



**AFRICAN REINSURANCE CORPORATION  
GENERAL ASSEMBLY  
20TH ANNUAL ORDINARY MEETING  
ANTANANARIVO, MADAGASCAR, 22<sup>ND</sup> AND 23<sup>RD</sup> JUNE, 1998**

**AFRICARE/GA/22/144**

Report of the Board of Directors  
covering the period  
1st January to 31st December, 1997



**AFRICAN REINSURANCE CORPORATION  
SOCIÉTÉ AFRICAINE DE REASSURANCE**

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Honourable Representatives  
General Assembly  
African Reinsurance Corporation

Date: 22<sup>nd</sup> June, 1998

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, 1997.

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 Noas  
Chairman



Mr. H. Kumsa  
Vice-Chairman



Mr. S. Appiah-Ampofo



Mr. I. Boukari-Yabara



Mr. F. Bennis



Mr. M. Ferrani



Mr. E.Y.N. Ilondo



Mr. S. Kaba



Mr. F. Magezi



Mr. E. Samakai



Mr. C. Enweze



Mr. K. Selim

### ALTERNATE DIRECTORS:

Miss. ZOULIKHA NASRI (Morocco), Mr. M. LEMINE NATY (Mauritania), Mr. LEON-PAUL N'GOULAKIA (Gabon), Mr. SELEUS NEZERWE (Burundi), Mr. OUSMANE MAMAN (Niger), Mr. RATOMSON MIARINASY (Madagascar), Mr. YOUSIF ALI (Sudan), Mr. MOHAMED KARI (Nigeria), Mr. MOHAMED ELTEIR (Egypt), Mr. ZERU WOLDEMICHAEL (Eritrea), Mr. ISAAC L. NDOUMBE (A.D.B.)

## COMPOSITION OF AFRICA RE MANAGEMENT



Mr. Bakary Kamara  
Managing Director



Mr. J. Abban  
Deputy Managing Director



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## EXECUTIVE SUMMARY

The 20<sup>th</sup> Annual report of the Board of Directors presents the Corporation's financial statements for 1997, including the balance sheet as at 31 December, the results of the 1995 Underwriting year (closed for the first time), those of the previous years (1978-1994), as well as the accounts for the still open years of 1996 and 1997.

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

During the financial year 1997, the Corporation recorded a gross premium income, net of cancellations of US\$62,899,759 which represents an increase of 2.64% over the 1996 production of US\$61,281,086. As a result of the increase in the Corporation's capacity and the restructuring of its reinsurance programme, retroceded premium reduced from US\$7,138,167 in 1996 to US\$4,940,223, leaving a retained premium of US\$57,959,536 (1996: US\$54,142,919), corresponding to a retention ratio of 92.15%, compared to the 1996 ratio of 88.35%. After adjusting for the movement in premium reserves, net earned premium amounted to US\$55,932,329. Paid losses stood at US\$26,839,224 while adjustment for the movement in outstanding loss reserves, including the impact of currency translation produced an incurred loss of US\$29,613,476. Other outgo includes commissions of US\$17,639,772, charges of US\$961,092 and management expenses of US\$4,177,204. The resulting underwriting profit of US\$3,540,785 (1996: US\$3,530,076) was transferred to the profit and loss account.

Income from investment and other sources amounted to US\$3,020,961, compared to US\$2,661,624 produced in 1996, while interest on reinsurance deposits stood at US\$1,031,030 (1996: US\$1,022,460). A realized loss on exchange of US\$1,112,322 was recorded during the year as against a gain of US\$174,429 in the previous year. Operating income for the year therefore amounted to US\$6,480,454 (1996: US\$7,388,589). Other expenses not charged to the underwriting revenue account amounting to US\$795,826 (1996: US\$705,770) were then deducted from the operating income to arrive at a net profit of US\$5,684,628 for the year compared to US\$6,682,819 for 1996.

The excess of income over outgo for the still open years of 1996 and 1997 amounted to US\$35,763,629

(1996: US\$33,736,422) 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\$19,034,975 (1996: US\$18,248,023).

The cumulative translation adjustment for the year resulted in an unrealized loss of US\$6,440,264 (1996: US\$749,325), which as in previous years, 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\$3,987,300 (1996: US\$1,674,429) was written off the cumulative translation adjustment by way of transfer from the underwriting revenue account as well as the profit and loss account. As at 31 December 1997, cumulative translation adjustment therefore amounted to US\$10,853,611 (1996: US\$8,400,647).

The shareholders' funds as at 31 December 1997 stood at US\$41,519,193 compared to US\$40,256,400 at the end of the previous year.

The year 1997 was characterised by the Asian currency crisis which shook the rest of the world and whose economic effects will still be felt for sometime to come, both within this region and in the industrialised countries.

In effect, whereas the year started well as evidenced by the performance of the American economy, the strengthening of the dollar and the stabilisation of oil prices at a level that is acceptable to both the producing and consuming countries, the financial tremor recorded by nations of Southern Asia and the Far East during the second half of the year under review, gave rise to some doubts in the minds of economic analysts.

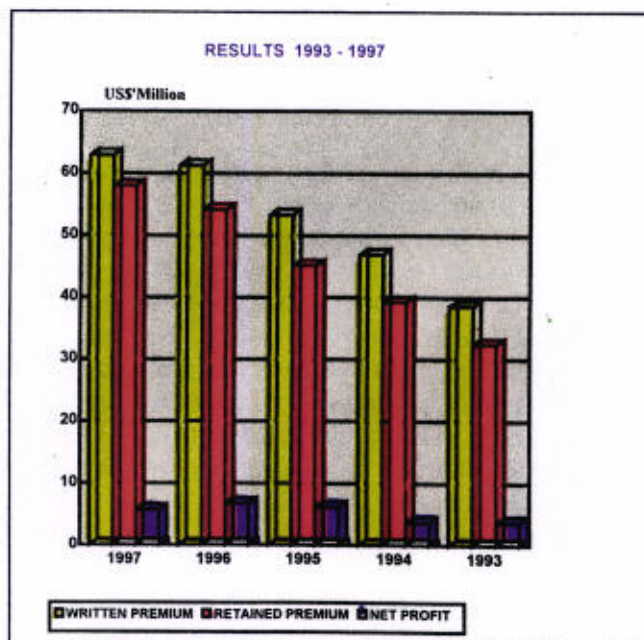
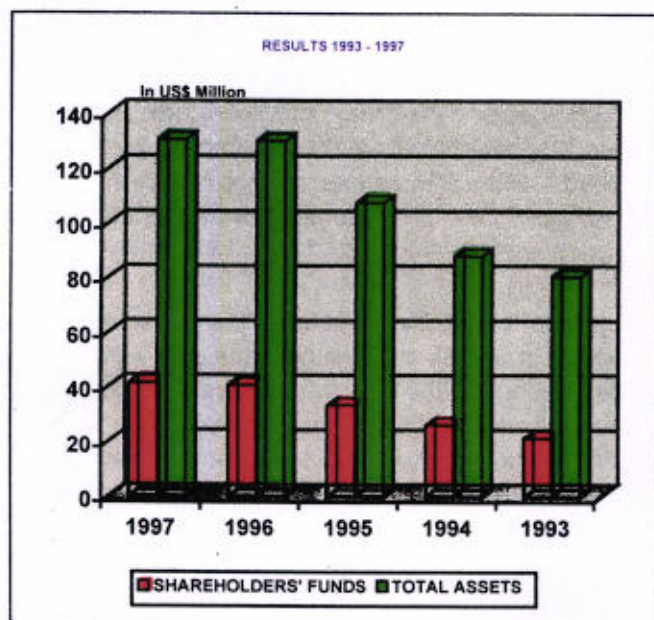
The rise in the exchange rate of the dollar enabled European countries to envisage the prospects of a single currency by the year 1999, since the criteria set by the Maastricht Convention are likely to be met by the States that have resolved to conform to them. For the third consecutive year, Africa recorded a positive economic performance: 3% - 7% growth in the GDP, a better controlled inflation and reduced budget deficits from 10% in 1993 to 5% in 1997. All these are due to a more stringent management of the economies aided by more favourable climatic conditions.





## FINANCIAL HIGHLIGHTS

In US\$ '000	1997	1996	1995	1994	1993
<b>RESULTS</b>					
WRITTEN PREMIUM	62,900	61,281	53,329	46,910	38,568
RETAINED PREMIUM	57,960	54,143	45,068	39,207	32,319
EARNED PREMIUM (NET)	55,932	48,227	36,001	40,036	28,070
NET PROFIT	5,685	6,683	6,113	3,633	3,624
<b>FINANCIAL POSITION</b>					
SHAREHOLDERS' FUNDS	41,519	40,256	33,543	26,285	21,489
TOTAL ASSETS	130,501	126,980	107,619	88,172	80,327







The globalisation of the service industry resulted in the acceleration of the process of risk dislocalisation, generalised fronting and a more exacerbated competition which is, itself, an outcome of over capacity in the international reinsurance market. The fall in tariff led to a contraction or a stagnation of the volume of direct insurance. Furthermore, there was a reduction in the volume of reinsurable business not only for that reason but also due to the increase in the capacities of cedants. The review of legislations that were initially intended to promote the local insurance industry was dramatic to all the professionals of the continent. In effect, the abrogation of laws which introduced compulsory marine cargo (import) insurance and the abolition of the principle of risk domestication appeared like the panacea adopted by Governments in the process of liberalising their economies in general and the insurance sector in particular.

During the year under review, there was a slight slackening in the rate of production as expressed in the United States Dollar, due to the strengthening of the Corporation's unit of account vis-à-vis the trading currencies. In effect, if it were not for the successive and drastic depreciation of African currencies against the Dollar, the premium income of Africa Re for 1997 would have stood at about US\$ 67.44 million instead of US\$ 62.90 million. That would have represented a growth of 10.05% in turnover instead of the 2.64% actually recorded.

Nevertheless, the unflinching support of African cedants to the Institution remained unqualified. Management and staff, under the guidance of the Board, will ensure that the Corporation deserves more of this confidence with each passing day and maintains it intact.

The level of voluntary cessions, although still appreciable, fell remarkably in 1997 (59.79%). However, that trend does not reflect the reality of the vigorous and sustained marketing drive put in by Management and staff. The decrease can be explained by the growth in the retention capacity of most cedants who, following the devaluation of national currencies in the mid 1990's, readjusted their level of capitalisation. The dumping rate applied in the African reinsurance market also contributed to the contraction of additional premium. The gross loss ratio worsened this year to 53.51% (47.68% in 1996). That situation was due to the unbridled competition among insurance and reinsurance professionals. Therefore, Management's prediction a few years ago that the quality of African business would gradually decline towards the international level, has been confirmed. That assertion is further strengthened by the loss ratio of international business which stands at 53.94% as against 53.41% for African risks.

The African Surplus Treaty which ensures a better retrocession of the business written continues to attract the interest and enthusiasm of participants which are insurance and reinsurance companies operating in Africa, Asia and the Middle East.

The shares subscribed in the equity of regional financial institutions and direct insurance companies maintained their initial values. Investment income stood at US\$ 3,020,961 representing an increase of 13.50% when compared to 1996 (US\$ 2,661,624), due to the rise in the level of liquidity and the more favourable rate of interest paid on the dollar and pound sterling deposits. Management expenses ratio stabilised at 7.21% due mainly to the modest growth in turnover and the increase in expenses following the recruitment of a few more professional staff.

The firm Fitch IBCA confirmed the A rating obtained in 1995 and reaffirmed in 1996. This is indicative of continuity in management and attests to the confidence enjoyed by the Corporation.





## TRADING ENVIRONMENT

The year 1997, which could have recorded outstanding performances, ended in uncertainty both at the global macro-economic and the micro-economic levels.

## THE WORLD ECONOMY

### North America and Europe

Whilst the United States, the moving force of the world economy, confirmed the trend of continuous growth (3.7%) experienced during the past seven years with the lowest rate of unemployment since the beginning of the 1970's (4.6% of the active population), a low level of inflation (2.1%) and controlled public (budget) deficits, the financial crisis of South East Asia and the Far East distorted that positive achievement and gave rise to some anxiety. Consequently, the other western countries which adopted the American model are also having misgivings. The year started with the implementation of the new guidelines issued by the World Trade Organisation with a view to further liberalising international transactions. Furthermore, the decision taken by Europe and Asia at the Asian European Meeting in Singapore to work together favoured the strengthening of economic co-operation which, up till then, had not been significant. The appreciation of the dollar gave Europe the opportunity of revitalising its export sectors. The weakness of internal consumption was compensated for by the high rate of export, following the appreciable recovery (12%-15%) of the American currency, especially during the first half of the year. The strengthening of the value of the dollar has turned out to be a fortunate development because the 1997 results will serve as a yardstick for assessing conformity to the criteria set by the Maastricht convention by different countries with a view to adopting a single European currency. Thus, the countries involved will be encouraged to make the necessary effort not to exceed the limit of 3% of budget deficit. In addition, the realisation of a single European currency in January 1999 no longer seems to be an empty dream, because at least 11 countries have shown their readiness to meet that deadline. That event would undoubtedly affect the world economy and have a significant impact on the economy of African member countries of the Franc Zone.

Eastern Europe, on its part, experienced divergent fortunes depending on countries. For example, although Poland recorded a 7% growth and thereby stands the risk of overheating, Hungary and the Czech Republic achieved only a growth of 2% and 1.5%

respectively due to the over-valuation of their currencies. Russia is only getting out of recession following the stringent control of inflation and the strict implementation of programmes to restore investors' confidence in order to retain the massive foreign capital invested in treasury bonds.

### Countries of the South

Latin America has, on its part, confirmed the recovery initiated in 1996, by approaching the growth rate of 4% in 1997. That was due to a combination of factors such as growth in private consumption and investments as well as reduction in inflation.

While Western Europe gained from the appreciation of the dollar, the economies of South East Asia, whose currencies were linked to the American currency, suffered from that phenomenon, with the corollary of excessive and sudden increase in the cost of their exports and a dramatic rise in the cost of imports. Therefore, capital invested a few years earlier, having been attracted by the high rate of returns and the absence of exchange risk, experienced declines as soon as the local currencies started depreciating against the dollar. The domino effect was such that almost all the currencies of the sub-region had to be devalued. This was followed by the collapse of the Hong Kong Exchange and the difficulties encountered by Korean conglomerates.

In the light of the foregoing, the entire world economy was threatened to its very foundation, thus necessitating the massive financial intervention of the International Monetary Fund (IMF) supported by the World Bank, the Asian Development Bank as well as Western and Japanese commercial banks.

In exchange for the financial support which amounted to over US\$100 billion, South Korea, Thailand and Indonesia had to introduce major structural reforms which will ultimately increase financial globalisation, a phenomenon from which these countries had already seriously suffered. Therefore, the Bretton Woods Institutions have now become advocates of a new concept and new economic policy of "guided liberalisation".

### Africa

For the third consecutive year, sub-saharan Africa, in 1997, recorded a growth rate of 4% which was higher than the increase in population (2.8%), while in North Africa the G.D.P. rose by an average of 4%. Most African countries seem to have regained economic strength. According to development financing





institutions, about 40 countries attained a growth rate of over 3% although a minimum of 5% is required for sustainable development. Inflation was reduced to less than 10% in a number of these countries, while the renewal of investors interest, although still timid, testifies to the optimism vis-a-vis the future prospects of the continent.

Furthermore, despite the increasing debt burden, especially the public debt, some measures decided by the African Development Bank, the World Bank and the International Monetary Fund resulted in the reduction of debt servicing when expressed as a percentage of export receipts, while the average budgetary deficit fell from 10% in 1993 to less than 5% in the year under review.

The favourable meteorological conditions generally recorded in 1996 explain the agricultural gains which led to the improvement of the continent's economic results, essentially accounted for by the growth in the export of primary produce (coffee, cocoa, tea, etc).

It may not be necessary to recall that while inter-African exchange represents only 6% of the external trade outflow from the continent, the World Bank estimates that 5% of all the imports from other regions of the planet could be provided by other African countries. The gap is perhaps due to lack of communications infrastructure and the weakness of the institutions of political co-operation.

### **Service Globalisation and the Insurance Sector**

The new multilateral trade system resulting from the Uruguay Round was completed in 1997 by the signing of the Agreement of financial services liberalisation. That followed the dismantling of all obstacles to the liberalisation of the telecommunications sector and the free circulation of the products of information technologies. Undoubtedly, the financial services of the member Countries of the WTO which generate US\$30 trillion, represent the backbone of the world economy. That agreement which was intended to open up the activities of banks, insurance companies and brokerage firms for external competition represents a challenge as well as a threat to which all market players should find an answer without delay.

In the insurance industry, the phenomenon of mergers and acquisitions continued, although at a slower pace and on a smaller scale than in 1996. However, there were, among other consequences, overcapacity and an exacerbated competition both in the direct business and in reinsurance. Thus, reinsurance conditions comparable to those of 1992 were granted

to cedants (rate, commissions, reinstatement of cover). In Africa, the industry witnessed the return in full force of reinsurers who had withdrawn a few years ago for the reason that the cessions received did not economically justify their presence. This was accompanied by an aggressive policy whose objective was to capture at any cost (dumping rate, exorbitant commissions, etc.) market shares from the players that had remained faithful to their clientele.

On a global scale, insurance activities slowed down in a number of key markets of Western Europe and America, with a 2.4% to 3% fall in production and a deterioration of loss experience. The loss ratio in 1997 worsened significantly, especially in the property class. Nevertheless, it appears that the serious pressure mounted by the big clients on direct insurers led to a drastic fall in tariffs, which explains the shrinking of the premium income. The technical lapse in the reinsurance sector was accompanied by a marked transformation of proportional to non-proportional programmes. This situation was further complicated by the tendency of the large groups to solicit a multi-annual global cover which generates less volume of premium. That reduction in activity, which seems to be a world wide phenomenon is likely to persist. It affects medium and small scale reinsurers with niche markets that are coveted by all the mega-companies. In Africa, the new capacities have resulted in a fall in the non-proportional reinsurance rate, increase in the commission of proportional business, improvement in conditions, inclusion of more favourable clauses and new covers. The increase in cedants' retention capacities following the recapitalisation of many of them, especially within the CIMA zone, contributed to the contraction of cessions.

The dislocalisation of peak risks and marine cargo following the abolition of legislations which domesticated them in their countries of origin or simply the liberalisation of services or even the lack of vigilance on the part of the supervisory authority resulted in the transfer of the major policies from the continent to the large centres of international insurance. In addition, the year 1997 was characterised by the promulgation of legislations aimed at further sanitising the different local industries and the implementation of the CIMA convention especially through the regional supervisory committee, which has already started withdrawing licences and reminding some companies of the need to harmonise their operations with the statutory management prudential ratios.

The African Reinsurance Corporation, which has just embarked on the second increase of its capital to





US\$50million, views the future with confidence despite the difficult trading environment. The reinsurance activity in which it is involved requires innovation, ability to adapt to exigencies of the moment and strict adherence to professional ethics. Therefore, conscious of current changes, it undertook to open its capital to all insurance corporate entities which, while not having a majority African shareholding, are based on its native soil and have the long-term interest of Africa at heart. It will continue to operate within its territory and prudently explore other horizons since reinsurance is essentially international.

## OPERATIONS

For operational and reporting purposes, the business accepted by the Corporation is classified into the categories listed below:

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

The geographical classification of the production centres is as follows :

- Anglophone West Africa (Head Office)
- Francophone West and Central Africa (Abidjan Office)
- North Africa (Casablanca Office)
- East and Southern Africa (Nairobi Office, which also supervises the Johannesburg and Mauritius local offices)

The Corporation's acceptances from non-African sources are referred to as « inward international » or « worldwide ». All production centres are allowed to write business emanating from this source.

Cessions from the Anglophone West African markets are administered at the Corporation's Headquarters in Lagos. The Head Office also manages the African Surplus Treaty (formerly Auto Fac), the African Aviation Pool and the African Oil and Energy Insurance Pool.

An insight into the performance of the Corporation, in terms of the levels of premium income and claims recorded, can be obtained from the table below :

Currency in US\$000

DESCRIPTION (US \$000)	1997			1996		
	GROSS	RETRO	NET	GROSS	RETRO	NET
<b>INCOME</b>						
PREMIUM (Less Cancellations)	62,900	4,940	57,960	61,281	7,138	54,143
MOVEMENT IN PREMIUM RESERVE	(14)	2,014	(2,028)	(5,864)	52	(5,916)
EARNED PREMIUM	62,886	6,954	55,932	55,417	7,190	48,227
<b>OUTGO</b>						
LOSSES PAID	28,673	1,834	26,839	22,512	1,437	21,075
MOVEMENT IN LOSS RESERVE	4,975	2,201	2,774	3,909	1,012	2,897
INCURRED LOSSES	33,648	4,035	29,613	26,421	2,449	23,972

## PREMIUM INCOME

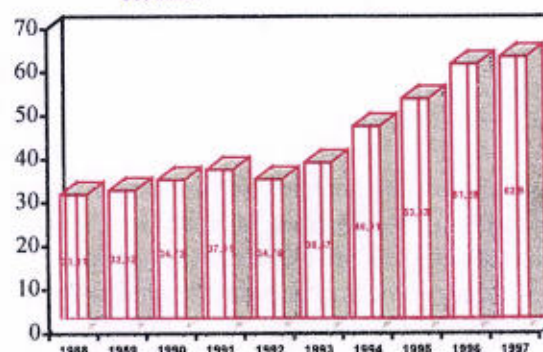
The Corporation recorded a premium income of US\$62.90 million in 1997, representing an increase of 2.64%, compared with the corresponding figure of US\$61.28 million generated in 1996. But for the depreciation of major local currencies against the United States dollar, the premium income for 1997 would have significantly exceeded the level achieved in 1996. Indeed, if exchange rates had remained relatively stable during the year, the corporate income would have amounted to about US\$67.44 million or 10.05% in excess of the level achieved in the previous year.

### Development of Gross Premium

As depicted in the adjoining graph, the Corporation's premium income has been growing steadily in the last

ten years, with the 1997 production representing the highest level of achievement during the period.

DEVELOPMENT OF GROSS PREMIUM INCOME  
US\$ Million







As in the previous years, the evolution of premium income in original currencies remained satisfactory. This positive outcome resulted from a combination of factors, chief among which were the following:

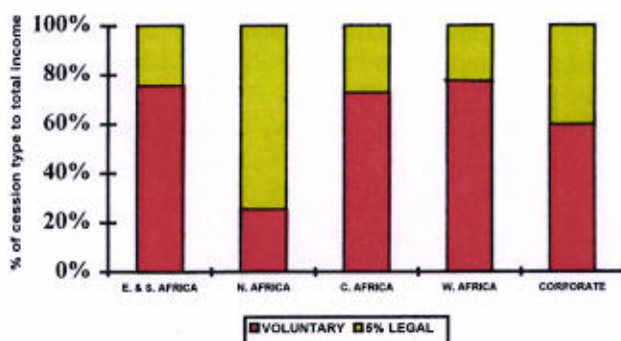
- the possibilities offered by the increased capacity, which enabled the Corporation to accept substantial proportions of peak risks, and
- the strong and sustained marketing drive, backed with technical assistance to cedants, in appreciation of which they voluntarily offered business to Africa Re, as in the previous years.

It is expected that the guided and gradual liberalization of the industry would result in an upsurge in business, if proper ethics are observed and, hopefully, should enhance the growth of the Corporation's income in the years ahead.

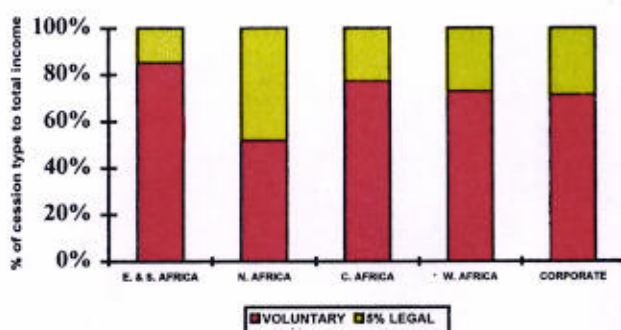
### VOLUNTARY CESSIONS

The corporation's objective to increase its premium income from voluntary cessions is still being pursued vigorously. In 1997, income from this source accounted for 59.79%. This drop may be attributed to the increased capacity of cedants and rate cutting following stiff competition in the industry.

### FINANCIAL YEAR 1997



### FINANCIAL YEAR 1996



### GEOGRAPHICAL DISTRIBUTION

As in the previous year, Eastern and Southern Africa produced the highest income. At a level of US\$26.18 million in 1997, the region's production represents 41.62% of the Corporate premium income. This figure exceeds the 1996 income of US\$23.18 million by 12.94%.

North Africa came second with US\$19.51 million, representing 31.02% of the total corporate premium income, and 2.41% above the income of US\$19.05 million recorded in 1996.

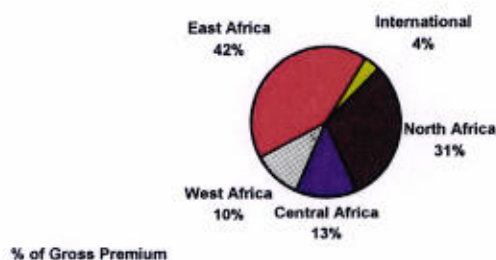
A production level of US\$8.13 million was achieved by Francophone West and Central Africa. This works out to 12.93% of the corporate amount, and translates to a decrease of 10.95% compared to the figure of US\$9.13 million posted by this region in 1996.

Income from Anglophone West Africa stood at US\$6.57 million, representing 10.44% of the corporate figure, or a shortfall of 13.21%, compared to the total receipts of US\$7.57 million recorded in 1996.

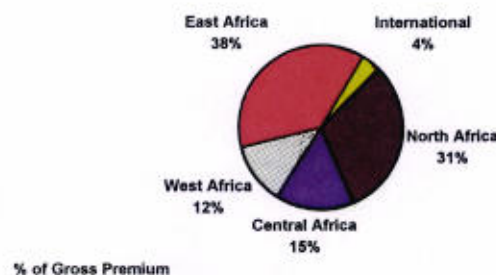
The balance of US\$2.51 million or 3.99% of the premium income for the year under review came from the international market, as against US\$2.35 million in 1996.

Further indications may be obtained from the graphs below :

### FINANCIAL YEAR 1997



### FINANCIAL YEAR 1996







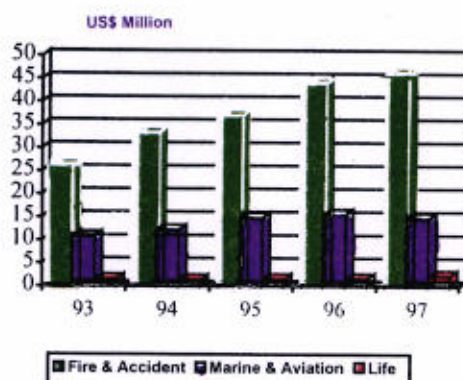
## SECTORAL DISTRIBUTION

The Fire and Accident classes generated the highest volume of income. With a total premium receipt of US\$45.77 million, these branches accounted for 72.77% of the corporate production, as against a share of 71.83% in 1996. It is also worth noting that the income of US\$45.77 million exceeds the corresponding figure of US\$44.02 million recorded in 1996 by 3.97%.

The Marine and Aviation classes produced an amount of US\$14.78 million which is 5.38% below the level of US\$15.62 million emanating from the sector in 1996. The contribution to the total portfolio also dropped from 25.49% in 1996 to 23.50% in 1997.

The balance of US\$2.35 million came from Life business which represents an increase of 43.29% over the premium of US\$1.64 million recorded in 1996.

The graph below provides further details:



## OTHER INCOME

## LONG-TERM INVESTMENTS

No dividends were declared by any of the companies in which the Corporation holds equity during the year. This notwithstanding, the Corporation will continue to prudently invest in companies as a viable business strategy, and in line with its objective of supporting the development of the continent in general and the insurance industry in particular. However, no

## LOSSES

additional equity investments were made during the year.

## INCOME FROM SHORT-TERM INVESTMENTS AND OTHER SOURCES

Income from short term investments and other sources amounted to US\$3,020,961. This represents an increase of 13.50% compared to the US\$2,661,624 achieved in 1996. The improvement in income is essentially due to the attainment of a higher level of liquidity in 1997, as well as relatively better US dollar and pound sterling interest rates.

The French franc deposits continue to attract rather low interest rates, which is further compounded by the depreciation in its value against the US dollar (the Corporation's reporting currency).

Income from investments in fixed coupon bonds dropped from US\$465,390 in 1996 to US\$364,133 – a decrease of 21.76%. This was due to the disposal of one of the European Investment Bank bonds on maturity early in the year. Interest on deposits and current accounts was US\$2,553,589, up by 21.35% from 1996.

The fee from the management of the African Aviation Pool and the African Oil and Energy Pool was US\$52,778, as against US\$69,158 in 1996. The reduction was attributable to the decrease in the income of the Oil and Energy pool.

## OUTGO

## LOSSES

The total claims paid in 1997 amounted to US\$28.67 million, compared with an amount of US\$22.51 million in 1996. As a percentage of earned premium, the 1997 losses represent 53.51% of the premiums recorded in that year. The corresponding ratio was 47.68% in 1996.

The losses incurred in 1997 amounted to US\$33.65 million, comprising paid losses of US\$28.67 million and movement in reserve of US\$4.98 million. The corresponding figure for 1996 was US\$26.42 million, made up of paid losses of US\$22.51 million and movement in reserves of US\$3.91 million.

## GROSS LOSS RATIO BY CLASS - FINANCIAL YEAR 1997

CURRENCY: US\$M

CLASS OF BUSINESS	REGIONAL BUSINESS			INTERNATIONAL INWARD			TOTAL CORPORATE			1996
	Loss Incurred	Earned Prem.	Loss Ratio %	Loss Incurred	Earned Prem.	Loss Ratio %	Loss Incurred	Earned Prem.	Loss Ratio %	
Fire & Accident (Including Eng.)	22.50	43.22	52.06	0.83	1.85	44.86	23.33	45.07	51.76	45.95
Marine & Aviation	8.70	15.26	57.01	0.54	0.69	78.26	9.24	15.95	57.93	50.53
Life	1.08	1.87	57.75	-	-	-	1.08	1.87	57.75	59.63
TOTAL	32.28	60.35	53.49	1.37	2.54	53.94	33.65	62.89	53.51	47.68





## LOSS EXPERIENCE BY TRADING AREA

- A loss ratio of 29.82% was recorded by Anglophone West Africa, which is higher than the figure of 25.76% attributed to this region in 1996.
- Francophone West and Central Africa recorded a ratio of 42.66%, which represents a slight improvement on the figure of 41.73% achieved in 1996.
- North Africa posted a ratio of 50.16% in 1997, which is significantly higher than the level of 32.41% recorded in 1996.
- The figure for East and Southern Africa moved up from 39.39% in 1996 to 47.11% in 1997.

## COMMISSION AND CHARGES

Commission and Charges amounted to US\$18,600,866 in 1997, as against US\$16,881,594 in 1996. The 1997 figure represents 32.07% of the net premium for the year, compared with a corresponding ratio of 31.18% in 1996.

## MANAGEMENT EXPENSES

Management expenses for the year amounted to US\$4,177,204 (1996: US\$3,843,554) translating to a ratio of 7.21% (1996: 7.10%).

The increase in absolute terms is due to the impact of the final lap of the review of staff emoluments and the opening of the Mauritius Contact Office, while the ratio went up because premium income only marginally exceeded the previous year's level.

## OTHER EXPENSES NOT CHARGED TO THE UNDERWRITING REVENUE ACCOUNT

The expenses of the Annual General Assembly and the Board of Directors meetings stood at US\$416,954 (1996: US\$418,999). The decrease in the costs of the Annual General Assembly was offset by an increase in the expenses of the Board Meeting because of the venue of the April 1997 session compared to that of 1996. Increase in depreciable fixed assets, mainly office equipment and residential buildings, led to a 30% rise in the depreciation and amortization cost to US\$258,705 from US\$198,987 in the previous year.

## RESULTS OF THE CLOSED UNDERWRITING YEAR 1995

In line with the Corporation's practice, the 1995 underwriting year, which had been open for three consecutive financial years, was closed for the first time on 31 December 1997.

Total gross premium for the underwriting year was US\$55,803,074 (1994 U/Y: US\$49,827,398) of which US\$7,168,010 was retroceded (1994 U/Y: US\$6,271,912), leaving a retained premium of US\$48,635,064 (1994 U/Y: US\$43,555,486) representing a retention ratio of 87.15% (1994 U/Y: 87.41%).

The underwriting year recorded claims of US\$15,809,898 net of reinsurance, representing a loss ratio of 32.5% (1994 U/Y: 36.47%). Net commissions and charges amounted to US\$14,945,010 or a ratio of 30.73%, compared to a ratio of 30.28% in 1996.

The management expenses attributable to the underwriting year amounted to US\$3,269,064, giving rise to a technical surplus of US\$13,400,409. Out of this, a reserve of US\$9,600,460 was established to cover outstanding claims including IBNR, in line with the existing basis for reserve computations. The resulting underwriting profit of US\$3,799,949 which represents an increase of 9% over the 1994 U/Y was transferred to the profit and loss account.

## RESULTS OF THE 1997 FINANCIAL YEAR

While gross premium improved marginally by 2.64%, the increase in the Corporation's retention capacity resulted in reduction in cessions to the retrocession programme. Accordingly, retained premium increased by 7.05% to US\$57,959,536 from US\$54,142,916 in the previous year, corresponding to a retention ratio of 92.15% (1996: 88.35%). The ratio of net claims to net premiums stood at 46.31% (1996: 38.93%) while commission and charges recorded a ratio of 32.09% (1996: 31.12%).

After deducting a total underwriting outgo of US\$45,440,088 (1996: US\$37,957,018) and management expenses of US\$4,177,204 (1996: US\$3,843,554) from the retained premium of US\$57,959,536 (1996: US\$54,142,919), an excess of income over outgo of US\$8,342,244 (1996: US\$12,342,347) was achieved. The reduction in excess of income over outgo is due to the deteriorating loss ratio and higher commission rates resulting from the over-capacity and intense competition in the industry.

Out of this surplus, US\$786,952 was transferred to the reserve for outstanding claims, after adjusting for the effect of currency devaluation of US\$1,987,300. The Reinsurance funds received a credit of US\$2,027,207, while the balance of US\$3,540,785 represents the net underwriting income taken to the profit and loss account.

Income from investment and other sources amounted to US\$3,020,961 which represents an increase of 13.50% vis-a-vis the 1996 level, while interest on reinsurance deposits rose slightly from US\$1,022,460





to US\$1,031,030. As a result of the marked depreciation of a number of the Corporation's operating currencies, an exchange loss of US\$1,112,322 was recorded during the year as against a gain of US\$174,429 in the previous year.

Consequently, the overall profit for the year stood at US\$5,684,628 compared to US\$6,682,819 recorded in 1996.

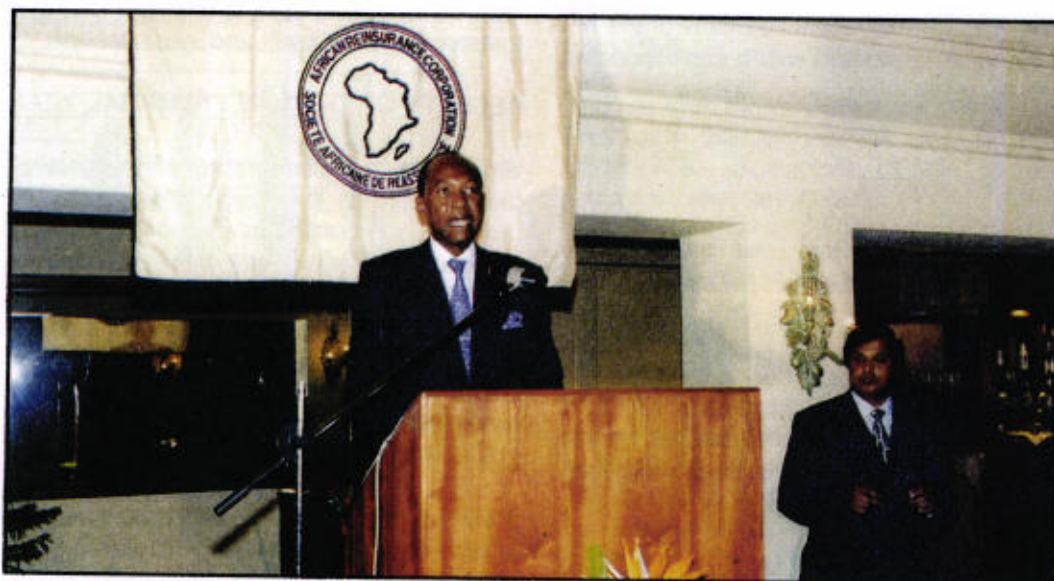
#### **APPROPRIATION OF RESULTS**

The Board would like to re-affirm the position taken in principle a few years ago which it intends to maintain, namely, the need to judiciously remunerate the shareholders for the funds invested in the Corporation while, at the same time, strengthening the financial base of the institution.

Therefore, it recommends that the net result of US\$5,684,628.00 be appropriated as follows:

- US\$2,842,314.00 to the General Reserve in compliance with Resolution N°4/1992 until the cumulative amounts "reach at least the level of the paid-up capital";
- US\$2,200,000.00 to the Other Reserves including the reserve for Exchange Fluctuations;
- US\$561,938.00 to be paid as dividend at the rate of US\$250.00 per subscribed and paid-up share; and
- US\$80,376 to be carried forward.

### **OPENING CEREMONY OF AFRICA RE'S UNDERWRITING OFFICE IN PORT LOUIS**



Dr. The Hon. Vasant K. BUNWAREE, Minister of Finance of Mauritius and Mr. Bakary Kamara, Managing Director of AFRICA RE.



The Managing Director, Mr. V. Nursinghdass (Regional Director, Nairobi Office) and Mr. A. Ravoaja (Local Representative in Mauritius)





**Deloitte &  
Touche**



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**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 1997. 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 1997 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  
20 April 1998

**Deloitte Touche  
Tohmatsu  
International**

S. A au capital de 37.500.000 F CFA  
Compte Contribuable : 9104854 R.C. ABIDJAN 159549





**AFRICAN REINSURANCE  
BALANCE SHEET AT**

<b>ASSETS</b>	<b>Note</b>	<b>1997 US\$</b>	<b>1996 US\$</b>
Cash and Short Term Maturities	3	8,423,926	7,827,199
Investments	4	48,310,692	44,608,195
Amounts due from Companies on Reinsurance Accounts		21,260,981	20,562,004
Deposits retained by Ceding Companies		31,709,992	34,370,135
Sundry Debtors, Accrued Interest and Prepayments		1,960,353	2,011,779
<b>FIXED ASSETS</b>	5	5,716,041	4,668,332
<b>RETROCESSIONAIRES' SHARE IN RESERVE FUNDS</b>	10	13,119,391	12,932,425
		<b>130,501,376</b>	<b>126,980,069</b>

**Musa AL NAAS  
Chairman**

The accompanying notes form an integral part of this statement





**CORPORATION**  
**31ST DECEMBER 1997**

<b>LIABILITIES, CAPITAL AND RESERVES</b>	<b>Note</b>	<b>1997 US\$</b>	<b>1996 US\$</b>
Other Creditors, Accruals & Provisions		723,676	667,845
Dividend Payable	6	1,317,488	1,362,650
Amounts due to Companies on Reinsurance Accounts		16,137,738	16,976,369
Deposits due to Retrocessionaires		2,885,286	2,799,935
		<b>21,064,188</b>	<b>21,806,799</b>
<b>PAID-UP CAPITAL</b>	7	22,457,500	22,115,000
<b>RESERVES</b>			
Share premium		3,857,077	3,606,510
General Reserve		15,020,504	12,178,190
Other Reserves	8	3,994,238	3,794,238
Retained Earnings		7,043,485	6,963,109
Cumulative Translation Adjustment	9	(10,853,611)	(8,400,647)
		19,061,693	18,141,400
		<b>41,519,193</b>	<b>40,256,400</b>
<b>REINSURANCE AND RESERVE FUNDS</b>	10	<b>67,917,995</b>	<b>64,916,870</b>
		<b>130,501,376</b>	<b>126,980,069</b>

**Bakary KAMARA**  
**Managing Director**

The accompanying notes form an integral part of this statement





**AFRICAN REINSURANCE  
PROFIT & LOSS ACCOUNT FOR THE YEAR**

<b>EXPENDITURE</b>	<b>Note</b>	<b>1997 US\$</b>	<b>1996 US\$</b>
General Assembly and Board of Directors' Meetings		416,954	418,999
Audit Fee		38,000	38,000
Depreciation and Amortisation	5	258,705	198,987
Other Expenses		82,167	49,784
Profit for the Year		5,684,628	6,682,819
		<u>6,480,454</u>	<u>7,388,589</u>
<b>APPROPRIATIONS:</b>			
Proposed Dividend		561,938	552,875
Transfer to Cumulative Translation Adjustment	9	2,000,000	1,674,429
Transfer to Reserves	11	3,042,314	4,541,409
Retained Earnings at 31st December		7,043,485	6,963,109
		<u>12,647,737</u>	<u>13,731,822</u>

The accompanying notes form an integral part of this statement





**CORPORATION**  
**ENDED 31ST DECEMBER, 1997**

<b>INCOME</b>	<b>Note</b>	<b>1997</b>	<b>1996</b>
		<b>US\$</b>	<b>US\$</b>
Underwriting Profit		3,540,785	3,530,076
Income from Investments and Other sources		3,020,961	2,661,624
Interest on Reinsurance Deposits		1,031,030	1,022,460
Realised (loss) / gain on Exchange		(1,112,322)	174,429
		<b>6,480,454</b>	<b>7,388,589</b>
Retained Earnings at 1st January		6,963,109	6,469,985
Extra-ordinary Gain	12		579,018
Profit for the Year		5,684,628	6,682,819
		<b>12,647,737</b>	<b>13,731,822</b>

The accompanying notes form an integral part of this statement





**AFRICAN REINSURANCE  
REVENUE ACCOUNT FOR THE YEAR ENDED**

<b>OUTGO</b>	<b>Gross</b>	<b>Retrocession</b>	<b>NET</b>	<b>NET</b>
			1997	1996
	US\$	US\$	US\$	US\$
<b>LOSSES PAID</b>	28,672,889	1,833,665	26,839,224	21,075,424
<b>Add:</b>				
• Outstanding Loss Reserve at the end of the year	26,887,563	7,852,588	19,034,975	18,248,023
• Cumulative Translation Adjustment	1,987,300	-	1,987,300	-
<b>Deduct:</b>				
• Outstanding Loss Reserve at the beginning of the year	23,899,860	5,651,837	18,248,023	15,351,228
<b>LOSSES INCURRED</b>	33,647,892	4,034,416	29,613,476	23,972,219
<b>COMMISSIONS</b>	19,260,032	1,620,260	17,639,772	15,989,866
<b>CHARGES</b>	972,416	11,324	961,092	891,728
	<u>53,841,340</u>	<u>5,666,000</u>	48,214,340	40,853,813
<b>MANAGEMENT EXPENSES</b>			4,177,204	3,843,554
<b>Underwriting Profit transferred to Profit &amp; Loss Account</b>			3,540,785	3,530,076
			<u>55,932,329</u>	<u>48,227,443</u>

The accompanying notes form an integral part of this statement





**CORPORATION**  
**31ST DECEMBER 1997**

<b>INCOME</b>	<b>Gross</b>	<b>Retrocession</b>	<b>NET</b>	<b>NET</b>
			1997	1996
	US\$	US\$	US\$	US\$
<b>PREMIUM NET OF CANCELLATIONS</b>	62,899,759	4,940,223	57,959,536	54,142,919
<b>Add:</b>				
• Reinsurance Fund at the beginning of the year	41,017,010	7,280,588	33,736,422	27,820,946
<b>Deduct:</b>				
• Reinsurance Fund at the end of the year	41,030,432	5,266,803	35,763,629	33,736,422
<b>EARNED PREMIUM</b>	<u>62,886,337</u>	<u>6,954,008</u>	55,932,329	48,227,443
			<u>55,932,329</u>	<u>48,227,443</u>

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 1997**

	Fire and Accident	Marine and Aviation	Life	TOTAL 1997	TOTAL 1996
	US\$	US\$	US\$	US\$	US\$
<b>Underwriting Income:</b>					
Gross Premiums	45,774,811	14,777,332	2,347,616	62,899,759	61,281,086
<b>Less: Retrocession Premiums</b>	3,779,761	1,160,462	-	4,940,223	7,138,167
	41,995,050	13,616,870	2,347,616	57,959,536	54,142,919
<b>Underwriting Outgo:</b>					
Claims	19,513,336	6,302,964	1,022,924	26,839,224	21,075,424
Commissions	12,659,977	4,489,527	490,268	17,639,772	15,989,866
Charges	700,219	258,737	2,136	961,092	891,728
Management expenses	3,039,928	981,370	155,906	4,177,204	3,843,554
	35,913,460	12,032,598	1,671,234	49,617,292	41,800,572
<b>Excess of income over outgo</b>	6,081,590	1,584,272	676,382	8,342,244	12,342,347
<b>Reinsurance &amp; Reserve Funds:</b>					
At 1st January	33,503,391	16,617,555	1,863,499	51,984,445	43,172,174
Cummulative Translation Adjustment (Note 9 )	676,793	1,143,867	166,640	1,987,300	-
	32,826,598	15,473,688	1,696,859	49,997,145	43,172,174
At 31st December ( Note 10)	36,161,378	16,398,148	2,239,078	54,798,604	51,984,445
<b>Underwriting Profit transferred to Profit &amp; Loss Account</b>	2,746,810	659,812	134,163	3,540,785	3,530,076

The accompanying notes form an integral part of this statement





**AFRICAN REINSURANCE CORPORATION**  
**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 1997**

	1997 US\$	1996 US\$
<b>CASH FLOWS FROM OPERATIONS:</b>		
Profit for the Year	5,684,628	6,682,819
<b>Adjustments to reconcile operating profit to net cash generated from operations:</b>		
Depreciation and Amortisation	258,705	198,987
(Profit) / Loss from sale of fixed assets	(21,907)	(11,954)
Reinsurance & Reserve Funds	2,814,159	8,812,271
Amounts due from Companies on Reinsurance Accounts	(698,977)	(3,947,852)
Deposits Retained by Ceding Companies	2,660,143	(3,833,279)
Sundry Debtors, Accrued Interest & Prepayments	51,426	1,028,330
Amounts due to Companies on Reinsurance Accounts	(838,631)	2,895,251
Deposits due to Retrocessionaires	85,351	204,851
Other Creditors, Accruals & Provisions	55,831	(314,709)
	<u>4,366,100</u>	<u>5,031,896</u>
<b>Net Cash generated from Operations</b>	<b>10,050,728</b>	<b>11,714,715</b>
<b>Adjustments for non-cash items taken to Shareholders Funds:</b>		
Cumulative Translation Adjustment	(4,452,964)	(749,325)
Extra-ordinary Gain	-	579,018
	<u>5,597,764</u>	<u>11,544,408</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY:</b>		
Proceeds on sale of Shares	593,067	753,689
Dividend Paid	(607,100)	(463,925)
	<u>5,583,731</u>	<u>11,834,172</u>
<b>CASH FLOWS FROM INVESTMENT ACTIVITY:</b>		
Proceeds on sale of Fixed Assets	129,311	12,765
Purchase of Fixed Assets	(1,413,818)	(2,230,247)
Investments made	(3,702,497)	(7,640,388)
	<u>(4,987,004)</u>	<u>(9,857,870)</u>
<b>Net Increase in Bank and Cash Balances</b>	<b>596,727</b>	<b>1,976,302</b>
<b>BANK AND CASH BALANCES:</b>		
At 1st January	7,827,199	5,850,897
At 31st December	<u>8,423,926</u>	<u>7,827,199</u>

The accompanying notes form an integral part of this statement





## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 1997

### 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\$4,688,000** (1996: **US\$ 2,417,000**) 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\$ 4,888,924** at 31st December, 1997 (1996: **US\$ 5,947,036**) are made up of:

	1997 US\$	1996 US\$
• <u>Equity Participation</u>		
Shelter-Afrique		
The African Export - Import Bank (see note below)	1,020,000	1,020,000
Others (Non-quoted companies)	400,000	400,000
	384,253	384,253
	<u>1,804,253</u>	<u>1,804,253</u>
• <u>Other Investments</u>		
Straight Bonds	4,690,722	5,662,427
Short-term deposits	41,815,717	37,141,515
	<u>46,506,439</u>	<u>42,803,942</u>
	<u>48,310,692</u>	<u>44,608,195</u>

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 1997 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 1997 US\$	Total 1996 US\$
<b>COST</b>						
At 1st January	2,806,214	1,399,323	1,884,828	424,250	6,514,615	4,338,818
Additions during the year	915,857	258,367	146,932	92,662	1,413,818	2,230,247
Disposals during the year	(99,873)	-	(8,574)	(125,185)	(233,632)	(54,450)
At 31st December	<u>3,622,198</u>	<u>1,657,690</u>	<u>2,023,186</u>	<u>391,727</u>	<u>7,694,801</u>	<u>6,514,615</u>
<b>DEPRECIATION</b>						
At 1st January	-	70,275	1,496,811	279,197	1,846,283	1,700,937
Charge for the year	-	37,771	150,461	70,473	258,705	198,987
On disposals during the year	-	-	(6,201)	(120,027)	(126,228)	(53,641)
At 31st December	<u>-</u>	<u>108,046</u>	<u>1,641,071</u>	<u>229,643</u>	<u>1,978,760</u>	<u>1,846,283</u>
<b>NET BOOK VALUE</b>						
At 31st December	<u>3,622,198</u>	<u>1,549,644</u>	<u>382,115</u>	<u>162,084</u>	<u>5,716,041</u>	<u>4,668,332</u>





## NOTE 6

### DIVIDEND PAYABLE

	1997 US\$	1996 US\$
Balance at 1st January	1,362,650	1,273,700
Proposed Dividend	561,938	552,875
	<u>1,924,588</u>	<u>1,826,575</u>
Amount paid during the year	(607,100)	(463,925)
Balance at 31st December	<u>1,317,488</u>	<u>1,362,650</u>

## NOTE 7

### CAPITAL STOCK AND PAID-UP CAPITAL

(i) The 19<sup>th</sup> 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, 1997, 654 shares had been subscribed and fully or partially paid for by these institutions, out of the total of 826 shares originally allotted in 1991.

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

	1997 US\$	1996 US\$
Capital Allotted and Subscribed	23,530,000	23,530,000
Called up and Unpaid	(1,077,500)	(1,415,000)
Subscribed and Paid-up Capital	<u>22,452,500</u>	<u>22,115,000</u>

## NOTE 8

### OTHER RESERVES

	Reserve for Exchange Fluctuation	Reserve for Loss Fluctuation	Total 1997	Total 1996
	US\$	US\$	US\$	US\$
Balance at 1st January	2,794,238	1,000,000	3,794,238	2,594,238
Transfer from Profit & Loss Account (Note 11)	-	200,000	200,000	1,200,000
Balance at 31st December	<u>2,794,238</u>	<u>1,200,000</u>	<u>3,994,238</u>	<u>3,794,238</u>

## NOTE 9

### CUMULATIVE TRANSLATION ADJUSTMENT

	1997 US\$	1996 US\$
Balance at 1st January	8,400,647	9,325,751
Translation Adjustment for the year	6,440,264	749,325
Transfer from Underwriting Account	(1,987,300)	-
Transfer from Profit & Loss Account	(2,000,000)	(1,674,429)
Balance at 31st December	<u>10,853,611</u>	<u>8,400,647</u>





## NOTE 10

### 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 1997 US\$	Total 1996 US\$
<b>GROSS</b>					
Reinsurance Fund	31,110,085	9,061,421	858,926	41,030,432	41,017,010
Reserve for outstanding claims	13,213,669	12,293,741	1,380,153	26,887,563	23,899,860
	<u>44,323,754</u>	<u>21,355,162</u>	<u>2,239,079</u>	<u>67,917,995</u>	<u>64,916,870</u>
<b>LESS: Retrocessionaires' share in</b>					
Reinsurance Fund	4,331,708	935,095		5,266,803	7,280,588
Reserve for outstanding claims	3,830,668	4,021,920		7,852,588	5,651,837
	<u>8,162,376</u>	<u>4,957,015</u>		<u>13,119,391</u>	<u>12,932,425</u>
<b>Net Reinsurance and Reserve Fund</b>	<u>36,161,378</u>	<u>16,398,147</u>	<u>2,239,079</u>	<u>54,798,604</u>	<u>51,984,445</u>

## NOTE 11

### TRANSFER TO RESERVES

Transfer to Reserves is made up of the following:

	1997 US\$	1996 US\$
General Reserve	2,842,314	3,341,409
Reserve for Exchange Fluctuation	-	1,000,000
Reserve for Loss Fluctuation	200,000	200,000
	<u>3,042,314</u>	<u>4,541,409</u>

## NOTE 12

### EXTRA-ORDINARY GAIN

This represents amount awarded, net of costs, on account of court judgement against one of the Corporation's bankers that wrongfully paid out a forged cheque and debited Africa Re's accounts in 1992. The case was successfully prosecuted in 1996 after the bank had refused to settle amicably.

## 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