ZEP - RE

(PTA REINSURANCE COMPANY)

Annual Report
& Accounts

2006

"Committed to Quality Service"

......OUR VISION

To be a world class leading reinsurer in Africa

...OUR MISSION

To provide first class security and quality services to our clients

...OUR VALUES

We act with integrity
We are customer driven
We are a professional team
We are committed to our work
We are a responsible corporate citizen

Contents

Corporate Information

EXECUTIVE MANAGEMENT

Mr Shadreck Lubasi - Managing Director
Mr Rajnikant Varia - General Manager
Mrs Hope Murera - Corporate Services Director

HEADQUARTERS

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

REGIONAL OFFICES

Khartoum, Sudan
Reinsurance House Building
P O Box 3224
Khartoum, Sudan
Telephone: +249 11 799357/8
Fax: +249 11 799359
Email: zep-re@sudanmail.net

Lusaka, Zambia
2nd Floor, Zone A Comesa Centre
Ben Bella Road
P. O. Box 36966
Lusaka, Zambia
Telephone: +260 1 230969
Fax: +260 1 230968

AUDITORS

Deloitte & Touche
Certified Public Accountants
“Kirungii”, Ring Road, Westlands
P O Box 40092 - 00100
Nairobi, Kenya

BANKERS

Barclays Bank of Kenya Limited
Market Street Branch
P O Box 47278 - 00200
Nairobi, Kenya

Lloyds TSB Bank PLC
Business Banking Service Center
3rd Floor, 10 Booth Street
Manchester, M24AW
United Kingdom

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

Sudanese French Bank
P O Box 2775
Khartoum, Sudan

PTA Bank
Bishops Road
P. O. Box 48596 - 00100
Nairobi, Kenya

Notice of the 16th Annual General Assembly

Notice is HEREBY GIVEN that the 16th Annual General Assembly of ZEP-RE (PTA Reinsurance Company) will be held in Livingstone on Monday, 16th July 2007 at 0900 hours, Zambian time.

Venue
Zambezi Sun Hotel, Livingstone, Zambia

BY ORDER OF THE BOARD

Hope Murera
Company Secretary

N.B.
A member entitled to attend and vote at the meeting is allowed to appoint a proxy to attend and vote on his behalf. A proxy need not to be a member of the Company. To be valid, a 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, or posted to P. O. Box 42769 00100 Nairobi, Kenya in time to reach not later than Monday, 2nd July, 2007.

Thirteenth Annual Report of ZEP-RE (PTA-Reinsurance Company)

In accordance with Article 12 (f) of the Agreement establishing ZEP-RE (PTA Reinsurance Company) I have the honour, on behalf of the Board of Directors, to submit the 13th Annual Report and Audited Accounts of ZEP-RE (PTA Reinsurance Company) for the twelve (12) months ending 31st December 2006.

Please accept, your Excellencies, the assuarances of my highest consideration.

Peter Kenneth, MP
Chairman of the Board

Corporate Information

BOARD OF DIRECTORS

KENYA

Hon. Peter Kenneth, MP - Director (Chairman)
Assistant Minister
Ministry of Finance
Kenya

Mr. David Nalo - Alternate Director
Permanent Secretary
Ministry of Trade and Industry
Kenya

Mr. Johnson J Githaka - Director*
Managing Director
Kenya Reinsurance Corporation
Kenya

Mr. Kulova Wanjala - Alternate Director
Managing Director
Blue Shield Insurance Company
Kenya

TANZANIA

Mrs. Margaret T Ikongo - Director (Vice Chairperson)
Managing Director
National Insurance Corporation of Tanzania
Tanzania

Mr. Iddi K Haji - Alternate Director
General Manager
Zanzibar Insurance Corporation
Tanzania

Mr. William Erio - Director
Director General
Parastatal Pensions Fund (PPF)
Tanzania

Mr. Hosea Kashimba - Alternate Director
Chief Internal Auditor
Parastatal Pensions Fund (PPF)
Tanzania

ZAMBIA

Ms. Irene M. Muyenga - Director
Managing Director
Zambia State Insurance Corporation
Zambia

Mr. Chris M Mapipo -Alternate Director
Registrar
Pensions and Insurance Authority
Zambia

* Retired on 8 January 2007

Corporate Information (Continued)

SUDAN

Mrs. Amna A. Mohammed - Director
General Manager
The Insurance Supervisory Authority
Sudan

Mrs. Shamoum M. A. Alamin - Alternate Director
Deputy General Manager
The Insurance Supervisory Authority
Sudan

ERITREA

Mr. Zeru Woldemichael - Director
General Manager
National Insurance Corporation of Eritrea
Eritrea

Mr. Mesghina Nemariam- Alternate Director
Technical Manager
National Insurance Corporation of Eritrea
Eritrea

RWANDA

Mr. Camille Karamaga - Director
Chairman, Free Economic Zone
Ministry of Commerce, Industry, Investment
Promotion, Tourism and Co-operatives
Rwanda

Mrs. Marie Claire Mukasine - Alternate Director
Managing Director
Société Nouvelle d'Assurances du Rwanda
Rwanda

UGANDA

Mr. Joseph W. Kiwanuka - Director
Managing Director
Statewide Insurance Company
Uganda

Mr. Bola Ososanya - Alternate Director
Managing Director
National Insurance Corporation Uganda
Uganda

PTA BANK

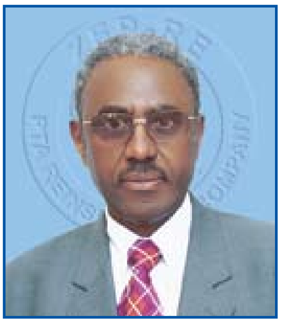
Dr. Michael Gondwe - Director
President
PTA Bank
Kenya

Mr. James M. Kabuga - Alternate Director
Principal Officer
Credit Facilities and Business Department
PTA Bank
Kenya

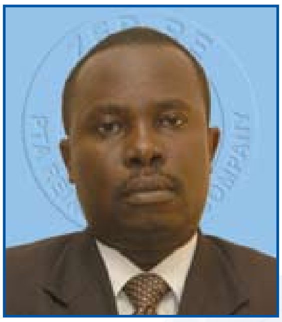
Members of the Board of Directors


Hon. Peter Kenneth M.P.
Chairman

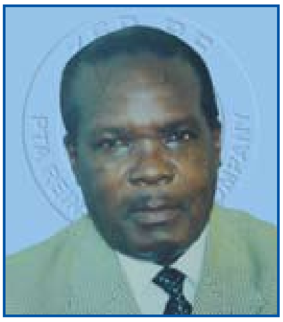

Mrs. Margaret Ikongo
Vice-Chairperson

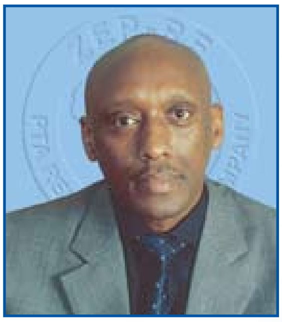

Mr. Zeru Woldemichael
Director


Ms. Irene M. Muyenga
Director


Mr. William Erio
Director


Dr. Michael Gondwe
Director


Mr. Joseph Kiwanuka
Director

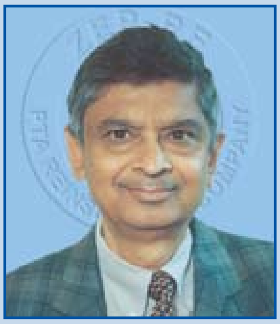

Mr. Camille Karamaga
Director


Mr. Johnson Githaka
Director


Mrs. Amna Mohammed
Director

Executive Management


Mr. Shadreck Lubasi
Managing Director


Mr. Rajnikant Varia
General Manager


Mrs. Hope Murera
Company Secretary

Report of the Chairman of the Board of Directors

Foreword

It is my pleasure to present the Annual Report and Financial statements of ZEP–RE for the year ended 31 December 2006.

1. Business Environment

The year ended 31 December 2006 saw the resurgence of business confidence and strong economic performance across the COMESA sub-region. The average economic performance of many COMESA countries for the last five years was about 5 percent. This impressive performance is explained by increased trade in the region, favourable demand and prices of commodities, benefits from privatization, poverty reduction strategies and economic liberalization policies adopted.

Despite the progress on the continent, African firms still struggle to enter the global marketplace hampered by bad roads, inefficient ports and power outages. In addition, there are immense burdens from staggering HIV/AIDS rates and other diseases, anaemic aid, trade barriers and dwindling foreign direct investments. In spite of the hurdles above, the African continent is still poised for buoyant economic growth in 2007 and beyond driven by gains made in stable political environment, discovery and exploitation of mineral wealth, better health, education and trade outcomes.

Improved productivity and sustainable economic growth on the entire African continent is critical for the fulfillment of ZEP–RE's objective of supporting the sub-regional economic development. Given the small size of most economies of COMESA member states and lack of economies of scale at country level, regional integration and economic co-operation has created larger markets, improved infrastructure and linkages between producers and consumers and has helped enhance economies of scale in the region. ZEP-RE seeks to consolidate these gains by promoting regional integration, expanding to other regions in Africa and taking the leadership role in offering world class reinsurance service.

During the year 2006, ZEP–RE unveiled its 5th Corporate Strategy Plan (2007 - 2009) with the following objectives:

- To grow the business of the company.
- To prudently manage the company's finances and enhance shareholder value.
- To grow the share capital of the company.
- To attract and retain the best human resource.
- To enhance the company's image and grow its brand equity.
- To be a good corporate citizen.

ZEP–RE has put in place various strategies aimed at achieving each of these objectives. Most important has been the efforts to empower staff and commit appropriate resources that will ensure these targets are achieved.

2. Highlights of performance

The company registered a growth in premium income of 20.7% translating into US$ 32.47 million from US$ 26.9 million in 2005, with the bulk of the premium income emanating from COMESA states in the fire and accident class. The underwriting results declined by 43.4% from US$ 1,729,416 in 2005 to US$ 979,383 in 2006, mainly due to large claims incurred including the Morrog claim in Sudan, Bgrimm Explosives in Zambia and the Zimasco claim in Zimbabwe. Gross settled claims increased from US$ 14,807,184 in 2005 to US$ 17,185,434 in 2006. The company's claims provisions and reserves increased from US$ 8.1 million in 2005 to US$ 8.675 million in 2006.

Investment income improved from US$ 948,742 in 2005 to US$ 1,653,839 in 2006 reflecting an increase of 74%. The increase is directly attributable to the increase in the effective interest rates offered on short-term investments held by the company in government securities and deposits with financial institutions, rental income earned from ZEP–RE Place and Prosperity House properties and fair value gain on investment property.

The company achieved a profit of US$ 2,475,386 in 2006 compared to US$ 1,837,349 in 2005.

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

3. Membership and Share Capital

In 2006 the COMESA Secretariat and Mayfair Insurance (Kenya) were admitted into membership in ZEP–RE and the paid up capital increased by 3.6% from US$ 11,361,744 in 2005 to US$ 11,771,887 in 2006.

The company also undertook a share valuation exercise in 2006 with a view to determining the market value of the company's shareholding and examining the possibility of restructuring the capital structure of the company. In line with the provisions of the Agreement establishing the company relevant recommendations in this respect will be made to the 16th Annual General Assembly.

Once again I wish to take this opportunity to inform all interested parties that shares in ZEP-RE are still available to both current and prospective members. Both private and public institutions and governments of the region are invited to acquire shares.

4. Corporate Governance

ZEP–RE is committed to the highest standards of corporate governance, and the company strives to regularly review its processes, rules, regulations and structure with a view to ensuring the best performance of the Board, Board committees and overall management of its business, in line with international standards.

Key aspects of our approach to corporate governance are as follows: -

The Board of Directors

The Board meets at least four times a year and is composed entirely of non-executive Directors. The Board provides overall strategic direction, reviews performance and takes material policy decisions. Responsibility for implementing strategy and day to day operations is delegated by the Board to the Managing Director and top management.

Board Committees

- The Board Audit Committee meets regularly (a minimum of four times a year) to review effectiveness of internal controls and general financial matters.
- The Board Investments Committee meets regularly to review all policy issues pertaining to investments.

Training

To enable ZEP–RE discharge its corporate governance obligations effectively, the company undertook a training program to equip its directors and management with the best functional skills required in a modern corporate entity. The corporate governance workshop was carried out in March 2006.

Following discussions held at the workshop, the company implemented the following policies

- Code of Business Conduct and Ethics

  This code is meant to ensure compliance with legal requirements and the company's standards of business conduct. All Directors and employees are expected to uphold these standards in their day-to-day activities.

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

- Board Charter

ZEP–RE in appointing Directors elects individuals on the basis of their professional competencies, personal qualities and the contribution they can make to the governance of the company.

To reaffirm this commitment the Board of Directors created and implemented a charter aimed at facilitating the full and free exercise of these qualities and to ensure the effectiveness of each Director's contribution, consistent with the standards of independent judgement, ethics and integrity they are expected to observe.

- Board Evaluation Policy

In 2006 the ZEP–RE Board also implemented a Board Evaluation Policy. The policy is meant to ensure: -

- That the Board adds value and fulfils its responsibilities to the organisation and its stakeholders.
- The performance, effectiveness and contribution of each individual director and the Board as a whole are enhanced.
- An objective framework for analytical feedback of performance to the Board and its members.

The policy is also meant to ensure that the Board is accountable and fully responsible to themselves and to shareholders for the effective performance of the company.

BY ORDER OF THE BOARD OF DIRECTORS

Peter Kenneth, MP
Chairman

27th March 2007

Report of the Directors

The Board of Directors hereby submit their report together with the audited financial statements for the year ended 31 December 2006 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.

PRINCIPAL ACTIVITIES

The company underwrites all classes of life and non-life reinsurance risks as defined by Article 31 of the Agreement Establishing ZEP–RE. The business is divided into the following classes:

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

A) RESULTS FOR THE YEAR

The net profit for the year is US$ 2,475,386 compared to US$ 1,837,349 in 2005. The financial highlights for the period are as shown below:

	2006 US$	2005 US$
Gross premiums	32,474,910	26,900,035
Investment and rental income	1,653,839	948,742
Claims incurred	14,562,673	10,181,663
Commission expenses - net	6,046,777	5,267,676
Management expenses	2,098,537	1,822,216
Underwriting profit	979,383	1,729,416
Net profit	2,475,386	1,837,349
Provision for outstanding claims	8,675,000	8,100,000
Unearned premium reserve	9,009,854	7,606,366
Total assets	43,965,256	37,610,326
Shareholders' funds	17,641,112	15,044,598
Investments	33,825,340	21,850,094
Management expenses ratio – net premium	8.83%	9.54%
Loss ratio	61.29%	53.31%

During the year, a dividend of US$ 500,000 has been proposed. In 2005 US$ 300,000 was approved and distributed as dividends. Directors recommend the approval of this proposed dividend.

Report of the Directors (continued)

B) UNDERWRITING RESULTS

	2006 US$	2005 US$
Gross premiums	32,474,910	26,900,035
Retroceded premiums	7,311,671	7,379,530
Net premiums	25,163,239	19,520,505
Earned premiums	23,759,751	19,098,297
Claims incurred	14,562,673	10,181,663
Commission expenses - net	6,046,777	5,267,676
Charges and taxes	72,381	97,326
Management expenses	2,098,537	1,822,216
Underwriting profit	**979,383**	**1,729,416**

C) PREMIUM DISTRIBUTION

(i) Geographical distribution

	2006		2005	
Region	Gross premium	%	Gross premium	%
Comesa	24,458,062	75.31	21,800,549	81.04
Non - Comesa (Africa)	6,688,020	20.59	4,368,648	16.24
Others	1,328,828	4.10	730,838	2.72
Total	**32,474,910**	**100.00**	**26,900,035**	**100.00**

(ii) Class-wise distribution

	2006		2005	
Class of business	Gross premium	%	Gross premium	%
Fire and Accident	25,088,305	77.25	22,430,133	83.38
Marine and Aviation	3,870,650	11.92	3,342,211	12.42
Life	3,515,955	10.83	1,127,691	4.20
Total	**32,474,910**	**100.00**	**26,900,035**	**100.00**

D) INVESTMENTS

During the year, the company investments increased by 54.8 % from US$ 21.85 million in 2005 to US 33.83 million in 2006. This increase includes the purchase consideration of Prosperity House – an investment property acquired during the year.

Investment income increased by 74% from US$ 948,742 in 2005 to US$ 1,653,839 in 2006 mainly due to improved interest rates, rental income on investment properties and the recognition of a fair value gain on investment property.

E) DIRECTORS

The Directors who held office during the year are as shown on pages 5 to 6.

Report of the Directors (continued)

F) AUDITORS

The company's auditors, Deloitte and Touche, have expressed willingness to continue in office for the next financial year. Accordingly a resolution will be proposed to re-appoint them as auditors for the financial year 2007.

By order of the Board

SECRETARY

27th March 2007

Statement of Directors' Responsibilities

Article 31 of the Agreement establishing ZEP–RE 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 and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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. 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.

Peter Kenneth, MP
Chairman

Shadreck Lubasi
Managing Director

27th March 2007

Independent Auditors' Report to the Members of ZEP-RE (PTA Reinsurance Company)

We have audited the financial statements of ZEP–RE (PTA Reinsurance Company) set out on pages 16 to 39 which comprise the balance sheet as at 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and Article 31 of the Agreement establishing Zep-Re. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

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 as to 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 judgment and include an assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with Article 31 of the Agreement Establishing ZEP–RE.

Deloitte & Touche

Nairobi

27th March 2007

Income Statement for the Year Ended 31st December 2006

	Notes	2006 US$	2005 US$
Gross Premiums Written	2	32,474,910	26,900,035
Less: Retrocession premiums		(7,311,671)	(7,379,530)
Net premiums		25,163,239	19,520,505
Movement in unearned premiums reserve	23	(1,403,488)	(422,208)
Earned Premiums		23,759,751	19,098,297
Investment income	3	1,344,101	808,064
Rental Income		309,738	140,678
Other income	4	107,872	180,049
Commissions earned		1,912,563	2,037,560
Net income		27,434,025	22,264,648
Gross settled and outstanding claims payable	5	17,760,434	16,768,455
Less: amounts recoverable from retrocessionaires		(3,197,761)	(6,586,792)
Net claims incurred		14,562,673	10,181,663
Operating and other expenses	6	2,436,626	2,940,400
Commissions payable		7,959,340	7,305,236
		10,395,966	10,245,636
Profit for the year		**2,475,386**	**1,837,349**
Dividends:		**2006 US$**	**2005 US$**
Proposed final dividend	27	**500,000**	**300,000**

Balance Sheet As At 31st December 2006

	Notes	2006	2005
		US$	US$
ASSETS			
Property and equipment	8	1,119,903	1,176,628
Intangible Assets	9	396,733	436,406
Prepaid operating leases	10	70,089	70,904
Investment property	11	8,068,549	4,436,894
Available-for-sale equity investments	12	961,149	848,750
Receivables arising out of reinsurance arrangements	13	6,399,982	10,995,138
Deposits retained by ceding companies		1,472,437	1,652,874
Other receivables	14	411,373	673,841
Government securities held to maturity	15	7,576,317	6,136,930
Deposits with financial institutions	16	17,219,325	10,427,522
Cash and bank balances	17	269,399	754,439
Total assets		**43,965,256**	**37,610,326**
EQUITY AND RESERVES			
Share capital	19	11,771,887	11,361,744
Fair value reserve	20	10,985	-
Revaluation surplus	20	11,830	11,830
Retained earnings	21	5,846,410	3,671,024
Shareholders' funds		17,641,112	15,044,598
LIABILITIES			
Reinsurance contract liabilities	22	8,675,000	8,100,000
Unearned premiums reserve	23	9,009,854	7,606,366
Payables arising from retrocession arrangements	24	5,425,793	3,811,269
Deposits retained on ceded reinsurance business		220,063	480,805
Deferred income	25	70,090	70,905
Other payables	26	471,266	571,713
Dividends payable	27	22,078	16,827
Borrowings	28	2,430,000	1,907,843
Total liabilities		26,324,144	22,565,728
Total equity and liabilities		**43,965,256**	**37,610,326**

The financial statements on pages 16 to 39 were approved by the Board of Directors on 27th March 2007 and were signed on its behalf by:

Chairman

Managing Director

Statement of Changes in Equity

	Notes	Share capital US$	Revaluation surplus US$	Fair value reserve US$	Cumulative translation adjustment US$	Retained earnings US$	Proposed dividends US$	Total US$
At 1 January 2005		10,519,981	11,830	-	(250,000)	1,833,675	315,600	12,431,086
Share capital issued during the year		841,763	-	-	-	-	-	841,763
Write off to income statement		-	-	-	250,000	-	-	250,000
Profit for the year		-	-	-	-	1,837,349	-	1,837,349
Dividends- final approved for 2004	27	-	-	-	-	-	(315,600)	(315,600)
At 31 December 2005		11,361,744	11,830	-	-	3,671,024	-	15,044,598
At 1 January 2006		11,361,744	11,830	-	-	3,671,024	-	15,044,598
Share capital issued during the year		410,143	-	-	-	-	-	410,143
Fair value gain on available-for-sale equity investments	12	-	-	10,985	-	-	-	10,985
Profit for the year		-	-	-	-	2,475,386	-	2,475,386
Dividends - final approved for 2005	27	-	-	-	-	(300,000)	-	(300,000)
At 31 December 2006		**11,771,887**	**11,830**	**10,985**	**-**	**5,846,410**	**-**	**17,641,112**

Cash Flow Statement

	Notes	2006	2005
Operating activities		**US$**	**US$**
Reconciliation of profit to net cash generated from operating activities			
Profit for the year		2,475,386	1,837,349
Adjustments for:			
Loss on disposal of equipment		-	38,841
Fair value gain on investment property	3	(230,082)	-
Depreciation	8	94,673	83,633
Amortisation of intangible assets	9	114,673	18,446
Amortisation of prepaid operating leases	10	815	2,671
Amortisation of deferred income	25	(815)	(815)
Cumulative translation write off		-	250,000
Changes in:			
Unearned premiums reserve	23	1,403,488	422,209
Reinsurance contract liabilities	5	575,000	1,961,270
Deposits retained by ceding companies		180,437	207,668
Deposits retained on ceded reinsurance business		(260,742)	(228,911)
Receivables arising out of reinsurance arrangements		4,595,156	(752,380)
Payables arising out of retrocession arrangements	22	1,614,524	434,998
Other receivables		262,468	(297,721)
Other payables		(100,447)	(144,177)
Net cash generated from operating activities		10,724,534	3,833,081
Investing activities			
Purchase of property and equipment	8	(37,948)	(1,056,569)
Purchase of intangible assets	9	(75,000)	(435,378)
Purchase of quoted shares	12	(101,414)	-
Net investment in government securities held to maturity		(1,543,906)	75,663
Purchase of investment property	11	(3,401,573)	-
Loans advanced	28	792,157	231,213
Loans repaid	28	(270,000)	-
Proceeds from disposal of property and equipment		-	7,162
Net cash used in investing activities		(4,637,684)	(1,177,909)
Financing activities			
Proceeds from issue of shares		410,143	841,763
Dividends paid	27	(294,749)	(298,773)
Net cash generated from financing activities		115,394	542,990
Increase in cash and cash equivalents		6,202,244	3,198,162
Cash and cash equivalents at the beginning of the year		16,994,045	13,795,883
Cash and cash equivalents at the end of the year	**31**	**23,196,289**	**16,994,045**

Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) 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, impaired assets at their recoverable amounts, and actuarially determined liabilities at their present value.

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.

(b) Adoption of new International Financial Reporting Standards

The company continues to apply the same accounting policies for the recognition and measurement of obligations arising from reinsurance contracts that it issues and retrocession contracts that it holds. The company developed its accounting policies for reinsurance contracts before the adoption of IFRS 4 and in the absence of a specific standard for insurance contracts. The directors used their judgement in developing a set of accounting policies for the recognition and measurement of rights and obligations arising from reinsurance contracts issued and retrocession contracts held that provides the most useful information to users of the company's financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 7 on Financial Instruments Disclosures and
- IFRS 8 on Operating Segments
- IFRIC 8 - Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives

The adoption of these standards and interpretations, when effective, will have no material impact on the financial statements of the company.

(c) Income recognition

Premiums and related expenses are accounted for in the underwriting revenue account when advised by the ceding companies.

Gross earned premiums comprise gross premiums relating to risks assumed in the year after accounting for any movement in gross unearned premiums. Unearned premiums represent the proportion of the premiums written in the year that are attributable to the subsequent accounting period and are estimated at 40% of net premiums.

Commissions receivable are recognised to income when advised by the ceding companies.

Investment income is stated net of investment expenses. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Rental income is recognised as income in the period in which it is earned.

Accounting Policies (continued)

(d) 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 balance sheet date, 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").

(e) Retrocessions

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

(f) Currency translation

i) Functional and presentation currency

The company's reporting currency is the United States Dollar (US$)

Assets and liabilities expressed in the various functional currencies of member states are translated into United States Dollars using the closing rate method.

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 transactions are recognised in the income statement.

Closing balances are translated into the US Dollar at rates ruling at the balance sheet date. The resultant translation gains or losses on short term assets and liabilities are recognised in the income statement.

Translation differences on long term assets and liabilities such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(g) Deferred income

This represents the value of land (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 the income statement.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks, other short-term highly liquid investments with original maturities of six months or less.

Accounting Policies (continued)

(i) Property and equipment

All property and equipment is initially recorded at cost. Buildings and freehold land are subsequently shown at market value, based on triennial valuations by external independent valuers, less subsequent depreciation. All other property and equipment are stated at historical cost less depreciation.
Increases in the carrying amount of land and buildings arising from revaluations are credited to a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the income statement.
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
Household furniture and fittings	8 years
Household equipment	4 years
Computers	3 years

Interests in leasehold land are accounted for as prepayments and are amortised over the term of the lease.

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

(j) Intangible assets

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 as 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.

(k) Investment property

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 balance sheet dates are dealt with through the income statement.

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

Accounting Policies (continued)

(I) Other investments

The company classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which an investment is acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

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 2006 and 31 December 2005.

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

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

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

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 the income statement 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 the income statement as net realised gains/losses on financial assets.

Accounting Policies (continued)

The fair values of quoted investments are based on current bid prices.

(m) Impairment of financial assets

The company assesses at each balance sheet date whether there is objective evidence that a financial asset (or group of financial assets) is impaired. Impairment losses are recognised if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that those events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The impairment loss so recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

(n) Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlements at the balance sheet date is recognised as an expense accrual.

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

(o) Retirement benefit obligations

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 the income statement as they fall due.

(p) Dividends

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

(q) Taxation

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

(r) Comparatives

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

Notes to the Financial Statements

1 Establishment

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

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

The company is domiciled in Kenya and has regional offices in Sudan and Zambia.

2 Gross premium income

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

	2006 US$	2005 US$
Fire and accident	25,088,305	22,430,133
Marine and aviation	3,870,650	3,342,211
Life	3,515,955	1,127,691
	32,474,910	**26,900,035**

3 Investment income

Interest from government securities held to maturity	517,376	429,547
Interest from deposits with financial institutions	592,256	372,830
Loan interest receivable	4,387	5,687
Fair value gain on investment property (note 11)	230,082	-
	1,344,101	**808,064**

4 Other income

Interest on reinsurance deposits	32,273	61,292
Income from other sources	16,536	48,217
COMESA Yellow Card management fees	59,063	70,540
	107,872	**180,049**

5 Gross settled and outstanding claims payable

Gross settled claims	17,185,434	14,807,184
Change in outstanding claims	575,000	1,961,271
	17,760,434	**16,768,455**

Notes to the Financial Statements (continued)

6 Operating and other expenses

	2006	2005
	US$	US$
Employee emoluments and benefits (note 7)	1,353,457	1,101,699
Auditors' remuneration	15,000	12,000
General assembly and board expenses	207,767	193,964
Depreciation (note 8)	94,673	83,633
Amortisation of intangible assets (note 9)	114,673	18,446
Amortisation of prepaid operating leases (note 10)	815	2,671
Cumulative translation adjustment	-	250,000
(Gain)/loss on exchange	(853,305)	254,869
Impairment charge for doubtful receivables - Reinsurance premium receivables	495,113	33,822
Repairs and maintenance	93,961	44,781
Loss on disposal of equipment	-	38,841
Interest on borrowings	190,972	116,886
Taxes and charges	72,381	97,326
Property letting fees	-	15,726
Other	651,119	675,736
	2,436,626	**2,940,400**

7 Employee emoluments and benefits

Staff costs include the following:		
Salaries and wages	1,060,836	898,638
Provident fund costs	70,520	58,891
Gratuity costs	94,501	54,611
Leave pay provision	22,890	29,726
Other	104,710	59,833
	1,353,457	**1,101,699**

The number of persons employed by the company at the year end was 33 (2005: 34).

Notes to the Financial Statements (continued)

8 Property and equipment

Year ended 31 December 2006:	Freehold land US$	Buildings US$	Motor vehicles US$	Office furniture& fittings US$	Household furniture US$	Office equipment US$	Household equipment US$	Computers US$	Total US$
Cost or valuation									
At 1 January 2006	99,764	736,482	135,184	322,969	17,079	113,761	5,815	167,275	1,598,329
Additions	-	-	-	20,782	520	7,935	-	8,711	37,948
At 31 December 2006	99,764	736,482	135,184	343,751	17,599	121,696	5,815	175,986	1,636,277
Depreciation									
At 1 January 2006	-	8,592	131,041	40,371	10,646	89,485	2,490	139,076	421,701
Charge for the year	-	14,730	4,143	42,969	3,657	6,518	617	22,039	94,673
At 31 December 2006	-	23,322	135,184	83,340	14,303	96,003	3,107	161,115	516,374
Net book value									
At 31 December 2006	**99,764**	**713,160**	**-**	**260,411**	**3,296**	**25,693**	**2,708**	**14,871**	**1,119,903**

Notes to the Financial Statements (continued)

8 Property and equipment (continued)

	Freehold land	Buildings	Motor vehicles	Office furniture & fittings	Household Furniture	Office equipment	Household equipment	Computers	Work in progress	Total
Year ended 31 December 2005:	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
Cost or valuation										
At 1 January 2005	99,764	-	135,184	106,237	12,908	113,359	3,107	159,092	4,310,938	4,940,589
Additions	-	-		322,969	4,171	402	2,708	27,173	699,146	1,056,569
Disposals	-	-		(106,237)	-	-	-	(18,990)	-	(125,227)
Transfers	-	736,482	-	-	-	-	-	-	(5,010,084)	(4,273,602)
At 31 December 2005	99,764	736,482	135,184	322,969	17,079	113,761	5,815	167,275	-	1,598,329
Depreciation										
At 1 January 2005	-	-	126,892	60,234	7,119	83,925	1,873	137,249	-	417,292
Charge for the year	-	8,592	4,149	40,371	3,527	5,560	617	20,817	-	83,633
Realised on disposals	-	-	-	(60,234)	-	-	-	(18,990)	-	(79,224)
Transfers	-	-	-	-	-	-	-	-	-	-
At 31 December 2005	-	8,592	131,041	40,371	10,646	89,485	2,490	139,076	-	421,701
Net book value										
As at December 2005	**99,764**	**727,890**	**4,143**	**282,598**	**6,433**	**24,276**	**3,325**	**28,199**	**-**	**1,176,628**

Freehold land was last revalued in February 2003, by Gimco Ltd, independent valuers, on the basis of open market value for existing use. The resultant revaluation surplus, was credited to the revaluation reserve.

Notes to the Financial Statements (continued)

9 Intangible assets

Year ended 31 December 2006	Work in progress US$	Other US$	Total US$
Cost			
At 1 January 2006	408,078	239,277	647,355
Additions	75,000	-	75,000
Transfers	(483,078)	483,078	-
At 31 December 2006	-	722,355	722,355
Amortisation			
At 1 January 2006	-	210,949	210,949
Charge for year	-	114,673	114,673
At 31 December 2006	-	325,622	325,622
Net book value at 31 December 2006	**-**	**396,733**	**396,733**
Year ended 31 December 2005			
Cost			
At 1 January 2005	-	211,977	211,977
Additions	408,078	27,300	435,378
At 31 December 2005	408,078	239,277	647,355
Amortisation			
At 1 January 2005	-	192,503	192,503
Charge for year	-	18,446	18,446
At 31 December 2005	-	210,949	210,949
Net book value at 31 December 2005	**408,078**	**28,328**	**436,406**

The capital work in progress relates to new reinsurance system SICS/nt whose development was completed within 2006. This amount was transferred to intangibles during the year and is being amortised over five years.

Notes to the Financial Statements (continued)

10 Prepaid operating leases

	2006	2005
Cost	**US$**	**US$**
At 1 January	80,686	255,111
Transfer to investment property (note 11)	-	(174,425)
At 31 December	80,686	80,686
Amortisation		
At 1 January	9,782	18,244
Charge for the year	815	2,671
Transfer to investment property (note 11)	-	(11,133)
At 31 December	10,597	9,782
Net book value	**70,089**	**70,904**

Prepaid operating leases relate to company-owned leasehold land. The company adopted IAS 40 (Revised 2003) in 2005, and reclassified its other leasehold properties to investment property.

11 Investment property

	2006	2005
	US$	**US$**
At 1 January	4,436,894	-
Transfers from property and equipment (note 8)	-	4,273,602
Transfers from prepaid operating leases (note 10)	-	163,292
Addition	3,401,573	-
Fair value gains (note 3)	230,082	-
At 31 December	**8,068,549**	**4,436,894**

ZEP-RE Place property was valued by Gimco Limited, registered valuers, as at 31 December 2006, on an open market basis. The fair value gain arising from the revaluation has been dealt with in the income statement. The addition relates to the acquisition of a commercial property, Prosperity house, during the year.

Notes to the Financial Statements (continued)

12 Available-for-sale equity investments

		2006	2005
(i)	**Unlisted securities:**	**US$**	**US$**
	African Insurance Organization (AIO) Software Development Fund	30,000	30,000
	African Trade Insurance Agency	100,000	100,000
	Tanzania Reinsurance Corporation	718,750	718,750
	At 31 December	848,750	848,750
(ii)	**Quoted investments:**		
	At 1 January	-	-
	Additions	101,414	-
	Fair value gains	10,985	-
	At 31 December	112,399	-
	Total available for sale equity investments	**961,149**	**848,750**

13 Receivables arising out of reinsurance arrangements

	2006	2005
	US$	**US$**
At 1 January	10,995,138	10,242,758
Change during the year	(3,665,088)	1,273,795
Provision for bad debts	(930,068)	(521,415)
At 31 December	**6,399,982**	**10,995,138**

Amounts due from reinsurers are stated net of receivables which, in the directors' opinion, cannot be recovered or receivables whose recovery is uncertain at year end.

14 Other receivables

	2006	2005
	US$	**US$**
Due from Tanzania National Reinsurance Corporation Limited	110,462	16,386
Staff receivables	178,238	159,909
Prepayments	46,104	381,616
Deposits	33,433	22,136
Rent receivable	8,261	3,679
Others	34,875	90,115
	411,373	**673,841**

Notes to the Financial Statements (continued)

15 Government securities held to maturity

	2006	2005
	US$	US$
Treasury bills and bonds maturing:		
Within 1 year	7,082,106	5,812,084
In 1-5 years	189,524	324,846
After 5 years	304,687	-
	7,576,317	**6,136,930**

Analysis of government securities by currency

Securities in Kenya Shillings (KES)	6,258,869	5,578,937
Securities in Sudanese Dinar (SDD)	1,311,010	557,993
Securities in Zimbabwean Dollar (Zim$)	6,438	-
	7,576,317	**6,136,930**

16 Deposits with financial institutions

	2006	2005
	US$	US$
Lloyds Bank PLC – London	8,304,199	5,364,412
Kenya Commercial Bank Ltd	822,305	199,003
PTA Bank	2,430,196	2,312,993
Barclays Bank of Kenya Ltd	5,151,552	2,551,114
Sudanese French Bank	511,073	-
	17,219,325	**10,427,522**

Analysis of deposits with financial institutions by currency

Deposits in United States Dollars (US$)	11,040,508	5,145,271
Deposits in Sterling Pounds (UKP)	4,819,579	5,083,248
Deposits in Kenya Shillings (KES)	968,165	199,003
Deposits in Sudanese Dinar (SDD)	391,073	-
	17,219,325	**10,427,522**

Deposits with financial institution have an average maturity of 3 to 6 months (2005: 3 to 6 months).

Notes to the Financial Statements (continued)

17 Cash and bank balances

	2006	2005
	US$	US$
Lloyds Bank PLC – London	8,702	362,453
Kenya Commercial Bank Ltd	93,139	132,727
Barclays Bank of Kenya Ltd	67,328	120,321
Sudanese French Bank	99,942	138,639
Cash in hand	288	299
	269,399	**754,439**

18 Weighted average effective interest rates

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

	2006	2005
	%	%
Government securities	12.10	13.20
Deposits with financial institutions	5.60	3.75

19 Share Capital

The authorised share capital is US$ 27,280,000 divided into 20,000 shares of with par value of US$ 1,364 per share. The authorised capital stock of the company is divided into 50% called-up shares and the rest callable. At 31 December 2006 the position was as follows:

(i) Paid-up capital	2006	2005
	US$	US$
Capital allotted and subscribed	13,458,588	10,442,102
Called but unsubscribed	181,412	3,197,898
Capital callable	13,640,000	13,640,000
Capital un-paid	(1,868,113)	(2,278,256)
Subscribed and paid-up capital	**11,771,887**	**11,361,744**

(ii) Paid-up shares	2006	2005
	No of shares	No of shares
Shares allotted and subscribed	9,867	7,655
Called but unsubscribed	133	2,345
Shares callable	10,000	10,000
Shares un-paid	(1,370)	(1,670)
Subscribed and paid-up shares	**8,630**	**8,330**

Notes to the Financial Statements (continued)

20 Revaluation surplus and fair value reserves

	2006	2005
	US$	US$
Revaluation surplus	11,830	11,830
Fair value reserve	10,985	-
	22,815	**11,830**

Movements in the revaluation and other reserves are shown in the statement of changes in equity on page 14.

Revaluation surplus

The revaluation surplus relates to the surplus on revaluation of the company's freehold land (note 8).
This reserve is non-distributable.

Fair value reserve

The fair value reserve relates to the cumulative net change in the fair value of available for sale investments.

21 Retained earnings

The retained earnings balance represents the amount available for distribution to the shareholders of the company.

22 Reinsurance contract liabilities

	2006	2005
	US$	US$
Short term reinsurance contracts		
- claims reported and claims handling expenses	6,862,334	6,632,000
- claims incurred but not reported	1,812,666	1,468,000
Total gross reinsurance liabilities	**8,675,000**	**8,100,000**

i) **Short term reinsurance contracts**

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries. The expected recoveries at the end of 2006 and 2005 are not material.

Claims incurred comprise claims paid in the year and changes in provision for outstanding claims. Claims paid represent all claims payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent an estimate of the ultimate net cost of settling all claims arising from incidents occurring prior to the balance sheet date but not settled at that date. Provisions for outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provision for claims incurred but not reported (IBNR).

The development of reinsurance liabilities provides a measure of the company's ability to estimate the ultimate value of claims.

Notes to the Financial Statements (continued)

23 Unearned premiums reserve

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

	2006			2005		
	Gross	Retrocession	Net	Gross	Retrocession	Net
	US$	US$	US$	US$	US$	US$
At 1 January	10,558,246	(2,951,880)	7,606,366	9,399,755	(2,215,597)	7,184,158
Increase in the period (net)	1,376,276	27,212	1,403,488	1,158,491	(736,283)	422,208
At 31 December	**11,934,522**	**(2,924,668)**	**9,009,854**	**10,558,246**	**(2,951,880)**	**7,606,366**

24 Payables arising from retrocession arrangements

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

	2006	2005
	US$	US$
At 1 January	3,811,269	3,376,271
Increase in the year	1,614,524	434,998
At 31 December	**5,425,793**	**3,811,269**

25 Deferred income

Deferred income relates to leasehold land owned by the company. This land was granted to the company by the Kenya Government. The amounts are non-refundable and are released to income over the lease term. The movement on the deferred income account during the year is as follows:

	2006	2005
	US$	US$
At 1 January	70,905	71,720
Amortisation	(815)	(815)
At 31 December	**70,090**	**70,905**

26 Other payables

	2006	2005
	US$	US$
Provision for Gratuity	195,687	170,567
Leave pay provision	85,393	70,486
Rent deposits	122,026	91,913
Other liabilities	68,160	238,747
	471,266	**571,713**

Notes to the Financial Statements (continued)

27 Dividends

In May 2006, a dividend of US$ 36 per share amounting to US$ 300,000, relating to the year ended 31 December 2005 was paid to shareholders.

In respect of the current year, the directors propose that a dividend of US$ 57.93 per share be paid out to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The total estimated dividend to be paid is US$ 500,000.

The movement in dividends payable is as follows:

	2006 US$	2005 US$
At 1 January	16,827	-
Final dividend declared	300,000	315,600
Dividend paid	(294,749)	(298,773)
At 31 December	**22,078**	**16,827**

28 Borrowings

This was a loan obtained from PTA Bank for the construction of the head office building of the company and to partly finance the purchase of an investment property. The loan is repayable in quarterly instalments over a period of sixty (60) months with effect from July 2006. The movement in the loan account during the year was as follows:

	2006 US$	2005 US$
At 1 January	1,907,843	1,676,630
Additions during the year	792,157	231,213
Repayments	(270,000)	-
At 31 December	**2,430,000**	**1,907,843**

29 Contingent liabilities

In common with the insurance industry in general, the company is subject to litigation arising in the normal course of insurance business. The directors are of the opinion that this litigation will not have a material effect on the financial position or profits of the company.

Notes to the Financial Statements (continued)

30 Commitments

Capital commitments

Capital expenditure authorised but not contracted for at the balance sheet date and which is not recognised in the financial statements is as follows:

	2006 US$	2005 US$
Property and equipment	**433,500**	**698,050**

31 Cash and cash equivalents

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

	2006 US$	2005 US$
Cash and bank balances	269,399	754,439
Deposits with financial institutions	17,219,325	10,427,522
Treasury bills	5,707,565	5,812,084
	23,196,289	**16,994,045**

32 Related party transactions

The company is owned by governments, private and public institutions of member COMESA countries. Most of the private and public institutions comprise Insurance and Reinsurance companies in the COMESA sub-region.

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

i) Transactions with related parties	2006 US$	2005 US$
Gross earned premium: - Shareholders	5,843,526	4,194,773
Claims Paid - Shareholders	2,729,332	967,388

ii) Directors' remuneration

	2006	2005
Directors' fees	51,850	41,350
Other emoluments (per diem)	73,063	69,003
	124,913	**110,353**

Notes to the Financial Statements (continued)

iii) Key management remuneration

	2006 US$	2005 US$
Salaries and other short-term employment benefits	317,619	344,545
Gratuity	52,178	54,675
	369,797	**399,220**

iv) Outstanding balances with related parties

Premiums receivable from related parties	1,459,765	4,688,629
Staff car and other loans	178,238	159,909

33 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 balance sheet date, that have a significannt risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The ultimate liability arising from claims payable under reinsurance contracts
The ultimate liability arising from claims payable under reinsurance contracts is the company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the company will ultimately pay for such claims.

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.

34 Risk management objectives and policies

The company's activities expose it to a variety of financial risks, including reinsurance risk, financial 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 risk.

This company manages risks as follows:

Reinsurance risk

The risk under any one reinsurance contract is the possibility that the insured event occurs and also the uncertainty surrounding the amount of the resulting claim. By the very nature of a reinsurance contract, this risk is not easily

Notes to the Financial Statements (continued)

predictable.

For a portfolio of reinsurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its reinsurance contracts is that the actual claims and benefit payments will exceed the carrying amount of the reinsurance liabilities. This could occur if the frequency or severity of actual claims and benefits are greater than estimated. Insurance events are not easily predictable and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar reinsurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has developed its reinsurance underwriting strategy to diversify the type of insurance risks accepted. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Financial risk

The company is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance 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 insurance and investment contracts. 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 and equity price risk.

The company manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts.

Credit risk

The company faces an exposure to credit risk which is the risk that a reinsured will be unable to pay premiums in full when due. Impairment charges are recognised for doubtful debts at the balance sheet date. Significant changes in the economy, or in the health of a particular class of business that represents a concentration of the company's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

Exposure to credit risk is managed 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.

There is no concentration of credit risk

Interest rate risk

Exposure to interest sensitive assets is managed by use of a yield curve inorder 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.

Note 18 discloses the weighted average interest rate on principal bearing investments.

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.

Currency risk

The company operates in a number of countries and is exposed to currency fluctuations in those countries. The company's policy is to minimise the currency risk by holding assets in the same currency as the underlying liabilities or in major convertible currencies.

Revenue Account

Appendix I

	2006				2005			
Class of insurance Business	**Fire & Accident**	**Marine & Aviation**	**Life**	**Total**	**Fire & Accident**	**Marine & Aviation**	**Life**	**Total**
	US$	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
Gross premiums written	25,088,305	3,870,650	3,515,955	32,474,910	22,430,133	3,342,211	1,127,691	26,900,035
Change in gross UPR	(1,376,811)	(126,814)	100,137	(1,403,488)	(77,364)	(118,898)	(225,946)	(422,208)
Gross earned premiums	23,711,494	3,743,836	3,616,092	31,071,422	22,352,769	3,223,313	901,745	26,477,827
Less: retrocession premiums	(6,608,241)	(703,430)	-	(7,311,671)	(6,887,677)	(491,853)	-	(7,379,530)
Net earned premiums	**17,103,253**	**3,040,406**	**3,616,092**	**23,759,751**	**15,465,092**	**2,731,460**	**901,745**	**19,098,297**
Gross claims paid	13,429,273	1,397,118	2,359,043	17,185,434	13,186,503	1,044,578	576,103	14,807,184
Change in gross o/s claims	360,405	333,271	(118,676)	575,000	1,858,114	(58,681)	161,838	1,961,271
Less: amounts recoverable from retrocessionaires	(3,141,264)	(56,497)	-	(3,197,761)	(6,575,862)	(10,930)	-	(6,586,792)
Net claims incurred	**10,648,414**	**1,673,892**	**2,240,367**	**14,562,673**	**8,468,755**	**974,967**	**737,941**	**10,181,663**
Commissions receivable	(1,752,114)	(160,449)	-	(1,912,563)	(1,894,192)	(143,368)	-	(2,037,560)
Commissions payable	6,240,847	1,069,364	649,129	7,959,340	6,108,047	977,020	220,169	7,305,236
Charges & taxes	62,108	9,680	593	72,381	85,459	11,867	-	97,326
Expenses of management	1,621,213	250,122	227,202	2,098,537	1,513,637	230,729	77,850	1,822,216
Total expenses and commissions	6,172,054	1,168,717	876,924	8,217,695	5,812,951	1,076,248	298,019	7,187,218
Underwriting profit/(loss)	**282,785**	**197,797**	**498,801**	**979,383**	**1,183,386**	**680,245**	**(134,215)**	**1,729,416**
Key ratios:	%	%	%	%	%	%	%	%
Loss ratio (net claims incurred/net earned premium)	62.3	55.1	62.0	61.3	54.8	35.7	81.8	53.3
Commissions ratio (commissions payable/gross premium written)	24.9	27.6	18.5	24.5	27.2	29.2	19.5	27.2
Expense ratio (management exps/ gross written premium)	6.5	6.5	6.5	6.5	6.9	6.9	6.9	6.9

Schedule of Membership, Share Allocations and Paid up Capital Year Ended 31 December 2006

Appendix II

Country / institution	Shareholder	Share -Holding %	Allotted & Issued	Total shares 50%	Share Capital 50%	Paid-up US$
Burundi	SOCABU	1.00	200	100	136,400	136,400
	Assurances Bicor	0.50	100	50	68,200	68,200
Kenya	Kenya Reinsurance Corporation	20.00	4,000	2,000	2,728,000	2,728,000
	Government of Kenya	1.75	350	175	238,700	238,700
	Blue Shield Insurance Company	1.83	366	183	249,612	249,612
	Mayfair Insurance Company	0.92	184	92	125,488	126,360
	Apollo Insurance Company	0.50	100	50	68,200	69,000
Mauritius	Government of Mauritius	0.50	100	50	68,200	136,400
Mozambique	EMOSE	0.80	160	80	109,120	109,120
Rwanda	Republic of Rwanda	23.94	4,788	2,394	3,265,416	1,682,874
	SONARWA	0.56	112	56	76,384	76,533
	SORAS	0.50	100	50	68,200	8,557
Sudan	Government of Sudan	7.10	1420	710	968,440	804,427
	United Insurance Company	1.00	200	100	136,400	136,400
	Sheikan Ins. & Reins.	1.25	250	125	170,500	170,500
	Juba Insurance Company	1.00	200	100	136,400	136,400
Tanzania	NIC(T)	7.70	1,540	770	1,050,280	1,050,280
	ZIC	0.50	100	50	68,200	68,200
	PPF	5.00	1,000	500	682,000	682,000
Uganda	NIC(U)	0.50	100	50	68,200	68,200
	PWIC	0.50	100	50	68,200	44,552
	SWIC	0.50	100	50	68,200	71,245
Zambia	ZSIC	1.60	320	160	218,240	218,240
	Government of Zambia	4.50	900	450	613,800	613,800
COMESA	PTA Bank	6.17	1,234	617	841,588	841,588
	COMESA Secretariat	1.50	300	150	204,600	204,600
Zimbabwe	ZIM-RE	1.00	200	100	136,400	136,400
Madagascar	NY Havana	0.50	100	50	68,200	131,574
D.R. Congo	SONAS	0.50	100	50	68,200	68,200
Eritrea	NICE	2.86	572	286	390,104	391,000
Djbouti	Government of Djibouti	2.19	438	219	298,716	304,525
Others	Unsubscribed	1.33	266	133	181,412	-
Total		**100.00**	**20,000**	**10,000**	**13,640,000**	**11,771,887**

Schedule of Paid up Share Capital and Voting Power Position Year Ended 31 December 2006

Appendix III

Country/ institution	Shareholder	Share Capital US$	2006 Paid-up Voting power	Share Capital US$	2005 Paid-up Voting power
Burundi	SOCABU	136,400	1.16	122,760	1.08
	Assurances Bicor	68,200	0.58	68,200	0.60
Kenya	Kenya Reinsurance Corporation	2,728,000	23.17	2,728,000	24.01
	Government of Kenya	238,700	2.03	238,700	2.10
	Blue Shield Insurance Company	249,612	2.12	249,612	2.20
	Mayfair Insurance Company	126,360	1.07	126,360	1.11
	Apollo Insurance Company	69,000	0.59	69,000	0.61
Mauritius	Government of Mauritius	136,400	1.16	136,400	1.20
Mozambique	EMOSE	109,120	0.93	109,120	0.96
Rwanda	Republic of Rwanda	1,682,874	14.30	1,358,846	11.96
	SONARWA	76,533	0.65	76,533	0.67
	SORAS	8,557	0.07	8,333	0.07
Sudan	Government of Sudan	804,427	6.83	783,363	6.89
	United Insurance Company	136,400	1.16	136,400	1.20
	Sheikan Ins. & Reins.	170,500	1.45	170,500	1.50
	Juba Insurance Company	136,400	1.16	136,400	1.20
Tanzania	NIC(T)	1,050,280	8.92	1,030,288	9.07
	ZIC	68,200	0.58	68,200	0.60
	PPF	682,000	5.79	682,000	6.00
Uganda	NIC(U)	68,200	0.58	68,200	0.60
	PWIC	44,552	0.38	43,386	0.38
	SWIC	71,245	0.61	71,245	0.63
Zambia	ZSIC	218,240	1.85	218,240	1.92
	Government of Zambia	613,800	5.21	613,800	5.40
COMESA	PTA Bank	841,588	7.15	841,588	7.41
	COMESA Secretariat	204,600	1.74	204,580	1.80
Zimbabwe	ZIM-RE	136,400	1.16	136,400	1.20
Madagascar	NY Havana	131,574	1.12	131,574	1.16
D.R. Congo	SONAS	68,200	0.58	68,200	0.60
Eritrea	NICE	391,000	3.32	391,000	3.44
Djibouti	Government of Djibouti	304,525	2.59	274,516	2.42
Total		**11,771,887**	**100.00**	**11,361,744**	**100.00**

ZEP-RE (PTA Reinsurance Company)

Marc Joffe *joffe@globalratings.net*
Jackie Swan *swanj@globalratings.net*

Reinsurance Analysis

Security class	Rating scale	Currency	Rating	Expiry date	Rating watch
Claims paying ability	National	KShs	AA	07/2007	No
Claims paying ability	International	US$	BBB-	07/2007	No

Fundamentals

ZEP-RE (PTA Reinsurance Company) Limited ("ZEP-RE") is a regional organisation charged with the task of promoting trade, development and integration within the Common Market for Eastern and Southern African States ("COMESA") region through insurance and reinsurance business. The company is headquartered in Nairobi, Kenya and operates a regional office in Khartoum, Sudan.

Rating rationale

The rating is based on the following key factors:

- ZEP-RE's favourable strategic position given its mandate and equity participation (which has increased to 14 countries), coupled with its experienced management team.
- The reinsurer exhibits a well diversified shareholding, which lessens the level of sovereign interference risk.
- The international solvency ratio has experienced strong increases since F03, to a review period high in F05, albeit facilitated by subdued growth in net premiums. The rating was further supported by the fact that ZEP-RE has access to significant callable capital if required.
- The company reflects a relatively large and well diversified investment portfolio, with strong levels of liquidity.
- Retrocession arrangements on the excess of loss programme are led by counterparties rated at least A internationally. The credit quality of certain counterparties to ZEP-RE's retrocession programme is, however, sub-investment grade on an international scale.
- A deterioration in key efficiency ratios during F05 was noted, although underwriting profits are budgeted to increase significantly in F06.

Capital structure / risk management

The net profit posted for the year, together with a US$0.8m increase in paid up capital saw ZEP-RE's shareholders' interest increase 21% to a review period high of US$15m. Following a comparatively subdued increase in net premiums, the international solvency ratio increased further, to a review period high of 79% (F04: 66%). Furthermore, a significant level of comfort is provided by the fact that (as at 31 December 2005) ZEP-RE had additional callable capital of US$13.6m. The conservative reinsurance programme, led by Lloyds, provides further protection to the capital base. Cash and liquid assets increased by US$3.1m to US$17.3m in F05. The growth in cash holdings exceeded the rise in claims, and accordingly, the cash claims coverage ratio increased to a healthy 20.4 months from 17.1 months previously.

Potential risks

- The relatively subdued levels of economic growth and high level of competition, together with political and social problems in the COMESA region, have served to inhibit growth in the insurance market. In this regard, growing the business whilst maintaining underwriting quality may prove difficult.
- The company's exposure to various non-investment grade retrocessionaires implies a level of business risk, as does the proportion of foreign currency cash deposits with non-investment grade financial institutions.

Operating environment

In 2005 economic growth in the COMESA region is projected to have been 5%, slightly below 2004's growth rate of 6%. The two years taken together, however, saw significantly higher growth than previous years, with growth rates of only 1.3% in 2003, 2.9% in 2002 and 2001, and 2.3% per year from 1997-2001.

The relatively subdued levels of economic growth, together with political and social problems in the COMESA region, have served to inhibit growth in the insurance market. This is further compounded by exchange rate volatility and unfavourable climatic conditions, while a general lack of awareness of insurance products has resulted in a low level of market penetration. This does, however, suggest scope for growth in the market and an opportunity to develop and introduce new products, although an improvement in disposable income levels, combined with an increase in market sophistication, would be required. An inadequate regulatory framework has also served as an impediment, although several supervisory authorities are facing increasing pressure to improve the situation, which would benefit the industry as a whole.

The 2 main international reinsurers, Munich Re and Swiss Re, participate selectively in underwriting in the region, usually only targeting larger blocks of business. This, coupled with regulations enforcing minimum levels of business placed with local or regional reinsurers (applicable in several countries), has left opportunities in the market for the local and regional reinsurers, such as Africa Re and ZEP-RE. The following table compares key financial statistics of ZEP-RE to Africa Re and East Africa Re.

Peer comparison (US$m) F05	ZEP Re	Africa Re*	East Africa Re
Income statement			
Gross premium income (GPI)	26.4	299.1	16.5
Net premium income (NPI)	19.0	264.0	13.9
Underwriting profit/(loss)	1.7	4.0	(0.3)
Net income after tax	1.8	9.7	1.1
Balance sheet			
Shareholders' equity	15.0	130.0	10.4
Total assets	37.6	476.3	23.7
Ratios (%)			
Shareholders' funds/NPI	79.1	49.2	74.3
Retention ratio	72.0	88.2	84.0
Earned loss ratio	53.3	59.8	59.4
Trade ratio	90.9	98.2	102.3
Underwriting ratio	9.1	1.8	(2.3)

**2004 results.*

Risk diversification

During F05, ZEP-RE sourced the overwhelming majority of gross premiums (80%) from COMESA countries. As such, the performance of the underlying business is integrally linked to the underwriting (and economic) environment of these countries.

The largest component of the reinsurer's GPI was sourced from Kenya in F05 (41% compared to 39% in F04). A further 13% (F04: 11%) was sourced from Sudan, with 8% from Tanzania and 7% from Uganda. The reinsurer continues to assess new business opportunities in Africa. In this regard, SORAS (Rwanda) was admitted into membership and acquired shares in ZEP-RE during F05. The rest of the African continent, as well as a small portion from Asia and the Middle East, accounts for the remaining premiums. GPI received from Asia stems from the company's participation in India and Indonesia, which cumulatively represented 2.6% of GPI. Management does not intend to grow in this region going forward.

GPI	US$m F05	% of total F04	% of total F05
East Africa	16.2	54.1	61.3
Southern Africa	3.2	15.9	12.1
West Africa	0.8	4.9	2.9
North Africa	3.7	18.2	14.0
Central Africa	0.3	3.4	1.3
Other	2.2	3.5	8.4
Total	**26.4**	**100.0**	**100.0**
COMESA	21.2	77.4	80.1
NON-COMESA	5.2	22.6	19.9
Total	**26.4**	**100.0**	**100.0**

It is noted that ZEP-RE continues to receive mandatory 10% treaty business cessions from the Kenyan, Tanzanian and Ugandan markets where the respective governments legislated for such concession at the inception of ZEP-RE's operations (however, the reinsurer currently receives more than 10% from the majority of companies in East Africa, with their relationship purely commercial).

The reinsurer accepts treaty and facultative business in three key areas, namely fire & accident (which includes CAR & engineering and motor), marine & aviation, and life business. Fire & accident represents the company's largest exposure, contributing 83% of GPI in F05 (F04: 86%). Due to the nature and size of the risks involved in the fire & accident line of business, ZEP-RE retroceded 31% of the total premiums in the class, compared to only 15% in the marine & aviation class. Given that life business contributes only 4% of GPI (albeit double the level posted in F04), ZEP-RE retains the entire book for its own account. However, ZEP-RE's exposure to the HIV/AIDS pandemic in this class of business is of some concern, as HIV/AIDS data is often based on estimates (although given the limits applied, the exposure is not significant).

F05	GPI		NPI/GPI
	US$m	% of total	%
Fire & accident	21.9	83.1	68.6
Marine & aviation	3.4	12.7	85.3
Life	1.1	4.2	100.0
Total	**26.4**	**100.0**	**72.0**

Marine & aviation reflected the lowest earned loss ratio of 36% in F05 (F04: 37%), although this accounted for a small component of premiums. The fire & accident loss ratio increased further to 55% (F04: 54%), which contributed to the reinsurer's overall loss ratio rising to 53% (F04: 52%).

F05	Claims incurred US$m	% of total	Earned loss ratio (%)
Fire & accident	8.5	83.2	54.8
Marine & aviation	1.0	9.6	35.7
Life	0.7	7.2	81.8
Total	**10.2**	**100.0**	**53.3**

In terms of individual risk exposures, the reinsurer's 10 largest clients represented 32.2% of GPI, compared to 23.1% in F04. The largest individual client accounted for 9. 8% of GPI (F04: 3.8%).

Capital adequacy and reserving

Following a 21% increase in shareholders' interest to US$15m (mainly on the back of net profits and share capital issued during the year), coupled with a marginal increase in NPI, ZEP-RE's international solvency margin rose for the second consecutive year to a review period high of 79% in F05 (F04: 66%).

In the longer term, a significant level of comfort is provided by the fact that, as at 31 December 2005, ZEP-RE had additional callable capital of US$13.6m available. This callable capital, which equates to 91% of shareholders' interest at the end of F05, can be called at the recommendation of the board of ZEP-RE (an extraordinary shareholders meeting can be called on 15 days notice), in which event members are legally obligated to inject the additional capital on demand. If a shareholder fails to honour this contractual obligation, ZEP-RE is authorised to offer such shares to the balance of the members.

Given that the ratio of net outstanding claims to NPI equated to 43% and insurance funds to NPI amounted to 40%, reserving policies adopted by the company are considered to be adequate.

Retrocession

Retrocession premiums increased by 33% to US$7.4m in F05, or 28% of GPI (F04: 23%). Going forward, management have indicated that net retentions will be gradually increased in the longer term, in line with the anticipated growth in capital and reserves. Given the relatively small individual risk exposures, ZEP-RE continues to retain 100% of life business for its own account. For all other classes, however, the following programme is in place for 2006.

Proportional treaties

- Fire, CAR & engineering and marine: 10 lines of US$600,000 per line or equivalent, subject to a maximum of US$6m per cedant. Overall, retention amounts to US$600,000 for all cedants per class.
- Miscellaneous: In Kenya, 4 lines of US$300,000 per cedant per class. Outside Kenya, 4 lines of US$400,000 per cedant per class. Maximum retention of US$1.2m and US$1.6m per cedant in Kenya and outside Kenya respectively. Overall retention is US$300,000 in respect of Kenyan cedants and US$400,000 for other cedants.

Non-proportional

- Fire, CAR & engineering: 3 layers of cover starting at US$600,000 (Kenyan cedants: US$450,000), up to US$6m (Kenyan cedants: US4.5m). Further cover is provided by 3 catastrophe cover layers covering losses between US$600,000 and US$8m.
- Marine: 2 layers covering losses from US$150,000 up to US$2.5m.
- Miscellaneous & motor: 3 layers covering losses between US$100,000 and US$1.5m.
- Aviation: a single layer covers losses from US$75,000 up to US$200,000.

Facultative

- Fire, CAR & engineering: 3 lines of US$3m/300,000? per cedant per class. Maximum US$9m any one risk.
- Marine: 5 lines of US$500,000 any one risk, subject to a maximum of US$2.5m any one risk.
- Miscellaneous: 4 lines of US500,000 per line, maximum of US$2m only one risk.

Proportional and non-proportional retrocession arrangements limit ZEP-RE's maximum potential exposure to any single risk and to any single event (i.e. catastrophe) to US$600,000 each, which is equivalent to 4% of its capital base.

Counterparty risk

Surplus retrocession treaty

The programme is placed entirely via brokers, with risk spread across 27 reinsurers. The largest portion is taken up by Senegal Re (12%), followed by Milli Re (10%), and Kenya Re (7%).

Excess of loss programme

The excess of loss programme forms the main component of ZEP-RE's retrocession programme. ZEP-RE cedes business to over 11 retrocessionaires in various countries (the majority of which are unrated). The fire & engineering programme is led by Lloyds (rated A internationally), with in excess of 50%, followed by Arig Re. The marine (in excess of 50%) and aviation programme (95%) is also led by Lloyds, while Brit Insurance is the lead for the accident programme (up to 80%).

Asset management

ZEP-RE reflects a fairly conservative investment portfolio, with a strong focus on liquidity and the preservation of capital. Assets are currently managed internally, although the reinsurer will consider handing over a small portion of its portfolio to a large international asset manager in the future (to manage equity investments).

Investments	US$ 000's F05	% of total F04	% of total F05
Bank and cash holdings	754.4	2.2	3.3
Short term bank deposits	10,427.5	69.1	46.1
Treasury bills & bonds	6,136.9	23.1	27.1
Total cash & liquid assets	**17,318.9**	**94.4**	**76.5**
Investment property	4,436.8	0.0	19.6
Equity-unquoted	848.8	5.6	3.8
Total cash & investments	**22,604.5**	**100.0**	**100.0**

Total investments increased by a significant 50% to US$22.6m in F05. The increase was largely on the back of the completion of the construction of ZE-PRE's new head office in Nairobi, which is carried as an investment property (at cost) of US$4.4m. This investment generated rental income for the reinsurer totalling US$140,678 in F05. Going forward, rental income of US$351,965 is expected annually, with the building now over 97.5% let. The remainder of ZEP-RE's unlisted equity investments comprised predominantly of a strategic investment in Tanzania Re (purchased in F03) amounting to US$719,000 (which may be disposed of in the medium term). Other investments included a US$100,000 stake in Africa Trade Insurance Agency, as well as a US$30,000 holding in AIO Software Development Fund.

Cash holdings increased by US$3.1m to US$17.3m in F05. Notwithstanding the increase, the investment mix changed somewhat in F05, with cash and liquid assets representing a lower 77% of the investment portfolio (F04: 94%). With the growth in cash holdings exceeding the rise in claims, the cash claims coverage ratio increased to a healthy 20.4 months from 17.1 months previously.

Currency and counterparty risk

Currency

Approximately 13% (US$2.3m) of cash and liquid assets are US$ denominated (mainly held with PTA Bank), while a further 23.4% (US$5.7m) were GBP denominated, deposited with Lloyds Bank Plc (rated A internationally). The remaining cash and liquid assets are denominated in African currencies (predominantly KShs), mainly to fund day to day operations.

Counterparty (US$'000) F05*	US$	GBP	KShs	Other	% of total
Lloyd's Bank	1,476	4,250	-	-	31.5
KCB (Kenya)	52	-	280	-	1.8
PTA Bank	2,313	-	-	-	12.7
Barclays (Kenya)	1,838	833	-	-	14.7
CBK T-Bills	-	-	4,758	-	26.2
CBK T-Bonds	-	-	821	-	4.5
Other	849	-	-	697	8.5
Total	**6,527**	**5,083**	**5,859**	**697**	**100.0**
% of cash & equity	**35.9**	**28.0**	**32.3**	**3.8**	**100.0**

* As provided by management (US$18.2m differs to US$17.3m as per GCR spreadsheet).

Counterparty

Lloyd's Bank and PTA Bank accounted for 32% and 13% of cash and equivalents respectively in F05. In according international ratings, GCR applies maximum single obligor exposure limits according to the international credit rating of counterparties, due to the potential knock-on effect to the company. In this regard, cash holdings placed with a non-investment grade international bank is limited to 25% of ZEP-RE's shareholders' interest. As at the end of F05, the reinsurer had complied with this requirement.

Asset conversion risk

Total assets	US$ 000's		% of total	
	F04	F05	F04	F05
Fixed assets	4,779.6	1,683.9	14.8	4.5
Investment property	0.0	4,436.9	0.0	11.8
Unquoted investments*	848.8	848.8	2.6	2.3
Cash & equivalents	14,196.4	17,318.9	43.9	46.0
Due from reinsurance clients	10,242.8	10,995.1	31.7	29.2
Deposits retained by cedants	1,860.5	1,652.9	5.8	4.4
Other current assets	376.1	673.8	1.2	1.8
Total	**32,304.2**	**37,610.3**	**100.0**	**100.0**

** Including a US$700,000 investment in Tan-Re*

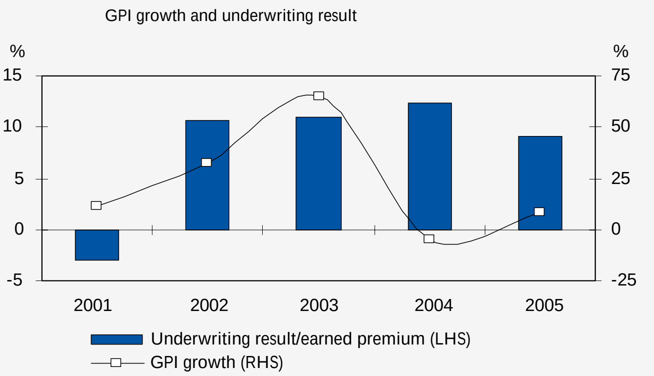
Cash and equivalents comprised a slightly higher 46% of total assets in F05 (F04: 44%). Conversely, fixed assets represented a noticeably lower 4.5% of total assets in F05 (F04: 15%), following a US$4.4m investment in the company's headquarters in Nairobi, which was previously carried as a fixed asset. It is noted that a high proportion of the building has already been rented out, which provides an alternative level of investment income. The combined amounts due from reinsurance clients and deposits retained by ceding companies, increased by US$0.5m to US$12.1m in F05. However, given the higher growth in total assets, these amounts cumulatively accounted for a lower 34% of total assets (F04: 38%).

Notwithstanding this, the collection period increased for a second consecutive year to a review period high of 171 days (F04: 151 days), well above international norms. The deterioration in debtors' collections continues to place strain on working capital. In order to address the debtors' book, ZEP-RE is taking the following measures:

- Implementing a new reinsurance system able to age debtors.
- Rating clients payment records with a view to focus on poor payers.
- Submission to clients of monthly statements of accounts which act as demand notes.

Financial performance

A 5 year financial synopsis is reflected at the back of this report, and brief comment follows hereafter. It is noted that ZEP-RE previously reported in COMESA Dollars (CMD), whereby one CMD is equivalent to one US$. However, the reporting currency was subsequently changed to US$ in F03. Following a year of consolidation in F04, ZEP-RE experienced growth in GPI of 8% to US$26.4m in F05. The growth largely emanated from COMESA states in the fire & accident class. Following an increase in premiums retroceded to a review period high of 28% (F04: 23%), NPI was only 1% up at US$19m. A lower transfer from insurance funds of US$0.1m (F04: US$0.2m) saw net premiums earned largely unchanged at US$19.1m for the year.



The claims profile deteriorated slightly during F05, which was mainly attributed to large claims incurred as a result of the Monsoon floods in India and the Skiida claim in Algeria. Claims incurred rose 2.4% to US$10.2m, equating to an earned loss ratio of 53% (F04: 52%), above the company's targeted range of between 40% and 50%. Net commissions paid were 8% higher at US$5.4m (despite an increase in premiums ceded to retrocessionaires), while management expenses increased marginally to US$1.8m. Accordingly, together with the increased earned loss ratio, the trade ratio was reported at 91%, the first time this ratio has exceeded 90% since F01. ZEP-RE recorded a lower underwriting profit of US$1.7m (F04: US$2.4m), equating to an underwriting ratio of 9.1% compared to the review period high level of 12.4% posted previously. Investment income more than doubled to US$1m (driven by a significant increase in interest from government securities), and following non-underwriting losses of US$0.9m, the reinsurer posted a net profit of US$1.8m, compared with US$2m in F04. It is noted that the company is not liable for taxation. However, a dividend of US$0.3m was paid for the first time during F05.

US$ 000's	F04	F05
Management fee*	41.3	70.5
Other	11.9	48.2
Non-underwriting income	**53.2**	**118.7**
Gain/(Loss) on exchange	80.1	(254.9)
Provision for doubtful debts	(308.3)	(33.8)
Cumulative translation adjustment**	(359.7)	(250.0)
Other	(213.8)	(482.2)
Non-underwriting expenses	**(801.7)**	**(1,020.9)**
Total non-underwriting	**(748.5)**	**(902.1)**

** Relates to a management contract with Tan Re, which was terminated in mid F06.*

*** Write off of previous translation losses.*

The management fee relates to other income generated by the company's advisory services. More specifically, management services are provided to the Yellow Card Reinsurance Pool.

Income/asset and liability matching

The company writes its business and invests in several currencies. As such, foreign exchange fluctuations pose a risk to ZEP-RE. Around 90% of premiums are charged in local currency terms, which the insured then converts to US$ and pays over to ZEP-RE. Claims are calculated by converting the local currency claim into US$ at the prevailing exchange rate, whereupon ZEP-RE settles in US$. To summarise, premiums and claims are matched in terms of currency, with the conversion risk resting with the client. The remaining 10% of the book relates to pure US$ treaties in Uganda, Tanzania and Zambia, whereby premiums and claims are US$ denominated. ZEP-RE, however, is exposed to a degree of currency risk, relating to the timing difference between premium receipts and claims. In this regard, a depreciation of the local currency against the US$ between receiving premiums and paying claims would be favourable to ZEP-RE, whilst an appreciation in the local currency/US$ exchange rate is adverse.

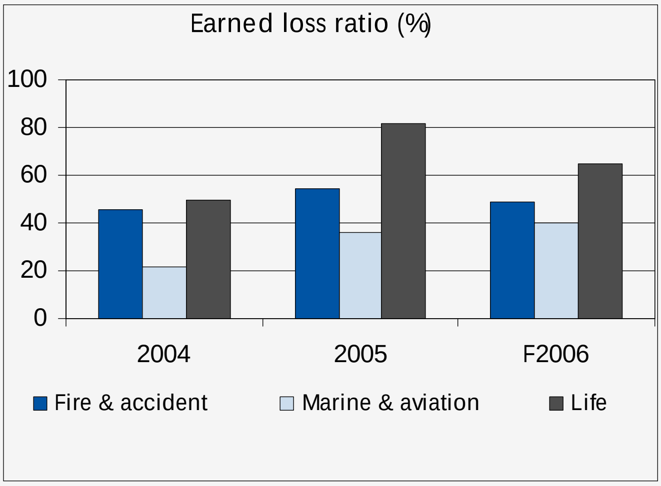
Sovereign interference risk

The degree of sovereign interference risk faced by Z E P - RE is considered fairly low. No single country (directly or indirectly) had a paid up shareholding of more than 30% at the end of F05, whilst no single entity has a shareholding greater than 24%.

Future prospects

Underwriting performance (US$m)	Budget F06	Actual 1Q F06	Budget 1Q F06
GPI	30.7	6.0	7.7
Retrocession	(7.2)	(1.1)	(1.8)
NPI	**23.5**	**4.9**	**5.9**
Unearned prem. provision	(1.2)	(0.4)	(0.3)
Earned premiums	**22.3**	**4.5**	**5.6**
Claims incurred	(10.8)	(2.2)	(2.7)
Commissions	(6.4)	(0.9)	(1.6)
Management costs	(2.4)	(0.5)	(0.6)
Underwriting profit/(loss)	**2.7**	**0.9**	**0.7**

For the period ended 31 March F06, GPI increased 11% to US$6m, from the same period last year. However, this was noticeably below budget for the period of US$7.7m. After retrocession costs of US$1.1m, NPI amounted to US$4.9m, which translates into a notably higher retention rate of 82% (F05: 72%; YTD budget: 77%). Claims incurred amounted to US$2.2m, resulting in an earned loss ratio of 48% (in line with budget). This is below the earned loss ratio of 53% posted for F05. Following commission and management expenses, ZEP-RE posted a US$0.9m underwriting profit, compared to budget of US$0.7m. This translates to 33% of the full year budget, suggesting the reinsurer is well positioned to attain the US$2.7m underwriting profit by year end.



The preceding graph provides an indication of the earned loss experience budgeted for each class of business in F06, compared to F04 and F05. Overall, the earned loss ratio is expected to decrease to 48% in F06, driven by a fall in the fire & accident ratio to 49%, from 55% in F05. The underwriting ratio is budgeted to increase by 3 percentage points to 12.1% in F06.

As part of efforts to broaden the reach of the company and enhance its expansion, ZEP-RE intends to establish regional offices in markets that hold potential for business growth. To this end, the Sudan contact office has been upgraded to a fully functional regional office as of the beginning of 2006. This office will serve the North and North-Eastern regions of Africa with expansion potential for the Middle East.

Going forward, emphasis will continue to be placed on achieving the key objectives of the reinsurer's Corporate Plan, namely growth and profitability, while simultaneously maintaining its underwriting quality. With regard to long term sustainable growth, ZEP-RE aims to be seen as having significant levels of expertise. To this end, the company regularly hosts and conducts training programmes in several African countries, whilst it concentrates on building the depth of expertise.

(US$ in thousands except as noted)

Year ended : 31 December	2001	2002	2003	2004	2005
Income Statement					
Gross premium income (GPI)	11,752.0	15,549.1	25,638.5	24,373.1	26,395.6
Retrocession premiums	(2,021.6)	(3,604.7)	(6,254.4)	(5,539.0)	(7,379.5)
Net Premium income (NPI)	9,730.4	11,944.4	19,384.1	18,834.1	19,016.1
(Increase) / Decrease in insurance funds	(856.9)	(889.3)	(2,972.2)	220.0	82.1
Net premiums earned	**8,873.5**	**11,055.1**	**16,411.9**	**19,054.1**	**19,098.2**
Claims incurred	(4,845.2)	(4,666.3)	(7,390.1)	(9,943.5)	(10,181.6)
Commission	(2,867.7)	(3,663.7)	(5,440.4)	(4,971.9)	(5,365.0)
Management expenses	(1,425.6)	(1,544.4)	(1,784.4)	(1,781.0)	(1,822.2)
Underwriting profit / (loss)	**(265.0)**	**1,180.7**	**1,796.9**	**2,357.7**	**1,729.4**
Investment income	389.7	318.7	313.3	427.8	1,010.0
Other income / (expenses)	(402.9)	(598.5)	(742.9)	(748.5)	(902.1)
Taxation	0.0	0.0	0.0	0.0	0.0
Net income after tax	**(278.1)**	**900.9**	**1,367.3**	**2,036.9**	**1,837.3**
Unrealised gains / (losses)	0.0	0.0	0.0	0.0	0.0
Cash Flow Statement					
Cash generated by operations	553.0	1,930.5	4,646.2	4,298.4	3,354.4
Cash flow from investment income	385.5	317.9	303.5	427.0	1,009.2
Working capital decrease / (increase)	(482.9)	(318.9)	(1,703.7)	(1,932.3)	(763.7)
Cash available from operating activities	**455.5**	**1,929.5**	**3,246.0**	**2,793.1**	**3,599.9**
Tax paid	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	(315.6)
Cash flow from operating activities	**455.5**	**1,929.5**	**3,246.0**	**2,793.1**	**3,284.3**
Purchases of investments	(307.9)	(93.8)	(2,254.8)	(3,099.1)	(1,799.5)
Proceeds on disposal of investments	4.3	0.0	9.0	0.0	390.4
Other investing activities	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities	**(303.6)**	**(93.8)**	**(2,245.8)**	**(3,099.1)**	**(1,409.1)**
Cash flow from financing activities	**689.0**	**1,071.9**	**732.8**	**2,433.6**	**1,073.0**
Net cash inflow / (outflow)	**840.9**	**2,907.6**	**1,733.0**	**2,127.5**	**2,948.2**

Balance Sheet					
Shareholders interest	**4,784.4**	**6,977.4**	**9,277.5**	**12,431.1**	**15,044.6**
Insurance funds	3,892.2	4,781.5	7,753.6	7,184.2	7,606.4
Other liabilities	3,276.1	3,276.5	5,650.1	12,689.0	14,959.4
Total capital & liabilities	**11,952.7**	**15,035.4**	**22,681.2**	**32,304.2**	**37,610.3**
Fixed assets	711.3	749.9	2,140.3	4,779.6	1,683.9
Investments	25.0	25.0	843.8	848.8	5,285.6
Cash and short term deposits	6,259.7	9,375.7	11,308.6	14,196.4	17,318.9
Other current assets	4,956.7	4,884.7	8,388.5	12,479.4	13,321.9
Total assets	**11,952.7**	**15,035.4**	**22,681.2**	**32,304.2**	**37,610.3**

Key Ratios						
Solvency / Liquidity						
Shareholders funds / NPI	%	49.2	58.4	47.9	66.0	79.1
Cash claims cover	months	15.5	24.1	18.4	17.1	20.4
Debtors collection period	days	140.3	108.2	90.4	151.2	171.1
Operating cash flow / NPI	%	4.7	16.2	16.7	14.8	17.3
Reserve adequacy						
IBNR/EPI	%	n.a.	n.a.	47.2	39.5	37.2
Net outstanding claims/NPI	%	20.2	19.8	15.1	32.6	42.6
Insurance funds/NPI	%	40.0	40.0	40.0	38.1	40.0
Profitability						
ROaE (after unrealised gains / losses)	%	(6.2)	15.3	16.8	18.8	13.4
Investment yield (including unrealised gains / losses)	%	6.6	4.1	2.9	3.1	5.4
Cash investment yield (average)	%	6.6	4.1	2.9	3.1	5.4
Efficiency / Growth						
GPI Growth	%	11.1	32.3	64.9	(4.9)	8.3
Premiums reinsured / GPI	%	17.2	23.2	24.4	22.7	28.0
Earned loss ratio	%	54.6	42.2	45.0	52.2	53.3
Commissions / Earned premiums	%	32.3	33.1	33.1	26.1	28.1
Management expenses / Earned premiums	%	16.1	14.0	10.9	9.3	9.5
Underwriting result / Earned premium	%	(3.0)	10.7	10.9	12.4	9.1
Trade ratio	%	103.0	89.3	89.1	87.6	90.9
Operating						
Effective tax rate	%	0.0	0.0	0.0	0.0	0.0
Dividend cover	X	n.a.	n.a.	n.a.	6	6