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

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

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

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

(q) Dividends

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

(r) Comparatives

Note (c) above describes changes to accounting policies during the year which resulted in the restatement of comparative information.

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

Notes to the Financial Statements for the year ended 31st December 2005

3 Investments

	2005 US \$'000	2004 US \$'000
i) Investments by category		
Bank deposits	204,324	135,027
Deposits with ceding companies	69,506	94,246
Fixed rate securities at fair value through profit and loss	38,572	15,885
Fixed rate securities held to maturity	2,987	2,975
Floating Rate Securities at cost	7,343	7,904
Quoted equity investments at fair value through profit and loss	18,825	9,905
Unquoted equity investments at cost less impairment	1,863	1,837
	343,420	267,779

Investments held to maturity are presented on the Group's balance sheet at their amortised costs. The fair value of the held to maturity assets at 31 December was US\$2,905,770 (2004: US\$2,949,540).

Unquoted equity investments with a cost of US\$2,167,769 (2004: US\$2,014,365) have been carried at cost less impairment because their fair value cannot be determined as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

ii) Weighted average effective interest rates

	2005 %	2004 %
Interest-bearing investments denominated in:		
US Dollars	3.80	1.67
Pounds Sterling	5.36	4.08
Euros	2.19	1.80
South African Rand	7.31	7.45

4 Deferred Acquisition Costs

	2005 US \$'000	2004 US \$'000
Balance at 1 January	23,873	-
Released during the year	(23,873)	-
Deferred during the year	18,760	23,873
At 31 December	18,760	23,873

5 Reinsurance receivables

	2005 US \$'000	2004 US \$'000
Gross Receivables arising from reinsurance arrangements	69,372	67,192
Provision for impairment	(4,219)	(3,139)
	65,153	64,053
Comprising:		
Current portion	42,330	29,938
Non-current portion	22,823	34,115
	65,153	64,053

Notes to the Financial Statements for the year ended 31st December 2005



6 Retrocessionnaires share in technical provision

	2005 US\$'000	2004 US\$'000
Claims recoverable	3,415	23,922
Unearned retro premium	8,707	12,267
	12,122	36,189

7 Investment property

	2005 US\$'000	2004 US\$'000
Cost		
At 1 January		
- as previously reported	-	-
- reclassified from property and equipment (note 8)	7,168	7,168
- as restated	7,168	7,168
- additions	123	-
At end of year	7,291	7,168
Depreciation		
At 1 January		
- as previously reported	-	-
- reclassified from property and equipment (note 8)	514	382
Charge for the year	132	132
At end of year	646	514
Net book value	6,645	6,654
The following amounts have been recognised in the profit and loss account in respect of investment properties:		
Rental income	830	411
Direct operating expenses arising from investment properties that generate rental income	168	98



Notes to the Financial Statements for the year ended 31st December 2005

8 Property, plant and equipment

	Assets under construction US\$'000	Buildings & freehold land US\$'000	Fittings & equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
Year ended 31 December 2005:					
Net book value at 1 January 2005					
- as previously reported	744	15,973	2,207	229	19,153
- reclassified to investment property	-	(6,654)	-	-	(6,654)
- as restated	744	9,319	2,207	229	12,499
Additions	1,622	217	507	120	2,466
Reclassifications/Transfers	(257)	(15)	141	20	(111)
Disposals	-	-	(15)	(8)	(23)
Depreciation	-	(125)	(539)	(100)	(764)
Net book value at 31 December 2005	2,109	9,396	2,301	261	14,067
Comprising:					
Cost	2,109	10,262	6,413	723	19,507
Accumulated depreciation	-	(866)	(4,112)	(462)	(5,440)
	2,109	9,396	2,301	261	14,067
Year ended 31 December 2004:					
Net book value at 1 January, 2004					
- as previously reported	-	14,946	2,667	175	17,788
- reclassified to investment property	-	(6,786)	-	-	(6,786)
- as restated	-	8,160	2,667	175	11,002
Additions	744	1,274	265	144	2,427
Disposals	-	-	(30)	-	(30)
Depreciation	-	(115)	(695)	(90)	(900)
Net book value at 31 December 2004	744	9,319	2,207	229	12,499
Comprising:					
Cost	744	10,060	5,922	653	17,379
Accumulated depreciation	-	741	(3,715)	(424)	4,880
	744	9,319	2,207	229	12,499

Included in buildings and freehold land are US\$3,311,945(2004:US\$3,286,866) and US\$563,691(2004: US\$ 574,392) representing the carrying amount of the owner-occupied part of Group's headquarters building in Lagos and regional office building in Nairobi respectively.

Notes to the Financial Statements for the year ended 31st December 2005



9 Reinsurance payables

	2005 US\$'000	2004 US\$'000
Payables under reinsurance arrangements	34,297	46,392
Payables under retrocession arrangements	15,411	22,526
	49,708	68,918

10 Deferred tax

Deferred tax is calculated in full using the liability method and applying a principal tax rate of 30% (2004: 30%). The movement on the deferred income tax account is as follows:

	2005 US\$'000	2004 US\$'000
At 1 January	76	-
Exchange Rate impact on opening balance	(8)	-
Income statement (credit)/charge (Note 19)	666	76
	734	76

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

	01.01.05 US \$'000	Charged to P/L US \$'000	31.12.05 US \$'000
Property and equipment	(1)	48	47
Unrealised gain on revaluation of investments	77	610	687
Exchange Rate impact on opening balance	(8)	8	-
Net deferred tax liability	68	666	734

11 Technical provisions

	2005 US\$'000	2004 US\$'000
i)		
Provision for outstanding Claims	164,003	125,504
Provision for Claims incurred but not reported	28,805	40,361
Cumulative translation reserve	(45)	9,992
Total outstanding claims	192,763	175,857
Provision for Unearned premium	71,115	115,277
	263,878	291,134
Comprising:		
- current portion	115,346	86,441
- non-current portion	148,532	204,693
	263,878	291,134

Notes to the Financial Statements for the year ended 31st December 2005

ii) Analysis of outstanding claims and reserve development

UWYR	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Gross outstanding claims reserve	28,974	29,180	42,419	31,462	31,875	59,963	64,604	134,312	135,573	115,346
Gross paid (Cumulative):										
1 year later	14,199	13,079	25,346	18,317	18,278	26,429	31,313	51,705	57,242	
2 years later	18,804	17,470	30,009	24,801	24,285	41,756	46,869	108,364		
3 years later	20,561	19,827	32,960	27,383	26,975	45,040	51,765			
4 years later	21,453	21,384	34,229	29,695	28,063	47,618				
5 years later	22,620	21,903	35,231	32,561	29,914					
6 years later	23,219	22,696	36,444	33,962						
7 years later	23,825	23,835	37,572							
8 years later	24,389									
9 years later	25,396	24,920								
10 years later										
Re-estimated as of:										
Closed year	28,974	29,180	42,419	31,462	31,875	59,963	64,604	134,312	135,573	115,346
1 year later	22,019	25,590	39,427	30,726	29,213	46,458	71,092	131,985	128,836	
2 years later	24,058	24,661	38,886	34,390	33,128	57,352	74,086	132,575		
3 years later	24,106	24,541	39,559	33,363	33,342	53,824	70,713			
4 years later	23,973	25,361	38,536	34,501	32,415	55,422				
5 years later	24,845	24,392	38,664	35,996	34,867					
6 years later	24,610	24,751	39,242	38,209						
7 years later	25,354	25,829	39,941							
8 years later	25,787									
9 years later	26,215	26,058								
10 years later										
Gross redundancy/ (deficiency)	2,759	3,122	2,478	(6,747)	(2,992)	4,541	(6,109)	1,737	6,737	



Notes to the Financial Statements for the year ended 31st December 2005



12 Other reserves

	2005 US \$'000	2004 US \$'000
General reserve	28,166	18,748
Reserve for exchange fluctuation	6,294	6,294
Reserve for loss fluctuation	3,200	3,200
Translation reserve	(4,764)	4,026
	32,896	32,268

(i) General reserve

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

(ii) Reserve for exchange fluctuation

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

(iii) Reserve for loss fluctuation

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

(iv) Translation reserve

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

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

13 Share capital

	Number of shares	Ordinary shares US\$'000	Share premium US\$'000
Balance at 1 January 2004	660,831	66,083	2,783
Issue of shares	203,731	20,373	3,620
Balance at 1 January 2005	864,562	86,456	6,403
Issue of shares	135,438	13,434	7,030
Balance at 31 December 2005	1,000,000	100,000	13,433

The Authorised Capital of the Corporation is US\$100,000,000, comprising 1,000,000 ordinary shares of US \$ 100 each. At 31 December 2005, 1,000,000 ordinary shares were in issue (2004: 864,562 ordinary shares).



Notes to the Financial Statements for the year ended 31st December 2005

14 Earned premium

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

	Gross US\$'000	2005 Retro- cession US\$'000	Net US\$'000	Gross US\$'000	2004 Retro- cession US\$'000	Net US\$'000
Fire and accident	246,296	(13,327)	232,969	204,484	(20,847)	183,637
Marine and aviation	42,507	(7,414)	35,093	41,763	(17,085)	24,678
Life	11,073	-	11,073	10,658	-	10,658
	299,876	(20,741)	279,135	256,905	(37,932)	218,973

15 Investment income

	2005 US \$'000	2004 US \$'000
Interest income	10,574	5,553
Interest on reinsurance deposits	1,889	1,678
Rental income	830	411
Dividends from equity investments	434	144
Realised Gains on Investments	829	262
Fair value gains from investments at fair value through profit and loss	2,318	787
Management fee	(265)	(116)
	16,609	8,719

16 Other operating income

	2005 US \$'000	2004 US \$'000
Fee income	795	647
Gain on disposal of property and equipment	19	29
Sundry income	29	22
	843	698

17 Claims incurred

	Gross US\$'000	2005 Retro- cession US\$'000	Net US\$'000	Gross US\$'000	2004 Retro- cession US\$'000	Net US\$'000
Claims incurred by principal class of business						
- Fire and Accident	160,845	5,373	166,218	146,280	(23,126)	123,154
- Marine and Aviation	22,480	(769)	21,711	9,210	(155)	9,055
- Life	8,371	-	8,371	7,588	-	7,588
Total	191,696	4,604	196,300	163,078	(23,281)	139,797

Notes to the Financial Statements for the year ended 31st December 2005



18 Other operating expenses

	2005 US \$'000	2004 US \$'000
Staff costs	5,252	4,846
Auditors' remuneration	137	130
Depreciation	895	1,032
Impairment charge on reinsurance receivables	1,081	1,151
Operating lease rentals	174	103
Repairs and maintenance expenditure	488	426
Consultancy fees and expenses	537	321
Travel costs and allowances	376	520
General Assembly and Board of Directors' meetings	445	471
Others	1,764	1,317
	11,149	10,317

Staff costs include retirement benefit costs amounting to US \$ 504,958 (2004: US\$498,407).

19 Income tax expense

In accordance with Article 51 of the Agreement Establishing the African Reinsurance Corporation, the Corporation is not subject to tax in member states. The tax charged in the financial statements relates to only the subsidiary company's profit, which is computed in accordance with the income tax rules applicable in the Republic of South Africa.

Tax charged in the financial statements is made up of :

	2005 US\$'000	2004 US\$'000
Current income tax	1,161	429
Prior year over-provision for income tax	(23)	-
Deferred income tax (Note 10)	666	76
	1,804	505

20 Dividends

At the Annual General Meeting to be held on 20 June, 2006, a final dividend in respect of the year ended 31 December 2005 of US \$2.55 (2004: US\$1.75) per share on 990,000 (2004:864,562) qualifying shares amounting to a total of US\$2,524,500 (2004: US\$ 1,512,984) is to be proposed. These financial statements do not reflect a liability for this dividend payable, which will be treated as an appropriation of profit in the financial statements for the year ending 31 December 2006.

Notes to the Financial Statements for the year ended 31st December 2005



21 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2005 US\$'000	2004 US\$'000
Profit before tax	20,640	10,974
Adjustments for:		
Depreciation	895	1,032
Profit on sale of property and equipment	(15)	(25)
Change in fair value of financial assets	(2,318)	(1,049)
Changes in:		
- reinsurance payables	(17,643)	69,495
- reinsurance receivables	48,070	(35,839)
- other payables	10,502	89
- other receivables	3,791	(560)
Cash generated from operations	63,922	46,317

22 Related party transactions and balances

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

	2005 US\$ '000	2004 US\$ '000
ii) Remuneration of key management personnel		
Directors' fees	127	127
Other remuneration		
- Salaries and other short term benefits	467	371
- Terminal benefits	112	57

23 Management of insurance and financial risk

Insurance risk

African Reinsurance Corporation reinsures all classes of insurance business including Accident and Health, Engineering, Guarantee, Liability, Motor, Fire, Marine, Energy, Aviation, Disability and Life. The bulk of the business written is of a short-tail nature.

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

The Corporation has developed a detailed underwriting manual covering risk acceptance criteria, pricing, accumulation control, authority levels, and reinsurance protection, among others. It guides the underwriters in their acceptances, on the principles of prudence and professionalism as well as with an overall objective of diversifying the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The priority is to ensure adherence to criteria for risk selection by maintaining high levels of experience and expertise in the underwriting staff. In addition, the Corporation has put in place a business review structure that ensures control of risk quality and conservative use of policy limits, terms and conditions. An independent unit, Central Operations and Inspection, ensures adherence to these guidelines through periodic review of each production centre's operations. The reports of the review are submitted to Management and the Audit & Risks Committee of the Board.

Notes to the Financial Statements for the year ended 31st December 2005



The Corporation enters into retrocession arrangements with reputable retrocessionaires to diversify its risks and reduce the risk of catastrophic loss on reinsurance assumed. The retrocession does not relieve the Corporation of its obligations to the ceding companies. As part of its annual renewals, the financial condition of retrocessionaires is reviewed. As a result, retrocession is placed with a select group of financially secure and experienced companies in the industry.

Financial risk

The Corporation in the normal course of business uses primary financial instruments such as cash and cash equivalents, bonds, equities and receivables and as a result is exposed to potential losses due to various market risks including changes in interest rates, equity prices and foreign currency exchange rates. The Corporation's financial management activities is guided by the financial regulations as well as the investment policy document. Detailed guidelines are provided in the accounting and administrative procedures manual. They provide the framework for the investing activities and set specific limits and benchmarks for the acceptable levels of counter party exposure, concentration, credit risk, currency risk, liquidity risk and interest rate risk among others.

Interest rate risk

The Corporation's exposure to interest rate changes is primarily concentrated in the actively managed fixed income portfolio, which is reported at fair value. Changes in interest rate will have an immediate impact on the Corporation's reported net income and consequently the shareholders' funds. The main objective of the fixed income portfolio is current income and price appreciation and therefore to mitigate the effect of price volatility, the portfolio has been positioned with an average duration less than 5 years.

The table below analyses the Corporation's key financial assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2005 to the earlier of the repricing or contractual maturity date.

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

Notes to the Financial Statements for the year ended 31st December 2005



	Up to 1 year	1-2 years	2-3 years	3-4 years	Over 4 years	Total
At 31 December 2004 (IN US\$'000)						
FINANCIAL ASSETS						
Cash and cash equivalents	57,561	-	-	-	-	57,561
Reinsurance receivables	29,938	8,971	6,633	5,437	13,074	64,053
Investments:						
- Bank deposits	135,027	-	-	-	-	135,027
- Deposits with ceding companies	21,612	31,056	8,823	7,218	25,537	94,246
- Fixed rate securities at fair value	439	527	320	4,616	9,983	15,885
- Fixed rate securities at amortised cost	-	-	-	2,975	-	2,975
- Floating rate securities at cost	7,061	843	-	-	-	7,904
Total	251,638	41,397	15,776	20,246	48,594	377,651
FINANCIAL LIABILITIES						
Current income tax	375	-	-	-	-	375
Reinsurance payables	25,551	14,731	2,379	12,466	13,791	68,918
Outstanding claims	59,326	63,279	27,217	8,783	17,252	175,857
Total	85,252	78,010	29,596	21,249	31,043	245,150

Currency risk

The Corporation maintains assets and liabilities in several currencies and thus is exposed to the risk of exchange rate movements associated with assets and liability matching. Africa Re does not apply hedging techniques in mitigating its currency risk but ensures the net exposure to this risk is within acceptable levels by constantly reviewing the level of mismatch. The Corporation has offices in seven locations whose currencies, in addition to its unit of account, represent about 95% of its business volumes. The assets and liabilities in these currencies are matched to the level desired by the group.

The group had the following significant foreign currency positions at 31 December (all amounts expressed in US Dollars):

Notes to the Financial Statements for the year ended 31st December 2005

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

ASSETS

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

LIABILITIES

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



Notes to the Financial Statements for the year ended 31st December 2005

At 31 December 2004:
(in '000 US\$)

	USD	Rand	MAD	CFR/ EUR	EGP	NGN	KSH	MUR	OTHERS	TOTAL
ASSETS										
Cash and cash equivalents	36,034	7,079	1,094	6,577	3,295	47	346	901	2,188	57,561
Reinsurance receivables	7,977	11,514	323	14,537	440	1,483	2,798	3,715	21,266	64,053
Investments										
- Bank deposits	80,886	35,017	1	9,453	-	612	1,039	-	8,019	135,027
- Deposits with ceding companies	4,778	10,062	20,410	22,668	2,850	14	873	1,021	31,570	94,246
- Fixed rate securities at fair value	5,533	10,352	-	-	-	-	-	-	-	15,885
- Fixed rate securities at amortised cost	2,975	-	-	-	-	-	-	-	-	2,975
- Floating rate securities at cost	7,904	-	-	-	-	-	-	-	-	7,904
- Equity investments at fair value	2,343	7,562	-	-	-	-	-	-	-	9,905
- Equity investments at amortised cost	1,420	-	-	417	-	-	-	-	-	1,837
	149,850	81,586	21,828	53,652	6,585	2,156	5,056	5,637	63,043	389,393
LIABILITIES										
Current income tax	-	375	-	-	-	-	-	-	-	375
Reinsurance payables	35,851	4,217	2,831	2,396	90	194	1260	2231	19,848	68,918
Outstanding claims	13,508	53,414	23,283	15,065	2,381	5,322	4,893	8,257	52,734	178,857
	49,359	58,006	26,114	17,461	2,471	5,516	6,153	10,488	72,582	248,150



Notes to the Financial Statements for the year ended 31st December 2005



23 Management of insurance and financial risk (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation is exposed to credit risk through its financial assets, which include short-term bank deposits, fixed income securities, and receivables.

Short-term bank deposits are placed with financial institutions of very high credit rating and are spread over a number of them to avoid undue concentration. The financial regulations prescribe minimum acceptable credit rating and maximum allowable exposure to any single counter-party.

The Corporation's fixed income portfolio is managed following prudent standards of diversification and rating quality of issues and issuers. Specific provisions limit the allowable holdings of a single issue and issuer and industry or sector. This is to minimise significant concentration risk associated with the fixed income portfolio.

Credit risk relating to receivables is mitigated by the large number of cedants and their dispersion across the continent. A significant number of the companies from whom receivables are due are equally shareholders of the Group. In addition, the liability for outstanding claims is in respect of insurance contracts with the same counter parties. Receivables are presented net of impairment provision. A periodic evaluation of cedants and retrocessionnaires is carried out to minimise exposure to significant losses from insolvencies. Transaction terms are also strictly monitored to keep balances as current as possible.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in raising funds to meet commitments associated with reinsurance contracts and other obligations. The Corporation's investment guidelines prescribe minimum levels of financial assets to be held in cash and cash instruments. Cash instruments include bank deposits of maturities less than 90 days. In addition, the actively managed portfolios are traded on highly liquid markets and as such can easily supplement the Corporation's liquidity requirement in the event of any shortfall.

Equity price risk

Equity price risk refers to the potential loss in fair value resulting from adverse changes in stock prices. The Corporation maintains actively managed equity portfolio and as such is exposed to stock market price fluctuations. The Corporation does not use any derivatives to manage this risk but rather uses the mechanism of diversification in all forms, including limits on single stock, industry and sector allocation and geographical distribution among others. The investment guidelines provide a cap on the total financial assets to be held in equities.

24 Contingent liabilities

There are no material contingent liabilities in respect of pending litigation and/or arbitration involving the Corporation for which no provisions have been made in these financial statements (2004: US \$ 300,000).



Notes to the Financial Statements for the year ended 31st December 2005

25 Commitments

Capital commitments

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

	2005 US\$'000	2004 US \$'000
Property and equipment	155	1,741

Operating lease commitments

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

	2005 US\$'000	2004 US \$'000
Not later than 1 year	101	37
Later than 1 year and not later than 5 years	299	20
	400	57

Appendix I: Consolidated profit and loss account by class of business



	Fire and accident US\$'000	Marine and aviation US\$'000	Life US\$'000	Total 2005 US\$'000	Total 2004 US\$'000
Underwriting income:					
Gross written premium	256,104	63,582	10,861	330,547	299,067
Gross earned premium	246,296	42,507	11,073	299,876	256,905
Retrocession premium ceded	(13,327)	(7,414)	-	(20,741)	(37,932)
Net earned premium	232,969	35,093	11,073	279,135	218,973
Commissions earned	2,347	3,823	-	6,170	648
Gross Claims paid	(148,071)	(10,244)	(6,441)	(164,756)	126,724
Gross Claims incurred	(160,845)	(22,480)	(8,371)	(191,696)	(163,078)
Less retrocessionaires' share of claims incurred	(5,373)	769	-	(4,604)	23,281
Net claims incurred	(166,218)	(21,711)	(8,371)	(196,300)	(139,797)
Commissions expense	(59,432)	(13,415)	(2,087)	(74,934)	(67,517)
Management expenses	(8,638)	(2,145)	(366)	(11,149)	(10,317)
Underwriting Profit	1,028	1,645	249	2,922	1,990
Net Investment and other income				17,718	8,984
Profit before income tax				20,640	10,974
Income tax expense				(1,804)	(505)
Profit for the year				18,836	10,469

Appendix II: Reconciliation of Balance Sheet at 31 December, 2004

IFRS COMPLIANT RECONCILIATION AT 31 DECEMBER 2004,

	AUDITED	EFFECTS		ANNUAL
	US\$'000	OF TRANSITION		US\$'000
		US\$'000	US\$'000	
		DR	CR	
BALANCE SHEET				
ASSETS				
Cash & cash equivalents	57,561	-	-	57,561
Investments	173,533	94,246	-	267,779
Premium income receivable	-	36,468	-	36,468
Sundry Receivables	1,513	-	-	1,513
Differed Acquisition Costs	-	23,873	-	23,873
Reinsurance Receivables	64,053	-	-	64,053
Retrocessionaires' Share in Technical Provisions	66,257	1,498	31,566	36,189
Investment Property	-	6,654	-	6,654
Deposit Retained by Ceding Companies	94,246	-	94,246	-
Property, plant and equipment	19,153	-	6,654	12,499
Total Assets	476,316	162,739	132,466	506,589
LIABILITIES				
Current income tax	-	375	-	375
Sundry Payables	5,883	1,883	1,167	6,599
Dividend Payable	2,679	-	2,679	-
Reinsurance Payables	69,888	3,980	4,950	68,918
Deposit due to Retrocessionaires	3,980	-	3,980	-
Deferred tax	-	76	-	76
Technical provisions	263,863	144,315	117,044	291,134
Total Liabilities	346,293	150,629	129,820	367,102
SHARE CAPITAL AND RESERVES				
Retained Earnings	4,896	9,464	-	14,360
Other Reserves	32,268	-	-	32,268
Share Premium	6,403	-	-	6,403
Paid-up Capital	86,456	-	-	86,456
Shareholders' Funds	130,023	9,464	-	139,487
Total Liabilities and Shareholders' Funds	476,316	160,093	129,820	506,589

