



RATING RATIONALE

Rating Rationale: The ratings reflect Africa Re's strong competitive position within its core African markets, robust overall earnings and likely solid prospective risk-adjusted capitalisation. Offsetting factors remain the potentially unstable economic and political environments within a number of African markets, in addition to a marginal but improving level of enterprise risk management (ERM).

Strong competitive position - - Africa Re's network of six regional offices dispersed throughout Africa and a wholly owned subsidiary in South Africa gives the company access to business in all African Union member countries, as well as markets in the Middle East and Asia. Although South Africa accounted for around a third of Africa Re's gross premium income during 2008, A.M. Best is of the opinion that the company's portfolio is well diversified throughout the African continent and that the company maintains a strong competitive position in these core African markets. A.M. Best believes it likely that Africa Re will continue to encounter challenges whilst expanding into non-African territories due to the increased levels of competition and the company's less significant market profile, as was evidenced in 2008 with non-African business incurring an underwriting loss of around USD 2 million for the financial year.

Robust overall earnings - - Africa Re recorded a profit after tax of USD 20.4 million in 2008, down from USD 34 million in 2007. A.M. Best considers that despite the reduced overall performance, Africa Re is likely to continue producing robust profits in 2009 and 2010. Africa Re's profits have tended to rely heavily on investment returns and A.M. Best believes that this is likely to continue for at least the next two years. Underwriting profit for non-life business fell to USD 1 million in 2008 from USD 6.6 million in 2007 and is represented by combined ratios of 99% and 97.5% respectively. Life business made up only 3% of Africa Re's overall portfolio in 2008 yet generated a technical profit of USD 0.65 million. In A.M. Best's opinion, it is important that Africa Re improves its underwriting performance in 2009 and 2010 as further deterioration could potentially have a negative influence on the company's rating level.

Solid prospective risk-adjusted capitalisation - - A.M. Best believes that Africa Re's level of risk-adjusted capitalisation deteriorated slightly in 2008, although has remained at a level supportive of the current rating. In 2008, sizeable unrealised losses in exchange translation (the company holds assets/liabilities in many local African currencies although reports in USD's) in the region of USD 23 million has combined with other factors to decrease the company's level of adjusted surplus by around 5%. A.M. Best believes it likely that with the retention of a considerable proportion of profits and a controlled growth rate, Africa Re's level of risk adjusted capitalisation will return to more robust levels over the next two years. Africa Re is required to retain 50% of post-tax profits within its general reserve (which A.M. Best views as economic capital) and optionally retains a sizable proportion of remaining profits within the shareholders fund. A.M. Best believes that any further deterioration in Africa Re's level of risk-adjusted capitalisation is likely to create additional negative pressures towards the company's rating level. Additionally, A.M. Best believes that the potential financial support provided to Africa Re by five international development organisations gives the company a good level of financial flexibility.

Potentially unstable economic and political environments within a number of African markets - - Unstable political and economical environments are well documented throughout the African continent, Africa Re's core market. A.M. Best believes Africa Re's network of dispersed offices and its authorisation to operate from within any African Union country goes some way to neutralise the potential risk of business disruption. In addition to this, Africa Re maintains the majority of free assets in strong currencies.

Marginal level of enterprise risk management (ERM) - - Africa Re has been developing its ERM in recent years and corporation wide risk awareness appears to have increased markedly. Risks located at regional offices have been identified, as well as the impact of catastrophic events in more heavily exposed areas. A.M. Best believes that there is still improvement to be made before Africa Re has an understanding of its operational risks at comparable level to that of other international reinsurers. Further work is still required to generate an understanding of overall group risk exposure, as well as to internalise risk management functions and embed them within management's decision making process.

FIVE YEAR RATING HISTORY

<u>Date</u>	<u>Best's FSR</u>
06/03/09	A-
06/26/08	A-
07/09/07	A-
07/13/06	A-
05/26/05	A-
06/21/04	A-

CORPORATE OVERVIEW

Domiciled in Lagos, Nigeria, African Reinsurance Corporation ("Africa Re") maintains a strong competitive position throughout the entire African reinsurance market. Currently, Africa Re's shareholders includes 41 African member governments, 5 development financial institutions and a little over 100 other African insurance and reinsurance companies. Africa Re has access to its geographically diverse portfolio of business via regional offices in Côte d'Ivoire, Morocco, Kenya, Mauritius, Nigeria and Egypt, in addition to a sizable subsidiary in South Africa, African Reinsurance Corporation South Africa (Africa Re S.A.).

Africa Re S.A. is 100% owned by Africa Re and has a 70:30 whole account quota share reinsurance treaty with its parent, retaining only 30% of business in South Africa. The Group maintains a local currency (Rand) account in which payments from the subsidiary are made. Furthermore, the capital position of Africa Re S.A. is protected by an additional stop loss reinsurance programme with its parent.

CORPORATE STRUCTURE

<u>AMB #</u>	<u>COMPANY NAME</u>	<u>DOMICILE</u>	<u>%OWN</u>
83411	African Reinsurance Corp	Nigeria	
88693	African Reins Corp (ZA) Ltd	South Africa	100.00

BUSINESS REVIEW

Established in 1976, the African Reinsurance Corporation (Africa Re) has developed into a major regional African reinsurer. It is A.M. Best's opinion that Africa Re has established a strong business profile throughout the African continent and benefits from its close proximity to cedants via regional branch offices, in addition to an integrated network of contacts through its ownership structure.

The agreement establishing Africa Re as an African corporation requires insurance companies in every member state to offer 5% of all treaty business to Africa Re, with a refusal option on the part of Africa Re if particular risks are not in line with the company's portfolio mix. Despite this, Africa Re maintains a portfolio dominated by voluntary business, with the proportion of legal cessions remaining low, at around 10%. A.M. Best anticipates the proportion of compulsory business to remain at approximately 10% for each of the next two years.

Africa Re's business predominantly originates from within the African continent, although in 2008 the company developed its international profile by offering reinsurance to companies in both the Middle East and Asia. In 2008, gross premium income (GPW) from these regions increased by 273% (from a very small base) and 36% respectively, when compared to 2007 levels. Despite the rapid growth exhibited within these regions, A.M. Best anticipates that African business will remain a dominant and core aspect of Africa Re's overall portfolio for the foreseeable future. In 2008, African business accounted for USD 357.9 million (87%) of the company's GPW. Of Africa Re's African business, a significant proportion (32% of total 2008 GPW) emanated from South Africa, where the company manages its subsidiary operation, African Reinsurance Corporation South Africa (Africa Re S.A.). The remaining African business (55% of total 2008 GPW) is divided out relatively evenly between the regional offices already mentioned above.

A number of Africa Re's markets are classified at the higher end of A.M. Best's country risk scale and possess potentially unstable or unfavourable economical and political environments. A.M. Best however consider that Africa Re's network of dispersed regional offices and its authorisation to operate from within any African Union country goes some way to mitigate this. In addition, Africa Re also maintains the majority of free assets in strong currencies such as the USD and EUR.

Africa Re's overall portfolio as measured by GPW increased by 8.5% in 2008, and totalled USD 401 million. It was composed of the following lines of business (as a percentage of GPW): fire and engineering (42%), accident and motor (31%), marine and aviation (15%), energy (9%) and life (3%). Fire and engineering, energy and life lines made up a broadly similar proportion on

Africa Re's overall portfolio, when compared to 2007. There was however some change within the accident & motor and marine & aviation lines, which saw a 6% drop and a 5% increase respectively between the two years.

The volume of business emanating from South Africa decreased by around USD 35 million in 2008 from 2007. This was largely due to depreciation of the South African RAND against the USD, in which the company reports. On a local currency basis (RAND), premium income in fact increased by 9%. Africa Re S.A. is locally capitalised and enjoys a strong market position, with around a 20% of locally domiciled reinsurers' market share in 2007. The majority of business written at Africa Re S.A. is proportional (84% in 2008) and the company leads on around a quarter of its treaties. The South African subsidiary is allied with its parent via a 30:70 quota share reinsurance treaty in addition to a stop loss agreement. Africa Re S.A.'s business is made up largely of property/engineering (45% of GPW in 2008) and motor (39% of GPW in 2008) risks, although A.M. Best anticipates that in 2009 and 2010 the company will endeavour to reduce the weight of its motor business as a proportion of its overall portfolio. Considering that South Africa accounts for approximately 80% of all insurance premiums written throughout Africa, A.M. Best anticipates that it will remain of great consequence to Africa Re for many years to come.

Looking forward into 2009 and 2010, A.M. Best anticipates overall premium growth of between 5% and 10% for Africa Re. A.M. Best believes that South African, West African and East African markets are likely to experience higher growth rates relative to that of other African regions, with the likely reduction of business emanating from the Middle East. The glimmer of hardening markets in 2009 suggests the possibility of higher rates in subsequent years, especially for the more mature South African market.

FINANCIAL PERFORMANCE

Overall Earnings: A.M. Best believes that Africa Re's operating performance is likely to remain robust in 2009 and 2010, despite deterioration in 2008. The company reported a reduced profit after tax of USD 20.4 million in 2008 compared to USD 34 million in 2007. A.M. Best anticipates that overall earnings are likely to remain dependant on investment returns, given modest combined ratios in recent years.

Africa Re's return on equity (ROE) deteriorated to 9% in 2008, from 16% in 2007. A.M. Best believes it likely that with the improved underwriting performance anticipated in 2009, the ROE will recover to between 11% and 12%.

Underwriting Income: Africa Re's underwriting performance deteriorated in 2008 although remained at a profitable level. A non-life combined ratio of 99% in 2008 (compared to 97.5% in 2007) resulted in a technical profit of USD 1 million, while life business experienced technical profits of USD 0.65 million. Africa Re's underwriting gains were driven by technical profits of USD 17.1 million from the company's business in Africa (excluding South Africa) and offset by technical losses of USD 13.4 million from its South African operation and of USD 2.2 million from its Middle Eastern operations. The gradual deterioration of the company's technical performance over the last three years has been due to a gradually weakening loss ratio (67% in

2008, 65% in 2007, and 64% in 2006), while the company's expense ratio has experienced a minor improvement.

In A.M. Best's opinion, Africa Re's underwriting performance has remained at a modest level in 2008, with technical losses being experienced in the more mature and more competitive markets of South Africa and the Middle East. A.M. Best considers it essential for Africa Re to closely monitor its exposures in these regions and where necessary tighten underwriting controls. A.M. Best anticipates that improving risk management systems are likely to assist Africa Re in improving underwriting performance as they become more integrated into the company's management, although underwriting profits in 2009 and 2010 are expected to remain marginal.

Investment Income: Africa Re's overall investment income reduced by 41% in 2008 (compared with 2007) to USD 16.5 million. Net investment return (including gains/losses) in 2008 was 3.7%, compared to 7.1% in 2007. Investment income excluding gains and losses remained at a fairly healthy level of USD 26.8 million in 2008; however realised and unrealised losses of USD 10.3 million significantly affected overall returns.

A.M. Best believes that Africa Re has maintained a relatively conservative investment strategy during 2008 and 2009 and has not been unduly troubled by the global financial crisis. Although Africa Re has had some exposure to the dramatic falls in share prices, listed equities make up only around 5% of the company's investment portfolio. The remainder includes cash and deposits (66%), bonds (24%) and real estate (4%). A.M. Best anticipates that Africa Re is likely to report better investment returns in 2009 and 2010 in the range of 5% to 6%.

CAPITALIZATION

Overall Capitalization: A.M. Best believes that Africa Re's level of risk-adjusted capitalisation decreased in 2008 however has remained at a level supportive of the company's current rating. Africa Re's level of adjusted surplus decreased by around 5% in 2008, a key factor of which was a USD 23 million negative movement in the company's translation reserve (which accounts for unrealised exchange gains/losses when translating locally held assets and liabilities into USDs at the balance sheet date).

Looking into 2009 and 2010, A.M. Best anticipates that Africa Re's level of risk-adjusted capitalisation is likely to improve to a more robust level. A reduced overall growth rate in 2009 is likely to lessen pressures of increasing capital requirements, whilst at the same time the retention of profits within retained earnings and general reserve (for which 50% of annual profit must be allocated) is likely to increase levels of available capital. In future years, A.M. Best consider it necessary for Africa Re to closely monitor levels of capital and business growth and ensure that levels of risk-adjusted capitalisation do not diminish any further.

A.M. Best considers that Africa Re preserves a moderate level of financial flexibility, with five 'AAA' rated development financial institutions owning a 29% share of the company's capital. In

2007, authorised capital was increased from USD 100 million to USD 500 million and the company anticipates expanding its capital base to this level by 2015.

Africa Re's probable maximal loss (PML), which is deemed to be driven by an earthquake in South Africa, increased to USD 178 million in 2008 and is factored into A.M. Best's proprietary risk-adjusted capital model. A.M. Best believes that the catastrophic excess of loss cover that Africa Re retains is of a generally good quality and goes a long way towards mitigating the risk.

Reserve Quality: In A.M. Best's opinion, Africa Re's reserves are adequate and set in accordance with regulatory requirements. The company performs two methods for calculating reserves; firstly, with the use of case estimates with incurred but not reported (IBNR) provisions, and secondly, actuarial methods. The company adopts the higher reserve of the two methods. Reserves are reviewed independently by external actuaries, and are considered sufficient to meet the company's liabilities.

LIQUIDITY

Overall Liquidity: A.M. Best considers that Africa Re's overall level of liquidity remained at a solid level of 97% in 2008 and is likely to gradually increase to around 100% by 2010. A.M. Best does not anticipate any changes to Africa Re's investment allocation 2009 and 2010, with cash and deposits expected to make up around two thirds of invested assets in both years. Africa Re's bond portfolio maintains a duration of around three years, which A.M. Best judges to be sufficient to cover the company's liabilities.

MANAGEMENT

A.M. Best believes that Africa Re benefits from a management team with wide-ranging knowledge of regional and international insurance and reinsurance markets, in particular regarding all of Africa. The company's corporate governance is extensive, using good management information systems to maintain control over the regional office network throughout the African continent.

Africa Re's chief executive officer, Mr Bakary Kamara, has announced his prospective retirement in two years time. His future replacement, Mr Corneille Karekezi has been appointed to the position of Deputy Managing Director where he will spend his first year learning about the company. His second year will be spent working more closely with Mr Kamara before finally taking over in July 2011. Mr Karekezi comes to Africa Re from Societe Nationale d'Assurance du Rwanda (SONARWA), where he was employed from 1995 as Deputy Head of the Commercial Department before making his way into the position of CEO in 2008.

Africa Re has been developing its internal risk management procedures throughout the past two years and is on its way to establishing an integrated enterprise risk management (ERM) framework. An ERM unit which is to be headed by a Chief Risk Officer was established in 2008 as well as a risk committee served by senior executives. CRESTA forms are used to monitor exposure risks in South Africa, Kenya and Mauritius while EQECAT modelling is used to assess

earthquake risks in South Africa and Kenya. Furthermore, third party software and techniques have been used to identify potential insurance, credit, market, liquid and operational risks at regional offices and risk registers have been created to document them. A.M. Best notes, however, that there is still much work to be done and a fully integrated risk management framework is still some way off.

REINSURANCE

A.M. Best believes that Africa Re's retrocession programme is very good, both in its structure and in the security of the companies used. Africa Re purchases retrocession cover through a comprehensive excess of loss programme. Cover is bought separately for property, casualty, marine and aviation accounts from reinsurers who generally have an international rating of "A-" and above. The retrocession programmes enable the company to restrict its net retention to USD 10 million with the option of reinstatements at each layer.

In 2008 Africa Re's excess of loss cover for property risks increased to USD 175 million, following an increased PML identified through the company's risk management analysis. Africa Re has modelled its exposure to earthquake risks in South Africa and Kenya and to cyclone risks in Mauritius. The company's largest exposure is adequately covered by the company's extensive retrocession cover.