AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
21ST ANNUAL ORDINARY MEETING **AFRICARE/GA/23/151**
ADDIS ABABA, ETHIOPIA, 24TH AND 25TH JUNE, 1999

Report of the Board of Directors
Covering the Period
1st January to 31st December, 1998

AFRICAN REINSURANCE CORPORATION
SOCIETE AFRICAINE DE REASSURANCE

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Honourable Representatives
General Assembly
African Reinsurance Corporation

Date : 24th June, 1999

Your Excellencies,

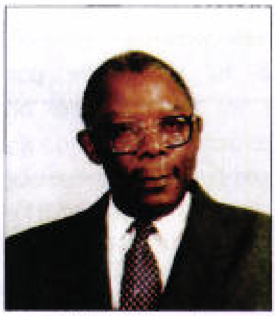
In accordance with the provisions of Articles 14 and 37 of the Agreement Establishing the African Reinsurance Corporation and Article 8 of the General Regulations of the Corporation, I have the honour, on behalf of the Board of Directors, to submit to you the Annual Report and Audited Accounts of the Corporation for the period from 1st January to 31st December, 1998.

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

MUSA S. AL NAAS
Chairman of the Board of Directors
and General Assembly

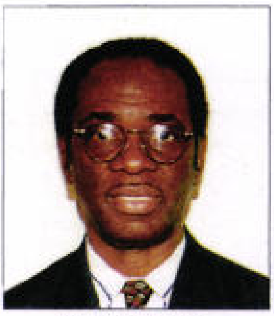
COMPOSITION OF AFRICA RE BOARD OF DIRECTORS


Mr. M. Al Naas
Chairman

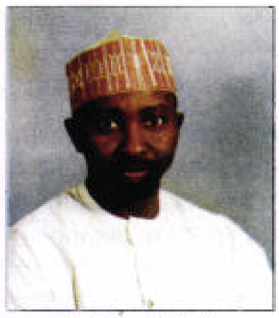

Mr. F. Magezi
Vice-Chairman


Mr. A. Bayala


Mr. T. El Barki


Mr. C. Enweze


Mr. M. Ferrani


Mr. M. U. Kari


Mr. L. P. N'Goulakia


Mr. R. Rasamoely


Mrs. A.S. Samake


Mr. K. Selim


Mr. O. W. Temu

ALTERNATE DIRECTORS

Mrs. Angèle SOUDRE, Mr. Ahmed Omar IBRAHIM, Mr. S. APPIAH-AMPOFO, Mr. Boualem OUBAÏCHE, Mr. Côme NKURUNZIZA, Mr. Haile Michael KUMSA, Mr. Hassan FARAH, Mr. Mohamed Lemine Ould Naty, Mr. Nashnush FARG, Mr. Peter KENNETH, Mr. Séléus NEZERWE, Mr. Zeru WOLDEMICHAEL.

COMPOSITION OF AFRICA RE MANAGEMENT


Mr. Bakary Kamara
Managing Director


Mr. J. Abban
Deputy Managing Director

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EXECUTIVE SUMMARY

The 21st Annual Report of the Board of Directors presents the Corporation's financial statements for 1998, including the balance sheet as at 31st December and the profit and loss account for the year then ended. In addition, it contains the results of the 1996 Underwriting year (closed for the first time), those of the previous years (1978-1995), as well as the accounts for the still open years of 1997 and 1998.

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

During the financial year 1998, the Corporation recorded a gross premium income, net of cancellations of US$66,126,186 which represents an increase of 5.13% over the 1997 production of US$62,899,759. Due to the increase in the Corporation's capacity resulting from the ongoing opening of the capital and the restructuring of its reinsurance programme, retroceded premium reduced from US$4,940,223 in 1997 to US$3,685,933. The retained premium therefore stood at US$62,440,253 (1997: US$57,959,536), corresponding to a retention ratio of 94.43%, compared to the 1997 ratio of 92.15%. After adjusting for the movement in premium reserves, net earned premium amounted to US$60,467,948 (1997: US$55,932,329). Paid losses stood at US$28,123,494, while adjustment for the movement in outstanding loss reserves produced an incurred loss of US$32,106,068 (1997: US$29,613,476).Other outgo includes commissions of US$19,430,605, charges of US$1,100,430 and management expenses of US$4,199,906. The resulting underwriting profit of US$3,630,939 (1997: US$3,540,785) was transferred to the profit and loss account.

Income from investment and other sources amounted to US$3,482,566, compared to US$3,020,961 produced in 1997, while interest on reinsurance deposits stood at US$996,588 (1997: US$1,031,030). A realized gain on exchange of US$229,016 was recorded during the year as against a loss of US$1,112,322 in the previous year. Operating income for the year therefore amounted to US$8,339,109 (1997: US$6,480,454). Other expenses not charged to the underwriting revenue account amounting to US$928,467 (1997: US$795,826) were then deducted from the operating income to arrive at a net profit of US$7,410,642 for the year compared to US$5,684,628 for 1997.

The excess of income over outgo for the still open years of 1997 and 1998 amounted to US$37,735,934 (1997: US$35,763,629) and this has been carried forward as reinsurance funds in line with the Corporation's standing accounting practice. Similarly, Reserves for outstanding losses including IBNR at the end of the year was established at US$23,017,549 (1997: US$19,034,975).

The cumulative translation adjustment for the year resulted in an unrealized gain of US$807,599 compared to a loss of US$6,440,264 recorded in 1997. As in previous years, this is being treated as a separate component of the shareholders' funds in accordance with the International Accounting Standards No. 21 (IAS 21). A total of US$500,000 (1997: US$3,987,300) was written off the cumulative translation adjustment by way of transfer from the profit and loss account. As at 31st December, 1998, cumulative translation adjustment therefore amounted to US$9,546,012 (1997: US$10,853,611).

The shareholders' funds as at 31st December, 1998 stood at US$50,216,444 compared to US$41,519,193 at the end of the previous year, which represents an increase of 20.95%.

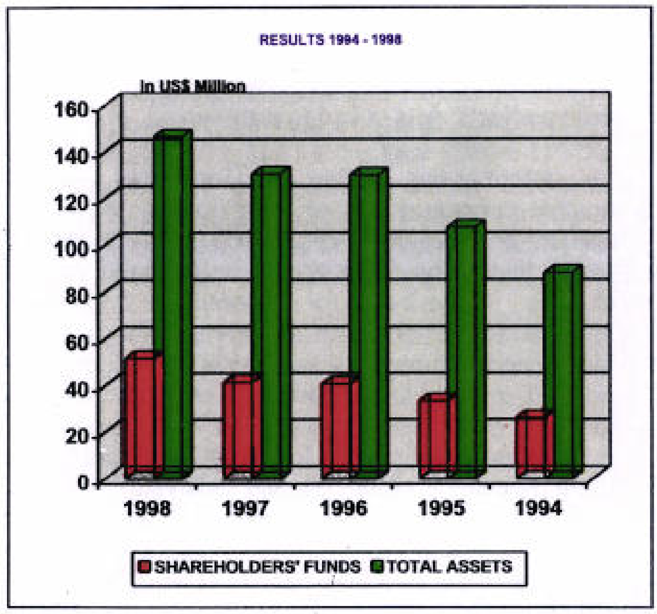
The globalisation of the economy, especially the service sector was more accentuated in 1998 than in the previous years. Nevertheless, that was the year in which, for the first time, the ideological position whereby globalisation was assumed to have only positive effects was called to question.

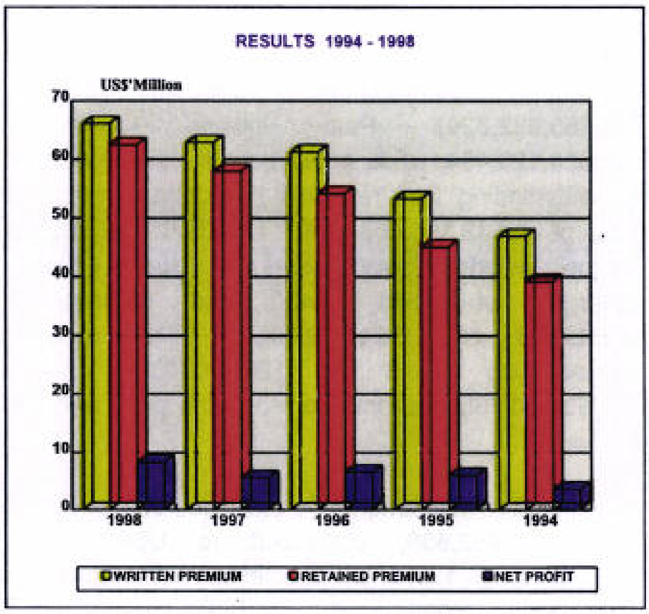
The performances of the world economy and the negative consequences of globalisation (the Asian, Russian and Brazilian crises) caused the Bretton Woods Institutons to give a more humane face to solutions prescribed for countries undergoing structural adjustment. The stiff competition in which nations and sub-regional economic groupings were engaged, in order to increase their share of the world market of goods and services and thereby generate an improved trade surplus, coupled with a drastic fall in the prices of crude oil, led analysts to review downwards, their growth projections for the year under review (2%).

Whereas the reduction in interest rates as well as programmed devaluations, for a moment, restored some vitality to different financial centres in the global arena , they could not achieve the expected outcome at national levels which was to support individual initiative in export promotion.
However, African economies which suffered from the fall in oil price and the deterioration of the terms of exchange, on the average, resisted the situation better than the other developing regions and emerging markets.

FINANCIAL HIGHLIGHTS

In US$ '000	1998	1997	1996	1995	1994
RESULTS					
WRITTEN PREMIUM	66,126	62,900	61,281	53,329	46,910
RETAINED PREMIUM	62,440	57,960	54,143	45,068	39,207
EARNED PREMIUM (NET)	60,468	55,932	48,227	36,001	40,036
NET PROFIT	7,411	5,685	6,683	6,113	3,633
FINANCIAL POSITION					
SHAREHOLDERS' FUNDS	50,216	41,519	40,256	33,543	26,285
TOTAL ASSETS	146.546	130,501	126,980	107,619	88,172





In effect, they recorded a growth rate of between 2.3% and 3.5% and even 7% in some countries. However, armed conflicts created uncertainties to such an extent that there was a fall in the level of Foreign Direct Investment (FDI) into the continent as compared to the mid-1990's.

Nonetheless, Africa still harbours significant potentials for investors looking for substantial rates of return on investment. The proof of this assertion is the excellent performances of some African Stock Exchanges (Casablanca, Port Louis, Tunis etc) which despite their tiny size, have attracted institutional and private investors.

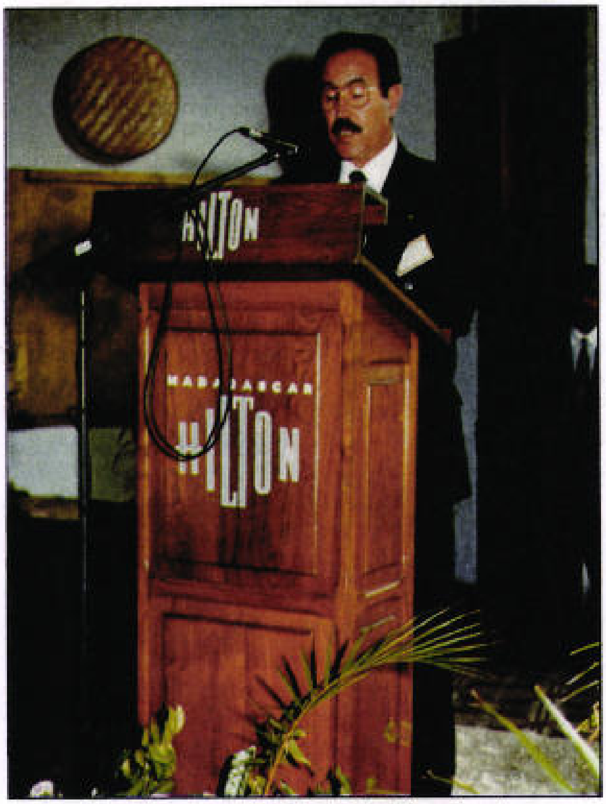
On its part, the evolution of the insurance sector was similar to that of the world industry which was characterised by restructurings/mergers and greater acquisitons than before. The fall in the volume of reinsurance premium in 1997 as compared to the previous year was, seemingly, further confirmed during the year under review. In fact, this phenomenon that is an outcome of unbridled competition which engendered rate cutting in all classes was born out of the changes in strategy whereby companies put more emphasis on ensuring their survival in a highly competitive environment than on the sustenance of professional ethics which gives primacy to and respects fundamental underwriting rules. While consolidating their financial bases, mega-reinsurers became more and more aggressive in marketing and no longer overlooked any market, however tiny, as each one was more focused on capturing a bigger market share.

Futhermore, the African insurance industry is faced with a threat that apppears more dangerous than the fair competition which governs all free markets. The problem in question is the delocalisation of major insurance risks from the continent to the West due to the deregulation and freedom of services prescribed by the World Trade Organisation (WTO). In the long run, it is indeed the survival of the continent's insurance industry that will be in danger because the only risks to be insured locally would be the liability class which is traditionally unprofitable.

In spite of this uncertain trading environment, the African Reinsurance Corporation recorded a 5 .13% growth in production which increased from US$ 62 .90 million in 1997 to US$ 66.13 million. This level of growth, when compared with the world average (1.5%) and that of the continent (1.3%), attests to the effort put in by the Corporation's marketing teams to achieve results. That effort would have been even more glaring if the fluctuation in the trading currencies of Africa Re were taken into account. Had these currencies remained stable since January, production growth rate for 1998 would have stood at 10.48%. During the year under review, the share of additional cession stood at 61.15% . Certainly, the opening of a local office in Port Louis (Mauritius), after that of Johannesburg, contributed to the modest increase in the ratio of that type of business. The Board and Management are convinced that these new offices would generate a higher volume of premium in the years ahead.

Loss experience remained relatively stable (52.18% instead of the 53.51% in 1997). The stiff competiton in the world market as well as in the different trading areas of the Corporation and the ensuing tariff war explain the relatively high level of the loss ratio which is, nevertheless, below the world average. Therefore, the technical profit recorded (US$ 3.63 million i.e. 5.49% of gross production) in 1998 represents a good performance. The African Surplus Treaty which, initially, was primarily reserved for African companies has now been opened to retrocessionaires from other regions, especially Asia and the Middle East, on the basis of reciprocity.

As at 31st December, 1998, the Corporation's paid-up capital had increased to US$ 23,082,500 while the shareholders' funds stood at US$ 50,216,444. Management expenses represented 6.73% of retained premium. Desirous to play a more significant role internationally, the Corporation opted for a formal rating by one of the most authoritative rating agencies in insurance . Standard & Poor's granted Africa Re a "BBB" financial strength rating, which corroborates its positive perception by cedants who have always shown their confidence and had supported its operations in the previous years.



The Chairman of AFRICA RE addressing the Corporation's General Assembly

ECONOMIC AND TRADING ENVIRONMENT

In the process of attaining a more sustained globalisation of the economy, 1998 witnessed the accentuation of the first crisis in the system, thus compelling most experts to conclude that there was need for the formulation of new economic and social dynamics. The specialists' attitude, itself, resulted from the questioning of some of the ideological bases of modern financial capitalism. The economic and trading environment within which the Corporation operated during the year was characterised by the following factors.

Slow Down of the World Economy

Although the shock wave of the Asian crisis in 1997 did not go beyond the door steps of the industrialised West, it persisted in these countries till 1998 and even extended to other continents. Thus, after the devaluation of the national currencies of the Dragons and other Asian Tigers as well as the fall in the prices of their raw materials and manufactured goods, the Russian crisis and the financial turmoil in Latin America, which occurred in the last quarter of the year, took their turn in threatening the soundness and stability of the western economies.

The wind of globalization, among other things, encouraged each country to strive for trade surplus by way of achieving more exports and a reduction in domestic consumption to the detriment of any other international solidarity move.

At the micro-economic level, mega-mergers instilled into companies the exigency for the reduction of personnel costs in order to remain competitive. This could lead to a decline in consumption and, after a few years, result in stagnation.

The stiff competition between countries to conquer bigger market shares compelled many of them to lower interest rates, which had the only effect of engendering a temporary capital market euphoria. The most remarkable result of these policies was that the concurrent fall in interest rates neutralised one another and failed to achieve the expected competitive and sustained price reduction. This led to a slow down in world trade, for which several advocates of unbridled globalisation of the international economy had predicted a bright future.

Furthermore, the drastic reduction in the price of crude oil, which within a few months fell from US$17 to less than US$10, tremendously affected the world economy as a whole, a factor which, among other things, compelled a number of international institutions (IMF, OECD and UNDP) to revise downward the growth projections made in the beginning of the year (2% in 1998 and an average of 2.2% in 1999). It would not only be an exaggeration but also premature to draw conclusions as to the failure of the phenomenon of globalisation. However, it should be admitted that the moral attraction and the scientific efficacy of that concept have suffered a set back. Once again, America was an exception to the rule. In effect, despite the fluctuations in the stock market, the performance of that leading economy revealed an accelerated growth in the second and third quarters, because imported deflation (fall in the price of imported raw material and foreign purchases in dollars) reduced the inflationary tension resulting from a full capacity production of goods and services and a lower level of unemployment.

The reduction of interest rates by the Federal Reserve enabled the stock exchange to recover, thereby restoring the confidence of private consumers and pension funds managers. The reattainment of balance in the federal budget gave room for the increase in trade deficit, without the need to take any protectionist measures. Thus, the Amercian economy was able to partly absorb the adjustments which resulted from the Asian crisis. This analysis and comment are also valid for Western Europe with the exception of Great Britain whose industrial sector is experiencing a near recession.

The countries that suffered the most from this crisis were Japan - theoretically, the second largest economy in the world and Russia. Some countries in Asia (especially Thailand and South Korea), after experiencing the worst of depression, seem to be on the path to recovery. In addition, the strengthening of the Chinese Yuan helped in restoring calm to the Asian economy.

The economic jolts experienced in Brazil necessitated the massive intervention of the International Monetary Fund (IMF) which had since, on its own, questioned some of its methods considered by critics as stereotyped, rigid and inefficient because they are applied *à posteriori*. Thus, would the world move into the dawn of the 21st century with the reforming of the entire international monetary and financial system?

Deterioration of the Terms of Exchange and Uncertainties in African Economies

The effect of the oil glut in 1998 seriously reduced the financial resources of producing countries in Africa (Algeria, Angola, Egypt, Gabon, Libya and Nigeria) although the other consumer nations did not derive appreciable benefit from the fall. The slump compelled the countries already mentioned to drastically cut back on their budget, especially the social aspects (Health and Education). On the average, the growth rate of the continent for the year would stand at about 2.3%.

In addition to the limited impact of the, above mentioned crisis, because of the economic marginalisation of the continent, the human, economic and financial consequences of more than half a dozen sub-regional conflicts also account for the negative performances. However, just one year earlier, most projections were to the effect that the continent would end the century and begin the millenium with improvements in the production of goods and services as a result of the hard work and the new attitude of good governance introduced by advocates of African Renaissance. On the contrary, African countries as a whole set aside, in 1998, almost US$10 billion for military expenditure representing almost 3.5% of the Gross Domestic Product of the continent. This does not take into account the negative human and economic consequences of these wars.

Among the indirect negative consequences of these are the slowdown in Foreign Direct Investment (FDI), despite the rather optimistic note on which the first half of the decade started. On the average, these investments amounted to US$5.2 billion for the period 1994 - 1996 (as against US$3.2 billion for 1991 - 1993), and stood at US$4.7 billion in 1997 for only Sub-Saharan Africa, 75% of which was directed towards the South African economy.

Going by figures provided by American, European and Japanese multinationals operating in Africa, the continent remains a profitable destination for investments as returns are much higher than those from other regions of the world. Furthermore, these investments have been largely made in the manufacturing and service sectors, contrary to the general opinion that they are only limited to the exploitation of natural resources, an area with a low value added.

Nevertheless, the recent decision of one of the major players in the South African economy to be quoted both at the London and Johannesburg Stock Exchanges, to some analysts, signifies the will to delocalise or at least a disaffection of multinational economic decision makers for the country. Another school of thought believes that this initiative is a reflection of an ever growing and accelerated globalization for which there is neither geographical boundaries nor nationalistic sentiments.

The analysis of the success recorded by a group of 7 nations (Botswana, Ghana, Equatorial Guinea, Mozambique, Namibia, Uganda and Tunisia) in an attempt to mobilise Foreign Direct Investment called for the improvement of the regulatory framework, the consolidation of their political and macro-economic stability and the creation of favourable financial climate to promote investment i.e. the foundation on which the performances were built.

Similarly, the efficiency of the Casablanca, Tunis and Port Louis (Mauritius) stock exchanges confirms that those countries are transforming into leading emerging markets. Thus, it would appear that the situations of African economies are rather contrasting.

For example, in North Africa, Morocco which enjoyed favourable climatic conditions in 1998, would record a growth rate of about 7% after the recession of 1997 and economic statistics close to the average population growth rate (1.7%) for the previous year. Tunisia still has a healthy economy with an average growth of 4% during the previous decade, which has been confirmed at 5.1% in 1998, despite the near stagnation of the agricultural sector.

In West Africa, the monetary consequences of the Asian crisis still affect the competitiveness of exports from this sub-region (coffee, cocoa, timber) and the sale of oil to Asia. The danger of non-competitiveness is greater for member countries of the Franc Zone at a moment when the CFA Franc was to be linked to the European currency, the Euro.

While, generally, inflation was close to 7.8%, the fall in duty following the harmonisation of customs duties by members of the West African Economic and Monetary Union (WAEMU) could threaten the 10% projected growth rate in 1998 for the industrial sector. This sector would be further exposed to competition which is becoming stiffer following the fall of the dollar against the currency of the sub-region, whereas the prices of raw materials meant for exports are fixed in the American currency. Thus, some Senegalese fishing companies had to close down due to their inability to sustain the competition with operators from Thailand. In the same vein, there has been a serious fall in the volume of sale of the Gabonese timber following devaluations in South East Asia. It has therefore become less competitive. Nevertheless, despite this difficult external circumstances, a majority of countries within the sub-region recorded an average growth rate of 5%.

In Central Africa, political uncertainties and the instability of the Great Lake sub-region prevented those countries from attaining the projected level of growth (4.6%).

As for the SADC members, their experience was similar to that of countries of Central Africa with the notable exception of Mauritius which recorded the same growth rate as in 1997 (5.2%). Even Botswana one of the star economies in the sub-region, recorded only 3% growth in GDP as against 7% in 1997. South Africa's working margins were reduced by the level of public debt inherited from the apartheid era. This slowed down its growth in 1998 (0.2%), although the projections of 2% and 6% for 1999 and the year 2000 respectively are still being maintained.

East Africa on its part has been seriously affected by the **El Niño** phenomenon and the displacement of the population due to conflicts. The subsequent lull in its main export resources (agriculture) did not enable the sub-region to maintain the previous year's growth, especially in Kenya where the rate was only 1% as against 2.3% in 1997.

On the monetary aspect, most African currencies except the CFA Franc, the Egyptian Pound and the Moroccan Dirham depreciated by between 9% (the Mauritius Rupee) and 20% (the South African Rand), with some countries recording up to 70% (the Zimbabwean Dollar).

Deregulation and Globalisation of the Insurance Sector

The restructurings, acquisitions and mergers which started in the previous years (1995 and 1996), took a pause in 1997 only to be continued with greater vigour during the year under review. In effect, the favourable technical results recorded by reinsurers in the last five years had increased the demands of mega-companies which then pressed on in an unbridled quest for bigger size and market share. These acquisitions/ mergers resulted in the provision of a larger capacity, a phenomenon which in turn led to more softening of terms, conditions and rates. In direct business, the growth and diversification of large groups reduced their need for reinsurance. Similarly, an improved spread of liability in space, time and to various classes of business encouraged companies to increasingly go for non-proportional covers of high layers instead of proportional reinsurance which generates a more substantial premium.

The overcapacity and the positive results recorded created favourable conditions for the emergence and persistence of a cycle of falling reinsurance terms and rates. Although a phenomenal leap was recorded in the production of non-life reinsurance premium which increased from US$69 billion in 1990 to US$107 billion in 1995, that class of risks recorded only US$102 billion in 1997. In fact, the stiff competition from which no market was spared led to a modest 2.6% growth in the reinsurance premium of 1996 (1.7% in direct insurance). It is revealing to note that especially in the American market, some companies recorded between 10% and 15% reduction in their net premium during the first three quarters of the year under review. For some companies, the fall even rose up to about 25% when compared with the corresponding period of the previous year. Generally, that decline was the result of rate cutting in the case of direct business and the extremely favourable conditions offered to cedants by reinsurers. There may have been about 5% - 10% fall in rates in the international market. That, combined with the financial losses recorded in a number of stock markets, compelled some players to withdraw from reinsurance programmes which they considered unprofitable. Nevertheless, that trend lasted for only a short time. The need to maintain the market share soon took an upper hand and that explains the strategic decision made by Executives of several insurance and reinsurance concerns who gave priority to the issue of survival in a highly competitive environment and that of the development of new (niche) products to ensure their portfolios' growth.

Furthermore, the option of rigorous selection is now being considered as a panacea for preserving the level of capitalisation of reinsurance companies to the detriment of the volume of premium produced. This is moreso at a moment when the security and quality of the reinsurer have become basic criteria considered by all cedants when placing their reinsurance programmes.

Insurance being, essentially, an inter-dependent profession, the African insurance industry is not spared by these fundamental changes. In effect, the turmoil of the liberalisation of monopolistic markets and the privatisation of Government parastatals gave rise to an exacerbated if not unbridled competition. In that economic environment characterised by stagnation, new companies had no other resort than the portfolio of the original insurer which up till then had a monopoly of business. Thus, both the former and the latter perfected policies to attack or protect the business already in existence. Meanwhile, they resorted to rate cutting to attract or retain the clients and that led to dumping despite a consistently worsening loss experience. Market agreements entered into in order to apply a uniform rate could not resist the attacks of the marketers and the compulsive indiscipline for long. Fronting and delocalisation are today, common practices in most markets of the continent and this has resulted in the outflow of much more premium than before. These pose the greatest threat to the African insurance industry.

The overcapacity in the international market had, as its consequences, the entry of new reinsurers into the African continent, eager to conquer shares by all means including those of the tiny markets, while the players that were already established (national, regional and mega-reinsurers) were equally as desirous to develop their portfolios or at least maintain them.

Africa Re whose main area of operation is the African territory is conscious of the need to remain competitive and even more efficient, if it is to effectively fulfil its functions while observing the rules of healthy competition and adopting a modern, enlightened management. To that effect, it is equipped with remarkable attributes such as the excellent level of capitalisation, the outstanding professionalism of its staff and the wide network of offices throughout the continent. Therefore, it remains confident about the future and accepts the above analysed changes as challenges that it has to surmount in order to fulfil its function in Africa and internationalise its operation in a more comprehensive and sustained manner.

OPERATIONS

Africa Re has been operating from its Head Office, three Regional Offices and two local offices. The business accepted by the Corporation has, for operational and reporting purposes, been classified as follows:

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

The geographical classification of the production centres remains as:

- Anglophone West Africa serviced from Head Office
- Francophone West and Central Africa attended to by the Abidjan Office
- North Africa covered by Casablanca Office
- East and Southern Africa managed by Nairobi Office which also supervises the Johannesburg and Mauritius contact offices

Business emanating from non-African sources is classified as « inward international » or «worldwide» and can be written by all production centres. The Head Office also administers the Corporation's retrocession programmes (African Surplus Treaty and Excess of Loss), African Aviation Pool and African Oil and Energy Insurance Pool.

The statistics provided below, on premium income and claims, give an insight into the performance of the Corporation:

DESCRIPTION (US$000)	1998			1997		
	GROSS	RETRO	NET	GROSS	RETRO	NET
INCOME						
PREMIUM (Less Cancellations)	66,126	3,686	62,440	62,900	4,940	57,960
MOVEMENT IN PREMIUM RESERVE	(1,660)	312	(1,972)	(14)	2,014	(2,028)
EARNED PREMIUM	64,466	3,998	60,468	62,886	6,954	55,932
OUTGO						
LOSSES PAID	28,627	503	28,124	28,673	1,834	26,839
MOVEMENT IN LOSS RESERVE	5,010	1,028	3,982	4,975	2,201	2,774
INCURRED LOSSES	33,637	1,531	32,106	33,648	4,035	29,613

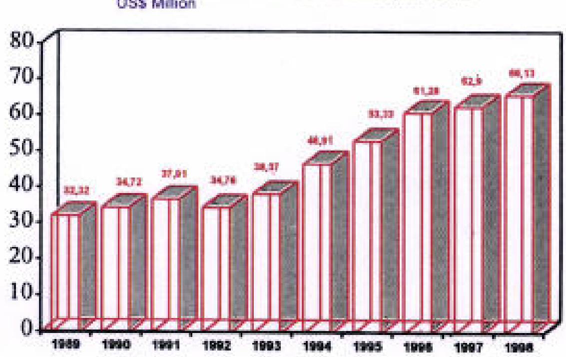
PREMIUM INCOME

The production level achieved in 1998 stood at US$66.13 million and represents an increase of 5.13% over the corresponding figure of US$62.90 million generated in 1997. However, this amount would have been much more impressive were it not for the dwindling value of major local currencies against the United States dollar in most of the trading areas. Apart from this, a number of other factors have combined to bring about the slow growth in production, top among which is the intense competition occasioned by the re-entry of the mega reinsurers as well as the emergence of new ones in the African market. The direct corollary of this is over capacity in the industry and the attendant reduction in rates. Indeed this is evidenced by the world insurance growth rates of 3.3% in 1997, 1.5% in 1998 and projected 1.3% for 1999 whilst the corresponding statistics for Africa are 3.0% in 1997, 1.3% in 1998 and expected 2.0% for 1999 (Source: Economist Intelligence Unit Ltd. UK). Furthermore, the ongoing globalization and liberalization which prompted changes in insurance legislation of many countries compelled ceding companies to shore up their capital bases in order to remain relevant in the new world order and necessitated increases in retention levels by cedants, thereby affecting cession to reinsurers.

DEVELOPMENT OF GROSS PREMIUM

As indicated in the graph below, the premium income generated in 1998 remains the highest level of achievement for the last ten years and indeed since inception.

DEVELOPMENT OF GROSS PREMIUM INCOME
US$ Million



The evolution of Premium Income in original currencies over the years shows a steady growth rate. Income would even have been 10.43% higher, if exchange rates had remained stable throughout the year. This positive development may be attributed to the following factors:

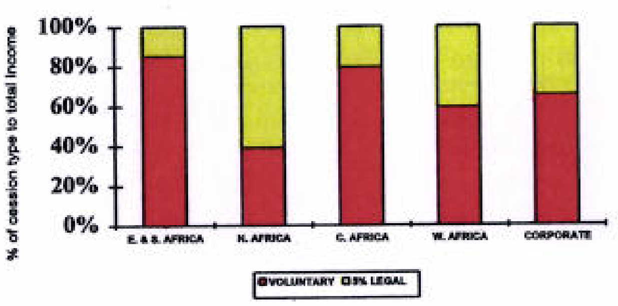
- The purposeful and sustained marketing efforts coupled with technical assistance to cedants, in appreciation of which trading partners reciprocated with increased voluntary cessions.
- The increase in acceptance capacity that made it possible for the Corporation to write more of the peak risks that, otherwise, would not have been accepted.

VOLUNTARY CESSIONS

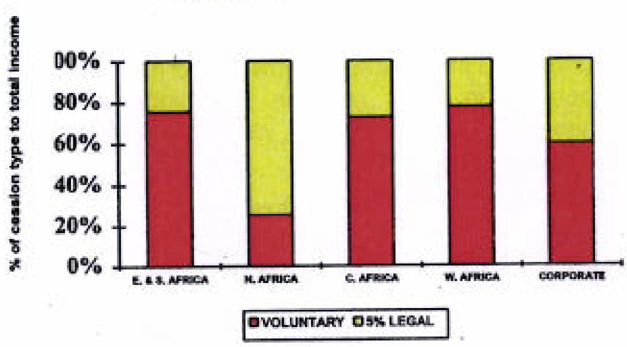
The Corporation's consistent marketing drive impacted positively on the African insurance market, thus resulting in increased voluntary cessions to the Corporation. The income from this source in 1998 represents 61.15% of the corporate figure.

The graphs below provides further insight:

FINANCIAL YEAR 1998



FINANCIAL YEAR 1997



GEOGRAPHICAL DISTRIBUTION

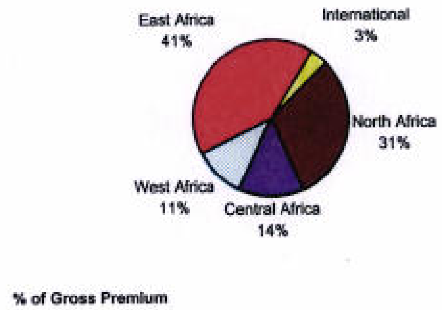
The trend has remained the same as in the previous years. Eastern and Southern Africa recorded the highest production, with an income level of US$27.31 million representing 41.30% of the corporate premium income. This figure exceeded the 1997 income of US$26.18 million by 4.32%.

North Africa followed with an income of US$20.40 million. This works out to 30.85% of the corporate amount, and translates to an increase of 4.56% over the income of US$19.51 million recorded in 1997.

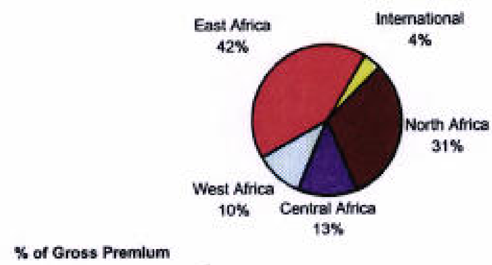
With an income level of US$9.00 million, Francophone West and Central Africa came third. This region's production represents 13.62% of the corporate premium income or an increase of 10.70%, compared to the figure of US$8.13 million achieved in 1997.
Anglophone West Africa contributed an income of US$7.10 million or 10.74% of the corporate figure. This amount shows an increase of 8.07%, over the total receipts of US$6.57 million recorded in 1997.

The balance of US$2.32 million or 3.49% of the premium income for the year under review came from the international market, as against US$2.51 million in 1997. This drop is as a result of the corporate policy to underwrite for profit and not primarily for business volume or market share.

FINANCIAL YEAR 1998



FINANCIAL YEAR 1997



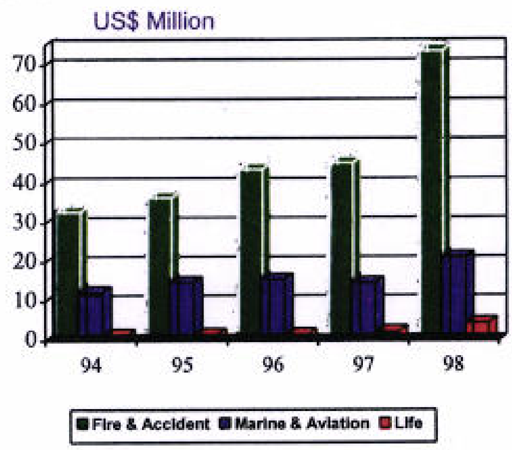
SECTORAL DISTRIBUTION

The bulk of the Corporation's premium income came from the Fire and Accident classes. With a premium of US$49.02 million, these branches contributed 74.13% of the corporate income as against a share of 72.77% in 1997. The 1998 production represents an increase of 7.09% over the 1997 premium of US$45.77 million.

A total income of US$14.09 million accrued to Marine and Aviation classes, accounting for 21.31% of the corporate portfolio. However, this level of income fell short of the 1997 figure of US$14.78 million by 4.67%. This is partly due to the abolition of the compulsory import insurance in some of the territories as well as the delocalisation of major policies (Cargo and Aviation) from Africa to the rest of the world.

Life business accounted for the balance of US$3.02 million or 4.56% of the corporate income for 1998. This represents an increase of 27.66% above the income of US$2.35 million recorded in 1997, and follows the setting up of the Life Unit at the Head Office.

The graph below provides relevant details:



OTHER INCOME

LONG-TERM INVESTMENTS

The second installment of US$53,756 of the subscribed shares in Compagnie Nationale d'Assurances (Cameroun), was paid during the year. No other equity investments were made and none of the existing holdings was sold off. The Corporation received a dividend of 1.39% on the shares held in The African Export-Import Bank.

INCOME FROM SHORT-TERM INVESTMENT & OTHER SOURCES

Interest earned from short-term investment and other sources amounted to US$3.48million, representing an increase of 15.28% over the 1997 income of US$3.02million. Although money market interest rates were generally lower in 1998, the improvement in investment income resulted from the attainment of higher levels of liquidity, additional investment in fixed income instruments and increased use of the services of investment advisors.

Income from investments in fixed coupon bonds increased by 9.2% from US$0.36million to US$0.40million mainly due to the additional investments in these instruments during the year. Interest on bank deposits and other sources stood at US$2.94million as against US$2.55million in 1997.

The management of the African Aviation Pool and African Oil & Energy Pool generated a fee income of US$78,420 (1997: US$52,778). This improvement is due to the increase in the premium income written by the Pools.

OUTGO

LOSSES

Claims paid in 1998 stood at US$28.63 million as against US$28.67 million paid in 1997. As a percentage of written premium, this figure translates to 43.29% compared with a loss ratio of 45.58% achieved in the previous year.

The incurred losses in 1998 came to US$33.64 million, comprising paid losses of US$28.63 million and movement in reserve of US$5.01 million. The corresponding figure for 1997 was US$33.65 million, made up of paid losses of US$28.67 million and movement in reserves of US$4.98 million.

GROSS LOSS RATIO BY CLASS - FINANCIAL YEAR 1998

Currency: US$M

CLASS OF BUSINESS	REGIONAL BUSINESS			INTERNATIONAL INWARD			TOTAL CORPORATE			1997
	Loss Incurred	Earned Premium	Loss Ratio %	Loss Incurred	Earned Premium	Loss Ratio %	Loss Incurred	Earned Premium	Loss Ratio %	Loss Ratio %
Fire & Accident (Including Eng.)	23.80	45.43	52.53	1.02	1.74	58.29	24.82	47.17	52.62	51.76
Marine & Aviation	7.24	14.75	50.81	0.35	0.53	66.04	7.59	14.78	51.35	57.93
Life	1.23	2.51	49.40	-	-	-	1.23	2.51	49.00	57.75
TOTAL	**32.27**	**62.19**	**52.01**	**1.37**	**2.27**	**60.09**	**33.64**	**64.46**	**52.18**	**53.51**

LOSS EXPERIENCE BY TRADING AREA

- Anglophone West Africa Division recorded a marginal improvement in loss ratio, from 29.82% in 1997 to 28.98% in 1998.
- Francophone West and Central Africa also achieved an improvement at 36.72% compared with a ratio of 42.66% recorded in 1997.
- North Africa's loss ratio fell from 50.16% in 1997 to 45.39% in 1998
- East and Southern Africa stabilised at about 47.01% in 1998

COMMISSION AND CHARGES

Commission and Charges amounted to US$20,53 million in 1998 as against a figure of US$18,60 million recorded in 1997. The 1998 figure represents 32.88% of the net premium for the year compared with a corresponding ratio of 32.07% for 1997.

MANAGEMENT EXPENSES

The management expenses charged to the underwriting revenue account for the year amounted to US$4.20million compared to US$4.18million in 1997.

By redesigning the appraisal and compensation system to recognise and reward performance and freezing non-essential recruitments, the Corporation is better able to manage the personnel costs, which accounts for a significant percentage of overall management expenses. In addition, a number of budgetary and cost control measures were instituted during the year and these helped to stabilize management expenses in absolute terms at about the 1997 levels.

Accordingly, the resulting management expenses ratio improved from 7.21% recorded in 1997 to 6.73% this year. For the past six years, the Corporation has achieved successive reductions in management expenses ratio, from 10.83% in 1992 to the present level.

Management is committed to the short-term objective of further reducing this ratio in line with internationally agreed standards.

OTHER EXPENSES NOT CHARGED TO THE UNDERWRITING REVENUE ACCOUNT

The costs of the 1998 General Assembly and the Board of Directors Meetings amounted to US$409,176 compared to US$416,954 in 1997. The saving from the attendance fees and allowances of the directors who were absent was almost fully offset by the increase in the travel expenses due to the location of the 1998 General Assembly. The rise in amortisation charge from US$258,705 to US$272,555 is mainly due to the increase in the value of depreciable assets.

RESULT OF THE CLOSED UNDERWRITING YEAR 1996

In accordance with the Corporation's income recognition policy, the 1996 underwriting year, which had been open for the past three years, was closed on 31 December 1998.

The underwriting year generated a total gross premium of US$59.35million compared to US$55.80million produced in 1995. Out of that amount, US$6.30million (1995 U/Y: US$7.17m) was ceded to the retrocession treaty, leaving a retained premium of US$53.05million (1995 U/Y: US$46.63m). The improvement in the retention ratio from 87.15% to 89.38% is due to the success recorded in the opening of the Corporation's capital, which enabled it to increase the retention capacity and restructure the retrocession programme.

Claims paid, net of reinsurance recoveries, stood at US$18.31million, representing a loss ratio of 34.52% (1995 U/Y: 32.51%). Net commissions and charges amounted to US$16.29million, producing a ratio of 30.71% (1995 U/Y: 30.73%).

Total management expenses charged to the underwriting year amounted to US$3.84million, resulting in a technical surplus of US$13.69million. In line with the existing basis for the computation of reserves, an amount of US$10.17 million was established to cover outstanding claims, including IBNR, while the balance of US$3.52million which represents the underwriting profit was transferred to the profit and loss account.

RESULTS OF THE 1998 FINANCIAL YEAR

Gross written premiums, net of cancellations, for the year amounted to US$66.13million, compared to US$62.90million produced in 1997. The achievement of a 5.13% increase in income should be viewed against the background of a generally soft market, over capacity, massive rate cuts and shrinking reinsurance premiums worldwide. Similarly, retained premium increased by 7.7% from US$57.96million in 1997 to US$62.44million, representing a retention ratio of 94.43% (1997: 92.15%). With the increase in the Corporation's capacity and the restructuring of the reinsurance programme, a greater percentage of written premium is retained for own account. At the same time, due to the favourable market conditions, increased excess of loss protection was obtained from reputable retrocessionaires at reasonable costs.

Paid claims, net of reinsurance recoveries, stood at US$28.12m (1997: US$26.84m) representing a claims ratio of 45.04% compared to 46.31% recorded in 1997. Commission and other charges amounted to US$20.53million or 32.88% of net premium as against 32.09% for 1997.

Total underwriting outgo for the financial year increased by 7.07% from US$45.44million in 1997 to US$48.65million, while management expenses increased marginally from US$4.18million to US$4.20million over the same period. Consequently, an excess of income over outgo of US$9.58million (1997: US$8.34million) was produced.

Of this surplus, US$1.97million was transferred to the reinsurance fund, while US$3.98 million was credited to the reserve for outstanding claims. The net underwriting income for the reporting period therefore amounted to US$3.63million (1997: US$3.54million) representing a net technical profit ratio of 5.82% (1997: 6.11%).

Income from investment and other sources amounted to US$3.48million compared to US$3.02million earned in the previous year. The performance is consistent with the increase in financial assets. Interest on reinsurance deposits stood at US$1.00million compared to US$1.03million in 1997. The Corporation realised an exchange gain of US$0.23million mainly due to the conversion of some of the French Franc and Pound Sterling holdings into U.S. Dollars.

Overall profit for the financial year amounted to US$7.41million compared to US$5.68 million earned in the previous year, representing an increase of 30.36%.

APPROPRIATION OF RESULTS

Conscious of the need to reconcile the imperative of consolidating the financial base of the Corporation with that of adequately remunerating the shareholders for their invested funds, the Board recommends that the net result for the year of US$ 7,410,642 be appropriated as follows:

- US$ 3,705.321 to the General Reserve until the cumulative amounts « reach at least the level of the paid-up capital » (Resolution N°4/1992);
- US$ 1,300,000 to Other Reserves including the reserve for exchange fluctuations,
- US$ 692,475 to be paid as dividends at the rate of US$ 300 per subscribed and paid-up share;
- US$ 1,712 ,846 to be carried forward.

Group Photograph of AFRICA RE's Current Board Members and the Institution's Managing Director

Nairobi Regional Office:
Group Photograph of the Professional Staff

Johannesburg Local Office:
The Local Representative and His Staff

Port-Louis Local Office:
The Local Representative and His Staff

Deloitte &
Touche

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Fax (225) 22.29.79 / 21.84.46

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

We have audited the accompanying financial statements of African Reinsurance Corporation (AFRICARE) as at 31 December 1998. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of African Reinsurance Corporation as of 31 December 1998 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Deloitte & Touche

Deloitte & Touche
Abidjan, Côte d'Ivoire
12 April 1999

AFRICAN REINSURANCE
BALANCE SHEET AT

ASSETS	Note	1998 US$	1997 US$
Cash and Short Term Maturities	3	12,535,628	8,423,926
Investments	4	50,875,271	48,310,692
Amounts due from companies on Reinsurance Accounts		25,009,357	21,260,981
Deposits retained by Ceding Companies		34,138,398	31,709,992
Sundry Debtors, Accrued Interest and Prepayments		1,092,286	1,960,353
FIXED ASSETS	5	9,059,915	5,716,041
RETROCESSIONAIRES' SHARE IN RESERVE FUNDS	11	13,835,056	13,119,391
		146,545,911	130,501,376

Musa AL NAAS
Chairman

The accompanying notes form an integral part of this statement

CORPORATION
31ST DECEMBER 1998

LIABILITIES, CAPITAL AND RESERVES	Note	1998 US$	1997 US$
Other Creditors, Accruals & Provisions		755,549	723,676
Dividend Payable	6	1,396,088	1,317,488
Amounts due to Companies on Reinsurance Accounts		15,816,464	16,137,738
Deposits due to Retrocessionaires		2,872,827	2,885,286
		20,840,928	**21,064,188**
Long term Loan	7	900,000	-
PAID-UP CAPITAL	8	23,082,500	22,457,500
RESERVES			
Share premium		4,403,562	3,857,077
General Reserve		18,725,825	15,020,504
Other Reserves	9	5,294,238	3,994,238
Retained Earnings		8,256,331	7,043,485
Cumulative Translation Adjustment	10	(9,546,012)	(10,853,611)
		27,133,944	19,061,693
SHAREHOLDERS' FUNDS		**50,216,444**	**41,519,193**
REINSURANCE AND RESERVE FUNDS	11	**74,588,539**	**67,917,995**
		146,545,911	130,501,376

Bakary KAMARA
Managing Director

The accompanying notes form an integral part of this statement

AFRICAN REINSURANCE
PROFIT & LOSS ACCOUNT FOR THE YEAR

EXPENDITURE	Note	1998 US$	1997 US$
General Assembly and Board of Directors' Meetings		409,176	416,954
Audit Fee		38,000	38,000
Depreciation and Amortisation	5	272,555	258,705
Other Expenses and Provisions		208,736	82,167
Profit for the Year		7,410,642	5,684,628
		8,339,109	6,480,454
APPROPRIATIONS:			
Proposed Dividend		692,475	561,938
Transfer to Cumulative Translation Adjustment	10	500,000	2,000,000
Transfer to Reserves	12	5,005,321	3,042,314
Retained Earnings at 31st December		8,256,331	7,043,485
		14,454,127	12,647,737

The accompanying notes form an integral part of this statement

CORPORATION
ENDED 31ST DECEMBER, 1998

INCOME	1998 US$	1997 US$
Underwriting Profit	3,630,939	3,540,785
Income from Investments and Other sources	3,482,566	3,020,961
Interest on Reinsurance Deposits	996,588	1,031,030
Realised (loss) / gain on Exchange	229,016	(1,112,322)
	8,339,109	6,480,454
Retained Earnings at 1st January	7,043,485	6,963,109
Profit for the Year	7,410,642	5,684,628
	14,454,127	12,647,737

The accompanying notes form an integral part of this statement

OUTGO	Gross	Retrocession	NET 1998	NET 1997
	US$	US$	US$	US$
LOSSES PAID	28,626,725	503,231	28,123,494	26,839,224
Add:				
Outstanding Loss Reserve at the end of the year	31,897,785	8,880,236	23,017,549	19,034,975
Cummulative Translation Adjustment				1,987,300
Deduct:				
Outstanding Loss Reserve at the beginning of the year	26,887,563	7,852,588	19,034,975	18,248,023
LOSSES INCURRED	33,636,947	1,530,879	32,106,068	29,613,476
COMMISSIONS	20,399,458	968,853	19,430,605	17,639,772
CHARGES	1,107,827	7,397	1,100,430	961,092
	55,144,232	2,507,129	52,637,103	48,214,340
MANAGEMENT EXPENSES			4,199,906	4,177,204
Underwriting Profit transferred to Profit & Loss Account			3,630,939	3,540,785
			60,467,948	55,932,329

The accompanying notes form an integral part of this statement

INCOME	Gross	Retrocession	NET 1998	NET 1997
	US$	US$	US$	US$
PREMIUM NET OF CANCELLATIONS	66,126,186	3,685,933	62,440,253	57,959,536
Add:				
Reinsurance Fund at the beginning of the year	41,030,432	5,266,803	35,763,629	33,736,422
Deduct:				
Reinsurance Fund at the end of the year	42,690,754	4,954,820	37,735,934	35,763,629
EARNED PREMIUM	64,465,864	3,997,916	60,467,948	55,932,329
			60,467,948	55,932,329

The accompanying notes form an integral part of this statement

AFRICAN REINSURANCE CORPORATION
UNDERWRITING RESULTS BY CLASS OF BUSINESS
FOR THE YEAR ENDED 31ST DECEMBER 1998

	Fire and Accident	Marine and Aviation	Life	TOTAL 1998	TOTAL 1997
	US$	US$	US$	US$	US$
Underwriting Income:					
Gross Premium	49,018,060	14,092,527	3,015,599	66,126,186	62,899,759
Less: Retrocession Premium	3,031,824	654,109	-	3,685,933	4,940,223
	45,986,236	13,438,418	3,015,599	62,440,253	57,959,536
Underwriting Outgo:					
Claims	20,401,239	6,728,778	993,477	28,123,494	26,839,224
Commissions	14,241,422	4,459,841	729,342	19,430,605	17,639,772
Charges	902,284	144,592	53,554	1,100,430	961,092
Management expenses	3,113,309	895,066	191,531	4,199,906	4,177,204
	38,658,254	12,228,277	1,967,904	52,854,435	49,617,292
Excess of income over outgo	7,327,982	1,210,141	1,047,695	9,585,818	8,342,244
Reinsurance & Reserve Funds:					
At 1st January	36,161,378	16,398,148	2,239,078	54,798,604	51,984,445
Cummulative Translation Adjustment (Note 10)					1,987,300
	43,489,360	17,608,289	3,286,773	64,384,422	49,997,145
At 31st December (Note 11)	40,924,107	16,844,348	2,985,028	60,753,483	54,798,604
Underwriting Profit transferred to Profit & Loss Account	2,565,253	763,941	301,745	3,630,939	3,540,785

The accompanying notes form an integral part of this statement

AFRICAN REINSURANCE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 1998

	1998 US$	1997 US$
CASH FLOWS FROM OPERATIONS:		
Profit for the Year	7,410,642	5,684,628
Adjustments to reconcile operating profit to net cash generated from operations:		
Depreciation and Amortisation	272,555	258,705
(Profit) / Loss from sale of fixed assets	(7,870)	(21,907)
Reinsurance & Reserve Funds	5,954,879	2,814,159
Amounts due from Companies on Reinsurance Accounts	(3,748,376)	(698,977)
Deposits Retained by Ceding Companies	(2,428,406)	2,660,143
Sundry Debtors, Accrued Interest & Prepayments	868,067	51,426
Amounts due to Companies on Reinsurance Accounts	(321,274)	(838,631)
Deposits due to Retrocessionaires	(12,459)	85,351
Other Creditors, Accruals & Provisions	31,873	55,831
	608,989	4,366,100
Net Cash generated from Operations	**8,019,631**	**10,050,728**
Adjustments for non-cash items taken to Shareholders Funds:		
Cumulative Translation Adjustment	**807,599**	**(4,452,964)**
CASH FLOWS FROM INVESTING ACTIVITY:		
Proceeds on sale of Fixed Assets	38,774	129,311
Purchase of Fixed Assets	(3,647,333)	(1,413,818)
Investments made	(2,564,579)	(3,702,497)
	(6,173,138)	**(4,987,004)**
CASH FLOWS FROM FINANCING ACTIVITY:		
Proceeds on sale of Shares	1,171,485	593,067
Long Term Loan	900,000	
Dividend Paid	(613,875)	(607,100)
	1,457,610	**(14,033)**
Net Increase in Bank and Cash Balances	**4,111,702**	**596,727**
CASH AND SHORT TERM MATURITIES:		
At 1st January	8,423,926	7,827,199
At 31st December	**12,535,628**	**8,423,926**

The accompanying notes form an integral part of this statement

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 1998

NOTE 1

OPERATIONS

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

(a) mobilizing financial resources from insurance and reinsurance operations;

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

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

NOTE 2

ACCOUNTING POLICIES

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

(a) Revenue Recognition

Premiums and underwriting expenses are credited and debited respectively to the underwriting revenue account when advised by ceding companies.

(b) Underwriting Revenue Account and Reinsurance and Reserve Funds

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

(c) Currency Translation

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

(d) Investments

Short term investments are stated at the lower of cost or market value. Long term investments are stated at cost unless there is a permanent decrease in their value, in which case a provision is made therefor.

e) Fixed Assets and Depreciation

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

- *Freehold and Capital Leasehold Property*
  2% or over the leasehold period if less than 50 years.
- *Furniture, Fittings and Equipment*
  Between 12.50% and 33.33%
- *Motor Vehicles - 25%.*

(f) Debtors

Debtors are stated at their realisable value. Debts considered irrecoverable are written off into the profit and loss account during the year.

(g) Management Expenses

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

NOTE 3

CASH AND SHORT TERM MATURITIES

The balances include an equivalent of **US$4,475,450** (1997: US$ **4,688,000**) representing temporary short term deposits in member States' currencies, of which part awaited approval for conversion to the United States Dollars.

NOTE 4

INVESTMENTS

Investments at cost which include Straight Bonds with a market value of **US$ 6,949,325** at 31st December, 1998 (1997: US$ **4,888,924**) are made up of:

	1998 US$	1997 US$
• Equity Participation		
Shelter-Afrique	1,020,000	1,020,000
The African Export - Import Bank (see note below)	400,000	400,000
Others (Non-quoted companies)	438,009	384,253
	1,858,009	1,804,253
• Other Investments		
Straight Bonds	6,722,782	4,690,722
Short-term deposits	42,294,480	41,815,717
	49,017,262	46,506,439
	50,875,271	48,310,692

In 1993, the Corporation subscribed to US$ 1,000,000 share capital in The African Export-Import Bank. In line with the terms of allotment, the first instalment of US$ 200,000 was duly paid in 1993 while the balance of US$ 800,000 is payable in four equal annual instalments of US$ 200,000 each, beginning in 1994. The instalment for 1994 was paid while those of 1995 to 1998 were not called by the Bank.

NOTE 5

FIXED ASSETS

	Fixed Assets in Progress US$	Freehold & Capital Leasehold Property US$	Furniture Fittings & Equipment US$	Motor Vehicles US$	Total 1998 US$	Total 1997 US$
COST						
At 1st January	3,622,198	1,657,690	2,023,186	391,727	7,694,801	6,514,615
Additions during the year	3,463,980	47,310	64,573	71,470	3,647,333	1,413,818
Disposals during the year	(30,904)		(46,640)	(47,602)	(125,146)	(233,632)
At 31st December	7,055,274	1,705,000	2,041,119	415,595	11,216,988	7,694,801
DEPRECIATION						
At 1st January	-	108,046	1,641,071	229,643	1,978,760	1,846,283
Charge for the year		26,818	159,659	86,078	272,555	258,705
On disposals during the year			(46,640)	(47,602)	(94,242)	(126,228)
At 31st December	-	134,864	1,754,090	268,119	2,157,073	1,978,760
NET BOOK VALUE						
At 31st December	7,055,274	1,570,136	287,029	147,476	9,059,915	5,716,041

Included in Fixed Assets in progress is an amount of US$6.99 million in respect of the Corporation's investment in the construction of the Headquarters building.

NOTE 6

DIVIDEND PAYABLE

	1998 US$	1997 US$
Balance at 1st January	1,317,488	1,362,650
Proposed Dividend	692,475	561,938
	2,009,963	1,924,588
Amount paid during the year	(613,875)	(607,100)
Balance at 31st December	1,396,088	1,317,488

NOTE 7

LONG TERM LOAN

This represents the oustanding balance in respect of a loan of US$1,000,000 obtained from Shelter Afrique to part finance the construction of the Corporation's Head Office building. The principal plus interest is repayable in ten equal half yearly instalments. The first instalment fell due and was duly paid on 30th December 1998.

NOTE 8

CAPITAL STOCK AND PAID-UP CAPITAL

(i) The 19th Annual Ordinary Meeting approved the increase of the Authorised Capital of the Corporation from US$ 30 million to US$ 50 million made up of 5,000 shares of US$ 10,000 each. Two-thirds of the share capital is available for subscription by the Member States of the Organisation of African Unity and the African Development Bank, while the remaining one-third is available to national insurance and / or reinsurance institutions of the Member States.

At 31 December, 1998, 654 shares had been subscribed and fully or partially paid for by these institutions, out of the total of 826 shares originally alloted in 1991.

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

	1998 US$	1997 US$
Capital Allotted and Subscribed	23,530,000	23,530,000
Called up and Unpaid	(447,500)	(1,072,500)
Subscribed and Paid-up Capital	23,082,500	22,457,500

NOTE 9

OTHER RESERVES

	Reserve for Exchange Fluctuation US$	Reserve for Loss Fluctuation US$	Total 1998 US$	Total 1997 US$
Balance at 1st January	2,794,238	1,200,000	3,994,238	3,794,238
Transfer from Profit & Loss Account (Note 11)	500,000	800,000	1,300,000	200,000
Balance at 31st December	3,294,238	2,000,000	5,294,238	3,994,238

NOTE 10

CUMULATIVE TRANSLATION ADJUSTMENT

	1998 US$	1997 US$
Balance at 1st January	10,853,611	8,400,647
Translation Adjustment for the year	(807,599)	6,440,264
Transfer from Underwriting Account	-	(1,987,300)
Transfer from Profit & Loss Account	(500,000)	(2,000,000)
Balance at 31st December	9,546,012	10,853,611

NOTE 11

REINSURANCE AND RESERVE FUNDS

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

	Fire & Accident US$	Marine & Aviation US$	Life US$	Total 1998 US$	Total 1997 US$
GROSS					
Reinsurance Fund	32,953,234	8,371,217	1,366,303	42,690,754	41,030,432
Reserve for outstanding claims	16,755,176	13,523,884	1,618,725	31,897,785	26,887,563
	49,708,410	21,895,101	2,985,028	74,588,539	67,917,995
LESS: Retrocessionaires' share in					
Reinsurance Fund	3,972,036	982,784	-	4,954,820	5,266,803
Reserve for outstanding claims	4,812,267	4,067,969	-	8,880,236	7,852,588
	8,784,303	5,050,753	-	13,835,056	13,119,391
Net Reinsurance and Reserve Fund	40,924,107	16,844,348	2,985,028	60,753,483	54,798,604

NOTE 12

TRANSFER TO RESERVES

Transfer to Reserves is made up of the following:

	1998 US$	1997 US$
General Reserve	3,705,321	2,842,314
Reserve for Exchange Fluctuation	500,000	-
Reserve for Loss Fluctuation	800,000	200,000
	5,005,321	3,042,314

NOTE 13

TAXATION

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

NOTE 14

RELATED PARTY TRANSACTIONS

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