ZEP-RE (PTA Reinsurance Company)

Annual Report & Financial Statements 2012

"Committed to Quality Service"

Zep-Re (Pta Reinsurance Company)

Annual Report and Financial Statements For The Year Ended 31 December 2012

Contents

Corporate Information

BOARD OF DIRECTORS

Dr. Michael Gondwe	-	Chairman
Ms. Irene Muyenga	-	Vice Chairperson
Mr. Rajni Varia	-	Managing Director
Mr. Aden Saleh Omar		
Mr. Albert Nduna		
Mr. Elias Baingana		
Mr. Justine Mwandu		
Mr. Mohammed Mousa Idris		
Mrs. Nelius Kariuki		
Mr. Tushar Shah		
Mr. William Erio		
Mr. Yaw Kuffour		

ALTERNATE DIRECTORS

Mr. Abdelaal Eldawi Abdelaal
Mr. Abdulnasir A. Abdulrahman
Mr. Alex Gitari
Mr. Anjay Patel
Mr. Hosea Kashimba
Mr. Jadiah Mwarania
Mr. Leo Huvaya
Mr. Marc Rugenera
Mr. Mohammed Seyadou
Mr. Patrick Khaemba
Mr. Peter Chasekwa Lukwesa

MANAGEMENT

Mr. Rajni Varia	-	Managing Director
Mrs. Hope Murera	-	General Manager
Mr. Benjamin Kamanga	-	Finance Director
Mr. Ronald Kasapatu	-	Operations Director
Mr. Jerry Sogoli	-	Company Secretary
Mr. Joseph Nabimanya	-	HR & Administration Manager
Mr. Kenneth Oballa	-	Training Manager
Mr. Sammy Silamoi	-	Chief Accountant
Mr. Victor Chasinda	-	ICT Manager
Mr. Ali Osman	-	Head, Retakaful Window, Sudan
Ms. Hanta Raolison	-	Country Manager, Cameroon
Mr. Jephita Gwatipedza	-	Country Manager, Zimbabwe
Mr. Tunde Adebiyi	-	Country Manager, WAICA
Mr. Shipango Muteto	-	Country Manager, Zambia

Corporate Information (Continued)

HEAD OFFICE

Nairobi, Kenya
ZEP-RE Place
Longonot Road, Upper Hill
P. O. Box 42769 – 00100
Nairobi, Kenya
Telephone: +254 20 2738221/4973000
Fax: +254 20 2738444
Email: mail@zep-re.com
Website: www.zep-re.com

RETAKAFUL WINDOW

Khartoum, Sudan
Reinsurance House Building
P. O. Box 3224
Khartoum, Sudan
Telephone: +249 183 799357/8
Fax: +249 183 799359

REGIONAL OFFICES

Lusaka, Zambia
No. 54, Plot No. 1014A,
Church Road, Rhodes Park
P. O. Box 36966
Lusaka, Zambia
Telephone: +260 211 252586
Fax: +260 211 251227

Douala, Cameroon
AIO Building, 2nd Floor
B. P. 12671
Charles De Gaulle Avenue
Bonajo, Douala, Cameroon
Telephone:+237 33 47265
Fax: +237 33 420472

Harare, Zimbabwe
Joina Centre, 16th Floor, North Wing
Cnr Jason Moyo and Inez Terrace
Harare, Zimbabwe
Tel: +263 4 777 929/932

Corporate Information (Continued)

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P.O. Box 40092 – 00100
Nairobi, Kenya

BANKERS

Standard Chartered Bank Kenya Limited
Standard Chartered @ Chiromo, Level 5,
48 Westlands Road,
P.O. Box 40984 - 00100
Nairobi, Kenya

CfC Stanbic Bank Kenya Limited
CFC Centre, Chiromo Road,
P.O. Box 72833 - 00200
Nairobi, Kenya.

Kenya Commercial Bank Limited
University Way Branch
P.O. Box 7206 - 00300
Nairobi, Kenya

Stanbic Bank Zambia Limited
Woodgate House, Nairobi Place, Cairo Road,
P.O. Box 319555
Lusaka, Zambia

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, Social Security Centre, 77 Parklane
Harare, Zimbabwe

The Board of Directors

The Board of Directors' Profiles

Dr. Michael Gondwe

Dr. Michael Gondwe is the Chairman of the Board. He was appointed to this position in May 2009 and had previously served as a non Executive Director of ZEP-RE since 2000. Dr. Gondwe holds Law degrees from the Universities of Zambia and Virginia, an MBA from Moi University, a Diploma in Financial Management from the Kenya College of Accountancy and is an alumnus of the Advanced Management Program of the University of Oxford. Dr. Gondwe has extensive work experience in the banking industry and is the immediate past President of the PTA Bank, a sister COMESA institution and a leading regional development institution and is currently the Governor of the Bank of Zambia. He also holds a directorship position with Gulf African Bank.

Ms. Irene Muyenga

Ms. Irene Muyenga is the Vice-Chairperson of the Board. She was appointed to this position in May 2010 and had previously served as a non-Executive Director of ZEP-RE since 2004. Ms. Muyenga holds a Bachelor of Arts (Ed) degree from the University of Zambia, an LIII diploma from Bombay and a DIS diploma from the Business Insurance Institute of Zambia. Ms. Muyenga has an extensive working experience in the insurance industry and was the immediate past Group Managing Director of ZSIC Limited in Zambia. She also holds directorship positions in the following institutions: ZAMBEEF Limited, Barclays Bank of Zambia Limited, ZSIC Group and Mulungushi University.

Mr. Rajni Varia

Mr. Rajni Varia is the Managing Director of ZEP-RE. He has served in this position since October 2008. Mr. Varia holds a Bachelor of Science degree in Engineering from the University of East Africa. Before joining ZEP-RE, Mr. Varia had served in various positions including as a Consulting Engineer for Kenya Glassworks and Gasston and Barbour, Chief Representative and Resident Engineer for the Munich Re (East Africa) office and member of the Operational Management team at Munich Re. Mr. Varia is a renowned expert in engineering insurance and has facilitated many training sessions in this field. He is currently a visiting lecturer in engineering insurance at the West African Insurance Institute in Gambia. Mr. Varia also holds a directorship position with Tanzania National Reinsurance Corporation Limited (TANRE).

The Board of Directors' Profiles (Continued)

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 Masters Degree in Insurance from the International Insurance Institute in Yaounde, Cameroon. Mr. Saleh 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. Saleh is currently the Commissioner of Insurance of the Republic of Djibouti.

Mr. Albert Nduna

Mr. Albert Nduna is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2010. He is a graduate from the University of Lancaster in UK in Accounting and Finance and holds a Masters in Business Administration from Bradford University in the UK. He has served in various positions in the private sector and public sector and is currently the Group Managing Director of ZIM Re Holdings. Mr. Nduna currently holds directorship positions in a number of companies in Zimbabwe, Malawi, Mozambique, South Africa and Uganda.

Mr. Elias Baingana

Mr. Elias Baingana is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2010. Mr. Baingana is a holder of a Bachelor of Arts, Economics (Hons) and a Masters in International Taxation from Sydney University (Australia). He has extensive work experience in the Government having previously served as Director of Corporate Planning, Research and Statistics in the Rwanda Revenue Authority and Director of National Budget in the Ministry of Finance and Economic Planning. He is currently the Director General of National Budget in the Ministry of Finance and Economic Planning of the Government of Rwanda. Mr. Baingana currently holds Directorship positions at the Students Financing Agency for Rwanda (SFAR) and the Fund for Support of Genocide Survivors (FARG).

The Board of Directors' Profiles (Continued)

Mr. Justine Mwandu

Mr. Justine Mwandu is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2010. Mr. Mwandu holds a Master of Arts degree in Public and Social Administration from Brunel University, London; an Advanced Diploma in Insurance and a Postgraduate Diploma in Financial Management, both from the Institute of Finance Management, Dar–es-Salaam; and an ACII Diploma, UK. Mr. Mwandu is currently the Managing Director of National Insurance Corporation of Tanzania. He is also Chairman of the Insurance Examination Board at the Institute of Finance Management, Dar-es-Salaam.

Mr. Mohammed Mousa Idris

Mr. Mohammed Mousa Idris is a non-Executive Director of ZEP-RE and has served on the Board of ZEP-RE since May 2012. Mr. Mohammed Idris is currently the Acting General Manager of Insurance Supervisory Authority of Sudan.

Mrs. Nelius Kariuki

Mrs. Nelius Kariuki is a non-Executive Director of ZEP-RE. She joined the Board of ZEP-RE in May 2010. Mrs. Kariuki is a holder of a Bachelor of Arts, Economics (Hons) and a Masters of Art (Econ) degree from the University of Nairobi. She worked in various positions in the Government rising to the level of Principal Economist. Mrs. Kariuki is currently the Chairperson of Kenya Reinsurance Corporation, ZEP-RE's largest shareholder and a member of the Institute of Directors (Kenya)

The Board of Directors' Profiles (Continued)

Mr. Tushar Shah

Mr. Tushar Shah is a non-Executive Director of ZEP-RE and has served on the Board of ZEP-RE since 2011. Mr. Shah is an automobile engineer by profession and is currently the Managing Director of Mayfair Insurance Company in Kenya.

Mr. William Erio

Mr. William Erio is a non-executive Director 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, United Kingdom. He currently serves as the Director General of the Parastatal Pensions Fund of Tanzania and holds Directorship positions in Tanzania National Reinsurance Corporation Limited, Azania Bank and PPL Limited.

Mr. Yaw Kuffour

Mr. Yaw Adu Kuffour is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in August 2011. He is the Head of the Trade Finance Program within the Financial Institutions Division of the African Development Bank. Prior to joining the African Development Bank, Mr. Kuffour worked in the banking 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 (Hons) from the University of Ghana, Legon and an MBA (Finance) from McGill University, Canada.

ZEP-RE (PTA INSURANCE COMPANY)

Board of Directors

Seated from left to right: Mr. Tushar Shah, Dr. Michael Gondwe, Ms. Irene Muyenga, Mr. Yaw Kuffour
Standing left to right: Mr. Mohammed Mousa Idris, Mr. Elias Baingana, Mr. Albert Nduna, Mr. Justine Mwandu, Mr. Rajni Varia, Mr. Aden Saleh Omar, Mr. Hosea Kashimba (Alternate to Mr. William Erio), Mrs. Nelius Kariuki

Notice of The 22nd Annual General Assembly

NOTICE IS HEREBY GIVEN that the 22nd Annual General Assembly of ZEP-RE (PTA Reinsurance Company) will be held in Mombasa, Kenya on Friday 10th May 2013 at 0900 hours Kenyan 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 14th May 2012.
4. To consider and if approved, adopt the Financial Statements for the year ended 31st December 2012 together with the Chairman's Statement, the Directors' and Auditors' Reports.
5. To approve the Directors' remuneration for the financial year ended 31 December 2012.
6. To declare a dividend. The Directors recommend approval of a dividend of US$ 2,359,800 for the year ended 31 December 2012.
7. To consider and if approved, appoint Deloitte & Touche as External Auditors and approve their remuneration.
8. To undertake the election for positions of Directors and Alternate Directors
9. To undertake the election for positions of Chairman and Vice Chairman
10. To undertake any other business.

VENUE

Serena Beach Hotel, Mombasa, Kenya

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 Friday, 26th April 2013.

Report of the Chairman of the Board of Directors

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 2012.

Business Environment

Despite the various challenges faced by the Company in 2012, brought about mainly by the unrelenting global financial crisis, ZEP-RE managed to record a good business year. The Company not only achieved its business growth goals but also managed to record the highest profits in the history of the Company. The aforementioned notwithstanding the subdued economic growth in the region and currency risk fluctuations somewhat impacted on the Company's overall performance.

Highlights of performance

I. Premiums

Premium income grew by 28.6% from US$ 63.54 million in 2011 to US$ 81.71 million in 2012. In original currencies, however, all our key markets grew on average by 30%. The dollarized growth was affected mainly by a depreciation of key local currencies during the period.

II. Performance in key markets in the region

The COMESA region remains our key market and over 73% of business underwritten by the Company originated from this region. Economic factors prevailing in the key markets of the Company during the period including the operational performance of the Company were as follows: -

Kenya

Kenya remained the Company's largest market. During the period under review Kenya's economy experienced a 5.1% GDP growth largely due to a rebound in tourism; expansion in telecommunications, transport, and construction; and a recovery in agriculture. This growth was also reflected in the insurance business sector.

Kenya remains an important market for the Company given the size of the market and the fact that the Company has a physical presence in Kenya. The Company's strategy going forward is to consolidate its current position while pursuing further growth in profitable business.

Tanzania

Tanzania was the second largest market of the Company in 2012. Like other markets in the region, Tanzania's economy registered a GDP growth of 6.5% in 2012. The good growth was attributable to good performance in the agricultural industry, traditional exports and the manufacturing industry.

Report of the Chairman of the Board of Directors (Continued)

Highlights of performance (Continued)

II. Performance in key markets in the region (Continued)

Ethiopia

Ethiopia was the third largest market of the Company in 2012. The Ethiopian economy has been one of the fastest growing in the region and, in 2012, it recorded a real GDP growth of 7% catapulting it to the top of the eastern African economies. The good performance was mainly driven by growth in the agricultural sector and increased investment in infrastructural projects.

Nepal

Nepal was the fourth largest market of the Company in 2012. Nepal is a land locked sovereign state in South Asia. Like other markets, Nepal has made good economic progress during the year registering a GDP growth of 4.6% . The growth was mainly attributable to Agriculture, service and industrial sectors.

Uganda

Uganda was the fifth largest market of the Company in 2012. During the period under review, Uganda's real economic growth was 4.2%. The growth was mainly due to sustained macroeconomic policies and increased exports in commodities.

Zambia

Zambia was the sixth largest market of the Company in 2012. The Company has a physical presence in Lusaka, having opened an office in 2007. During the period under review the Zambian economy grew by 6.5%. The growth was mainly attributable to renewed worldwide demand in commodity and mineral prices including Zambia's main export copper; growth in the agriculture sector and recovery in the tourism sector.

III. Underwriting results

In 2012 the Company's underwriting profit increased to US$ 5.99 million from US$ 3.10 million in 2011. The good underwriting performance was mainly due to an improved business profile that witnessed improved technical performance across most major lines during the year. Net claims incurred in 2012 were US$ 30.36 million compared to the incurred claims of US$ 26.10 million in 2011.

IV. Outstanding claims provision

The Company's outstanding claims increased to US$ 38.99 million in 2012 from US$ 33.98 million in 2011.

V. Investments

Portfolio

The investment portfolio value increased from US$ 95.5 million as at 31 December 2011 to US$ 109.1 million as at 31 December 2012, an increase of US$ 13.6 million (14.2%). This growth is attributable to cash flow surplus from operating activities.

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$ 5,414,560 in 2011 to US$ 9,351,886 in 2012, a 73% growth. This was on account of the aforementioned increase in the value of the investment portfolio and diversification to better yielding instruments.

Report of the Chairman of the Board of Directors (Continued)

Highlights of performance (Continued)

VI. Profitability

The Company achieved a profit of US$ 11.68 million in 2012 compared to US$ 8.78 million in 2011. The increase in profitability is attributable to improved underwriting results and increased investment income in 2012.

Dividend

The Company's profit for the year was US$ 11.68 million compared to US$ 8.78 million in 2011. Based on these results, the Board of Directors is recommending a dividend of US$ 2.36 million compared to US$ 1.57 million in 2011.

Security Rating

The Company retained its credit rating of "B+" and issuer credit rating of "bbb-" with AM Best. The rating reaffirms ZEP-RE's status as an international investment grade security. The rating is attributable to the Company's improved risk adjusted capitalisation, good underwriting performance and a robust risk management framework. The stable outlook is a reflection of the expectation of sustained improvements in underwriting performance and risk based capitalisation as the Company pursued its growth objectives.

Appreciation

We take this opportunity to recognize the Board of Directors for the wise counsel, support, direction and service they have given and/or made 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 good results in spite of the various challenges.

To our shareholders, we thank you for the continued support and confidence in the Board of Directors and management.

To our business partners and other stakeholders, we thank you for your cooperation and support and look forward to continued fruitful association in the years ahead.

BY ORDER OF THE BOARD OF DIRECTORS

Dr. Michael Gondwe
Chairman

27 March 2013

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 for 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.

Corporate Governance Report (Continued)

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 2012 included approval of the 2011 financial statements, a review of operational performance in 2012, approval of the 2013 budget and approval of the strategy plan for the 2013 - 2015.

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 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 Audit Committee, the Investments Committee and the 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 Audit Committee

The Board Audit Committee comprises Ms. Irene Muyenga (Chairperson), Mr. Elias Baingana, Mr. Aden Saleh Omar and Mr. Alex Gitari (Alternate Director).

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 twice in 2012. To enhance the oversight function of this Committee the Board directed that commencing 2013 the Audit Committee would be meeting thrice.

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

Corporate Governance Report (Continued)

Board Committees (Continued)

Board Investments Committee

The Board Investments Committee comprises Mr. William Erio (Chairman), Mr. Rajni Varia (Managing Director), Mrs. Nelius Kariuki, Mr. Tushar Shah and Mr. Yaw Kuffour. The Committee advises the Board on policy issues pertaining to investments. The Investments Committee met twice in 2012. To enhance the oversight function of this Committee the Board directed that commencing 2013 the Investments Committee would be meeting thrice.

Board Human Resources Committee

The Board Human Resources Committee comprises Mr. Albert Nduna (Chairperson), Mr. Justine Mwandu and Mr. Mohamed Mousa Idris. The Committee is mandated to monitor, evaluate, and advise the Board regarding remuneration, benefits and general human resources issues. The Human Resources Committee met twice in 2012.

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 2012 the aggregate amount of emoluments received by Directors is shown in Note 33 (ii) to the financial statements.

Board Attendance in 2012

The table below shows meeting Board attendance (by substantive Directors or through their Alternates) in 2012

	69th Board meeting	21st AGM	70th Board meeting	71st Board meeting
Dr. Michael Gondwe	✓	✓	✓	✓
Ms. Irene Muyenga	✓	✓	✓	✓
Mr. Rajni Varia	✓	✓	✓	✓
Mr. Aden Saleh Omar	✓	✓	✓	✓
Mr. Albert Nduna	✓	X	✓	✓
Ms. Amna Ali Mohammed	✓	✓	RETIRED	
Mr. Elias Baingana	✓	X	✓	✓
Mr. Justine Mwandu	✓	✓	✓	✓
Mrs. Nelius Kariuki	✓	✓	✓	✓
Mr. Tushar Shah	✓	✓	✓	✓
Mr. William Erio	✓	✓	✓	✓
Mr. Yaw Kuffour	✓	X	✓	✓
NEW APPOINTMENT IN MAY 2012				
Mr. Mohammed Mousa Idris			✓	✓

Corporate Governance Report (Continued)

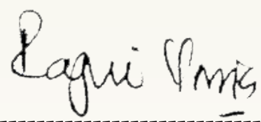
Managing Director and the Management team

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.

Dr. Michael Gondwe
Chairman
27 March 2013



Mr. Rajni Varia
Managing Director

Report of the Directors

The Board of Directors hereby submit their report together with the audited financial statements for the year ended 31 December 2012, 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 classes:

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

Results and Dividend for the Year

The profit for the year of US$ 11.68 million (2011: US$ 8.78 million) has been transferred to retained earnings. The directors recommend the payment of a dividend of US$ 2,359,800 for the year ended 31 December 2012 (2011: US$ 1,573,200).

Directors

The current Directors of the Company are shown on page 2.

Retirements from the Board

Director Amna Ali from Sudan, Alternate Director Shamoum Alamin from Sudan and Alternate Director Iddi Khamis Haji from Tanzania retired from the Board during the course of the year. The Board would like to express sincere gratitude to the aforementioned Board members for the committed service they rendered to the Company during their tenure.

New Appointments to the Board

The following new appointments were made by the General Assembly in May 2012. Mr. Mohammed Mousa Idris from Sudan was appointed as Director to replace Ms Amna Ali Mohammed from Sudan, Mr. Abdelaal Eldawi Abdelaal from Sudan was appointed as Alternate Director to replace Mrs. Shamoum Alamin Mohammed and Mr. Abdulnasir A. Abdulrahman from Zanzibar was appointed as Alternate Director to replace Mr. Iddi Khamis Haji.

Secretary

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

Auditors

Deloitte and Touche have expressed their willingness to continue in office.

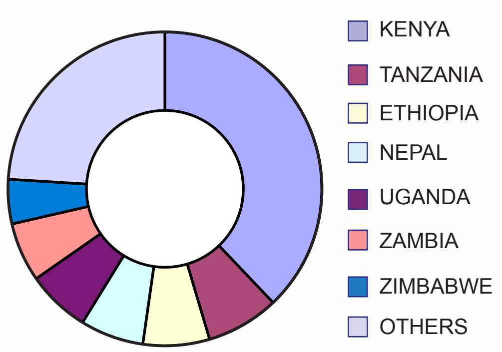
BY ORDER OF THE BOARD

Jerry Sogoli
Secretary
27 March 2013

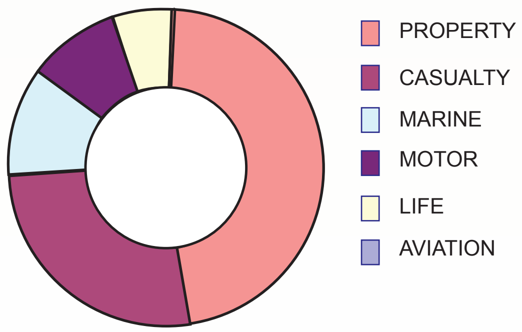
Financial Highlights

	2007 US$	2008 US$	2009 US$	2010 US$	2011 US$	2012 US$
Gross Premium Written	37,923,564	45,986,500	55,748,911	59,843,116	63,536,571	81,714,820
Net Written Premiums	29,536,935	36,892,542	44,266,616	46,042,768	49,846,359	66,307,584
Net Earned Premiums	27,720,240	34,894,101	40,214,408	44,361,208	46,489,807	60,683,391
Investment & other Income	6,343,962	7,543,712	8,253,469	10,117,026	11,083,593	15,255,819
Total Income	34,064,202	42,437,813	48,467,877	54,478,234	57,573,400	75,939,210
Claims Incurred	16,927,172	18,479,657	23,437,454	27,097,758	26,103,374	30,355,413
Commisions & other operating expenses	11,881,041	22,047,072	18,602,983	22,133,214	22,693,198	33,902,114
Profit for the year	5,255,989	1,911,084	6,427,440	5,247,262	8,776,828	11,681,683
Dividends Paid & Capitalized	750,000	480,000	1,200,000	1,311,000	1,573,200.0	2,359,800
Total Assetts	60,231,209	75,406,013	87,128,548	103,110,370	130,337,123	154,088,372
Total Equity	23,471,063	38,349,530	44,474,180	49,987,272	66,656,019	78,774,839

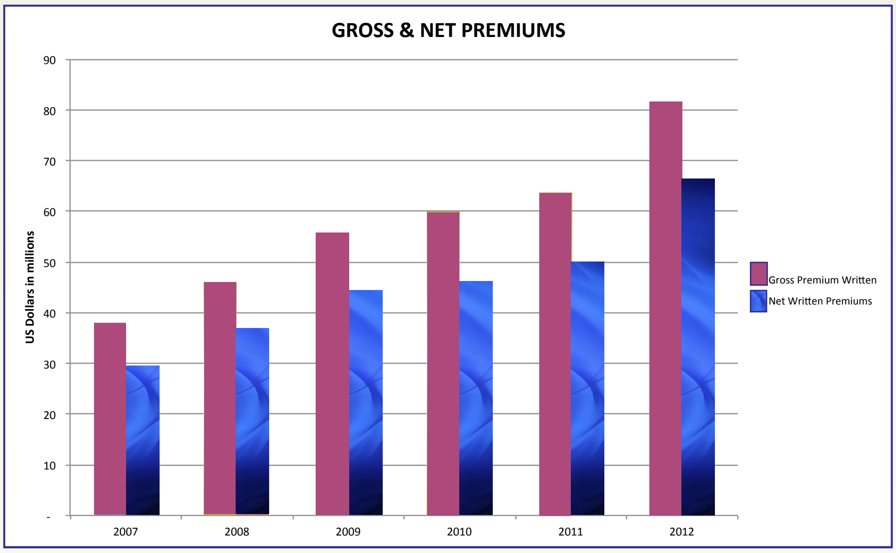
PREMIUM DISTRIBUTION PER COUNTRY

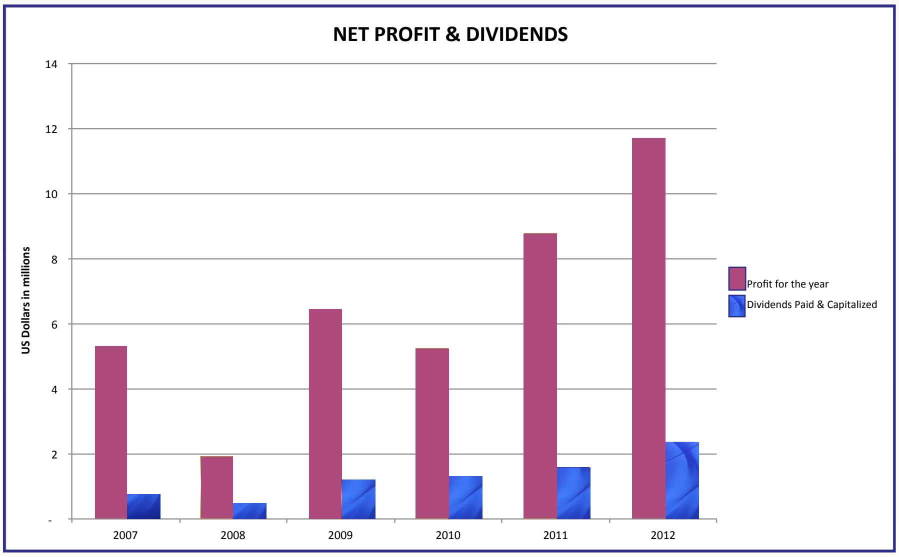


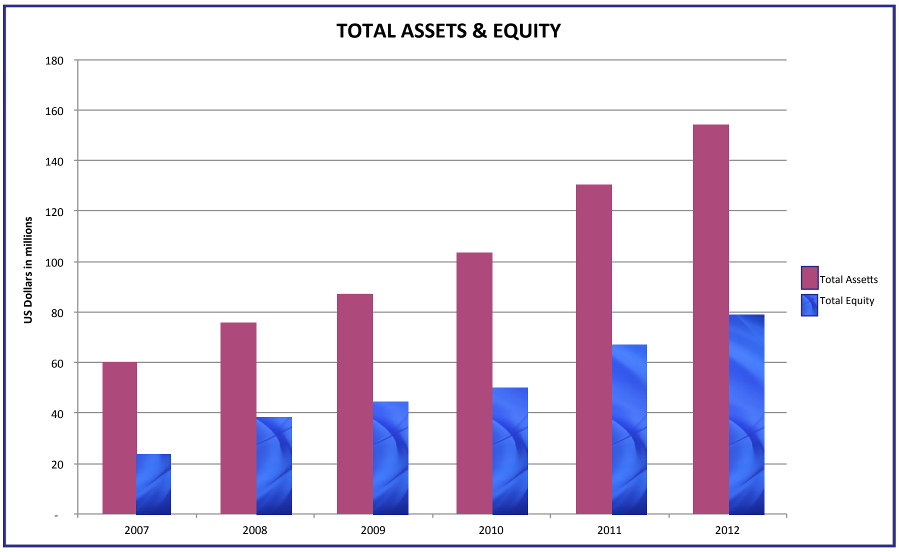
PREMIUM PER CLASS



Financial Highlights (Continued)







Statement of Directors' Responsibilities

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 state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the Directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by Article 31 of the Agreement establishing ZEP–RE (PTA Reinsurance Company), and for such controls as the Directors determine are necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and as per the Agreement Establishing ZEP–RE (PTA Reinsurance Company). The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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.

Dr. Michael Gondwe	**Mr. Rajni Varia**
Chairman	Managing Director
27 March 2013	

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
ZEP–RE (PTA REINSURANCE COMPANY)

We have audited the accompanying financial statements of ZEP–RE (PTA Reinsurance Company) set out on pages 26 to 71 which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, together with the summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by Article 31 of the Agreement establishing ZEP–RE (PTA Reinsurance Company), and for such controls as the directors determine are necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2012 and of its profit 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).

Deloitte & Touche

Certified Public Accountants (Kenya)

27 March 2013

Nairobi

Financial Statements

Statement of Comprehensive Income
for the Year Ended 31 December 2012

	Notes	2012 US$	2011 US$
Gross premiums written	3	81,714,820	63,536,571
Less: Retrocession premiums		(15,407,236)	(13,690,212)
Net written premiums		66,307,584	49,846,359
Movement in unearned premiums reserve	26	(5,624,193)	(3,356,552)
Net earned premiums		60,683,391	46,489,807
Investment income	4	9,351,886	5,414,560
Commissions earned		5,079,239	4,757,737
Other income		824,694	911,296
Total income		**75,939,210**	**57,573,400**
Gross incurred claims	5	34,303,795	31,450,815
Less: amounts recoverable from retrocessionaires		(3,948,382)	(5,347,441)
Net claims incurred		30,355,413	26,103,374
Operating and other expenses	6	12,084,010	5,261,104
Commissions expenses		21,818,104	17,432,094
Total out go		**64,257,527**	**48,796,572**
Profit for the year		**11,681,683**	**8,776,828**
Other comprehensive income/(loss) for year			
Gain on revaluation of property and equipment	23	123,680	38,705
Fair value gain/(loss) on revaluation of available for sale equity investments	12	859,614	(831,943)
Foreign exchange loss on revaluation of available for sale equity investments	12	(76,150)	(174,992)
Total other comprehensive income /(loss) for the year		907,144	(968,230)
Total comprehensive income for year		**12,588,827**	**7,808,598**
		=========	=========
Earnings per share:			
Basic and diluted	7	0.318	0.269
		=========	=========

Statement of Financial Position
at 31 December 2012

	Notes	2012	2011
ASSETS		US$	US$
Property and equipment	9	1,659,554	1,249,325
Intangible assets	10	24,255	32,340
Investment properties	11	14,579,132	12,566,403
Available-for-sale equity investments	12	5,365,063	3,603,313
Receivables arising out of reinsurance arrangements	13	14,693,128	10,956,838
Deposits retained by ceding companies	14	3,726,983	1,769,417
Retrocessionaires share of technical liabilities	15	11,145,160	11,120,473
Other receivables	16	3,041,983	1,857,206
Deferred acquisition costs	17	8,702,052	6,957,846
Government securities	18	23,683,126	24,271,549
Deposits with financial institutions	19	65,511,067	55,065,875
Cash and bank balances	20	1,956,869	886,538
Total assets		**154,088,372**	**130,337,123**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	22	36,928,546	36,405,708
Share premium	22	5,755,653	5,175,298
Property revaluation reserve	23	314,585	190,905
Available for sale fair value reserve	23	(583,942)	(1,367,406)
Retained earnings	24	36,359,997	26,251,514
Total equity		**78,774,839**	**66,656,019**
LIABILITIES			
Reinsurance contract liabilities	25	38,989,563	33,976,118
Provision for unearned premiums and unexpired risks	26	25,897,037	20,708,199
Deferred income	27	65,200	66,015
Payables arising from retrocession arrangements	28	3,876,849	5,042,438
Deposits retained on ceded reinsurance business		540,519	226,651
Deferred retrocession commission revenue	29	2,322,593	2,009,930
Other payables	30	3,509,684	1,615,191
Dividends payable	31	112,088	36,562
Total liabilities		**75,313,533**	**63,681,104**
Total equity and liabilities		**154,088,372**	**130,337,123**

The financial statements on pages 26 to 71 were approved and authorised for issue by the Board of Directors on 27 March 2013 and were signed on its behalf by:

Michael Mlondwe

Chairman

Managing Director

Statement of Changes in Equity

	Notes	Share capital US$	Share premium US$	Property revaluation reserve US$	Available for sale fair value reserve US$	Retained earnings US$	Total US$
At 1 January 2011		30,514,101	895,756	152,200	(360,471)	18,785,686	49,987,272
Shares issued during the year	22	5,602,248	3,958,352	-	-	-	9,560,600
Dividends declared - 2010	31	-	-	-	-	(1,311,000)	(1,311,000)
Issue of shares through capitalisation of 2010 dividends	31	289,359	321,190	-	-	-	610,549
Total comprehensive income/(loss) for the year		-	-	38,705	(1,006,935)	8,776,828	7,808,598
At 31 December 2011		**36,405,708**	**5,175,298**	**190,905**	**(1,367,406)**	**26,251,514**	**66,656,019**
At 1 January 2012		36,405,708	5,175,298	190,905	(1,367,406)	26,251,514	66,656,019
Shares issued during the year	22	266,825	296,175	-	-	-	563,000
Dividends declared - 2011	31	-	-	-	-	(1,573,200)	(1,573,200)
Issue of shares through capitalisation of 2011 dividends	31	256,013	284,180	-	-	-	540,193
Total comprehensive income/(loss) for the year		-	-	123,680	783,464	11,681,683	12,588,827
At 31 December 2012		**36,928,546**	**5,755,653**	**314,585**	**(583,942)**	**36,359,997**	**78,774,839**

Statement of Cash Flows
For The Year Ended 31 December 2012

	Notes	2012 US$	2011 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		11,681,683	8,776,828
Adjustments for:			
Loss/(gain) on disposal of property and equipment		7,164	(780)
(Gain) / Loss on disposal of quoted shares	4	(213,458)	168,955
Fair value gain on investment properties	4	(1,164,138)	(583,583)
Depreciation	9	161,743	184,257
Amortisation of intangible assets	10	8,085	8,085
Amortisation of deferred income	27	(815)	(815)
Changes in:			
Provision for unearned premiums and unexpired risks		5,188,838	2,615,294
Reinsurance contract liabilities		5,013,445	6,772,013
Deposits retained by ceding companies	14	(1,957,566)	297,248
Deposits retained on ceded reinsurance business		313,868	(84,732)
Deferred acquisition costs (DAC)	17	(1,744,206)	(872,527)
Receivables arising out of reinsurance arrangements		(3,736,290)	(2,886,379)
Retrocessionaires share of technical liabilities		(24,687)	(1,436,876)
Payables arising out of retrocession arrangements	28	(1,165,589)	1,008,790
Deferred retrocession commission revenue (DRR)	29	312,663	(110,725)
Other receivables		(1,184,777)	(483,351)
Other payables		1,894,493	323,452
Net cash generated from operating activities		**13,390,456**	**13,695,154**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9	(458,610)	(45,169)
Purchase of intangible software	10	-	(40,425)
Purchase of investment properties	11	(848,591)	(877)
Purchase of quoted equity shares	12(i)	(2,053,912)	(751,152)
Purchase of unquoted equity shares	12(ii)	-	(123,965)
Purchase of held to maturity Government securities		(15,820,737)	(13,138,856)
Proceeds on maturity of Government securities		11,899,969	489,056
Proceeds of disposal of property and equipment		3,154	1,295
Proceeds of disposal of quoted shares		1,289,084	645,942
Movement in deposits with financial institutions (excluding cash and cash equivalents)		(8,183,531)	(15,148,415)
Net cash used in investing activities		**(14,173,174)**	**(28,112,566)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of issue of shares		563,000	9,560,600
Dividends paid	31	(957,481)	(665,722)
Net cash (used in) / generated from financing activities		**(394,481)**	**8,894,878**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,177,199)**	**(5,522,534)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**7,831,278**	**13,353,812**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34	**6,654,079**	**7,831,278**

Notes to the Financial Statements
for the year Ended 31 December 2012

1 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the 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 comprehensive income.

(a) Statement of compliance

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

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2012

The following new and revised IFRSs have been applied in the current year and have not affected the amounts reported in these financial statements.

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets	The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset The application of the amendment had no effect on the company's financial statements as the company did not transfer any such financial assets during the year.

(ii) New and revised IFRSs in issue but not yet effective for the year ended 31 December 2012

The company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New and Amendments to standards	Effective for annual periods beginning on or after
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 9, Financial Instruments	1 January 2015
IFRS 13, Fair Value Measurement	1 January 2013
Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures	1 January 2015
Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
IAS 27, Separate Financial Statements (as revised in 2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (as revised in 2011)	1 January 2013
Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	1 January 2014
Annual Improvements to IFRSs 2009-2011 Cycle	1 January 2013

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (continued)

(a) Statement of compliance (continued)

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

(iii) Impact of new and revised IFRSs in issue but not yet effective for the year ended 31 December 2012

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The above amendments are generally effective for annual periods beginning on or after 1 July 2012. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 is not expected to result in any impact on the profit or loss, other comprehensive income and total comprehensive income.

IFRS 9, Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The directors anticipate that IFRS 9 will be adopted in the company's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(a) Statement of compliance (Continued)

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

(iii) Impact of new and revised IFRSs in issue but not yet effective for the year ended 31 December 2012 (Continued)

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

The directors anticipate that IFRS 12 will be adopted in the company's financial statements for the annual period beginning 1 January 2013 and that the application of the new standard would result in more extensive disclosures in the financial statements if the company acquires interest in other entities.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements, however, the company is yet to assess IFRS 13's full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

(a) Statement of compliance (Continued)

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

(iii) Impact of new and revised IFRSs in issue but not yet effective for the year ended 31 December 2012 (Continued)

Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

IAS 19, Employee Benefits (2011)

An amended version of IAS 19 Employee Benefits with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes.

The key amendments include:

- Requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the 'corridor approach' permitted by the existing IAS 19)
- Introducing enhanced disclosures about defined benefit plans
- Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits
- Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features
- Incorporating other matters submitted to the IFRS Interpretations Committee.
  The directors anticipate that the application of the amendment may affect the amounts reported in the financial statements. However, the company is unlikely to have significant impact in the financial statements of the company since the company does not have significant defined benefit obligations.

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(a) Statement of compliance (Continued)

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

(iii) Impact of new and revised IFRSs in issue but not yet effective for the year ended 31 December 2012 (continued)

Annual Improvements to IFRSs 2009 – 2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009 – 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- amendments to IAS 1, Presentation of Financial Statements;
- amendments to IAS 16, Property, Plant and Equipment; and
- amendments to IAS 32, Financial Instruments: Presentation.

<u>IAS 1, Presentation of Financial Statements</u>

The amendments to IAS 1 clarify that an entity is required to present a statement of financial position as at the beginning of the preceding period (third statement of financial position) only when the retrospective application of an accounting policy, restatement or reclassification has a material effect on the information in the third statement of financial position and that the related notes are not required to accompany the third statement of financial position.

The amendments also clarify that additional comparative information is not necessary for periods beyond the minimum comparative financial statement requirements of IAS 1. However, if additional comparative information is provided, the information should be presented in accordance with IFRSs, including related note disclosure of comparative information for any additional statements included beyond the minimum comparative financial statement requirements. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

The directors anticipate that the amendments to IAS 1 will result in the company presenting a statement of financial position at the beginning of the preceding period (third statement of financial position) only when the restatement or reclassification has a material effect on the information in the financial statements.

<u>IAS 16, Property, Plant and Equipment</u>

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise.

The directors do not anticipate that the amendments to IAS 16 will have a significant effect on the company's financial statements.

<u>IAS 32, Financial Instruments: Presentation</u>

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes.

The directors anticipate that the amendments to IAS 32 will have no effect on the company's financial statements as the company has already adopted this treatment.

(iv) Early adoption of standards

The company did not early-adopt any new or amended standards in 2012.

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(b) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards. 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 International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates. The estimates and assumptions are reviewed from time to time to reflect current realities.

(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.

iii) 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").

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(c) Income recognition (Continued)

iv) 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.

v) Interest income

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

vi) Dividend income

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

vii) 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.

(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 as a consequence has many functional currencies. The company also has significant volume of its business written in United States Dollars (US$). The financial statements are presented in United States Dollars (US$) which is the company's 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.

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(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) 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.

(h) 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)

1 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 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 2012 and 31 December 2011.

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.

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

i. Financial assets (Continued)

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity investments 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 equity. 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.

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;

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

i. Financial assets (Continued)

Impairment of financial assets (Continued)

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; o 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.

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)

1 ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

i. 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.

ii. Financial liabilities

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

(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.

(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) Comparatives

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

Notes to the Financial Statements (Continued)

2 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, Zambia and Zimbabwe, and a Retakaful Window in Sudan.

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:

	2012 US$	2011 US$
Class of business:		
Property	38,435,365	30,427,228
Casualty	21,884,573	16,277,292
Motor	7,642,949	6,038,661
Marine	9,196,641	7,104,024
Aviation	262,532	257,602
Life	4,292,760	3,431,764
	81,714,820	**63,536,571**
	=========	=========

(ii) Geographical distribution

	2012		2011	
Region	**Gross premium**	**%**	**Gross premium**	**%**
COMESA	59,243,794	72.50	47,237,409	74.35
Non – COMESA (Africa)	14,780,911	18.09	11,913,081	18.75
Other regions	7,690,115	9.41	4,386,081	6.90
Total	**81,714,820**	**100.00**	**63,536,571**	**100.00**
	=======	=====	=======	====

Notes to the Financial Statements (Continued)

3 GROSS PREMIUMS WRITTEN (Continued)

(iii) Type- distribution

	2012		2011	
	Gross premium	%	Gross premium	%
Proportional	58,697,974	71.83	46,471,123	73.14
Non-proportional	14,644,796	17.92	11,893,673	18.72
Facultative	8,372,050	10.25	5,171,775	8.14
Total	**81,714,820**	**100.00**	**63,536,571**	**100.00**
	=======	====	=======	====

4 INVESTMENT INCOME

	2012 US$	2011 US$
Interest from Government securities held to maturity	1,951,923	1,536,355
Interest from deposits with financial institutions	4,731,803	2,269,206
Rental income	989,759	899,207
Dividend income	263,684	279,532
Loan interest receivable	37,121	15,632
Fair value gain on investment properties (Note 11)	1,164,138	583,583
Gain/(loss) on sale of quoted shares (Note 23(ii))	213,458	(168,955)
	9,351,886	**5,414,560**
	========	========

Investment income earned on financial assets, analysed by category of asset is as follows:

	2012 US$	2011 US$
Held to maturity investments	6,683,726	3,805,561
Loans and receivables	37,121	15,632
Available for sale investments	477,142	110,577
	7,197,989	**3,931,770**
Investment income earned on non-financial assets	2,153,897	1,482,790
Total investment income	**9,351,886**	**5,414,560**
	========	=======

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 GROSS INCURRED CLAIMS

	2012 US$	2011 US$
Gross settled claims	26,977,669	25,529,298
Change in outstanding claims	7,326,126	5,921,517
	34,303,795	**31,450,815**

6 OPERATING AND OTHER EXPENSES

	2012 US$	2011 US$
Employee emoluments and benefits (Note 8)	5,765,371	3,211,050
Auditors' remuneration	26,500	24,000
General assembly and board expenses	272,521	253,979
Depreciation (Note 9)	161,743	184,257
Amortisation of intangible assets (Note 10)	8,085	8,085
Loss/(gain) on foreign exchange transactions	3,477,816	(350,656)
Impairment charge for doubtful receivables - arising from reinsurance premium receivables (Note 13)	537,782	510,932
Repairs and maintenance	145,433	113,355
Premium taxes and charges	564,914	398,513
Property letting fees	-	22,615
Other	1,123,845	884,974
	12,084,010	**5,261,104**

7 EARNINGS PER SHARE

	2012	2011
Profit attributable to shareholders (US$)	11,681,683	8,776,828
Weighted average number of shares issued (Note 22 (iii))	36,710,697	32,642,362
Earnings per share (US$) - basic and diluted	0.318	0.269

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 2012 and 31 December 2011. The diluted earnings per share is therefore the same as the basic earnings per share.

8 EMPLOYEE EMOLUMENTS AND BENEFITS

Staff costs include the following:

	2012 US$	2011 US$
- Salaries and wages	4,620,855	2,378,283
- Staff retirement benefits	627,792	468,015
- Other staff benefits	516,724	364,752
	5,765,371	**3,211,050**

The number of persons employed by the company at the year-end was 41 (2011: 41).

Notes to the Financial Statements (Continued)

9 PROPERTY AND EQUIPMENT

	2012	2011
	US$	US$
Cost or valuation	2,578,286	2,033,113
Accumulated depreciation	(918,732)	(783,788)
Net book value	**1,659,554**	**1,249,325**
	========	========
Comprising;		
Buildings	1,422,521	1,030,450
Motor vehicles	5,308	10,613
Office furniture and fittings	151,439	102,536
Office equipment	45,332	50,705
Computers equipment	34,954	55,021
Net book value	**1,659,554**	**1,249,325**
	========	========

Independent valuation of the Company's buildings were carried out by Messrs. Gimco Limited for the Kenya properties and by Messrs Knight Frank Zimbabwe for the Zimbabwe property, registered valuers, to determine the fair value of buildings. The valuations, done annually, were carried out as at 31 December 2012 on an open market value basis. Had the Company's buildings been measured on a historical cost basis, their carrying amount would have been US$ 1,107,936 (2011: US$ 839,545).

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$ 326,970 (2011: US$ 131,400) 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$ 87,033 (2011: US$ 37,562).

Notes to the Financial Statements (Continued)

9 PROPERTY AND EQUIPMENT (Continued)

	Land and Buildings	Motor vehicles	Office furniture and fitings	Office equip-ment	Computer equipment	Total
	US$	US$	US$	US$	US$	US$
COST OR VALUATION						
At 1 January 2011	1,011,985	230,603	427,444	105,122	204,015	1,979,169
Additions	-	-	8,371	3,470	33,328	45,169
Disposals	-	-	-	-	(9,690)	(9,690)
Revaluation surplus	18,465	-	-	-	-	18,465
At 31 December 2011	**1,030,450**	**230,603**	**435,815**	**108,592**	**227,653**	**2,033,113**
At 1 January 2012	1,030,450	230,603	435,815	108,592	227,653	2,033,113
Additions	289,000	-	118,149	15,717	35,744	458,610
Disposals	-	-	-	(16,508)	-	(16,508)
Revaluation surplus	103,071	-	-	-	-	103,071
At 31 December 2012	**1,422,521**	**230,603**	**553,964**	**107,801**	**263,397**	**2,578,286**
ACCUMULATED DEPRECIATION						
At 1 January 2011	-	167,839	278,802	46,954	135,351	628,946
Charge for the year	20,240	52,151	54,477	10,933	46,456	184,257
Eliminated on disposals	-	-	-	-	(9,175)	(9,175)
Written back on revaluation	(20,240)	-	-	-	-	(20,240)
At 31 December 2011	**-**	**219,990**	**333,279**	**57,887**	**172,632**	**783,788**
At 1 January 2012	-	219,990	333,279	57,887	172,632	783,788
Charge for the year	20,609	5,305	69,246	10,772	55,811	161,743
Eliminated on disposals	-	-	-	(6,190)	-	(6,190)
Written back on revaluation	(20,609)	-	-	-	-	(20,609)
At 31 December 2012	**-**	**225,295**	**402,525**	**62,469**	**228,443**	**918,732**
NET BOOK VALUE						
At 31 December 2012	**1,422,521**	**5,308**	**151,439**	**45,332**	**34,954**	**1,659,554**
	======	=====	=====	=====	=====	=======
At 31 December 2011	**1,030,450**	**10,613**	**102,536**	**50,705**	**55,021**	**1,249,325**
	======	=====	=====	=====	=====	=======
NET BOOK VALUE – COST BASIS						
At 31 December 2012	**1,107,936**	**10,613**	**102,536**	**50,705**	55,021	**1,326,811**
	=========	=====	=====	=====	=====	=======
At 31 December 2011	**839,545**	**10,613**	**102,536**	**50,705**	**55,021**	**1,058,420**
	=========	=====	=====	=====	=====	=======

Notes to the Financial Statements (Continued)

10 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2012 US$	2011 US$
Cost	770,709	770,709
Accumulated amortisation	(746,454)	(738,369)
Net book value	**24,255**	**32,340**
	========	========

Movement analysis:

	Software licences US$	Other software US$	Total US$
COST			
At 1 January 2011	-	-	-
Additions	40,425	-	40,425
31 December 2011	**590,426**	**180,283**	**770,709**
At 1 January 2012 and at 31 December 2012	**590,426**	**180,283**	**770,709**
ACCUMULATED AMORTISATION			
At 1 January 2011	550,001	180,283	730,284
Charge for the year	8,085	-	8,085
At 31 December 2011	**558,086**	**180,283**	**738,369**
At 1 January 2012	558,086	180,283	738,369
Charge for the year	8,085	-	8,085
At 31 December 2012	**566,171**	**180,283**	**746,454**
NET BOOK VALUE			
At 31 December 2012	**24,255**	-	**24,255**
	=======	=======	=======
At 31 December 2011	**32,340**	-	**32,340**
	=======	=======	=======

All software is amortised over a period of five years.

11 INVESTMENT PROPERTIES

	2012 US$	2011 US$
Fair value of investment properties	**14,579,132**	**12,566,403**
	=========	=========

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 INVESTMENT PROPERTIES (Continued)

Investment properties comprise:

At fair value:	Zep-Re Place US$	Prosperity House US$	Upperhill Parking US$	Zambia land US$	Mombasa Road US$	Total US$
At 1 January 2011	5,362,240	4,089,219	710,037	1,300,000	520,447	11,981,943
Additions	-	-	-	877	-	877
Gain on revaluation	265,034	205,404	65,289	-	47,856	583,583
At 31 December 2011	**5,627,274**	**4,294,623**	**775,326**	**1,300,877**	**568,303**	**12,566,403**
	=======	=======	=======	=======	======	=======
At 1 January 2012	5,627,274	4,294,623	775,326	1,300,877	568,303	12,566,403
Additions	-	237,384	34,709	576,498	-	848,591
Gain on revaluation	561,840	191,522	81,485	244,123	85,168	1,164,138
At 31 December 2012	**6,189,114**	**4,723,529**	**891,520**	**2,121,498**	**653,471**	**14,579,132**
	=======	=======	=======	=======	======	=======

Investment properties were valued by Gimco Limited for the Kenya properties and by Knight Frank Zambia Limited for the Zambia property, registered valuers, as at 31 December 2012, on an open market basis. The fair value gain arising from the revaluation has been dealt with in profit and loss.

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

12 AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	2012 US$	2011 US$
Quoted equity shares – at fair value (Note (i) below)	4,522,348	2,760,598
Unquoted equity shares – at cost (Note (ii) below)	842,715	842,715
	5,365,063	**3,603,313**
	========	========

(i) Quoted equity shares: At fair value		
At 1 January	2,760,598	3,831,278
Additions	2,053,912	751,152
Disposals	(1,075,626)	(814,897)
Fair value gains/(losses) (Note 23 (ii))	859,614	(831,943)
Exchange difference on revaluation (Note 23 (ii))	(76,150)	(174,992)
At 31 December	**4,522,348**	**2,760,598**
	========	========

Notes to the Financial Statements (Continued)

12 AVAILABLE-FOR-SALE EQUITY INVESTMENTS (Continued)

	Tanzania Reinsurance Corporation	AIO Software Development	African Trade Insurance Agency	Total
	US$	US$	US$	US$
(ii) Unquoted equity shares: At Cost				
At 1 January 2011	718,750	30,000	100,000	848,750
Additions	123,965	-	-	123,965
At 31 December 2011	**842,715**	**30,000**	**100,000**	**972,715**
At 1 January 2012 and 31 December 2012	842,715	30,000	30,000	972,715
Impairment loss:				
At 1 January 2011 and 31 December 2011	-	(30,000)	(100,000)	(130,000)
At 1 January 2012 and 31 December 2012	-	(30,000)	(100,000)	(130,000)
Net book value:				
At 31 December 2012	**842,715**	-	-	**842,715**
	=======	=======	=======	=======
At 31 December 2011	**842,715**	-	-	**842,715**
	=======	=======	=======	=======

13 RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	2012	2011
	US$	US$
Receivables from reinsurance arrangements	17,519,723	13,970,747
Allowance for doubtful arrangements	(2,826,595)	(3,013,909)
Net carrying value	**14,693,128**	**10,956,838**
	=========	=======

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

(i) Ageing of unimpaired receivables	2012	2011
	US$	US$
0 - 90 days	4,750,919	6,624,106
91-120 days	964,497	571,040
121-270 days	6,997,980	2,176,127
271 – 360 days	1,979,732	1,585,565
At 31 December	**14,693,128**	**10,956,838**
	=======	=======
Average age (days) – gross premium basis	66	63
	=======	=======

Notes to the Financial Statements (Continued)

13 RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS (Continued)

(ii) Movement in the allowance for doubtful debts

	2012 US$	2011 US$
At 1 January	3,013,909	2,446,048
Charge for the year inward	537,782	510,932
Charge for the year outward	(14,277)	88,279
Written off during the year as uncollectible	(710,819)	(31,350)
At 31 December	**2,826,595**	**3,013,909**

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

Arising from reinsurance arrangements	**537,782**	**510,932**

14 DEPOSITS RETAINED BY CEDING COMPANIES

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

	2012 US$	2011 US$
At 1 January	1,769,417	2,066,665
Increase/(decrease) during the year	1,957,566	(297,248)
At 31 December	**3,726,983**	**1,769,417**

15 RETROCESSIONAIRES SHARE OF REINSURANCE LIABILITIES

	2012 US$	2011 US$
Retrocessionaires share of :		
Provision for unearned premiums and unexpired risks (Note 26)	5,282,279	4,632,492
Notified outstanding claims (Note 25)	3,817,382	4,237,740
Incurred but not reported (Note 25)	2,045,499	2,250,241
	11,145,160	**11,120,473**

16 OTHER RECEIVABLES

Receivable from Retakaful window	1,176,609	1,099,918
Staff receivables	1,153,192	363,488
Prepayments	259,435	168,397
Deposits	37,850	45,547
Rent receivable	166,677	20,535
Others	248,220	159,321
	3,041,983	**1,857,206**

Notes to the Financial Statements (Continued)

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:

	2012 US$	2011 US$
At 1 January	6,957,846	6,085,319
Increase during the year	1,744,206	872,527
At 31 December	**8,702,052**	**6,957,846**
	========	========

18 GOVERNMENT SECURITIES - HELD TO MATURITY

	2012 US$	2011 US$
Treasury bills and bonds maturing:		
- Within 6 months - Treasury bills	-	4,509,192
- Within 6 months - Treasury bonds	232,288	-
- In 6 months to 1 year	5,964,353	17,319,122
- In 1 to 5 years	16,197,965	141,816
- After 5 years	1,288,520	2,301,419
	23,683,126	**24,271,549**
	========	========
Analysis by currency denomination:		
Securities in US Dollars	17,233,283	11,861,690
Securities in Kenya Shillings	1,666,509	5,063,675
Securities in Sudanese Pounds	4,783,334	6,950,394
Securities in Zambian Kwacha	-	395,790
	23,683,126	**24,271,549**
	========	========

19 DEPOSITS WITH FINANCIAL INSTITUTIONS

	2012 US$	2011 US$
Analysis by currency denomination:		
Deposits in United States Dollars	49,858,637	39,173,158
Deposits in Kenya Shillings	12,370,193	13,810,313
Deposits in Sudanese Pound	1,439,199	902,651
Deposits in Zambian Kwacha	769,856	153,535
Deposits in Rwandese Francs	1,073,182	1,026,218
	65,511,067	**55,065,875**
	========	========
Maturity analysis:		
Within 3 months of placement	4,697,210	2,435,548
After 3 months of placement	60,813,857	52,630,327
	65,511,067	**55,065,875**
	==========	==========

Deposits with financial institutions have an average maturity of 3 to 12 months (2011: 3 to 12 months).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 CASH AND BANK BALANCES

	2012 US$	2011 US$
Analysis by currency denomination::		
United States Dollars	607,419	206,012
Kenya Shillings	557,428	110,201
Sudanese Pound	1,938	4,798
Zambian Kwacha	265,343	54,870
Cameroon CFA	334,740	230,992
Malawi Kwacha	189,242	273,890
Others	759	5,775
	1,956,869	**886,538**
	=========	========

21 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:

	2012 %	2011 %
Government securities		
Securities in Kenya Shillings	12.90	11.80
Securities in Sudanese Pound	16.33	9.34
Securities in United States Dollars	6.34	-
	=====	=====
Deposits with financial institutions		
Deposits in United States Dollars	4.42	3.08
Deposits in Kenya Shillings	16.65	11.38
Deposits in Sudanese Pound	11.21	9.50
Deposits in Zambian Kwacha	4.54	3.66
Deposits in Rwandese Francs	9.63	-
	=====	=====

22 ISSUED CAPITAL

(i) Issued Capital

	2012 US$	2011 US$
Share capital	36,928,546	36,405,708
Share premium	5,755,653	5,175,298
Paid up capital	**42,684,199**	**41,581,006**
	=========	=========

Notes to the Financial Statements (Continued)

22 ISSUED CAPITAL (Continued)

(ii) Paid up shares	No of shares	Share capital	Share premium
		US$	US$
At 1 January 2011	30,514,101	30,514,101	895,756
Dividends capitalised	289,359	289,359	321,190
Issue of shares	5,602,248	5,602,248	3,958,352
At 31 December 2011	**36,405,708**	**36,405,708**	**5,175,298**
Dividends capitalised	256,013	256,013	284,180
Issue of shares	266,825	266,825	296,175
At 31 December 2012	**36,928,546**	**36,928,546**	**5,755,653**
	=======	=======	=======

	2012	2011
(iii) Weighted average number of shares	36,710,697	32,642,362
	=======	=======

23 RESERVES

	2012	2011
	US$	US$
Property revaluation reserve (Note 23 (i))	314,585	190,905
Available for sale investments revaluation reserve (Note 23 (ii))	(583,942)	(1,367,406)
	(269,357)	**(1,176,501)**
	=========	=========

(i) Property revaluation reserve	Buildings
	US$
At 1 January 2011	152,200
Revaluation surplus (Note 9)	18,465
Depreciation written back on revaluation (Note 9)	20,240
Net gain on revaluation of property	38,705
At 31 December 2011	190,905
	=======
At 1 January 2012	190,905
Revaluation surplus (Note 9)	103,071
Depreciation written back on revaluation (Note 9)	20,609
Net gain on revaluation of property	123,680
At 31 December 2012	**314,585**
	=======

Notes to the Financial Statements (Continued)

23 RESERVES (Continued)

(i) Property revaluation reserve (Continued)

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.

(ii) Available for sale fair value reserve

	Quoted shares US$
At 1 January 2011	(360,471)
Revaluation loss	(1,000,898)
Realised on disposal of shares (Note 4)	168,955
Net revaluation loss (Note 12)	(831,943)
Exchange difference on revaluation (Note 12)	(174,992)
At 31 December 2011	**(1,367,406)**
	========
At 1 January 2012	(1,367,406)
Revaluation gain	1,073,072
Realised on disposal of shares (Note 4)	(213,458)
Net revaluation gain (Note 12)	859,614
Exchange difference on revaluation (Note 12)	(76,150)
At 31 December 2012	**(583,942)**
	========

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.

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 2012 and 31 December 2011, 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.

This reserve is not available for distribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 RETAINED EARNINGS

	2012 US$	2011 US$
Retained earnings	**36,359,997**	**26,251,514**
	=========	=========
The movement in retained earnings is as follows:		
At 1 January	26,251,514	18,785,686
Dividend declared (Note 31)	(1,573,200)	(1,311,000)
Profit for year	11,681,683	8,776,828
At 31 December	**36,359,997**	**26,251,514**
	=========	=========

In 2012, a dividend of US$ 0.0432 per share amounting to US$ 1,573,200 was paid to holders of fully paid ordinary shares. In 2011 the dividend of US$ 1,311,000 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 2012 the unrealised fair value gains on revaluation of investment properties amounted to US$ 2,946,340 (2011: US$ 1,782,202).

25 REINSURANCE CONTRACT LIABILITIES

	2012 US$	2011 US$
Reinsurance contracts		
- claims reported and claims handling expenses	24,962,436	23,158,599
- claims incurred but not reported	14,027,127	10,817,519
Total reinsurance liabilities	**38,989,563**	**33,976,118**
	=========	=========

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.

	2012			2011		
	Gross US$	Retrocessions US$	Net US$	Gross US$	Retrocessions US$	Net US$
Outstanding claims	24,962,436	(3,817,382)	21,145,054	23,158,599	(4,237,740)	18,920,859
IBNR	14,027,127	(2,045,499)	11,981,628	10,817,519	(2,250,241)	8,567,278
Total outstanding claims	**38,989,563**	**(5,862,881)**	**33,126,682**	**33,976,118**	**(6,487,981)**	**27,488,137**
	========	========	========	========	========	========

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 REINSURANCE CONTRACT LIABILITIES (Continued)

The Company's outstanding claims and IBNR were reviewed by an independent actuary; Actuarial Services (EA) Limited, registered Actuaries as at 31 December 2012.

The company's actuaries use the Bornhuetter Fergusson method (B-F method) to estimate the ultimate cost of claims including the IBNR provision. The B-F method is considered appropriate in producing stable and consistent results from one financial year to the next. The B-F method requires an initial estimate of the loss ratio. The loss ratio is then applied to earned premiums to determine the expected overall claim cost. An analysis and estimation of historical claims development factors is then undertaken using cumulative claims data then applied to the expected overall claim cost for each accident year that is not fully developed. The result is the estimated ultimate claims cost for each accident year.

26 PROVISION FOR UNEARNED PREMIUMS RESERVE (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:

	2012			2011		
	Gross	Retrocessions	Net	Gross	Retrocessions	Net
	US$	US$	US$	US$	US$	US$
At 1 January	20,708,199	(4,632,492)	16,075,707	18,092,905	(4,788,285)	13,304,620
Increase in the year:						
- Unearned premiums	6,273,980	(649,787)	5,624,193	3,200,759	155,793	3,356,552
- Foreign exchange gain	(1,085,142)	-	(1,085,142)	(585,465)	-	(585,465)
	5,188,838	(649,787)	4,539,051	2,615,294	155,793	2,771,087
At 31 December	**25,897,037**	**(5,282,279)**	**20,614,758**	**20,708,199**	**(4,632,492)**	**16,075,707**
	=========	==========	=========	=========	========	=========
		(Note 15)			(Note 15)	

27 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:

	2012	2011
	US$	US$
Arising from Government grant		
- At 1 January and at 31 December	80,686	80,686
Accumulated amortisation:		
At 1 January	14,671	13,856
Credited to other income for the year	815	815
At 31 December	15,486	14,671
Carrying amount at 31 December	**65,200**	**66,015**
	======	========

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 PAYABLES ARISING FROM RETROCESSION ARRANGEMENTS

This amount represents the liability for short term retrocession contracts.

The movement in the account is shown below:

	2012 US$	2011 US$
At 1 January	5,042,438	4,033,648
(Decrease)/increase during the year	(1,165,589)	1,008,790
At 31 December	**3,876,849**	**5,042,438**
	========	========

29 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:

	2012 US$	2011 US$
At 1 January	2,009,930	2,120,655
Increase/(decrease) during the year	312,663	(110,725)
At 31 December	**2,322,593**	**2,009,930**

30 OTHER PAYABLES

Rent deposits	257,003	249,098
Other liabilities	582,477	6,518
Leave pay provision	266,138	215,379
Staff bonus provision	1,200,000	-
Provision for gratuity	1,204,066	1,144,196
	3,509,684	**1,615,191**
	========	========

31 DIVIDENDS PAYABLE

The movement in dividends payable is as follows:

At 1 January	36,562	1,833
Final dividend declared	1,573,200	1,311,000
Dividend paid	(957,481)	(665,722)
Dividend capitalised	(540,193)	(610,549)
At 31 December	**112,088**	**36,562**
	========	========

In respect of the current year, the directors propose that a dividend of US$ 2,359,800 (2011 - US$ 1,573,200) be paid to shareholders. This dividend is subject to approval of shareholders at the Annual General Meeting to be held on 14th May 2012 and has therefore not been recognised as a liability in these financial statements.

Notes to the Financial Statements (Continued)

32 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:

	2012 US$	2011 US$
Property and equipment	517,150	625,050
Investment properties	7,000,000	6,222,000
	=======	=======

33 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:

	2012 US$	2011 US$
(i) Transactions with related parties		
Gross earned premium:		
- Shareholders	8,471,373	7,440,778
	========	========
Claims Paid		
- Shareholders	2,037,707	3,456,452
	========	========
Deposits with financial institutions		
- PTA Bank	10,795,974	10,846,215
	========	========
(ii) Directors' remuneration		
Directors' fees	80,050	63,550
Other emoluments paid (per diem)	60,375	73,200
	140,425	**136,750**
	========	========
(iii) Key management remuneration		
Salaries and other short-term employment benefits	1,188,168	917,163
Gratuity	236,754	187,902
	1,424,922	**1,105,065**
	========	========
(iv) Outstanding balances with related parties		
Premiums receivable from related parties	1,830,430	2,310,521
Staff car and other loans	1,158,549	368,145
	========	=======

Notes to the Financial Statements (Continued)

34 CASH AND CASH EQUIVALENTS

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

	2012 US$	2011 US$
Cash and bank balances	1,956,869	886,538
Deposits with financial institutions maturing within 3 months	4,697,210	2,435,548
Treasury bills – maturing within 6 months (Note 18)	-	4,509,192
	6,654,079	**7,831,278**

35 OPERATING LEASE COMMITMENTS

Net rental income earned during the year was US$ 989,759 (2011: US$ 899,207). At the end of the reporting period, the company had contracted with tenants for the following future lease receivables:

	2012 US$	2011 US$
Not later one year	653,637	888,065
Later than 1 year but not later than 5 years	1,922,619	1,848,853
More than 5 years	130,121	131,477
	2,706,377	**2,868,395**

Leases are for a period of six years.

36 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

The ultimate liability arising from claims payable under reinsurance contracts (Continued)

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.

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.

37 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.

Notes to the Financial Statements (Continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (*Continued*)

(i) Reinsurance risk management

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.

(i) Reinsurance risk management (*Continued*)

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 endeavored 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)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (*Continued*)

(i) Reinsurance risk (Continued)

Concentration risk

At 31 December 2012

Class of business		Maximum insured loss US$ 0m - US$ 0.25m	US$ 0.25m - US$ 1m	Over US$ 1m	Total
Property	Gross	69,040,901	253,370,900	2,097,669,346	2,420,081,147
	Net	67,688,545	236,997,412	1,192,220,201	1,496,906,158
Casualty	Gross	54,491,153	121,476,465	114,058,383	290,026,001
	Net	53,735,134	109,178,527	74,303,241	237,216,902
Motor	Gross	18,064,873	15,044,584	10,680,891	43,790,348
	Net	17,480,067	12,849,945	6,239,447	36,569,459
Marine	Gross	39,126,468	41,361,857	61,565,959	142,054,284
	Net	38,727,597	37,727,937	32,433,981	108,889,515
Aviation	Gross	632,032	443,142	6,000,000	7,075,174
	Net	597,032	-	-	597,032
Life assurance business	Gross	3,198,627	1,116,888	-	4,315,515
	Net	3,034,007	1,116,888	-	4,150,895
Total	Gross	**184,554,054**	**432,813,836**	**2,289,974,579**	**2,907,342,469**
	Net	**181,262,382**	**397,870,709**	**1,305,196,870**	**1,884,329,961**

At 31 December 2011

Class of business		Maximum insured loss US$ 0m - US$ 0.25m	US$ 0.25m - US$ 1m	Over US$ 1m	Total
Property	Gross	59,785,747	193,761,457	878,197,778	1,131,744,983
	Net	57,593,925	162,397,259	592,286,159	812,277,343
Casualty	Gross	52,725,081	82,054,208	55,573,733	190,353,021
	Net	50,097,704	60,488,278	17,500,272	128,086,254
Motor	Gross	14,038,428	17,326,780	3,741,599	35,106,807
	Net	13,221,203	8,438,656	1,106,933	22,766,792
Marine	Gross	33,462,024	34,577,294	37,390,163	105,429,481
	Net	32,542,315	27,939,460	15,935,703	76,417,477
Aviation	Gross	745,574	631,949	12,000,000	13,377,523
	Net	745,574	-	6,000,000	6,745,574
Life assurance business	Gross	3,082,340	270,334	1,497,952	4,850,625
	Net	3,031,012	148,683	37,449	3,217,144
Total	Gross	**163,839,194**	**328,622,022**	**988,401,225**	**1,480,862,440**
	Net	**157,231,733**	**259,412,336**	**632,866,516**	**1,049,510,585**

Notes to the Financial Statements (Continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(i) Reinsurance risk (Continued)

Concentration risk (Continued)

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

Class	2012 Limit (US$)	2011 Limit (US$)
Fire/Engineering risk	6,500,000 in excess of 1,500,000	5,750,000 in excess of 1,250,000
Catastrophe	16,500,000 in excess of 1,500,000	16,750,000 in excess of 1,250,000
Accident and Motor	1,000,000 in excess of 600,000	1,000,000 in excess of 600,000
Marine XL	2,500,000 in excess of 500,000	2,375,000 in excess of 375,000

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

(ii) Financial risk management

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.

Notes to the Financial Statements (Continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Financial risk management (*Continued*)

(a) Credit risk (Continued)

Impairment charges are recognised for debts considered doubtful at the end of reporting period.
Maximum exposure to credit risk before collateral held

	2012 US$	2011 US$
Available for sale equity investments	5,365,063	3,603,313
Deposits retained by ceding companies	3,726,983	1,769,417
Retrocessionaires share of technical liabilities	11,145,160	11,120,473
Other receivables (excluding prepayments) (note 16)	2,782,548	1,688,809
Receivables arising out of reinsurance arrangements	14,693,128	10,956,838
Government securities held to maturity (note 18)	23,683,126	24,271,550
Deposits with financial institutions	65,511,067	55,065,875
Bank balances (note 20)	1,956,869	886,538
	128,863,944	**109,362,813**

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:

	2012 US$	2011 US$
Neither past due nor impaired:		
- up to 90 days	4,750,919	6,624,106
- up to 91 to 120 days	964,497	571,040
- up to 121 to 270 days	6,997,980	2,176,127
- up to 271 to 360 days	420,164	1,585,565
Past due but not impaired – over 360 days	1,559,568	-
Impaired	2,826,595	3,013,909
	17,519,723	13,970,747
Less provision for impairment	(2,826,595)	(3,013,909)
Total	**14,693,128**	**10,956,838**

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)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) 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.

Note 21 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 2012, 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$ 361,788 (2011: US$ 66,555) higher/lower, and equity would have been US$ 361,788 (2011: US$ 66,555) 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 2012, 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$ 281,346 higher/lower (2011: US$ 1,716,736 lower/higher) mainly as a result of Kenya shilling denominated investments, receivables, payables and bank balances. This is significant as the portion of Kenya shilling denominated net assets constitute 3.21% (2011: 23.06%) of the company's net assets.

At 31 December 2012, if the US dollar had weakened/strengthened by 10% against the sterling pound with all other variables held constant, the net assets for the year would have been US$ Nil (2011: US$ 2,302) higher/lower mainly as a result of sterling pound denominated deposits, receivables and payables. This is not significant as the portion of sterling pound denominated net assets constitute Nil % (2011: 0.03%).

At 31 December 2012, 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$ 456,567 (2011: US$ 379,891) higher/lower, mainly as a result of Sudanese Pound denominated investments, receivables and payables. This is also significant as the portion of Sudanese Pound denominated net assets constitute 5.20 % (2011: 5.10%).

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

Notes to the Financial Statements (Continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(*b*) ***Market risks** (Continued)*
Currency risk *(Continued)*

At 31 December 2012	US$	NPR	KES	SDG	UGX	TZS	RWF	ETB	ZMK	Others	Total
Assets											
Investment properties	14,579,132	-	-	-	-	-	-	-	-	-	14,579,132
Available-for-sale equity investments	-	-	3,719,372	-	36,856	1,221,264	387,571	-	-	-	5,365,063
Receivables arising out of reinsurance arrangements	2,125,496	527,782	2,848,374	959,664	896,725	802,255	723,923	3,141,589	629,929	2,037,391	14,693,128
Retrocessionaires share of technical liabilities	11,145,160	-	-	-	-	-	-	-	-	-	11,145,160
Deposits retained by ceding companies	3,726,983	-	-	-	-	-	-	-	-	-	3,726,983
Deferred acquisition costs	8,702,052	-	-	-	-	-	-	-	-	-	8,702,052
Government securities held to maturity	17,233,283	-	1,666,509	4,783,334	-	-	-	-	-	-	23,683,126
Deposits with financial institutions	49,858,637	-	12,370,194	1,439,199	-	-	1,073,182	-	769,855	-	65,511,067
Cash and bank balances	607,419	-	557,428	1,938	181	451	128	-	265,342	523,982	1,956,869
Total	107,978,162	527,782	21,161,877	7,184,135	933,762	2,023,970	2,184,804	3,141,589	1,665,126	2,561,373	149,362,580
Liabilities											
Reinsurance contract liabilities	9,198,841	1,556,818	13,484,304	2,302,779	1,692,397	2,053,816	686,763	2,504,281	943,977	4,565,587	38,989,563
Payables arising from retrocession arrangements	3,876,849	-	-	-	-	-	-	-	-	-	3,876,849
Deposits retained on ceded reinsurance business	540,518	-	-	-	-	-	-	-	-	-	540,518
Unearned premium reserves	4,009,506	1,505,319	10,209,687	772,255	1,383,573	1,431,731	482,947	1,649,023	1,033,606	3,419,390	25,897,037
Deferred Retrocession Revenue	2,322,593	-	-	-	-	-	-	-	-	-	2,322,593
Total	19,948,307	3,062,137	23,693,991	3,075,034	3,075,970	3,485,547	1,169,710	4,153,304	1,977,583	7,984,977	71,626,560
Net financial position exposure	**88,029,855**	**(2,534,355)**	**(2,532,114)**	**4,109,101**	**(2,142,208)**	**(1,461,577)**	**1,015,094**	**(1011,715)**	**(312,457)**	**(5,423,604)**	**77,736,020**

Notes to the Financial Statements (Continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) *Market risks (Continued)*

Currency risk (Continued)

At 31 December 2011	US$	GBP	KES	SDG	UGX	TZS	RWF	ETB	ZMK	Others	Total
Assets											
Investment properties	12,566,404	-	-	-	-	-	-	-	-	-	12,566,403
Available-for-sale equity investments	842,715	-	2,527,579	-	-	-	233,019	-	-	-	3,603,313
Receivables arising out of reinsurance arrangements	660,819	135,348	2,296,983	1,383,103	906,141	306,788	785,540	1,602,628	296,430	2,583,058	10,956,838
Retrocessionaires share of technical liabilities 11,120,473	-	-	-	-	-	-	-	-	-	11,120,473	
Deposits retained by ceding companies	1,769,417										1,769,417
Deferred acquisition costs	6,957,846	-	-	-	-	-	-	-	-	-	6,957,846
Government securities held to maturity 11,861,690	-	5,063,676	6,950,393	-	-	-	-	395,790	-	24,271,549	
Deposits with financial institutions	39,173,158	-	13,810,313	902,651	-	-	1,026,218	-	153,535	-	55,065,875
Cash and bank balances	206,012	-	110,201	4,798	703	363	4,708	-	54,870	504,883	886,538
Total 85,158,534	135,348	23,808,751	9,240,945	906,844	307,151	2,049,485	1,602,628	900,625	3,087,939	127,198,252	
Liabilities											
Reinsurance contract liabilities	7,576,822	634,598	11,789,600	3,563,603	1,121,327	1,477,546	580,634	1,775,630	404,846	5,051,511	33,976,118
Payables arising from retrocession arrangements	5,042,438	-	-	-	-	-	-	-	-	-	5,042,438
Deposits retained on ceded reinsurance business	226,651	-	-	-	-	-	-	-	-	-	226,651
Unearned premium reserves	2,721,391	826,279	7,864,031	2,258,324	1,234,117	1,279,625	407,265	1,340,686	569,576	2,206,905	20,708,199
Deferred Retrocession Revenue	2,009,930	-	-	-	-	-	-	-	-	-	2,009,930
Total	17,577,232	1,460,877	19,653,631	5,821,927	2,355,444	2,757,171	987,899	3,116,316	974,422	7,258,416	61,963,336
Net financial position exposure	67,581,302	(1,325,529)	4,155,120	3,419,019	(1,448,600)	(2,450,020)	1,061,586	(1,513,688)	(73,797)	(4,170,477)	65,234,916

Notes to the Financial Statements (Continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Financial risk management (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 2012:

	Total Amount	No stated	Contractual cash flows (undiscounted)				
	2012	**maturity**	**0-1 yr**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**> 5 yrs**
Financial assets:							
Available-for-sale equity investments	5,365,063	5,365,063	-	-	-	-	-
Receivables arising out of reinsurance arrangements	14,693,128	-	14,693,128	-	-	-	-
Deposits retained by ceding companies	3,726,983	-	3,726,983	-	-	-	-
Retrocessionaires share of technical liabilities	11,145,160	-	11,145,160	-	-	-	-
DAC	8,702,052	-	8,702,052	-	-	-	-
Government securities held to maturity	23,683,126	-	6,206,789	16,192,212	-		1,284,125
Deposits with financial institutions	65,511,067	5,186,860	59,285,157		1,039,050	-	-
Cash and bank balances	1,956,869		1,956,869	-	-	-	-
Total	**134,783,448**	**10,551,923**	**105,716,138**	**16,192,212**	**1,039,050**	-	**1,284,125**
Reinsurance liabilities:							
Reinsurance contract liabilities	38,989,563	-	38,989,563	-	-	-	-
Payables arising from retrocession arrangements	3,876,849	-	3,876,849	-	-	-	-
Deposits retained on ceded reinsurance business	540,518	-	540,518	-	-	-	-
Deferred retrocession revenue	2,322,593	-	2,322,593	-	-	-	-
Total	45,729,523	-	45,729,523	-	-	-	-
Net liquidity surplus	**89,053,925**	**10,551,923**	**59,986,615**	**16,192,212**	**1,039,050**	**-**	**1,284,125**

Notes to the Financial Statements (Continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Financial risk management (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 2011:

	Total Amount 2011	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	3,603,313	3,603,313	-	-	-	-	-
Receivables arising out of reinsurance arrangements	10,956,838	-	10,956,838	-	-	-	-
Deposits retained by ceding companies	1,769,417	-	1,769,417	-	-	-	-
Retrocessionaires share of technical liabilities	11,120,473	-	11,120,473	-	-	-	-
DAC	6,957,846	-	6,957,846	-	-	-	-
Government securities held to maturity	24,271,549		21,828,313		141,816	-	2,301,420
Deposits with financial institutions	55,065,875		41,734,934		10,701,429	1,470,470	1,159,042
Cash and bank balances	886,538	-	886,538	-	-	-	-
Total	**114,631,849**	**3,603,313**	**95,254,359**	-	**10,843,245**	**1,470,470**	**3,460,462**
Reinsurance liabilities:							
Reinsurance contract liabilities	33,976,118	-	33,976,118	-	-	-	-
Payables arising from retrocession arrangements	5,042,438	-	5,042,438	-	-	-	-
Deposits retained on ceded reinsurance business	226,651	-	226,651	-	-	-	-
Deferred retrocession revenue	2,009,930	-	2,009,930	-	-	-	-
Total	41,255,137	-	41,255,137	-	-	-	-
Net liquidity surplus	**73,376,712**	**3,603,313**	**53,999,222**	-	**10,843,245**	**1,470,470**	**3,460,462**

Notes to the Financial Statements (Continued)

37 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.

(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 stock 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.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

31 December 2012		**Level 1**	**Level 2**	**Level 3**	**Total**
	Note	**US$**	**US$**	**US$**	**US$**
Financial assets:					
Available for sale		4,522,348	-	-	4,522,348
- Quoted equity investments	12				
		========	=====	=====	========

31 December 2011		**Level 1**	**Level 2**	**Level 3**	**Total**
	Note	**US$**	**US$**	**US$**	**US$**
Financial assets:					
Available for sale					
- Quoted equity investments	12	2,760,598	-	-	2,760,598
		========	=====	=====	========

Notes to the Financial Statements (Continued)

38 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:

	2012 US$	2011 US$
Share capital	36,928,546	36,405,708
Share premium	5,755,653	5,175,298
Property revaluation reserve	314,585	190,905
Available for sale fair value reserve	(583,942)	(1,367,406)
Retained earnings	36,359,997	26,251,514
Total capital - Equity	**78,774,839**	**66,656,019**

Supplementary information

2012 REVENUE ACCOUNT

APPENDIX I

Class of insurance Business	**Property**	**Casualty**	**Motor**	**Marine**	**Aviation**	**Life**	**Total**
	US$	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
Gross premiums written	38,435,365	21,884,574	7,642,949	9,196,641	262,532	4,292,760	81,714,820
Less: retrocession premiums	(11,783,370)	(1,317,745)	(513,897)	(1,392,656)	(95,967)	(303,601)	(15,407,236)
Net premiums written	26,651,995	20,566,829	7,129,052	7,803,985	166,565	3,989,159	66,307,584
Change in gross UPR	(1,808,126)	(1,850,118)	(73,154)	(522,803)	7,030	(291,880)	(4,539,051)
Exchange gains on revaluation of UPR	(477,044)	(376,486)	(339)	(141,302)	(4,871)	(85,101)	(1,085,142)
Net earned premiums	**24,366,825**	**18,340,225**	**7,055,559**	**7,139,881**	**168,724**	**3,612,178**	**60,683,391**
Gross claims paid	10,177,012	8,175,553	4,138,802	2,442,866	59,800	1,983,637	26,977,669
Change in gross outstanding claims	(83,957)	2,865,354	789,784	1,307,082	147,357	612,923	5,638,543
Exchange gains on revaluation of outstanding claims	802,115	282,350	393,450	127,909	4,257	77,500	1,687,581
Less: amounts recoverable from retrocessionaires	(3,360,547)	(144,925)	(116,442)	(100,118)	-	(226,350)	(3,948,382)
Net claims incurred	**7,534,623**	**11,178,332**	**5,205,594**	**3,777,739**	**211,414**	**2,447,710**	**30,355,412**
Commissions earned	(3,980,615)	(510,027)	(68,986)	(429,808)	(8,808)	(80,994)	(5,079,239)
Commissions expense	11,426,906	6,074,501	587,161	2,722,144	43,525	963,867	21,818,104
Charges and taxes	212,002	150,465	54,957	132,039	1,307	14,144	564,914
Expenses of management	3,308,816	1,883,995	657,965	791,719	22,601	369,554	7,034,650
Total expenses and commissions	**10,967,109**	**7,598,934**	**1,231,097**	**3,216,094**	**58,625**	**1,266,571**	**24,338,429**
Underwriting profit/(loss)	**5,865,093**	**(437,041)**	**618,868**	**146,048**	**(101,315)**	**(102,103)**	**5,989,550**
Key ratios:							
Loss ratio *(net claims incurred/net earned premium)*	30.92	60.95	73.78	52.91	125.30	67.76	50.02
Commissions ratio *(commissions payable/gross premium written)*	29.73	27.76	7.68	29.60	16.58	22.45	26.70
Expense ratio *(management expenses/gross written premium)*	8.60	8.60	8.60	8.60	8.60	8.60	8.60
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SUPPLEMENTARY INFORMATION (CONTINUED)

2011 REVENUE ACCOUNT

APPENDIX II

Class of insurance Business	Property	Casualty	Motor	Marine	Aviation	Life	Total
	US$	US$	US$	US$	US$	US$	US$
Gross premiums written	30,427,228	16,277,292	6,038,661	7,104,024	257,602	3,431,764	63,536,571
Less: retrocession premiums	(10,204,694)	(1,598,163)	(552,858)	(981,150)	(78,000)	(275,347)	(13,690,212)
Net premiums written	20,222,534	14,679,129	5,485,803	6,122,874	179,602	3,156,417	49,846,359
Change in gross UPR	(1,228,692)	(1,271,647)	9,563	(238,482)	20,662	(62,492)	(2,771,088)
Exchange gains on revaluation of UPR	(257,111)	(189,626)	(200)	(81,678)	(4,087)	(52,762)	(585,464)
Net earned premiums	**18,736,731**	**13,217,856**	**5,495,166**	**5,802,714**	**196,177**	**3,041,163**	**46,489,807**
Gross claims paid	12,044,527	5,798,126	3,065,689	3,237,475	102,795	1,580,686	25,829,298
Change in gross outstanding claims	3,368,503	818,259	210,811	(792,085)	36,593	1,237,262	4,879,343
Exchange gains on revaluation of outstanding claims	312,612	125,780	206,193	95,664	1,090	835	742,174
Less: amounts recoverable from retrocessionaires	(4,134,171)	(367,655)	(33,109)	(721,714)	-	(90,792)	(5,347,441)
Net claims incurred	**11,591,470**	**6,374,510**	**3,449,584**	**1,819,340**	**140,478**	**2,727,992**	**26,103,374**
Commissions earned	(3,674,945)	(605,906)	(99,118)	(307,680)	3,688	(73,776)	(4,757,737)
Commissions expense	9,341,602	4,549,301	444,460	2,364,231	36,039	696,461	17,432,094
Charges and taxes	183,181	117,344	42,578	46,646	259	8,505	398,513
Expenses of management	2,015,838	1,078,389	400,068	470,650	17,066	227,358	4,209,369
Total expenses and commissions	**7,865,676**	**5,139,128**	**787,988**	**2,573,847**	**57,052**	**858,548**	**17,282,239**
Underwriting profit/(loss)	**(720,415)**	**1,704,217**	**1,257,594**	**1,409,526**	**(1,353)**	**(545,378)**	**3,104,193**
Key ratios:	%	%	%	%	%	%	%
Loss ratio *(net claims incurred/net earned premium)*	61.86	48.23	62.77	31.35	71.61	89.70	56.15
Commissions ratio *(commissions payable/gross premium written)*	30.70	27.95	7.36	33.28	13.99	20.29	27.44
Expense ratio *(management expenses/gross written premium)*	6.63	6.63	6.63	6.63	6.63	6.63	6.63

Supplementary information (Continued)

SCHEDULE OF MEMBERSHIP

APPENDIX III

Country/ Institution	Shareholder	2012 Shareholding US$	2012 Shareholding %	2011 Shareholding US$	2011 Shareholding %
Burundi	SOCABU	392,291	1.06	383,531	1.05
	Assurances BICOR	224,099	0.61	224,099	0.62
Kenya	Kenya Reinsurance Corporation Ltd	7,656,293	20.73	7,656,293	21.03
	Government of Kenya	492,417	1.33	492,417	1.35
	Blue Shield Insurance Company Ltd	372,953	1.01	372,953	1.02
	Mayfair Insurance Company Ltd	604,526	1.64	604,526	1.66
	Apollo Insurance Company Ltd	124,984	0.34	124,984	0.34
Mauritius	Government of Mauritius	261,161	0.71	261,161	0.72
Mozam-bique	EMOSE	319,724	0.87	312,643	0.86
Rwanda	Government of Rwanda	3,333,871	9.03	3,333,871	9.16
	SONARWA	140,055	0.38	140,055	0.38
	SORAS	516,673	1.40	516,673	1.42
Sudan	Government of Sudan	1,873,670	5.07	1,832,171	5.03
	United Insurance Company Ltd	283,697	0.77	277,414	0.76
	Sheikan Ins. & Reins. Ltd	369,736	1.00	361,547	0.99
	Juba Insurance Company Ltd	310,339	0.84	303,466	0.83
Tanzania	National Insurance Corporation (T) Ltd	2,005,904	5.43	1,961,479	5.39
	ZIC	127,670	0.35	127,670	0.35
	PPF	1,754,597	4.75	1,715,415	4.71
Uganda	National Insurance Corporation (U) Ltd	127,663	0.35	127,663	0.35
	Lion Assurance of Uganda Ltd	113,845	0.31	113,845	0.31
	Statewide Insurance Company Ltd	221,975	0.60	217,018	0.60
Zambia	ZSIC Ltd	627,215	1.70	613,324	1.68
	Government of Zambia	1,446,442	3.92	1,446,442	3.97
	ZSIC – Pension Trust	1,409,807	3.82	1,378,584	3.79
COMESA	PTA Bank	2,527,498	6.84	2,527,498	6.94
	COMESA Secretariat	350,570	0.95	350,570	0.96
Zimbabwe	Baobab Reinsurance Company Ltd	474,087	1.28	463,587	1.27
Madagascar	CMAR (NY Havana)	240,721	0.65	240,721	0.66
D.R. Congo	Société Nationale d'Assurances (SA)	125,661	0.34	125,661	0.35
Eritrea	NICE	920,370	2.49	920,370	2.53
Djibouti	Government of Djibouti	1,529,912	4.14	1,496,762	4.13
	Amerga	266,825	0.72	-	-
AfDB	African Development Bank	5,381,295	14.57	5,381,295	14.79
Total		**36,928,546**	**100.00**	**36,405,708**	**100.00**

Key:

SOCABU	=	Société d'Assurances du Burundi
EMOSE	=	Empresa Mocambicana de Seguros
SONARWA	=	Société Nouvelle d'Assurances du Rwanda
SORAS	=	Société Rwandaise d'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)	=	Compagnie Malgache d'Assurances et Reassurances (NY Havana)
NICE	=	National Insurance Corporation of Eritrea (Share) Company
COMESA	=	Common Market for Eastern and Southern Africa

Supplementary information (Continued)

CREDIT 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: March 12, 2012

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
A.M. Best Company
Ambest Road, Oldwick, NJ 08858 USA

President

Senior Vice President Ratings