AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
11TH ANNUAL ORDINARY MEETING
KHARTOUM, SUDAN, 26TH-27TH JUNE, 1989

AFRICARE/GA/13/75

Report of the Board of Directors covering the period 1st January to 31st December, 1988

AFRICAN REINSURANCE CORPORATION
SOCIETE AFRICAINE DE REASSURANCE

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Date: 26 June, 1989

Honourable Representatives
General Assembly
African Reinsurance Corporation

Your Excellencies,

In accordance with the provisions of Article 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, 1988, as well as the Summary of the Administrative Budget for the financial year 1989.

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

Ezzat Abdel Bary

EZZAT ABDEL BARY
Chairman of the Board of Directors
and General Assembly

COMPOSITION OF AFRICA RE BOARD OF DIRECTORS

Chairman Ezzat M. ABDEL BARY (Egypt)	Alternate Directors Jada LORERE (Sudan)
Vice-Chairman Eugene OKWOR (Nigeria)	M.A. DARKOH (Ghana)
Directors S. KANOUNI (Morocco)	M.S. NAAS (Libya)
A. BEZABEH (Ethiopia)	F.F. MAGEZI (Uganda)
A.T. KAMINCHIA (Kenya)	M. MWINGA (Zambia)
I. IDDI ANGO (Niger)	R.S. SOLAMA (Burkina Faso)
R. IBATA (Congo)	Mrs. C. KOYAGA (C.A.R.)
M. FATMI (Algeria)	M.O. HAROUNE (Mauritania)
M.L. YUMA (A.D.B.)	E.M. DOGBE (A.D.B.)

COMPOSITION OF AFRICA RE MANAGEMENT

Eyessus W. ZAFU
General Manager and Chief Executive

Ahmed E.A. ELSANUSI
Deputy General Manager

Bakary KAMARA
Secretary General

TABLE OF CONTENTS

Page

Foreword 5

Trading Environment 7

Operations 8

Income 8
Geographical Distribution 9
Sectoral Distribution 10
Other Incomes 11
—Long-term Investments 11
—Income from Short-Term Investments & other sources 11
Outgo 11
Losses 11
Other Expenses 12
Results of the Underwriting Year 1986 12
Results of the Financial Year 1988 12
Appropriations 12
Other Activities 13
—Adhesions 13
—Regional Office Agreement 13
—Relations with other organisations 13
—Staff Matters 13
—General Assembly 14
—Composition and Meetings of the Board of Directors 15
Financial Highlights 16
Auditors' Report 17
Balance Sheet as at 31st December 1988 18
Profit and Loss account for the year ended December 31st, 1988 19
Underwriting Revenue Account for the year ended 31st December, 1988 20
Statement of Cash Flows for the year ended 31st December, 1988 21
Notes to the 1988 Financial Statements 22

Annexes

i Statement of authorized capital, allocation/subscription of shares & voting power as at 31st December, 1988

ii Resolutions adopted by the General Assembly at its 10th Annual Ordinary Meeting held in Dakar, Republic of Senegal, on 23rd and 24th June, 1988

iii Summary of the Administrative Budget for the year 1989

Foreword

In conformity with the Corporation's three year basis of accounting, the 11th Annual Report of the Board of Directors and Accounts for the Financial Year ended 31st December, 1988 incorporates the final results of underwriting year 1986 (closed for the first time), all previously closed underwriting years (1978 to 1985) and the still open years of 1987 and 1988. Included in the Final Report are also comments on the Corporation's performance during the Financial Year, the Report of the External Auditors on the Accounts, Resolutions adopted by the 10th Annual General Assembly and a Summary of the 1989 Administrative Budget as approved by the Board of Directors.

At the close of business for the Financial Year 1988, a net operating profit of US$2,162,107 had been realised. This was made up of an underwriting profit of US$1,339,367 augmented by incomes from investments and other sources of US$1,767,261 and from which were deducted US$466,480 and US$478,041 as realised translation losses and other expenses not charged to Underwriting Revenue Account respectively. The final position for Financial Year 1988 was decisively affected by negative difference in translation. In addition to the realised exchange loss charged to the Profit and Loss Account, an unrealised negative translation difference of US$4,927,330 was recorded during the year. In accordance with International Accounting Standards No. 21, IAS21 'Accounting for the Effects of Changes in Foreign Exchange Rates' and in consultation with the External Auditors, this amount was taken to the Balance Sheet with the consequent net technical effect of reducing Shareholders' Funds by US$2,038,002.

The substantial volume of unrealised negative exchange difference emanated from deposits withheld by ceding companies. Retaining of both premium and loss deposits by cedants is in the nature of reinsurance business and exchange differences due to currency fluctuations are normally anticipated. It was this anticipation which last year prompted the constitution of a fluctuation reserve as approved by and in accordance with the decision of the 10th Annual General Assembly. A portion of that reserve was released on balance sheet date to meet the realised exchange loss. However, the unrealised exchange loss in 1988 which reflected the rather severe fluctuation of currencies against the Corporation's unit of account, the US Dollar, was of such magnitude as would not be fully compensated for by the net operating profit achieved.

In spite of the above, the Corporation's financial strength was hardly affected largely thanks to the decision by the 10th Annual General Assembly to capitalise part of the profits accumulated which apart from relieving Shareholders of any additional obligations in respect of shares they subscribed for, substantially augmented its capital base which was further enhanced by the adhesion of two new Member States, Madagascar and Rwanda. Their inclusion in the list of Shareholders of the Corporation, apart from increasing the Corporation's paid-up-capital, opens more premium income possibilities and consolidates its image.

The notable rise of the Corporation's income from investments and other sources from US$813,219 to US$969,782 was a reflection of increased invested funds as well as gradually rising interest rates on US Dollar funds.

The Corporation's intensification of efforts to collect balances due to it recorded notable success resulting in liquid cash assets of more than US$15m on balance sheet date. A large proportion of collected funds was received during the last Quarter of the year and some on balance sheet date with the consequence that not much investment income was received from these funds during the year.

As in previous years, Administrative Expenses in 1988 were contained at about the same level as in 1987. Although the proportion of such expenses would appear to grow against a reducing volume of premium income, they have reached a level beyond which they could not be compressed. If at all, such expenses would likely go up in the years ahead clearly signalling the need to augment premium income at a rate significantly higher than that at which it could be made to grow by marketing efforts alone.

The gross premium income written during 1988 stood at US$31.31m or 1.2% lower than in 1987. The marginal fall in US Dollar translated premium was experienced in spite of a substantial (12.76%) income growth achieved in original currencies. Considering the phenomenon in 1988 of income contractions in several markets (especially in Francophone West and Central Africa), the almost complete disengagement from international inward business (which dropped from a high of US$7.5m in 1984 to US$0.35m in 1988) and the tendency of many companies to buy low-premium excess of loss covers instead of proportional treaties, the Corporation's income performance was not unsatisfactory.

The Corporation's net retained income in 1988 of US$28.6m was 5.8% lower than that of 1987 (US$30.37m). Compared to gross premiums written, relatively more was retroceded in 1988 (8.7%) than in 1987 (4.2%). This development occurred mainly for three reasons:-

- increasing preference by a growing number of cedants for high-limit and low-premium excess of loss covers;
- increasing portion of additional shares (treaty and/or facultative) falling beyond Africa Re's gross retentions as these come from larger companies and the 5% acceptances would have already fully engaged the Corporation's capacity; and
- fixing of retentions on liabilities converted at exchange rates ruling in January each year which tends to exaggerate initial exposure and prompts higher retrocessions for the whole year even when such exposure is reduced substantially by the depreciation/devaluation during the year

of original currencies.

The fall in the proportion of premiums retained by Africa Re did not result in more premiums being exported outside the Continent. Rather these premiums were retroceded to a panel of African insurance/reinsurance companies which, with the Corporation, raised retained premiums within Africa from 96.69% in 1987 to 97.55% in 1988 both of the gross premiums the Corporation wrote.

Apart from the proportionally large commercial profits its African retrocessionaires made and continue to make under this arrangement, the Africa Re Retro Programme has remained an effective device for augmenting Africa's retention capacity. Admittedly, against an annual insurance/reinsurance premium export from the Continent of between US$1.5b and US$2b, a retrocession premium of no more than US$3m may be considered insignificant but the repeated demonstration of the high profitability of the scheme matched by the Corporation's ability to meet its commitments by timely settlement of balances could provide the added motivation for more African companies to participate in the scheme.

Africa Re's interactions with ceding companies were raised to new levels during the year under report. In evidence of its growing technical competence, organisational capabilities and financial strength to assume greater responsibilities as well as its determination to achieve greater heights in its commercial objectives, it organised during 1988 the first Reinsurance Seminar on Reinsurance Planning. Conducted at the location of its Headquarters, the Seminar was organised in collaboration with the African Insurance Organisation and sister Nigerian companies for middle management reinsurance/technical officers from English-speaking Africa. In all 53 such officers participated in the Seminar.

Encouraged by the success of this first Seminar, plans are already under way for a similar programme for officers from French-speaking Africa to be conducted in September 1989 at the Casablanca Regional Office.

The installation of the Integrated Reinsurance System in the Corporation's computer facilities recorded satisfactory progress during 1988. Using intermediate data input from its Regional Offices, capabilities for producing consolidated corporate data at Headquarters have now been made possible. The benefits accruing in the form of quicker response to client needs and up-to-date information for better informed decisions are expected to be more evident in the years ahead.

The Board of Directors wishes to once again seize this opportunity to extend, both on behalf of Shareholders, Management and Staff of the Corporation and on its own behalf, deep gratitude to the Federal Government of Nigeria for its continued generosity in hosting the Corporation's Headquarters and providing the moral support and material facilities required for its progress. It wishes to register no less appreciation to the Kingdom of Morocco, the Republics of Kenya and Côte d'Ivoire for hosting the Corporation's Regional Offices including the moral support and logistical facilities needed for their smooth operations.

The Board extends further its recognition of and appreciation to all Member and prospective Member States for their continued support. Its appreciation also goes to all the ceding companies and sister institutions whose encouragement and support have provided the foundation for growth and prosperity. As in previous years, the Management and Staff of the Corporation worked hard and with complete dedication to achieve the satisfactory results recorded. They are enjoined to continue the commendable performance they have so far achieved.

Trading Environment

The Corporation's strengths were more in evidence during 1988 than in any other previous year. Its interactions with both ceding companies and sister organisations recorded marked progress. The consolidation of its improving image as a credible and viable professional reinsurer was proved with the adhesion of new Members as well as the decision taken at the 10th Annual General Meeting to double the paid-up capital to US$9.46m. However, the benefits that should have accrued from these developments were considerably reduced by the effects of the unfavourable trading environment which prevailed in 1988, marked by persistent economic difficulties, intense competition by transnationals and the industry's reluctance to engage in more intra-African insurance and reinsurance business exchange.

The African agricultural sector fared better in 1988 even though with the worsening terms of trade the beneficial effects of this positive development were not significant enough to influence the overall economic situation of the continent. The promises made by the developed economies to African States undertaking costly recovery and structural adjustment programmes were not translated into concrete action. In these countries therefore, the reduced income from primary commodity exports, coupled with heavy debt service requirements dictated, among other things, severe compression of imports, financing balance of payments deficits by the transfer of part of domestic savings (negative capital flow).

The severity of the economic hardships encountered were as varied between sub-regions as between countries, but French-speaking West and Central Africa felt them the most, mainly because of the novelty they constituted for the sub-region. The premium volume of certain enterprises stagnated, whilst others recorded very little growth reflecting the state of the countries in which the insurance and reinsurance companies operate. Practically all were affected by low liquidity which often resulted in delayed payments to insurers by the insureds, and to reinsurers by the ceding companies. For some, the difficulties were aggravated by a recent phenomenon of unprecedented escalation of claims awarded to motor accident victims.

In 1988 the African insurance and reinsurance industry saw competition intensify among transnationals, mainly European. Whilst their general objective continued to be the acquisition of larger market shares, their approaches differed considerably. Encouraged by the recent call by the developed countries for trade liberalisation in services, and taking advantage of old political and historical links, some extra-regional companies succeeded in gaining control of African national enterprises. Other reinsurers undertook vigorous marketing, promising inter alia a better quality of technical assistance in exchange for more substantial participation in the local enterprises' treaties and facultatives. All these actions led to a reduction in the volume of business ceded to African reinsurers, with the result that several years after their inception, some have had to raise the level of their legal cessions.

Another consequence of the current competition by the international market is an apparent relaxation of reinsurance terms and conditions which is neither supported by an improved loss experience nor by a more encouraging prospect in respect of settlement of balances. Whilst the situation may not persist for long, it will nevertheless have the short-term effect of deferring the decision to be made by the direct insurance market to realign premium rates with loss experience.

In 1992, the integrated European market will represent for Africa an opportunity to take control, on account of the new situation it would have created. The preferential treatment currently enjoyed by many African economies on account of their privileged bi-lateral relations with certain European States may cease to exist, or be reduced, since the full integration of Europe with one common currency could call for a serious revision if not radical change of the trade relations and in particular the relationship between the French Franc and the CFA Franc, the real effects of which cannot be fully anticipated now. Africa should learn and benefit from the example of a Europe moving towards economic integration, having in the vanguard aggressive corporate executives tearing down the political boundaries of their nations, with their mega-companies providing the connective tissues to hold the continent together.

In complete contrast to the European trend, African governments appear to pursue policies favouring the consolidation of existing institutions, whilst the professionals and captains of the industry tend to favour the creation of more instruments of cooperation, similar to those already in existence, under-capitalised and technically undermanned. Such proliferation, apart from dissipating scarce capital and technical know-how, could perpetuate the vulnerability of the African market or accelerate its marginalisation through the future acquisition of weak local companies by foreign enterprises, a gloomy prospect indeed for the entire profession in Africa.

The call made by Africa Re and the African Insurance Organisation to companies operating in national territories to exhaust local capacities before exporting reinsurance outside the continent has not yet been heeded satisfactorily. For its part, Africa Re believes that the realisation of such an objective would be beneficial to all African companies in terms of not only increased premium retention, but also better balanced portfolios, while the countries could reduce their balance of payments deficits.

Operations

The differentiation into various classes of business written by the Corporation and the segmentation of the African markets into administratively convenient trading areas employed in previous years were continued in 1988. Businesses written were classified under three Branches—Fire & Accident (including Engineering), Marine & Aviation and Life. The four trading areas into which the African markets were grouped are West Africa (English-speaking), Central Africa (French-speaking West and Central Africa and the Lusophone countries), North Africa and East & Southern Africa. Acceptances from outside Africa or the run-off accounts of such acceptances are classified as International Inward (world-wide) business.

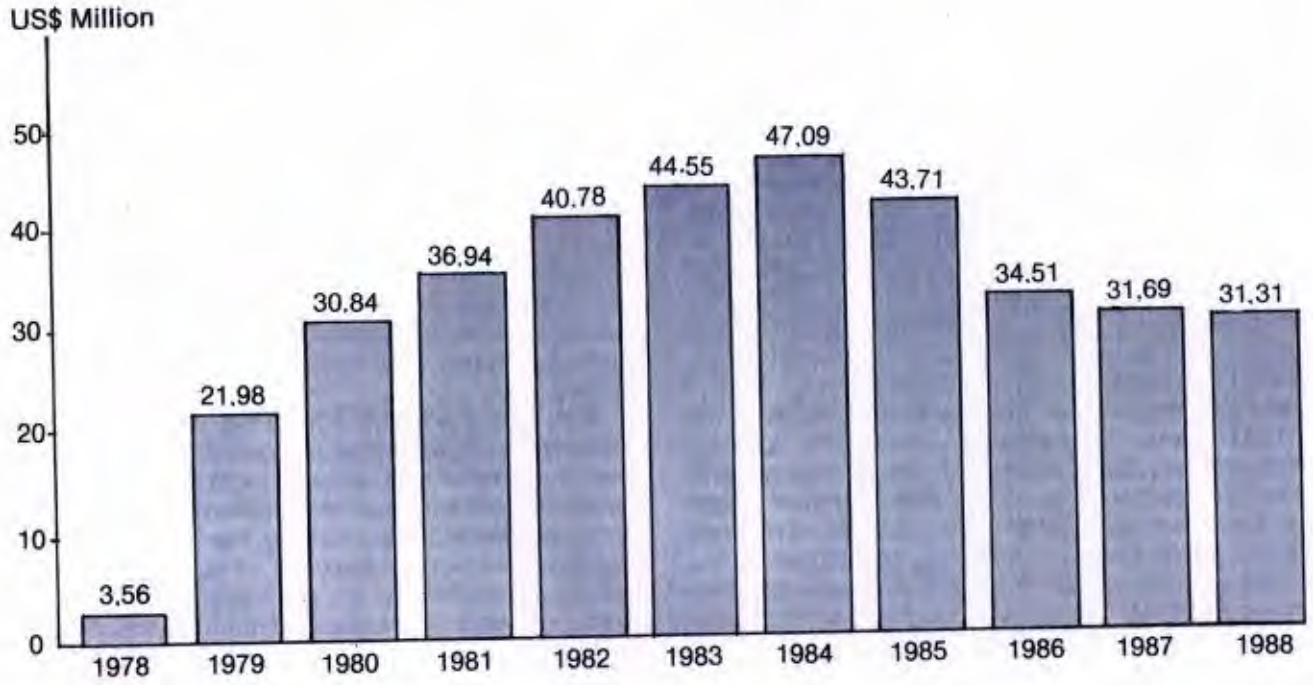
Business written from English-speaking West Africa and International Inward acceptances continued to be administered from Corporate Headquarters in Lagos, while the other three trading areas were each managed by conveniently located offices in Casablanca, Nairobi and Abidjan.

INCOME

In Financial Year 1988 Africa Re recorded a gross premium income of US$31.31m which was 1.2% lower than that achieved in 1987. Having successfully restructured the Corporation's premium income during the previous years, intensified marketing efforts were exerted to increase regional portfolio. In terms of shares of treaties written and original currency incomes recorded, significant progress was achieved. In spite of the premium contractions observed in some markets in the Central Africa trading area, the decision of a major market in North Africa to substantially increase its retention to the extent of reducing premiums ceded to the Corporation by more than 50% and the intensified international competition for profitable African portfolio, the Corporation recorded a regional premium of US$30.96m in 1988 compared to US$30.93m in 1987.

During the year the Corporation's income currencies fluctuated seriously against the US Dollar. The overall difference of currency fluctuations between 1st January and 31st December, 1988 (obtained by applying to Africa Re's 1988 income in original currencies the rates ruling at the beginning and the end of the year) depressed gross premium income by US$4.38m. Although the previous year's regional income level was maintained, it was accompanied by a further, albeit planned, fall in income from International Inward business. Whilst the fall was proportionally sharp (over 50%), income from this portfolio had already dropped so low in absolute terms that its decline in 1988 did not materially affect the Corporation's overall income performance.

EVOLUTION OF GROSS PREMIUM INCOME BY FINANCIAL YEAR



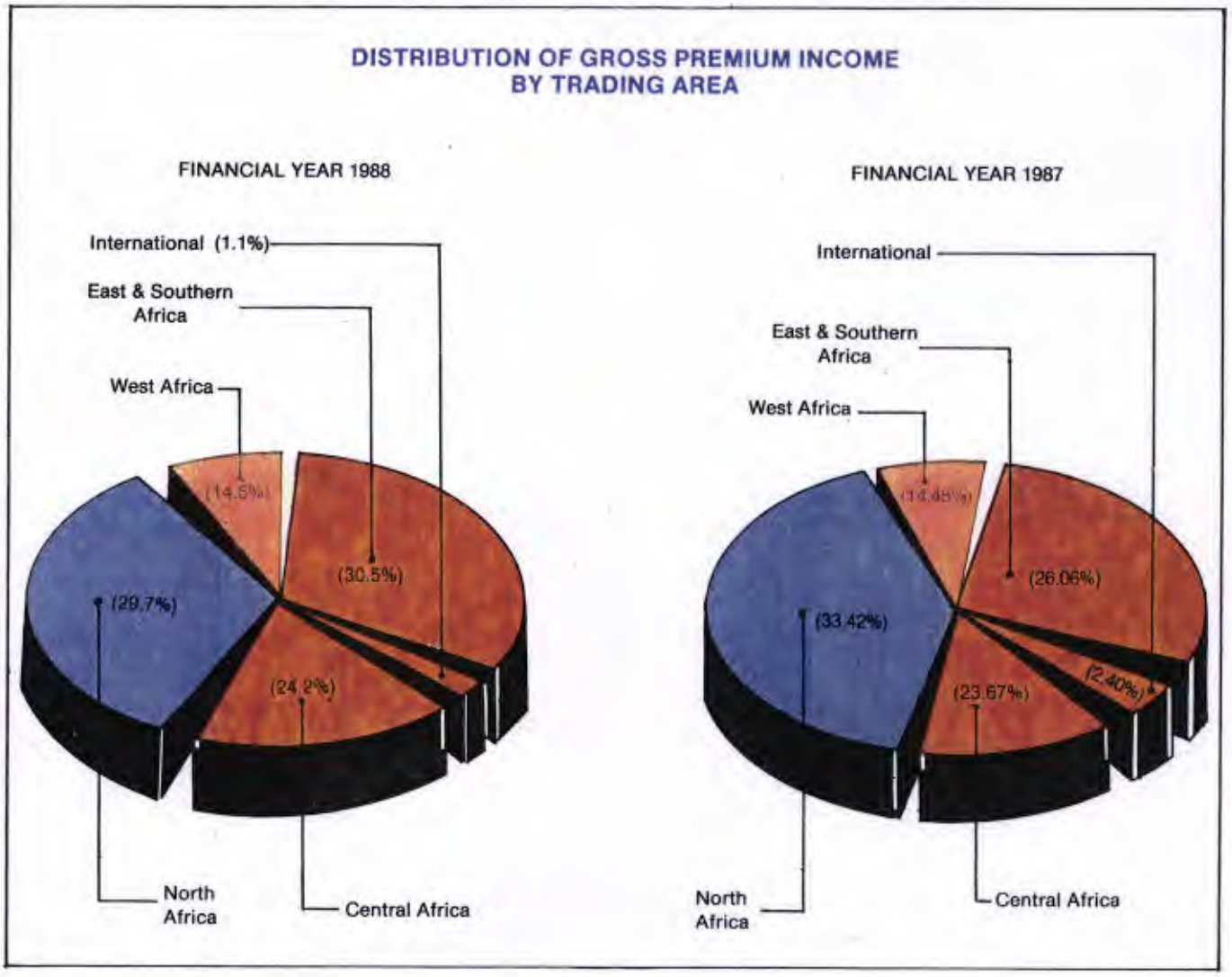
Another area where the Corporation held on to an encouraging development already recorded in recent years was the maintenance of its income from 'additional shares' (over and above the 5% legal cessions). The proportion of income from 'such shares' compared to Corporate regional income remained almost at the same level (26%) in 1988 as in 1987. In actual fact the proportion in 1988 would have been higher were businesses from Madagascar and Rwanda to be considered as additional shares, which they ceased to be in 1988 as these States became Shareholders of Africa Re during the year.

The Corporation's intensified marketing drive coupled with its ever increasing interactions with ceding companies, the continued demonstration of its financial strength and technical support capabilities could be expected to ensure further progress for it. However, in the short to medium term, such progress will continue to be too slow to enable it to build sufficient strength to withstand the effects of severe currency fluctuations. The nature and magnitude of the negative difference in exchange recorded in 1988, although unrealised, should serve as a precaution and motivation for seeking bolder and more innovative ways of augmenting premium income at rates faster than could be achieved by marketing efforts alone.

Geographical Distribution

Premium income by geographical location was further restructured during 1988. For the first time since the establishment of regional offices in the different trading areas, the level of income from North Africa fell below that of East & Southern Africa which with US$9.54m made the highest contribution of 30.5% to total Corporate income. Nevertheless, North Africa came as close second with 29.7% (US$9.23m). In third place was French-speaking West & Central Africa with US$7.58m or 24.2% of Corporate income, while English-speaking West Africa produced US$4.56m to account for 14.5%. Income from International Inward business fell further during 1988 (from US$0.76m to US$0.35m) to account for only 1.1% in 1988 against 2.4% in 1987 both of total Corporate income.

DISTRIBUTION OF GROSS PREMIUM INCOME BY TRADING AREA



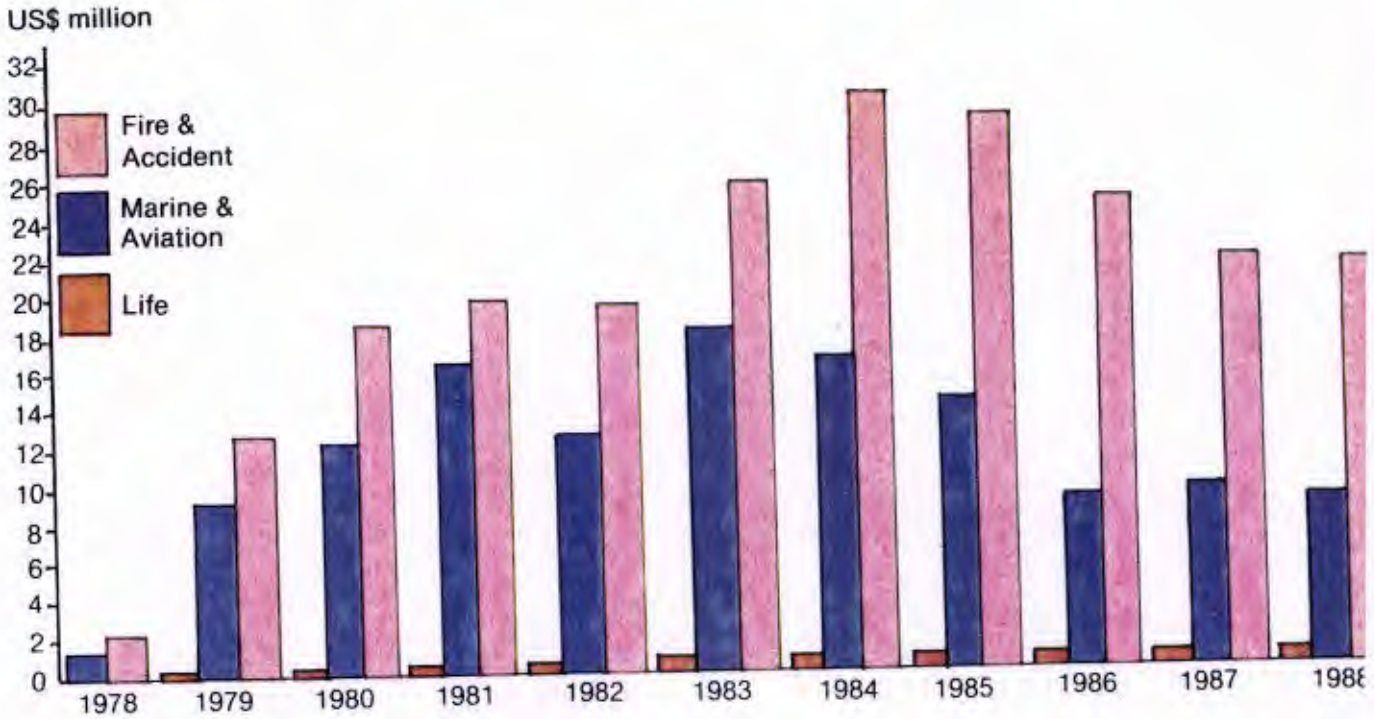
While the fall in income from International Inward business resulted from conscious management decisions, the significant drop in income from North Africa was caused by currency fluctuations in some markets and the decision of the largest market in the area to raise national retentions to such levels as to substantially reduce cessions to reinsurers including Africa Re. The somewhat reduced contribution of English-speaking West Africa in 1988 was the direct result of the continued fall of the trading area's income currencies against the US dollar. The Central Africa trading area was characterised by serious economic difficulties during the whole of 1988. Income contractions in some markets were accompanied by unprecedented liquidity crunches. Income contribution of this trading area was also affected by certain developments peculiar to the sub-region, the continued penetration and control by trans-nationals which automatically reduce Africa Re's shares to the legal minimum of 5% of small-capacity treaties. Besides, the FCFA which was under considerable pressure during the year recorded marked downward fluctuations which neutralised the income growth achieved in original currency.

The income performance for the year of the East & Southern Africa trading area was equally affected by fluctuations of currencies most of which weakened considerably against the US Dollar. However, the large increase in additional shares written more than compensated for the depressing effects of the weakening currencies to achieve in 1988 an income level 15.5% higher than in 1987.

Sectoral Distribution

With a recorded income for the year of US$21.49m against US$21.47m in 1987, the Fire & Accident Branch continued to constitute the predominant class of business written by the Corporation. Its relative contribution to Corporate income in 1988 stood at 68.6%—almost one percentage point above that of 1987 (67.75%). A substantial drop in income registered in North Africa (from US$6.3m in 1987 to US$5.7m in 1988) was fortunately compensated for by an equally substantial increase from the East & Southern Africa trading area (which rose from US$5.9m in 1987 to US$6.6m in 1988). In the other trading areas, Central and West Africa incomes from this Branch changed very little (from US$5.4m in 1987 to US$5.6m in 1988 in Central Africa and from US$3.25m in 1987 to US$3.26m in 1988 in West Africa). The Branch recorded a relatively significant income drop from the run-off accounts of International Inward portfolio (from US$0.6m in 1987 to US$0.3m in 1988). However, its small size in absolute terms could not affect the overall income structure of the Corporation.

DEVELOPMENT OF GROSS PREMIUM INCOME BY BRANCH AND BY FINANCIAL YEAR



The Marine & Aviation Branch accounted for US$9.18m or 29.3% of Corporate income in 1988 against a corresponding amount of US$9.45m and proportion of 29.8% in 1987. As in the Fire & Accident Branch, the most significant fall in income occurred in North Africa which recorded an income of US$3.36m in 1988 against a similar income of US$3.91m in 1987. A less significant fall was registered in Central Africa (from US$1.94m to US$1.79m). Once again, the substantial increase in income from East & Southern Africa (from US$2.26m in 1987 to US$2.79m in 1988) decisively influenced the final premium level recorded by the Branch. Changes in income levels in other trading areas (West Africa and International Inward) were too marginal to have had an effect on the Branch's total recorded income which in 1988 was 2.86% lower than in 1987.

The Life Branch, the contribution from which has remained very small, experienced a further decline in 1988. With an income of US$0.65m in 1988 against US$0.77m in 1987 the registered drop (15.6%) was mainly accounted for by falls in North Africa (44.4%) and in West Africa (37.5%). Were it not for increases achieved in the Central and East & Southern Africa trading areas (50% and 38% respectively) the drop of income from this Branch would have been far greater than actually recorded. In 1988, income from this Branch accounted for only 2.08% against a proportion of 2.43% in 1987.

OTHER INCOMES

Long-Term Investments

As in previous years the Corporation's only long term investment during 1988 was its equity participation in the share capital of the Company for Habitat and Housing in Africa (SHELTER AFRIQUE). No income was received from that investment in 1988, and there was no evidence to show or suggest that Shareholders' Equity as at 31st December, 1988 was in any way impaired.

Income from Short-Term Investments & Other Sources

During Financial Year 1988, the Corporation realised a total income of US$969,782 which derived mainly from interest on short-term deposits and current accounts. The substantial increase in interest income from US$651,819 in 1987 to US$928,324 was explained by two complementary factors. On the one hand interest rates on US Dollar deposits increased during the year, and on the other hand the amount of invested Dollar funds rose significantly as a result of improved collections. Were it not for the fact that a substantial portion of funds collected reached the Corporation late in the year, the 42.4% increase realised would have been exceeded. A total of US$41,458 was obtained from disposal of fixed assets and management income from the African Aviation Pool, raising the total income from short-term investment and other sources for the financial year 1988 to US$969,782. This amount was further augmented by the interest on reinsurance deposits of US$797,479.

OUTGO

Losses

Against a gross premium income for Financial Year 1988 of US$31.31m the gross loss paid stood at US$13.15m producing a Corporate gross loss ratio of 42%. This ratio compared quite favourably with the corresponding proportion of nearly 48% for 1987. The major improvement in the Financial Year's loss ratio occurred in the Marine & Aviation Branch which after three consecutive years of deteriorating experience (from 39.2% in 1985 to 63.6% in 1987) recorded only 43.8% in 1988. The preponderant Branch, Fire & Accident registered a marginal deterioration from 41.1% in 1987 to 41.3% in 1988. Although the loss ratio of the Life Branch showed a significant improvement (from 45.45% in 1987 to 40% in 1988) its proportionate share in the total business was too small to influence the overall picture.

GROSS LOSS RATIO BY BRANCH
FINANCIAL YEAR 1988

(IN US$ Million)

LOSS RATIO / BRANCH	Regional Business			International Inward			Total Corporate		
	Loss	Prem.	LR%	Loss	Prem.	LR%	Loss	Prem.	LR%
FIRE & ACCIDENT	8.42	21.18	39.8	0.45	0.31	145.2	8.87	21.49	41.3
MARINE & AVIATION	3.91	9.14	42.8	0.11	0.03	316.7	4.02	9.17	43.8
LIFE	0.26	0.65	40.0	—	—	—	0.26	0.65	40.0
TOTAL	12.59	30.97	40.7	0.56	0.34	164.7	13.15	31.31	42.0

The Corporate loss ratio was largely determined by the experience of the regional portfolio. Unlike the previous year, the run-off portfolio of International Inward business had relatively less impact in 1988 as its proportionate share of Corporate portfolio was further marginalised during the year and the loss ratio of the account, though still bad, had substantially improved from 313.2% in 1987 to 164.7% in 1988.

Further examination of the loss ratio on African business indicated that while a slight improvement (from 41.6% in 1987 to 40.7% in 1988) had occurred on the total portfolio, the Fire & Accident Branch had in fact recorded a substantial deterioration (from 33.8% in 1987 to 39.8% in 1988). However, there was a substantial improvement in the loss experience of the Marine & Aviation Branch (from 58.4% in 1987 to 42.8% in 1988) which had more than compensated for the deterioration in the Fire & Accident Branch. The Life Branch registered a significant improvement during the year (from 45.45% in 1987 to 40% in 1988). However, its experience did little to influence the overall regional loss ratio as it accounted for no more than 2% of Corporate portfolio.

Considering loss ratios recorded for the various trading areas, Central Africa had the highest with 52.2% followed by North Africa with 48.94%. While the ratio for North Africa reflected an improvement from that of the previous year (60.1%), that of Central Africa indicated a serious deterioration during the year (from 41.1% in 1987 to 52.2% in 1988). The loss ratio for East & Southern Africa at 31.6% showed an improvement over that of 1987 which had reached 34%. The extremely low loss ratio of 12.2% recorded by West Africa in 1987 experienced an almost 100% deterioration with 23.3% recorded for 1988.

Other Expenses

Management Expenses for Financial Year 1988 amounted to US$2,676,953 which compared favourably with US$2,694,701 for 1987. As in previous years, the full amount was charged to the Underwriting Revenue Account. On the other hand, other expenses not charged to the Revenue Account amounting to US$478,041 (1987—US$482,066) were taken to the Profit and Loss Account.

RESULTS OF UNDERWRITING YEAR 1986

In closing, for the first time, the accounts for Underwriting Year 1986 which were kept open for three years, no changes were introduced either in the basis of computing reserves for outstanding losses for closed underwriting years or in the system whereby all reinsurance funds for the still open years are carried forward. Accordingly, after meeting all obligations assumed for businesses ceded to the Corporation and providing adequate reserves for outstanding claims, a final profit of US$1,399,367 (1987—US$1,628,979) was realised. The amount was transferred to the Profit and Loss Account.

RESULTS OF FINANCIAL YEAR 1988

Transactions for all underwriting years during Financial Year 1988 were accounted for in the Underwriting Revenue Account for the year ended 31st December, 1988. Out of a gross written premium of US$31,313,958 (1987—US$31,692,311), US$28,597,241 (1987—US$30,366,763) was retained by the Corporation. Deducting from the retained premium all outgo (claims, commissions and charges, excess of loss premiums and management expenses) which amounted to US$25,819,013 (1987—US$28,696,803) left a balance representing the excess of income over outgo of US$2,778,228 (1987—US$1,669,960). Reinsurance and Reserve Funds of US$26,836,112 (1987—US$26,795,131) were brought into the Account as at 1st January and similar funds of US$28,274,973 (1987—US$26,836,112) were carried forward at 31st December leaving a balance of US$1,339,367 (1987—US$1,628,979) as the final underwriting profit for all closed years. The amount was transferred to the Profit and Loss Account.

Income from investments and other sources including interest on reinsurance deposits for 1988 amounted to US$1,767,261 (1987—US$1,746,244) from which was deducted a realised exchange loss of US$466,480 and the resulting balance of US$1,300,781 added to the profit for the Financial Year. The sum of the profits from underwriting operations and investments and other incomes of US$2,640,148 was further reduced by US$478,041, being the total of all other expenses not charged to the Underwriting Revenue Account. The final balance of net operating profit for Financial Year 1988 was therefore determined as US$2,162,107.

Appropriations

In implementation of the decision of the 10th Annual General Meeting to admit Madagascar and Rwanda as Shareholders of the Corporation and in order to bring to equal value the shares allocated to them, the Board recommends the release of US$140,000 from General Reserve and the application of same to render the said shares fully paid. The Board does not recommend the distribution of profits.

Other Activities

Adhesions

During the 1988 financial year, two African States, Madagascar and Rwanda, acceded to the Corporation. Their accession which took place during the 10th Annual Ordinary Meeting of the General Assembly, held in Dakar, Senegal on 23rd and 24th June, was preceded by discussions between Africa Re delegations and the Authorities of the two countries. They became members upon subscribing and paying up for their allotted shares and ratifying the Agreement Establishing the African Reinsurance Corporation, with effect from 23rd June, 1988, raising the number of members to 38 African States and the African Development Bank.

Since then, other countries have expressed their desire to adhere to the Agreement, which was not, however, concretised during the year under review. It is hoped that contacts made in that connection would lead to further accessions before the end of the current financial year.

Regional office agreement

Following the establishment and take-off of the Abidjan Regional Office in 1987, the Regional Office Agreement was signed on 2nd June, 1988 by the Honourable Minister of Foreign Affairs of the Republic of Côte d'Ivoire and the Corporation's General Manager.

Relations with other organisations

During the year under review, the Corporation strengthened its relations with sister organisations in Africa. Thus, delegations participated in the meetings of the 'Fédération des Sociétés d'Assurances de Droit National' (FANAF), Organisation of East African Insurers (OEAI), General Arab Insurance Federation (GAIF), West Africa Insurance Companies Association (WAICA) and the Preferential Trade Area (PTA). The Corporation continued to be seen more and more as the continental reinsurer whose opinion and collaboration were as sought after as they were appreciated.

Relations with the African Development Bank, the Corporation's majority shareholder, were reinforced not only with the establishment of the Abidjan Regional Office, which brought the two institutions closer together, but also with the Bank placing its facilities and relations at Africa Re's disposal during the General Assemblies of the Group, in order to continue the negotiations already embarked upon with non-member States in respect of their adhesion.

Staff Matters

In the 1988 Financial year, the Corporation's staff strength increased by 6 to 125 employees from 17 African countries.

ESTABLISHMENT STATUS ANALYSED BY NATIONALITY/STAFF CATEGORY AS AT 31/12/88

CATEGORY / NATIONALITY	D	P	SP	G	M	TOTAL 1988	TOTAL 1987
Algeria	1	—	—	—	—	1	1
Angola	—	1	—	—	—	1	1
Benin	—	2	—	4	—	6	6
Cameroon	—	1	—	—	—	1	1
Côte d'Ivoire	—	—	—	8	2	10	6
Ethiopia	—	1	—	—	1	2	2
Ghana	—	3	1	1	1	6	7
Kenya	1	1	—	12	1	15	14
Mauritius	1	—	—	—	—	1	1
Madagascar	—	1	—	—	—	1	—
Morocco	—	1	1	9	2	14	12
Nigeria	1	9	2	40	9	61	61
Senegal	—	1	—	—	—	1	1
Sierra Leone	—	1	—	—	—	1	1
Tanzania	—	1	—	—	—	1	1
Togo	1	—	—	1	—	2	3
Uganda	1	1	—	—	—	2	1
Total	6	24	4	75	16	125	119

On account of the substantial drop in the value of the U.S. Dollar in the last 3 years, the modest emoluments paid to the professional staff, and in order to raise their remuneration to a level generally considered acceptable for an international financial institution of the scope of Africa Re, the Board of Directors decided to increase the basic salaries of that category of staff. In so doing, the Board was guided by the concern not to overburden the enterprise at a time when its financial recovery was being consolidated, and to make the salaries attractive enough to enable the Corporation to compete for the services of good quality professionals.

It should be recalled that the decision, which became effective on 1st January, 1989 was a follow-up to the one taken in 1987 to express the salaries and allowances of the other staff categories (G and M) in national currencies.

General Assembly

The 10th Annual Ordinary Meeting of the General Assembly took place on 23rd and 24th June, 1988 in Dakar, Senegal, with the participation of 30 member countries and the African Development Bank, accounting for 90.77% of voting power.

The official opening ceremony was presided over by Mr. Serigne Lamine DIOP, Honourable Minister of Finance and Economic Matters of the Republic of Senegal. In his opening address, he outlined the African economic situation before going on to suggest cooperation among countries as one of the solutions to the current crisis. The results recorded by Africa Re during the 1987 financial year were proof that such cooperation could be fruitful where the political will existed and the leaders of such an institution were inspired to manage the enterprise efficiently. In conclusion, he made an urgent appeal to all Member States to transfer reinsurance balances owed the Corporation promptly.

At the beginning of its deliberations, the General Assembly unanimously accepted the adhesion of the Democratic Republic of Madagascar with immediate effect. In implementation of Resolution No. 1/1988 on the Membership of the Republic of Rwanda, Management was thereafter able to verify that all the formalities for subscription, payment for allotted shares and ratification of the Agreement had been accomplished by the State, but the Representatives were unable to reach Dakar in time. Consequently the country's membership was made effective from 23rd June, 1988.

The General Assembly then authorised the distribution of the Annual Report of the Board of Directors, heard and approved the External Auditor's report on the Corporation's Final Accounts, Balance Sheet and Profit and Loss Account as at 31st December, 1987. In particular, it adopted the Board's recommendation to capitalise a portion of the profits (US$4,660,000) in order to pay up the second half of subscribed capital on behalf of the shareholders. It also authorised the constitution of a reserve for foreign exchange fluctuation (US$1,360,000), the reinforcement of the general reserve (US$538,000) and that the balance of the profits (US$1,383,531) be carried forward.

In addition, the General Assembly took note of the valuation of the Corporation's share at US$14,214 as at 31st December, 1987, as well as the Board of Directors' decision to allow any non-member State adhering between 1st July, 1988 and 30th June, 1989 to pay for the allotted shares at that rate.

Aware of the need to constantly monitor its decisions, the General Assembly invited the Board to give a regular report on the implementation of resolutions and reiterated its appeal to ceding companies and Member States to pay and transfer in good time the balances owed the Corporation to enable it deal effectively with the problem of foreign exchange fluctuations encountered by all international reinsurers.

Finally, the General Assembly elected for a first term the firm of Shawki & Co. (Egypt), as External Auditors to audit the accounts for financial year 1988 and constituted the Resolutions Committee for the 11th Annual Ordinary Meeting. At the invitation of the Republic of Sudan, the General Assembly agreed to hold its 11th Annual Ordinary Meeting in Khartoum during the 3rd week of June, 1989.

In addition to the General Assembly deliberations, a delegation of the Corporation led by its Chairman was received in audience by His Excellency President Abdou DIOUF, President of the Republic and Head of State of Senegal. The Chairman of the Board of Directors and General Assembly informed President DIOUF of the progress made by the Corporation in the area of economic cooperation and integration of the continent. Recalling the highlights of the Lagos Plan of Action (1980) and the African Priority Programme for Economic Recovery 1986—1990, the President of the Republic of Senegal emphasized the role which institutional investors, including insurance and reinsurance companies, were called upon to play in development financing. He also insisted on the contribution which the African insurance industry and the African Reinsurance Corporation could make to the efforts of governments to reduce the outflow of foreign exchange encountered by the continent's economies, at a time of immense needs in development financing and vital imports. In conclusion he congratulated the Shareholders, the Board, the Management and staff of the African Reinsurance Corporation for the excellent results recorded in the 1987 financial year, which showed adequately that seriousness and competence remained the only guarantee of success in that area.

Composition and meetings of the Board of Directors

During the 10th Annual Ordinary Meeting, the General Assembly took note of the election of Mr. Mohamed FATMI (Algeria) by the representatives of Algeria and Mauritania, which along with Guinea Bissau had elected Mr. Farouk LAZRI (Algeria) in 1986. The term of the Director would expire in June 1989, when his predecessor's term was to expire.

Mr. FATMI appointed Mr. Mohamed Ould HAROUNE as his Alternate Director for the same period. The composition of the rest of the Board remained unchanged during the 1988 financial year.

During the year under review, the Board of Directors held 3 meetings at the dates and venues indicated below:

41st Meeting, Nairobi, Kenya 12-13 April 1988
42nd Meeting, Dakar, Senegal 20 June 1988
43rd Meeting, Lagos, Nigeria 7-8 November, 1988

The Chairman and Vice-Chairman of Africa Re welcoming the Honourable Minister of Finance and Economic Matters of Senegal (right) at the opening ceremony of the 10th Annual Ordinary Meeting of the Corporation.

Other images of the opening ceremony.

FINANCIAL HIGHLIGHTS
(IN US$'000)

Description \ Financial Year	1988	1987	1986	1985	1984	1983	1982
FINANCIAL POSITION							
1. Investments	11,599	10,440	7,720	7,387	4,919	3,922	3,955
2. Working Capital	27,121	28,872	26,289	25,875	22,116	21,936	13,844
3. Fixed Assets	681	687	608	574	520	625	366
4. Shareholders' Funds	11,126	13,163	7,548	6,620	4,470	3,972	3,630
5. Reserve Funds at 31st December	14,636	13,428	14,927	13,328	12,100	9,425	7,008
6. Reinsurance Funds at 31st December	13,639	13,408	12,142	13,888	10,985	13,086	7,526
PROFIT AND LOSS							
7. Income from investments and other Sources	970	813	613	537	492	335	606
8. Expenses of General Assembly & Board Meetings	263	276	278	307	309	445	528
9. Management Expenses	2,677	2,695	2,548	2,863	3,137	3,037	2,711
10. Profit/(Loss) for the year	2,162	5,615	928	2,149	498	342	(1,878)
UNDERWRITING REVENUE ACCOUNT							
11. Gross Premium	31,314	31,692	34,514	43,714	47,089	52,551	32,784
12. Retained Premium	28,597	30,367	31,251	35,202	36,534	41,299	23,928
13. Outgo	25,819	28,697	28,528	29,339	33,356	28,140	20,188
14. Net Underwriting Profit	1,339	1,629	3,638	2,033	2,566	4,424	3,075

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M. Bahey El Din Kamel
Mohsen Gamgoum
Mohamed El Kateb
Tamer Abdel Aziz
Ashraf El Araby
Khaled El Ghanam
Magd El Din El Gazzar
Tarek El Menshawy
Rashad Hosny

For the shareholders of
African Reinsurance Corporation

We have examined the balance sheet of African Reinsurance Corporation as of 31 December 1988 and the related underwriting revenue account, profit and loss account and statement of cash flow for the year then ended. Our examination was made in accordance with international auditing guidelines and, accordingly, included such tests of the accounting records, and such other auditing procedures as we considered necessary in the circumstances. The financial statements for the year ended 31 December 1987 were examined by other auditors whose report thereon dated 12 April 1988 expressed an unqualified opinion on these statements.

In our opinion, the financial statements referred to above present fairly the financial position of African Reinsurance Corporation as of 31 December 1988 and the results of its operations and cash flow for the year then ended using the accounting policies described in Note 2, which basis has been applied in a manner consistent with that of the preceding year except for the change in the method of accounting for foreign currency translation as described in Note 2(c) to the financial statements.

Shawki & Co.

15 March 1989

AFRICAN REINSURANCE CORPORATION
BALANCE SHEET AT 31ST DECEMBER, 1988

	Note	1988 US$	1988 US$	1987 US$	1987 US$
RESOURCES EMPLOYED					
Investments	2(d)&3		11,598,820		10,440,179
Current Assets					
Amount due from Companies on Reinsurance Accounts		11,710,769		15,850,318	
Deposits retained by Ceding Companies		29,376,743		30,779,333	
Sundry Debtors, Accrued Interest and Prepayments		752,271		764,462	
Bank and Cash Balances	4	4,178,352		1,906,850	
		46,018,135		49,300,963	
Less: **Current Liabilities**					
Amount due to Companies on Reinsurance Accounts		9,610,698		12,095,638	
Deposits due to Retrocessionaires		8,192,288		7,649,017	
Other Creditors, Accruals and Provisions		1,094,331		684,017	
		18,897,317		20,428,672	
Net Current Assets			27,120,818		28,872,291
Fixed Assets	2(e)&5		680,987		686,993
			39,400,625		39,999,463
FUNDED BY					
Paid-up Capital	6		9,460,000		4,660,000
Reserves	7		2,581,062		7,120,000
Cumulative Translation Adjustments			(4,927,350)		—
Retained Profit			4,011,938		1,383,351
			11,125,650		13,163,351
Reinsurance and Reserve Funds	8		28,274,976		26,836,112
			39,400,625		39,999,463

EZZAT ABDEL BARY
Chairman

EYESSUS W. ZAFU
General Manager

See accompanying notes to the Financial Statements

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1988

	1988		1987	
	US$	US$	US$	US$
Underwriting Profit		1,339,367		1,628,979
Income from Investments and Other Sources		969,782		813,219
Interest on Reinsurance Deposits		797,479		933,025
Realised Gain/(Loss) on Exchange		(466,480)		2,722,205
		2,640,148		6,097,428
Expenses not charged to Underwriting Revenue Account:				
General Assembly and Board of Directors Meetings	262,887		276,272	
Audit Fee	35,000		38,000	
Depreciation and Amortisation	180,154		167,794	
		478,041		482,066
Profit for the year		2,162,107		5,615,362
Add: Retained Profit at 1st January		1,383,351		2,326,393
		3,545,458		7,941,755
Reserve for Exchange Fluctuation Released		466,480		
Appropriations:				
Reserve for Capitalisation	—		4,660,000	
Reserve for Exchange Fluctuation	—		1,360,000	
General Reserve	—		538,404	
		—		6,558,404
Retained Profit at 31st December		4,011,938		1,383,351

See accompanying notes to the Financial Statements

UNDERWRITING REVENUE ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1988

	Fire and Accident US$	Marine and Aviation US$	Life US$	Total 1988 US$	Total 1987 US$
Underwriting Income:					
Gross Premiums	21,491,479	9,188,915	633,564	31,313,958	31,692,311
Less: Retrocessions	2,479,812	236,905	—	2,716,717	1,325,548
	19,011,667	8,952,010	633,564	28,597,241	30,366,763
Underwriting Outgo:					
Claims	8,655,854	4,000,146	259,616	12,915,616	15,145,276
Commissions	5,772,867	3,194,305	137,844	9,105,016	9,462,195
Excess of Loss Premiums	583,301	200,800	—	784,101	1,069,913
Charges	261,427	74,236	1,664	337,327	324,718
Management Expenses	1,968,871	679,190	28,892	2,676,953	2,694,701
	17,242,320	8,148,677	428,016	25,819,013	28,696,803
Excess of Income over Outgo	1,769,347	803,333	205,548	2,778,228	1,669,960
Reinsurance & Reserve Funds:					
At 1st January	14,996,792	10,644,513	1,194,807	26,836,112	26,795,131
At 31st December	(15,780,782)	(11,185,385)	(1,308,806)	(28,274,973)	(26,836,112)
Underwriting Profit transferred to Profit & Loss Account	985,357	262,461	91,549	1,339,367	1,628,979

See accompanying notes to the Financial Statements

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER, 1988

	1988		1987	
	US$	US$	US$	US$
CASH FLOWS FROM OPERATIONS:				
Operating Profit		2,162,107		5,615,362
Adjustments to reconcile operating profit to net cash generated from operations:				
Depreciation and Amortisation	180,154		167,794	
Profit from sale of fixed assets	(1,776)		—	
Reinsurance & Reserve Funds	1,438,863		(232,867)	
Amounts due from Companies on Reinsurance Accounts	4,139,549		(2,475,511)	
Deposits Retained by Ceding Companies	1,402,590		(2,217,263)	
Sundry Debtors, Accrued Interest and Prepayments	12,191		(309,555)	
Amounts due to Companies on Reinsurance Accounts	(2,484,940)		719,712	
Deposits due to Retrocessionaires	543,271		(114,823)	
Other Creditors, Accruals and Provisions	410,314		(1,978)	
		5,640,216		(4,464,491)
		7,802,323		1,150,871
Adjustments for non-cash items taken to Shareholders Funds:				
Translation gain	531,542		—	
Cumulative Translation Adjustment	(4,927,350)		—	
		(4,395,808)		—
Net Cash generated from Operations		3,406,515		1,150,871
CASH FLOWS FROM FINANCING ACTIVITY:				
Proceeds from issue of shares for cash		196,000		—
CASH FLOWS FROM INVESTMENT ACTIVITIES:				
Proceeds on Sale of Fixed Assets	5,272		2,477	
Purchase of Fixed Assets	(177,644)		(249,761)	
Short term deposits placed	(1,158,641)		(2,720,180)	
		(1,331,013)		(2,967,464)
NET INCREASE (DECREASE) IN BANK AND CASH BALANCES		2,271,502		(1,816,593)
BANK AND CASH BALANCES:				
At 1st January		1,906,850		3,723,443
At 31st December		4,178,352		1,906,850

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 1988

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.

To achieve these purposes the Corporation transacts treaty and facultative reinsurance business in respect of all classes of insurance inside as well as outside Africa, creates and administers pools and/or other exchange schemes for various risks for the account and to the interest of African insurance and reinsurance companies.

NOTE 2

ACCOUNTING POLICIES

The Corporation's accounting policies are in general conformity with standards adopted by the International 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 underwriting year basis and 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 calculated on the basis of the Corporation's prior year's loss experience is provided to meet any outstanding claims. The adequacy of the Reserve Fund is considered 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

(i) Effective 1st January 1988, financial statements expressed in the various functional currencies of the member States have been translated into the Corporation's reporting currency, the United States Dollar, in accordance with International Accounting Standard No. 21, IAS 21 "Accounting for the Effects of Changes in Foreign Exchange Rates." Under IAS 21, monetary assets and liabilities denominated in functional currencies are generally translated into the reporting currency using closing rates of exchange and the related translation adjustment is recorded as a separate component of Shareholders Funds rather than in the Profit and Loss Account as in previous financial statements.

By generating sufficient funds to service existing and normally expected underwriting obligations in each national market or currency zone, operations therein are rendered relatively self sufficient. Hence, cash flows related to the Corporation's assets and liabilities are primarily in the currency in which insurance risks are written and impact on its operations in other currencies with little or no effect.

Whilst resources derived from the Corporation's capital and accumulated earnings are held and invested mainly in United States Dollars, run off accounts of its international inward business are maintained in various currencies including the United States Dollar. For these operations, obligations in any one currency are not necessarily matched by assets in the same currency giving rise to the need sometimes to convert United States Dollar funds to meet obligations. Financial statements of international operations are translated using appropriate methods under IAS 21 by which Revenue accounts are translated using year end exchange rates. Monetary items are translated at year end rates and the resulting translation gains deferred to the reserve for exchange fluctuations. Realised losses are recognised in income except to the extent of previously deferred gains.

(ii) Underwriting revenue items originating in currencies other than the United States Dollar are accumulated in the functional currencies and translated at rates ruling at the Balance Sheet date. Operational expenses are translated at rates prevailing at the date such expenses are incurred.

(iii) Exchange differences arising from the settlement of monetary items are taken to the profit and loss account. Restatement of prior year financial statements is not required by IAS 21.

(d) Investments

Short term investments are stated at cost or market value, whichever is the lower. 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 1/2% and 33 1/3%.
Motor Vehicles—25%.

(f) Debtors

Debtors are stated after writing off specific debts that are considered irrecoverable.

(g) Management Expenses

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

NOTE 3
INVESTMENTS

Investments are made up of:

	1988 US$	1987 US$
Subscription in Shelter-Afrique	1,020,000	1,020,000
Short Term Deposits	10,578,820	9,420,179
	11,598,820	10,440,179

NOTE 4

BANK AND CASH BALANCES

The balances include an equivalent of US$921,645 (1987—US$282,750) representing temporary short term deposits in member States' currencies awaiting approval for conversion to United States Dollars. No provision has been made for possible exchange losses or gains that might arise on such conversion.

NOTE 5

FIXED ASSETS

	Freehold & Capital Leasehold Property US$	Furniture Fittings & Equipment US$	Motor Vehicles US$	Total 1988 US$	Total 1987 US$
Cost					
At 1st January	353,734	1,011,814	148,445	1,513,993	1,437,010
Additions during the year	5,300	172,204	140	177,644	249,761
Disposals during the year	—	(21,444)	—	(21,444)	(172,778)
	359,034	1,162,574	148,585	1,670,193	1,513,993
Depreciation					
At 1st January	37,869	703,510	85,621	827,000	829,507
Charge for the year	7,181	144,759	28,214	180,154	167,794
On disposals during the year	—	(17,948)	—	(17,948)	(170,301)
	45,050	830,321	113,835	989,206	827,000
Net Book Value					
At 31st December	313,984	332,253	34,750	680,987	686,993

NOTE 6

CAPITAL STOCK AND PAID-UP CAPITAL

(i) The initial capital allotted to the Member States of the OAU at the date of signature of the Agreement Establishing the Corporation in 1976 was US$10,000,000.00. This amount was augmented by US$1,160,000 representing the value of shares allotted in 1983 to newly independent states to bring the total capital offered for subscription to US$11,160,000.00

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

	1988 US$	1987 US$
Capital Available for Subscription	11,160,000	11,160,000
Unsubscribed Capital	(1,560,000)	(1,840,000)
Subscribed Capital	9,600,000	9,320,000
Called-up Capital not yet paid	(140,000)	—
Uncalled Capital	—	(4,660,000)
Subscribed and fully paid-up Capital	9,460,000	4,660,000

NOTE 7

RESERVES

	Reserve for Capitalisation US$	Share Premium US$	Reserve for Exchange Fluctuation US$	General Reserve US$	Total 1988 US$
Balance at 1st January	4,660,000	—	1,360,000	1,100,000	7,120,000
Amount Capitalised	(4,660,000)	—	—	—	(4,660,000)
Transfer for issue of shares to new members	140,000	—	—	(140,000)	—
Premium on shares issued during the year	—	56,000	—	—	56,000
Currency Translation Gain for the Year	—	—	531,542	—	531,542
Reserve Released for Realised Exchange Loss for the Year	—	—	(466,480)	—	(466,480)
Balance at 31st December	140,000	56,000	1,425,062	960,000	2,581,062

NOTE 8

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:-

	Reinsurance Funds US$	Reserve Funds US$	Total 1988 US$	Total 1987 US$
Fire and Accident	9,780,783	6,000,000	15,780,783	14,996,792
Marine and Aviation	4,576,399	6,608,987	11,185,386	10,644,513
Life	278,806	1,030,000	1,308,806	1,194,807
	14,635,988	13,638,987	28,274,975	26,836,112

NOTE 9

RELATED PARTY TRANSACTIONS

A portion of the Corporation's underwriting business is transacted with ceding companies owned by African States which are shareholders of the Corporation. (See Annex I.)

NOTE 10

TAXATION

The Corporation is not subject to tax in the markets where it operates according to Article 51 of the Establishment Agreement, therefore no tax provision is made in the financial statements.

ANNEX 1

STATEMENT OF SUBSCRIPTION AND VOTING POWERS OF MEMBER STATES AS AT 31ST DECEMBER, 2988

Shares States/Organisations	No. of Shares	Value of Shares	Amount not subs-cribed	Amount subs-cribed	Called Up and Paid	Called and Unpaid	Voting Power
1. Algeria	60	600,000	—	600,000	600,000	—	6.34
2. Benin	10	100,000	—	100,000	100,000	—	1.06
3. Burkina Faso	11	110,000	—	110,000	110,000	—	1.16
4. Burundi	10	100,000	—	100,000	100,000	—	1.06
5. Cameroon	30	300,000	—	300,000	300,000	—	3.17
6. Central African Republic	10	100,000	—	100,000	100,000	—	1.06
7. Chad	12	120,000	—	120,000	120,000	—	1.27
8. Congo	13	130,000	—	130,000	130,000	—	1.37
9. Côte d'Ivoire	25	250,000	—	250,000	250,000	—	2.64
10. Egypt	60	600,000	—	600,000	600,000	—	6.34
11. Ethiopia	28	280,000	—	280,000	280,000	—	2.96
12. Gabon	16	160,000	—	160,000	160,000	—	1.69
13. Gambia	10	100,000	—	100,000	100,000	—	1.06
14. Ghana	33	330,000	—	330,000	330,000	—	3.49
15. Guinea	10	100,000	—	100,000	100,000	—	1.06
16. Guinea Bissau	10	100,000	—	100,000	100,000	—	1.06
17. Kenya	26	260,000	—	260,000	260,000	—	2.75
18. Liberia	10	100,000	—	100,000	100,000	—	1.06
19. Libya	60	600,000	—	600,000	600,000	—	6.34
20. Mali	10	100,000	—	100,000	100,000	—	1.06
21. Madagascar	18	180,000	—	180,000	90,000	90,000	0.95
22. Mauritania	12	120,000	—	120,000	120,000	—	1.27
23. Mauritius	14	140,000	—	140,000	140,000	—	1.48
24. Morocco	60	600,000	—	600,000	600,000	—	6.34
25. Niger	10	100,000	—	100,000	100,000	—	1.06
26. Nigeria	60	600,000	—	600,000	600,000	—	6.34
27. Rwanda	10	100,000	—	100,000	50,000	50,000	0.53
28. Senegal	21	210,000	—	210,000	210,000	—	2.22
29. Sierra Leone	13	130,000	—	130,000	130,000	—	1.37
30. Somalia	12	120,000	—	120,000	120,000	—	1.27
31. Sudan	30	300,000	—	300,000	300,000	—	3.17
32. Swaziland	11	110,000	—	110,000	110,000	—	1.16
33. Tanzania	24	240,000	—	240,000	240,000	—	2.54
34. Togo	11	110,000	—	110,000	110,000	—	1.16
35. Tunisia	25	250,000	—	250,000	250,000	—	2.64
36. Uganda	22	220,000	—	220,000	220,000	—	2.33
37. Zaire	19	190,000	—	190,000	190,000	—	2.01
38. Zambia	34	340,000	—	340,000	340,000	—	3.59
39. African Development Bank	100	1,000,000	—	1,000,000	1,000,000	—	10.57
TOTAL	960	9,600,000	—	9,600,000	9,460,000	140,000	100.00
Non-Member Countries							
1. Botswana	10	100,000	100,000	—	—	—	—
2. Equatorial Guinea	10	100,000	100,000	—	—	—	—
3. Losotho	10	100,000	100.000	—	—	—	—
4. Malawi	10	100,000	100,000	—	—	—	—
5. Angola	17	170,000	170,000	—	—	—	—
6. Cape Verde	10	100,000	100,000	—	—	—	—
7. Comoros	10	100,000	100,000	—	—	—	—
8. Djibouti	10	100,000	100,000	—	—	—	—
9. Mozambique	19	190,000	190,000	—	—	—	—
10. Sao Tome & Principe	10	100,000	100,000	—	—	—	—
11. Seychelles	10	100,000	100,000	—	—	—	—
12. Zimbabwe	30	300,000	300,000	—	—	—	—
Sub-Total	156	1,560,000	1,560,000	—	—	—	—
Shares not allocated	384	3,840,000	3,840,000	—	—	—	—
Grand Total	1,500	15,000,000	5,400,000	9,600,000	9,460,000	140,000	100

ANNEX III

SUMMARY ADMINISTRATIVE BUDGET
FOR THE PERIOD 1ST JANUARY TO 31ST DECEMBER, 1989

	1989 US$000	1988 US$000
Capital Expenditure (including Furniture, Fittings) and Motor Vehicles)	86	140
Annual General Assembly (including hall facilities, transportation, subsistence allowances and travel expenses relating thereto)	95	93
Board of Directors' Meetings (including hall facilities, transportation, subsistence allowances, attendance fees and travel expenses relating thereto)	220	219
Emoluments of Management and Other Staff	2,360	2,182
Travel & Subsistence Expenses relating to operations, education and training	203	180
General Expenses	989	945
	3,953	3,759