
**AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
25th ANNUAL ORDINARY MEETING
LIBREVILLE, GABON, 26TH JUNE 2003**

AFRICARE/GA/27/176



**Report of the Board of Directors
Covering the Period
1st January to 31st December 2002**



African Reinsurance Corporation

Société Africaine de Réassurance

Tour Atlas
Place Zallaqa
BP 7556
Casablanca
Morocco

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

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

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

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

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

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

Tel: (234-1) 2663323 / 2626660-2 / 618820
Fax: (234-1) 2663282 / 2626664
Email: info@africa-re.com

AFRICA RE CENTRE
Hospital Road, Upper Hill
P.O. Box 62328 - 00200
Nairobi
Kenya

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

Ground Floor (West Wing)
Oakhurst Building
11-13, Andrew's Road
Parktown
Johannesburg
South Africa

Tel: (27-11) 4843764/4841970/4841606
Fax: (27-11) 4841001
Email: africare@africare.co.za

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

Tel: (230) 210-0795
Fax: (230) 210-2496
Email: africare@intnet.mu



AFRICAN REINSURANCE CORPORATION
SOCIÉTÉ AFRICAINE DE REASSURANCE
(AFRICA RE)

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

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

Honourable Representatives
General Assembly
African Reinsurance Corporation

Date : 26th June, 2003

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, 2002.

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

MUSA S. AL NAAS

Chairman of the Board of Directors
and General Assembly



Executive Summary

The 25th Annual Report of the Board of Directors presents the Corporation's financial statements for 2002, including the balance sheet as at 31st December and the profit and loss account for the year then ended. In addition, it contains the results of the 2000 Underwriting year (closed for the first time), those of the previous years (1978-1999) as well as the accounts for the still open years of 2001 and 2002.



on exchange of US\$44,161 was recorded, compared to a loss of US\$285,990 in 2001. Operating income for the year therefore amounted to US\$7,509,369 (2001: US\$7,317,679). Other expenses not charged to the underwriting revenue account amounting to US\$1,799,888 (2001:US\$1,777,314) were then deducted from the operating income to arrive at a net profit of US\$5,709,481 for the year compared to US\$5,540,365 in 2001.

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

During the financial year 2002, gross written premium, net of cancellations amounted to US\$ 126,972,266, which represents a growth of 49.18% over the 2001 production of US\$85,114,364. The hardening of the retrocession market following the events of September 11 as well as the increase in the Corporation's share in some target risks, especially oil and energy business, affected the cost of reinsurance protection. Accordingly, retrocession premium rose from US\$9,602,668 in 2001 to US\$22,704,889. The retained premium therefore stood at US\$104,267,377 (2001:US\$75,511,696) corresponding to a ratio of 81.12% compared to 88.72% in 2001. After adjusting for the movement in unearned premium reserves, net earned premium amounted to US\$88,249,763 (2001:US\$66,162,798). Paid losses, net of reinsurance recoveries, stood at US\$47,475,853 (2001:US\$38,662,248), while adjustment for the movement in outstanding claims reserve produced an incurred loss of US\$50,358,671 (2001: US\$35,373,470). Other outgo includes commissions of US\$26,228,285, charges of US\$3,059,549 and management expenses of US\$5,411,478. The resulting underwriting profit of US\$3,191,780 (2001:US\$3,026,107) was transferred to the profit and loss account.

Income from investment and other sources amounted to US\$3,106,892, as against US\$3,484,129 in 2001, while interest on reinsurance deposits stood at US\$1,166,536 (2001:US\$1,093,433). A realised gain

The excess of income over outgo for the still open years 2001 and 2002 amounted to US\$64,455,586 (2001:US\$48,437,972) and this has been carried forward as reinsurance funds in line with the Corporation's standing accounting practice. Similarly, reserve for outstanding losses, including IBNR at the end of the year was established at US\$29,954,566 (2001:US\$ 27,071,748).

The cumulative translation adjustment for the year resulted in an unrealised gain of US\$5,145,244, compared to an unrealized loss of US\$4,663,586 recorded in 2001. An additional amount US\$1,000,000 was written off by way of transfer from the profit and loss account. As at 31st December 2002, cumulative translation adjustment, which has been accounted for as a separate component of the shareholders' funds, therefore amounted to US\$7,072,300 (2001:US\$13,217,544).

Shareholders' funds as at 31st December 2002 stood at US\$62,840,428 as against US\$51,616,845 at the end of the previous year.

The Year 2002 was characterised by a weak and unstable world economy. The United States, which had throughout the 1990s, been serving as the tugboat and beacon of the global economy experienced its worst financial scandals in the last 50 years, thus calling to question the country's accounting systems and all the control mechanisms put in place. The financial market crises which affected the Wall Street (-17%), Europe (-75%) and Japan (-19%), together with the increase in oil prices aggravated the economic crisis that affected the entire world.

Executive Summary



In the developing countries, China stood out as a worthy example by becoming the prime destination of Foreign Direct Investment as the private sector recorded a 35.5% growth per annum in the past ten years and employed 11% of its active population. African economies continued to experience fluctuations in the prices of their primary commodities, while developmental aid declined from year to year. It represented 0.15% of the GDP of the United States and 0.33% of that of Europe, whereas the target set by the United Nations for the 1980s was 0.7%. To these can be added the danger posed to Agriculture in Africa by the subvention given to farmers by the West (US\$310 billion), thus reducing the competitiveness of cotton and banana.

Among the projects initiated by NEPAD, the African Peer Review Mechanism (APRM) deserves a special mention as it seeks to inculcate transparency and good governance in the running of public affairs. Understandably, the success of this mechanism will determine the credibility of the continent which would then serve as the pole of attraction of investors on which Africa counts to assist in financing the envisaged development in infrastructure, communication and transportation. The continent will also attempt to remedy the gaps in its educational sector and improve the health system in order to enhance its effort at combating the AIDS pandemic.

This scourge, which poses a threat to the continent, constitutes a veritable catastrophe for the entire spectra of national economies, including the insurance industry. The events of September 11, 2001 occasioned the hardening of the international reinsurance market, after a long soft cycle. To this catastrophe have been added other major losses such as that of Diamond Princess, Prestige and Tricolor which compromised the profitability of the Marine class. Worse still were the losses recorded by insurance companies following the drop in the financial market which in the first half of the year under review, resulted in a US\$6.6 billion decline in investment income to the United States. The European insurance index, which included 33 firms also lost 49% of its value.

All these developments point to the need to return to professionalism in the writing of insurable risks, which henceforth tend to exclude some products such as Pharmaceuticals, computers, Directors' and officers' liability etc.

Member countries of the OECD were motivated by the need for more transparency to set up a system of exchange of information on professional reinsurers while awaiting a stringent control of the industry by the supervisory Authorities.

The African industry which followed the trend in the world market, is currently in the phase of consumed modernisation, as its operations is becoming internationalised by the day despite national borders and other cultural and linguistic barriers. Africa Re's financial strength rating was upgraded from BBB to BBB+ at a period when most of the megaplayers were downgraded or put under credit watch.

The improvement in its rating enhanced the role of the African Reinsurance Corporation as the credible alternative insurer to all the players in the regional territory. Thus, the institution recorded a premium income of US\$126.97 million, representing a growth of 49.18%. Additional and facultative cessions accounted for 79.61% of the total premium income following the perseverance of Management and staff in their marketing drive. The Corporation disbursed a total of US\$49.80 million in respect of paid losses, representing a loss experience of 39.22% as against 49.08% resulting in a technical profit of US\$3.19 million. To this should be added the investment income of US\$3.10 million, the interest on deposit of US\$1.16 million and the exchange gain of US\$0.04 million.

Following the third capital increase, it was decided to distribute one bonus share for each subscribed and paid up share to existing shareholders, thus doubling the paid up capital. Also declared for payment is a dividend of US\$1.5 per share, thus bringing the total remuneration to more than double the capital invested by each shareholder.



Composition of Africa Re Board of Directors



Mr. M. Al Naas
Chairman



Mrs. M. Ikongo
Vice-Chairman



Mr. K. Selim



Mr. A. Bayala



Mr. O.A. Bailey



Mr. W. Zeru



Mrs. A.T. Soudre



Mr. A. Augusto



Mr. A.O. Ibrahim



Mr. B. R. Purohit



Mr. M.H. Seba



Mr. C. Karekezi

ALTERNATE DIRECTORS

Mrs. H.A. SALLA, Mr. Jackson MWAIKINDA, Mr. Tewodros TILAHUN, Mr. Mohamed Lemine OULD NATY, Mr. Nashnush FARG, Mr. Sylvestre GAZIAMODO, Mr. Calvin FONDING, Mr. Fayek Hanna Tawdros, Mr. Séré Mady KABA, Mr. Guillaume RAKOTOSON, Mr. Thami EL-BARKI, Mr. Frederick MAGEZI

Composition of Africa Re Management



Mr. Bakary Kamara
Managing Director



Mr. Haile M. Kumsa
Deputy Managing
Director



Mr. Isidore Kpenou
Director of Administration/
Corporation Secretary



Mr. Ganiyu Musa
Director
Finance & Accounts



Mr. George Otieno
Acting Director
Technical Operations



Mr. Béné B. Lawson
Regional Director
Abidjan



Mr. Indre Vin Nursinghdass
Regional Director
Nairobi



Mr. Moncef Manai
Regional Director
Casablanca



Mr. I. O. Uduma
Internal Auditor

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Financial Highlights



In US\$ '000

RESULTS

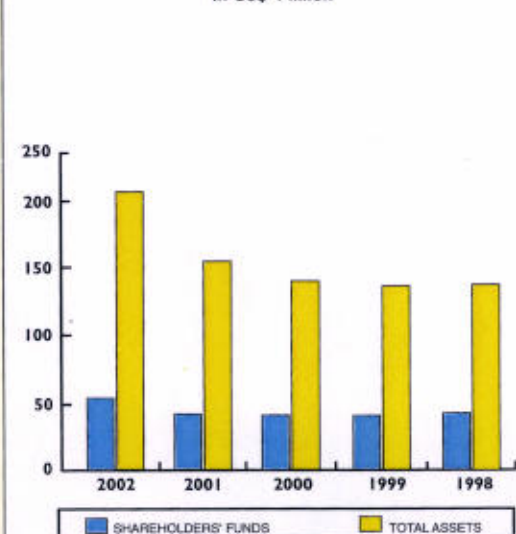
	2002	2001	2000	1999	1998
WRITTEN PREMIUM	126,972	85,114	78,060	70,920	66,126
RETAINED PREMIUM	104,267	75,512	71,718	65,879	62,440
EARNED PREMIUM (NET)	88,250	66,163	67,121	69,123	60,468
NET PROFIT	5,709	5,540	4,281	3,874	7,411

FINANCIAL POSITION

SHAREHOLDERS' FUNDS	62,840	51,617	50,049	50,088	50,216
TOTAL ASSETS	215,851	164,057	148,988	145,608	146,546

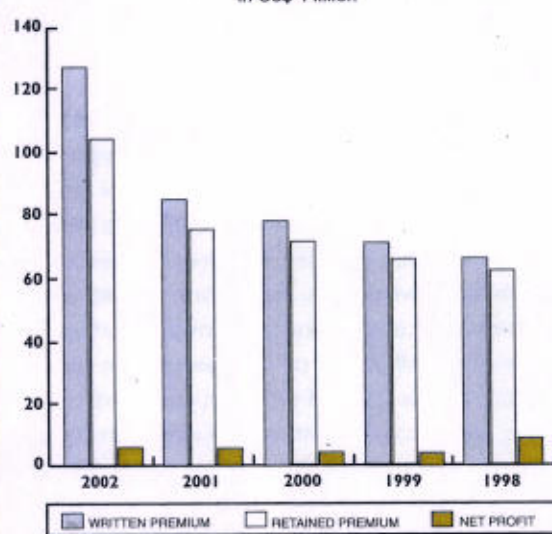
RESULTS 1998 - 2002

In US\$ Million



RESULTS 1998 - 2002

In US\$ Million





Economic and Trading Environment

The year 2002 was characterised by the weakness and uncertainty of the world economy, even though some emerging countries in Asia recorded laudable performances. Indeed, whereas the 1990s marked the triumph of market economy and ideology, particularly following the establishment of the World Trade Organisation (WTO) as the secular arm of liberalisation, the current decade, which has just begun, has cast some doubt on the minds of even the most ardent and persuasive advocates of globalisation. While the debate is still raging, each camp convenes its proponents on an annual basis in Davos (Switzerland) or in Porto Alegre (Brazil) in what appears like a battle between an economic forum versus a social forum.

WEAK AND UNSTABLE WORLD ECONOMY

The United States of America, which has all along been serving as the tug boat and beacon of the world economy was, after the events of September 11, faced with financial turmoil (ENRON, WORLD COM etc) of such magnitude as to question some of the fundamental principles of capitalism. The American economy, which had been stunted for the past two years, recorded a weak growth in 2002, despite the reduction of interest rates to their lowest level since July 1961 in an attempt to increase consumption by way of affordable credit. Similarly, the support given to the economy reduced the public accounts balance from a surplus of 1.4% in the Gross Domestic Product in 2001 to a 3% deficit in 2002.

The financial scandals that rocked the United States further aggravated the decline in stock indices. Indeed, whether reference is made to ENRON, TYCO, GLOBAL CROSSING or WORLD COM, to mention only the well known cases, the American accounting system has revealed its limitations as well as the inefficiency of controls and other oversight measures put in place. All forms of mismanagement such as fictitious profits, inflated turnover, doctored balance sheets and misappropriation of funds were carried out over a long period without the system detecting and combating them and thereby protecting the investors.

Faced with these serious dysfunctions, the West had to react by reviewing the accounting system and even envisaging the harmonisation of the American and European standards. In addition, it initiated a reflection on corporate governance which should lead to higher moral values, with a view to regaining investors' confidence in the capital market and world financial system. The 17% decline in Wall Street, 75% in Europe and 19% in Japan gave rise to distress and tension in

the financial markets, which were further aggravated by the increase in the price of oil and the risk of war in Iraq. In short, the much expected economic turn around in 2002 proved hesitant and less wide spread than envisaged. The recovery that started in the beginning of the year had long ceased and the economic sector fizzled out in the United States which, despite a growth rate of 1.5% could no longer play the role of the world economic tug boat, unlike in the 1990's.

Faced with such a situation, most European countries opted for an increase in budget deficit so as not to bridle economic activities, even if it meant breaching the 3% maximum budget deficit ratio set by the Maastricht Treaty for countries in the Euro zone.

Meanwhile, although most developing countries were affected by the difficulties experienced by the industrialised nations or the internal crises of Latin America especially, Argentina and Venezuela, the Far East experienced an indisputably sound economy. China, following its membership of the WTO, became the new pole of attraction for private investors and therefore, the highest recipient of the Foreign Direct Investment (FDI) ahead of the United States. Similarly, by signing the Free Trade Agreement for countries of South East Asia, China paved the way for phenomenal growth, as the treaty gave birth to the largest commercial market in the world. The private sector, which grew by 35.5% per annum in the last decade, accounted for one quarter of the Chinese industrial production – which represents one third of the GDP, excluding agriculture – and employed 11% of its active population

Africa has invited the same private sector, within the frame work of the New Partnership for African Development (NEPAD), to take an active part in the ownership of the already initiated development of the continent.

GROWTH OF AFRICAN ECONOMY AND THE IMPACT ON POVERTY REDUCTION

African decision makers seem to have been convinced that, while they should not rely on the countries of the North for developmental aid, they can also not base their economic programmes on the expectation of favourable change in the price of raw material. Thus, although the price of cocoa rose to its level of 15 years ago and that of cotton doubled within one year, the decline in the price of coffee can only serve as a reminder to the vulnerability of economies that rely on agricultural export produce. Indeed, at a time when

Economic and Trading Environment



a commitment was made at the Johannesburg summit (August 2002) to reduce poverty by half in 2015 by encouraging individual entrepreneurship and increasing developmental aid - with the United States pledging US\$15 billion by 2007, i.e. 0.15% of its GDP and Europe 0.39% in 2006 (0.33% in 2002) instead of the 0.70% target set by the United Nations - unfavourable decisions were taken by these same countries against agriculture in Africa. Indeed, they subsidised their agricultural commodities and textiles to the tune of US\$310 billion (source: OECD) each year, thereby rendering the cotton and banana from Africa less competitive. Meanwhile, countries of the South in general and African countries in particular are constantly invited to liberalise their economies without restrictions.

Thus, faced with dwindling public funds, the private sector became the pillar of development, but then stipulated rules have to be observed to ensure a level playing field. There was a stagnant growth in 2002 (an average of 2.5% according to the World Bank), too low to reduce poverty, with famine threatening about 38 million Africans. In addition, despite the introduction of NEPAD, which is too recent a project for significant conclusions to be drawn, Africa attracts less than 3% of the total Foreign Direct Investments.

Through NEPAD, the continent intends to develop communication and transport infrastructure, remedy the backwardness in the educational system and improve the health delivery system for a renewed fight against AIDS, as the continent would no longer want to remain at the mercy of climatic uncertainty and speculation on the prices of its commodities. With its African Peer Review Mechanism (APRM), the continent seeks to inculcate good governance into its leaders and elites. If other African countries follow the example of Ghana which has decided to submit herself for that assessment, the continent would have succeeded in establishing its credibility with private investors who will no longer hesitate to inject more substantial amounts than are being currently invested, convinced that transparency has now become the rule in this part of the world.

Despite the level of growth indicated above, African countries recorded contrasting performances.

Thus, in North Africa, Algeria recorded an improvement in all its economic indices (3-4% growth, 3.5% inflation and surplus in balance of payment), even though foreign investors were still few. Morocco, was able to exceed the expected 4% growth, due to higher rainfall and achieved a balance of payment surplus of 2% of the GDP due to tourism and the transfer of

money from the Diaspora. Inflation stood at 2%, while debts which had started decreasing gradually, stood at 2% of the GDP, with a drop in trading deficit. Nevertheless, there was a drastic reduction (90%) in the level of Foreign Direct Investments and foreign loans from one year (2001) to another (2002) i.e. only US\$350 million was received in 2002 compared to US\$3.5 billion in 2001. Similar situations prevailed in other emerging African countries (South Africa, Egypt and Tunisia).

The Tunisian economy started running out of steam after several years of high growth. Indeed, it only grew by 3% instead of the expected 6%, with stagnation in the industrial sector, a decline in exports and low rainfall, which impacted negatively on agricultural produce.

The lifting of embargo opened new horizons to Libya, although hydrocarbon still accounted for 95% of the country's foreign currency earnings. Mauritania remained one of the "good students" of the IMF with a robust growth although the lack of rainfall in the last rainy season raised fears of food shortage in the country.

In West Africa, the partnership for the achievement of economic integration (ECOWAS and WAEMU) gave rise to a lot of hope, although the cotton sub-sector was threatened by the protectionism of the countries of the North and the instability in Côte d'Ivoire hampered the rapid export of products from Mali, Burkina Faso and Northern Côte d'Ivoire. Thus, one of the objectives of the millenium, adopted at the Johannesburg summit on durable development, namely to reduce poverty is thereby seriously compromised. The political situation in Côte d'Ivoire, a country which represents 40% of the GDP of WAEMU, has jeopardised the effort of the sub-region to improve its economic well-being.

However, certain peculiarities are noteworthy. Burkina Faso recorded a faster growth in 2002 (5.70%) due to the bumper production of cereal and an excellent harvest of cotton during the 2001/2002 planting season.

Benin Republic attained a record production of cotton, i.e. 400,000 tons which is 20% higher than the previous year's, while Ghana profited from the increase in the prices of cocoa (37%) and controlled its inflation (13%), although its currency continued to depreciate against the major international currencies.

In Nigeria, Petroleum resources remained the main stay of the economy. The privatisation of parastatals which had been severally announced and postponed, were yet to be fully implemented, thus leading to the disaffection of both the foreign and local investors. Despite the increase in the oil price, there was a contraction in growth (0.5%) following the imposition of OPEC production quota.

In Central Africa, the drying up of the Gabonese oil wells has compelled Government to explore alternative solutions : manganese production and increased exploitation of forest resources (25% of the product is processed locally, thus doubling the price of a cubic metre of timber).

Cameroon, which recorded a growth of 4.7% and a positive budget figure of 4.8% has a dynamic nay industrious economy.

Southern Africa is still dominated by the economy of South Africa, which recorded a feeble growth (2.6% in 2002), weighed down by a 9.6% inflation despite the efforts of the Reserve Bank which raised its basic rate four times within the year. Unemployment (29% of the active population) and AIDS (almost 30% prevalence rate) remained the main cause of deepening and widespread poverty. In the next 5-10 years, the Black Empowerment policy should ultimately put 15% to 26% of the mining sector in the hands of Black elites. The sector represents 48% of the export income and 8% of the GDP. The appreciation of the Rand against the dollar (26.5%) strengthens the potential of that currency to become one of the sub-regional currencies that will hold sway in an economically united Africa.

In Angola, the restoration of peace resulted in increased vigour in the pursuit of economic revival. Indeed, after a 11.7% - 2.7% decline in growth between 1996 and 1999, the GDP increased from 4.1% in 2001 to 10.5% in 2002, due to a combination of higher oil production and the increase in the prices of crude oil. Inflation fell from 115% in 2001 to 30% in the year under review.

Mozambique recorded a growth rate of 10% and an inflation of 8% in 2002. However, the HIV virus, which poses a serious threat to this country and its economic activities, needs to be contained by all means.

The key economy of Eastern Africa – Kenya – experienced some difficulties, with a GDP growth rate of about 1%. On the other hand, the macro-economic stability in Tanzania sustained growth at between 4% and 5% over the past 5 years to reach 5.2% in 2002, mainly through agriculture and mining (15% increase). Gold, which represented 2.5% of the GDP accounted

for 88% of the country's mining income, while tourism increased by 12%. On its part, Ethiopia recorded an increase of 6% in its GDP due to the export of coffee (60% of the country's export), despite a drop in the international price of the crop.

In the Indian Ocean, 2002 was characterised by the decline in GDP growth (-11.1%) in Madagascar as compared with the previous year due to the political unrest that paralysed the island for many months and led to the withdrawal of investors. Mauritius, which recorded an increase of 4% was also weakened by its strong dependence on textile, sugar cane and tourism, sectors that have all been affected by the global situation. That contraction explains the transformation of the island into a new technological pole with a cybercity that enables investors in that sector to enjoy significant fiscal advantages and a major reduction in communication cost.

Finally, in North East Africa, Egypt and Sudan recorded remarkable progress in 2002. Indeed, while the economy of Sudan was dependent on oil, which accounted for 41% of Government revenue (i.e. US\$527 million), the Egyptian economy was dependent on tourism (US\$ 4 billion), cotton and petroleum production, which recorded a 3.10% growth despite the rise in unemployment. Whereas inflation increased from 2.4% to 2.6% in 2002 only, the stock market fell by 15% due to the postponement of the privatisation of public companies.

INSURANCE SECTOR

Although the events of September 11, 2001 negatively affected the finances of insurance/reinsurance companies and set in motion the much awaited hardening of the market after long years of soft cycle, they also provided an opportunity for the industry to prove its financial strength. Indeed, apart from a few cases of predictable and unavoidable failure, the international market creditably absorbed the shock wave caused by the destruction of the WTC twin towers.

During the year under review, other catastrophe losses further worsened the underwriting results. The flood in Central Europe and the South of France as well as several marine events, namely the Fire on Diamond Princess (US\$750 million), the running aground of the tanker Prestige off the coasts of Spain, the washing away of the container carrier Tricolor, among others attest to this. According to IUMI (International Underwriters of Marine Insurance), before these losses, the world premium from the marine class which had dropped from US\$16 billion in 1994 to US\$11 billion in 1999 recorded a tangible increase in 2001 raising the prospects of a positive result for the year under

Economic and Trading Environment



review. However, all indications point to the fact that the class would record a deficit.

Nevertheless, the biggest losses suffered by the insurance industry would result from bad financial investments and the decline in the world financial markets. Thus property insurance in the United States recorded US\$6.6 billion reduction in investment income in the first six months of the year. In effect, while investment income in 2001 stood at US\$24.7 billion, it only amounted to US\$18.1 billion for the same period in 2002. The decline would have been higher if it were not for the increase in premium on the international market in general and the American market in particular.

All stakeholders in the insurance markets are now agreed on the need for a more professional and thorough approach to underwriting, since there has been a drop in the investment income - following the fluctuations in the capital market and the decline in investment portfolio - the risks to be insured are becoming more complex, their magnitude much bigger and the frequency of losses much higher.

For instance, it could be recalled that in the capital market, the European insurance index, which contained 33 companies lost 49% of its value in one year.

In fact, certain risks which hitherto presented vast opportunities have now turned out to be loss prone or at least less attractive: pharmaceuticals, computers, Directors' and officers' liability, workmen's compensation, doctors' professional liability etc.

The world reinsurance landscape was so drastically distorted that member countries of the OECD decided in August 2002 to establish a system of exchange of information on professional reinsurers, a prelude to the future control of such players, in addition to the role of the rating agencies.

The African insurance industry also experienced the effects of these changes and policies. Indeed, it witnessed the withdrawal of both direct insurance and reinsurance capacities. A number of players decided to no longer trade in these territories because of low turnover. Thus, in the South African market, a number of key players, which had long been in operation, discontinued business in 2002 following the mergers and acquisitions of previous years. The withdrawal of a large number of international reinsurers aggravated the phenomenon of capacity reduction, which started on the continent in the beginning of the year. All countries seemed to have been affected by that trend as well as the increase in the basic premium rate, which ranged between 10% (for simple domestic risks) and 300% (for petro-chemical risks).

Although new direct companies were established in some markets, it is not certain that they added to the local capacity due mainly to their weak financial base. The intervention of supervisory Authorities deserves to be lauded especially in the CIMA countries where it is henceforth compulsory to patronise local reinsurers to the tune of 25% of facultative placements and in Angola where a system of co-reinsurance was instituted as the market opened up to new companies.

Furthermore, it has to be noted that the concept of good governance, with its corollary of rating by an independent agency, is becoming more and more accepted by African Executives. That explains why the African Insurance Organisation in conjunction with UNCTAD and Standard & Poor's set up the AIO rating committee which examined the accounts, analysed the operation and awarded ratings to about twenty companies of different nationalities and sizes, that wanted to enhance their credibility by first undergoing the assessment of their peers before proceeding to the next step which Africa Re on its own accord had already taken since 1995.

The African Reinsurance Corporation, which was the first company within the continent to go for a formal interactive rating by an independent world renowned agency, is satisfied with this development as it had for very many years set the example for the entire local industry. In 2002, the Corporation's rating improved from BBB to BBB+ at a period when even higher rated reinsurers were downgraded or put under credit watch. The sustained marketing drive carried out over the years, the presence and visibility of the institution all over the continent, its privileged knowledge of players and the markets, the quality of management, staff and services as well as the reduction in global reinsurance capacity are the factors that contributed to the exceptional performance recorded for the year, i.e. a 49.18% increase in production which currently stands at US\$126.97 million (US\$85.11 million in 2001), an underwriting profit of US\$3,191,780, representing an increase of 5.47% when compared with 2001, and total assets of US\$215,851,206.

This breakthrough is coming at an appropriate time in the history of the Corporation when it decided to increase its capital to US\$100 million and open it up to non-African interests, while maintaining its peculiar nature of African regional reinsurer whose objectives include among others, to participate in writing the economic history of the continent through development financing while cultivating professionalism and excellence in its core activity.



Operations

This section highlights the performance of the Corporation in terms of the premiums generated and claims paid during the period under review. It examines the area of voluntary cessions and notes the significant strides made by the Corporation in its efforts to boost income from this source, while adhering to its established cautious underwriting policy. The claims recorded by production centres are also reviewed.

With its Headquarters in Lagos and a network of three Regional and three underwriting/contact Offices, the Corporation's proximity to its cedants has enabled it to respond quickly and more effectively to their needs.

Following the recent changes in the African insurance landscape and the emergence of oil business in Africa's portfolio, it has become necessary to recognise and highlight the contribution of this class of business. The premium generated by that class is still recorded under Fire and marine. However, it is envisaged that in subsequent years, income from that branch would be reported separately. Meanwhile, the risks are still classified as follows:

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

About 95% of the acceptances emanate from Africa and the balance comes from sources outside the continent.

The markets are segmented as follows:

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

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

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

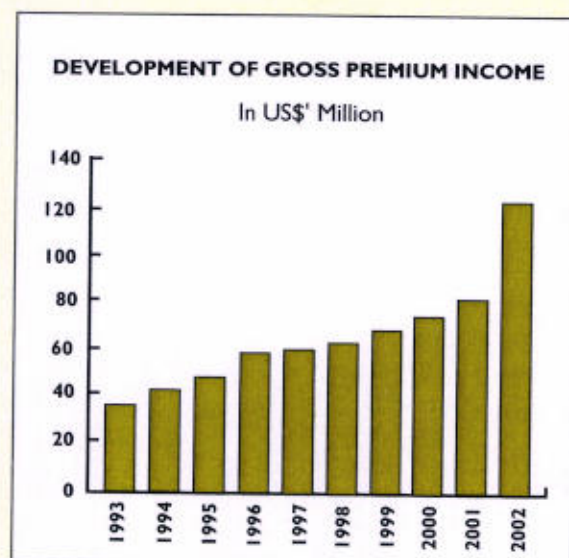
DESCRIPTION (US\$000)	2002			2001		
	Gross	Retro	Net	Gross	Retro	Net
INCOME:						
Premium (Less Cancellations)	126,972	22,705	104,267	85,114	9,602	75,512
Movement in Premium Reserve	(29,784)	(13,767)	(16,017)	(11,748)	(2,399)	(9,349)
Earned Premium	97,188	8,938	88,250	73,366	7,203	66,163
OUTGO:						
Losses Paid	49,800	2,324	47,476	41,757	3,095	38,662
Movement in Loss Reserve	1,633	(1,250)	2,883	(4,539)	(1,250)	(3,289)
Incurred Losses	51,433	1,074	50,359	37,218	1,847	35,373

Premium Income:

The premium income of US\$126.97million, written in 2002 exceeded the US\$85.11 million recorded in 2001 by 49.18%. This robust premium growth was due mainly but not limited to a reduced and disciplined global capacity, and a refocus on the core business as a result of the hard investment climate. These factors brought about a conservative underwriting and sound pricing.

Development of Gross Premium:

The following graph indicates a steady development of the Corporation's production in the last decade. An average growth rate of 13.83% was achieved during the period, in spite of the difficult economic environment within which the Corporation operated.



As noted in previous years, the following factors explain the outstanding performance reported earlier:

- Improved reinsurance terms and conditions, mainly as a result of reinsurance capacity shortage following the events of September 11.
- The Corporation's ability to accept higher shares of peak risks, following the restructuring of its reinsurance programme and its improved financial position.
- Its capital adequacy coupled with an investment grade financial strength rating, as assessed by Standard and Poor's. The upgrade of its rating, at a time when many players find it hard to retain theirs, has strengthened the confidence of Africa Re's trading partners in the ability of the Corporation to meet its obligations.
- The sound marketing strategy, designed to provide ancillary services in support of the growth of ceding companies has endeared the Corporation to its cedants and increased the level of voluntary cessions.

In addition to these factors, adequate reinsurance pricing and improved terms and conditions applied by all reinsurers following the huge losses previously recorded by the world market (European storms, Petrobras off shore Oil rig loss in Brazil, resurgence of Asbestos claims), aggravated by the September 11 disaster and stock market crisis, had a positive consequence on the Corporation's acceptances.

The general trend in the global reinsurance market, which further emphasizes the factors mentioned, reveals the following:

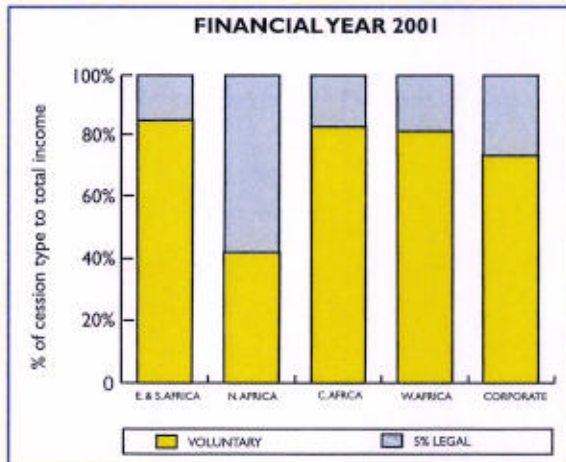
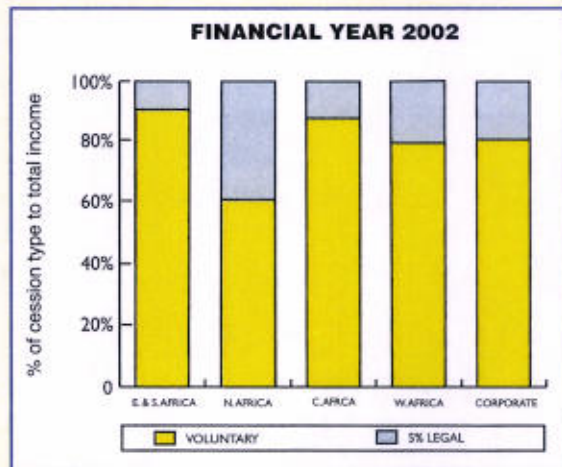
- i) A greater emphasis on exposures that were never contemplated in times past, leading to a more cautious approach in risk assessment.
- ii) Return to profitable underwriting due to the very poor performance of the financial markets, thus limiting the leverage, which allowed "market share approach", adopted for several years by most underwriters.

The foregoing led to a general price increase and restriction in cover. The increase though generally marginal, due to the fact that post September 11 new capacity did not allow reinsurers to adjust prices astronomically, was quite substantial in some cases. Some of the features of this price trend were:

- i) Cedants with good quality business had their reinsurance premium adjusted by 10%-25% where relationship had been steady
- ii) Rate increase per risk in property business was in line with the experience of treaties, while the highest percentage adjustments were on top excess of loss layers, which historically were very low.

Voluntary Cessions

From a ratio of 41.61% in 1993, the voluntary cession increased steadily in subsequent years and almost doubled to 79.61% in 2002. This positive trend, once again indicates the effectiveness of the Corporation's marketing strategy, designed among other things, to boost income from that source. The levels of cessions achieved in 2002 and 2001 are presented in the following charts.



To further illustrate the Corporation's marketing drive and ability to accommodate peak risks, it is worth mentioning that North Africa (Casablanca and Cairo offices) recorded a significant improvement in the level of voluntary cession from 43.56% to 60.16%.

Geographical Distribution

Since the events of September 11, there has been a massive contraction in capacity world-wide. Africa Re with its good security rating, prompt and efficient client service as well as proximity to local markets, gained from this development, on the continent. This

section shall consider each region in turn and explain Africa Re's performance.

Southern Africa

This area consists of countries in the Rand zone, Mozambique, Namibia and Angola. The sub-region's premium income grew by 159% from US\$11.68m in 2001 to US\$30.29m in 2002. Reasons for the steep growth are as follows:

- At year-end 2002 compared with 2001, the Rand appreciated by about 26.5% against the dollar, thus resulting in a growth of US\$6.34m.
- The magnitude of the increase in Oil and Energy income from this sub-region was impressive. It grew by about 420% as a result of adequate direct pricing.
- Africa Re's share of treaties increased due to the players' confidence in Africa Re and the hardening of direct market rates.

Maghreb

The 96% devaluation of the Libyan Dinar reduced the Corporation's income by US\$4.17m. However, this was partly mitigated by the appreciation of the national currencies of Morocco and Tunisia. Meanwhile, the premium income from this sub region of five countries stood at US\$23.92m as against US\$18.73m in 2001.

The following reasons would explain this growth:

- Africa Re's share of facultative Oil and Energy risks increased substantially in a number of accounts, in addition to new business written in this class, due to a sustained marketing drive.
- Rates on Oil and Aviation risks grew in some cases by about 300%, due to price adjustment after the September 11 events.

East Africa

Premium income in this zone rose from US\$16.54m in 2001 to US\$19.86m. The increase was due to:

- Strong and sustained business relationship with all its cedants, as well as intensified marketing efforts towards new clientele, which led to the opening of a new market.

Operations



- Increased market share following wider acceptability by more ceding companies and brokers.

- The appreciation of the CFA Franc against the US dollar by about 17% by year-end.

Anglophone West Africa

Production from this sub-region rose from US\$12.46m in 2001 to US\$16.883m in 2002 due to:

- A 56.64% increase in premium income from Oil and Energy business on account of the hardening of terms and rates in the international market,
- Additional facultative and treaty cessions from existing accounts,
- Relative stability in some markets, from where very marginal premium was recorded in previous years due to political unrest.

Francophone West and Central Africa

Income from this sub-region increased from US\$10.05m in 2001 to US\$13.36m due to:

- The CIMA directive which stipulates that a minimum of 25% of every single risk must be retained locally,
- An increase in facultative premium from US\$2.7m in 2001 to US\$5.84, due to the refocusing of the Regional Office underwriting strategy in further exploring the opportunities offered by this line of business,

African Indian Ocean Islands

The premium income from that market rose by 25.2% to US\$7.54m, over the previous year's as a result of:

- The slight appreciation of all currencies in the sub-region (about 2% on the whole).
- Increased market share in the sub-region, despite dropping unprofitable business.

North East Africa

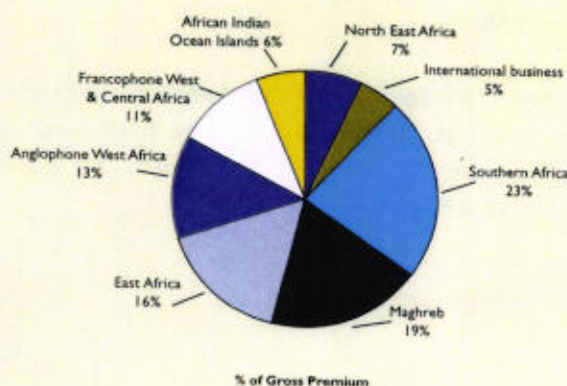
This newly classified sub-region (Egypt and Sudan) accounted for an income of US\$8.256m in 2002 as against US\$5.549m in 2001. The increase in premium income was due to the following reasons:

- Proximity and closer relationship with cedants following the opening of the new office in Cairo.
- Higher share in treaty and facultative participation in the sub-region.

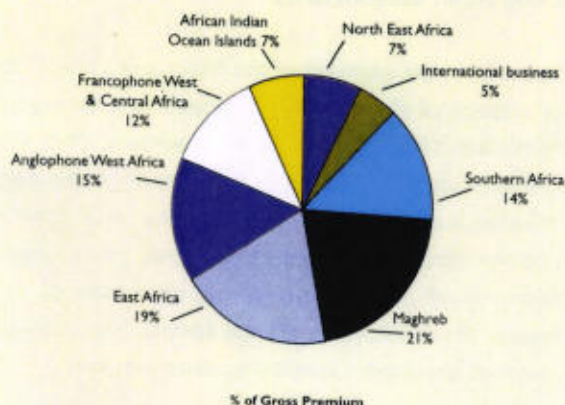
International Business

Africa Re's premium income from its international operations increased from US\$4.07m in 2001 to US\$6.77m in 2002. The growth was due to the increased acceptance of Africa Re as a sound security. The newly established office in Cairo also contributed to the performance.

FINANCIAL YEAR 2002



FINANCIAL YEAR 2001





Operations

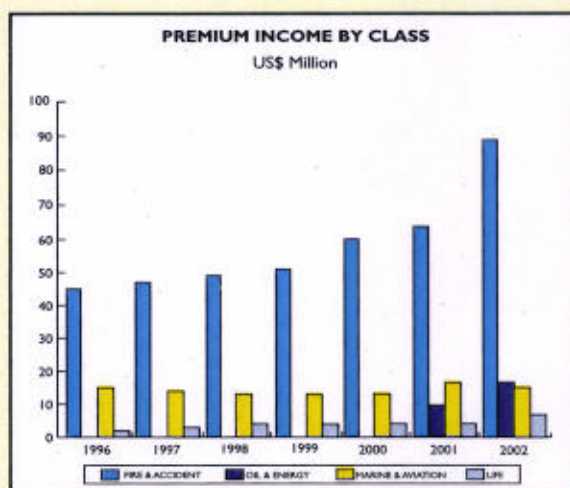
Sectoral Distribution

As stated earlier, following the increase in Oil and Energy premium income, the sectoral distribution has been slightly changed. This would imply that the figures quoted for 2001 would differ from last year's values by the amount of Oil premium removed from the relevant classes.

As in the previous years, the bulk of the Corporation's premium income emanated from the Fire and Accident classes, which generated US\$88.50 million (2001: US\$58.77 million) or 69.73% (2001: 69.05%) of the corporate income. While Oil and Energy income was US\$16.69 million (2001: US\$9.54 million) or 13.15% (2001: 11.21%), the Marine and Aviation classes contributed US\$15.12 million (2001: US\$13.07 million) or 11.92% (2001: 15.36%).

The balance of US\$6.60 million (US\$3.73 million in 2001) or 5.20% (2001: 4.38%) emanated from Life business.

The graph provides a distribution of premium income by class.



OTHER INCOME

Long Term Investments

Apart from the payment of the balance of US\$0.03m in respect of the shares subscribed in Compagnie Nationale d'Assurance et de Réassurance, Mali, the Corporation maintained its investment in the two development finance institutions and direct underwriting companies at previous years' level. Afreximbank and Shelter-Afrique continued to pay regular dividends, although the former has failed to establish the export credit insurance window.

The Corporation's seven-storey office building in Nairobi was virtually completed by the year-end. Apart from housing the regional office, the rental income from the lettable space is expected to further boost the Corporation's investment income.

Income from Short-Term Investments and other sources

For the second year running, the Corporation recorded a very impressive cashflow and liquidity performance, with total financial investments increasing by 36.90% to reach US\$90.67m as at 31 December, 2002. In line with the Corporation's prudent approach to investment management, a significant proportion of the portfolio continues to be held in bank deposits of less than 365 days maturity with reputable financial institutions in Europe and the United States of America (USA).

With a record level unemployment in Germany and a real prospect of slipping into recession, coupled with the weak growth in the American economy, European and American interest rates remained very low during the period under review. Although the data released by the United States indicated a weaker economy than expected, markets were taken by surprise by the 50 basis point cut by the Federal Reserve in its meeting in November. As a result, interest on bank deposits reduced to US\$1.62m from US\$2.1m recorded in the previous year.

The Corporation introduced moderate North American and South African equity exposures into its managed investment portfolio. The U.S. Dollar portfolio, which consists of high quality bonds (80%) and blue chip stocks (20%) achieved a return of 3.56% for the year against a benchmark of 4.33%, although the annualized performance since inception in November 2000 matched the benchmark. Despite the 7.9% rise in the Standard & Poor's 500 Composite Index over the last quarter, it still ended the year down by 23.4%.

Similarly, the South African Rand portfolio generated a return of 7.56% and while the fixed income component achieved a return of 13.07%, the equity part lost 9.71% of its value.

Operations



Against the background of the foregoing, while the total fixed income portfolio generated an income of US\$1.13m, the recognized losses on the equities amounted to US\$0.35m.

A variety of risk factors continue to overhang the markets, ranging from the possible U.S. led war on Iraq, confrontation with North Korea, anaemic growth in the U.S. and the fear of recession in parts of continental Europe. The portfolio is therefore being placed defensively and no major shift in asset allocation is anticipated in the short to medium term.

Whereas rental income remained at the previous year's level of US\$0.24m, revenue from the management of the African Aviation as well as Oil and Energy pools increased from US\$0.33m in 2001 to US\$0.45m.

OUTGO:

Losses:

The total claims paid amounted to US\$49.80 million in 2002 as against US\$41.76 million in 2001. This figure represents a claims ratio of 39.22% compared to 49.06% in the previous year.

The incurred losses amounted to US\$ 51.43 million, made up of paid losses of US\$49.80 million and movement in reserves of US\$1.63 million as against US\$37.22 million, US\$41.76 million and US\$4.54 million respectively.

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

GROSS LOSS RATIO BY CLASS - FINANCIAL YEAR 2002
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 & Oil)	37.58	72.86	51.57%	1.76	4.04	43.56%	39.34	76.90	51.15%
Marine & Aviation	6.28	12.75	49.25%	1.30	0.98	132.65%	7.58	13.73	55.20%
Life	4.51	6.56	68.75%	-	-	-	4.51	6.56	68.75%
TOTAL	48.37	92.17	52.47%	3.06	5.02	60.95%	51.43	97.19	52.91%

Loss Experience By Trading Area:

- While the gross claims paid ratio of 27.41% was an improvement on the previous year's 28.25% ratio, the net claims paid ratio of Anglophone West Africa rose to 61.08% from 24.44% in 2001. The steep rise in the net claims ratio was as a result of the 27th January, 2002 Lagos Bomb blast in which the Corporation paid close to US\$2.5m;
- From a net claims paid ratio of 33.72% (gross: 41.69%) in 2001, Francophone West and Central Africa's figure improved to 28.27% (gross: 24.64%).
- North Africa's net claims paid ratio reduced from 57.99% (gross: 52.76%) in 2001 to 38.18% (gross: 34.12%).

- While the net claims paid ratio recorded by the East and Southern Africa production centres dropped from 58.10% in 2001 to 51.08%, the gross claims ratio* also improved from 56.19% in 2001 to 48.44%.

Commissions and Charges

The net commission and charges incurred was US\$29.19m as against US\$22.82m in 2001. This represents 28% of the net premium, which is an improvement on the 30.22% recorded in 2001.



Operations

Management Expenses

Even though a key component of the Corporation's profit improvement programme is efficient cost control, a significant emphasis is placed on the ability to deliver good quality service to its cedants and other stakeholders. In a continent where public utilities and infrastructure are grossly inadequate, achieving the desired service levels becomes usually very expensive.

It was against this background that management expenses charged to the underwriting revenue account increased by 9.29%, from US\$4.95m in 2001 to US\$5.41m. The new underwriting office in Cairo, the capital restructuring programme and the computerization project all affected the management expenses level. However, the expense ratio improved from 6.55% in 2001 to 5.17% due to the 38.08% increase in retained premium.

Other expenses not charged to the Underwriting Revenue Account

The cost of the meetings of the Annual General Assembly and Board of Directors amounted to US\$0.41m (2001:US\$0.42m). While audit fees remained stable at US\$42,000, depreciation and amortisation of fixed assets increased by 4.1% from US\$0.81m in 2001 to US\$0.85m. Other expenses include a general provision to cover balances doubtful of recovery.

RESULTS OF THE CLOSED UNDERWRITING YEAR 2000

The Corporation continued to apply the policy of deferring the recognition of net income of an underwriting year until the end of the third financial year. Accordingly, the 2000 underwriting year, which had been open for the past three years was closed on 31 December, 2002.

Gross written premium for the underwriting year stood at US\$75.98m, representing a 6.36% growth

on the US\$71.43m generated by underwriting year 1999 when it was closed in 2001. Premium ceded to retrocessionaires increased by 42.80% to reach US\$7.86m. The year marked the beginning of the Corporation's entry into the oil and energy market, hence the need for special reinsurance cover to protect the additional exposure.

As a result of the relatively higher reinsurance ratio, retained premium grew only by 3.32% at US\$68.12m as against US\$65.93m for 1999.

Gross claims paid amounted to US\$33.29m (1999:US\$33.29m), out of which US\$1.38m was recovered from retrocessionaires, resulting in net claims and ratio of US\$31.03m and 45.55% (1999:US\$30.65m and 46.49%) respectively. Commission and charges, net of reinsurance recoveries stood at US\$21.79m compared to US\$21.37m in 1999, representing a ratio of 31.99% (1999:32.41%).

Management expenses allocated to the underwriting year amounted to US\$4.52m (1999:US\$4.19m), producing a technical surplus of US\$10.78m (1999:US\$9.72m). Using the results of the chain ladder triangulation and management's in-depth knowledge of the business portfolio, a reserve of US\$7.59m (1999:US\$6.66m) was established to cover the outstanding claims, including IBNR for the underwriting year. The resulting underwriting surplus of US\$3.19m was transferred to the profit and loss account.

RESULTS OF THE 2002 FINANCIAL YEAR

Total premium written during the year amounted to US\$126.97m compared to US\$85.11m in the previous year. The 49.18% growth in income surpassed the Corporation's most optimistic projections, not surprisingly, since the combination of the events of September 11, the stock market crisis and the weakness of the U.S. Dollar could not have

reasonably been forecasted in a single budget model.

The decision taken a few years ago to invigorate oil and energy risks underwriting is beginning to yield dividends. Leveraging on existing relationships built on prompt, efficient and professional service, a rating upgrade from Standard and Poor's, and the contraction in the global reinsurance capacity, the Corporation recorded a significant increase in income from its growing oil and energy book of business.

However, due to its relatively small capital (in absolute terms) and retention capacity, the Corporation was obliged to purchase additional reinsurance cover to protect the increasing oil and energy as well as other major acceptances. The extremely hard retrocession market, coupled with Africa Re's tradition of using first class securities, led to a 136% spike in retrocession premiums from US\$9.60m in 2001 to US\$22.70m.

As a result, retained premium increased by 38% from US\$75.51m in 2001 to US\$104.27m, representing a retention of 82.12% (2001:88.72%). It is expected that the current capital restructuring project, when completed, would enable a more efficient reinsurance utilization capacity.

Gross claims paid stood at US\$49.80m (2001:US\$41.76m) out of which US\$2.32m (2001:US\$3.09m) was recovered from retrocessionaires. Therefore, while net claims increased by 22.80% from US\$38.66m in 2001 to US\$47.48m, the resulting claims ratio improved to 45.53% from 51.20%. Commission and other charges, net of reinsurance recoveries amounted to US\$29.19m as against US\$22.82m, representing a ratio of 28% (2001:30.22%).

Total underwriting outgo for the year stood at US\$76.76m as against US\$61.48m recorded in the 2001 financial year. In addition, management expenses of US\$5.41m (2001:US\$4.95m) was charged to the

underwriting revenue account. Accordingly, the Corporation achieved an excess of income over outgo of US\$22.09m, representing an increase of 143% over the US\$9.09m recorded in the previous year. The reinsurance and reserve funds at the end of the year grew by 25.06% from US\$75.51m to US\$94.40m. Therefore, the underwriting profit for the year amounted to US\$3.19m compared to US\$3.03m achieved in 2001.

Income earned from investment and other sources amounted to US\$3.11m as against US\$3.48m in 2001. Net interest on reinsurance deposits virtually stabilized at US\$1.17million while realized gain on exchange stood at US\$0.04m compared to a loss of US\$0.29m in 2001. There was a 3.06% improvement in the overall profit of US\$5.71m achieved in the year when compared to the US\$5.54m recorded last year.

APPROPRIATION OF RESULTS

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

- US\$2,854,740 to the General Reserve in accordance with Resolution No. 4/1992;
- US\$1,000,000 to the Cumulative Translation Adjustment;
- US\$700,000 to Other Reserves;
- US\$754,233 to be paid as dividend at the rate of US\$1.50 per subscribed and paid up share of US100 par value;
- US\$789,735 be carried forward.



Participants and facilitators at the Reinsurance Seminar held in Accra, Ghana in 2002.



Participants and facilitators at the Reinsurance Workshop held in Blantyre, Malawi in October 2002.



Participants and facilitators at the Reinsurance Seminar held in Nairobi, Kenya in September 2002.



Staff of the Nairobi Regional Office together with some of their spouses at the inauguration of "Africa Re Centre" in Nairobi on 15 April 2003.

External Auditors Report



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

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

**Akintola Williams
Deloitte
& Touche**

REPORT OF THE EXTERNAL AUDITORS

TO THE SHAREHOLDERS OF AFRICAN REINSURANCE CORPORATION

We have audited the accompanying financial statements of **African Reinsurance Corporation** as at 31 December, 2002, which have been prepared on the basis of the accounting policies set out on page 33. The directors are responsible for the preparation of the financial statements. Our responsibility is to express an independent opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Corporation's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement. We believe that our audit provides us with a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation at 31 December, 2002 and the results of its operations and cash flows for the year ended on that date in conformity with International Accounting Standards.

Akintola Williams Deloitte & Touche

Lagos, Nigeria
14 April, 2003

**Deloitte
Touche
Tohmatsu**

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

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



African Reinsurance Balance Sheet at

ASSETS		2002	2001
	Note	US\$	US\$
Cash and short term maturities	3	9,234,094	5,972,127
Investments	4	87,433,389	64,638,289
Amounts due from companies on reinsurance accounts		31,276,716	24,315,921
Deposits retained by ceding companies		45,897,184	40,033,219
Sundry debtors, accrued interest and prepayments		567,119	1,284,774
		174,408,502	136,244,330
FIXED ASSETS	5	15,741,416	14,628,175
RETROCESSIONAIRES' SHARE IN RESERVE FUNDS			
	11	25,701,288	13,184,824
		215,851,206	164,057,329

MUSA AL NAAS
Chairman

The accompanying notes form an integral part of this statement

Corporation

31st December 2002



LIABILITIES, CAPITAL AND RESERVES		2002	2001
	Note	US\$	US\$
Other creditors, accruals & provisions		3,220,947	3,503,465
Dividend payable	6	1,788,608	1,293,076
Amounts due to companies on reinsurance accounts		24,636,622	15,760,759
Deposits due to retrocessionaires		3,253,161	3,188,640
		32,899,338	23,745,940
PAID-UP CAPITAL	7	50,282,200	24,597,500
RESERVES			
Share premium		74,969	5,879,765
General reserve	8	10,671,586	25,573,659
Other reserves	9	8,094,238	7,394,238
Retained earnings		789,735	1,389,227
Cumulative translation adjustment	10	(7,072,300)	(13,217,544)
		12,558,228	27,019,345
SHAREHOLDERS' FUNDS		62,840,428	51,616,845
REINSURANCE AND RESERVE FUNDS	11	120,111,440	88,694,544
		215,851,206	164,057,329

Bakary KAMARA
Managing Director

The accompanying notes form an integral part of this statement



African Reinsurance

Profit and Loss Account for the year ended

EXPENDITURE	Note	2002 US\$	2001 US\$
General Assembly and Board of Directors' Meetings		410,178	418,973
Audit Fee		42,000	42,000
Depreciation and Amortisation	5	847,276	813,835
Other expenses and provisions		500,434	502,506
Profit for the year		5,709,481	5,540,365
		7,509,369	7,317,679
APPROPRIATIONS:			
Proposed dividend	6	754,233	614,938
Transfer to general reserves	8	2,854,740	2,770,183
Transfer to reserve for exchange fluctuation	9	500,000	500,000
Transfer to reserve for loss fluctuation	9	200,000	200,000
Transfer to cumulative translation adjustment	10	1,000,000	1,000,000
Applied for bonus issue		1,000,000	-
Retained earnings at 31st December		789,735	1,389,227
		7,098,708	6,474,348

The accompanying notes form an integral part of this statement

Corporation

31st December 2002



INCOME	2002	2001
	US\$	US\$
Underwriting profit	3,191,780	3,026,107
Income from investments and other sources	3,106,892	3,484,129
Interest on reinsurance deposits	1,166,536	1,093,433
Realised gain / (loss) on exchange	44,161	(285,990)
	7,509,369	7,317,679
Retained earnings at 1st January	1,389,227	933,983
Profit for the year	5,709,481	5,540,365
	7,098,708	6,474,348

The accompanying notes form an integral part of this statement



African Reinsurance

Revenue Account for the year ended

OUTGO	Gross	Retrocession	NET	NET
	US\$	US\$	2002 US\$	2001 US\$
LOSSES PAID	49,799,811	2,323,958	47,475,853	38,662,248
Add:				
Outstanding loss reserve at the end of the year	33,437,030	3,482,464	29,954,566	27,071,748
Deduct:				
Outstanding loss reserve at the beginning of the year	31,804,212	4,732,464	27,071,748	30,360,526
LOSSES INCURRED	51,432,629	1,073,958	50,358,671	35,373,470
COMMISSIONS	29,192,144	2,963,859	26,228,285	20,238,947
CHARGES	3,260,515	200,966	3,059,549	2,579,219
	83,885,288	4,238,783	79,646,505	58,191,636
MANAGEMENT EXPENSES			5,411,478	4,945,055
Underwriting profit transferred to profit & loss account			3,191,780	3,026,107
			88,249,763	66,162,798

The accompanying notes form an integral part of this statement

Corporation

31st December 2002



INCOME	Gross	Retrocession	NET	NET
	US\$	US\$	2002 US\$	2001 US\$
PREMIUM NET OF CANCELLATIONS	126,972,266	22,704,889	104,267,377	75,511,696
Add:				
Reinsurance fund at the beginning of the year	56,890,332	8,452,360	48,437,972	39,089,074
Deduct:				
Reinsurance fund at the end of the year	86,674,410	22,218,824	64,455,586	48,437,972
EARNED PREMIUM	97,188,188	8,938,425	88,249,763	66,162,798
			88,249,763	66,162,798

The accompanying notes form an integral part of this statement



African Reinsurance Corporation

Underwriting Results by Class of Business for the year ended 31st December 2002

	Fire and Accident US\$	Marine and Aviation US\$	Life US\$	TOTAL 2002 US\$	TOTAL 2001 US\$
Underwriting income:					
Gross premium	96,029,926	24,343,069	6,599,271	126,972,266	85,114,364
Less: retrocession premium	15,606,503	7,098,386	-	22,704,889	9,602,668
	80,423,423	17,244,683	6,599,271	104,267,377	75,511,696
Underwriting outgo:					
Losses paid	37,359,388	6,107,949	4,008,516	47,475,853	38,662,248
Commissions	20,722,711	3,920,488	1,585,086	26,228,285	20,238,947
Charges	2,222,120	759,879	77,550	3,059,549	2,579,219
Management expenses	4,092,735	1,037,486	281,257	5,411,478	4,945,055
	64,396,954	11,825,802	5,952,409	82,175,165	66,425,469
Excess of income over outgo	16,026,469	5,418,881	646,862	22,092,212	9,086,227
Reinsurance & reserve funds:					
At 1st January	50,184,991	21,060,711	4,264,018	75,509,720	69,449,600
	66,211,460	26,479,592	4,910,880	97,601,932	78,535,827
At 31st December (Note 11)	65,701,962	23,904,349	4,803,841	94,410,152	75,509,720
Underwriting profit transferred to profit & loss account	509,498	2,575,243	107,039	3,191,780	3,026,107

The accompanying notes form an integral part of this statement

African Reinsurance Corporation

Statement of Changes in Equity

for the year ended 31st December 2002

	Share Capital US\$	Share Premium US\$	General Reserve US\$	Other Reserves US\$	Cumulative Translation Adjustment US\$	Retained Earnings US\$	Total US\$
Balance at 31 December 2000	23,940,000	5,231,120	22,803,476	6,694,238	(9,553,958)	933,983	50,048,859
Profit for the year	-	-	-	-	-	5,540,365	5,540,365
Additional capital	657,500	648,645	-	-	-	-	1,306,145
Currency translation adjustment	-	-	-	-	(4,663,586)	-	(4,663,586)
Proposed dividend	-	-	-	-	-	(614,938)	(614,938)
Transfer to reserves	-	-	2,770,183	700,000	1,000,000	(4,470,183)	-
Balance at 31 December 2001	24,597,500	5,879,765	25,573,659	7,394,238	(13,217,544)	1,389,227	51,616,845
Profit for the year	-	-	-	-	-	5,709,481	5,709,481
Additional capital	754,700	368,391	-	-	-	-	1,123,091
Currency translation adjustment	-	-	-	-	5,145,244	-	5,145,244
Proposed dividend	-	-	-	-	-	(754,233)	(754,233)
Transfer to reserves	-	-	2,854,740	700,000	1,000,000	(4,554,740)	-
Bonus issue	24,930,000	(6,173,187)	(17,756,813)	-	-	(1,000,000)	-
Balance at 31 December 2002	50,282,200	74,969	10,671,586	8,094,238	(7,072,300)	789,735	62,840,428

The accompanying notes form an integral part of this statement





African Reinsurance Corporation

Statement of Cash Flows

for the year ended 31st December 2002

	2002 US\$	2001 US\$
CASH FLOWS FROM OPERATIONS:		
Profit for the year	5,709,481	5,540,365
Adjustments to reconcile operating profit to net cash generated from operations:		
Depreciation and Amortisation	847,276	813,835
Profit on sale of fixed assets	(6,294)	(5,996)
Reinsurance & Reserve Funds	18,900,432	6,060,120
Amounts due from companies on reinsurance accounts	(6,960,795)	(1,753,307)
Deposits retained by ceding companies	(5,863,965)	1,066,673
Sundry debtors, accrued interest & prepayments	717,655	474,854
Amounts due to companies on reinsurance accounts	8,875,863	3,720,398
Deposits due to retrocessionaires	64,521	100,936
Other creditors, accruals & provisions	(282,518)	1,148,105
	16,292,175	11,625,618
Net cash generated from operations	22,001,656	17,165,983
Adjustments for non-cash items taken to shareholders funds:		
Cumulative translation adjustment	5,145,244	(4,663,586)
CASH FLOWS FROM INVESTING ACTIVITY:		
Proceeds on sale of fixed assets	7,224	5,996
Purchase of fixed assets	(1,961,447)	(1,412,217)
Investments made	(22,795,100)	(8,953,695)
	(24,749,323)	(10,359,916)
CASH FLOWS FROM FINANCING ACTIVITY:		
Additional capital	1,123,091	1,306,145
Long term loan repaid	-	(500,000)
Dividend Paid	(258,701)	(47,681)
	864,390	758,464
Net increase in cash and short term maturities	3,261,967	2,900,945
CASH AND SHORT TERM MATURITIES:		
At 1st January	5,972,127	3,071,182
At 31st December	9,234,094	5,972,127

The accompanying notes form an integral part of this statement

Notes to the Financial Statements for the year ended 31st December 2002



NOTE 1

OPERATIONS

The African Reinsurance Corporation was established by member States of the Organisation of African Unity and the African Development Bank as an inter-governmental institution for the purposes of:

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

NOTE 2

ACCOUNTING POLICIES

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

(a) Revenue Recognition

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

(b) Underwriting Revenue Account and Reinsurance and Reserve Funds

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

(c) Currency Translation

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

(d) Investments

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

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

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

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

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

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

(e) Fixed Assets and Depreciation

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

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

(f) Debtors

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

(g) Retirement Benefit Obligations

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

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

(h) Management Expenses

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



Notes to the Financial Statements for the year ended 31st December 2002

NOTE 3

CASH AND SHORT TERM MATURITIES

The balances include an equivalent of **US\$ 6,593,380** (2001: **US\$4,212,000**) representing short term deposits in member States' currencies.

NOTE 4

INVESTMENTS

	2002 US\$	2001 US\$
• Equity participation		
unlisted equity investments	2,014,365	1,981,413
listed equity investments	1,765,485	-
	3,779,850	1,981,413
• Other investments		
bonds and other fixed income securities	10,706,040	12,932,279
short-term bank deposits	72,947,499	49,724,597
	83,653,539	62,656,876
	87,433,389	64,638,289

NOTE 5

FIXED ASSETS

	Fixed Assets in Progress US\$	Freehold & Leasehold Property US\$	Furniture Fittings & Equipment US\$	Motor Vehicles US\$	Total 2002 US\$	Total 2001 US\$
COST						
At 1st January	748,014	11,394,143	5,057,279	537,102	17,736,538	16,365,847
Additions during the year	1,674,351	15,151	222,815	49,130	1,961,447	1,412,217
Disposals during the year	-	-	(95,650)	(25,077)	(120,727)	(41,526)
At 31st December	2,422,365	11,409,294	5,184,444	561,155	19,577,258	17,736,538
DEPRECIATION						
At 1st January	-	548,025	2,120,595	439,743	3,108,363	2,336,054
Charge for the year	-	199,601	598,083	49,592	847,276	813,835
On disposals during the year	-	-	(94,720)	(25,077)	(119,797)	(41,526)
At 31st December	-	747,626	2,623,958	464,258	3,835,842	3,108,363
NET BOOK VALUE						
At 31st December	2,422,365	10,661,668	2,560,486	96,897	15,741,416	14,628,175

- Included in freehold property is an amount of US\$8.24 million, the cost of the Corporation's Headquarters building. The Corporation occupies 43% of the building and lets out the balance to third parties.
- Fixed assets in progress relates to the Nairobi Regional office building under construction.

Notes to the Financial Statements for the year ended 31st December 2002



NOTE 6

DIVIDEND PAYABLE

	2002 US\$	2001 US\$
Balance at 1st January	1,293,076	725,819
Proposed dividend	754,233	614,938
	2,047,309	1,340,757
Amount paid during the year	(258,701)	(47,681)
Balance at 31st December	1,788,608	1,293,076

NOTE 7

CAPITAL STOCK AND PAID-UP CAPITAL

- (i) At the 24th Annual Ordinary Meeting on 27 June 2002, shareholders approved a resolution:
- authorising the distribution of bonus shares to the current shareholders at the rate of one bonus share for each paid up share; and
 - offering the existing shareholders the right of first refusal to the 25% reserved for African investors on the share capital increase.
- (ii) The Authorised Capital of the Corporation is US\$ 100,000,000 made up of 1,000,000 Ordinary shares of US\$100 each.

- (iii) The paid-up capital is made up as follows:

	2002 US\$	2001 US\$
Capital allotted and subscribed	51,153,000	25,330,000
Called up and unpaid	(870,800)	(732,500)
Subscribed and paid-up capital	50,282,200	24,597,500

NOTE 8

GENERAL RESERVE

	2002 US\$	2001 US\$
Balance at 1st January	25,573,659	22,803,476
Transfer from profit & loss account	2,854,740	2,770,183
Applied for bonus issue	(17,756,813)	-
Balance at 31st December	10,671,586	25,573,659



Notes to the Financial Statements for the year ended 31st December 2002

NOTE 9

OTHER RESERVES

	Reserve for Exchange Fluctuation US\$	Reserve for Loss Fluctuation US\$	Total 2002 US\$	Total 2001 US\$
Balance at 1st January	4,794,238	2,600,000	7,394,238	6,694,238
Transfer from profit & loss account	500,000	200,000	700,000	700,000
Balance at 31st December	5,294,238	2,800,000	8,094,238	7,394,238

NOTE 10

CUMULATIVE TRANSLATION ADJUSTMENT

	2002 US\$	2001 US\$
Balance at 1st January	13,217,544	9,553,958
Translation adjustment for the year	(5,145,244)	4,663,586
Transfer from profit & loss account	(1,000,000)	(1,000,000)
Balance at 31st December	7,072,300	13,217,544

NOTE 11

REINSURANCE AND RESERVE FUNDS

These represent the underwriting results of the still open years and reserves for outstanding claims for the closed underwriting years respectively. The composition is as follows:

	Fire & Accident US\$	Marine & Aviation US\$	Life US\$	Total 2002 US\$	Total 2001 US\$
GROSS					
Reinsurance fund	60,155,575	25,019,690	1,499,145	86,674,410	56,890,332
Reserve for outstanding claims	24,326,032	5,806,302	3,304,696	33,437,030	31,804,212
	84,481,607	30,825,992	4,803,841	120,111,440	88,694,544
Less retrocessionaires' share in:					
Reinsurance fund	15,541,921	6,676,903	-	22,218,824	8,452,360
Reserve for outstanding claims	3,237,724	244,740	-	3,482,464	4,732,464
	18,779,645	6,921,643	-	25,701,288	13,184,824
Net reinsurance and reserve funds	65,701,962	23,904,349	4,803,841	94,410,152	75,509,720

NOTE 12

TAXATION

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

NOTE 13

RELATED PARTY TRANSACTIONS

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

NOTE 14

CAPITAL COMMITMENTS

Commitments in respect of approved capital projects at the end of the year amounted to US\$ 601,635 (2001: US\$2,189,619).

NOTE 15

CONTINGENT LIABILITIES

Contingent liabilities in respect of pending litigation and/or arbitration involving the Corporation for which no provisions have been made in these accounts amounted to US\$ 300,000 (2001: US\$ 2,090,000). However, the actions are being defended and the Directors are of the opinion that no material liability would arise therefrom.