AFRICA RE

African Reinsurance Corporation

UAL REPORT & ACCOUNTS 2011

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Société Africaine de Réassurance

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AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
34TH ANNUAL ORDINARY MEETING
RABAT, MOROCCO, 21 JUNE 2012

AFRICARE/GA/36/245

AFRICAN REINSURANCE CORPORATION
SOCIETE AFRICAINE DE REASSURANCE
(AFRICA RE)

Honourable Representatives
General Assembly
African Reinsurance Corporation

Date: 21 June 2012

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 1 January to 31 December, 2011.

Please accept, Honourable Representatives, the assurances of my highest consideration.

MUSA EL NAAS
Chairman of the Board of Directors and General Assembly

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Africa Re Board of Directors

Mr. M. EL NAAS
Chairman

Mr. Y. ETEFFA
Vice-Chairman

Dr. A. MONEER

Mrs. M. DIOUF

Mr. B. TUEMMERS

Mr. I. N. LOBE

Mr. M. L. OULD NATY

Mr. H. BOUBRIK

Mr. K. MARAMI

Mr. F. DANIEL

Mr. J. BURBIDGE

Mr. B. NJAI

ALTERNATE DIRECTORS

Mr. Jadiah M. MWARANIA, Mr. Fathi S. BALA, Mr. Ali AL-ASHRY, Mr. Audace NSABIMANA, Mrs. Marie-Laure AKIN-OLUGBADE, Mr. Moussa DIAW, Mr. Hilali LARBI, Mr. Kamel MERAGHNI, Alj. Bala ZAKARIYAU, Mr. Patrick ANDRIAMBAHINY.

Chairman's Statement

The 34th Annual Report of the Board of Directors presents the African Reinsurance Corporation's consolidated financial statements for 2011, including the statement of financial position as at 31 December 2011 and the statement of comprehensive income for the financial year. It also includes the management report, the report of the external auditors to the shareholders and, for the first time, the reports on capital management, corporate governance and enterprise risk management.

Mr. M. EL NAAS
Chairman

During the year, the Corporation paid to exiting members of Management terminal benefits which were not yet fully provisioned. There was also significant inflation in some operating locations which led to an increase in the running cost. Finally a significant provision for bad debts was made in the South African subsidiary. Consequently, Management Expenses for the year amounted to US$31.28 million, representing a 15.46% increase over US$27.09 million incurred in 2010.

Gross written premium for the year grew marginally by 0.63% to US$631.49 million compared to US$627.53 million in 2010. This performance, which is far from the initial budget for the period, is mainly due to the depreciation of the major trading currencies which negatively impacted the Corporation's actual figures reported in US dollars. Indeed, the South African rand, representing 35% of our income, decreased by 22.03% against the US dollar on year-on-year basis, while the value of the Nigerian naira and the Kenyan shilling dropped by 6.78% and 5.45% respectively. Gross earned premium, after adjusting for the movement in unearned premium provision, stood at US$602.50 million compared to US$616.90 million in 2010.

Premium ceded to retrocessionnaires during the year totalled US$68.92 million as against US$53.13 million last year. The Corporation's retrocession policy remained the same as it continued to rely mainly on XL (excess of loss) covers for the regular risks assumed, while arranging special covers in respect of the major oil and petrochemical risks accepted.

Gross claims paid during the year under review amounted to US$283.96 million compared to US$322.86 million in 2010, representing a 12.04% decrease, which is commendable as international reinsurers were hit by unprecedented catastrophes during the year. Consequently, the net claims ratio dropped from 54.63% in 2010 to 49.48% in 2011. Adjusting for the movement in outstanding claims, including IBNR (incurred but not reported) claims, the net incurred loss ratio stood at 58.47% in 2011 compared to 61.58% last year, an encouraging performance.

The continuous rigorous risk selection policy, which resulted in an improved loss ratio, enabled the Corporation to post a Net Underwriting Profit of US$46.22 million for the year compared to US$37.00 million in 2010, representing a very impressive 24.91% increase.

Income from investment and other sources, including interest on reinsurance deposits and realized losses on exchange, amounted to US$26.21 million compared to US$31.14 million reported in the previous period, representing a 15.82% decrease despite a soaring of the Corporation's invested funds. This decrease is due to the prevailing low interest rates, the volatile financial market and uncertain global economy.

Shareholders' funds as at 31 December 2011 stood at US$482.13 million as against US$343.67 million in 2010, representing a 40.29% increase as a result of fresh capital injected in the Corporation in 2011 amounting to US$102.96 million and the retained earnings for the period.

There were real risks in 2011 such as a weak global economy, slow down in activity, continuous financial instability, signs of hyperinflation, sovereign debt and banking sector challenges in the euro zone, natural catastrophes and surge in oil price, etc.

There was no greater challenge to the global economy than the downgrade of the U.S. debt rating, for the first time, by S & P early in August 2011. The 4% growth in the global economy in 2011 was lower than the 5.1% recorded in 2010, and reflected a very difficult year. This performance would have been worst but for the very good showing of the emerging and developing economies which compensated for the very low growth of the developed economies especially the USA and Europe.

The accommodative monetary policy in most of the advanced economies and the efforts to avoid the collapse of the euro zone helped the global economy from going into recession. However, it will certainly require continuous efforts to achieve the much expected rebound.

Despite the slowdown in the global economy, the African continent remained resilient with an annual real GDP growth rate of 5.2% well above the 1.5% witnessed in advanced economies and slightly lower than the 6.4% recorded by the emerging and developing economies in the same period.

The Reinsurance market was hit in 2011 by huge losses from catastrophes which occurred mainly in Asia and the U.S.A. Many reinsurers therefore recorded higher combined ratios, from 96.2% to 110.5% averagely, driven mainly by the catastrophic losses of the first two quarters of the year. However, due to strong risk-adjusted capitalization and improvement in enterprise risk management practices, international reinsurers showed surprising resilience and stability.

Africa Re, whose core market Africa was preserved from major catastrophes, recorded the best underwriting result amounting to US$46.22 million, 24.91% higher than the underwriting result in 2010. This performance is due to the continuous efforts by Management and all production centres to focus on profitability, especially in previously loss making locations like the South African subsidiary. The good results obtained in all the classes and markets offset the low growth (0.63%) in premium income following the depreciation of the major local currencies and the unrest in North Africa and Côte d'Ivoire. The gross premium income of US$631.49 million is significant as Africa Re featured in the 2011 Standard & Poor's list of Top 40 Global Reinsurance Groups. In addition, it is worth noting that the Corporation has crossed for the first time the threshold of US$1 billion in total assets to reach US$1.13 billion at the time it celebrates its 35th Anniversary in 2011.

During the period under review, the Corporation met its production targets in local currencies, surpassed its net profit targets, and equally fulfilled its mission of developing the insurance and reinsurance sectors in Africa through the provision of insurance underwriting capacity, strong reinsurance security and participation in various initiatives aimed at raising technical capacity in the markets. Thus, the Corporation organized many technical training sessions for insurers, sponsored various seminars and conferences, launched the underwriting of Islamic insurance risks through the Africa Retakaful subsidiary, officially opened the Addis Ababa (Ethiopia) Local Office in June 2011 and continued to improve its enterprise risk management by introducing new systems and tools to monitor and manage different types of risks.

The Board of Directors held three meetings during which key decisions were taken. The decisions made were technical (adoption of the retrocession programme, review of the underwriting guidelines implementation), financial (review of the investment policy implementation and approval of investment projects) and with regard to human resources (reinforcing the policy of attracting, recruiting and retaining highly skilled insurance/reinsurance professionals). The Board pursued the 4th capital increase process which brought in additional funds of US$102.96 million. It is expected that this exercise will be successfully completed by the end of 2012, leaving the Corporation with a strong paid-up capital of US$300 million and shareholders' funds close to US$600 million. Thus, the Corporation will be well poised to finance its growth in the coming years.

Mr. Bakary KAMARA, former Group Managing Director / Chief Executive Officer was allowed to take his well-deserved retirement after a long period in the service of the Corporation while Mr. Ganiyu MUSA, former Deputy Managing Director Services, left the Corporation following the expiry of his term. The Board of Directors would like to express its sincere gratitude to Mr. Bakary KAMARA for his immense contribution to the Corporation's growth and success over the last three decades.

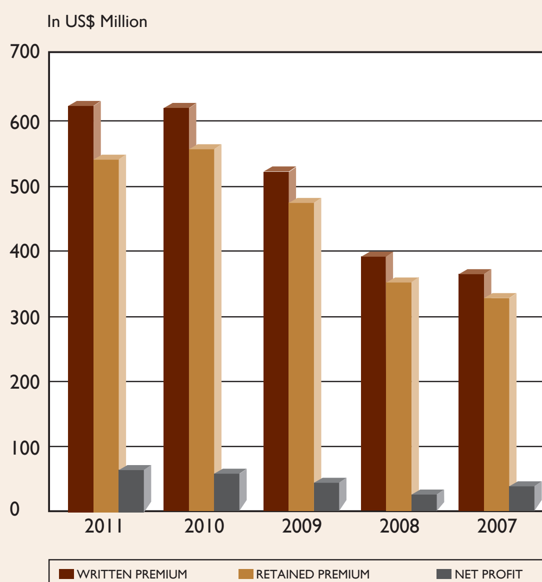
Mr. Corneille KAREKEZI, Deputy Managing Director / Chief Operating Officer until 30 June 2011, took up the office of Group Managing Director / Chief Executive Officer on 1 July 2011, as earlier planned by the Board of Directors, after a successful and smooth two-year transition period. He was replaced in the position of Deputy Managing Director / Chief Operating Officer by Mr. Ken AGHOGHOVBIA who, until 30 June 2011, was the Regional Director of Anglophone West Africa Region and has served the Corporation for 24 years.

Finally, Standard & Poor's and A.M. Best rating agencies renewed the A – rating with stable outlook for Africa Re, thereby reaffirming the strong financial position and proven best practices at a time when many other international reinsurers were downgraded or found their ratings put on watch.

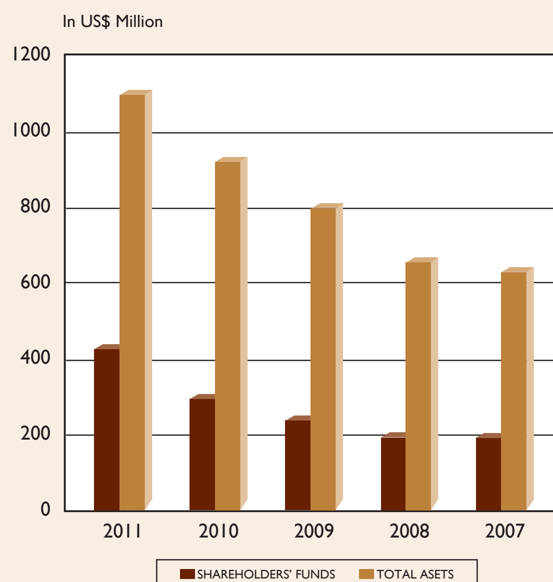
Financial Highlights

In US$ '000	2011	2010	2009	2008	2007
RESULTS					
WRITTEN PREMIUM	631,490	627,532	536,382	401, 041	369,512
RETAINED PREMIUM	554,746	569,700	487,150	365,176	335,716
EARNED PREMIUM (NET)	533,580	563,783	466,416	357,897	329,686
NET PROFIT	69,199	64,863	44,301	20,406	34,048
FINANCIAL POSITION					
SHAREHOLDERS' FUNDS	482,130	343,674	280,399	223,720	230,802
TOTAL ASSETS	1,137,383	958,367	836,017	686,857	668,566

RESULTS
2007 - 2011



FINANCIAL POSITION
2007 - 2011



Africa Re Management Team

EXECUTIVE MANAGEMENT

Mr. C. KAREKEZI
Group Managing Director / CEO

Mr. K. AGHOGHOVBIA
Deputy Managing Director / COO

CENTRAL DIRECTORS

Ms. E. N. AMADIUME
Director of Central Operations & Special Risks

Mr. M. ALI-KOTE
Director of Administration & Human Resources

Mr. I. UDUMA
Director of Internal Audit

Mr. M. KANTE
Director of Information & Communication Technology

Mr. S. M. KABA
Director of Technical Inspection & Enterprise Risk Management

Mr. S. KONE
Director of Finance & Accounts

Mr. R. BONG BEKONDO
Assistant Director, Corporate Secretariat

REGIONAL DIRECTORS AND LOCAL REPRESENTATIVE

Mr. D. DE VOS
Managing Director, Africa Re South Africa

Mrs. E. MBOGO
Regional Director, Nairobi

Mr. O. GOUDA
Regional Director, Cairo & Managing Director, Africa Rekataful

Mr. A. MAHMOUD
Ag. Deputy Director, Technical Operations, Lagos

Mr. M. KANNOU
Regional Director, Casablanca

Mr. O. N'GUESSAN
Regional Director, Abidjan

Mrs. M. A. SANON
Regional Director, Mauritius

Mr. S. BELAY
Local Representative, Addis Ababa

I. ECONOMIC & TRADE ENVIRONMENT

Global Economy: Continuous Slowdown

Nearly three years after the 2008 crisis, global economic activity weakened significantly in 2011. The weak global output growth of 3.8% during the year, compared to the 5.2% recorded in 2010, is mainly as a result of the low growth in advanced economies and fragilities elsewhere. The U.S. economy continued to struggle with a sluggish growth, long and difficult job recovery, fiscal uncertainty and low consumer and business confidence. However, the U.S.A. real GDP growth of 1.8% was slightly higher than the 1.6% recorded by the Euro zone which battled huge public deficits and debt, lower potential output and growing market tensions.Throughout the year, policymakers strived to adopt new measures in the zone to gain market credibility but the efforts were less effective to bring back confidence without an increased common management of macroeconomic, fiscal and financial policies. Outside the Euro area, many economies of Central and Eastern Europe (average growth: 5.1%) enjoyed a fairly strong rebound from their deep recession.

The slowing global economy was boosted by the Developing Asian economies and to some extent sub-Saharan Africa, Latin America and the Caribbean with average growth rates of 7.9%, 4.9% and 4.8% respectively. Growth remained particularly strong in Asia with China (9.2%) and India (7.4%) being the locomotives of the world. The Commonwealth of Independent States - former Soviet Republics, including Georgia and Mongolia - (average growth: 4.5%) did fairly well while the Middle East and North Africa (average growth: 3.1%) performed below the world average.

Fiscal challenges in advanced economies negatively affected the world economic activity. Things could have been worse but for resurgent commodity prices, accommodative policies, strong credit growth and strong growth in the emerging and developing world. The mood continued to deteriorate quarter by quarter during the year and all economies have been revising down their growth estimates. As the slowdown in major advanced economies was not showing any possible reversal, the pressures on external demand were high and the risks about the world economy were on the downside (estimated growth in 2012: 3.3%) according to the IMF World Economic Outlook released in January 2012 and entitled 'Global Recovery Stalls, Downside Risks Intensify'.

African Economies: Resilience and Hope in Turbulence

Sub-Saharan Africa continued to grow at a strong pace (average growth: 4.9% against 5.3% in 2010) with some economies doing better than in 2010 (Angola, Equatorial Guinea, South Africa, Cape Verde, Ghana, Cameroon, Uganda) or reaching even growth rates close to their pre-crisis averages. However, risks of downside became increasingly real as the global economy continued to struggle. It is acknowledged now that African countries with strong policy and institutional frameworks would be better prepared to face the commodity price swings and to find internal and regional resources to support the growth and weather the global downturn.

North Africa suffered from commodity price movements and social or political unrest. The unstable and uncertain political and security situation, combined with growing risk of decrease in the external demand, characterized the North African economies during the year 2011. The economic growth slowed down in the Maghreb (average growth: 2.9% against 3.5% in 2010), Egypt (1.2% against 5.1% in 2010) and Sudan (- 0.2% against 6.5% in 2010). Only Morocco witnessed an improved growth of 4.6%. It is believed that the short-term outlook in this region would remain uncertain if macroeconomic stability is not preserved, social cohesion restored and unemployment rates improved.

However, despite the expected global activity slowdown and possible political risks in some African countries, analysts are upbeat about the performance of African economies which is expected to remain resilient in 2012 with a projected growth of 6.8% from 5.4% in 2011.

Financial Markets: Low and Volatile

In 2011, European Union debt crisis overshadowed the global economy with worries about a possible extension of sovereign debt challenges (Greece, Ireland and Portugal) into much larger economies of Italy, Spain and even France. Fears over an eventual collapse of the Euro zone, austerity measures in many European countries, decline of banks total assets leverage, fiscal challenges in the U.S., rating downgrade or watch of many European economies, banks, insurers, etc. contributed to crimp the economic growth, and to drain investors of business confidence in the near future.

In addition to the above gloomy picture of the global economy there was a policy of low interest rates (0.25% for the U.S. Federal Funds Rate since December 2008, 0.5% for the UK Bank Rate since March 2009, 1% for the European Central Bank Main Financing Rate since December 2011). Designed as a measure to promote economic recovery, this policy brought investment returns to their lowest levels while volatility and uncertainty spread to financial markets around the world.

Government bond yields, which had started to pursue an upward trajectory in the last quarter of 2010, returned quickly to a downward trend in the face of worries about the health of the global economy. Government bond yields dropped to around 0.8% in the Euro zone and the U.S. and to around 0.35% in Japan, pushing investors to rush to corporate bonds, even to those lowly rated.

Equity markets followed the same trend for the same reasons as for the bonds. Although the U.S. markets recovered from the lows reached in the first quarter of 2009, the recovery was not sufficient to convince investors of better times ahead. The S&P 500 Index closed the year 2011 with a clear surge. The Eurotop 100 (down by 14%) and the UK FTSE 100 (down by 9%) closed on the downward trend while Japan Nikkei Index lost 18% over the period. South African JSE All Share Index performed well during 2011 and closed at the same levels of year end 2008, which was good news for Africa Re amid a litany of financial market woes.

The weakness, volatility and uncertainty of major financial markets impacted negatively on international reinsurers, mainly those with EU sovereign debt exposure. The Corporation's investment income was down 15.82% over last year despite significant increase (17.29%) of investable funds from US$688 million to US$807 million at the end of the year.

Reinsurance Market: Heavy Losses, Stronger and Stable Reinsurers

The year 2011 was in many ways very bad for property / casualty insurers and reinsurers. Surprisingly, heavy catastrophe losses hit the industry even where they were not expected, in the previously called "cold spots". It is believed that the earthquake and tsunami in Japan (above US$35 billion insured losses), the earthquake in New Zealand, the floods in Thailand and other natural perils caused over 30,000 deaths and US$350 billion total economic losses compared with US$226 billion in 2010. Insured catastrophe losses of above US$103 billion could be the costliest year for the industry.

Despite the heavy catastrophe activity and insured losses, which raised the industry average combined ratio from 96.2% in the third quarter of 2010 to 110.5% in the third quarter of 2011, international reinsurers remained resilient and stable during these hard times as a result of strong risk-adjusted capitalization (only 4% decrease in shareholders' funds in 2011), prudent enterprise risk management and some improvement in the pricing environment.

Experts believe that a cycle shift has started in the industry and prices are expected to selectively rise - especially in regions where there were commonly no large loss events in the past - due to high loss activity and other pressures on earnings like the low financial markets and threat to the global economy. However, many do not expect a uniform traditional hard market, but a modest rate improvement unevenly spread in the markets.

The global reinsurance industry has maintained a stable outlook for 2012, from major rating agencies,

despite the uncertainty of the pricing improvement level, the low investment return environment and the limitations of the reserves release to support future earnings. Supporting the stable rating are the strength of surplus capital and enterprise risk management capabilities.

Regulation: Uncertainty Remains

Regulation is believed by many experts to be another big issue weighing down on the insurance and reinsurance industry in the years to come. As the implementation deadline approaches, insurers and reinsurers are bracing to face the new requirements of sophisticated risk management, possible capital increase and high compliance cost.

There was considerable uncertainty at the end of 2011 about timing of Solvency II implementation scheduled in Europe, and the exact impact it will have on the insurance and reinsurance industry. Furthermore, it is still not sure that the key principles of Solvency II will be fully achieved: simplicity, principle-oriented, maintaining common accounting policies and neutral impact on global competitiveness.

Africa Re South Africa Ltd., a subsidiary of Africa Re Group, is well prepared to meet the requirements of Solvency Assessment and Management (SAM), the South African new regulatory regime which will seek equivalence to European Solvency II. The full implementation of SAM was recently postponed to 2015 to wait for the effective implementation of Solvency II in Europe by 2014.

Africa Re in 2011: Improved Profitability and Capital Strengthening

Despite a low growth of premium income (0.63%) and weak financial markets (15.82% drop in investment income), Africa Re achieved in 2011 its best ever underwriting profit (US$46.22 million) and its best ever net profit (US$69.19 million), due to a low loss experience and improvement in enterprise risk management practices.

The Corporation had a commendable performance with a return on equity of 16.77% and a combined ratio of 91.3%, much higher than the international reinsurers' pre-tax return on equity of 3.3% and combined ratio of 110.5% through nine months of 2011. This performance is a result of consistent prudent underwriting and a strong business model which remained resilient despite social and political unrests in Tunisia, Libya, Egypt and Côte d'Ivoire, coupled with rising inflation and weak local currencies in many parts of the African continent.

Finally, the success achieved in the 4th capital increase process, is testimony to the confidence investors and markets have in the future of the Corporation. Indeed, at the end of 2011, more than 70% of the new capital has already been raised from the existing shareholders before they are entitled to take up additional new shares and before new investors are contacted.

Outlook 2012: Prepared and Bracing Up for Better Conditions

The strong capitalization, which is expected to significantly rise in 2012, will certainly increase the Corporation's capacity to grow by offering higher underwriting limits and better security.

Africa Re, with its traditionally strong presence in core markets, is well positioned to maintain its market leadership and seize new opportunities.

Although potential negative scenarios exist in the global economy and in the financial markets, there are hopes that African economies, and more importantly the African insurance industry, will perform better in 2012. Therefore, based on the successful January renewals, Africa Re Management does not expect a major slowdown of its business operations and expect to deliver usual good operating performance levels.

Depending on the performance of the global finance market in 2012 and the performance of African currencies compared to the US dollar, as well as the situation of the global economy and socio-political stability on the African continent, Management believes that projected earnings shall reach good levels, commensurate with the increased capital of the Corporation.

II. OPERATIONS

This section reviews the Corporation's operating results for the year 2011 and compares this with the performance of 2010.

Africa Re's physical presence through a network of offices in strategic locations on the continent has contributed immensely to building durable partnerships in every insurance market in Africa. Consequently, the corporation has direct access to a good spread of quality business which together with well laid out and responsive guidelines, has resulted in a consistently profitable portfolio.

As a result of Africa Re's culture of excellence and best practices clearly demonstrated in all its six regional offices, two subsidiaries and local office, the Corporation is in a unique position among competitors in the continent to take advantage of emerging business opportunities in Africa and to a lesser extent, Asia and the Middle East.

Acceptances in the Corporation are classified along the following business lines:

- Fire & Engineering
- Accident & Motor
- Oil & Energy
- Marine & Aviation; and
- Life

With the aid of modern information and communications technology, the Corporation operates from the following production centres reaching every market in the continent and an increasing number of territories in Asia and the Middle East.

Six regional offices:

- Lagos, Nigeria: Anglophone West Africa and Pools;
- Abidjan, Côte d'Ivoire: Francophone West and Central Africa;
- Casablanca, Morocco: Maghreb;
- Cairo, Egypt: North East Africa and the Middle East;
- Nairobi, Kenya: East and part of Southern Africa; and
- Ebene, Mauritius: African Indian Ocean Islands and Asia

Two subsidiaries

- Johannesburg, South Africa :South Africa and neighbouring markets, handled by the subsidiary, African Reinsurance Corporation (South Africa) Limited;
- Africa Retakaful, wholly owned subsidiary, operates since 1st September 2010.

One local office

- Addis Ababa, Ethiopia.

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

DESCRIPTION (US$000)	2011			2010		
	GROSS	RETRO	NET	GROSS	RETRO	NET
INCOME						
Premium (less cancellations)	631,490	(76,744)	554,746	627,532	(57,832)	569,700
Change in unearned premium provision	(28,988)	7,822	(21,166)	(10,623)	4,706	(5,917)
Earned premium	602,502	(68,922)	533,580	616,909	(53,126)	563,783
OUTGO						
Losses paid	283,962	(9,460)	274,502	322,859	(11,608)	311,251
Change in outstanding claims provision (incl. IBNR)	41,778	(4,284)	37,494	35,708	237	35,945
Incurred losses	325,740	(13,744)	311,996	358,567	(11,371)	347,196

Premium Income

During the year under review, the Corporation's written premium income of US$631.49 million marginally exceeded the 2010 production of US$627.53 million by 0.63%. Most African currencies depreciated against the US dollar, the most remarkable being the South African Rand which depreciated by 22.03%. In the African Indian Ocean Islands, the Seychelles rupee, the Madagascar ariary and the Comoros franc depreciated against the US dollar by 11.46%, 5.03% and 3.34% respectively. In Anglophone West Africa, the Nigerian naira and the Ghana cedi fell by 6.78% and 10.33% respectively, while in the predominantly Francophone West & Central Africa, the common currency (CFA franc) used in most territories fell by 3.34%. Virtually all the currencies in East Africa depreciated against the US dollar. The main currencies are the Kenyan shilling (5.45%), Ugandan shilling (7.38%), Tanzanian shilling (5.12%), Malawi kwacha (8.61%), Zambian kwacha (6.77%), the Ethiopian Birr (4.00%). In North Africa, apart from the Libyan dinar that appreciated slightly, the others depreciated against the reporting currency. They are the Egyptian pound (3.89%), Tunisian dinar (4.55%), Moroccan dirham (2.72%) and the Algerian dinar (2.15%). All the movements in currencies translated into a net exchange loss of US$63.18 million.

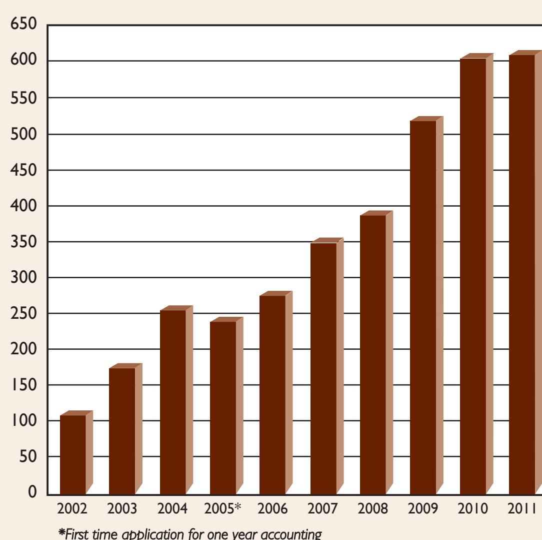
At constant exchange rates, the corporate premium income exceeded 2010 income by 10.70%.

Development of Gross Premium

In 2002, the Corporation finally joined the league of reinsurers with turnover in excess of US$100 million by posting a gross written premium income of US$126.97 million. Since then, Africa Re has witnessed a remarkable growth in production income, attaining a commendable US$631.49 million in 2011. The following factors were responsible for this advancement. First, the African economy grew in the last decade by 6.7% p.a and was one of the drivers of the global economy (growth: 4.3% p.a). In fact, the African economy is expected to continue to be strong with an average growth of 6.2% per year for the next five years, while the combined economic growth of the seven most advanced nations is projected at 3.3%. Africa's present and future growth stems from the relative political stability in the continent, greater attention to governance issues and the anticipated post conflict economic recovery in Northern Africa. It is expected that 80% of African countries would achieve a GDP growth of at least 5% annually in the next five years. During this period, most insurance markets should be fully deregulated and liberalised with regulations that ensure a viable, transparent and proactive industry. Therefore, the Corporation which has reaped the benefits of the economic boom of the last decade should continue to enjoy greater patronage because of its distinct proximity to cedants in Africa. Second, as the world faces a sustained economic turbulence in addition to losses of catastrophic proportions, the need for proven quality securities has never been more urgent. Africa Re with its A-rating by AM Best and S & P continues to be the reinsurer of choice in the continent as insurance operators increasingly seek scarce quality reinsurance protection to place their clients' business.

Despite a year which witnessed deep political crises in the Middle East and North Africa (MENA) region and Côte d'Ivoire, coupled with the depreciation of most African currencies against the US dollar culminating in an income loss of US$63.18 million, Africa Re was still able to produce a decent turnover without compromising its professional standards in conducting its renewals across all production centres. In summary, the factors mentioned above aided by a hands-on Management initiative continues to ensure Africa Re's enviable position in the continent.

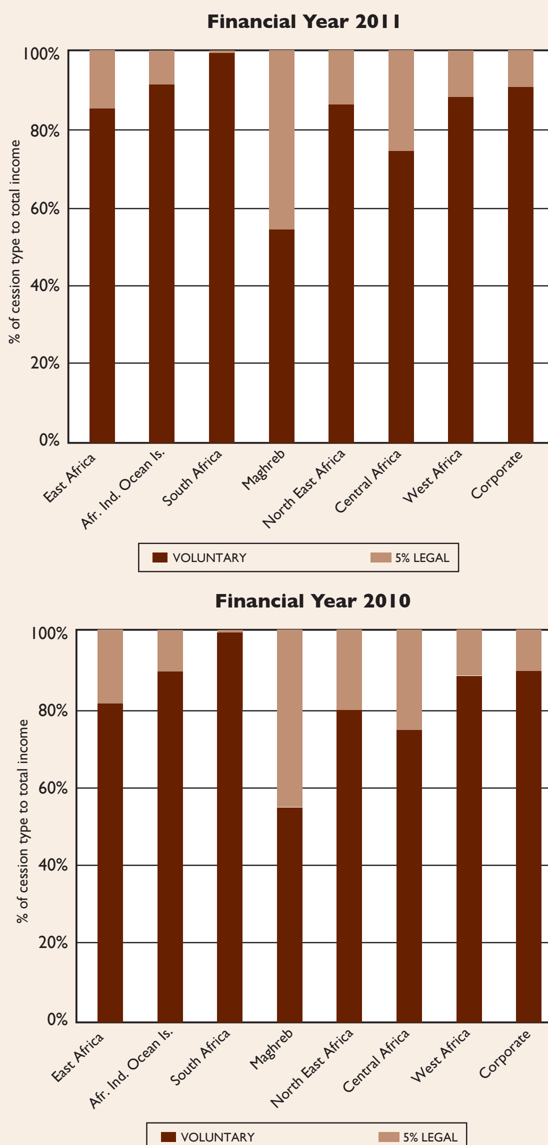
Development of Gross Premium Income in US$ millions



First time application for one year accounting

Voluntary Cessions

Apart from a few State-owned reinsurers operating mainly within their own shores prior to Africa Re's formation in 1976, the African reinsurance landscape was dominated by financially strong foreign players with long ties to the continent. Foreseeing the reluctance of cedants accepting a new pan-African entity, especially since past working relationships had so far served them well, the 36 founding member States therefore introduced the concept of legal or compulsory cessions. Africa Re's dependence on these cessions continued to reduce over the years. While compulsory cessions made up 27.42%of the total production ten years ago, it is presently 8.27% as a result of the development of Africa Re into a reputable international organisation.



GEOGRAPHICAL DISTRIBUTION

Africa Re continues to spread its tentacles through its network of offices to reach over 50 African markets from its six regional offices, two subsidiaries and a local office.

In September 2010, Africa Re opened a new subsidiary, the Africa Takaful Reinsurance Company in Cairo. Africa Retakaful, which commenced operations in January 2011, provides sharia'a compliant Retakaful products to Islamic-based primary Takaful companies in the continent. The Corporation also set up a local office in June 2011, to operate in Addis Ababa Ethiopia under the East Africa Regional Office based in Nairobi.

Southern Africa

Since 2004, the African Reinsurance Corporation, South Africa Ltd (ARCSA), has overseen operations in Angola, Mozambique, Botswana and the rand zone from Johannesburg. During the period, the Subsidiary played an active role in the continent's largest insurance market (South Africa contributes 78.64% of the continent's direct insurance premium income -2009 premium income statistics). Though ARCSA presently writes only non-life business in South Africa, it has been consistent as the highest income contributor to the Corporation. The turnover fell from US$260.79 million or 41.56% in 2010 to US$232.10 million or 36.75% of corporate premium income in 2011. The reduction in income was essentially due to the depreciation of the Rand by 22.03% (US$48.74 million). In original currency, ARCSA's 2011 income surpassed the 2010 figure by 8.61%.

East Africa

Production from this region increased from US$76.57 million in 2010 to US$94.78 million in 2011, representing a growth of 23.78%and 15.01% of the corporate income. This performance was driven by increased voluntary acceptances in every class of business from Kenya, Ethiopia, Tanzania, Uganda and Zimbabwe, despite currency fluctuations translating into a loss of US$4.31 million.

Anglophone West Africa

The income from this region was US$94.66 million in 2011, resulting in an increase of 5.77%over the 2010 figure of US$89.49 million. The income represents 14.99% of the corporate production and was achieved despite the depreciation of the Nigerian naira and Ghanaian cedi against the United States dollar by 6.78% and 10.33%respectively leading to exchange losses amounting to US$3.39 million. The growth in 2011 was due essentially to increased acceptances from facultative energy and fire/engineering classes, which more than covered up for the loss in income from Aviation and Marine hull.

Maghreb

The income from the Maghreb fell from US$56.05 million in 2010 to US$51.27 in 2011 due to political unrest and currency depreciations in the region. The negative impact of currency fluctuations amounted to US$1.17 million, while the effect of the conflict in Libya caused Africa Re's income to dip by US$6.12 million. At year end 2010 exchange rates, the growth from Algeria, Morocco and Tunisia amounted to just US$1.40 million, US$0.54 million and US$0.57 million respectively.

North East Africa

The domestic production from the Cairo Regional Office (US$38.45 million) was less than the previous year by US$5.38 million. The reason for the reduction in income is the transfer of the whole Sudanese portfolio and part of Egyptian business to the newly created Africa Retakaful Company. In fact, the income could have been higher but for the rate of exchange loss of US$1.19 million as well as the impact of the Egyptian unrest.

Francophone West and Central Africa

The Abidjan Office is responsible for this predominantly French speaking region of West and Central Africa and including Portuguese speaking Guinea Bissau and Cape Verde. The turnover was US$41.97 million compared with last year's US$34.24 million representing 6.65% of corporate production. The impact of the political violence in Côte d'Ivoire on Africa Re's production, following the November 2010 presidential election was hardly noticeable due to the following reasons. First, facultative energy acceptances from Cameroon, Equatorial Guinea & the Republic of Congo and Fire/Engineering treaties from Burkina Faso increased this year's income by US$10.59 million, compensating for the US$4.48 million fall in turnover from Togo, Senegal, and to a lesser extent Mali and Chad. Second, most insurance and reinsurance renewals had been concluded in Côte d'Ivoire - the largest market in the region, before full scale political violence ensued. Therefore the income from Côte d'Ivoire marginally exceeded last year's figure by US$0.41 million. The impact of the depreciation of the CFA franc on the region's turnover was marginal at US$0.71 million.

African Indian Ocean Islands

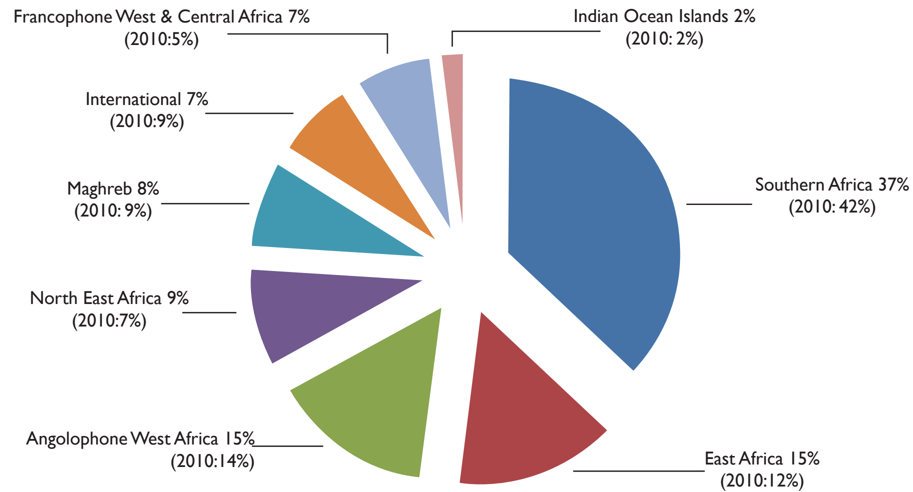
This Mauritius Regional Office increased its domestic production from US$13.42 million in 2010 to US$13.93 million in 2011 representing 2.21% of the Corporation's turnover. The slight increase in income was due mainly to the appreciation of the major trading currency, the Mauritian rupee by 2.65%, though the other currencies, Seychelles rupee, Malagasy ariary and the Comoros franc depreciated against the US dollar by 11.46%, 5.03% and 3.34% respectively.

Africa Retakaful

In its first year of operation, the turnover was US$18.75 million out of which 96.56% of the income emanated from Sudan. While other African countries made up 2.45% the balance of 0.99% came from the Middle East. The subsidiary which was in its first financial reporting year, lost US$2.26 million as a result of the first-time premium and claims reserves without previous year reserves.

International Business

Africa Re's international income fell from US$53.13 million in 2010 to US$45.03 million in 2011. The reduction in business was due to the ongoing policy to cleanse the international portfolio of loss making business. Thus, the Middle East production of US$22.80 million was a US$10.72 million reduction over last year's turnover, while income from Asia increased from US$17.10 million to US$22.80 million despite exchange losses of US$1.72 million.

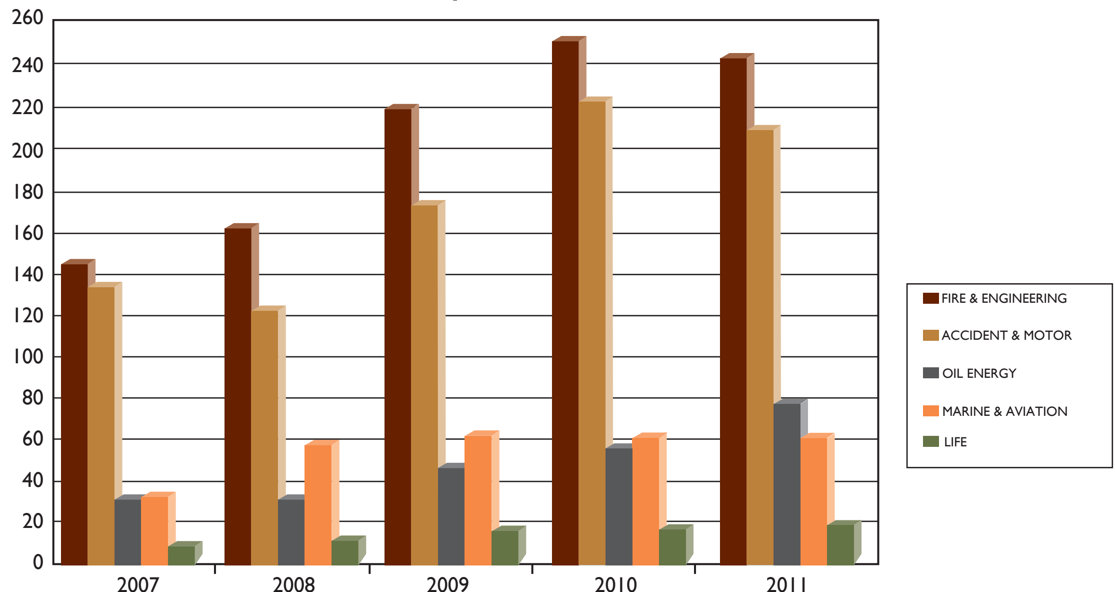


SECTORAL DISTRIBUTION

The Fire and Engineering classes continued to produce the highest turnover with US$247.91 million representing39.26% of corporate turnover as against US$255.96 million or 40.79% in 2010.This was followed by the Accident and Motor classes which stood at US$210.80 million or 33.38% of corporate income (2010: US$228.49 million or 36.41%).

For the first time, the Oil & Energy classes outperformed the Marine and Aviation classes with a production of US$84.67 million or 13.41% of turnover (2010: US$58.34 million or 9.30%). The hike in income over the preceding year was due mainly to acceptances from Nigeria, Egypt, Equatorial Guinea and Cameroon.The Marine and Aviation classes was fourth with US$62.47 million or 9.89% (2010: US$64.12 million or 10.22%) while the Life class followed with US$25.64 million or 4.06% of corporate production (2010: US$20.63 million or 3.29%).

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



TECHNICAL EXPENSES

Losses

The total claims paid decreased from US$322.86 million in 2010 to US$283.96 million in 2011. The claims paid ratio reduced from 51.45% in 2010 to 44.97% in 2011. Incurred losses which further includes movement in outstanding claims provision (US$41.78 million as against US$35.71 million in 2010), amounted to US$325.74 million (US$358.57 million in 2010).

The following table provides insight into the above mentioned indicators.

Gross Loss Ratio by Class - Financial Year 2011

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/Eng	114.52	218.6	52.39%	20.04	21.55	93.00%	134.56	240.15	56.03%
Accident/Motor	123.73	195.72	63.22%	4.05	6.95	58.40%	127.78	202.67	63.05%
Energy	23.26	70	33.23%	3.69	4.82	76.50%	26.95	74.82	36.01%
Marine & Aviation	18.52	50.42	36.73%	7.59	10.56	71.80%	26.11	60.98	42.81%
Life	10.12	23.7	42.72%	0.22	0.18	123.10%	10.34	23.87	43.32%
Total	**290.15**	**558.44**	**51.96%**	**35.59**	**44.06**	**80.80%**	**325.74**	**602.5**	**54.06%**

Loss Experience by Trading Area

The policy to stop writing unprofitable businesses in the South African production centre is finally paying off with a second year of relatively good claims experience. The gross incurred loss ratio for the run-off and subsidiary reduced from 65.34% in 2010 to 61.82% in 2011, while the net incurred loss ratio also reduced from 66.96% to 63.94% during the same period.

The incurred loss ratio of the West Africa Regional Office continues to fall from 56.12% in 2009, to 45.77% in 2010 and 37.23% in 2011. The net incurred claims ratio also fell from 60.42% in 2009 to 56.09% in 2010 and 44.34% in 2011.

Apart from two Kenyan claims (US$3.85 million), there were no other significant losses in the region. The incurred loss ratios (gross and net) from East Africa improved from 49.34% and 51.56% respectively in 2010 to 42.30% and 43.32% in 2011.

The Maghreb region's gross loss ratio fell from 46.73% in 2010 to 43.62% in 2011, while its net ratio was stable (2011: 46.90%; 2010: 46.96%).

The incurred loss ratios of North East Africa increased from 60.93% (net: 63.63%) in 2010 to 66.00% (net: 70.37%)in 2011 as a result of Strike, Riot, & Civil Commotion claims arising from the Egyptian social and/or political conflict.

The Francophone West and Central Africa gross and net incurred claims ratio reduced significantly from 51.76% (net: 58.85%) in 2010 to 29.36% (net: 40.48%) due to a reduction in outstanding claims reserves by year end 2011.

The claims experience of the African Indian Ocean Islands worsened from 45.82% in 2010 to 74.73% due to a Mauritius Fire claim estimated at US$4.8 million. The net incurred claims also increased from 47.08% in 2010 to 76.73%

The incurred claims ratio of the Africa Retakul Company which began operations in 2011 was understandably high (gross-85.82%, net-90.43%), because of the first time application of outstanding claims and unearned premium reserves.

The gross and net incurred loss ratios of the international operations deteriorated from 70.38% and 72.76% in 2010 to 80.78% and 90.43% respectively, due to losses arising from the earthquake in Japan, Floods in Thailand, Tsunami in Asia/African Indian Ocean Islands, as well as a number of medium sized claims from the Middle East.

Commissions and Charges

During the period under review, gross commissions and charges including movement in deferred acquisition costs amounted to US$151.99 million (2010: 161.68 million), while recoveries from retrocessionaires stood at US$7.91 million (2010: US$9.19 million). As a result, net commissions and charges reduced from US$152.49 million in 2010 to US$144.08 million in 2011.

III. INVESTMENT INCOME

Portfolio Performance

The year 2011 was a disappointing one for the financial market operators as investors initially thought that the economic recovery that began in 2009 would continue. However, the degree to which the ongoing debt crisis escalated in 2011 was a surprise to all, with the European debt crisis and thus became the most important concern for the global markets.

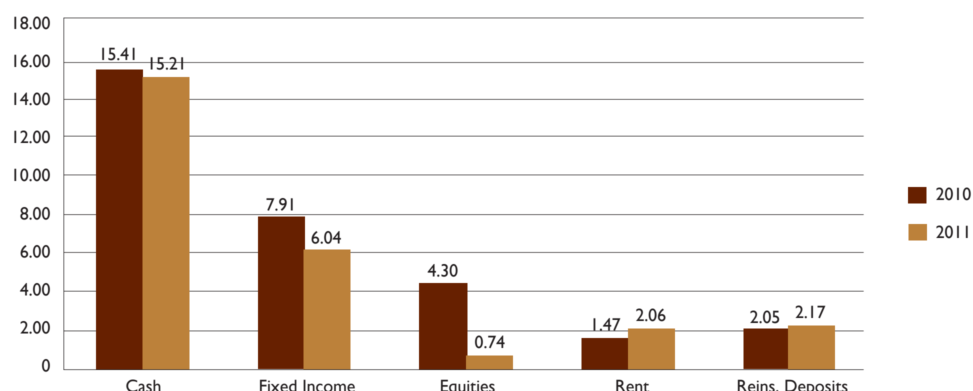
In addition to the debt crisis, in the early part of 2011,the financial markets were also negatively impacted by the social unrest in the Middle East and North Africa that resulted in unexpected increases in oil prices. These events were quickly followed by a devastating earthquake, and the ensuing tsunami and nuclear power crisis in Japan which were more significant than the markets had anticipated and greatly disrupted the global economic growth in the first half of 2011.

In the United States of America, economic growth weakened early in the year. The threat of the USA defaulting on its heightened debt obligations as a result of the political acrimony and the inability to compromise led to the Standard and Poor's decision to downgrade the credit quality rating of the United States Treasuries from "AAA" to "AA".

Even though the increase in the consumer demand in the USA helped propel the global GDP growth to 3.5%, world economic growth projections dimmed with risks sharply heightening during the last quarter of the year as the Euro zone crisis entered a critical phase.

Accordingly, the Corporation's total investment income dropped by 15.83% to attain US$26.21 million compared to US$31.14 million achieved in the previous year.

The breakdown of the investment income reveals that return on cash and cash equivalents amounted to US$15.21 million compared to US$15.41 million recorded last year. This is against the backdrop of the receipt of US$103 million from the fourth capital increase reflecting the continuation of near zero interest rate regimes in the USA and much of the advanced world. The bulk of the receipt from the fourth capital increase however was achieved during the last quarter of the year. Bonds and other fixed income instruments did not fare any better. Earnings from this asset class worsened by 23.64% to US$6.04 million from the US$7.91 million posted in 2010 while interest earned on reinsurance deposit and rental income outperformed last year's result at US$4.23 million from US$3.52 million as against the same period last year. Equity performance, on the other hand, managed to record an income of US$0.74 million, compared to the strong performance last year of US$4.30 million following the fourth quarter rebound in the South African market.

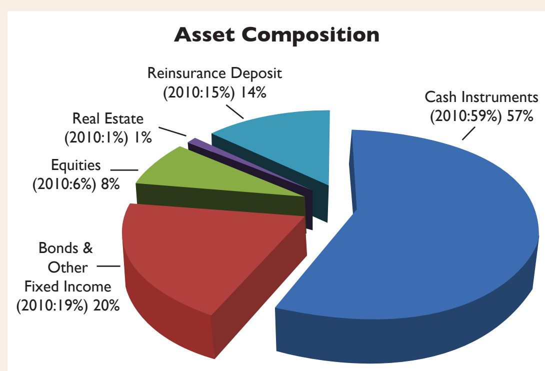


Asset Composition

The Corporation ended the year with total investment portfolio value of US$870.35 million compared to US$753.41 million as at 31 December 2010. The remarkable 15.52% growth rate in the investment portfolio was attained against the backdrop of the fourth capital increase, operational cash flow surplus generated during the year and investment income less the currency translation loss with the South African rand depreciating by 22.03% against the US dollar during the year.

The investment portfolio allocation remains broadly in line with the investment policy guidelines that seek to offer diversification and minimization of risk while providing the needed liquidity and security.

Accordingly, cash instruments still dominate the asset composition, accounting for 57% (2010: 59%) and are invested primarily in treasury and other money market securities with highly-rated counterparties. Bonds and other fixed income securities follow suit at 20%, up by 1% from the 19% recorded last year while the composition of the equity portfolio moved up to 8% at the end of the year.



Long Term Investments

The Corporation continues to support the socio-economic development of Africa and pursues the achievement of this objective by, among others, allocating its long term equity investments to African entities or those contributing directly or indirectly to the growth of economic activities in the continent. Accordingly, the Corporation's total commitment to private equity investments at December 31, 2011 increased from US$17.06 to US$19.06 million invested in 15 companies, made up of two (2) international development finance institutions, four (4) insurance companies, a computerization project sponsored by African Insurance Organization (AIO), a pension fund administration company, six (6) privately managed equity funds and a private healthcare facility.

Cumulative disbursements in respect of the private equity portfolio increased by US$2.15 million to reach US$11.29 million (2010: US$9.14 million), following capital calls by Atlantic Coast Regional Fund, Emerging Capital Partners and CAPE III. On a net asset basis, the portfolio was valued at US$13.46 million as at 31 December 2011 (2010: US$9.86 million) and gives a multiple of 1.22 times invested capital.

An amount of US$151,067 (2010: US$165,778) was realized as dividend payments during the year from Allianz Assurance Vie of Cameroon, ARM Pension Managers and CAPE II and CAPE III.

Rental income from the Corporation's three office buildings in Lagos, Nairobi and Casablanca increased by 39.77% to US$2.06 million compared to the US$1.47 million recorded in 2010, essentially due to rent renewals in Nairobi and Lagos.

Equities

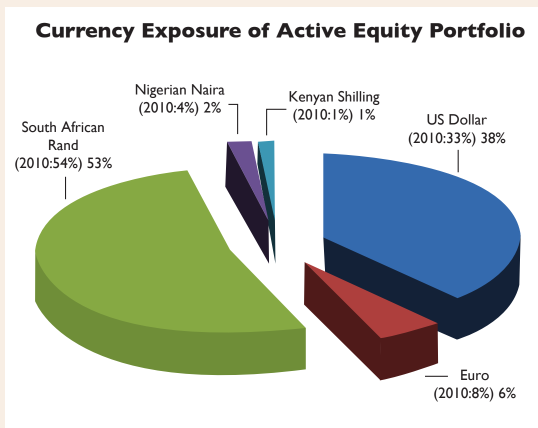
In the equity market, the US equities outperformed the rest of the world with a performance of 2.1%. Europe was especially hard hit, not surprisingly, because of the Euro debt crisis. Germany recorded -15.6%, UK -1.5%. Japan and China on YTD basis recorded -15.6% and -24.1% respectively. The emerging market globally recorded a loss of 18.4% for the year.

African markets were not immune to the overall trend of equity market. Nigeria ASI and Nairobi Securities Exchange recorded -16.3% and -26.3% respectively. The South African market showed good standing to the tumult with a performance of 6.0%.

As a result of the minor recovery in the capital markets during the fourth quarter of the year, the Corporation's actively managed equity portfolio in Africa, Europe and North America produced a gain of US$0.71 million, as compared to the US$4.30 million recorded in the previous year. While the Corporation recorded a relatively better dividend

income of US$1.75 million (2010: US$1.03 million), the portfolio generated a realized/unrealized loss of US$0.83 million compared to a net gain of US$4.11 million posted last year.

In all, the North American portfolio posted -1.94%, underperforming its blended benchmark index of +2.35%. The European portfolio produced a return of 1.1%, (2010: 10.0%). The South African, Nigerian and Kenyan local currency portfolios equally did not perform well , achieving returns of 1.5%, -18.47% and -10.35% respectively generally underperforming their respective benchmarks of 2.2%, -16.31% and -27.7%.

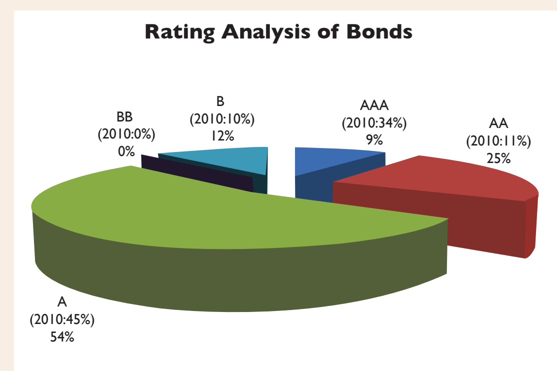


Bonds and Other Fixed Income Securities

Bonds were also extremely volatile in 2011, as a result of the continuous movement of capital from the equity market seeking relatively safer investments. This phenomenon also caused yields to continuously move downwards as there was excess liquidity in the fixed income market. Barclays Capital International Aggregate bond index recorded 5.97% (2010, 6.15%) during the year while 10-year US Treasury and 3-month Treasury bill also posted yields of 2% and 0.1% respectively.

The composition of the bonds and fixed income securities in the investment portfolio increased by 100 basis points to 20% with a corresponding value of US$177.8 million (2010: US$142.02 million). The performance of the externally managed North American US dollar bond portfolio posted a yield of 6.13%, compared to the benchmark index return of 6.11% while the performance of the South African rand portfolio fell short by 100 basis points of its benchmark to record 9.2%. The South Africa managed held-to-maturity portfolio recorded an average return of 9.7%.

In the light of the volatility of the current global financial market conditions, the Corporation continued to place much emphasis on security and liquidity. Accordingly, the overall portfolio remained well diversified across sectors, issues, maturities, markets and managers. Average duration is still less than five years, while weighted average rating stood at A+ in spite of the downgrade of United States Treasury securities by Standard and Poor's during the year. Following the downgrade from AAA to AA, the proportion of AAA rated securities declined from 34% of the portfolio in the previous year to 9%. AA rated bonds accordingly, increased to 25% from 11% while A-rated bonds increased to 54% (2010: 45%). The non-investment grade bonds are African sovereign and corporate issues which the Corporation holds in line with its developmental mandate. Management will continue with the conscious effort to increase allocations to higher rated securities to restore the average portfolio rating to the target AA level.



Cash Instruments

Cash instrument portfolio, not surprisingly, dominates corporate investment income as it constitutes the largest asset class in the overall asset allocation. The return on this asset class was enhanced by the additional funds received from the 4th Capital increase and stood at US$15.21 million marginally lower than the previous figure of US$15.41 million notwithstanding the near zero treasury and other benchmark rates in most developed markets.

The performance is largely attributable to increased liquidity from the fourth capital increase and relatively higher interest rates on African bonds.

Other Operating Income

Other operating income comprises predominantly of fees from the management of the African Oil & Energy and Aviation insurance pools. Fees earned during the year amounted to US$1.07 million, which is a decrease of 20.74% compared to the US$1.35 million earned in 2010.

IV. RESULTS OF THE 2011 FINANCIAL YEAR

Gross written premium grew slightly by 0.63% from US$627.53 million in 2010 to US$631.49 million. This performance is below the average growth projected in the corporate plan and is largely due to the generalized depreciation of most African currencies against the US dollar.

The Corporation's retrocession policy continues to rely on Excess of Loss programmes to protect the traditional acceptances, while purchasing additional covers for the major oil and petrochemical risks as well as other special risks. However, as part of the Corporation's overall risk management process, a detailed review of the retrocession arrangements identified additional opportunities to better optimise the programmes by adjusting the level of net retentions, increasing the catastrophe limit for the peak risk regions and extending the geographical scope of the covers in line with the inward acceptances.

Accordingly, premium ceded to retrocessionnaires on proportional and non proportional business increased by 29.74%, from US$53.12million last year to US$68.92 million, representing a retention ratio of 88.56% (91.39% in 2010).

Adjustment for the movement in the provision for unearned premiums, net of retrocessionnaires' share thereof, produced a net earned premium of US$533.58 million (2010: US$563.78 million).

Gross claims paid in 2011 amounted to US$283.96 million compared to US$322.86 million in 2010 representing a 12.04% drop. Of the total losses paid, US$9.46 million (11.61 million in 2010) was recovered from retrocessionnaires, resulting in net losses paid of US$274.50 million, compared to US$311.25 million in 2010. The adjustment for the movement in the outstanding claims (including IBNR) provisions resulted in a net incurred loss of US$311.99 million compared to US$347.2 million recorded in 2010, representing a claims ratio of 58.47% as against 61.58% in 2010. The remedial measures put in place to address the challenges in ARCSA continue to have a positive impact. There was an improvement again in the loss ratio of the subsidiary from 66.96% in 2010 to 65.52% in 2011 and the underwriting profit increased from US$7.48 million in 2010 to US$9.21 million in 2011.

Management expenses for the year amounted to US$31.28 million in 2011, representing a 15.46% increase compared to US$27.09 million in 2010. The increase is due to the constitution for the first time, of provisions for doubtful debts in the South African Subsidiary, rise in management expenses of the Head office due to the increase in the cost of fuel and electricity and the upward review in the salary of personnel and managerial staff. Overall management expenses remained within approved budget; the management expense ratio increased from 4.81% to 5.86% in 2011.

Against the background of the volatile global financial market conditions, income earned by the Corporation from investment and other sources, including interest on reinsurance deposits and fee income, dropped by 15.82% from US$31.14million in 2010 to US$26.21 million in 2011.

Profit after tax grew by 6.68% to reach US$69.19 million in 2011 compared to US$64.86 million in 2010, mainly due to the increase in underwriting results.

V. APPROPRIATION OF RESULTS

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

- US$34,599,413 to the general reserve in accordance with Resolution No. 4/1992;
- US$8,544,876 to be paid as dividend at the rate of US$ 3.50 (2010 – US$2) per subscribed and paid up share of US$ 100 par value;
- US$800,000 to be transferred to the reserve for loss fluctuation;
- The balance of US$25,254,537 to be added to retained earnings.

VI. CAPITAL MANAGEMENT

The Corporation manages its capital through the risk-based modeling to ensure that the Group and all its subsidiaries are adequately capitalized to guarantee its survival in a severe loss situation. Under the risk-based capital regime, Africa Re is required to hold a capital that reflects all the main risks to which it is exposed.

In 2011, Africa Re successfully improved its financial strength as a result of the positive impact of the 4th capital increase on reported shareholders' funds. Consequently all applicable capital adequacy ratios improved significantly compared to the previous year.

The capital needs of the Corporation are assessed with the aid of risk-based, in-house and external capital models.

1. Africa Re's financial strength ratings and external capital adequacy

Due to its supranational nature, the Africa Re Group is not legally subject to any national regulatory constraints. However, it should be noted that its subsidiary company, African Reinsurance Corporation South Africa Ltd (ARCSA), is supervised by the Financial Services Board (FSB), the supervisory authority in South Africa. ARCSA will soon be required to comply with the new regime called Solvency Assessment and Management (SAM), which is similar to the European Solvency II and is based on economic principles to measure assets and liabilities.

Solvency Assessment Management sets out requirements for governance, risk management, supervision, disclosure and transparency. We continue to follow the development of SAM in order to comply with the requirements in South Africa.

Standard & Poor's and A.M. Best rating agencies have been assigning financial strength rating, counterparty and issuer credit rating to Africa Re for more than a decade.

Africa Re's financial strength ratings

Rating Agency	Financial strength rating	Counterparty/ issuer credit Rating	Outlook	Last press release/ report date
Standard & Poor's	A-	A-	Stable	September 22, 2011
A.M. Best	A-	A-	Stable	August 22, 2011

The evaluations of the rating agencies are based on a set of criteria including the assessment of our capital adequacy. They require an annual solvency probability of 99.6%, which entails a high level of capital that can enable the company endure exceptional losses once in every 250 years. The required capital is assessed as follows in accordance with the capital models of the two rating agencies:

- Standard & Poor's Model: The required capital covers insurance, investment and credit risks and is assessed by applying predetermined factors to the insurance premium, technical provisions and investments. Investment and credit risks carry relatively much weight even if insurance risks predominate.
- A.M. Best Model: This model is similar to that of Standard & Poor's. The assessment is based on predetermined factors applied also to insurance premium, technical provisions and investments. With this model, investment and credit risks carry less weight when compared to Standard & Poor's.

As at 31/12/2011, the Corporation has a strong capitalization under the capital adequacy requirements of the two (2) rating agencies.

Standard & Poor's affirmed the Financial Strength and the Counterparty Credit Rating of Africa Re on September 22, 2011. The rating reflects the following view by Standard & Poor's: Africa Re

has a strong competitive position in the African insurance markets, a strong, stable operating performance, strong capitalization and strong liquidity.

A.M. Best affirmed the rating of Africa Re on August 22, 2011. According to A.M. Best, its ratings reflect Africa Re's improving prospective risk-adjusted capitalization, strong operating performance and established position in its core African markets.

2. Africa Re's internal capital adequacy

In the in-house model, the required capital is assessed by mathematical simulation of extreme losses that the Corporation can incur due to its exposure to insurance and investment risk.

As at 31 December 2011, the shareholders' funds amount to US$482.1 million and the required capital is estimated at US$204.1 million, resulting in an internal capital adequacy of 236%.

VII. ENTERPRISE RISK MANAGEMENT

Africa Re has adopted a common risk language to provide a consistent framework for the definition and categorization of risk and the organization of its Enterprise Risk Management (ERM) activities.

The ERM function supports value creation by enabling Management to deal effectively with potential future events that create uncertainty and to respond in a manner that reduces the likelihood of downside outcomes while increasing the upside. It provides the Corporation with an integrated approach of managing current and emerging risks. Consequently, the Corporation has in place a process it needs to become more anticipatory and effective at evaluating and managing the uncertainties it faces as it works towards creating sustainable value for stakeholders.

1. Risk Governance

Conscious of the key need for a formalized enterprise risk management function in the Corporation, the Management of Africa Re created a Technical Inspection and ERM department headed by a Central Director who is the Chief Risk Officer (CRO). The Chief Risk Officer supports managed risk taking and assumes responsibility for the overall leadership, vision and direction of the risk management function across the Corporation.

A Risk Management Committee (RMC) was set up consisting of the Central Directors and headed by the Deputy Managing Director/Chief Operating Officer. The Committee meets quarterly.

The Corporation highlights its interest in an integrated approach by assigning the risk management responsibility to a department with access to the Risk and Audit Committee of the Board.

Key Risk Management Bodies and Functions

<table>
<tr><td colspan="4">Board of Directors</td></tr>
<tr><td colspan="4">Audit & Risk Committee of the Board</td></tr>
<tr><td colspan="4">Executive Management</td></tr>
<tr><td>Risk Management Committee</td><td>Investment Committee</td><td>ICT Steering Committee</td><td>Special Risks Committee</td></tr>
<tr><td colspan="4">Chief Risk Officer</td></tr>
<tr><td colspan="4">Risk Management function</td></tr>
</table>

The African Reinsurance Corporation has also adopted the "three lines of defence" governance framework which operates as follows:

- *The day-to-day risk management and management control line,* where staff and Management have direct responsibility for the management and control of risk;
- *The risk oversight, policy and methodologies line,* where the concerned staff co-ordinate, facilitate and oversee the effectiveness and integrity of Africa Re's risk management framework; and
- *The independent assurance line,* where control departments in charge of internal audit and technical inspection and external auditors provide independent assurance across all business functions in respect of the integrity and effectiveness of the risk management framework.

The roles and responsibilities for each of these functions and parties involved in the risk management process are described in detail in the Group Risk Policy Document.

2. Risk Landscape

The risk landscape of the Corporation comprises core business risks and other risks that are grouped and defined as follows:

- Insurance risk: The risk of loss due to inherent uncertainties arising from amount and timing of insurance liabilities.
- Credit risk: The risk of loss arising from the counterparty failure to fulfil its obligations or to perform them in a timely manner.
- Market risk: The risk that arises from fluctuations in values of, or income from assets, interest or exchange rates.
- Liquidity risk: The risk that sufficient financial resources are not maintained to meet liabilities when due.
- Operational risk: The risk of loss resulting from inadequate or failed internal processes, people, systems and external events.

Across these groups the Corporation identifies and evaluates all threats and opportunities through a systematic framework that includes the identification and assessment of those risks that directly affect and/or impede the ability to achieve its strategic and business objectives.

3. Risk Management Processes

The implementation of risk management at the operational level embraces various steps such as the identification, measurement, analysis, assessment, risk reporting, limitation and monitoring, which enable the Corporation to closely follow significant risks in each group.

Insurance, Credit, Market and Liquidity Risks

They are covered under "Management of Insurance and Financial Risks" (Pages 59 - 64).

Operational Risk

As indicated above, operational risk includes potential losses or reputational damage arising from inadequate or failed internal processes, people, systems and external events.

Within this framework, Africa Re has eight sub-categories of operational risk: people, processes, systems, external events, reputational, legal, strategic and capital adequacy. The detailed risk categorization is set out in the Corporation's Risk Policy Document and Risk Register.

Africa Re is committed to properly mitigate and manage its exposure to operational risks. Dedicated officers from production centres are responsible for overseeing the management of operational risks which arise in their area of control. The Corporation applies a centrally coordinated methodology to identify and assess risks through the use of an effective Operational Risk Solution, an IT platform called ARC Logics (Sword).

The Operational Risk Solution assists the Corporation in implementing the tools and techniques provided in the Group Operational Risk Policy Document: Risk and Control Self Assessment (RCSA), Internal Loss Data Capturing, Key Risk Indicators (KRIs), Stress and Scenario Testing, etc. It is used in the Corporation's head office and production centres. The modules installed include the Platform, Risk & Control Assessment, Loss & Incident Recording, Control Assurance and Enterprise Reporting.

Appropriate controls and contingency plans such as Business Continuity Plans (BCP) and Disaster Recovery Plans (DRPs) are therefore in place to significantly reduce the Corporation's operational risk exposures to an acceptable level.

4. Risk Modelling

Financial Modelling

In response to the demands of the new environment by regulators and rating agencies, the global insurance industry developed Dynamic Financial Analysis (DFA) models. Africa Re pioneered the use of internal models for capital assessment and risk management purposes in Africa.

ReMetrica, a tool for building financial models of an insurance or reinsurance company developed by Aon Benfield, was acquired by Africa Re under a license agreement. ReMetrica is used for the modelling of underwriting, reserving, investment and credit risks.

The development of an Africa Re in-house model within ReMetrica is done through a graphical interface and comprises three steps: designing the structure, setting its inputs and parameters and running the model.

The main inputs and parameters relate to: written premium, earned premium, acquisition costs, attritional losses, large losses, catastrophic losses, outstanding loss reserves, retrocession and investments.

ReMetrica is used by Africa Re in different areas of decision-making including assessment of required capital, optimization of retrocession programme and strategic business decisions.

Africa Re acquired ReMetrica primarily to assess the sufficiency of shareholders' funds compared to its risk exposure as required by the Financial Services Board (FSB) in South Africa and rating agencies (A.M. Best and Standard & Poor's).

ReMetrica enables the Corporation to choose an optimum retrocession structure from various scenarios depending on their financial impact on the Corporation. Furthermore, it allows the Corporation to build different models for each business strategy. By comparing the results of different business strategies, the business portfolio can be improved. In that regard, ReMetrica has been for Africa Re a useful tool for building up a well balanced business portfolio.

Catastrophe Modelling

Catastrophe modelling provides expected annual aggregate loss from catastrophe events which could help in developing strategies in the following areas:

- Monitoring of accumulations and pricing of original risk,
- Retrocession purchase including setting of limits and retentions, depending on the risk appetite,
- Meeting the requirements of the FSB and rating agencies.

Africa Re has been monitoring annually its catastrophe exposures in African countries prone to natural perils such as South Africa, Mauritius, Kenya and Algeria. Willis and Aon Benfield have traditionally offered catastrophe modelling service, using either licensed or own models.

5. ERM Evaluation by Rating Agencies

In 2011, two internationally renowned rating agencies, A.M. Best and Standard & Poor's rated the Enterprise Risk Management of Africa Re as follows:

A.M. Best (Press Release 22 August 2011): **Adequate**

"Africa Re has a good understanding of enterprise risk management and continues to develop and implement it successfully throughout the organization."

Standard & Poor's (Rating Report 22 September 2011): **Adequate with Ongoing Development in Key Risk Controls**

"ERM within Africa Re is adequate and is following an improving trend. The company has invested heavily in developing its risk management framework. This integrates day-to-day management, policy oversight and independent assessment. Africa Re's risk culture is being embedded throughout the organization through a variety of regular committees covering the company's operations and this is supported by detailed documentation and management information systems. In addition, an increasingly sophisticated approach is being used to model capital, investment, underwriting, and operational risks."

VIII. CORPORATE GOVERNANCE

1. Overview

The African Reinsurance Corporation is regulated by the Agreement Establishing the Corporation and other statutory documents.

There are various corporate governance policy documents in force which are based on international best practices. The Corporation's subsidiary in South Africa is locally incorporated and in addition complies with the applicable local corporate governance codes such as III report.

The Board and Management are responsible for ensuring that the Corporation applies the best practices in corporate governance that match the required minimum in modern and peer companies.

2. Corporate Governance Framework of Africa Re

The corporate governance principles and procedures of Africa Re are defined in a series of documents governing the organization and its management. They include:

- Agreement Establishing the African Reinsurance Corporation, defining the ownership, administration and governance structure;
- Procedure for Proposing and Introducing Amendments to the Agreement;
- General By-Laws defining the General Regulations and the Rules of Procedure of the General Assembly;
- Rules of Procedure of the Board of Directors;
- Rules for Election of Directors;
- Code of Ethics, which lays down rules, behaviour and attitude to be observed by staff and Management when accomplishing their duties or acting on behalf of the Corporation.
- Code of Ethics, which lays down rules, behaviour and attitude to be observed by staff and Management when accomplishing their duties or acting on behalf of the Corporation.

3. Shareholding and Board of Directors

3.1. Shareholding Structure as at 31 December 2011

Shareholder	Number of Shares	In %
41 Member States	900,810	34.01
African Development Bank (AfDB)	240,000	9.06
101 African Insurance and Reinsurance companies	902,136	34.06
4 Non-African Development Financial Institutions (IFC, DEG, FMO and PROPARCO)	605,905	22.87
Total shares	**2,648,851**	**100.0**

3.2. Authorized / Paid-Up Capital and Recent Changes in the Shareholding

The authorized capital of the Corporation amounts to US$500,000,000 as at 31 December 2011 with US$264,885,100 fully paid-up. The capital is divided into 2,648, 851 shares, each with a nominal value of US$100.

The Annual General Meeting of Shareholders and the Board of Directors approved the 4th capital increase to enable the Corporation to seize business opportunities that will certainly emerge as a result of the following: the impact of the expected rapid economic growth in its core market, the hardening of the reinsurance market following the ongoing long low cycle and the financial rating upgrade by Standard & Poor's.

The Corporation's policy consists in growing steadily the capital with retained profits and additional capital raised through increase in the equity stake of existing shareholders as well as some selected potential investors. Therefore, from an initial paid up capital of US$100,000,000 in 2010, a call of the first portion of the capital of US$200,000,000 was made in 2010 by issuing 1,000,000 new shares and distributing 1,000,000 bonus shares to existing shareholders. The current issued capital therefore stands at US$300,000,000.

It is expected that the current capital increase shall be closed by the end of 2012, leaving the Corporation with a strong paid up capital and shareholders' funds.

3.3 Board of Directors- Composition

The Board of Directors, currently chaired by Mr. Musa EL NAAS, comprises 12 substantive members whose particulars are as follows as at 31 December 2011. Directors are elected for a term of three years* and may be re-elected. They shall continue in office until their successors are elected.

Name	Nationality	Constituency	Last election	Current Term Ends in
Mr. Yewondwossen K. ETEFFA	Ethiopian	East and Southern Africa and Sudan (12 States)	2011	2012*
Mr. Mohamed Lemine OULD NATY	Mauritanian	Francophone African Companies and Mauritania & Tunisia	2009	2012*
Mrs. Mariame DIOUF	Senegalese	Francophone Africa (18 States)	2011	2012*
Mr. Kamel MARAMI	Algerian	Algeria: State and 4 companies	2011	2012*
Mr. Basiru NJAI	Gambian	Anglophone West Africa (4 States and Companies) and East and Southern Africa (Companies)	2011	2012*
Mr. Musa EL NAAS	Libyan	Libya: State and Companies	2009	2012*
Mr. Hassan BOUBRIK	Moroccan	Morocco: State and Companies	2011	2014
Dr. Adel R. MONEER	Egyptian	Egypt: State and Companies	2011	2012*
Mr. Fola DANIEL	Nigerian	NIGERIA: State and Companies	2011	2012*
Mr. Isaac N. LOBE	Cameroonian	African Development Bank	2011	2013
Mr. Bernd TUEMMERS	German	German Investment and Development Corporation (DEG)	2011	2012*
Mr. John BURBIDGE	British	International Finance Corporation	2011	2012*

** Due to the ongoing capital increase the General Assembly of June 2011 exceptionally appointed some Directors for 1 year. The majority of terms expiring in June 2012 shall be renewed after the subscription and payment of the additional shares offered within the framework of the fourth capital increase. At the end of 2011, indications are that all of them will be renewed for new 3 year terms.*

Board seats are distributed among shareholders or group of shareholders based on their voting powers. The current Board is composed as follows:

- Nine (9) for Class "A" Shareholders (41 African member States, AfDB and 101 African insurance and reinsurance companies), with AfDB entitled to a permanent seat.

- Three (3) for Class "B" Shareholders (4 non-African Development Finance Institutions)

The Board currently has two standing committees: the Audit & Risk Committee and the Management Remuneration Committee.

3.4. Board of Directors – Committees

The Audit & Risk Committee comprises 3 Directors and is chaired by an Independent Non Executive Director. Mr. John Burbidge is the current Chairman. The Committee assists the Board in fulfilling its oversight responsibilities relating to the integrity of the Corporation's financial statements and supervises enterprise risk management and compliance related issues. The committee also reviews the adequacy of the financial reporting process and the efficacy of the system of internal control. In addition, it evaluates the external auditors, approves the audit plans of the Group internal audit, the internal technical inspection, and

the external auditors and discusses their findings. The committee meets at least twice a year.

The Management Remuneration Committee is chaired by the Vice Chairman of the Board and comprises 3 Directors. The current Chairman is Mr. Yewondwossen K. ETEFFA. The Committee proposes to the Board the principles for compensating executive management and establishes performance criteria for the different members of the executive. It also reviews the conditions of service of Management on a yearly basis, guided mainly by criteria of the best employer/payer, taking into account the practice of companies of comparable rank and standing, as well as the financial means of Africa Re. The committee meets at least twice a year.

3.5. Board of Directors – Activities in 2011

In 2011, the Board of Directors of Africa Re met three times. The first meeting was held in Nairobi, Kenya on 11 and 12 April 2011. The second meeting took place in Addis Ababa, Ethiopia, on 21 June 2012 and the third was held in Lagos, Nigeria on 14 November 2011. The average attendance rate was 96.96% throughout the year. The meetings were attended by substantive members of the Board and, on advisory capacity, by members of Executive Management.

4. Executive Management

The Executive Management comprises the following members as at 31/12/2011:

Name	Nationality	Function
Mr. Corneille KAREKEZI	Rwandese	Group Managing / Chief Executive Officer
Mr. Ken AGHOGHOVBIA	Nigerian	Deputy Managing Director / Chief Operating Officer

Corneille KAREKEZI, *Group Managing Director / Chief Executive Officer.*

Mr. Corneille KAREKEZI was appointed to this position on 1 July 2011 after a transition period of 2 years.

His professional career started in 1991 as Chief Accountant / Reinsurance Manager of the leading insurance company in Burundi (SOCABU s.m.), where he rose to the position of Head of the Finance Department. In 1995 he joined the leading insurance company in Rwanda (SONARWA s.a.) as Deputy Head of the Commercial & Technical Department. Since 1996, he successively headed all the Technical Departments (Motor, Fire, Accidents & Miscellaneous Risks, and Life) and was appointed Deputy Managing Director early in 2001. In February 2008, after conducting a successful strategic transformation from a state-controlled company to a private company with an equity strategic partnership, he was appointed Chief Executive Officer of SONARWA s.a.

He joined Africa Re in July 2009 initially as the Deputy Managing Director and subsequently as Deputy Managing Director/Chief Operating Officer in 2010.

With a combined 21 years work experience in the insurance and reinsurance industry, Mr. KAREKEZI, a former Director of Africa Re from 2002 to 2005, has a BSc in Management (Burundi), MSc in Administration (Burundi) and MBA (UK). He speaks English and French fluently and sits on the Board of various regional organizations.

Ken AGHOGHOVBIA, *Deputy Managing Director / Chief Operating Officer*

Since joining the Corporation in 1985, Mr. Ken AGHOGHOVBIA worked in different capacities before rising to the position of Regional Director of the West Africa Regional Office. He was the pioneer Regional Director of this Office when it was established in 2009 and played a pivotal role in the turnaround of the fortunes of the Regional Office, African Oil and Energy Pool and the African Aviation Pool.

Mr. AGHOGHOVBIA became Deputy Managing Director / Chief Operating Officer on 1 July 2011 after 27 years in the Corporation. He has a BSc in Insurance (Nigeria), MBA (Nigeria), ACII (UK) and FCII (UK). Mr AGHOGHOVBIA has been a member of various regional professional committees.

5. General Assembly

5.1. General Assembly Meeting

The General Assembly meets at least once a year in one of the member States, usually in June.

5.2. Voting Right & Representation

In line with the Agreement Establishing the Corporation, each shareholder has one vote for any one fully paid up share. Each representative at the General Assembly is entitled to cast the votes of the shareholder or shareholders he represents. All significant decisions and matters before the Ordinary General Assembly are taken by a majority of the voting power represented at the meeting.

5.3. Statutory quorums

A quorum for any meeting of the General Assembly shall be sixty (60) per cent of the total voting power of shareholders. If a quorum is not attained, a second meeting shall be held twenty-one (21) days after the first meeting in the case of the ordinary general meetings and seven (7) days in the case of extraordinary meetings. The notice shall be sent in the latter cases within seven (7) days after the first planned meeting. The shareholders present at the second meeting shall have the right to pass valid resolutions whatever the number of shares they represent.

5.4. Convocation & Agenda of the General Assembly

Notices for convening ordinary meetings of the General Assembly shall be sent to all shareholders by registered airmail not less than six (6) weeks before the date fixed for the meeting. The notice shall contain the agenda of the meeting.

Extraordinary meetings shall be convened in writing by appropriate means of communication not less than seven (7) days before the date of the meeting. An extraordinary meeting of the General Assembly may be called by the Board of Directors, or by shareholders representing at least twenty-five per cent (25%) of the total voting power of the Corporation.

AFRICAN REINSURANCE CORPORATION
SOCIETE AFRICAINE DE REASSURANCE
(AFRICA RE)

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RESPONSIBILITY FOR EXTERNAL FINANCIAL REPORTING

MANAGEMENT'S RESPONSIBILITY

Management's Responsibility Regarding Effectiveness of Internal Controls over Financial Reporting

The Management of the African Reinsurance Corporation (Africa Re) is responsible for the preparation, integrity and fair presentation of its financial statements and other information presented in the Annual Report. The financial statements have been prepared in accordance with International Financial Reporting Standards and generally accepted accounting principles and as such, include amounts based on informed judgments and estimates made by Management.

The financial statements have been audited by an independent accounting firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and Committees of the Board. Management believes that all representations made to the independent auditors during the audit were valid and appropriate. The independent auditors' report accompanies the audited financial statements.

Management is responsible for the prepartion of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Agreement establishing the African Reinsurance Corporation, and for such internal controls as directors determine are necessary to enable the prepartion of financial statements that are free from material misstatement, whether due to fraud of error.

Management believes that internal controls for external reporting, which are subject to scrutiny by Management and the internal auditors, and are revised as considered necessary, support the integrity and reliability of the external financial statements.

Key procedures that Management has established, which are designed to provide effective internal financial control within the Group include the preparation, review and Board approval of the annual financial plans that align with strategic plans. Results are monitored regularly and progress reports on performance compared to the plans are prepared quarterly. The system of internal controls includes written policies and procedures, proper delegation of authority, accountability through establishing responsibility and segregation of duties.

In addition, Management is developing a risk management profile that would continue to ensure effective coordination and monitoring , within the Group , of all the risk management policies approved by the Board of Directors and/or by the Executive Management such as underwriting and reserving policies , staff rules and regulations, investment policy guidelines and the accounting and financial reporting procedures.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide any reasonable assurance with respect to financial statements preparation. Furthermore, because of changes in circumstances, the effectiveness of internal control may vary over time

The Board of Directors of the African Reinsurance Corporation has set up an Audit and Risk Committee to monitor the internal controls and risk management practises within the Group. The Committee is made up of non-executive directors who are independent of Management. It meets periodically with Management, external auditors, internal auditors, and technical inspectors to review their reports and ensure that they are carrying out their respective responsibilities. The external auditors, internal auditors and technical inspectors have free access to the Committee with or without the presence of Management, to discuss the adequacy of internal control over financial reporting and any other matters which they believe should be brought to the attention of the Committee.

Musa EL NAAS
Chairman

Corneille KAREKEZI
Group Managing Director and CEO

Group photograph of the Board of Directors during the 122nd Board meeting on 9 April 2012 in Cairo.

Deloitte.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AFRICAN REINSURANCE CORPORATION

We have audited the accompanying consolidated financial statements of African Reinsurance Corporation and its subsidiaries set out on pages 34 to 66 which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the corporation's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the corporation's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of financial affairs of the Corporation and its subsidiaries as at 31 December 2011 and of the group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

Certified Public Accountants (Kenya)

9 April 2012

Nairobi, Kenya

Consolidated Statement of Financial Position

at 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Assets			
Cash and cash equivalents		55,195	55,838
Investments	4	807,151	688,808
Premium income receivable		38,782	24,348
Deferred acquisition costs	5	35,892	32,046
Reinsurance receivables	6	141,841	111,001
Retrocessionaires' share of technical provisions	7	34,217	22,303
Sundry receivables		3,337	2,911
Investment properties	8	8,007	8,764
Property and equipment	9	12,961	12,348
Total assets		**1,137,383**	**958,367**

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Corporation on 9 April 2012 and signed on its behalf by:

MUSA EL NAAS
Chairman

CORNEILLE KAREKEZI
Managing Director/CEO

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

Consolidated Statement of Financial Position

at 31 December 2011

		2011 US$'000	2010 US$'000
Liabilities			
Sundry payables		18,221	20,118
Reinsurance payables	10	75,869	70,299
Deferred tax	11	804	666
Technical provisions	12	560,359	523,610
Total liabilities		**655,253**	**614,693**
Shareholders' equity			
Retained earnings		61,450	31,632
Other reserves	13	122,343	112,668
Share premium		33,452	315
Share capital	14	264,885	199,059
Total shareholders' equity		**482,130**	**343,674**
Total liabilities and shareholders' equity		**1,137,383**	**958,367**

These consolidated financial statements were approved and authorised for issue by the Board of Directors of the Corporation on 9 April, 2012 and signed on its behalf by:

MUSA EL NAAS
Chairman

CORNEILLE KAREKEZI
Managing Director/CEO

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Gross earned premium	15	602,502	616,909
Less: retrocession premium	15	(68,922)	(53,126)
Net earned premium	**15**	**533,580**	**563,783**
Investment income	16	26,214	31,143
Commissions earned under retrocession arrangements		7,914	9,194
Other operating income	17	1,088	1,413
Total income		**568,796**	**605,533**
Net claims incurred	**18**	**(311,996)**	**(347,196)**
Acquisition expenses		(151,994)	(161,682)
Administrative expenses	19	(31,282)	(27,094)
Finance costs – net exchange losses		(1,025)	(1,296)
Profit before income tax		72,499	68,265
Income tax expense	20	(3,300)	(3,402)
Profit for the year		**69,199**	**64,863**

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	2011 US$'000	2010 US$'000
Profit for the year	**69,199**	**64,863**
Other comprehensive income		
Exchange differences on translating foreign operations	(18,878)	3,303
Net fair value (loss)/gain on revaluing available-for-sale financial assets	(300)	40
Total other comprehensive (loss)/income	**(19,178)**	**3,343**
Total comprehensive income for the year	**50,021**	**68,206**

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Retained earnings US$ '000	Trans-lation reserve US$ '000	General reserve US$ '000	Reserve for Market Value Adjustment US$ '000	Reserve for exchange fluctuation US$ '000	Reserve for loss fluctuation US$ '000	Share premium US$ '000	Share capital US$ '000	Total US$ '000
At 1 January 2011	**31,632**	**(1,811)**	**101,721**	**64**	**6,294**	**6,400**	**315**	**199,059**	**343,674**
Profit for the year	69,199	-	-	-	-	-	-	-	69,199
Other comprehensive loss	-	(18,878)	-	(300)	-	-	-	-	(19,178)
Total comprehensive income for the year	**69,199**	**(18,878)**	**-**	**(300)**	**-**	**-**	**-**	**-**	**50,021**
Buy-back of ordinary shares	-	-	(6,546)	-	-	-	-	(4,000)	(10,546)
Issue of ordinary shares	-	-	-	-	-	-	33,137	69,826	102,963
Dividend declared in 2010	(3,982)	-	-	-	-	-	-	-	(3,982)
Transfer to reserves	(35,399)	-	34,599	-	-	800	-	-	-
At 31 December 2011	**61,450**	**(20,689)**	**129,774**	**(236)**	**6,294**	**7,200**	**33,452**	**264,885**	**482,130**

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Retained earnings US$ '000	Trans-lation reserve US$ '000	General reserve US$ '000	Reserve for Market Value Adjustment US$ '000	Reserve for exchange fluctuation US$ '000	Reserve for loss fluctuation US$ '000	Share premium US$ '000	Share capital US$ '000	Total US$ '000
At 1 January 2010	**70,161**	**(5,114)**	**89,984**	**24**	**6,294**	**5,600**	**13,450**	**100,000**	**280,399**
Profit for the year	64,863	-	-	-	-	-	-	-	64,863
Other comprehensive income	-	3,303	-	40	-	-	-	-	3,343
Total comprehensive income for the year	**64,863**	**3,303**	**-**	**40**	**-**	**-**	**-**	**-**	**68,206**
Issue of bonus shares	(67,661)	-	(18,889)	-	-	-	(13,450)	100,000	-
Buy-back of ordinary shares	-	-	(1,805)	-	-	-	-	(2,000)	(3,805)
Issue of ordinary shares	-	-	-	-	-	-	315	1,059	1,374
Dividend declared in 2009	(2,500)	-	-	-	-	-	-	-	(2,500)
Transfer to reserves	(33,231)	-	32,431	-	-	800	-	-	-
At 31 December 2010	**31,632**	**(1,811)**	**101,721**	**64**	**6,294**	**6,400**	**315**	**199,059**	**343,674**

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Notes	2011 US$'000	2010 US$'000
Cash flows from operating activities			
Cash generated from operations	22	48,307	99,038
Income tax paid		(3,439)	(3,402)
Net cash from operating activities		44,868	95,636
Cash flows from investing activities			
Purchase of property and equipment	9	(1,428)	(973)
Purchase of investments		(114,396)	(76,578)
Proceeds from disposal of property and equipment		-	42
Net cash used in investing activities		(115,824)	(77,509)
Cash flow from financing activities			
Proceed from shares subscription		102,963	1,374
Buy-back of ordinary shares		(10,546)	(3,805)
Dividends paid		(3,341)	(2,440)
Net cash generated from/(used in) financing activities		89,076	(4,871)
Net increase in cash and cash equivalents		**18,120**	**13,256**
Movement in cash and cash equivalents:			
At start of year		55,838	38,795
Net increase in cash and cash equivalents		18,120	13,256
Exchange (losses)/gains on liquid assets		(18,763)	3,787
At end of year		**55,195**	**55,838**

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

1 General information

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

a) mobilise financial resources from insurance and reinsurance operations;

b) invest such funds in Africa to help accelerate economic development; and

c) foster the development of the insurance and reinsurance industry in Africa by promoting the growth of national, regional and sub-regional underwriting and retention capabilities.

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

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

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

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

(a) New standards and amendments to published standards effective for the year ended 31 December 2011

	Effective for annual periods beginning on or after
Amendments and revised standards	
IFRS 1, First-time Adoption of International Financial Reporting Standards – limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 July 2010
IFRS 1, First-time Adoption of International Financial Reporting Standards – Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011
IFRS 3, Business Combinations – Amendments resulting from May 2010 Annual Improvements to IFRSs	1 July 2010
IFRS 7, Financial Instruments: Disclosures – Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011
IAS 1, Presentation of Financial Statements – Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011
IAS 24, Related Party Disclosures – Revised definition of related parties	1 January 2011
IAS 32, Financial Instruments: Presentation – amendments relating to classification of rights issues	1 February 2010
IAS 34, Interim Financial Reporting – Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011
New interpretations IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction; prepayments of a minimum funding requirement	1 January 2011
IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

(b) New and amended standard interpretations in issue but not yet effective in the year ended 31 December 2011

	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation.	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement of financial assets	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	1 January 2015
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 July 2012
IAS 12, Income Taxes - Limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 19, Employee Benefits (2011)	1 January 2013
IAS 27, Separate Financial Statements (2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
New interpretation	
IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

(c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods

IAS 27, Separate Financial Statements (2011)

The amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27, Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9, Financial Instruments.

The Standard also deals with the recognition of dividends, certain group reorganizations and includes a number of disclosure requirements:

IFRS 9, Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognised in the profit or loss
- The concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines.

IFRS 9, Financial Instruments (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing derecognition requirements from IAS 39, Financial Instruments: Recognition and Measurement.

The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

IFRS 10, Consolidated Financial Statements

Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation - Special Purpose Entities.

The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The Standard introduces a single consolidation model for all entities based on control irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under IFRS 10, control is based on whether an investor has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of the returns.

IFRS 13, Fair Value Measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements.

However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

Improvements to IFRSs (2010)

These amend seven pronouncements (plus consequential amendments to various others) as a result of the IASB's 2008-2010 cycle of annual improvements.

Key amendments include:

- **IFRS 1** - accounting policy changes in year of adoption and amendments to deemed cost (revaluation basis, regulatory assets)
- **IFRS 3/IAS 27** - clarification of transition requirements, measurement of non-controlling interests, unreplaced and voluntarily replaced share-based payment awards
- **Financial statement disclosures** - clarification of content of statement of changes in equity (IAS 1), financial instrument disclosures (IFRS 7) and significant events and transactions in interim reports (IAS 34)
- **IFRIC 13** - fair value of award credits.

Amendments to IFRS 7,Financial Instruments: Disclosures

These make amendments to IFRS 7 *Financial Instruments:* Disclosures resulting from the IASB's comprehensive review of off balance sheet activities.

The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)

Amends IAS 12 Income Taxes to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale.

As a result of the amendments, SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

(d) Early adoption of standards

The Corporation did not early-adopt new or amended standards in 2011.

3. Summary of significant accounting policies

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

(a) Basis of preparation

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and its

interpretations issued by the International Accounting Standard Board (IASB).

The financial statements are presented in United States dollars (US$'000). They have been prepared under the historical cost convention, as modified by the carrying of certain investments at fair value.

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

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

(b) Consolidation

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

All inter-company transactions and balances are eliminated.

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

The preparation of the consolidated financial statements require management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amount of income and expense during the reporting period.

A significant degree of judgement has been used in the determination of the adequacy of provision for outstanding claims and claims incurred but not reported at the reporting date. In addition, the income statement includes estimates for premium, claims and charges data that were not received from ceding companies at the date of the financial statements.

These estimates are determined on the basis of historical information, actuarial analyses and other analytical techniques. Actual results could differ from these estimates.

(d) Classification of insurance contracts

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

(e) Recognition and measurement of insurance contracts

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

(i) Short-term insurance contract premiums

Written premiums on short-term insurance contracts comprises premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premium income for the period includes adjustments to premiums written in prior accounting periods and estimates for pipeline or premium not yet advised by the cedant for contracts in force at the end of the period. Where statements of insurance contract accounts have not been received at year-end, pipeline premiums are

estimated on the basis of the latest available information. An estimate is made at the reporting date to recognise retrospective adjustments to premium or commission. Premium relating to the expired risk period is taken as earned and recognised as revenue for the period while premium relating to the unexpired risk period is treated as a provision for unearned premium.

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

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

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

(iii) Claims arising from short-term insurance contracts

Claims incurred in respect of short-term insurance contracts consist of claims and claims handling expenses paid during the financial year as well as movements in provision for outstanding claims and claims incurred but not reported. Outstanding claims comprise provisions for all the Corporation's estimated ultimate costs of settling all claims incurred but unpaid at the reporting date whether reported or not and related claim handling expenses. Outstanding claims that have occurred at the reporting date and have been notified to the Corporation by the cedants are carried at their face value. Adequate provisions are also made for claims incurred but not reported at the reporting date using historical experience and best available information. Outstanding claim provisions are disclosed at their carrying amounts and are not discounted except where there is a particularly long period from the claim incident to settlement in which case outstanding claims are discounted using a discount rate that best reflects current assessment of time value of money and associated risks. Anticipated reinsurance recoveries on claims are disclosed separately as assets.

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

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

(v) Claims arising from long-term insurance contracts

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

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

(f) Properties and equipment

Properties and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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

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

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

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

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

(g) Intangible assets

(i) Computer software

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

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

(ii) Deferred acquisition costs

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

(h) Investment property

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

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

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

(i) Investments

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

i) Fair value through profit or loss

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

ii) Held-to-maturity

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

iii) Loans and receivables

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

iv) Available-for-sale

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

(j) Reinsurance receivables

All amounts receivable are initially recognised at fair value.

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

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

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

(k) Cash and cash equivalents

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

(l) Foreign currency translation

(i) Functional and presentation currencies

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

(ii) Foreign currency translation

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

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

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

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

(m) Leases

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

(n) Employee benefits

Retirement benefit obligations

The Corporation operates a defined contribution retirement benefit and an unfunded defined benefit service gratuity scheme for its employees. Under the defined contribution scheme, the Corporation pays fixed contributions into a separate entity. Once the contributions have been paid, the Group retains no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to finance benefits accruing under the retirement benefit plan.

The employee's entitlements to retirement benefits under the gratuity scheme depend on the individual's years of service and terminal salary.

The Group's contributions to the defined contribution schemes are charged to the income statement in the year to which they relate.

The liability recognised in the statement of financial position in respect of the unfunded defined service gratuity scheme is the present value of the defined benefit obligation at the reporting date.

Other employee benefits

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

(o) Income tax

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

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

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

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

(p) Dividends

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

	2011 US $'000	2010 US $'000
4 Investments		
i) Investments by category		
Bank deposits	440,022	386,903
Deposits with ceding companies	118,174	114,244
Fixed rate securities at fair value through profit or loss	83,037	55,571
Fixed rate securities held to maturity	83,302	74,445
Floating rate securities at cost	11,882	12,004
Quoted equity investments at fair value through profit or loss	59,745	36,799
Unquoted equity investments at cost less impairment	10,989	8,842
	807,151	**688,808**

Investments held to maturity are presented in the Group's statement of financial position at their amortized costs. The fair value of the held- to- maturity assets at 31 December, 2011 was US$82,464,261(2010: US$73,516,340).

Unquoted equity investments with a cost of US$11,293,257(2010: US$9,147,343) are carried at cost less impairment because their fair value cannot be determined as the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

ii) Weighted average effective interest rates

	2011 %	2010 %
Interest-bearing investments denominated in:		
US dollars	1.99	3.36
Euro	1.78	3.43
South African rand	5.62	7.01

iii) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of the Corporation's financial assets that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4 Investments (Continued)

iii) Fair value measurements recognised in the statement of financial position (Continued)

	31/12/2011			
	Level 1 US$'000	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**
Financial assets at fair value through profit or loss				
Non-derivative financial assets held for trading	140,382	-	-	140,382
Available-for-sale financial assets				
Redeemable notes	2,400	-	-	2,400
Total	**142,782**	**-**	**-**	**142,782**

This represents fixed rate securities at fair value through profit or loss and quoted equity investments at fair value through profit or loss.

5 Deferred Acquisition Costs	**2011 US $'000**	**2010 US $'000**
Balance at 1 January	32,046	28,980
Exchange rate impact on opening balance	(1,078)	739
	30,968	29,719
Released during the year	(30,968)	(29,719)
Deferred during the year	35,892	32,046
At 31 December	**35,892**	**32,046**

6 Reinsurance receivables		
Gross receivables arising from reinsurance arrangements	154,637	121,871
Provision for impairment	(12,796)	(10,870)
	141,841	**111,001**
Comprising:		
Current portion	85,891	51,864
Non-current portion	55,950	59,137
	141,841	**111,001**

7 Retrocessionnaires share of technical provisions		
Claims recoverable	17,575	13,483
Deferred retrocession premiums	16,642	8,820
	34,217	**22,303**

		2011 US$'000	2010 US$'000
8	**Investment properties**		
	Cost		
	At 1 January	10,295	10,475
	Transfer	(591)	(180)
	Additions	6	-
	At 31 December	9,710	10,295
	Depreciation		
	At 1 January	1,531	1,411
	Charge for the year	172	120
	At 31 December	1,703	1,531
	Net book value	**8,007**	**8,764**
	The following amounts have been recognised in statement of comprehensive income in respect of investment properties:		
	Rental income (Note 16)	**2,059**	**1,473**

Investment properties represent the lettable portion of the Corporation's headquarters building in Lagos as well as regional office buildings in Nairobi and Casablanca.

At 17 April 2012, the fair value of the headquarters building was estimated at US$ 45.531 million (net book value: US$ 6.745 million) based on a valuation by Knight Frank, a firm of Estate Surveyors.

At 1 April 2012, the fair value of the Casablanca regional office building was estimated at US$ 4.831 million (net book value: US$ 3.801 million) based on a valuation by Elodie Cantarel SARL, a firm of Estate Surveyors.

At 22 October 2010, the fair value of the Nairobi regional office building was estimated at US$ 7.638 million (net book value: US$ 2.417 million) based on a valuation by Knight Frank, a firm of Estate Surveyors

9 Properties and equipment

	Assets under construction US$'000	Buildings, leasehold & freehold land US$'000	Fittings & equip-ment US$'000	Motor vehicles US$'000	Total US$'000
Year ended 31 December 2011:					
Net book value at 1 January 2011	**1,134**	**7,917**	**2,742**	**555**	**12,348**
Reclassification/transfer	821	(215)	(78)	45	573
Additions	294	20	905	209	1,428
	2,249	7,722	3,569	809	14,349
Disposals (Cost)	-	-	(87)	(193)	(280)
Disposals (Accumulated depreciation)	-	-	86	77	163
Depreciation	-	(160)	(876)	(235)	(1,271)
Net book value at 31 December 2011	**2,249**	**7,562**	**2,692**	**458**	**12,961**
Comprising:					
Cost	2,249	9,402	11,053	1,244	23,948
Accumulated depreciation	-	(1,840)	(8,361)	(786)	(10,987)
	2,249	**7,562**	**2,692**	**458**	**12,961**
Year ended 31 December 2010:					
Net book value at 1 January 2010	1,032	8,074	3,170	436	12,712
Additions	102	32	537	302	973
	1,134	8,106	3,707	738	13,685
Disposals (Cost)	-	-	(88)	(240)	(328)
Disposals (Accumulated depreciation)	-	-	178	307	485
Depreciation	-	(189)	(1,055)	(250)	(1,494)
Net book value at 31 December 2010	**1,134**	**7,917**	**2,742**	**555**	**12,348**
Comprising:					
Cost	1,134	9,823	10,213	1,078	22,248
Accumulated depreciation	-	(1,906)	(7,471)	(523)	(9,900)
	1,134	**7,917**	**2,742**	**555**	**12,348**

Included in buildings, leasehold and freehold land is a total amount of US$4,043,875 (2010:US$4,602,209) representing the carrying amount of the owner-occupied part of the Group's headquarters building in Lagos and regional office buildings in Nairobi and Casablanca.

10 Reinsurance payables

	2011 US$'000	2010 US$'000
Payables under reinsurance arrangements	54,176	59,639
Payables under retrocession arrangements	21,693	10,660
	75,869	**70,299**

11 Deferred tax

Deferred tax is calculated in full using the liability method and applying a principal tax rate of 29%. The movement on the deferred tax account is as follows:

	2011 US$'000	2010 US$'000
At 1 January	666	244
Exchange rate impact on opening balance	(121)	28
Charged to profit or loss (Note 20)	259	394
At 31 December	**804**	**666**

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

	01.01.11 US $'000	Charged to P/L US $'000	31.12.11 US $'000	31.12.10 US $'000
Properties and equipment	49	(3)	46	(32)
Unrealised gain on revaluation of investments	617	262	879	670
Exchange rate impact on opening balance	(121)	-	(121)	28
Net deferred tax liability	**545**	**259**	**804**	**666**

12 Technical provisions

i) Analysis of outstanding balances

	2011 US$'000	2010 US$'000
Pre-event catastrophes & unknown risks reserve*	31,255	-
Provision for reported claims	325,810	338,186
Provision for claims incurred but not reported	61,875	65,405
Cumulative translation reserve	(8,586)	(5,566)
Total outstanding claims	410,354	398,025
Provision for unearned premiums	150,005	125,585
	560,359	**523,610**
Comprising:		
- current portion	273,011	261,164
- non-current portion	287,348	262,446
	560,359	**523,610**

** This reserve is a security reserve set up by Management to cover the self insured business and unknown exposures excluded from the Corporation's retrocession programme and exceptional catastrophe events.*
Each year Management will propose the additional amount to be paid in that fund based on the portfolio written by the company, the business expansion strategy and risk appetite policy.

ii) Analysis of outstanding claims reserve development

U/W YR	2001 US$'000	2002 US$'000	2003 US$'000	2004 US$'000	2005 US$'000	2006 US$'000	2007 US$'000	2008 US$'000	2010 US$'000	2010 US$'000	2011 US$'000
Gross outstanding claims reserve	59,963	64,604	134,312	135,573	148,915	137,391	184,340	179,076	209,347	261,164	273,011
Gross paid (Cumulative):											
1 year later	26,429	31,313	51,705	57,284	62,705	67,544	101,635	129,787	97,119	49,797	
2 years later	41,756	46,869	108,364	82,214	84,301	103,671	150,639	169,220			
3 years later	45,040	51,766	120,900	88,984	94,188	120,671	173,387				
4 years later	47,619	54,390	126,063	96,259	102,347	127,358					
5 years later	49,086	55,970	130,004	101,007	106,503						
6 years later	50,602	63,019	131,686	103,649							
7 years later	51,105	64,921	132,977								
8 years later	51,885	66,744									
9 years later	52,383										
10 years later											
Re-estimated as of:											
Closed year	59,963	64,604	134,312	135,573	148,915	137,391	184,340	179,076	209,347	261,164	273,011
1 year later	46,458	71,092	131,985	128,836	102,876	117,432	174,442	212,563	204,840	130,291	
2 years later	57,352	74,086	132,575	114,114	136,360	137,660	205,816	213,216			
3 years later	53,824	70,714	137,471	132,279	120,260	143,870	214,133				
4 years later	55,422	65,032	144,008	111,528	124,345	142,926					
5 years later	54,499	79,765	137,500	112,969	117,327						
6 years later	59,444	70,005	139,522	110,112							
7 years later	54,242	71,670	137,489								
8 years later	55,930	69,071									
9 years later	53,713										
10 years later											
Gross redundancy/ (deficiency)	6,250	(4,467)	(3,177)	25,461	31,588	(5,535)	(29,793)	(34,140)	4,506	130,873	

13 Other reserves

	2011 US$'000	2010 US$'000
General reserve	129,774	101,721
Reserve for exchange fluctuation	6,294	6,294
Reserve for loss fluctuation	7,200	6,400
Reserve for market value adjustment	(236)	64
Translation reserve	(20,689)	(1,811)
	122,343	**112,668**

(i) General reserve

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

(ii) Reserve for exchange fluctuation

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

(iii) Reserve for loss fluctuation

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

(iv) Translation reserve

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

(v) Reserve for Market Value Adjustment

Reserve for market value adjustment represents the unrealised gain or loss arising from the changes in the fair value of the non-derivative financial assets classified as available for sale.

Movements in the other reserves are shown in the statement of changes in equity on page 38.

14 Share capital

	2011 Number	2010 Number
Authorised share capital	**5,000,000**	**5,000,000**
Issued and fully paid	**2,648,851**	**1,990,594**
	US$'000	**US$'000**
Issued and fully paid at 31 December	**264,885**	**199,059**
Nominal value per share	**$100**	**$100**

15 Earned premium

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

	2011			2010		
	Gross US$'000	Retro-cession US$'000	Net US$'000	Gross US$'000	Retro-cession US$'000	Net US$'000
Fire and accident	467,185	(25,762)	441,423	503,617	(29,408)	474,209
Marine and aviation	111,519	(38,315)	73,204	94,169	(21,089)	73,080
Life	23,798	(4,845)	18,953	19,123	(2,629)	16,494
	602,502	**(68,922)**	**533,580**	**616,909**	**(53,126)**	**563,783**

16 Investment income

	2011 US $'000	2010 US $'000
Interest income	20,903	20,258
Interest on reinsurance deposits	2,167	2,049
Rental income	2,059	1,473
Dividends from equity investments	1,747	1,035
Realized loss on investments	392	(47)
Fair value (loss)/ gains from investments at fair value through profit or loss	(547)	6,777
Management fees	(507)	(402)
	26,214	**31,143**

17 Other operating income

	2011 US $'000	2010 US $'000
Fee income	1,073	1,350
(Loss)/gain on disposal of property and equipment	(6)	42
Sundry income	21	21
	1,088	**1,413**

18. Claims incurred

	2011			2010		
		Retro-			Retro-	
	Gross	cession	Net	Gross	cession	Net
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Claims incurred by principal class of business						
Fire and Accident	275,669	(6,064)	269,605	299,861	(1,774)	298,087
Marine and Aviation	39,729	(5,046)	34,683	46,770	(8,174)	38,596
Life	10,342	(2,634)	7,708	11,936	(1,423)	10,513
Total	**325,740**	**(13,744)**	**311,996**	**358,567**	**(11,371)**	**347,196**

19 Administrative expenses

	2011 US $'000	2010 US $'000
Staff costs	18,468	17,490
Auditors' remuneration	239	243
Depreciation	1,443	1,614
Impairment charge on reinsurance receivables	3,424	1,734
Operating lease rentals	397	202
Repairs and maintenance expenditure	560	519
Consultancy fees and expenses	653	705
Travel costs and allowances	804	733
General Assembly and Board of Directors' meetings	1,011	661
Electricity and water	1,137	305
Insurance	481	411
Communication expenses	476	492
Advertisement and Entertainment	430	369
Training and subscriptions	421	481
Medical Expenses	362	239
Computer and technical expenses	284	224
Transport and maintenance	248	219
Bank charges and other fees	238	244
Office Expenses	135	135
Legal Expenses	46	50
Donations	25	24
	31,282	**27,094**

Staff costs include retirement benefit costs amounting to US$2,464,907 (2010: US$2,307,546).

20 Income tax expense

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

Tax charged in the financial statements is made up of :

	2011 US$'000	2010 US$'000
Current income tax	3,041	3,008
Deferred income tax (Note 11)	259	394
	3,300	**3,402**

21 Dividends

At the Annual General Meeting (AGM) to be held on June 21, 2012, a final dividend in respect of the year ended 31 December, 2011 of US$3.5 (2010: US$2) per share on 2,648,851 existing shares amounting to a total of US$8,544,876 (2010: US$3,981,188) is to be proposed. The dividend declared at the AGM held on 24 June 2011 has been charged to shareholders' equity in the current year financial statements. The liability for the dividend payable on the 2011 results shall be treated as an appropriation of profit in the financial statements for the year ending 31 December 2012

22 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2011 US$'000	2010 US$'000
Profit before income tax	72,499	68,265
Adjustments for:		
Depreciation and Amortisation	1,443	1,614
Profit on sale of property and equipment	6	(42)
Change in fair value of financial assets	(17)	(2,938)
Changes in:		
- reinsurance payables	15,761	52,337
- reinsurance receivables	(34,560)	(19,637)
- other payables	(2,538)	1,666
- other receivables	(4,287)	(2,227)
Cash generated from operations	48,307	99,038

23 Related party transactions and balances

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

	2011 US$ '000	2010 US$ '000
ii) Remuneration for key management personnel		
Directors' fees (non executive directors)	407	205
Other remuneration (elected members of management)		
- Salaries and other short term benefits	1,567	1,783
- Terminal benefits	1,165	604

24 Management of Insurance and Financial Risks

Insurance risk

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

The risk under any one insurance contract is two-fold: underwriting - the possibility that the insured event occurs, and reserving - the uncertainty of the amount of the resulting claim.

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

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

Financial risk

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

Interest rate risk

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

The table below analyses the Corporation's key financial assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2011 to the earlier of the repricing or contractual maturity date.

24 Management of Insurance and Financial Risks (continued)

At 31 December 2011 (IN US$'000)	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
FINANCIAL ASSETS							
Cash and cash equivalents	55,195	-	-	-	-	-	55,195
Reinsurance receivables	85,891	36,087	6,203	5,664	5,268	2,728	141,841
Investments:							
- Bank deposits	440,022	-	-	-	-	-	440,022
- Deposits with ceding companies	14,651	28,700	16,915	9,207	8,283	40,418	118,174
- Fixed rate securities at fair value	6,492	6,523	10,408	16,497	5,666	37,451	83,037
- Fixed rate securities at amortized cost	9,776	2,263	7,451	12,699	8,720	42,393	83,302
- Floating rate securities at cost	854	500	5,517	2,390	2,621	-	11,882
Equity investments at fair value	59,745	-	-	-	-	-	59,745
Equity investments at amortised cost	-	-	-	-	-	10,989	10,989
Total	**672,626**	**74,073**	**46,494**	**46,457**	**30,558**	**133,979**	**1,004,187**
FINANCIAL LIABILITIES							
Reinsurance payables	50,811	9,049	5,665	5,066	3,772	1,506	75,869
Outstanding claims	139,779	111,058	45,360	42,007	72,150	-	410,354
Total	**190,590**	**120,107**	**51,025**	**47,073**	**75,922**	**1,506**	**486,223**

24. Management of Insurance and Financial Risks (continued)

At 31 December 2010 (IN US$'000)	Up to 1 year	1-2 years	2-3 years	3-4 years	Over 4 years	Total
FINANCIAL ASSETS						
Cash and cash equivalents	55,838	-	-	-	-	55,838
Reinsurance receivables	63,765	23,984	4,396	12,118	6,738	111,001
Investments:						
- Bank deposits	386,903	-	-	-	-	386,903
- Deposits with ceding companies	16,340	30,121	12,355	10,494	44,934	114,244
- Fixed rate securities at fair value	5,228	3,532	4,535	10,594	31,682	55,571
- Fixed rate securities at amortized cost	592	10,041	4,665	10,591	48,556	74,445
- Floating rate securities at cost	1,000	1,865	500	3,021	5,618	12,004
Equity investments at fair value	36,799	-	-	-	-	36,799
Equity investments at amortised cost	-	-	-	-	8,842	8,842
Total	**566,465**	**69,543**	**26,451**	**46,818**	**146,370**	**855,647**
FINANCIAL LIABILITIES						
Reinsurance payables	51,864	6,139	2,022	6,340	3,934	70,299
Outstanding claims	135,579	107,721	43,997	40,746	69,982	398,025
Total	**187,443**	**113,860**	**46,019**	**47,086**	**73,916**	**468,324**

Currency risk

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

The tables on pages 63 and 64 show the various currencies in which the group's assets and liabilities were denominated as at 31 December 2010 and 2011. The non US dollar balances reflect the significant foreign currency exposures.

24. Management of Insurance and Financial Risks (continued)

Currency risk (continued)

At 31 December2011:
(in US$'000)

	USD	Rand	UK Pounds	CFA/EUR	MAD	EGP	NGN	KES	MUR	OTHERS	TOTAL
ASSETS											
Cash and cash equivalents	24,602	18	933	10,268	4,290	19	11,384	1,509	1,722	450	55,195
Reinsurance receivables											
Investments;	34,565	83	776	21,144	11,953	2,298	16,609	7,253	2,871	44,289	141,841
- Bank deposits	239,057	118,528	2,646	31,335	10,943	5,447	7,741	16,256	1,022	7,047	440,022
- Deposits with ceding companies	14,439	4,803	283	31,884	31,125	5,862	12	637	92	29,037	118,174
- Fixed rate securities at fair value	36,621	39,189	3,520	3,707	-	-	-	-	-	-	83,037
- Fixed rate securities at amortised cost	68,364	11,702	-	3,236	-	-	-	-	-	-	83,302
- Floating rate securities at cost	11,492		390								11,882
- Equity investments at fair value	22,748	31,457	-	3,385	-	-	1,282	873	-	-	59,745
- Equity investments at amortised cost	10,352	-	-	-	-	-	637	-	-	-	10,989
Total	**462,240**	**205,780**	**8,548**	**104,959**	**58,311**	**13,626**	**37,665**	**26,528**	**5,707**	**80,823**	**1,004,187**
LIABILITIES											
Reinsurance payables	59,946	2,606	1,653	8,224	-	5	-	-	-	3,435	75,869
Outstanding claims	74,840	118,723	708	2,964	636	9,042	14,629	17,766	13,093	157,953	410,354
Total	**134,786**	**121,329**	**2,361**	**11,188**	**636**	**9,047**	**14,629**	**17,766**	**13,093**	**161,388**	**486,223**

24. Management of Insurance and Financial Risks (continued)

Currency risk (continued)

At 31 December 2010: (in US$'000)	USD	Rand	MAD	CFA/EUR	EGP	NGN	KSH	MUR	OTHERS	TOTAL
ASSETS										
Reinsurance receivables	22,962	157	6806	16,185	453	16,376	7,705	2,114	38,243	111,001
Investments										
- Bank deposits	115,491	199,321	7,766	33,783	5,227	2,617	11,834	4,682	6,182	386,903
- Deposits with ceding companies	11,878	6,309	26,947	35,093	4,937	12	739	89	28,240	114,244
- Fixed rate securities at fair value	24,118	24,283	-	4,085	-	-	-	-	3,085	55,571
- Fixed rate securities at amortised cost	57,562	13,592	-	3,291	-	-	-	-	-	74,445
- Floating rate securities at cost	11,613	-	-	-	-	-	-	-	391	12,004
- Equity investments at fair value	12,283	19,660	-	3,088	-	1,307	461	-	-	36,799
- Equity investments at amortised cost	8,205	-	-	-	-	637	-	-	-	8,842
Total	**290,857**	**264,877**	**47,997**	**104,046**	**10,813**	**27,817**	**20,815**	**9,177**	**79,248**	**855,647**
LIABILITIES										
Reinsurance payables	58,059	2,768	1	3,263	1,076	-	-	-	5,132	70,299
Outstanding claims	54,873	129,326	28,370	41,500	5,884	16,904	16,684	8,444	96,040	398,025
Total	**112,932**	**132,094**	**28,371**	**44,763**	**6,960**	**16,904**	**16,684**	**8,444**	**101,172**	**468,324**

24 Management of insurance and financial risk (continued)

Credit risk

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

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

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

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

Liquidity risk

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

Equity price risk

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

25 Contingent liabilities

There are no material contingent liabilities in respect of pending litigations involving the Corporation for which no provisions have been made in these financial statements.

26 Commitments

(i) Capital commitments

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

	2011 US$'000	2010 US$'000
Property and equipment	-	-

(ii) Operating lease commitments

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

	2011 US$'000	2010 US$'000
Not later than 1 year	-	-
Later than 1 year and not later than 5 years	-	-
	-	-

27 CAPITAL MANAGEMENT

The corporation is not subject to any externally imposed capital requirements. However, the corporation will continue to actively grow its available capital to meet rating agencies' requirements for its target rating as well as achieve a comfortable internally determined capital adequacy ratio (available capital divided by required risk adjusted capital).

The corporation's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its reinsured and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to safeguard the corporation's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The corporation has a number of sources of capital available to it and seeks to optimise its retention capacity in order to ensure that it can consistently maximise returns to shareholders. The corporation considers not only the traditional sources of capital funding but the alternative sources of capital including retrocession, as appropriate, when assessing its deployment and usage of capital. The corporation manages as capital all items that are eligible to be treated as capital.

The constitution of capital managed by the corporation is as shown below:

	2011 US$	2010 US$
Share capital	264,885	199,059
Share premium	33,452	315
Other reserves	122,343	112,668
Retained earnings	61,450	31,632
Total capital - Equity	**482,130**	**343,674**

Consolidated income statement by class of business

	Fire and accident US$'000	Marine and aviation US$'000	Life US$'000	Total 2011 US$'000	Total 2010 US$'000
Underwriting income:					
Gross written premium	485,602	120,329	25,559	631,490	627,532
Gross earned premium	467,185	111,519	23,798	602,502	616,909
Retrocession premium	(25,762)	(38,315)	(4,845)	(68,922)	(53,126)
Net earned premium	441,423	73,204	18,953	533,580	563,783
Commissions & charges earned	1,902	4,828	1,184	7,914	9,194
Gross claims paid	(241,057)	(32,060)	(10,845)	(283,962)	(322,859)
Gross claims incurred	(275,669)	(39,729)	(10,342)	(325,740)	(358,567)
Less retrocessionaires' share	6,064	5,046	2,634	13,744	11,371
Net claims incurred	(269,605)	(34,683)	(7,708)	(311,996)	(347,196)
Acquisition expense	(120,387)	(26,556)	(5,051)	(151,994)	(161,682)
Management expenses	(23,810)	(6,059)	(1,413)	(31,282)	(27,094)
Underwriting profit	29,523	10,734	5,965	46,222	37,005
Net investment and other income				27,302	32,556
Finance costs – exchange losses				(1,025)	(1,296)
Profit before income tax				72,499	68,265
Income tax expense				(3,300)	(3,402)
Profit for the year				**69,199**	**64,863**

Notes