ZEP-RE (PTA REINSURANCE COMPANY)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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Board of Directors	Mr. William Erio	-	Chairman
	Ms. Agito Amela Carole	-	Vice Chairperson
	Ms. Hope Murera	-	Managing Director
	Mr. Aden Saleh Omar		
	Mr. Caleb Rwamunganza		
	Mr. George Silutongwe		
	Mr. Mohammed Mousa Idris		
	Mr. Tadesse Admassu		
	Mr. Thomas Kronsbein		
	Mr. Novat Niyungeko		
	Mr. Yaw Kuffour		
	Mr. Jadiah Mwarania		
Alternate Directors	Ms. Verdiana Nkwabi Macha		
	Mr. Daher Wasarma		
	Mr. Chisimba Chilekwa		
	Mr. Mohammed Abdin Babiker		
	Ms. Joy Uwinema Ntare		
	Mr. Mirulo Ntale Alexandre		
	Ms. Trinitas Girukwishaka		
	Ms. Jacqueline Njui		
Management	Ms. Hope Murera	-	Managing Director
	Mr. Benjamin Kamanga	-	Finance Director
	Mr. Ronald Kasapatu	-	Operations Director
	Mr. Jephita Gwatipedza	-	Regional Director, Southern Africa Hub
	Mr. Thierry Ravoaja	-	Regional Director, West African Hub
	Mr. Bernard Katambala	-	Assistant Operations Director & Head of Non-Life Underwriting
	Mr. Jerry Sogoli	-	Company Secretary
	Mr. Reuben Koech	-	Head of Investments
	Mr. Joseph Nabimanya	-	Human Resource & Administration Manager
	Mr. Kenneth Oballa	-	Training Manager
	Mr. Nicholas Malombe	-	Head of Life & Health Business
	Mr. Sammy Silamoi	-	Chief Accountant
	Mr. Shipango Muteto	-	Head, Business Relations & Country Manager, Zambia
	Mr. Jamleck Kea	-	Ag Head of IT

Head Office

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Auditors	**PricewaterhouseCoopers** Certified Public Accountants (Kenya) PwC Tower, Waiyaki Way/Chiromo Road,Westlands P.O. Box 43963 – 00100 Nairobi, Kenya
Bankers	**Standard Chartered Bank Kenya Limited** Standard Chartered @ Chiromo, Level 5, 48 Westlands Road, P.O. Box 40984 - 00100 Nairobi, Kenya
	Stanbic Bank Kenya Limited Stanbic Centre, Chiromo Road, P.O. Box 72833 - 00200 Nairobi, Kenya.
	Stanbic Bank Zambia Limited Woodgate House, Nairobi Place, Cairo Road, P.O. Box 319555 Lusaka, Zambia
	Kenya Commercial Bank Limited University Way Branch P.O. Box 7206 - 00300 Nairobi, Kenya
	Sudanese French Bank P.O. Box 2775 Khartoum, Sudan
	SCB Cameroon 530, Rue du Roi George B. P. 300 Douala, Cameroon
	Stanbic Bank Zimbabwe Limited Parklane Branch Harare, Zimbabwe

1. Mr. William Erio

Mr. William Erio is the Chairman of ZEP-RE and has served on the Board of ZEP-RE since 2006. Mr. Erio holds Bachelor of Laws degree from the University of Dar-es-Salaam and a Master of Laws degree from the University of Hull. He currently serves as the Director General of the PPF Pension Fund of Tanzania and holds directorship positions in Tanzania National Reinsurance Corporation Limited, IHPL Limited and PPL Limited.

2. Ms. Agito Amela Carole is the Vice Chairperson of ZEP-RE and got appointed to the Board of ZEP-RE in 2016. She is currently the Managing Director of SONAS, the state-owned national insurance company of the Democratic Republic of Congo.

3. Ms. Hope Murera

Ms. Hope Murera is the new Managing Director of ZEP-RE. She was appointed by the 25th Annual General Assembly held in May 2016 and took office on 1st January 2017. She previously served as General Manager of ZEP-RE. Mrs. Murera holds a Bachelor of Laws degree from Makerere University in Uganda, an MBA from IMD International, Lausanne, Switzerland and has over 20 years working experience in the insurance and reinsurance industry. Mrs. Murera currently holds a Directorship position with Uganda Reinsurance Company Limited.

4. **Mr. Aden Saleh Omar**

Mr. Aden Saleh Omar is a non-Executive Director of ZEP-RE and has served on the Board of ZEP-RE since 2007. Mr. Saleh holds a Master's Degree in Insurance from the International Insurance Institute in Yaoundé, Cameroon. Mr. Aden has a lengthy experience in insurance regulation, having been involved in reforming the insurance sector in Djibouti by preparing a new insurance regulatory framework that was adopted in 1999 and overseeing the creation of a new regulated market in 2001. Mr. Aden is currently the Commissioner of Insurance of the Republic of Djibouti.

5. Mr. Caleb Rwamuganza

Mr. Caleb Rwamuganza is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2014. He is the Permanent Secretary Ministry of Finance and Economic Planning. Caleb has served in Public Finance Management for more than 14 years in various technical and senior management positions culminating in him heading the National Treasury during the last four years. Caleb has participated in both a supporting and leading role raising funds for Government of Rwanda projects such as Rwandair, Bank of Kigali's IPO and Rwanda's debut Euro Bond amongst others. Mr. Rwamuganza holds Bachelors of Business Administration (Accounting) from Nkumba Univeristy-Uganda and an MA in Corporate Finance and Management from Southampton Solent Univeristy, UK. He previously served as non-Executive Director of Bank of Kigali and is currently a Director of Rwandair Ltd.

6. Mr. George Silutongwe

Mr. George Silutongwe is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2013. He is the Group Managing Director of ZSIC Group Ltd in Zambia. Mr Silutongwe has served in the Insurance Industry for more than 30 years in various technical and executive posts including those of Managing Director, Professional Life Assurance (PLA), and Professional Insurance Corporation Zambia Ltd (PICZ). Mr Silutongwe is an Associate of the Chartered Insurance Institute (ACII), a Chartered Insurer, and holds an MBA from the University of Lincoln, UK. He currently holds Directorships on the Boards of the ZSIC Group, and IZWE Loans Zambia Ltd.

7. Mr. Mohammed Mousa Idris

Mr. Mohammed Mousa Idris is a non-Executive Director who was elected to the Board of ZEP-RE in 2012. He has extensive work experience in insurance business and regulation. Mr. Idris is currently the General Manager of the Insurance Supervisory Authority of Sudan.

8. **Mr. Tadesse Admassu**

Mr. TadesseAdmassu is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2013. He is currently the President and Chief Executive of TDB (the Eastern and Southern Africa Trade and Development Bank). Mr. Admassu holds an MSc from the London School of Economics, an MBA from Wits Business School, and post-graduate training in strategic banking, private equity and executive management at INSEAD, Harvard Business School and Euromoney. Prior to joining the TDB, Mr. Admassu worked in the various positions in the banking industry in Johannesburg, Windhoek and New York. He is currently Vice-Chairman of the African Association of Development Finance Institutions, a Non-Executive Director at Gulf Africa Bank and a Director at GAIN in Geneva and FISEA in Paris.

9. Mr. Thomas Kronsbein

Mr. Thomas Kronsbein is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2014. He is currently an Investment Manager with the Equity and Mezzanine (Insurance Investments) division of the DEG – Deutsche Investitions- und EntwicklungsgesellschaftmbH in Cologne, Germany. Prior to joining DEG, Mr. Kronsbein held corporate finance positions with AXA Group and Ernst & Young. Mr. Kronsbein studied at Würzburg University, Germany and Umeå University, Sweden and holds a business degree in Finance & Accounting (Diplom-Kaufmann).

10. Mr. Novat Niyungeko. Mr. Novat Niyungeko is a non-Executive Director of ZEP-RE. He was appointed to the Board of ZEP-RE in 2016. He is currently the Managing Director of Assurances BICOR in Burundi.

11. Mr. Yaw Kuffour

Mr. Yaw Adu Kuffour is a non-Executive Director of ZEP-RE and has served on the Board of ZEP-RE since June 2011. He is the Division Manager, Trade & Commodity Finance Division, Financial Sector Department, African Development Bank. Prior to Joining the African Development Bank 6 years ago, Mr. Kuffour worked in banking and industry for more than 10 years and held corporate finance positions in Ghana, London and Johannesburg. He has led and worked on several transactions involving project finance, structured finance, syndicated loans, and fixed income instruments across Africa. Mr. Kuffour holds a Bachelor of Arts Degree in Political Science (with Honours) from the University of Ghana, Legon and an MBA (Finance) from McGill University, Canada.

12. Mr. Jadiah Mwarania

Mr. Jadiah Mwarania is a non-Executive Director of ZEP-RE and was appointed to the Board of ZEP-Re in 2016. He is the Managing Director of the Kenya Reinsurance Corporation. He holds a Bachelor of Commerce (B.com.) (Hons.) and Master of Business Administration (MBA) degrees from The University of Nairobi. He is a Fellow of the Chartered Insurance Institute of London (FCII), and the Insurance Institute of Kenya (FIIK).

NOTICE IS HEREBY GIVEN that the 26th Annual General Assembly of ZEP-RE (PTA Reinsurance Company) will be held in Kampala, Uganda on Monday 22nd May 2017 at 1400 hours Ugandan time to conduct the following business:

1. To note the presence of a quorum.

2. To adopt the agenda.

3. To confirm minutes of the previous Annual General Assembly held on 27th May 2016.

4. To consider and adopt the Financial Statements for the year ended 31st December 2016 together with the Chairman's Statement, the Directors' Report and External Auditor's Report.

5. To approve the Directors' remuneration for the financial year ended 31 December 2016.

6. To declare a dividend. The Directors recommend approval of a dividend of US 4,500,000 for the year ended 31 December 2016.

7. To consider and if approved, appoint External Auditors for 2017 and approve their remuneration.

9. To undertake any other business.

VENUE

Serena Hotel, Kampala, Uganda

BY ORDER OF THE BOARD

Jerry Sogoli
Secretary to the Board

Note

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on their behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is provided with this NOTICE, must be duly completed by the member and lodged at the Company's headquarters on 8th Floor, ZEP-RE Place, Longonot Road, Upper Hill Nairobi by post, fax or email in time using the following address – P.O. Box 42769 00100 Nairobi, Kenya, Fax - +25420273844 4 or Email – mail@zep-re.com so as to reach the Company not later than Monday, 15th May 2017.

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Foreword

On behalf of the Board of Directors, I am delighted to present to you the Company's Annual Report and Financial Statements for the year ended 31 December 2016.

Business Environment and outlook

I Global Economy

According to the IMF's World Economic Outlook April 2017 report, economic activity gained some momentum in the second half of 2016, especially in advanced economies. Growth picked up in the United States as firms grew more confident about future demand. Growth also remained solid in the United Kingdom, where spending proved resilient in the aftermath of the June 2016 referendum in favour of leaving the European Union (Brexit). Strong net exports in Japan, as well as in Euro area countries, such as Germany and Spain, as a result of strong domestic demand.

Economic performance across emerging markets and developing economies remained mixed. Whereas China's growth remained strong, reflecting continued policy support, activity slowed in India because of the impact of the currency exchange initiative, as well as in Brazil, which has been mired in a deep recession. Activity remained weak in fuel and nonfuel commodity exporters more generally, while geopolitical factors held back growth in parts of the Middle East and Turkey.

II Regional economy

2016 was one of the most difficult years for Sub-Saharan Africa (SSA) economies in recent history, a reflection of the adverse external environment especially for commodity exporting economies. While growth prospects for Developed and Emerging economies diminished according to the IMF October 2016 World Economic Outlook, poor and slow policy responses by the larger SSA commodity exporters in the region like Nigeria aggravated the economic conditions.

During the year, African currencies were relatively stable except for Nigeria and Egypt, which were forced to devalue their currencies. The carryover effect of devaluations in regional currencies experienced in 2015, however, continued to negatively impact on economic and insurance growth, Underlying growth in some of the economies, however, remained strong. East African countries are expected to grow GDP at 5% plus and the outlook for the region remained positive albeit subdued, supported by increasing infrastructure, investment, and consumer spending. Commodity exporting countries also started to benefit from an improvement in commodity prices in the global market.

Highlights of performance

I Premiums

Gross premium income declined by 7.2% from US$ 138.8 million in 2015 to US$ 128.7 million in 2016. A key contributor to the lower than projected growth was the carry-over effect of year 2015 depreciation of local currencies against the United States dollar. The company writes its business in local currencies and most of these currencies recorded a significant depreciation against the reporting currency (United States Dollar) in the last half of 2015 and maintained these depressed levels in 2016.

In addition, our main markets in the region were characterized by slower than expected economic growth in 2016 driven by lower commodity prices. This slowdown impacted on insurance industry growth and most markets posted lower premiums than anticipated.

II Economic performance of the Company's key markets

The COMESA region remained the Company's main source of business in 2016, contributing over 72% of business underwritten by the Company. The rest of Africa contributed 12.3% of the business while 14.9% came from regions outside Africa (in particular the Indian sub-continent).

Economic factors prevailing in the key markets of the Company that contributed to specific operational performance of the Company in the said territories were as follows: -

Kenya

Kenya remained the Company's largest market. During the period under review, Kenya's economy experienced a 6.0% GDP growth mainly driven by finance and insurance activities, wholesale and retail trade and agriculture and forestry. The growth was slightly lower than projection driven by a couple of offsetting factors including delays in planned road infrastructure spending, weaker tourism receipts, volatile external capital flows and public debt pressures. The lower than expected economic performance affected insurance growth with general insurance business (excluding medical) growing at only 3% in local currency terms. The aforementioned notwithstanding, Kenya remains an important market for the Company given the size of the market. The Company's strategy going forward is to consolidate its current position while pursuing further growth in profitable untapped sectors of the insurance business.

Ethiopia

Ethiopia was the second largest market of the Company in 2016. Like other markets in the region, Ethiopia's economy registered a GDP growth of 8% in 2016. The economic growth in Ethiopia was driven by huge government investment in infrastructure development spending as well as private investment resulting in growth prospects in the insurance industry. The Company's strategy for the market is to create a physical presence in the market by setting up an office in Ethiopia and aggressively pursue business growth.

Zimbabwe

Zimbabwe was the third largest market of the Company in 2016 and posted the highest premium growth rate of all our major markets. Zimbabwe registered a negative economic growth of -0.3 percent in 2016 confirming the end of a seven-year rebound from a decade-long recession. The negative growth was due to the impact of a devastating drought on the anchor agricultural sector, weak mineral prices, low foreign direct investment, a liquidity crisis and the attendant declining domestic demand. Despite the challenges mentioned above, the Company's sustained business development efforts and physical presence resulted in increased growth in the market share. Zimbabwe remains an important growth market for the Company.

India

India was the fourth largest market of the Company in 2016. The growth in this market was due to organic business growth despite the demonetisation of high-value banknotes in the last quarter of 2016 and the resultant negative impact on output and well as consumption. India's insurance market growth is a reflection of the general growth experienced in the Indian economy which, in 2016, grew by an impressive rate of 7.1%. Key drivers of growth included increased public investment, better infrastructure and increased private sector investment in particular capital inflows. The Company's strategy in this market is to selectively underwrite business that conforms to our risk profile.

Tanzania

Tanzania was the fifth largest market of the Company in 2016. Like other markets in the region, Tanzania's economy posted a GDP growth of 6.6%. The main drivers of growth were communication, finance, construction and mining sectors. Despite this good economic growth, premium income underwritten from this market declined in 2016 as a result of pressures brought about by currency depreciation the previous year. The above notwithstanding, Tanzania remains an important market for the Company given its size and future growth prospects. The Company's strategy going forward is to consolidate its current position while pursuing further growth in the market.

Uganda

Uganda was sixth largest market for the company in 2016. Uganda's economy registered a GDP growth 4.7% in 2016. This performance was mainly driven by growth in the agricultural sector, services industry and increased investment in infrastructural projects. A couple of offsetting factors included increased government borrowing. Uganda is a growth target market for ZEP-RE and the Company's strategy for the market is to create a physical presence by setting a country office, increase its business shares and seek leads from players in the market with a view to consolidating and ensuring ZEP-RE becomes the dominant player in the market. ZEP-RE plans to open an office in Kampala, Uganda in 2017.

III Underwriting results

In 2016, the Company's underwriting profit was US$ 12.0 million compared to the underwriting profit of US$ 8.95 million in 2015. This was partly due to higher earned premiums due to a change in the method of computing Unearned Premium.

Net claims incurred in 2016 amounted to US$ 62.57 million compared to US$ 59.79 million in 2015.

IV Outstanding claims provision

The Company's outstanding claims' reserves decreased to US$ 79.1 million in 2016 from US$ 81.4 million in 2015.

V Investments

Portfolio

The investment portfolio value increased from US$ 208.75 million as at 31 December 2015 to US$ 227.2 million as at 31 December 2016, an increase of 8.8%. This growth is attributable to cash flow surplus from operating activities and proceeds from the issue of shares.

In the year under review the Company continued portfolio diversification which increased the proportion denominated in the reporting currency, United States Dollars, and amounts held by investment grade rated counterparties.

Performance

The investment income increased from US$ 11.72 million in 2015 to US$ 14.0 million in 2016, a 19.6% growth. The investment income growth is on account of the aforementioned increase in the value of the investment portfolio and diversification to better yielding instruments.

VI Profitability

The Company achieved a profit of US$ 19.30 million in 2016 compared to US$ 19.96 million in 2015. The decline in profitability is attributable to a forex loss arising from assets held in Sudanese Pounds. The Company booked an exchange loss of US$ 7.6 million on account of the depreciation of the Sudanese pound.

V Dividend

The Board of Directors is recommending a dividend of US$ 4.5 million from the results of 2016 same as that of 2015.

VII Security Rating

A.M. Best Rating

Against economic challenges obtaining in the region the Company improved its AM Best financial strength rating by securing an upgrade from B+ to "B++" and the enhancement of its issuer credit rating of from "bbb-" to "bbb". The positive rating upgrade was due to ZEP-RE's excellent risk-adjusted capitalization, resilient underwriting profitability and an improved regional competitive position. In addition, developments in the company's enterprise risk management capability and financial flexibility provided by supportive shareholders contributed to the rating upgrade.

GCR Rating

The Company retained its Global Credit Ratings (GCR) national claims paying ability rating of AA+.

VIII Governance

Election of a new Board

The 25th Annual General Assembly held on 27th May 2016 elected a new Board of Directors for a term of three years. The same meeting also elected myself and Ms. Agito Amela Carole as Chairman and Vice Chairperson respectively.
The election process also witnessed the retirement of Directors Tushar Shah and Zeru Wodemichael. On behalf of shareholders and the Board of Directors I would like to express sincere gratitude to the aforementioned Board members for the committed service they rendered to the Company during their tenure.

Appointment of a new Managing Director

Mrs. Hope Murera was appointed as the new Managing Director of the Company effective 1st January 2017. Previously she served as the General Manager.

This underpins the company's robust succession management. She replaces Mr. Rajni Varia who retired on 31^{st} December 2016. On behalf of shareholders and the Board of Directors I would like to express sincere gratitude to Mr. Rajni Varia for the selfless and dedicated service he gave the Company during his tenure as Managing Director and for the achievements realised by the Company during this time.

IX Strategic Focus

Last year the Board of Directors approved the Company's 8^{th}Corporate Plan covering the years 2017 until 2019. This plan is set within the broader and long term plan of growing the size and profile of ZEP-RE and ensuring the Company becomes a leading reinsurance service provider on the African continent. To achieve this goal the Company has set itself an ambitious goal of becoming a USD 1 billion premium company in ten years' time. The plans laid out in our 8^{th} Corporate Plan which include business leadership in our markets and expansion into new business frontiers are meant to build a solid base aimed at catapulting the Company towards achieving the USD 1 billion dollar goal.

X 2017 Economic Outlook

Global economic activity is picking up with a long awaited cyclical recovery in investment, manufacturing, and trade. World growth is expected to rise from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018. Stronger activity and expectations of more robust global demand, coupled with agreed restrictions on oil supply, have helped commodity prices recover from their troughs in early 2016.

In Sub-Saharan Africa, which comprises the Company's core markets, a modest recovery is foreseen in 2017. Growth is projected to rise to 2.6% in 2017 and 3.5% in 2018, largely driven by specific factors in the largest economies, which faced challenging macroeconomic conditions in 2016. Many commodity exporters still need to adjust fully to structurally lower commodity revenues because commodity prices, the recent rebound notwithstanding, remain low (restraining stronger growth in Nigeria, Angola, and oil exporters within the Economic Community of Central African States). Many of the largest non-resource-intensive countries will find it increasingly hard to sustain growth through higher public capital spending, as they have done in the past, in the face of rising public debt and a slowing credit cycle.

Appreciation

I take this opportunity to recognize, with much appreciation, the contribution that my fellow directors have made to make this yet another successful year. I thank you for your wise counsel, support, direction and service as members of the Board and various Board committees.

To management and staff, we are grateful for your hard work that ensured the Company achieved the good results for the year under review, despite a challenging business environment.

To our shareholders, I thank you for the continuous support and confidence in the Board of Directors and Management.
To our business partners and other stakeholders, I thank you for your continued cooperation and support and look forward to an even more solid partnership in the years ahead.

XI Conclusion

The Board and Management will continue to step up business development efforts by doubling efforts in the key traditional markets while seeking new opportunities in frontier markets and untapped business sectors. It is our belief that renewed focus coupled with co-operation from our trusted business partners and support from our shareholders and member states should help ZEP-RE meet its growth objectives and put the Company in good stead to achieve its growth targets.

BY ORDER OF THE BOARD OF DIRECTORS

William Erio

Chairman, ZEP-RE

CORPORATE GOVERNANCE REPORT

GOVERNANCE STATEMENT

ZEP-RE is committed to good principles of Corporate Governance. We adhere to responsible company management and control with specific focus on long term creation of wealth, continued value addition to our shareholders and recognition of the interest of other stakeholders. We place critical importance on promoting and respecting the interests of shareholders, efficient supervisory practices at all decision levels and a communication policy that is open and transparent both internally and externally.

The key aspects of our approach to Corporate Governance are as follows: -

CORPORATE GOVERNANCE STANDARDS

As a regional organisation, ZEP-RE is not subject or required to comply with any one particular local jurisdiction but has the benefit of drawing upon best practices of corporate governance from different parts of the world including the Australian Code of Corporate Governance Principles and Recommendations, the CACG Guidelines: Principles for Corporate Governance in the Commonwealth, the Kenyan Code of Best Practice for Corporate Governance, and the UK Corporate Governance Code.

GOVERNANCE STRUCTURE

ZEP-RE is a limited liability company governed by the Agreement establishing the Company, a multi-state agreement that established the Company and governs the way it operates. The Company has three main governing organs namely the General Assembly, the Board of Directors and Management team.

General Assembly

The General Assembly is the highest organ of the Company and is constituted by the shareholders. All powers of the Company are vested in the General Assembly.

At ZEP-RE, the principle of "one share, one vote" applies. Shareholders may exercise their voting rights personally or through a proxy appointed in writing.

Board of Directors

Role

The Board of ZEP-RE is responsible for the overall direction of the business of the Company and is accountable to the shareholders for the operations of the Company. The terms of service of the Board are determined by the General Assembly.

Appointment

The appointment of the Board Members is done every three years through a formal and transparent election process that involves the entire membership of the Company. Each member is given the opportunity to nominate candidates to the vacant positions of Director and Alternate Director and all members participate in the voting and appointment of Directors. Mid-term replacements are done through transparent by-elections.

Composition

The current Board comprises 11 non-executive Directors' and the Managing Director serving in an ex officio capacity. Senior management officials of the Company attend Board meetings by invitation.

Board of Directors (Continued)

Access to information and resources

All Directors' have access to management and to such information as is needed to carry out their duties and responsibilities fully and effectively. The Board is also kept informed of the latest developments regarding the Company's business.

During the year, Directors' were provided with appropriate and timely information by management to enable the Board maintain full and effective control over strategic, financial, operational and compliance issues. Among the important issues considered by the Board in 2016 included approval of the 2015 financial statements, a review of operational performance in 2016, approval of the 2017 budget and the operational work plan.

Implementation of strategy

The responsibility for implementing strategy and day to day operations has been delegated to the Managing Director and the Management team.

Charter

The Board of Directors' is guided by a Charter that steers Board operations and helps Directors' take advantage of each member's professional competencies and personal qualities to ensure the effectiveness of Board operations.

Other legal instruments

In addition, the Board has in place other legal instruments including an Evaluation Policy that is meant to help review the team's performance; Rules of Procedure to guide the conduct of meetings and a Code of Business Conduct and Ethics.

Internal Control Framework

The Board acknowledges its overall responsibility for the Company's internal control system and for reviewing its effectiveness. Management is accountable to the Board for monitoring this system and for providing assurance that it has done so. The Company has in place an internal control framework that is meant to ensure that the business, operational, financial and compliance risks are effectively managed.

Board Committees

To assist the Board in the performance of its duties, various Committees have been established including the Board Risk & Audit Committee, the Board Strategy & Investments Committee and the Nominations, Remuneration & Human Resources Committee. The Committees operate under clearly defined mandates which spell out their responsibilities, scope of authority and procedure for reporting to the Board.

The Committees have unlimited access to Company information, the advice and services of Management and may seek independent professional advice on any matter within their purview.

Board Risk and Audit Committee

The Board Risk and Audit Committee comprises Mr. Thomas Kronsbein (Chairman), Mr. Aden Saleh Omar, Mr Caleb Rwamuganza and Mr. Novat Niyungeko. The Committee serves in an advisory capacity to the Board and ensures that the Company's assets are safeguarded, that there is in place an adequate control framework and material corporate risks are being managed. The Committee met thrice in 2016.

The External Auditor and Internal Auditor have unrestricted access to and submit formal reports to the Audit Committee.

Board Committees

Board Strategy and Investments Committee

The Board Investments Committee comprises Mr. Yaw Kuffour (Chairman), Ms. Hope Murera (Managing Director), Mr. Tadesse Admassu and Ms. Agito Amela Carole. The Committee advises the Board on policy issues pertaining to strategy and investments. The Board Strategy and Investments Committee met thrice in 2016.

Board Nominations, Remuneration and Human Resources Committee

The Board Nominations, Remuneration and Human Resources Committee comprises Mr. George Silutongwe- (Chairperson), Mr. Jadiah Mwarania and Mr. Mohamed Mousa Idris. The Committee is mandated to monitor, evaluate, and advise the Board on issues concerning Board nominations and remuneration and general human resources issues affecting staff. The Nominations, Remuneration and Human Resources Committee met twice in 2016.

The Committees through their respective Chairpersons submitted reports to the Board.

Directors' Remuneration

For services on the Board and Board Committees, Directors received remuneration in line with terms approved by the General Assembly. In 2016 the aggregate amount of emoluments received by Directors' is shown in Note 34 (ii) to the financial statements.

Board Attendance in 2016

The table below shows meeting Board attendance (by substantive Directors' or through their Alternates) in 2016

	Board and AGM Meetings				
	82nd Board	**25thAGM**	**83rd Board**	**84th Board**	**85th Board**
Mr. William Erio	✓	✓	✓	✓	✓
Ms. Agito Amela Carole	**Not appointed**		✓	✓	✓
Mr. Rajni Varia	✓	✓	✓	✓	✓
Mr. Aden Saleh Omar	✓	✓	✓	✓	✓
Mr. Mohammed Mousa Idris	✓	✓	×	✓	✓
Mr. Caleb Rwamuganza	✓	✓	✓	✓	✓
Mr. Yaw Kuffour	✓	×	✓	×	✓
Mr. Thomas Kronsbein	✓	✓	✓	✓	✓
Mr. Tadesse Admassu	×	✓	✓	✓	×
Mr. George Silutongwe	✓	✓	✓	✓	✓
Mr. Jadiah Mwarania	**Not appointed**		✓	✓	✓
Mr. Novat Niyungeko	**Not appointed**		✓	✓	✓

Managing Director and the Management team

The Managing Director is responsible for the day to day running of the Company. He is appointed by the General Assembly upon recommendation of the Board of Directors' on a fixed term renewable contract. He or She reports regularly to the Board on the operations of the Company.

The Managing Director is assisted in his or her role by a Management team. The members of the Management team are appointed by the Board of Directors' on fixed term renewable contracts. Various rules and policy documents issued by the Board of Directors' determine the manner Management shall manage the Company and carry out decisions

The Board monitors the performance of Management and gives counsel and direction where necessary. Certain issues and transactions such as strategy direction, major investments or capital expenditure require the approval of the Board.

The Board does not engage in day to day operational issues.

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Chairman Managing Director

2017

The Board of Directors hereby submit their report together with the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of the Company. The report is made in accordance with the provisions of Article 31 of the Agreement Establishing ZEP–RE (PTA Reinsurance Company).

Principal activities

The Company underwrites all classes of life and non-life reinsurance risks as mandated under Article 5 paragraph 1 of the Agreement establishing ZEP–RE (PTA Reinsurance Company). The business is divided into the following business classes:

- Property
- Casualty
- Motor
- Marine
- Aviation
- Life
- Medical

Results and dividend for the year

The profit for the year of US$ 19.30 million (2015: US$ 19.96 million) has been transferred to retained earnings. The Directors recommend the payment of a dividend of US$ 4,500,000 for the year ended 31 December 2016 (2015: US$ 4,500,000).

Appointment of a new Board of Directors

The current Directors of the Company as shown on page 1 were elected by the 25th Annual General Assembly held in Mombasa, Kenya on 27th May 2016 for a term of three years.

Retirement of Directors

Following the election process mentioned above, Directors Tushar Shah and Zeru Woldemichael retired from their positions on the Board of Directors. The Board of Directors would like to express sincere gratitude to the retired Board members for the committed service they rendered to the Company during their tenure.

Appointment of a new Managing Director

Ms. Hope Murera, was appointed as Managing Director of the Company for a term of five years by the 25th Annual General Assembly held on 27th May 2016, in Mombasa, Kenya with effect from 1st January 2017. Ms. Murera replaced Mr. Rajni Varia, who retired on 31st December 2016 after serving the Company in various senior positions for a period of twelve years.

The Board of Directors would like to express sincere gratitude to Mr. Rajni Varia for the selfless and dedicated service he gave to the Company during his tenure as Managing Director.

Secretary

Mr. Jerry Sogoli continued in service as the Company Secretary.

Auditors

The Company's auditors, PricewaterhouseCoopers, expressed willingness to continue in office and a specific resolution will be submitted to the 26th Annual General Assembly in this respect.

BY ORDER OF THE BOARD

SECRETARY

28 April 2017

Article 31 of the Agreement establishing ZEP–RE (PTA Reinsurance Company) requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; disclose with reasonable accuracy at any time the financial position of the company; and that enables them to prepare financial statements of the company that comply with prescribed financial reporting standards and the requirements of the Agreement establishing ZEP-RE (PTA Reinsurance Company). They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and as per the Agreement establishing ZEP-RE (PTA Reinsurance Company). They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. Selecting suitable accounting policies and then apply them consistently; and
iii. Making judgements and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors on 28 April 2017 and signed on its behalf by:

-- Chairman

----------------------------------- Managing Director

Independent auditor's report

To the Shareholders of ZEP–RE (PTA Reinsurance Company)

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of ZEP–RE (PTA Reinsurance Company) (the "Company") set out on pages 18 to 65 which comprise the statement of financial position at 31 December 2016 and the statements of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of ZEP–RE (PTA Reinsurance Company) at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Article 31 of the Agreement establishing ZEP–RE (PTA Reinsurance Company).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of Article 31 of the Agreement establishing ZEP–RE (PTA Reinsurance Company), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Independent auditor's report

To the Shareholders of ZEP–RE (PTA Reinsurance Company) (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Richard Njoroge -- P/No.1244.

Certified Public Accountants
Nairobi

12 May --**2017**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December	**Notes**	**2016 US$**	**2015 US$**
Gross premiums written	3	128,698,286	138,755,947
Less: Retrocession premiums		(23,601,025)	(22,520,596)
Net written premiums		105,097,261	116,235,351
Movement in unearned premiums reserve		13,182,517	(5,959,354)
Net earned premiums		118,279,778	110,275,997
Investment income	4	14,019,523	11,720,483
Commissions earned		6,462,903	5,743,906
Other income		1,347,426	1,411,068
Total income		140,109,630	129,151,454
Gross incurred claims	5	68,119,864	90,206,782
Less: amounts recoverable from retrocessionaires		(5,545,627)	(30,420,093)
Net claims incurred		62,574,237	59,786,689
Operating and other expenses	6	17,649,404	12,104,587
Commissions expenses		40,588,949	37,299,233
Total out go		120,812,590	109,190,509
Profit for the year		19,297,040	19,960,945
Other comprehensive income for year			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on revaluation of available for sale equity investments	12	(1,490,700)	(1,935,657)
Foreign exchange gain/(loss) on revaluation of available for sale equity investments	12	(54,397)	(1,348,676)
Fair value gain on revaluation of offshore investments	19	184,196	(217,802)
Write-back of impairment loss on investment in affiliated companies	12	-	100,000
Gain/(loss) on revaluation of investment in affiliated companies		345,282	-
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property	24(ii)	23,298	19,776
Total other comprehensive income for the year		(992,321)	(3,382,359)
Total comprehensive income for year		18,304,719	16,578,586
Earnings per share:			
- Basic and diluted	7	0.353	0.397

The notes on pages 22 to 65 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December	Notes	2016 US$	2015 US$
ASSETS			
Property and equipment	9	1,405,219	1,363,341
Intangible assets	10	12,244	32,341
Investment properties	11	19,011,465	18,888,529
Available-for-sale equity investments	12	7,523,079	9,304,665
Investment in Affiliated Companies	12	13,642,603	9,976,137
Receivables arising out of reinsurance arrangements	13	28,986,976	26,619,040
Deposits retained by ceding companies	14	4,638,653	3,861,244
Retrocessionaires share of technical liabilities	15	35,668,188	39,601,281
Other receivables	16	6,135,344	3,847,330
Deferred acquisition costs	17	9,179,323	15,012,130
Government securities held to maturity	18	31,439,093	57,638,236
Available for sale -offshore investments	19	8,689,807	8,505,611
Deposits with financial institutions	20	160,858,767	114,417,263
Cash and bank balances	21	2,794,248	1,429,311
Total assets		329,985,009	310,496,459
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	23	56,513,129	52,733,095
Share premium	23	47,920,319	35,257,209
Property revaluation reserve	24	391,682	368,384
Available for sale fair value reserve	24	(825,023)	535,878
Investment in Affiliated companies revaluation reserve	12	445,282	100,000
Retained earnings	25	95,485,578	80,688,538
Total equity		199,930,967	169,683,104
LIABILITIES			
Reinsurance contract liabilities	26	79,135,801	81,396,560
Provision for unearned premiums and unexpired risks	27	27,694,956	44,934,826
Deferred income	28	61,940	62,755
Payables arising from retrocession arrangements	29	7,033,723	3,050,948
Payables arising from reinsurance arrangements	29	5,055,662	2,414,017
Deposits retained on ceded reinsurance business		565,644	438,116
Deferred retrocession commission revenue	30	2,684,586	3,088,059
Other payables	31	6,721,244	4,565,662
Dividends payable	32	1,100,486	862,412
Total liabilities		130,054,042	140,813,355
Total equity and liabilities		329,985,009	310,496,459

The notes on pages 22 to 65 are an integral part of these financial statements.

The financial statements on pages 18 to 65 were approved and authorised for issue by the Board of Directors on 28 April 2017 and were signed on its behalf by:

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Chairman Managing Director

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Property revaluation reserve	Available for sale fair value reserve	Investment in affiliated companies revaluation reserve	Retained earnings	Total
		US$	US$	US$	US$	US$	US$	US$
At 1 January 2015		49,599,064	24,758,207	348,608	4,038,013	-	64,842,893	143,586,785
Shares issued during the year	23	2,944,343	9,863,547	-	-	-	-	12,807,890
Dividends declared – 2015	32	-	-	-	-	-	(4,115,300)	(4,115,300)
Issue of shares through capitalisation of 2015 dividends	32	189,688	635,455	-	-	-	-	825,143
Total comprehensive income for the year		-	-	19,776	(3,502,135)	100,000	19,960,945	16,578,586
At 31 December 2015		52,733,095	35,257,209	368,384	535,878	100,000	80,688,538	169,683,104
At 1 January 2016		52,733,095	35,257,209	368,384	535,878	100,000	80,688,538	169,683,104
Shares issued during the year	23	3,375,200	11,306,920	-	-	-	-	14,682,120
Dividends declared – 2016	32	-	-	-	-	-	(4,500,000)	(4,500,000)
Issue of shares through capitalisation of 2016 dividends	32	404,834	1,356,190	-	-	-	-	1,761,024
Total comprehensive income for the year		-	--	23,298	(1,360,901)	345,282	19,297,040	18,304,719
At 31 December 2016		56,513,129	47,920,319	391,682	(825,023)	445,282	95,485,578	199,930,967

The notes on pages 22 to 65 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December	Notes	2016 US$	2015 US$
OPERATING ACTIVITIES			
Net cash generated from operating activities	35	12,526,087	16,754,678
INVESTING ACTIVITIES			
Purchase of property and equipment	9	(176,928)	(33,452)
Purchase of computer software	10	(18,366)	-
Purchase of investment properties	11	(1,299)	(228,075)
Purchase of quoted equity shares	12(i)	(499,963)	(1,502,677)
Purchase of shares in affiliated companies	12(ii)	(3,321,184)	-
Transfer from affiliated companies to other payables	12(ii)	-	259,158
Purchase of held to maturity Government securities		(2,696,546)	(53,204,987)
Proceeds on maturity of Government securities		34,250,000	5,422,071
Proceeds of disposal of property and equipment		-	-
Proceeds of disposal of quoted shares		1,173,916	1,337,468
Movement in deposits with financial institutions (excluding cash and cash equivalents)		(2,805,247)	23,049,671
Net cash generated from / (used in) investing activities		25,904,383	(24,900,823)
FINANCING ACTIVITIES			
Proceeds of issue of shares		14,682,120	12,807,890
Dividends paid	32	(2,500,902)	(2,874,883)
Net cash generated from financing activities		12,181,218	9,933,007
NET INCREASE IN CASH AND CASH EQUIVALENTS		50,611,688	1,786,862
CASH AND CASH EQUIVALENTS AT 1 JANUARY		45,800,406	44,013,544
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	36	96,412,094	45,800,406

The notes on pages 22 to 65 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 ESTABLISHMENT

The company was established by member states of the then Preferential Trade Area for Eastern and Southern Africa (now COMESA) for purposes of:

a) Fostering the development of the Insurance and Reinsurance industry in the Comesa sub-region;
b) Promotion of the growth of national, sub-regional and regional underwriting and retention capacities; and
c) Supporting sub-regional economic development.

The company is domiciled in Kenya and has regional offices in Cameroon, Cote D'Voire, Zimbabwe and, Zambia and a Retakaful Window in Sudan.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

For the purposes of reporting under the Article 31 of the Agreement establishing ZEP–RE (PTA Reinsurance Company), in these financial statements the balance sheet is equivalent to the statement of financial position and the profit and loss account is presented in the statement of Profit or loss and other comprehensive income.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements are presented in United States Dollars (US$), and prepared under the historical cost convention, as modified by the revaluation of certain property and equipment, and the carrying of investment property and available-for-sale investments at fair value and impaired assets at their recoverable amounts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 38.

(b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

(i) New and amended standards adopted by the company

The following standards and amendments have been applied by the company for the first time for the financial year beginning 1 January 2016:

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.

- Notes – confirmation that the notes do not need to be presented in a particular order.

- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Statement of compliance (Continued)

(i) New and amended standards adopted by the company (Continued)

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

Annual Improvements to IFRSs 2012-2014 Cycle. The latest annual improvements, effective 1 January 2016, clarify:

- IFRS 5 – when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.

- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for de recognition.

- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The company is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The company is assessing the impact of IFRS 15.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Statement of compliance (Continued)

(iii) New standards and interpretations not yet adopted (Continued)

IFRS 16, 'Leases' After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard.

The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment.

This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standards is effective for annual periods beginning 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

(c) Income recognition

i) Premium

Gross written premium and the related expenses are based upon reports from ceding companies.

Premiums relating to the expired risk period are taken as earned and recognised as revenue for the period while premium relating to the unexpired risk period is treated as a provision for unearned premium.

Commissions receivable are recognised as income in the period in which they are earned.

ii) Retrocessions ceded

Retrocession premiums payable are recognised in the period in which the related premium income and claims are earned /incurred, respectively.

The company uses retrocession arrangements to increase its aggregate underwriting capacity, to diversify its risk and to reduce its risk of catastrophic loss on reinsurance assumed. The ceding of risks to retrocessionaires does not relieve the company of its obligations to its cedants. The Company regularly reviews the financial condition of its retrocessionaires. Premium and losses ceded under retrocession contracts are reported as reductions of premiums earned and claims incurred. Amounts recoverable from or due to retrocessionaires are measured consistently with the amounts associated with the retroceded reinsurance contracts and in accordance with the terms of each retrocession contract. Retrocession liabilities are primarily premiums payable for retrocession contracts and are recognised as an expense when due.

Retrocessionaires' shares of outstanding claims and unearned premium reserves are reported as assets in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Income recognition (Continued)

iii) Retrocessions ceded

Retrocession premiums payable are recognised in the period in which the related premium income and claims are earned /incurred, respectively.

The company uses retrocession arrangements to increase its aggregate underwriting capacity, to diversify its risk and to reduce its risk of catastrophic loss on reinsurance assumed. The ceding of risks to retrocessionaires does not relieve the company of its obligations to its cedants. The Company regularly reviews the financial condition of its retrocessionaires. Premium and losses ceded under retrocession contracts are reported as reductions of premiums earned and claims incurred. Amounts recoverable from or due to retrocessionaires are measured consistently with the amounts associated with the retroceded reinsurance contracts and in accordance with the terms of each retrocession contract. Retrocession liabilities are primarily premiums payable for retrocession contracts and are recognised as an expense when due.

Retrocessionaires' shares of outstanding claims and unearned premium reserves are reported as assets in the statement of financial position.

iv) Claims incurred

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of each reporting period, but not settled at that date. They are determined from time to time on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR").

v) Deferred acquisition costs (DAC) and deferred retrocession commission revenue (DRR)

Deferred acquisition costs and deferred retrocession commission revenue comprise insurance commissions, brokerage and other related expenses incurred and revenue received that relate to un-expired polices at year end.

These costs and revenues are recognised over the period in which the related revenues are earned

vi) Interest income

Interest income is recognized on a time proportion basis that takes into account the effective yield on the principal outstanding.

vii) Dividend income

Dividends receivable are recognised as income in the period in which the right to receive payment is established.

viii) Rental income

Rental income is recognised on a straight line basis over the period of the lease.

All investment income is stated net of investment expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Currency translation

i) Functional and Presentation Currency

Even though the company is domiciled in Kenya whose functional currency is Kenya Shilling, the company operates in many countries and has significant activities of the company being conducted in United States Dollars (US$). The financial statements are presented in United States Dollars (US$) which is the company's Functional and Presentation Currency.

ii) Transactions and balances

Transactions during the year in currencies other than the US Dollar are translated using the exchange rates prevailing at the dates such transactions occur. The resultant gains or losses from such translation are recognised in profit or loss.

Monetary assets and liabilities expressed in the various functional currencies of member states are translated into United States Dollars (US$) using the closing rate. Non-monetary items carried at fair value that are denominated in these functional currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a currency other than the US dollar are not retranslated.

The resultant translation gains or losses on translation of the monetary assets and liabilities are recognised in profit or loss.

(e) Receivables and payables related to reinsurance contracts

Receivables and payables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. These include amounts due to and from cedants and brokers. If there is objective evidence that the reinsurance receivable is impaired, the company reduces the carrying amount of the reinsurance receivable accordingly and recognises that impairment loss in profit or loss. The company gathers the objective evidence that a reinsurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

(f) Provision for bad and doubtful debts

Provisions are made against receivables when, in the opinion of the Directors', recovery is doubtful. The aggregate provisions which are made during the year, less amounts released and recoveries of bad debts previously written off are dealt with in profit or loss. Bad debts are written off in part or in whole when the extent of the loss has been confirmed.

(g) Intangible assets – computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (not exceeding 5 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. These costs are amortised over their estimated useful lives.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognized.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property and equipment

All property and equipment are initially recorded at cost. Land and buildings are subsequently shown at market value, based on valuations by external independent valuers, less subsequent depreciation and any accumulated impairment losses. All other property and equipment are stated at historical cost less depreciation and any accumulated impairment losses.

Increases in the carrying amount of land and buildings arising from revaluations are credited to other comprehensive income and accumulated in the revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve. All other decreases are charged to profit or loss. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset.

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

Buildings	50 years
Motor vehicles	4 years
Office furniture and fittings	8 years
Office equipment	8 years
Computers	3 years

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts.

An item of property and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Gains and losses on derecognition of property and equipment are determined by reference to their carrying amounts. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Investment properties

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined annually by external independent valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Changes in their carrying amount between the ends of each reporting periods are recognised through profit or loss.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

Investment properties are derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no further economic benefit is expected from its disposal. On the retirement or disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss for the year.

(j) Financial instruments

A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument.

i. Financial liabilities

Financial liabilities are initially recognised at fair value. After initial recognition, the company measures all financial liabilities at amortised cost.

ii. Financial assets

Classification

The company classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. The company had no investments in this category at 31 December 2016 and 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial instruments (continued)

ii. Financial assets (continued)

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the company intends to sell in the short term or that it has designated as at fair value through income or available-for-sale. Loans, receivables arising from reinsurance and retrocession contracts and other receivables for the company fall under this category.

iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities – other than those that meet the definition of loans and receivables – that the company's management has the positive intention and ability to hold to maturity. Government securities have been classified in this category.

iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Investments in quoted and unquoted shares are classified as available for sale.

The fair value of available for sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income and accumulated in the translation reserve.

Available for sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Recognition

Purchases and sales of investments are recognised on trade date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the company has also transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss as net realised gains/losses on financial assets.

The fair values of quoted investments are based on current bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

ii. Financial assets (Continued)

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchange. The quoted market price used for financial assets held by the company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

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

Transfers between levels of the fair value hierarchy are recognised by the company at the end of the reporting period during which the change occurred.

Impairment of financial assets

The company assesses at each end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the company about the following loss events:

a) significant financial difficulty of the counterparty;
b) a breach of contract, such as default or delinquency in interest or principal repayments;
c) the company granting to the counterparty, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the company would not otherwise consider;
d) it becoming probable that the counterparty will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
   - adverse changes in the payment status of counterparty in the group; or
   - national or local economic conditions that correlate with defaults on the assets in the group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

ii. Financial assets (Continued)

Impairment of financial assets (Continued)

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio as explained below.

(i) Assets carried at amortised cost

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the company's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

ii. Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Assets carried at fair value

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(iii) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of nonfinancial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

(k) Deferred income

This represents the value of a parcel of land at initial recognition (valued in 1994) owned by the company. This land was granted to the company by the Kenya Government. The amount is amortised over the lease period and is stated net of accumulated write-back to profit or loss.

(l) Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlements at the end of the reporting period is recognised as an expense accrual.

Entitlements to gratuity are recognised when they accrue to qualifying employees. A provision is made for estimated annual gratuity as a result of services rendered by employees up to the end of the reporting period.

The company operates a provident fund, which is a defined contribution plan for its employees. The assets of the fund are held in separate trustee administered funds, which are funded from contributions from both the company and employees.

The company's obligations to the provident fund are charged to profit or loss as they fall due.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the Statement of Financial Position at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less.

(n) Dividends

Dividends payable on ordinary shares are charged to equity in the period in which they are declared.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Taxation

In accordance with Article 7 of the Headquarters agreement between The Government of the Republic of Kenya and ZEP-RE (PTA Reinsurance Company), the company is exempt from all forms of taxation.

(p) Share Capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.

Shares are classified as equity when there is no obligation to transfer cash or other assets.

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual agreement.

(q) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3 GROSS PREMIUMS WRITTEN

(i) Class-wise distribution

The premium income of the company can be analysed between the main classes of business as shown below:

	2016 US$	2015 US$
Class of business:		
Property	63,328,950	69,649,944
Casualty	21,252,848	25,490,425
Motor	9,958,323	9,503,985
Marine	10,090,923	11,317,715
Aviation	299,005	349,576
Life	10,034,357	9,381,443
Medical	13,733,880	13,062,859
	128,698,286	138,755,947

(ii) Geographical distribution

	2016		2015	
Region	Gross premium	%	Gross premium	%
COMESA	93,755,509	72.85	94,409,681	68.04
Non – COMESA (Africa)	15,803,544	12.28	19,888,868	14.33
Other regions	19,139,233	14.87	24,457,398	17.63
Total	128,698,286	100.00	138,755,947	100.00

(iii) Type- distribution

Proportional	90,611,155	70.41	102,017,756	73.52
Non-proportional	21,337,962	16.58	21,938,030	15.81
Facultative	16,749,169	13.01	14,800,161	10.67
Total	128,698,286	100.00	138,755,947	100.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2016 US$	2015 US$
4	INVESTMENT INCOME		
	Interest from Government securities held to maturity	5,824,775	2,577,782
	Interest from deposits with financial institutions	6,291,552	7,114,139
	Rental income	1,217,445	1,237,601
	Dividend income	339,668	352,022
	Loan interest receivable	43,729	57,230
	Fair value (loss)/gain on investment properties (Note 11)	121,637	(21,433)
	Gain on sale of quoted shares (Note 24(i))	180,717	403,142
		14,019,523	11,720,483
	Investment income earned on financial assets, analysed by category of asset is as follows:		
	Held to maturity investments	12,116,327	9,691,921
	Loans and receivables	43,729	57,230
	Available for sale investments	520,385	755,164
		12,680,441	10,504,315
	Investment income earned on non-financial assets (Property)	1,339,082	1,216,168
	Total investment income	14,019,523	11,720,483
5	GROSS INCURRED CLAIMS		
	Gross settled claims	67,874,046	61,423,538
	Change in outstanding claims	245,818	28,783,244
		68,119,864	90,206,782
6	OPERATING AND OTHER EXPENSES		
	Employee emoluments and benefits (Note 8)	6,754,921	7,583,503
	Auditors' remuneration	38,421	30,000
	General assembly and Board expenses	368,090	269,795
	Depreciation (Note 9)	158,348	152,256
	Amortisation of intangible assets (Note 10)	38,463	43,959
	Loss on foreign exchange transactions	5,432,281	881,350
	Impairment charge for doubtful receivables		
	- arising from reinsurance premium receivables (Note 13(iii))	2,053,695	745,852
	Repairs and maintenance	159,527	155,513
	Premium taxes and charges	787,743	974,901
	Other	1,857,915	1,267,458
		17,649,404	12,104,587

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 EARNINGS PER SHARE

	2016	2015
Profit attributable to shareholders (US$)	19,297,040	19,960,945
	=========	=========
Weighted average number of shares issued (Note 23(iii))	54,606,085	50,262,699
	=========	=========
Earnings per share (US$) - basic and diluted	0.353	0.397
	========	========

Earnings per ordinary share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares issued.

There were no potentially dilutive shares outstanding at 31 December 2016 and 31 December 2015. The diluted earnings per share is therefore the same as the basic earnings per share.

8 EMPLOYEE EMOLUMENTS AND BENEFITS

	2016 US$	2015 US$
Staff costs include the following:		
- Salaries and wages	4,843,513	5,875,333
- Staff retirement benefits	776,877	801,847
- Other staff benefits	1,134,531	906,323
	6,754,921	7,583,503
	=========	=========

The number of persons employed by the company at the year-end was 58 (2015: 54).

9 PROPERTY AND EQUIPMENT

	2016	2015
Cost or valuation	2,710,979	2,533,151
Accumulated depreciation	(1,305,760)	(1,169,810)
Net book value	1,405,219	1,363,341
	=========	=========
Comprising;		
Buildings	1,120,867	1,119,968
Motor vehicles	23,917	73,499
Office furniture and fittings	199,890	115,025
Office equipment	34,315	32,893
Computers equipment	26,230	21,956
Net book value	1,405,219	1,363,341
	========	========

An independent valuation of the Company’s buildings was carried out by Messrs Gimco Limited for the Kenya properties, Knight Frank Zambia for the Zambia property and Messrs Knight Frank Zimbabwe for the Zimbabwe property, registered valuers, to determine the fair value of buildings. The valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation, done annually, was carried out as at 31 December 2016 on an open market value basis. In estimating the fair value of the buildings, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. Had the Company’s buildings been measured on a historical cost basis, their carrying amount would have been US$ 1,043,396 (2015: US$ 1,043,396).

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of US$ 836,178 (2015: US$ 750,001) which are still in use. If depreciation had been charged during the year on the cost of these assets, it would have amounted to US$ 183,493 (2015: US$ 160,204).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 PROPERTY AND EQUIPMENT (Continued)

	Land and Buildings US$	Motor vehicles US$	Office furniture and fittings US$	Office equipment US$	Computer equipment US$	Total US$
COST OR VALUATION						
At 1 January 2015	1,122,645	294,521	585,463	135,585	364,163	2,502,377
Additions	-	-	23,424	242	9,786	33,452
Disposals	-	-	-	-	-	-
Revaluation surplus	(2,677)	-	-	-	-	(2,677)
Transfer to investment property	-	-	-	-	-	-
At 31 December 2015	1,119,968	294,521	608,887	135,827	373,949	2,533,152
At 1 January 2016	1,119,968	294,521	608,887	135,827	373,949	2,533,152
Additions	-	-	125,738	15,172	36,018	176,928
Revaluation surplus	899	-	-	-	-	899
At 31 December 2016	1,120,867	294,521	734,625	150,999	409,967	2,710,979
ACCUMULATED DEPRECIATION						
At 1 January 2015	-	171,441	464,175	88,785	315,607	1,040,008
Charge for the year	22,453	49,581	29,687	14,149	36,386	152,256
Eliminated on disposals	-	-	-	-	-	-
Written back on revaluation	(22,453)	-	-	-	-	(22,453)
At 31 December 2015	-	221,022	493,862	102,934	351,993	1,169,811
At 1 January 2016	-	221,022	493,862	102,934	351,993	1,169,811
Charge for the year	22,399	49,582	40,873	13,750	31,744	158,348
Eliminated on disposals	-	-	-	-	-	-
Written back on revaluation	(22,399)	-	-	-	-	(22,399)
At 31 December 2016	-	270,604	534,735	116,684	383,737	1,305,760
NET BOOK VALUE						
At 31 December 2016	1,120,867	23,917	199,890	34,315	26,230	1,405,219
At 31 December 2015	1,119,968	73,499	115,025	32,893	21,956	1,363,341

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 PROPERTY AND EQUIPMENT (Continued)

Details of the company's freehold land and buildings and information about fair value hierarchy as at 31 December 2016 are as follows:

	2016 US$	2015 US$
Level 1	-	-
Level 2	1,120,867	1,119,968
Level 3	-	-
Fair value as at 31 December	1,120,867	1,119,968

There were no transfers between the levels during the year.

10 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2016 US$	2015 US$
Cost	896,697	878,331
Accumulated amortisation	(884,453)	(845,990)
Net book value	12,244	32,341

Movement analysis:	Software licences	Other software	Total
COST	US$	US$	US$
At 1 January 2015 and 31 December 2015	621,931	256,400	878,331
Additions - 2016	-	18,366	18,366
At 31 December 2016	621,931	274,766	896,697
ACCUMULATED AMORTISATION			
At 1 January 2015	592,843	209,188	802,031
Charge for the year 2015	22,122	21,837	43,959
At 31 December 2015	614,965	231,025	845,990
Charge for the year - 2016	6,966	31,497	38,463
At 31 December 2016	621,931	262,522	884,453
NET BOOK VALUE			
At 31 December 2016	-	12,244	12,244
At 31 December 2015	6,966	25,375	32,341

All software is amortised over a period of five years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2016 US$	2015 US$
11 INVESTMENT PROPERTIES		
Fair value of investment properties	19,011,465	18,888,529
	=========	=========

Investment properties comprise:

At fair value:	Zep-Re Place US$	Prosperity House US$	Upperhill Parking US$	Zambia land US$	Mombasa Road US$	Harare Property	Total US$
At 1 January 2015	8,424,298	5,185,589	1,801,309	2,176,499	764,192	330,000	18,681,887
Additions	228,075	-	-	-	-	-	228,075
Transfer from PPE	-	-	-	-	-	-	-
Gain (loss) on revaluation	(172,343)	14,411	98,691	32,000	35,808	(30,000)	(21,433)
At 31 December 2015	8,480,030	5,200,000	1,900,000	2,208,499	800,000	300,000	18,888,529
	=========	=========	========	=======	========	=======	=========
At 1 January 2016	8,480,030	5,200,000	1,900,000	2,208,499	800,000	300,000	18,888,529
Additions	-	-	-	1,299	-	-	1,299
(Loss)/Gain on revaluation	9,881	85,929	22,156	(1,299)	64,970	(60,000)	121,637
At 31 December 2016	8,489,911	5,285,929	1,922,156	2,208,499	864,970	240,000	19,011,465
	=========	=========	========	========	========	=======	=========

Investment properties were last valued by Gimco Limited for the Kenya properties, Knight Frank Zambia Limited for the Zambia property and Knight Frank Zimbabwe for the Zimbabwe property, registered valuers, as at 31 December 2016, on an open market basis. The valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. The fair value gain arising from the revaluation has been dealt with in profit or loss.

All the Company's investment properties are held under leasehold interests.

Details of the company's investment properties and information about fair value hierarchy as at 31 December 2016 are as follows:

	2016 US$	2015 US$
Level 1	-	-
Level 2	19,011,465	18,888,529
Level 3	-	-
Fair value as at 31 December	19,011,465	18,888,529
	=========	=========

There were no transfers between the levels during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 (i) AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	2016	2015
	US$	US$
Quoted equity shares: At fair value		
At 1 January	9,304,665	12,038,791
Additions	499,963	1,502,677
Disposals	(736,452)	(952,470)
Fair value gains (Note 24 (i))	(1,490,700)	(1,935,657)
Exchange difference on revaluation (Note 24 (i))	(54,397)	(1,348,676)
At 31 December	7,523,079	9,304,665

(ii) INVESTMENT IN AFFILIATED COMPANIES AT COST

	Uganda Reinsurance Corporation	WAICA Reinsurance Corporation	Tanzania Reinsurance Corporation	African Trade Insurance Agency	PTA Bank	Total
	US$	US$	US$	US$	US$	US$
At 1 January 2015	799,877	2,240,000	1,432,260	500,000	5,263,158	10,235,295
Transfer to Other liabilities	-	-	-	-	(259,158)	(259,158)
At 31 December 2015	799,877	2,240,000	1,432,260	500,000	5,004,000	9,976,137
At 1 January 2016	799,877	2,240,000	1,432,260	500,000	5,004,000	9,976,137
Additions	249,742	3,071,442	-	-	-	3,321,184
Fair value gains/(loss) (Note 24))	(207,708)	552,990	-	-	-	345,282
At 31 December 2016	841,911	5,864,432	1,432,260	500,000	5,004,000	13,642,603
Impairment loss:						
At 1 January 2015	-	-	-	(100,000)	-	(100,000)
Write-back of impairment loss	-	-	-	100,000	-	100,000
31 December 2015	-	-	-	-	-	-
At 1 January 2016	-	-	-	-	-	-
31 December 2016						
Net book value:						
At 31 December 2016	841,911	5,864,432	1,432,260	500,000	5,004,000	13,642,603
At 31 December 2015	799,877	2,240,000	1,432,260	500,000	5,004,000	9,976,137

The investments above are reported at fair value except where the fair value cannot be reliably measured, in which case the investments are reported at cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	2016	2015
	US$	US$
Receivables from reinsurance arrangements	35,723,587	31,432,698
Allowance for doubtful arrangements (Note(ii) below)	(6,736,611)	(4,813,658)
Net carrying value	28,986,976	26,619,040

Receivables from reinsurance arrangements are stated net of impairment provision in respect of receivables which, in the Directors' opinion, cannot be recovered or receivables whose recovery are uncertain at year end.

(i) Ageing of unimpaired receivables

	2016	2015
	US$	US$
0 - 90 days	5,016,270	11,088,268
91-120 days	1,425,629	1,457,128
121-270 days	12,690,877	6,891,813
271 – 360 days	9,854,200	7,181,831
At 31 December	28,986,976	26,619,040
Average age (days) – gross premium basis	82	70

(ii) Movement in the allowance for doubtful debts

	2016	2015
At 1 January	4,813,658	4,291,690
Charge for the year inward	2,025,431	776,762
Charge for the year outward	28,264	(30,910)
Written off during the year as uncollectible	-	-
Exchange difference on revaluation	(130,742)	(223,884)
At 31 December	6,736,611	4,813,658

(iii) Impairment charge for doubtful debts (Note 6)

	2016	2015
Arising from reinsurance arrangements - inward	2,025,431	776,762
Arising from reinsurance arrangements - outward	28,264	(30,910)
	2,053,695	745,852

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 DEPOSITS RETAINED BY CEDING COMPANIES

This amount represents insurance premiums retained by ceding companies. The movement in the account is shown below:

	2016 US$	2015 US$
At 1 January	3,861,244	3,545,707
Increase /(decrease)during the year	777,409	315,537
At 31 December	4,638,653	3,861,244

15 RETROCESSIONAIRES SHARE OF REINSURANCE LIABILITIES

	2016 US$	2015 US$
Retrocessionaires share of :		
Provision for unearned premiums and unexpired risks (Note 27)	5,971,841	7,416,752
Notified outstanding claims (Note 26)	23,714,539	27,113,166
Incurred but not reported (Note 26)	5,981,808	5,071,363
	35,668,188	39,601,281

16 OTHER RECEIVABLES

Receivable from Retakaful window	1,524,928	1,342,497
Staff receivables	933,507	953,212
Prepayments	363,525	473,380
Deposits	33,999	32,906
Rent receivable	364,938	418,804
Others	2,914,447	626,531
	6,135,344	3,847,330

17 DEFERRED ACQUISITION COSTS (DAC)

This amount represents insurance commissions, brokerage and other related expenses incurred that relate to un-expired polices at year end. The movement in the account as is shown below:

	2016 US$	2015 US$
At 1 January	15,012,130	13,831,969
Increase/(Decrease) during the year	(5,832,807)	1,180,161
At 31 December	9,179,323	15,012,130

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 GOVERNMENT SECURITIES - HELD TO MATURITY

	2016 US$	2015 US$
(i) Treasury bonds & bills maturing:		
- Within 6 months	5,904,201	7,397,562
- In 6 months to 1 year	4,844,733	24,902,459
- In 1 to 5 years	58,285	3,768,044
- After 5 years	980,702	1,599,790
	11,787,921	37,667,855
(ii) Government Loans & Receivables maturing:		
- In 6 months to 1 year	15,000,000	14,892,373
- In 1 to 5 years	4,651,172	5,078,008
At 31 December	19,651,172	19,970,381
Analysis by currency denomination:		
Securities in US Dollars	26,097,854	30,574,331
Securities in Kenya Shillings	4,723,584	25,717,476
Securities in Sudanese Pounds	617,655	1,346,429
	31,439,093	57,638,236

19 OFFSHORE INVESTMENTS – AVAILABLE FOR SALE

	2016 US$	2015 US$
Discretionary fund	5,288,372	5,288,520
Wealth fund	3,401,435	3,217,091
	8,689,807	8,505,611
Movement		
At 1 January	8,505,611	8,723,413
Fair value gain (Note 24(i))	184,196	(217,802)
At 31 December	8,689,807	8,505,611

20 DEPOSITS WITH FINANCIAL INSTITUTIONS

Analysis by currency denomination:

	2016 US$	2015 US$
Deposits in United States Dollars	148,869,595	92,618,508
Deposits in Kenya Shillings	5,531,847	15,229,642
Deposits in Sudanese Pound	2,248,190	3,873,124
Deposits in Zambian Kwacha	-	1,203,571
Deposits in Rwandese Francs	275,511	306,069
Deposits in Ethipoian Birr	3,933,624	1,186,349
	160,858,767	114,417,263

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

		2016 US$	2015 US$
20	Maturity analysis:		
	Within 3 months of placement	93,617,846	44,371,095
	After 3 months of placement	67,240,921	70,046,168
		160,858,767	114,417,263

Deposits with financial institutions have an average maturity of 3 to 12 months (2015: 3 to 12 months)

		2016 US$	2015 US$
21	CASH AND BANK BALANCES		
	Analysis by currency denomination::		
	United States Dollars	1,202,636	529,124
	Kenya Shillings	141,936	122,071
	Sudanese Pound	529,826	182,192
	Zambian Kwacha	1,511	81,582
	CFA	441,904	265,160
	Malawi Kwacha	4,620	5,447
	Ethiopian Birr	449,777	212,529
	Others	22,038	31,206
		2,794,248	1,429,311

22 WEIGHTED AVERAGE EFFECTIVE INTEREST/RETURN RATES

The following table summarises the weighted average effective interest / return rates realised during the year on the principal interest / return-bearing investments:

	2016 %	2015 %
Government securities		
Securities in Kenya Shillings	17.4	15.3
Securities in Sudanese Pound	12.3	18.1
Securities in United States Dollars	6.7	6.0
Deposits with financial institutions		
Deposits in United States Dollars	4.3	4.1
Deposits in Kenya Shillings	9.8	11.4
Deposits in Sudanese Pound	5.1	7.0
Deposits in Zambian Kwacha	8.1	12.3
Deposits in Rwandese Francs	10.3	8.6
Available for Sale Offshore investments		
Investments in United States Dollars	2.2	(2.5)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 ISSUED CAPITAL

(i) Issued capital

	2016 US$	2015 US$
Ordinary shares of US$ 1 each:		
Share capital	56,513,129	52,733,095
Share premium	47,920,319	35,257,209
Paid up capital	104,433,448	87,990,304

(ii) Paid up shares

	No of shares	Share capital US$	Share premium US$
Ordinary shares of US$ 1 each:			
At 1 January 2015	49,599,064	49,599,064	24,758,207
Issue of shares	2,944,343	2,944,343	9,863,547
Dividends capitalised	189,688	189,688	635,455
At 31 December 2015	52,733,095	52,733,095	35,257,209
At 1 January 2016	52,733,095	52,733,095	35,257,209
Issue of shares	3,375,200	3,375,200	11,306,920
Dividends capitalised	404,834	404,834	1,356,190
At 31 December 2016	56,513,129	56,513,129	47,920,319

	2016	2015
(iii) Weighted average number of shares (Note 7)	54,606,085	50,262,699

24 RESERVES

	2016 US$	2015 US$
Available for sale investments revaluation reserve (Note 24 (i))	(825,023)	535,878
Property revaluation reserve (Note 24 (ii))	391,682	368,384
Investment in Affiliated Companies revaluation reserve	445,282	100,000
	11,941	1,004,262

(i) Available for sale fair value reserve - Quoted shares

	2016 US$	2015 US$
At 1 January	535,878	4,038,013
Revaluation gain/(loss)	(1,309,983)	(1,532,515)
Realised on disposal of shares (Note 4)	(180,717)	(403,142)
Net revaluation gain/(loss) (Note 12)	(1,490,700)	(1,935,657)
Exchange difference on revaluation (Note 12)	(54,397)	(1,348,676)
Revaluation gain/(loss) on offshore investments (Note 19)	184,196	(217,802)
At 31 December	(825,023)	535,878

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. RESERVES (Continued)

(i) Available for sale fair value reserve - Quoted shares (continued)

The available for sale fair value reserve represents accumulated gains and losses arising on the revaluation of available for sale financial assets that have been recognised in the other comprehensive income net of amounts reclassified to profit or loss for the year when those assets have been disposed of or are determined to be impaired. This reserve is not available for distribution.

The Company reviews the status of the investment portfolio regularly to assess impairment. In determining whether an impairment loss should be recognized in profit or loss, the company checks whether there is objective evidence that the assets are impaired and that the fair values have declined irreversibly. At 31 December 2016 and 31 December 2015, none of the shares have been determined by the Directors' to bear a permanent impairment hence no losses have been recognised in profit or loss.

(ii) Property revaluation reserve – Buildings

	2016 US$	2015 US$
At 1 January	368,384	348,608
Revaluation (deficit)/surplus (Note 9)	899	(2,677)
Depreciation written back on revaluation (Note 9)	22,399	22,453
Net gain on revaluation of property	23,298	19,776
At 31 December	391,682	368,384
	=======	=======

The property revaluation reserve arises on the revaluation of buildings that are classified as part of property and equipment – own use. When the revalued buildings are sold, the portion of the properties' revaluation reserve that relates to that asset, and that is effectively realised, is transferred directly to retained earnings.

This reserve is not available for distribution.

(iii) Investment in affiliated Companies revaluation reserve

This relates to valuation gains or losses in investments in affiliated Companies. In 2016, a fair value loss of USD 207,708 was realized on the investment in Uganda Reinsurance Corporation and a fair value gain of USD 552,990 was realized on the investment in WAICA Reinsurance Corporation resulting to a net fair value gain of USD 345,282.In 2015, an impairment loss of USD 100,000 in the investment in African Trade Insurance Agency was reversed through the revaluation reserve.

25 RETAINED EARNINGS

	2016 US$	2015 US$
Retained earnings	95,485,578	80,688,538
	=========	=========

The movement in retained earnings is as follows:

	2016 US$	2015 US$
At 1 January	80,688,538	64,842,893
Dividend declared (Note 32)	(4,500,000)	(4,115,300)
Profit for year	19,297,040	19,960,945
At 31 December	95,485,578	80,688,538
	=========	=========

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 RETAINED EARNINGS (continued)

In 2016, a dividend of US$ 0.0853 per share amounting to US$ 4,500,000 was declared to holders of fully paid ordinary shares. In 2015 the dividend of US$ 4,115,300 was paid out.

Retained earnings include fair value gains on revaluation of investment properties which are unrealised and are not available for distribution. At 31 December 2016 the unrealised fair value gains on revaluation of investment properties amounted to US$ 6,604,612 (2015: US$ 6,482,975).

26 REINSURANCE CONTRACT LIABILITIES

	2016 US$	2015 US$
Reinsurance contracts		
- claims reported and claims handling expenses	55,963,313	59,731,954
- claims incurred but not reported	23,172,488	21,664,606
Total reinsurance liabilities	79,135,801	81,396,560

Gross claims reported and the retrocessionaires share of claims handling expenses, liabilities and the liability for claims incurred but not reported are as shown below.

	2016			2015		
	Gross US$	Retrocessions US$	Net US$	Gross US$	Retrocessions US$	Net US$
Outstanding claims	55,963,313	(23,714,539)	32,248,774	59,731,954	(27,113,166)	32,618,788
IBNR	23,172,488	(5,981,808)	17,190,680	21,664,606	(5,071,363)	16,593,243
Total outstanding claims	79,135,801	(29,696,347)	49,439,454	81,396,560	(32,184,529)	49,212,031

The Company's outstanding claims and IBNR were reviewed by an independent actuary; Actuarial Services (EA) Limited, registered Actuaries as at 31 December 2016.

For the current year, the company's actuaries used a combination of the chain ladder and the Bournhuetter Fergusson ("B-F") methods to determine estimated claims. The chain-ladder method uses historical claim patterns to determine expected future ultimate claims from each year. The B-F Method uses both estimated loss ratios and claim development patterns to project the ultimate claims. The chain ladder was first used to determine initial claims losses with the B-F Method then applied to determine the ultimate claim losses from which the IBNR reserves were estimated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 PROVISION FOR UNEARNED PREMIUMS AND UNEXPIRED RISKS (UPR)

The reserve represents the liability for reinsurance business contracts where the company's obligations are not expired at the year end. The movement in the reserve is as shown below:

	2016			2015		
	Gross	Retrocessions	Net	Gross	Retrocessions	Net
	US$	US$	US$	US$	US$	US$
At 1 January	44,934,826	(7,416,752)	37,518,074	41,404,712	(6,592,846)	34,811,866
Decrease in the year:						
- Unearned premiums	(14,627,428)	1,444,911	(13,182,517)	6,783,260	(823,906)	5,959,354
- Foreign exchange gain	(2,612,442)	-	(2,612,442)	(3,253,146)	-	(3,253,146)
	(17,239,870)	1,444,911	(15,794,959)	3,530,114	(823,906)	2,706,208
At 31 December	27,694,956	(5,971,841)	21,723,115	44,934,826	(7,416,752)	37,518,074
		(Note 15)			(Note 15)	

Until the year ended 31 December 2015, the company had been estimating the Unearned Premium Reserve as 40% of written premium. From the year ended 31 December 2016, the Company adopted the 24ths method and the 8ths method in estimating UPR for facultative business and treaty business respectively. Had the company used 40% of written premium in estimating UPR for the year ended 31 December 2016, the UPR balance reported in the statement of financial position would have been higher by USD 12,877,993 and the Net written premium reported in the statement of profit or loss would have been lower by USD 12,877,993.

28 DEFERRED INCOME

Deferred income represents the value of the Mombasa Road leasehold land at initial recognition. This land was granted to the company by the Kenya Government and is included in investment properties as disclosed in note 11. The amount is amortised to income over the lease term. The movement on the deferred income account during the year is as follows:

	2016	2015
	US$	US$
Arising from Government grant		
- At 1 January and at 31 December	80,686	80,686
Accumulated amortisation:		
At 1 January	17,931	17,116
Credited to other income for the year	815	815
At 31 December	18,746	17,931
Carrying amount at 31 December	61,940	62,755

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 (i) PAYABLES ARISING FROM RETROCESSION ARRANGEMENTS

This amount represents the liability for short term retrocession contracts. The movement in the account is shown below:

	2016 US$	2015 US$
At 1 January	3,050,948	2,531,529
Increase/(decrease) during the year	3,982,775	519,419
At 31 December	7,033,723	3,050,948

(ii) PAYABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

This amount represents credit balances in reinsurance receivables. The movement in the account is shown below:

	2016 US$	2015 US$
At 1 January	2,414,017	2,326,039
Increase/(decrease) during the year	2,641,645	87,978
At 31 December	5,055,662	2,414,017

30 DEFERRED RETROCESSION COMMISSION REVENUE

This amount represents retrocession insurance commissions, brokerage and other related revenue received that relate to un-expired polices at year end. The movement in the account is shown below:

	2016 US$	2015 US$
At 1 January	3,088,059	2,775,455
(Decrease)/(increase) during the year	(403,473)	312,604
At 31 December	2,684,586	3,088,059

31 OTHER PAYABLES

	2016 US$	2015 US$
Rent deposits	349,995	349,995
Other liabilities	4,298,642	2,511,490
Leave pay provision	255,599	321,997
Provision for gratuity	1,817,008	1,382,180
	6,721,244	4,565,662

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 DIVIDENDS PAYABLE

The movement in dividends payable is as follows:

At 1 January	862,412	447,138
Final dividend declared	4,500,000	4,115,300
Dividend paid	(2,500,902)	(2,874,883)
Dividend capitalised	(1,761,024)	(825,143)
At 31 December	1,100,486	862,412

In respect of the current year, the Directors' propose that a dividend of US$ 4,500,000 (2015 - US$ 4,500,000) be paid to shareholders. This dividend is subject to approval of shareholders at the Annual General Meeting to be held on 26th May 2016 and has therefore not been recognised as a liability in these financial statements.

33 CAPITAL COMMITMENTS

Capital expenditure authorised but not contracted for at the end of the reporting period and which is not recognised in the financial statements is as follows:

	2016 US$	2015 US$
Property and equipment	883,850	782,000
Investment properties	26,050,000	14,500,000
	26,933,850	15,282,000

34 RELATED PARTIES

The company is owned by Governments, private and public institutions of COMESA member states. Some of these are Insurance and Reinsurance companies.

A portion of the company's underwriting business is transacted with ceding companies that are shareholders of the company. The transactions carried out with related parties during the year and the balances due from or due to related parties at year end are disclosed below:

(i) Transactions with related parties

	2016 US$	2015 US$
Gross earned premium:		
- Shareholders	14,022,643	14,707,854
Claims Paid		
- Shareholders	5,470,267	5,338,616

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 RELATED PARTIES (Continued)

		2016	2015
(ii)	Directors' remuneration	US$	US$
	Directors' fees	85,400	88,800
	Other emoluments paid (per diem)	61,750	50,000
		147,150	138,800
(iii)	Key management remuneration		
	Salaries and other short-term employment benefits	1,741,523	1,744,206
	Gratuity	247,350	274,917
		1,988,873	2,019,123
(iv)	Outstanding balances with related parties		
	Premiums receivable from related parties	3,225,569	5,194,103
	Staff car and other loans	933,507	953,212
		4,159,076	6,147,315

35 CASH GENERATED FROM OPERATIONS

Profit for the year		19,297,040	19,960,945
Adjustments for:			
Gain/(loss) on disposal of property and equipment	9	(562)	-
Gain on sale of quoted shares	4	(180,717)	(403,142)
Fair value (gain)/loss on investment properties	4	(121,637)	21,433
Depreciation	9	158,348	152,257
Amortisation of intangible assets	10	38,463	43,959
Amortisation of deferred income	28	(815)	(815)
Changes in:			
Provision for unearned premiums and unexpired risks		(17,239,870)	3,530,114
Reinsurance contract liabilities		(2,260,760)	25,101,287
Deposits retained by ceding companies	14	(777,409)	(315,537)
Deposits retained on ceded reinsurance business		127,528	86,532
Deferred acquisition costs (DAC)	17	5,832,807	(1,180,161)
Receivables arising out of reinsurance arrangements		(2,474,383)	(4,572,006)
Retrocessionaires share of technical liabilities		3,933,092	(24,561,036)
Payables arising out of retrocession arrangements	29	6,730,868	(1,703,787)
Deferred retrocession commission revenue (DRR)	30	(403,472)	312,604
Other receivables		(2,288,016)	(645,082)
Other payables		2,155,582	927,113
Net cash generated from operating activities		12,526,087	16,754,678

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2016 US$	2015 US$
Cash and bank balances	2,794,248	1,429,311
Deposits with financial institutions maturing within 3 months (note 20)	93,617,846	44,371,095
	96,412,094	45,800,406

37 OPERATING LEASE COMMITMENTS

Net rental income earned during the year was US$ 1,217,445 (2015: US$ 1,237,601). At the end of the reporting period, the company had contracted with tenants for the following future lease receivables:

	2016 US$	2015 US$
Not later one year	218,199	6,623
Later than 1 year but not later than 5 years	1,744,386	3,058,446
More than 5 years	-	-
	1,962,585	3,065,069

Leases are for a period of six years.

38 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The ultimate liability arising from claims payable under reinsurance contracts

The main assumption underlying techniques applied in the estimation of this liability is that a company's past claims experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by event years. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Impairment losses

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Useful lives of property and equipment

The company reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

Held -to-maturity investments

The company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to hold these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not at amortised cost.

Available for sale investments

The fair value of financial instruments that are not quoted in an active market are carried at cost. Management estimates that the fair value of the unlisted equity investments approximates their cost.

Other areas of judgement

Management exercises critical judgment in determining the classification of debt and equity instruments and considers the substance of the contractual terms of the instrument.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks, including reinsurance risk, credit risk, and the effects of changes in assets values, debt and equity market prices, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, retrocession planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and retrocessionaires. Investment policies are in place which help manage liquidity, and seek to maximise return within an acceptable level of interest rate and credit risk.

(i) Reinsurance risk

ZEP- RE writes all classes of business, namely Property, Casualty, Motor, Marine, Aviation and Life.

The company has in place a detailed underwriting manual covering risk acceptance procedures, accumulation control and how to arrange for reinsurance protection. It guides the underwriters in their day to day transaction of business, while emphasising prudence and professionalism. The driving force is to have a diversified portfolio of business with a sufficiently large population of risks, in order to reduce reliance on one area or class.

Frequency and severity of claims

The principal risk in the business is the possibility that the insured event will occur with the likelihood that the actual claims will exceed the amount of reinsurance premiums and reserves available.

The possibility of such occurrences cannot be eliminated. The only option is to minimise the financial consequences of each occurrence as far as possible. The company has endeavoured to achieve this by putting in place reinsurance programmes that provide protection for individual risks and catastrophic events. The company has subsequently entered into retrocession arrangements with reputable retrocessionaires. The objective is to make sure that the company is adequately protected against all the liabilities assumed from its business transactions.

The retrocession arrangements however do not discharge the company of its obligations to the ceding companies and consequently the company has put in place a business review structure that ensures control of risk quality and conservative use of treaty limits, terms and conditions.

Finally as part of its annual renewals, the financial condition of each retrocessionaire is reviewed and as a result, the programme is placed with a select group of financially secure and experienced companies in the world market.

Sources of uncertainty in the estimation of future claim payments

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The liability for these contracts comprise a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

In estimating the liability for the cost of reported claims not yet paid, the company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. The main assumption underlying this technique is that the company's past claims development experience be used to project future claims development and hence ultimate claims costs.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(i) Reinsurance risk (Continued)

Concentration risk

At 31 December 2016

Class of business		Maximum insured loss: US$ 0m - US$ 0.25m	US$ 0.25m - US$ 1m	Over US$ 1m	Total
Property	Gross	88,173,968	305,330,500	5,920,217,196	6,313,721,664
	Net	80,543,354	266,195,406	2,612,117,973	2,958,856,733
Casualty	Gross	57,933,818	152,283,750	278,791,267	489,008,835
	Net	57,764,160	146,587,175	183,002,521	387,353,856
Motor	Gross	24,869,127	38,936,380	15,374,247	79,179,754
	Net	24,408,421	34,407,359	10,799,572	69,615,352
Marine	Gross	37,522,587	60,319,699	94,899,616	192,741,902
	Net	37,062,940	58,567,368	49,864,706	145,495,014
Aviation	Gross	4,285,573	4,317,469	7,691,250	16,294,292
	Net	4,285,573	4,307,661	1,751,250	10,344,484
Life	Gross	9,646,054	1,689,343	23,808,956	35,144,353
	Net	9,411,700	1,689,343	19,784,997	30,886,040
Medical	Gross	1,050,096	1,808,341	2,345,353	5,203,790
	Net	1,050,096	1,808,341	2,345,353	5,203,790
Total	**Gross**	**223,481,223**	**564,685,482**	**6,343,127,885**	**7,131,294,590**
	Net	**214,526,244**	**513,562,653**	**2,879,666,372**	**3,607,755,269**

At 31 December 2015

Class of business		Maximum insured loss: US$ 0m - US$ 0.25m	US$ 0.25m - US$ 1m	Over US$ 1m	Total
Property	Gross	86,953,469	288,384,088	3,840,077,548	4,215,415,105
	Net	81,133,891	239,585,768	1,666,584,705	1,987,304,364
Casualty	Gross	51,285,276	130,362,279	189,167,617	370,815,172
	Net	51,028,044	125,455,305	126,102,977	302,586,326
Motor	Gross	27,925,254	50,848,164	12,960,920	91,734,338
	Net	26,974,118	34,978,236	6,198,752	68,151,106
Marine	Gross	39,591,318	46,624,652	148,616,224	234,832,194
	Net	39,339,609	42,800,360	64,758,656	146,898,625
Aviation	Gross	2,329,439	3,391,177	5,940,000	11,660,616
	Net	2,194,064	3,391,177	-	5,585,241
Life assurance business	Gross	7,089,178	785,000	2,563,569	10,437,747
	Net	6,910,554	785,000	64,089	7,759,643
	Gross	706,703	1,759,015	-	2,465,718
	Net	706,703	1,759,015	-	2,465,718
Total	**Gross**	**215,880,637**	**522,154,375**	**4,199,325,878**	**4,937,360,890**
	Net	**208,286,983**	**448,754,861**	**1,863,709,179**	**2,520,751,023**

The company's retention (net liabilities) shown for the above classes is protected by retrocession treaties as follows:

Class	**2016 Limit (US$)**	**2015 Limit (US$)**
Fire/Engineering risk & Cat XL	82,000,000 in excess of 3,000,000	72,500,000 in excess of 2,500,000
Accident and Motor	3,000,000 in excess of 1,000,000	2,000,000 in excess of 1,000,000
Marine & Energy XL	7,000,000 in excess of 1,000,000	5,000,000 in excess of 1,000,000

The concentration by sector or maximum underwriting limits at the end of the year is broadly consistent with the prior year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Financial risk

The company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and reinsurance liabilities. In particular the key financial risk is that the proceeds from its financial assets might not be sufficient to fund the obligations arising from its reinsurance business. The most important components of this financial risk are interest rate risk, equity price risk, currency risk and credit risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the company primarily faces due to the nature of its investments and liabilities are interest rate risk, currency risk and equity price risk.

The company manages these risks within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations in reinsurance business.

The notes below explain how financial risks are managed using the categories utilised in the company's ALM framework.

(a) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company.

The key areas that the Company is exposed to credit risk are:
- Receivables arising out of reinsurance arrangements both inward and outward;
- Retrocessionaires' share of outstanding claims;
- Deposits and cash balances held with banks and other financial institutions;
- Investments in Government securities

The Company manages its exposure in the following ways:
- places its retrocession programme with rated securities – investment grade and above;
- dealing with only credit-worthy counterparties;
- placing limits on the company's exposure to a single counterparty or group of counterparties while placing investments.

In respect of its exposure from receivables arising out of reinsurance arrangements the Company manages this through regular analysis of the ability of the existing and potential clients to meet premium obligations and by reviewing signed shares where appropriate, having close relations with cedants and intermediaries to enhance timely settlement of premiums, offsetting of outstanding premiums against claims and avoiding renewal of treaties with cedants who have poor underwriting and credit history.

Impairment charges are recognised for debts considered doubtful at the end of reporting period.

Maximum exposure to credit risk before collateral held:

31 December 2016	Fully functioning US$	Past due but not impaired US$	Past due and impaired US$
Deposits retained by ceding companies	4,638,653		
Retrocessionaires share of technical liabilities	34,640,456		
Other receivables (excluding prepayments) (note 16)	5,771,819		
Receivables arising out of reinsurance arrangements	14,462,383	7,818,968	6,705,625
Government securities held to maturity (note 18)	31,439,093		
Offshore investments (note 19)	8,689,807		
Deposits with financial institutions (note 20)	160,752,666		
Bank balances (note 21)	2,794,248		
Gross financial assets	263,189,125	7,818,968	6,705,625

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk management (Continued)

(a) Credit risk (Continued)

31 December 2015	Fully functioning US$	Past due but not impaired US$	Past due and impaired US$
Deposits retained by ceding companies	3,861,244	-	-
Retrocessionaires share of technical liabilities	39,601,281	-	-
Other receivables (excluding prepayments) (note 16)	3,373,950	-	-
Receivables arising out of reinsurance arrangements	17,092,090	4,713,292	4,813,658
Government securities held to maturity (note 18)	57,638,236	-	-
Offshore investments (note 19)	8,505,611	-	-
Deposits with financial institutions (note 20)	114,417,263	-	-
Bank balances (note 21)	1,429,311	-	-
Gross financial assets	245,918,986	4,713,292	4,813,658

No collateral is held for any of the above assets. All receivables that are neither past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the above assets are past due or impaired except receivables arising out of reinsurance arrangements (which are due within 60 days after close of each quarter).

Receivables arising out of reinsurance arrangements are summarized as follows:

	2016 US$	2015 US$
Neither past due nor impaired:		
-up to 90 days	5,016,270	11,088,268
-up to 91 to 120 days	1,425,629	1,457,128
-up to 121 to 270 days	12,690,877	6,891,813
-up to 271 to 360 days	2,035,232	2,468,539
Past due but not impaired – over 360 days	7,818,968	4,713,292
Impaired	6,736,611	4,813,658
	35,723,587	31,432,698
Less provision for impairment	(6,736,611)	(4,813,658)
Total	28,986,976	26,619,040

All receivables past due by more than 365 days are considered to be impaired, and are carried at their estimated recoverable value.

(b) Market risks

Interest rate risk

Exposure to interest sensitive assets is managed by use of a yield curve in order to ensure that the company does not hold low yielding investments in a high interest environment. The company has an investment committee which sets investment guidelines that seek to reduce exposure to interest rate risks.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk management (Continued)

(b) *Market risks(Continued)*

Interest rate risk (continued)

The company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement of plus 100 basis points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the company's overall exposure to interest rate sensitivities included in the company's ALM framework and its impact on the company's profit or loss by business.

At 31 December 2016 if interest rates on government securities had been 10% higher/lower with all other variables held constant, profit for the year would have been USD 582,477 (2015: USD 252,113) lower/higher.

At 31 December 2016 if interest rates on deposits with financial institutions had been 10% higher/lower with all other variables held constant, profit for the year would have been USD 629,155 (2015: USD 717,137) lower/higher.

Note 22 discloses the weighted average interest rate on principal interest bearing investments.

Equity price risk

Equity price risk is the potential loss in fair value resulting from adverse changes in share prices.

The company has a small portfolio of equity investments quoted in Nairobi Stock Exchange (NSE) and as such it is exposed to share price fluctuations. The company manages its exposure to this risk as follows:

- Setting a limit on the maximum proportion of the investment portfolio that can be invested in equity;
- Diversification in the equity portfolio; and,
- Regular review of the portfolio and the market performance.

At 31 December 2016, if the share prices at the NSE had increased/decreased by 8% with all other variables held constant and all the company's equity instruments moved according to the historical correlation to the index, total comprehensive income for the year would have been US$ 514,660 (2015: US$ 741,623) higher/lower, and equity would have been US$ 514,660 (2015: US$741,623) higher/lower.

Currency risk

The company operates in a number of countries and as a consequence writes business and receives premium in several currencies. The Company's obligations to, and receivables from the cedants are therefore in these original currencies. The Company is therefore exposed to the exchange rate risk where there is a mismatch between assets and liabilities per currency.

The company mitigates its currency risk by ensuring that the net exposure to this risk is maintained within acceptable levels by regular review of the level of mismatch for key currencies.

At 31 December 2016, if the US dollar had weakened/strengthened by 10% against the Kenya shilling with all other variables held constant, the net assets for the year would have been US$ 893,856 higher/lower (2015: US$ 1,875,902 lower/higher) mainly as a result of Kenya shilling denominated investments, receivables, payables and bank balances. This is not significant as the portion of Kenya shilling denominated net assets constitute 4.1%% (2015: 9.95%) of the company's net assets.

At 31 December 2016, if the US dollar had weakened/strengthened by 10% against the Nepalese Rupee with all other variables held constant, the net assets for the year would have been US$ 1,468,156 (2015: US$ 653,088) higher/lower mainly as a result of Nepalese Rupee denominated deposits, receivables and payables. This is significant as the portion of Nepalese Rupee denominated net assets constitute 6.7% (2015: 4.10%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial risk management (Continued)

(b) Market risks (Continued)

Currency risk (continued)

At 31 December 2016, if the US dollar had weakened/strengthened by 10% against the Sudanese Pound (SDG) with all other variables held constant, the net assets would have been US$ 261,507 (2015: US$ 438,939) higher/lower, mainly as a result of Sudanese Pound denominated investments, receivables and payables.

The company had significant foreign currency positions at 31 December as per the table overleaf (all amounts expressed in US Dollars).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Market risks (Continued)

Currency risk (Continued)

At 31 December 2016	US$	NPR	KES	SDG	UGX	TZS	RWF	ETB	ZMW	Others	Total
Assets											
Investment properties	19,011,465	-	-	-	-	-	-	-	-	-	19,011,465
Available-for-sale equity investments	-	-	7,294,453	-	-	-	228,626	-	-	-	7,523,079
Investment in Affiliated companies	11,368,432	-	-	-	841,911	1,432,259	-	-	-	-	13,642,602
Receivables arising out of reinsurance arrangements	3,050,888	113,705	8,365,392	2,729,650	1,360,052	1,282,139	1,401,254	6,325,553	1,150,725	3,207,618	28,986,976
Retrocessionaires share of technical liabilities	35,668,188										35,668,188
Deposits retained by ceding companies	4,638,653										4,638,653
Deferred acquisition costs	9,179,323	-	-	-	-	-	-	-	-	-	9,179,323
Government securities held to maturity	26,097,853	-	4,723,585	617,655	-	-	-	-	-	-	31,439,093
Available for sale offshore investments	8,689,807	-	-	-	-	-	-	-	-	-	8,689,807
Deposits with financial institutions	148,869,595	-	5,531,847	2,248,190	-	-	275,511	3,933,624	-	-	160,858,767
Cash and bank balances	1,202,636	-	141,936	529,826	16	1	2,897	449,777	1,511	465,648	2,794,248
Total	267,776,840	113,705	26,057,213	6,125,321	2,201,979	2,714,399	1,908,288	10,708,954	1,152,236	3,673,266	322,432,202
Liabilities											
Reinsurance contract liabilities	15,313,143	12,218,542	23,107,439	1,681,332	1,912,171	3,579,696	1,203,669	4,501,254	777,404	14,841,151	79,135,801
Payables arising from retrocession arrangements	12,089,385	-	-	-	-	-	-	-	-	-	12,089,385
Deposits retained on ceded reinsurance business	565,644	-	-	-	-	-	-	-	-	-	565,644
Unearned premium reserves	4,978,141	1,108,564	10,994,474	2,090,423	1,100,306	963,569	501,830	1,493,127	685,887	3,778,635	27,694,956
Deferred Retrocession Revenue	2,684,586	-	-	-	-	-	-	-	-	-	2,684,586
Total	35,630,899	13,327,106	34,101,913	3,771,755	3,012,477	4,543,265	1,705,499	5,994,381	1,463,291	18,619,786	122,170,372
Net financial position exposure	232,145,941	(13,213,401)	(8,044,700)	2,353,566	(810,498)	(1,828,866)	202,789	4,714,573	(311,055)	(14,946,520)	200,261,830

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Market risks (Continued)

Currency risk (Continued)

At 31 December 2015	US$	NPR	KES	SDG	UGX	TZS	RWF	ETB	ZMK	Others	Total
Assets											
Investment properties	18,888,529	-	-	-	-	-	-	-	-	-	18,888,529
Available-for-sale equity investments	-	-	8,993,774	-	-	-	310,891	-	-	-	9,304,665
Investment in Affiliated companies	7,744,001	-	-	-	799,877	1,432,259	-	-	-	-	9,976,137
Receivables arising out of reinsurance arrangements	5,074,783	944,293	5,019,387	3,950,470	1,955,473	909,183	597,054	5,586,370	684,581	1,897,446	26,619,040
Retrocessionaires share of technical liabilities	39,601,280	-	-	-	-	-	-	-	-	-	39,601,280
Deposits retained by ceding companies	3,861,244	-	-	-	-	-	-	-	-	-	3,861,244
Deferred acquisition costs	15,012,130	-	-	-	-	-	-	-	-	-	15,012,130
Government securities held to maturity	30,574,331	-	25,717,476	1,346,429	-	-	-	-	-	-	57,638,236
Available for sale offshore investments	8,505,611	-	-	-	-	-	-	-		-	8,505,611
Deposits with financial institutions	92,618,508	-	15,229,642	3,873,124	-	-	306,069	1,186,349	1,203,571	-	114,417,263
Cash and bank balances	529,124	-	122,071	182,196	1,887	6	22,809	212,529	81,582	277,107	1,429,311
Total	222,409,541	944,293	55,082,350	9,352,219	2,757,237	2,341,448	1,236,823	6,985,248	1,969,734	2,174,553	305,253,446
Liabilities											
Reinsurance contract liabilities	29,323,233	4,682,400	21,112,963	2,575,961	2,164,339	2,701,781	1,028,669	3,093,463	838,033	13,875,718	81,396,560
Payables arising from retrocession arrangements	5,464,965	-	-	-	-	-	-	-	-	-	5,464,965
Deposits retained on ceded reinsurance business	438,116	-	-	-	-	-	-	-	-	-	438,116
Unearned premium reserves	6,705,844	2,139,682	17,086,270	2,825,810	2,312,883	1,847,940	876,814	2,262,097	912,273	7,965,213	44,934,826
Deferred Retrocession Revenue	3,088,058	-	-	-	-	-	-	-	-	-	3,088,058
Total	45,020,216	6,822,082	38,199,233	5,401,771	4,477,222	4,549,721	1,905,483	5,355,560	1,750,306	21,840,931	135,322,525
Net financial position exposure	177,389,325	(5,877,789)	16,883,117	3,950,448	(1,719,985)	(2,208,273)	(668,660)	1,629,688	219,428	(19,666,378)	169,930,921

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) *Liquidity risk*

The company is exposed to calls on its available cash resources from reinsurance claims and settlement of retrocession premiums. The company ensures that the maturity profile of investments is well managed so that cash is readily available to meet claims as they arise.

The table below shows the contractual timing of cash flows arising from assets and liabilities included in the company's ALM framework for management of reinsurance contracts as of 31 December 2016:

	Total Amount 2016	No stated maturity	Contractual cash flows (undiscounted) 0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 5 yrs
Financial assets:							
Available-for-sale equity investments	7,523,079	7,523,079					
Receivables arising out of reinsurance arrangements	28,986,976		28,986,976				
Deposits retained by ceding companies	4,638,653		4,638,653				
Retrocessionaires share of technical liabilities	35,668,188		35,668,188				
DAC	9,179,323		9,179,323				
Government securities held to maturity	31,439,093	-	25,748,934	344,667	-	4,364,790	980,702
Offshore investments	8,689,807	8,689,807	-				
Deposits with financial institutions	160,858,767		141,671,596	995,619	305,177	3,341,134	14,545,241
Cash and bank balances	2,794,248		2,794,248				
Total	289,778,134	16,212,886	248,687,918	1,340,286	305,177	7,705,924	15,525,943
Reinsurance liabilities:							
Reinsurance contract liabilities	79,135,801	-	79,135,801				
Payables arising from retrocession arrangements	12,089,385	-	12,089,385				
Deposits retained on ceded reinsurance business	656,644	-	656,644				
Deferred retrocession revenue	2,684,586	-	2,684,586				
Total	94,566,416	-	94,566,416	-	-	-	-
Net liquidity surplus	195,211,718	16,212,886	154,121,502	1,340,286	305,177	7,705,924	15,525,943

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Liquidity risk (Continued)

The table below shows the contractual timing of cash flows arising from assets and liabilities included in the company's ALM framework for management of short term reinsurance contracts as of 31 December 2015:

	Total Amount 2015	No stated maturity	Contractual cash flows (undiscounted) 0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 5 yrs
Financial assets:							
Available-for-sale equity investments	9,304,665	9,304,665	-	-	-	-	-
Receivables arising out of reinsurance arrangements	26,619,040	-	26,619,040	-	-	-	-
Deposits retained by ceding companies	3,861,244	-	3,861,244	-	-	-	-
Retrocessionaires share of technical liabilities	39,601,281	-	39,601,281	-	-	-	-
DAC	15,012,130	-	15,012,130	-	-	-	-
Government securities held to maturity	57,638,236	-	47,192,394	3,768,044			6,677,798
Offshore investments	8,505,611	8,505,611	-	-	-	-	-
Deposits with financial institutions	114,417,263		94,096,515		995,730		19,325,018
Cash and bank balances	1,429,311	-	1,429,311	-	-	-	-
Total	276,388,781	17,810,276	227,811,915	3,768,044	995,730	-	26,002,816
Reinsurance liabilities:							
Reinsurance contract liabilities	81,396,560	-	81,396,560	-	-	-	-
Payables arising from retrocession arrangements	5,464,965	-	5,464,965	-	-	-	-
Deposits retained on ceded reinsurance business	438,116	-	438,116	-	-	-	-
Deferred retrocession revenue	3,088,059	-	3,088,059	-	-	-	-
Total	90,387,700	-	90,387,700	-	-	-	-
Net liquidity surplus	186,001,081	17,810,276	137,424,215	3,768,044	995,730	-	26,002,816

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

Disclosures of fair value of financial instruments not measured at fair value have not been made because the financial instruments carrying amounts is a reasonable approximation of their fair values.The Directors' consider that the carrying amount of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

(ii) Fair value hierarchy

The company specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

Some of the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used) as well as the analysis by level of the fair value hierarchy.

Financial assets/liabilities	**Fair value as at 31 December**		**Fair value hierarchy**	**Valuation technique(s) and key inputs**	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
	2016 US$	2015 US$				
Available for sale - quoted equity investments	7,523,079	9,304,665	Level 1	Quoted bid prices in an active market	N/A	N/A
Available for sale – offshore investments	8,689,807	8,505,611	Level 1	Quoted bid prices in an active market	N/A	N/A

There were no transfers between levels 1 and 2 in the period (2015: nil).

<u>Reconciliation of level 3 fair value measurements</u>

There were no financial assets or financial liabilities measured at fair value on level 3 fair value measurement (2015: nil)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value of financial assets and liabilities (Continued)

(ii) Fair value hierarchy (Continued)

At 31 December 2016

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Available-for-sale equity investments	7,523,079			7,523,079
Offshore investments	8,689,807			8,689,807
Total	16,212,886			16,212,886

At 31 December 2015

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Available-for-sale equity investments	9,304,665	-	-	9,304,665
Offshore investments	8,505,611	-	-	8,505,611
Total	17,810,276	-	-	17,810,276

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 CAPITAL MANAGEMENT

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

The company's objectives in managing its capital are:

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

An important aspect of the company's overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the company is focused on the creation of value for shareholders.

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

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

	2016 US$	2015 US$
Share capital	56,513,129	52,733,095
Share premium	47,920,319	35,257,209
Property revaluation reserve	391,682	368,384
Available for sale fair value reserve	(825,023)	535,878
Investment in affiliated companies revalaution reserve	445,282	100,000
Retained earnings	95,485,578	80,688,538
Total capital – Equity	199,930,967	169,683,104

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REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016 APPENDIX I

Class of insurance Business	Property US$	Casualty US$	Motor US$	Marine US$	Aviation US$	Life US$	Medical US$	Total US$
Gross premiums written	63,328,950	21,252,848	9,958,323	10,090,923	299,005	10,034,357	13,733,880	128,698,286
Less: retrocession premiums	(19,404,804)	(1,077,203)	(196,069)	(1,515,286)	-	(1,407,663)	-	(23,601,025)
Net premiums written	43,924,146	20,175,645	9,762,254	8,575,637	299,005	8,626,694	13,733,880	105,097,261
Change in UPR	8,506,653	3447,559	45,461	1,849,732	(4,859)	509,112	1,441,301	15,794,959
Exchange gains on revaluation of UPR	(1,227,330)	(588,493)	(40,133)	(225,066)	(6,435)	(185,958)	(339,027)	(2,612,442)
Net earned premiums	**51,203,469**	**23,034,711**	**9,767,582**	**10,200,303**	**287,711**	**8,949,848**	**14,836,154**	**118,279,778**
Gross claims paid	36,468,226	9,094,712	6,103,494	3,104,007	44,178	3,849,201	9,210,228	67,874,046
Change in gross outstanding claims	(7,656,700)	3,501,734	2,007,465	1,441,488	(19,865)	(442,334)	(1,092,547)	(2,260,759)
Exchange gains on revaluation of outstanding claims	1,243,802	308,008	650,173	215,806	12,124	17,217	59,447	2,506,577
Less: amounts recoverable from retrocessionaires	(4,078,892)	(277,430)	601,033	(1,507,772)	-	(282,566)	-	(5,545,627)
Net claims incurred	**25,976,436**	**12,627,024**	**9,362,165**	**3,253,529**	**36,437**	**3,141,518**	**8,177,128**	**62,574,237**
Commissions earned	22,038,554	7,927,027	922,553	3,683,424	56,639	2,726,427	3,234,325	40,588,949
Commissions expense	(5,272,631)	(471,395)	(24,636)	(394,600)	(18,613)	(281,028)	-	(6,462,903)
Charges and taxes	374,392	149,891	69,007	82,123	3,337	10,746	98,246	787,742
Expenses of management	4,322,769	1,450,698	679,745	688,796	20,410	684,935	937,461	8,784,814
Total expenses and commissions	**21,463,084**	**9,056,221**	**1,646,669**	**4,059,743**	**61,773**	**3,141,080**	**4,270,032**	**43,698,602**
Underwriting profit/(loss)	**3,763,949**	**1,351,466**	**-1,241,252**	**2,887,031**	**189,501**	**2,667,250**	**2,388,994**	**12,006,939**
Key ratios:								
Loss ratio *(net claims incurred/net earned premium)*	50.7	54.8	95.8	31.9	12.7	35.1	55.1	52.9
Commissions ratio *(net commissions /net earned premium)*	32.7	32.4	9.2	32.2	13.2	27.3	21.8	28.9
Expense ratio *(management expenses/net earned premium)*	8.4	6.3	7.0	6.8	7.1	7.7	6.3	7.4
Combined ratio (underwriting outgo/net earned premium)	92.6	94.1	112.7	71.7	34.1	70.2	83.9	89.8
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REVENUE ACCOUNTFOR THE YEAR ENDED 31 DECEMBER 2015 APPENDIX II

Class of insurance Business	**Property US$**	**Casualty US$**	**Motor US$**	**Marine US$**	**Aviation US$**	**Life US$**	**Medical US$**	**Total US$**
Gross premiums written	69,649,944	25,490,425	9,503,985	11,317,715	349,576	9,381,443	13,062,859	138,755,947
Less: retrocession premiums	(17,565,338)	(1,400,671)	(179,184)	(1,405,091)	(104,880)	(1,865,432)	-	(22,520,596)
Net premiums written	52,084,606	24,089,754	9,324,801	9,912,624	244,696	7,516,011	13,062,859	116,235,351
Change in UPR	(2,753,118)	386,920	(102,685)	(67,769)	12,746	(518,450)	336,148	(2,706,208)
Exchange gains on revaluation of UPR	(1,389,867)	(825,946)	(44,265)	(295,718)	(9,827)	(201,117)	(486,406)	(3,253,146)
Net earned premiums	**47,941,621**	**23,650,728**	**9,177,851**	**9,549,137**	**247,615**	**6,796,444**	**12,912,601**	**110,275,997**
Gross claims paid	31,078,243	10,515,906	4,322,433	3,554,640	98,259	2,563,645	9,290,412	61,423,538
Change in gross outstanding claims	23,831,843	317,157	941,670	(90,453)	(111,851)	289,468	(76,549)	25,101,285
Exchange gains on revaluation of outstanding claims	1,823,027	533,003	962,409	316,671	26,925	19,923	-	3,681,958
Less: amounts recoverable from retrocessionaires	(29,363,417)	(136,259)	(795,304)	100,662	(1)	(225,773)	-	(30,420,092)
Net claims incurred	**27,369,696**	**11,229,807**	**5,431,208**	**3,881,520**	**13,332**	**2,647,263**	**9,213,863**	**59,786,689**
Commissions earned	(4,755,961)	(433,258)	(30,589)	(290,524)	502	(234,076)	-	(5,743,906)
Commissions expense	19,612,707	9,798,499	895,369	3,396,741	57,187	2,141,026	1,397,704	37,299,233
Charges and taxes	531,489	199,408	69,068	104,909	417	(17,677)	87,287	974,901
Expenses of management	4,520,888	1,654,551	616,891	734,618	22,691	608,938	847,893	9,006,470
Total expenses and commissions	**19,909,123**	**11,219,200**	**1,550,739**	**3,945,744**	**80,797**	**2,498,211**	**2,332,884**	**41,536,698**
Underwriting profit/(loss)	**662,802**	**1,201,721**	**2,195,904**	**1,721,873**	**153,486**	**1,650,970**	**1,365,854**	**8,952,610**
Key ratios:								
Loss ratio *(net claims incurred/net earned premium)*	57.1	47.5	59.2	40.6	5.4	39.0	71.4	54.2
Commissions ratio *(net commissions /net earned premium)*	31.0	39.6	9.4	32.5	23.3	28.1	10.8	28.6
Expense ratio *(management expenses/net earned premium)*	9.4	7.0	6.7	7.7	9.2	9.0	6.6	8.2
Combined ratio (underwriting outgo/net earned premium)	98.6	94.9	76.1	82.0	38.0	75.7	89.4	91.9
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SCHEDULE OF MEMBERSHIP APPENDIX III

Country/ institution	Shareholder	2016 Shareholding US$	2016 Shareholding %	2015 Shareholding US$	2015 Shareholding %
Burundi	SOCABU	400,365	0.71	392,291	0.74
	Assurances BICOR	240,644	0.43	240,644	0.46
Kenya	Kenya Reinsurance Corporation Ltd	10,652,977	18.85	10,485,693	19.88
	Government of Kenya	492,417	0.87	492,417	0.93
	Blue Shield Insurance Company Ltd	372,953	0.66	372,953	0.71
	Mayfair Insurance Company Ltd	714,407	1.26	700,000	1.33
	Apollo Insurance Company Ltd	124,984	0.22	124,984	0.24
Mauritius	Government of Mauritius	261,161	0.46	261,161	0.50
Mozambique	EMOSE	371,562	0.66	371,562	0.70
Rwanda	Government of Rwanda	3,653,100	6.46	3,580,013	6.79
	SONARWA	144,322	0.26	144,322	0.27
	SORAS	516,673	0.91	516,673	0.98
Sudan	Government of Sudan	2,175,874	3.85	2,132,342	4.04
	United Insurance Company Ltd	492,618	0.87	482,762	0.92
	Sheikan Ins. & Reins. Ltd	405,029	0.72	396,926	0.75
	Juba Insurance Company Ltd	400,355	0.71	382,545	0.73
Tanzania	National Insurance Corporation (T) Ltd	2,005,904	3.55	2,005,904	3.80
	ZIC	130,215	0.23	130,215	0.25
PPF	PPF	2,397,553	4.24	2,397,553	4.55
Uganda	National Insurance Corporation (U) Ltd	127,663	0.23	127,663	0.24
	Lion Assurance of Uganda Ltd	113,845	0.20	113,845	0.22
	Statewide Insurance Company Ltd	228,675	0.40	228,675	0.43
Zambia	ZSIC Ltd	646,147	1.14	646,147	1.23
	Government of Zambia	1,508,938	2.67	1,478,508	2.80
	ZSIC – Pension Trust	1,438,823	2.55	1,409,807	2.67
COMESA	PTA Bank	5,754,498	10.18	5,754,498	10.91
	COMESA Secretariat	376,453	0.67	376,453	0.71
Zimbabwe	Baobab Reinsurance Company Ltd	488,397	0.86	488,397	0.93
Madagascar	CMAR (NY Havana)	245,244	0.43	245,244	0.47
D.R. Congo	SociétéNationaled’Assurances (SA)	171,702	0.30	168,267	0.32
Eritrea	NICE	1,201,109	2.13	1,201,109	2.28
Djibouti	Government of Djibouti	1,837,544	3.25	1,837,544	3.48
	Amerga	489,803	0.87	480,004	0.91
	GXA	266,237	0.47	266,237	0.50
AfDB	African Development Bank	7,277,029	12.88	7,277,029	13.80
DEG	DEG	8,387,908	14.85	5,022,708	9.52
Total		56,513,128	100.00	52,733,095	100.00

Key:

SOCABU	=	Sociétéd'Assurances du Burundi
EMOSE	=	EmpresaMocambicana de Seguros
SONARWA	=	Société Nouvelle d’Assurances du Rwanda
SORAS	=	SociétéRwandaised’Assurances
ZIC	=	Zanzibar Insurance Corporation
PPF	=	Parastatal Pensions Fund
ZSIC	=	Zambia State Insurance Corporation
PTA Bank	=	The Eastern and Southern African Development Bank
CMAR (NY Havana)	=	CompagnieMalgached'Assurances et Reassurances (NY Havana)
NICE	=	National Insurance Corporation of Eritrea (Share) Company
COMESA	=	Common Market for Eastern and Southern Africa
DEG	=	Deutsche Investitions- und EntwicklungsgesellschaftmbH

CREDIT RATING CERTIFICATE APPENDIX IV

A.M. Best Company

certifies that

ZEP-RE
(PTA Reinsurance Company)

has a

Best's Financial Strength Rating

of

B++ (Good)

Certificate Publication Date: February 15, 2017

Best's Ratings are subject to change.
To confirm the latest rating or to learn more
about A.M. Best's ratings, visit www.ambest.com
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