Table of Contents

Corporate Information

BOARD OF DIRECTORS	Dr. Michael Gondwe	-	(Chairman)
	Mrs. Margaret T. Ikongo	-	(Vice Chairperson)
	Mr. Rajni Varia	-	(Managing Director)
	Mr. Aden Saleh Omar		
	Ms. Amna A. Mohammed		
	Mrs. Eunice Mbogo		
	Ms. Irene M. Muyenga		
	Mrs. Marie Claire Mukasine		
	Mr. Tushar Shah		
	Mr. Venancio Mondlane		
	Mr. William Erio		
ALTERNATE DIRECTORS	Mr. Cesar Bento Madivadua		
	Mr. Chris M. Mapipo (Deceased)		
	Mr. Corneille Karekezi (Retired)		
	Mr. Hosea Kashimba		
	Mr. Iddi K. Haji		
	Mr. James M. Kabuga		
	Mr. Kulova Wanjala		
	Mr. Mohammed Seyadou		
	Mrs. Shamoum M. A. Alamin		
MANAGEMENT	Mr. Rajni Varia	-	Managing Director
	Mrs. Hope Murera	-	General Manager
	Mr. Benjamin Kamanga	-	Finance Director
	Mr. Ronald Kasapatu	-	Operations Director
	Mr. Jerry Sogoli	-	Company Secretary
	Mr. Joseph Nabimanya	-	HR & Administration Manager
	Mr. Kenneth Oballa	-	Training Manager
	Mr Sammy Silamoi	-	Chief Accountant
	Mr. Victor Chasinda	-	ICT Manager
	Mr. Ali Osman	-	Head, ZEP-RE Retakaful Window, Sudan
	Ms. Hanta Raolison	-	Country Manager, Cameroon
	Mr. Shipango Muteto	-	Country Manager, Zambia

HEAD OFFICE

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

RETAKAFUL WINDOW

Khartoum, Sudan
Reinsurance House Building
P. O. Box 3224
Khartoum, Sudan
Telephone: +249 183 799357/8
Fax: +249 183 799359
Email: zep-re@sudanmail.net

Corporate Information (continued)

REGIONAL OFFICES

Lusaka, Zambia
Ground Floor, Africa Life House
Corner of Nasser and Ituna Road
P. O. Box 36966
Lusaka, Zambia
Telephone: +260 211 252586
Fax: +260 211 251227
Email: email@zep-re.com.zm

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

AUDITORS

Deloitte & Touche
Certified Public Accountants
"Kirungii", Ring Road, Westlands
P.O. Box 40092 – 00100
Nairobi, Kenya

BANKERS

Barclays Bank of Kenya Limited
Barclays Plaza, Loita Street Branch
P.O. Box 47278 - 00200
Nairobi, Kenya

Barclays Bank of Zambia Limited
Longacres Branch
P.O. Box 50347
Lusaka, Zambia

Lloyds TSB Bank PLC
Business Banking Service Center
113 – 116 Leadenhall Street
London, EC3A 4AX
United Kingdom

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

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

Sudanese French Bank
P.O. Box 2775
Khartoum, Sudan

SCB Cameroon
530, Rue du Roi George
B. P. 300
Douala, Cameroon

Corporate Information (continued)

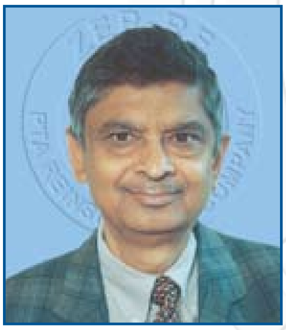
Directors' Profiles

Dr. Michael Gondwe

Dr. Michael Gondwe is the Chairman of the Board, having been appointed to this position by the 18th Annual General Assembly in May 2009 after Honourable Peter Kenneth retired from the position. Dr. Gondwe has served on the Board of ZEP-RE since 2000. He is a qualified lawyer and banker and holds Law Degrees from University of Zambia and University of Virginia, an MBA from Moi University, a Diploma in Financial Management from the Kenya College of Accountancy and is an alumnus of the Advanced Management Program of the University of Oxford. Dr. Gondwe is currently the President of the PTA Bank, a sister COMESA institution and a leading regional development bank and holds a directorship position with Gulf African Bank.

Mrs. Margaret Ikongo

Mrs. Margaret Ikongo is the Vice Chairperson of the Board and has been a member of the ZEP-RE Board since 2000. Mrs. Ikongo is an Associate of the Chartered Insurance Institute (ACII), holds an Advanced Diploma in Insurance and a diploma in Financial Management. Mrs Ikongo has a lengthy experience working in the insurance industry and was formerly the Managing Director of National Insurance Corporation of Tanzania. She is currently serving as a Special Assistant and Advisor to the Commissioner of Insurance at the Tanzania Insurance Regulatory Authority. She is also a Director on the Board of National Microfinance Bank PLC of Tanzania.



Mr. Rajni Varia

Mr. Rajni Varia is the Managing Director of ZEP-RE. He has served in this position since October 2007. He was previously the General Manager, a position he held since 2004. Mr. Varia holds a Bachelor of Science degree in Engineering from the University of East Africa. Before joining ZEP-RE, Mr. Varia had served in various positions including as a Consulting Engineer for Kenya Glassworks and Gasston and Barbour, Chief Representative and Resident Engineer for the Munich Re (East Africa) office and member of the Operational Management team at Munich Re. Rajni Varia is a reknown expert in engineering insurance and has facilitated many training sessions in this field. He is currently a visiting lecturer in Engineering Insurance at the West African Insurance Institute in Gambia. Mr. Varia also serves as a Director on the Board of TANRE.

Mr. Aden Saleh

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

Corporate Information (continued)

Directors' Profiles (continued)

Ms. Amna Ali Mohammed

Ms. Amna Ali Mohammed is a Non-Executive Director of ZEP-RE. She has served on the Board of ZEP-RE since 2004. Ms Ali holds a Master of Science (Economics) degree, a postgraduate diploma in Commercial law and an ACII diploma. Ms. Ali is currently the General Manager of the Insurance Supervisory Authority of Sudan and holds Directorship positions with National Agency for Finance and Insurance of Exports and National Reinsurance Company of Sudan.

Mrs. Eunice Mbogo

Mrs. Eunice Mbogo is a Non-Executive Director of ZEP-RE. She has served on the Board of ZEP-RE since 2007. She holds a Bachelor of Commerce degree and a Masters degree in Business Administration from the University of Nairobi. She is an associate of the Chartered Insurance Institute and a fellow of the Chartered Insurance Institute. Mrs. Mbogo has wide experience in Insurance industry having worked for American Life Insurance Company (Kenya) Limited (now Chartis Kenya Limited) and British American Insurance Company Kenya Limited. She is currently the Managing Director of Kenya Reinsurance Corporation and holds Directorship positions in Africa Re, Industrial Development Bank and Insurance Training and Education Board, Kenya.

Ms. Irene Muyenga

Ms. Irene Muyenga is a Non-Executive Director of ZEP-RE and has served on the Board of ZEP-RE since 2004. Ms. Muyenga holds a Bachelor of Arts (Ed) degree from the University of Zambia, an LIII diploma from Bombay and a DIS diploma from the Business Insurance Institute of Zambia. Ms. Muyenga has an extensive working experience in the insurance industry and is currently the Managing Director of ZSIC Limited in Zambia. She also holds Directorship positions in the following institutions; ZAMBEEF Limited, Barclays Bank of Zambia Limited, ZSIC Group, Mulungushi University and the Institute of Directors of Zambia.

Mrs. Marie Claire Mukasine

Mrs. Marie Claire Mukasine is a Non-Executive Director of ZEP-RE and has served on the Board of ZEP-RE since 2007. Mrs. Mukasine holds a Bachelor of Laws degree from the National University of Rwanda and an MBA from Maastricht School of Management in Netherlands. Mrs. Mukasine has a lengthy experience in an array of fields including serving as Secretary General of the Ministry of Family, Gender and Social Affairs of the Government of Rwanda, Managing Director of the National Insurance Corporation of Rwanda (SONARWA SA) and Director General of the Rwanda Investment Group (RTG SA). She is currently the Permanent Secretary in the Ministry of Infrastructure of the Government of Rwanda and holds Directorship positions in RUCA (Rwanda) and the Northern Corridor Transit Authority (NTCCA).

Corporate Information (continued)

Directors' Profiles (continued)

Mr. Tushar Shah

Mr. Tushar Shah is a Non-Executive Board member and was first appointed as an Alternate Director to Honourable Peter Kenneth in 2008. He became a substantive Director in 2009. Mr. Shah is an automobile engineer and is currently the Managing Director of Mayfair Insurance Company Ltd in Kenya. Prior to starting Mayfair Insurance Company in 2005 he was the Managing Director of Tausi Assurance Company in Kenya. He joined the Insurance Industry in Kenya, starting his career with Kenindia Assurance Company in 1984, where he rose the rank of Senior Assistant General Manager before moving to Tausi Assurance Company as General Manager, where he was subsequently appointed as Managing Director. He is also a Director of Mayfair Insurance Company Zambia Ltd.

Mr. Venancio Mondlane

Mr. Venancio Mondlane is a Non-Executive Board member and was appointed to the ZEP-RE Board in 2007. Mr. Mondlane is a Chartered Accountant and holds a professional insurance qualification from the Indian Federation of Insurance Institutes and an advanced Management Diploma from the University of South Africa (UNISA). He is currently the Chairman of the Board of Empresa Mocambicana de Seguros (EMOSE), a leading insurance company in Mozambique having previously served with the same Company as Finance Director and Managing Director.

Mr. William Erio

Mr. William Erio is a Non- Executive Director of ZEP-RE. He has served on the Board of ZEP-RE since 2006. Mr. Erio is a qualified lawyer with a Bachelor of Laws degree from the University of Dar es Salaam and currently serves as the Director General of the Parastatal Pensions Fund of Tanzania. He also serves as a Director of several institutions including Tanzania Reinsurance Corporation, Azania Bank, IHPL Limited, TATEPA and PPL Limited.

Notice of the 19th Annual General Assembly

NOTICE IS HEREBY GIVEN that the 19th Annual General Assembly of ZEP-RE (PTA Reinsurance Company) will be held in Nairobi, Kenya on Monday 10 May 2010 at 0830 hours Kenyan time.

VENUE

Crowne Plaza Hotel, Kenya Road, Upper Hill, Nairobi.

The 19th Annual General Assembly will transact the following ordinary business: -

1. To consider, and if in order, adopt the Report of the Directors, Financial Statements for the year ended 31st December 2009 and the Report of the Auditors therein.
2. To approve the payment of a dividend of US$ 1,200,000 on the issued and paid up capital to shareholders of the Company registered as at 31st December 2009.
3. To elect a new Board of Directors of the Company.
4. To elect a Chairperson and Vice Chairperson of the Company.
5. To appoint External Auditors of the Company for year 2010 and set their remuneration.

BY ORDER OF THE BOARD

Jerry Sogoli
Secretary to the Board

24 March 2010

Note

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on their behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is provided with this NOTICE, must be duly completed by the member and lodged at the Company's headquarters on 8th Floor, ZEP-RE Place, Longonot Road, Upper Hill Nairobi, posted in time to ZEP-RE's postal address – P.O. Box 42769 – 00100 Nairobi, Kenya, so as to reach the Company not later than Monday 26th April 2010.

Report of the Chairman of the Board of Directors

Foreword

On behalf of the Board of Directors, I am delighted to present to you the Company's Annual Report and Financial Statements for the year ended 31 December 2009 following another steady and solid operational performance despite a challenging economic environment.

Business Environment

After the deepest global downturn in recent history, economic growth turned positive in the second half of 2009.

Africa and Sub-Saharan Africa in particular, the Company's core business market, did not escape unaffected by the global financial and economic crisis. Its effects were however moderate compared to the advanced economies mainly due to the region's limited integration with the global financial markets, markedly stronger macroeconomic position pre-crisis and fairly good domestic policy responses to the crisis.

According to the World Economic Outlook report, January 2010, the Sub-Saharan Africa output growth in 2009 is estimated at about 1.6% compared to 5.6% in 2008. The global financial and economic crisis hit the continent mostly through deteriorated terms of trade, reduced demand for exports and decline in foreign direct investments, remittances, tourism and aid inflows.

The silver lining to the bleak economic malaise that afflicted the world during the first half of 2009 was that regional economies (especially those less reliant on oil and mineral commodity exports) were spared the scourge. The diminished impact on regional economies coupled with sustained growth in the infrastructure economic sector of the region (especially reconstruction activities in many post conflict countries of the region) ameliorated the adverse impact of a global economic slowdown.

Highlights of performance

I. Premiums

Premium income grew by 21% from US$ 45.99 million in 2008 to US$ 55.75 million in 2009.

II. Performance in key markets

The economic factors prevailing in the key markets during the period together with the performance of the Company in the respective markets are shown below: -

Kenya

Kenya remained the Company's largest market. During the period under review Kenya realised a minimal real GDP growth of 1.8% in first half of 2009 owing to drought, weak commodity prices and the global recession. The second half of the year however witnessed a growth recovery of 2.7% as the global economy improved. The Company wrote US$ 18.93 million in premium income from the Kenyan market, representing 33.95% of all premiums written in 2009.

Kenya remains an important market for the Company given the size of the market and the fact that the Company is headquartered in Nairobi. Going forward the Company's strategy is to consolidate its position while pursuing further growth.

Sudan

Sudan was the second largest market of the Company in 2009. During the first half of 2009 the Sudanese economy suffered slight slowdown due to the recession that gripped the world economy then. However a rebound in late 2009 together with sustained increase in the average price of crude oil ensured that the economy recovered the losses by close of the year. The Company wrote US$ 5.16 million in premium income from the Sudanese market representing 9.26% of all premium income written in 2009.

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

Sudan has always been and remains a growth market for the Company. In this regard and in response to a growing market need for sharia compliant reinsurance, the Company signed an agreement with the insurance market in Sudan to set up a Retakaful Window in Khartoum. The Retakaful Window was launched in September 2009 and commenced business in January 2010. The window will be writing business in accordance with Sharia laws and ZEP-RE will be managing the policyholders' business and investments derived from the fund.

Tanzania

Tanzania was the third largest market of the Company in 2009. Like other markets in the region Tanzania took a hit from the global slowdown that was experienced in the first half of 2009. Structural reform measures aimed at promoting private-sector growth however resulted in a real GDP growth of 4.5% in 2009. During the period under review ZEP-RE wrote US$ 4.91 million in premiums from the Tanzanian market.

Uganda

During the period under review, weak global demand in the first half of 2009 hurt Uganda's open economy and hampered trade growth. Real GDP growth fell to 4% in 2009. The economy, however, proved resilient in the face of the global downturn and investment and external demand picked up in the second half of 2009. ZEP-RE wrote US$ 4.35 million in premium income from this market in 2009.

Zambia

Zambia is one of the markets where the Company has a physical presence and during the period under review the Zambian economy suffered a slight contraction during the first half of 2009 mainly due to the recession suffered by the world economy. A rebound in late 2009 together with sustained demand for copper prices meant that the economy made recovery gains by close of the year. Growth in the later part of the year ranged between 3% and 4%. ZEP-RE wrote US$ 3.54 million in premium income from this market in 2009.

III. Underwriting results

In 2009 the Company incurred a number of large claims including, the Tiwi Beach Resort, Oceanic Bay Hotel/ Paradise Holiday and the Nakumatt Holdings claims in Kenya, Kenana Sugar Factory claim in Sudan and the A/C Bhel claim in India resulting in the underwriting profit coming down marginally to US$ 3.13 million in 2009 from US$ 4.19 million in 2008. Net claims incurred in 2009 were US$ 23.44 million compared to US$ 18.48 million in 2008.

IV. Outstanding Claims provision

The Company's outstanding claims increased to US$ 20 million in 2009 from US$ 18.6 million in 2008.

V. Investments

Investments increased to US$ 64.4 million in 2009 from US$ 54.1 million in 2008 while investment income increased to US$ 4.2 million from US$ 3.9 million the previous year. The growth in investment was mainly driven by improved collections of premium balances. Growth of investment income was however minimal mainly due to the effect of poor interest rates on dollar denominated investments.

VI. Profitability

The company achieved a profit of US$ 5.69 million in 2009 compared to US$ 1.91 million in 2008. The higher profit in 2009 is on account of an increase in investment income and reduced operating and other expenses which were lower by US$ 5.1 million.

Dividend

The Company's profit for the year was US$ 5.69 million compared to US$ 1.91 million in 2008. Based on these results, the Board of Directors is recommending a dividend of US$ 1.2 million compared to US$ 480,000 in 2008. This is in line with the Company's dividend policy.

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

The dividend proposed is 2.5 times that distributed in 2008 and not only represents a good growth in line with the Company's increased profitability but also a fair compensation for the reduced dividend income in 2008. The proposed dividend further affords the Company a good retention of 78.9% of the profits which will be channelled into capital growth.

Changes in the Board

The 18th Annual General Assembly held on 19 May 2009 elected me as the new Chairman of the Company to succeed Honourable Peter Kenneth who had been Chairman since 1998.

Mr. Tushar Shah, who was the alternate director to Honourable Peter Kenneth, took the responsibilities of substantive director, formerly discharged by the Honourable Kenneth, with effect from 19 May 2009.

Security Rating

The Company maintained its financial rating of "B" and issuer credit rating of "bb+" with AM Best rating agency in spite of the harsh economic crisis that prevailed in 2009. The Company also maintained its credit rating of AA by Global Credit Rating Co. (GCR) of South Africa. The good ratings were mainly attributable to the Company's improved risk adjusted capitalisation, good underwriting performance and a robust risk management framework. The positive outlook was a reflection of the expectation of sustained improvements in underwriting performance and risk based capitalisation as the company pursued its growth objectives.

The 6th Corporate Strategy Plan (2010 – 2012)

The 6th Strategy Plan of the Company was approved by the Board during its 62nd Board Meeting held on 20 November 2009. The corporate plan was being prepared against a backdrop of the worst financial crisis in recent history, a factor that posed great challenges for the Company's growth plans. The main focus of the Company during the period 2010 – 2012 will be to augment its consolidation efforts in the traditional markets with a diversification program that targets non-traditional markets and business opportunities that offer good returns. As part of Board duties, the Company intends to give governance and risk management a greater role in the direction of Company affairs.

Appreciation

I take this opportunity to recognize, with much appreciation, the service of my predecessor Hon. Peter Kenneth who served this Board for eleven (11) years. During this period the company realized many milestones. On my own behalf and that of the Board I wish to thank him for his outstanding contribution to the growth of this Company.

To my fellow directors, I thank you for your wise counsel, support, direction and service as members of the Board and various Board committees.

To management and staff, we are grateful for your hard work that ensured the Company not only achieved but also surpassed the targets for the year under review.

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

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

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

Outlook

In 2010, the World output is expected to rise by 4%. While the recovery is expected to remain sluggish in advanced economies it is expected to be relatively strong in many emerging and developing economies.

The sub-region, which comprises our core markets, is expected to register a steady return to the pre-crisis levels of 2007. This renewed business confidence coupled with our focus to consolidate and grow in these markets should put us in good stead to achieve the goals and objectives set out in our 6th Corporate Strategy Plan.

BY ORDER OF THE BOARD OF DIRECTORS

Dr. Michael Gondwe
Chairman

24 March 2010

Corporate Governance Report

GOVERNANCE STATEMENT

ZEP-RE is committed to the principles of good Corporate Governance. We strive to adhere to responsible company management and control that is geared at long term creation of wealth and value for shareholders. We place critical importance on promoting and respecting the interests of shareholders, efficient supervisory practices at Board level and a communication policy that is open and transparent both internally and externally.

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

CORPORATE GOVERNANCE STANDARDS

As a regional organisation, ZEP-RE is not subject to any one particular local jurisdiction but has the benefit of drawing upon best practices of corporate governance from different parts of the world.

GOVERNANCE STRUCTURE

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

General Assembly

The General Assembly is the highest organ of the Company and all powers of the Company are vested in it. All shareholders of the Company are members of the General Assembly.

At ZEP-RE, the principle of "one share, one vote" applies. Shareholders may exercise their voting rights personally or through a proxy appointed in writing. ZEP-RE also offers its shareholders the opportunity to have their voting rights exercised in accordance with their personal instructions by a proxy nominated by the Company (the duty has always been discharged by the Chairman of the Company).

Board of Directors

Role

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

Appointment

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

Composition

The current Board comprises 10 non executive Directors and the Managing Director serving in an ex officio capacity.
Senior management officials of the Company attend Board meetings by invitation.

Access to information and resources

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

Corporate Governance Report (Continued)

During the year, the Directors were provided with appropriate and timely information by management to enable them maintain full and effective control over strategic, financial, operational and compliance issues. Among the critical issues considered by the Board in 2009 included approval of the 2008 financial statements, the new strategy plan of the Company for the years 2010 – 2012, the 2010 budget and the 2010 Retrocession programme of the Company.

Implementation of strategy

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

Charter

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

Other legal instruments

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

Internal Control Framework

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

Board Committees

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

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

Audit Committee

The Board Audit Committee comprises Ms. Irene Muyenga (Chairperson), Mrs. Margaret T. Ikongo and Mr. Aden Saleh Omar. The Committee serves in an advisory capacity to the Board and ensures that the Company's assets are safeguarded, that there is in place an adequate control framework and material corporate risks are being managed. The Committee met twice during the period under review.

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

Investments Committee

The Board Investments Committee comprises Mrs. Eunice Mbogo (Chairperson), Mr. William Erio and Mr. Tushar Shah. The Committee advises the Board on policy issues pertaining to investments. The Investments Committee met twice in 2009.

Corporate Governance Report (Continued)

Board Committees (Continued)

Human Resource Committee

The Board Human Resources Committee comprises Ms. Amna Ali Mohammed (Chairperson), Mrs. Marie Claire Mukasine and Mr. Venancio Mondlane. The Committee is mandated to monitor, evaluate, and advise the Board regarding all human resource issues. The Human Resource Committee met once in 2009.

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

Directors' Remuneration

For services on the Board and Board Committees, Directors received remuneration in line with terms approved by the General Assembly. In 2009 the aggregate amount of emoluments received by Directors is shown in Note 31 to the financial statements.

Managing Director and the Management team

The Managing Director is responsible for the day to day running of the Company. He is assisted in this role by a Management team. The Managing Director is appointed by the General Assembly upon recommendation of the Board of Directors. He reports regularly to the Board on the operations of the Company. The rest of the Management team are appointed by the Board.

On initial appointment, members of the Management team are usually given contracts for a term of five years and one or more extensions of the contract are possible. Various rules and policy documents issued by the Board of Directors determine the manner in which the Management shall manage the Company and carry out decisions.

The Board monitors the performance of Management and gives counsel and direction where necessary. Certain transactions such as major investments or capital measures require the approval of the Board, but generally the Board does not engage in day to day operational issues.

Corporate Social Responsibility (CSR)

As a regional institution, ZEP-RE accepts and takes to heart its responsibility towards society as a whole and among its core values is the need to be a responsible corporate citizen. The Company's Corporate Social Responsibilty policy has mainly focused on education, health and poverty alleviation.

Radiation and Isotopes Centre (Khartoum, Sudan)

In 2009, the Company contributed SDG 25,000 (US$ 10,000) towards the rehabilitation of children's cancer ward at the Radiation and Isotopes Centre in Khartoum, Sudan. The Radiation and Isotopes Centre is the only major cancer center in Sudan. The center receives referrals from all over the country and attends to about 15,000 cancer patients per year. In this cancer center, surgery and radiation therapy are the main modes of cancer treatment. The contribution helped the centre to acquire infusion pumps, hospital beds and an autoclave machine.

Farasi Lane Primary School (Nairobi, Kenya)

During the year, the Company continued with its focus on supporting education in the region by donating US$ 5,000 towards the renovation of a library and painting of classrooms at Farasi Lane Primary School, a school located on the outskirts of Nairobi which caters for under privileged children from low income families. Farasi Lane Primary School supports approximately 800 children from the area. The Farasi Lane Primary School project is a long term Corporate Social Responsibility initiative that the Company adopted in 2005 and intends to support it going forward.

Training

The Company's main training objective is to become a trainer of choice for the region.

To this end the Company has put in place a dedicated training department that assesses the technical needs of the insurance industry in the region and develops capacity building programs aimed at plugging these skill gaps.

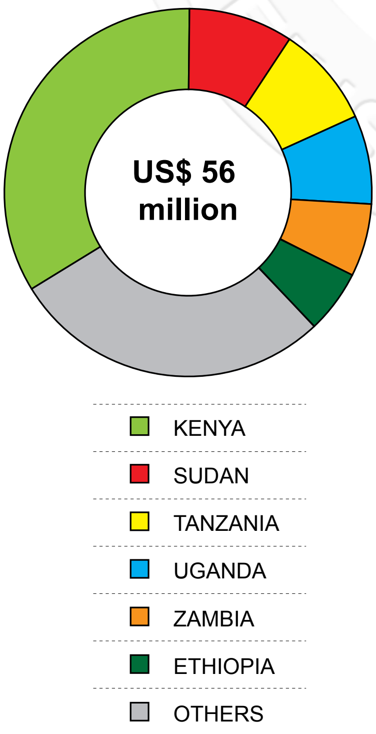
In 2009 the Company undertook training workshops in various countries of the region including Kenya, Tanzania, Zambia, Gambia, Ethiopia, Sudan, Uganda and Senegal.

The training workshops and seminars were fully sponsored by ZEP-RE.

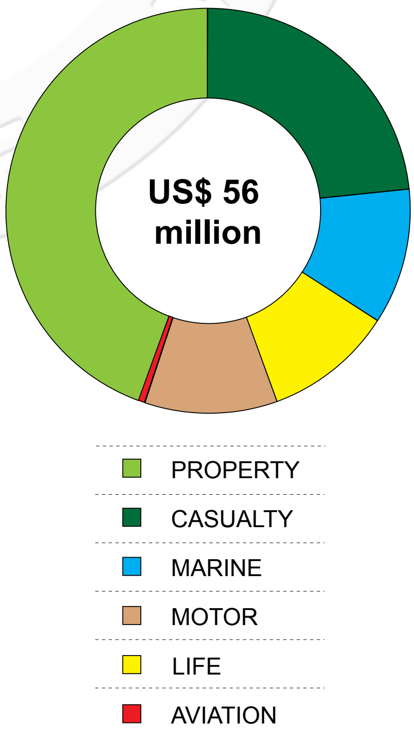
Financial Highlights

	2005 US$	2006 US$	2007 US$	2008 US$	2009 US$
Gross Premium Written	26,900,035	32,474,910	37,923,564	45,986,500	55,748,911
Net Written Premiums	19,520,505	25,163,239	29,536,935	36,892,542	44,266,616
Net Earned Premiums	19,098,297	23,759,751	27,720,240	34,894,101	40,796,509
Investment & other Income	3,166,351	3,674,274	6,343,962	7,543,712	8,803,761
Total Income	22,264,648	27,434,025	34,064,202	42,437,813	49,600,270
Claims Incurred	10,181,663	14,562,673	16,927,172	18,479,657	23,437,454
Commisions & other operating expenses	10,245,636	10,395,966	11,881,041	22,047,072	20,467,538
Profit for the year	1,837,349	2,475,386	5,256,804	1,911,084	5,695,278
Dividends Paid, Payable or Capitalized	300,000	500,000	750,000	480,000	1,200,000
Total Assetts	37,610,326	43,965,256	60,231,209	72,370,552	82,373,482
Total Equity	15,044,598	17,641,112	23,471,063	31,481,042	36,873,530

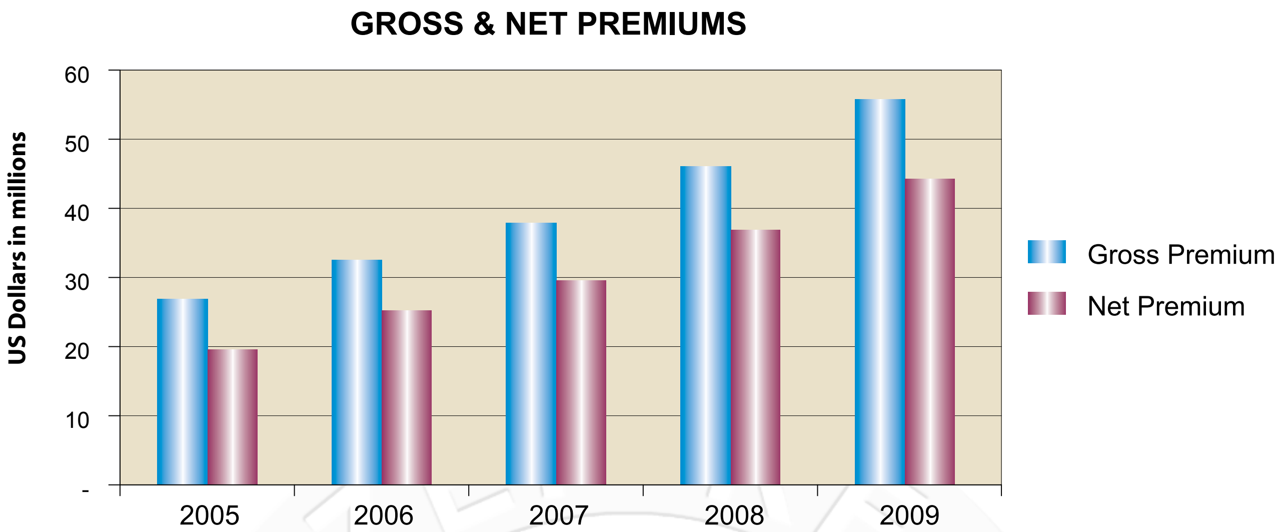
PREMIUM DISTRIBUTION PER COUNTRY

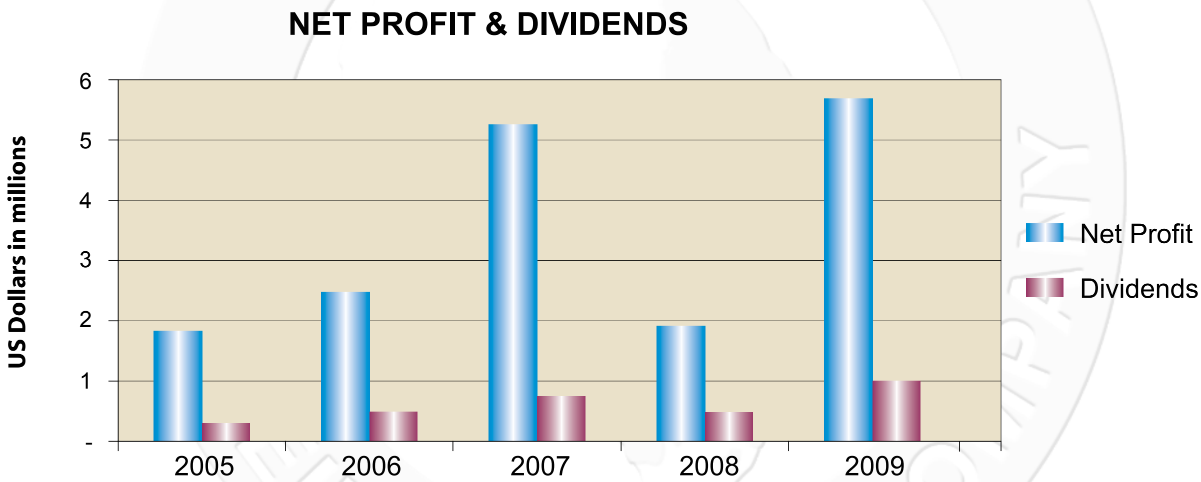


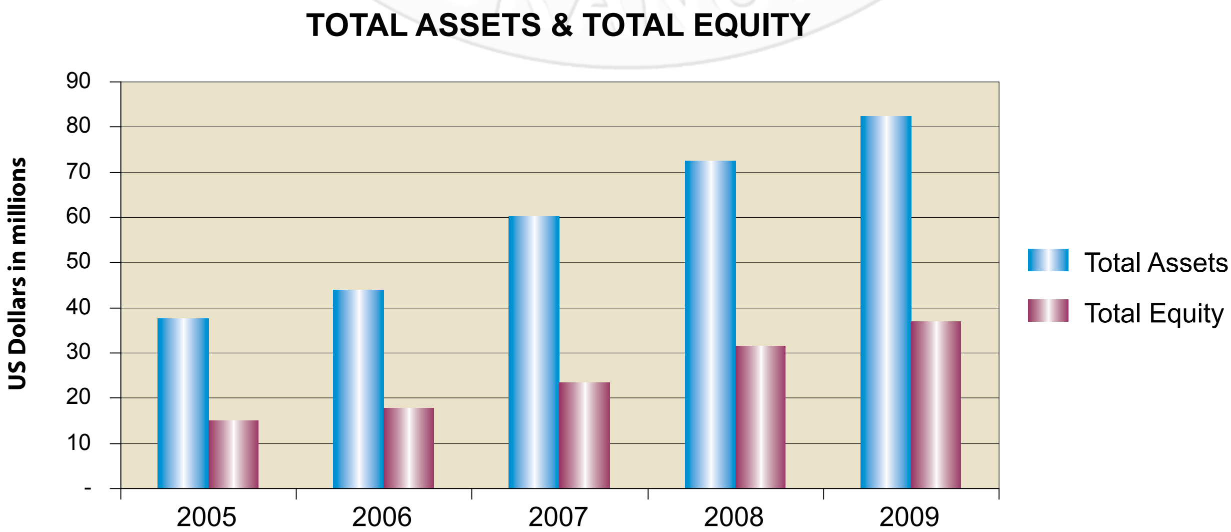
PREMIUM PER CLASS



Financial Highlights (continued)







Report of the Directors

The Board of Directors hereby submit their report together with the audited financial statements for the year ended 31 December 2009 which discloses the state of affairs of the company. The report is made in accordance with the provisions of Article 31 of the Agreement Establishing ZEP–RE (PTA Reinsurance Company).

PRINCIPAL ACTIVITIES

The company underwrites all classes of life and non-life reinsurance risks as mandated under Article 5 paragraph 1 of the Agreement Establishing ZEP–RE (PTA Reinsurance Company).

The business is divided into the following classes:

- Fire and accident (including engineering and motor)
- Marine and aviation
- Life

RESULTS AND DIVIDEND FOR THE YEAR

The profit for the year of US$ 5.69 million (2008: US$ 1.91 million) has been transferred to retained earnings.

The directors recommend the approval of a dividend of US$ 1,200,000 (2008: US$ 480,000) for the year ended 31 December 2009.

DIRECTORS

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

Retirement during the year

Honourable Peter Kenneth retired from his position as Chairman on 19 May 2009.
Mr. Corneille Karekezi retired his position at Société Nouvelle d'Assurances du Rwanda (SONARWA) in June 2009 and therefore ceased to possess authority to represent the nominating member SONARWA.

Changes to the Board

Mr. Tushar Shah, Alternate Director to Honourable Peter Kenneth, took over the responsibilities of a substantive Director (formerly discharged by Honourable Kenneth) with effect from 19 May 2009.

In accordance with the provisions of the Article 12 paragraph 3 of the Agreement establishing the Company all Directors will be retiring at the forthcoming Annual General Assembly. There will be a substantive election to elect a new Board of Directors for a term of three (3) years.

SECRETARY

Mr. Jerry Sogoli who was serving in an acting capacity was confirmed Company Secretary on 1 May 2009.

AUDITORS

The Company Auditors Deloitte and Touche, have expressed willingness to continue in office for the next financial year. Accordingly, a resolution will be proposed to reappoint them as auditors for the financial year 2010.

BY ORDER OF THE BOARD

SECRETARY
24 March 2010

Statement of Directors' Responsibilities

Article 31 of the Agreement establishing ZEP–RE (PTA Reinsurance Company) requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by Article 31 of the Agreement establishing ZEP–RE (PTA Reinsurance Company). 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 (PTA Reinsurance Company). The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

--	------------------------------------
Dr. Michael Gondwe	Rajni Varia
Chairman	Managing Director

24 March 2010

Independent Auditors' Report

We have audited the accompanying financial statements of ZEP–RE (PTA Reinsurance Company) set out on pages 18 to 57 which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with the summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of Article 31 of the Agreement establishing ZEP-RE (PTA Reinsurance Company). 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.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Article 31 of the Agreement Establishing ZEP–RE (PTA Reinsurance Company).

Deloitte & Touche

Certified Public Accountants (Kenya)

24 March 2010

Statement of Comprehensive Income
For the year ended 31 December 2009

	Notes	2009	2008 Restated
		US$	US$
Gross premiums written	3	55,748,911	45,986,500
Less: Retrocession premiums		(11,482,295)	(9,093,958)
Net written premiums		44,266,616	36,892,542
Movement in unearned premiums reserve	25	(3,470,107)	(1,998,441)
Net earned premiums		40,796,509	34,894,101
Investment income	4	4,176,253	3,949,150
Commissions earned		4,405,884	2,956,265
Other income		221,624	638,297
Total income		**49,600,270**	**42,437,813**
Gross incurred claims	5	27,379,747	21,604,311
Less: amounts recoverable from retrocessionaires		(3,942,293)	(3,124,654)
Net claims incurred		**23,437,454**	**18,479,657**
Operating and other expenses	6	5,235,158	10,342,292
Commissions payable		15,232,380	11,704,780
Total out go		**43,904,992**	**40,526,729**
Profit for the year	7	**5,695,278**	**1,911,084**
Other comprehensive income/(loss) for year			
Fair value loss on available for sale financial assets		(53,024)	(807,967)
Gain on revaluation of property and equipment		202,252	9,042
Revaluation surplus realised on disposal of property		-	(11,830)
Total other comprehensive income/(loss) for the year		149,228	(810,755)
Total comprehensive income for year		**5,844,506**	**1,100,329**
Earnings per share:			
Basic and diluted	8	0.190	0.064

Statement of Financial Position
At 31 December 2009

	Notes	2009	2008	01.01.2008
			Restated	Restated
ASSETS		**US$**	**US$**	**US$**
Property and equipment	10	1,469,198	1,939,312	1,121,050
Intangible assets	11	98,892	199,323	291,754
Investment properties	12	12,037,026	9,283,147	8,786,210
Available-for-sale financial assets	13	2,349,936	2,238,400	1,092,206
Receivables arising out of reinsurance arrangements	14	5,756,317	6,061,923	7,523,214
Deposits retained by ceding companies		1,743,500	1,767,078	1,359,445
Retrocessionaires share of technical liabilities	15	7,994,932	7,748,663	6,776,821
Other receivables	16	379,157	376,498	457,314
Government securities	17	9,762,352	8,479,856	10,995,175
Deposits with financial institutions	18	40,225,184	34,103,602	20,634,850
Cash and bank balances	19	556,988	172,750	1,193,170
Total assets		**82,373,482**	**72,370,552**	**60,231,209**
EQUITY AND LIABILITIES				
CAPITAL & RESERVES				
Share capital	21	30,011,275	29,998,013	12,808,863
Share premium	21	337,619	322,899	-
Property revaluation reserve	22	211,294	9,042	11,830
Available for sale fair value reserve	22	(824,432)	(771,408)	36,559
Retained earnings	23	7,137,774	1,922,496	10,613,811
Total equity		**36,873,530**	**31,481,042**	**23,471,063**
LIABILITIES				
Reinsurance contract liabilities	24	20,028,127	18,606,000	15,956,589
Unearned premiums reserve	25	20,888,015	16,462,653	14,176,370
Deferred income	26	67,645	68,460	69,275
Payables arising from retrocession arrangements	27	3,334,757	4,815,712	5,556,836
Deposits retained on ceded reinsurance business		316,391	291,710	212,193
Other payables	28	863,184	643,142	779,863
Dividends payable	29	1,833	1,833	9,020
Total liabilities		**45,499,952**	**40,889,510**	**36,760,146**
Total equity and liabilities		**82,373,482**	**72,370,552**	**60,231,209**

The financial statements on pages 21 to 60 were approved by the Board of Directors on 24 March 2010 and were signed on its behalf by:

------------------------------- Chairman

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

Statement of Changes in Equity

	Notes	Share capital	Share premium	Property revaluation reserve	Available for sale fair value reserve	Retained earnings	Total
		US$	US$	US$	US$	US$	US$
At 1 January 2008 – as previously reported		12,808,863	-	11,830	(32,278)	10,602,399	23,390,814
Effect of change in accounting policy for operating leases		-	-	-	-	11,412	11,412
Restatement of available for sale financial assets (unquoted) to historical cost		-	-	-	68,837	-	68,837
At 1 January 2008 - restated		12,808,863	-	11,830	36,559	10,613,811	23,471,063
Issue of shares through capitalisation of 2007 dividends	29	750,000	-	-	-	(750,000)	-
Shares issued during the year	21	6,586,751	322,899	-	-	-	6,909,650
Bonus issue of shares through capitalisation of retained earnings	21	9,852,399	-	-	-	(9,852,399)	-
Total comprehensive income/(loss) for the year		-	-	(2,788)	(807,967)	1,911,084	1,100,329
At 31 December 2008		29,998,013	322,899	9,042	(771,408)	1,922,496	31,481,042
At 1 January 2009		29,998,013	322,899	9,042	(771,408)	1,922,496	31,481,042
Dividends declared - 2008	29	-	-	-	-	(480,000)	(480,000)
Issue of shares through capitalisation of 2008 dividends	29	13,262	14,720	-	-	-	27,982
Total comprehensive income/(loss) for the year		-	-	202,252	(53,024)	5,695,278	5,844,506
At 31 December 2009		30,011,275	337,619	211,294	(824,432)	7,137,774	36,873,530

Statement of Cash Flows
For the year ended 31 December 2009

	Notes	2009	2008
		US$	US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		5,695,278	1,911,084
Adjustments for:			
Loss/(gain) on disposal of equipment		6,829	(158,678)
Fair value gain on investment property	4	(756,765)	(496,937)
Depreciation	10	166,562	151,374
Amortisation of intangible assets	11	100,431	99,258
Amortisation of deferred income	26	(815)	(815)
Revaluation surplus realised on disposal of property		-	(11,830)
Changes in:			
Unearned premiums reserve	25	4,425,362	2,286,283
Reinsurance contract liabilities		1,422,127	2,649,411
Deposits retained by ceding companies		23,578	(407,633)
Deposits retained on ceded reinsurance business		24,681	79,517
Receivables arising out of reinsurance arrangements		305,606	1,461,291
Retrocessionaires share of technical liabilities		(246,269)	(971,842)
Payables arising out of retrocession arrangements		(1,480,955)	(741,124)
Other receivables		(2,659)	80,816
Other payables		220,042	(136,721)
Net cash generated from operating activities		**9,903,033**	**5,793,454**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	10	(241,911)	(1,060,358)
Purchase of intangible assets	11	-	(6,827)
Purchase of quoted shares	13(ii)	(164,560)	(1,954,161)
Purchase of held to maturity government securities		(2,279,120)	(2,061,600)
Purchase of Investment Property	12	(1,256,591)	-
Proceeds of disposal of property and equipment		363	258,442
Net cash used in investing activities		**(3,941,819)**	**(4,824,504)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of issue of shares		27,982	6,909,650
Dividends paid	29	(480,000)	(7,187)
Net cash (used in)/generated from financing activities		**(452,018)**	**6,902,463**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**5,509,196**	**7,871,413**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**37,210,570**	**29,339,157**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	32	**42,719,766**	**37,210,570**

Notes to the Financial Statements
For the year Ended 31 December 2009

1. ACCOUNTING POLICIES

(a) Statement of compliance

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

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

i) Standards, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009, are relevant to the company:

IFRS 7 Improving disclosures about financial instruments

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the company.

IAS 1 Presentation of financial statements

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between the carrying amount at the beginning and the end of the period. The adoption does not have any impact on retained earnings.

The company has presented three statements of financial position in these financial statements because it has applied an accounting policy retrospectively, made a retrospective restatement of items in its financial statements, or reclassified items in its financial statements that affected the statement of financial position at the beginning of the earliest comparative period.

The following standards and interpretations became effective in 2009, but are not relevant to the company's operations:

- IAS 32 and IAS 1 Puttable financial instruments and obligations arising on liquidation
- IFRIC 13 Customer loyalty programmes
- IFRS 8 Operating segments
- IAS 23 Borrowing costs
- IFRIC 16 Hedges of a net investment in a foreign operation

ii) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for accounting periods beginning on or after 1 July 2009 or later periods and are not expected to be relevant to the Company:

- IFRS 1 and IAS 27 Cost of an investment in a subsidiary, jointly controlled entity or associate
- IFRS 3 Business combinations
- IAS 27 Consolidated and separate financial statements
- AS 39 Financial instruments: Recognition and measurement – eligible hedged items
- IFRIC 17 Distribution of non-cash assets to owners
- IFRIC 18 Transfers of assets from customers

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

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

iii) Early adoption of standards

The company did not early-adopt new or amended standards in 2009.

(c) Basis of preparation

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

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

(d) Income recognition

i) Premium

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

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

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

ii) Retrocessions ceded

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

The company uses retrocession arrangements to increase its aggregate underwriting capacity, to diversify its risk and to reduce its risk of catastrophic loss on reinsurance assumed. The ceding of risks to retrocessionaires does not relieve the company of its obligations to its cedants. The Company regularly reviews the financial condition of its retrocessionaires. Premium and losses ceded under retrocession contracts are reported as reductions of premiums earned and claims incurred.

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

iii) Claims incurred

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the Statement of Financial Position 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").

iv) Interest income

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

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(d) Income recognition (Continued)

v) Dividend income

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

vi) Rental income

Rental income is recognised as income in the period in which it is earned.

All investment incomes are stated net of investment expenses.

(e) Currency translation

i) Functional and presentation currency

Even though the company is domiciled in Kenya whose functional currency is Kenya Shilling, the company operates in many countries and as a consequence has many functional currencies. The Company has chosen United States Dollar (US$) as its reporting currency. Monetary assets and liabilities expressed in the various functional currencies of member states are translated into United States Dollars (US$) using the closing rate method. Non-monetary items carried at fair value that are denominated in these functional currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a currency other than the US dollar are not retranslated.

ii) Transactions and balances

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

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

(f) Property and equipment

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

Increases in the carrying amount of land and buildings arising from revaluations are credited to a revaluation reserve through the statement of other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to profit or loss.

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

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

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

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

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(g) Intangible assets – computer software

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

Costs associated with developing or maintaining computer software programmes are recognised as an expense 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.

(h) 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 statement of financial position dates are recorded through the statement of comprehensive income.

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

(i) Provision for bad & doubtful debts

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

(j) Deferred income

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

(k) Employee entitlements

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

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

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

The company's obligations to the provident fund are charged to the statement of comprehensive income as they fall due.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the Statement of Financial Position 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.

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(m) Receivables and payables related to reinsurance contracts

Receivables and payables are recognised when due. These include amounts due to and from cedants and brokers. If there is objective evidence that the reinsurance receivable is impaired, the company reduces the carrying amount of the reinsurance receivable accordingly and recognises that impairment loss in the statement of comprehensive income. The company gathers the objective evidence that a reinsurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

(n) Financial instruments

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

i. Financial assets

Classification

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

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. The company had no investments in this category at 31 December 2009 and 31 December 2008.

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.

Recognition

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

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(n) Financial instruments (continued)

Recognition (Continued)

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

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

Impairment of financial assets

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

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

a) significant financial difficulty of the counterparty;

b) a breach of contract, such as default or delinquency in interest or principal repayments;

c) the company granting to the counterparty, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the company would not otherwise consider;

d) it becoming probable that the counterparty will enter bankruptcy or other financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of counterparty in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

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

(i) Assets carried at amortised cost

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

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(n) Financial instruments (continued)

Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

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

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

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

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

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

(ii) Assets carried at fair value

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

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

ii. Financial liabilities

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

(o) Dividends

Dividends payable on ordinary shares are charged to equity in the period in which they are declared. Dividends receivable are recognised as income in the period which the right to receive payment is established.

(p) Taxation

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

(q) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. In particular, the comparative figures have been modified to include the transfer of leasehold land to investments property held at fair value.

2 ESTABLISHMENT

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

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

The company is domiciled in Kenya and has regional offices in Zambia and Cameroon, and a Retakaful window in Sudan.

3 GROSS PREMIUMS WRITTEN

(i) Class-wise distribution

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

Class of business:	2009 US$	2008 US$
Property	24,771,466	18,977,819
Casualty	13,124,339	10,140,697
Motor	5,925,244	4,373,189
Marine	5,988,376	4,765,831
Aviation	258,346	191,379
Life	5,681,140	7,537,585
	55,748,911	45,986,500

Notes to the Financial Statements (Continued)

3 GROSS PREMIUMS WRITTEN (Continued)

(ii) Geographical distribution

Region	2009 Gross premium	2009 %	2008 Gross premium	2008 %
COMESA	41,595,720	74.61	34,195,903	74.36
Non – COMESA (Africa)	11,772,110	21.12	9,748,472	21.20
Other regions	2,381,081	4.27	2,042,125	4.44
Total	55,748,911	100.00	45,986,500	100.00

(iii) Type of business - distribution

	2009 Gross premium	2009 %	2008 Gross premium	2008 %
Proportional	40,223,432	72.15	32,605,870	70.90
Non-proportional	11,853,871	21.26	9,509,690	20.68
Facultative	3,671,608	6.59	3,870,940	8.42
Total	55,748,911	100.00	45,986,500	100.00

4 INVESTMENT INCOME

	2009 US$	2008 US$
Interest from Government securities held to maturity	985,239	1,037,166
Interest from deposits with financial institutions	1,546,957	1,466,186
Rental income	813,609	885,966
Dividend income	65,914	53,457
Loan interest receivable	7,769	9,438
Fair value gain on investment property (Note 12)	756,765	496,937
	4,176,253	3,949,150

5 GROSS INCURRED CLAIMS

	2009 US$	2008 US$
Gross settled claims	25,248,634	19,638,900
Change in outstanding claims	2,131,113	1,965,411
	27,379,747	21,604,311

Notes to the Financial Statements (Continued)

6 OPERATING AND OTHER EXPENSES

	2009 US$	2008 US$
Employee emoluments and benefits (Note 9)	2,111,412	2,214,357
Auditors' remuneration	20,000	18,000
General assembly and board expenses	205,987	195,240
Depreciation (Note 10)	166,562	151,374
Amortisation of intangible assets (Note 11)	100,431	99,258
Loss on foreign exchange transactions	426,529	6,483,827
Impairment charge for doubtful receivables		
- reinsurance premium receivables (Note 14)	896,000	(125,592)
Repairs and maintenance	97,915	173,972
Premium taxes and charges	286,411	183,024
Property letting fees	15,097	42,122
Other	908,814	906,710
	5,235,158	10,342,292
	========	=========

7(a) PROFIT FOR THE YEAR

The profit attributable to shareholders dealt with in the financial statements of the company amounts to US$ 5,695,278 (2008 – US$ 1,911,084).

7(b) PRIOR YEAR ADJUSTMENT

	2009 US$
Profit for the year ended 31 December 2008	
- As previously reported	1,910,269
- Prior year adjustment	815
- As restated	1,911,084
	========

The prior year adjustment is in respect of a change in accounting policy for leasehold land which was previously carried in the books as prepaid operating leases and has now been reclassified to investment property.

8 EARNINGS PER SHARE

	2009 US$	2008 US$
Profit attributable to shareholders (US$)	5,695,278	1,911,084
	========	========
Numbers of shares issued	30,011,275	29,998,013
	========	========
Earnings per share (US$) - basic and diluted	0.190	0.064
	=======	=======

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

There were no potentially dilutive shares outstanding at 31 December 2009 (2008: Nil). The diluted earnings per share is therefore the same as the basic earnings per share.

Notes to the Financial Statements (Continued)

9 EMPLOYEE EMOLUMENTS AND BENEFITS

	2009 US$	2008 US$
Staff costs include the following:		
- Salaries and wages	1,632,864	1,739,614
- Gratuity costs	214,290	211,319
- Provident fund costs	85,695	85,320
- Leave pay provision	10,089	18,134
- Education allowance	142,553	132,791
- Household expenses	15,914	18,569
- Other	10,006	8,610
	2,111,412	2,214,357

The number of persons employed by the company at the year end was: 38 (2008: 36).

10 PROPERTY AND EQUIPMENT

	31.12.2009 US$	31.12.2008 US$	01.01.2008 US$
Cost or valuation	2,005,735	2,452,022	1,544,861
Accumulated depreciation	(536,537)	(512,710)	(423,811)
Net book value	1,469,198	1,939,312	1,121,050
Land	-	572,906	99,764
Buildings	1,071,011	692,561	698,430
Property under construction	-	238,545	-
Computers and office equipment	85,461	54,072	33,160
Furniture and fittings	204,502	211,625	246,099
Motor vehicles	108,224	169,603	43,597
Net book value	1,469,198	1,939,312	1,121,050

Notes to the Financial Statements (Continued)

10 PROPERTY AND EQUIPMENT (Continued)

	Land	Buildings	Motor vehicles	Office furniture and fittings	Office equipment	Computer equipment	Property under construction	Total
	US$	US$	US$	US$	US$	US$	US$	US$
COST OR VALUATION								
At 1 January 2008	99,764	736,482	112,513	376,502	101,001	118,599	-	1,544,861
Additions	572,906	-	187,382	14,389	12,134	35,002	238,545	1,060,358
Disposals	(99,764)	-	(37,797)	-	(15,567)	(9,111)	-	(162,239)
Revaluation surplus	-	9,042	-	-	-	-	-	9,042
At 31 December 2008	572,906	745,524	262,098	390,891	97,568	144,490	238,545	2,452,022
At 1 January 2009	572,906	745,524	262,098	390,891	97,568	144,490	238,545	2,452,022
Additions	-	-	-	47,701	59,138	9,232	125,840	241,911
Disposals	-	-	-	-	(48,368)	(28,026)	-	(76,394)
Revaluation surplus	-	128,719	-	-	-	-	-	128,719
Reclassified to investment properties (Note 12)	(572,906)	-	-	-	-	-	(167,617)	(740,523)
Transfers	-	196,768	-	-	-	-	(196,768)	-
At 31 December 2009	-	1,071,011	262,098	438,592	108,338	125,696	-	2,005,735

An independent valuation of the Company's Land and buildings was carried out by Messrs. GIMCO Limited, a registered Valuer, to determine the fair value of land and buildings. The valuation, done annually, was carried out as at 31 December 2009 on open market value basis.

Notes to the Financial Statements (Continued)

10 PROPERTY AND EQUIPMENT (Continued)

	Land	Buildings	Motor vehicles	Office furniture and fittings	Office equipment	Computer equipment	Property under construction	Total
	US$	US$	US$	US$	US$	US$	US$	US$
ACCUMULATED DEPRECIATION								
At 1 January 2008	-	38,052	68,916	130,403	79,603	106,837	-	423,811
Charge for the year	-	14,911	61,376	48,863	7,230	18,994	-	151,374
Eliminated on disposals	-	-	(37,797)	-	(15,567)	(9,111)	-	(62,475)
At 31 December 2008	-	52,963	92,495	179,266	71,266	116,720	-	512,710
At 1 January 2009	-	52,963	92,495	179,266	71,266	116,720	-	512,710
Charge for the year	-	20,570	61,379	54,824	10,614	19,175	-	166,562
Eliminated on disposals	-	-	-	-	(41,176)	(28,026)	-	(69,202)
Eliminated on revaluation	-	(73,533)	-	-	-	-	-	(73,533)
At 31 December 2009	-	-	153,874	234,090	40,704	107,869	-	536,537
NET BOOK VALUE								
At 31 December 2009	-	1,071,011	108,224	204,502	67,634	17,827	-	1,469,198
At 31 December 2008	572,906	692,561	169,603	211,625	26,302	27,770	238,545	1,939,312
NET BOOK VALUE – COST BASIS								
At 31 December 2009	-	861,804	108,224	204,502	67,634	17,827	-	1,259,991
At 31 December 2008	572,906	683,701	169,603	211,625	26,302	27,770	238,545	1,930,452

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated property and equipment with a cost of US$ 343,190 (2008: US$383,009) which are still in use. If depreciation had been charged during the year on the cost of these assets, it would have amounted to US$ 109,017 (2008: US$ 118,029). Had the Company's Land and buildings been measured on a historical cost basis, their carrying amount would have been US$ 861,804 (2008: US$ 1,256,607).

Notes to the Financial Statements (Continued)

11 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	31.12.2009 US$	31.12.2008 US$	01.01.2008 US$
Cost	730,284	730,284	723,457
Accumulated amortization	(631,392)	(530,961)	(431,703)
Net book value	98,892	199,323	291,754

Movement analysis:

COST	Software licences US$	Other software US$	Total US$
At 1 January 2008	550,001	173,456	723,457
Additions	-	6,827	6,827
At 31 December 2008	550,001	180,283	730,284
At 1 January 2009 and 31 December 2009	550,001	180,283	730,284
ACCUMULATED AMORTISATION			
At 1 January 2008	260,156	171,547	431,703
Charge for the year	96,615	2,643	99,258
At 31 December 2008	356,771	174,190	530,961
Charge for the year	96,615	3,816	100,431
At 31 December 2009	453,386	178,006	631,392
NET BOOK VALUE			
At 31 December 2009	96,615	2,277	98,892
At 31 December 2008	193,230	6,093	199,323

The cost of the reinsurance system software (SICS/nt) whose implementation was completed in 2006 is being amortised over five years. All other software is amortised over a period of three years.

Notes to the Financial Statements (Continued)

12	INVESTMENT PROPERTIES	31.12.2009	31.12.2008	01.01.2008
		US$	US$	US$
	Fair value of investment properties	12,037,026	9,283,147	8,786,210
		=========	=========	=========

	Zep-Re Place	Prosperity House	Upperhill Parking	Zambia land	Mombasa Road	Total
	US$	US$	US$	US$	US$	US$
At fair value:						
At 1 January 2008						
- as previously reported	5,141,261	3,564,263	-	-	-	8,705,524
Effect of change in accounting policy for operating leases	-	-	-	-	80,686	80,686
At 1 January 2008 - restated	5,141,261	3,564,263	-	-	80,686	8,786,210
Gain on revaluation	160,030	336,907	-	-	-	496,937
At 31 December 2008	5,301,291	3,901,170	-	-	80,686	9,283,147
At 1 January 2009	5,301,291	3,901,170	-	-	80,686	9,283,147
Additions	-	-	-	1,256,591	-	1,256,591
Transfers from property and equipment (Note 10)	167,617	-	572,906	-	-	740,523
Gain/(loss) on revaluation	(80,514)	251,763	146,936	(8,090)	446,670	756,765
At 31 December 2009	5,388,394	4,152,933	719,842	1,248,501	527,356	12,037,026
	=======	=======	=======	=======	=======	=======

Investment properties were valued by Gimco Limited, registered valuers, as at 31 December 2009, on an open market value basis. The fair value gain arising from the revaluation has been dealt with in the other comprehensive income.

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

Notes to the Financial Statements (Continued)

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS	31.12.2009 US$	31.12.2008 US$	01.01.2008 US$
Quoted equity shares			
– at fair value (Note (ii) below)	1,631,186	1,519,650	373,456
Unquoted equity shares – at cost (Note(i) below)	718,750	718,750	718,750
	2,349,936	2,238,400	1,092,206

(i) Unquoted equity shares: At Cost

	Tanzania Reinsurance Corporation US$	AIO Software Development US$	African Trade Insurance Agency US$	Total US$
At 1 January 2008				
– as previously reported	649,913	30,000	100,000	779,913
Restatement of available for sale financial assets(unquoted) to historical cost	68,837	-	-	68,837
At 1 January 2008 – restated	718,750	30,000	100,000	848,750
Impairment loss				
At 1 January 2008, 1 January 2009 and At 31 December 2009	-	(30,000)	(100,000)	(130,000)
At 31 December 2009	718,750	-	-	718,750
At 31 December 2008	718,750	-	-	718,750

(ii) Quoted equity shares: At fair value

	2009 US$	2008 US$
At 1 January	1,519,650	373,456
Additions	164,560	1,954,161
Fair value losses	(53,024)	(807,967)
At 31 December	1,631,186	1,519,650

Notes to the Financial Statements (Continued)

14 RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS	31.12.2009	31.12.2008	01.01.2008
	US$	US$	US$
Receivables from reinsurance arrangements	9,108,924	7,592,137	9,266,797
Allowance for doubtful debts	(3,352,607)	(1,530,214)	(1,743,583)
Net carrying value	5,756,317	6,061,923	7,523,214

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.

(i) Ageing of past due but not impaired	2009	2008
	US$	US$
61-90 days	1,738,210	853,117
91-120 days	447,530	(272,246)
121-270 days	1,545,839	1,707,797
271 – 360 days	2,024,738	3,773,255
At 31 December	5,756,317	6,061,923
Average age (days) – gross premium basis	38	48

(ii) Movement in the allowance for doubtful debts	2009	2008
	US$	US$
At 1 January	1,530,214	1,743,583
Charge for the year	896,000	116,213
Written off during the year as uncollectible	-	(87,777)
Recovered during the year	-	(241,805)
Reclassified from receivables and payables write-back provision	926,393	-
At 31 December	3,352,607	1,530,214

15 RETROCESSIONAIRES SHARE OF REINSURANCE LIABILITIES

	31.12.2009	31.12.2008	01.01.2008
	US$	US$	US$
Retrocessionaires share of :			
Unearned premiums (Note 25)	4,592,918	3,637,663	3,349,821
Notified Outstanding claims (Note 24)	2,080,011	3,286,000	2,674,592
Incurred but not reported (Note 24)	1,322,003	825,000	752,408
	7,994,932	7,748,663	6,776,821

Notes to the Financial Statements (Continued)

16 OTHER RECEIVABLES

	31.12.2009 US$	31.12.2008 US$	01.01.2008 US$
Staff receivables	173,033	194,159	270,193
Prepayments	91,783	64,454	67,254
Deposits	29,321	24,249	28,998
Rent receivable	18,194	9,603	-
Others	66,826	84,033	90,869
	379,157	376,498	457,314

17 GOVERNMENT SECURITIES - HELD TO MATURITY

	31.12.2009 US$	31.12.2008 US$	01.01.2008 US$
Treasury bills and bonds maturing:			
- Within 6 months	1,937,594	2,934,218	7,511,135
- In 6 months to 1 year	5,528,538	4,351,454	2,286,378
- In 1 to 5 years	838,655	1,194,184	1,197,662
- After 5 years	1,457,565	-	-
	9,762,352	8,479,856	10,995,175

Analysis of Government securities by currency:			
Securities in Kenya Shillings	4,313,379	3,844,562	8,598,782
Securities in Sudanese Pounds	5,448,973	4,635,294	2,387,444
Securities in Zimbabwean Dollars	-	-	8,949
	9,672,352	8,479,856	10,995,175

18 DEPOSITS WITH FINANCIAL INSTITUTIONS

	31.12.2009 US$	31.12.2008 US$	01.01.2008 US$
Analysis of deposits with financial institutions by currency:			
Deposits in United States Dollars	20,801,701	16,128,293	13,192,834
Deposits in Sterling Pounds	7,680,535	10,491,907	4,451,891
Deposits in Kenya Shillings	10,944,265	6,716,315	2,215,128
Deposits in Sudanese Pound	727,080	501,850	774,997
Deposits in Zambian Kwacha	71,603	265,237	-
	40,225,184	34,103,602	20,634,850

Deposits with financial institutions have an average maturity of 3 to 9 months (2008: 3 to 6 months).

Notes to the Financial Statements (Continued)

	31.12.2009	31.12.2008	01.01.2008
19 CASH AND BANK BALANCES	**US$**	**US$**	**US$**
Analysis of Cash and Bank balances by currency			
United States Dollars	307,085	79,419	291,410
Sterling Pounds	21,975	1,239	464,832
Kenya Shillings	137,290	34,785	117,042
Sudanese Pound	10,749	25,375	307,894
Zambian Kwacha	52,842	1,074	11,992
Cameroon Francs	27,047	30,858	-
	556,988	172,750	1,193,170

20 WEIGHTED AVERAGE EFFECTIVE INTEREST / RETURN RATES

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

	2009 %	2008 %
Government securities		
Securities in Kenya Shillings	7.65	9.90
Securities in Sudanese Pound	12.03	15.00
Deposits with financial institutions		
Deposits in United States Dollars	1.89	3.50
Deposits in Sterling Pounds	3.18	5.17
Deposits in Kenya Shillings	7.97	8.85
Deposits in Sudanese Pound	5.17	9.00
Deposits in Zambian Kwacha	11.63	11.63

21 ISSUED CAPITAL

(i) Issued Capital	31.12.2009 US$	31.12.2008 US$	01.01.2008 US$
Share capital	30,011,275	29,998,013	12,808,863
Share premium	337,619	322,899	-
Paid up capital	30,348,894	30,320,912	12,808,863

Notes to the Financial Statements (Continued)

21 ISSUED CAPITAL (Continued)

(ii) Paid up shares

	No of shares	Share capital	Share premium
		US$	US$
At 1 January 2008	12,808,863	12,808,863	-
Dividends capitalised	750,000	750,000	-
Reserves capitalised	9,852,399	9,852,399	-
Issue of shares	6,586,751	6,586,751	322,899
At 31 December 2008	29,998,013	29,998,013	322,899
Dividends capitalised	13,262	13,262	14,720
At 31 December 2009	30,011,275	30,011,275	337,619

22 RESERVES

	31.12.2009	31.12.2008	01.01.2008
	US$	US$	US$
Property revaluation reserve	211,294	9,042	11,830
Available for sale investments revaluation reserve	(824,432)	(771,408)	36,559
	(613,138)	(762,366)	48,389

(i) Property revaluation reserve

	Land and buildings
	US$
At 1 January 2008	11,830
Revaluation surplus	9,042
Eliminated on disposal	(11,830)
At 31 December 2008	9,042
At 1 January 2009	9,042
Revaluation surplus (Note 10)	128,719
Written back on revaluation (Note 10)	73,533
At 31 December 2009	211,294

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

Generally, this reserve is not available for distribution.

Notes to the Financial Statements (Continued)

22. RESERVES (Continued)

(ii) Available for sale fair value reserve

	Unquoted shares US$	Quoted shares US$	Total US$
At 1 January 2008 - as previously reported	(68,837)	36,559	(32,278)
Prior year adjustment	68,837	-	68,837
At 1 January 2008 - restated	-	36,559	36,559
Revaluation loss	-	(807,967)	(807,967)
At 31 December 2008	-	(771,408)	(771,408)
At 1 January 2009	-	(771,408)	(771,408)
Revaluation loss	-	(53,024)	(53,024)
At 31 December 2009	-	(824,432)	(824,432)
	=========	=========	=========

(ii) Available for sale fair value reserve

The available for sale fair value reserve represents accumulated gains and losses arising on the revaluation of available for sale financial assets that have been recognised in the other comprehensive income net of amounts reclassified to profit or loss for the year when those assets have been disposed of or are determined to be impaired.

This reserve is not available for distribution.

23 RETAINED EARNINGS

	31.12.2009 US$	31.12.2008 US$	01.01.2008 US$
Retained earnings	7,137,774	1,922,496	10,613,811
	=========	=========	=========

	2009 US$	2008 US$
At 1 January - as previously reported	1,922,496	10,602,399
Prior year adjustment	-	11,412
At 1 January - restated	1,922,496	10,613,811
Capitalisation of shares	-	(9,852,399)
Dividend payment	(480,000)	(750,000)
Profit for year	5,695,278	1,911,084
At 31 December	7,137,774	1,922,496
	=========	=========

In July 2009 a dividend of US$ 0.016 per share amounting to US$ 480,000 was paid to holders of fully paid ordinary shares. In July 2008 the dividend of US$ 750,000 was capitalised.

Notes to the Financial Statements (Continued)

23 RETAINED EARNINGS (Continued)

Retained earnings include fair value gains on revaluation of investment properties which are unrealised and are not available for distribution. At 31 December 2009 the unrealised fair value gains on revaluation of investment properties amounted to US$ 1,253,702 (2008: US$ 496,937).

The prior year adjustment is in respect of a change in accounting policy for leasehold land which was previously carried in the books as prepaid operating leases and has now been reclassified to investment property.

24 REINSURANCE CONTRACT LIABILITIES

	31.12.2009	31.12.2008	01.01.2008
	US$	US$	US$
Reinsurance contracts			
- claims reported and claims handling expenses	14,489,994	14,610,000	13,137,990
- claims incurred but not reported	5,538,133	3,996,000	2,818,599
Total net reinsurance liabilities	20,028,127	18,606,000	15,956,589

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

	2009			2008		
	Gross	Retrocessions	Net	Gross	Retrocessions	Net
	US$	US$	US$	US$	US$	US$
Outstanding claims	14,489,994	(2,080,011)	12,409,983	14,610,000	(3,286,000)	11,324,000
IBNR	5,538,133	(1,322,003)	4,216,130	3,996,000	(825,000)	3,171,000
Total Outstanding claims	20,028,127	(3,402,014)	16,626,113	18,606,000	(4,111,000)	14,495,000

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 Statement of Financial Position 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)

25 UNEARNED PREMIUMS RESERVE

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

	2009			2008		
	Gross	Retrocessions	Net	Gross	Retrocessions	Net
	US$	US$	US$	US$	US$	US$
At 1 January	16,462,653	(3,637,663)	12,824,990	14,176,370	(3,349,821)	10,826,549
Increase in the year (net)	4,425,362	(955,255)	3,470,107	2,286,283	(287,842)	1,998,441
At 31 December	20,888,015	(4,592,918)	16,295,097	16,462,653	(3,637,663)	12,824,990

26 DEFERRED INCOME

Deferred income represents the value of leasehold land at initial recognition. This land was granted to the company by the Kenya Government. The amount is amortized to income over the lease term. The movement on the deferred income account during the year is as follows:

	31.12.2009	31.12.2008	01.01.2008
	US$	US$	US$
Arising from Government grant	80,686	80,686	80,686
Accumulated amortisation	(13,041)	(12,226)	(11,411)
At 31 December	67,645	68,460	69,275

27 PAYABLES ARISING FROM RETROCESSION ARRANGEMENTS

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

	31.12.2009	31.12.2008	01.01.2008
	US$	US$	US$
At 1 January	4,815,712	5,556,836	5,425,793
Decrease during the year	(1,480,955)	(1,896,983)	(1,284,326)
Receivables and payables write - back	-	1,155,859	1,415,369
At 31 December	3,334,757	4,815,712	5,556,836

28 OTHER PAYABLES

	31.12.2009	31.12.2008	01.01.2008
	US$	US$	US$
Rent deposits	208,130	204,833	209,439
Other liabilities	229,388	222,078	399,790
Leave pay provision	117,297	107,943	89,809
Provision for gratuity	308,369	108,134	79,345
Advance rent	-	154	1,480
	863,184	643,142	779,863

Notes to the Financial Statements (Continued)

29 DIVIDEND PAYABLE

	31.12.2009	31.12.2008	01.01.2008
The movement in dividends payable is as follows:	US$	US$	US$
At 1 January	1,833	9,020	22,078
Final dividend declared	480,000	750,000	500,000
Dividend paid	(452,018)	(7,187)	(513,058)
Dividend capitalised	(27,982)	(750,000)	-
At 31 December	1,833	1,833	9,020

In respect of the current year, the directors propose that a dividend of US$ 1,200,000 be paid to shareholders. This dividend is subject to approval of shareholders at the Annual General Meeting to be held on 10 May 2010 and has therefore not been recognised as a liability in these financial statements.

30 COMMITMENTS

Capital commitments

Capital expenditure authorised but not contracted for at the date of the Statement of Financial position and which is not recognised in the financial statements is as follows:

	2009	2008
	US$	US$
Property and equipment	1,687,000	580,750

31 RELATED PARTIES

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

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

(i) Transactions with related parties	2009	2008
	US$	US$
Gross earned premium:		
- Shareholders	8,546,223	6,596,231
Claims Paid		
- Shareholders	4,415,240	1,434,868
Deposits with financial institutions		
- PTA Bank	15,703,487	3,782,985
(ii) Directors' remuneration		
Directors' fees	59,300	48,650
Other emoluments (per diem)	41,400	47,000
	110,700	95,650

Notes to the Financial Statements (Continued)

31 RELATED PARTIES (Continued)

(iii) Key management remuneration	2009	2008
	US$	US$
Salaries and other short-term employment benefits	491,371	382,838
Gratuity	103,809	85,875
	595,180	468,713

(iv) Outstanding balances with related parties	2009	2008
	US$	US$
Premiums receivable from related parties	1,341,200	805,821
Staff car and other loans	173,033	194,159

32 CASH AND CASH EQUIVALENTS

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

	2009	2008
	US$	US$
Cash and bank balances	556,988	172,750
Deposits with financial institutions	40,225,184	34,103,602
Treasury bills – maturing within 6 months (Note 17)	1,937,594	2,934,218
	42,719,766	37,210,570

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 Statement of Financial Position date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The ultimate liability arising from claims payable under reinsurance contracts

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

Notes to the Financial Statements (Continued)

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

from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

Impairment losses

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

Useful lives of property and equipment

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

Held -to-maturity investments

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

Available for sale investments

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

34 RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(i) Reinsurance risk

ZEP- RE writes all classes of business, namely Accident, Motor, Fire, Engineering, Marine, Aviation and Life.

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

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

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

Notes to the Financial Statements (Continued)

34 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

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

At 31 December 2009

		Maximum insured loss			Total
Class of business		**US$ 0m - US$ 0.25m**	**US$ 0.25m - US$ 1m**	**Over US$ 1m**	
Property	Gross	55,028,588	170,088,382	658,289,127	883,406,097
	Net	53,102,475	139,008,527	413,509,536	605,620,538
Casualty	Gross	34,783,855	46,794,980	49,698,239	131,277,074
	Net	33,480,330	35,095,273	27,302,381	95,877,984
Motor	Gross	11,466,326	8,561,764	-	20,028,090
	Net	10,386,537	4,321,457	-	14,707,994
Marine & Aviation	Gross	29,376,145	23,445,591	30,211,940	83,033,676
	Net	28,992,188	20,277,695	11,598,350	60,868,233
Life assurance business	Gross	352,132	-	-	352,132
	Net	352,132	-	-	352,132
Total	**Gross**	**131,007,046**	**248,890,717**	**738,199,306**	**1,118,097,069**
	Net	**126,313,662**	**198,702,952**	**452,410,267**	**777,426,881**

At 31 December 2008

		Maximum insured loss			Total
Class of business		**US$ 0m - US$ 0.25m**	**US$ 0.25m - US$ 1m**	**Over US$ 1m**	
Property	Gross	36,969,175	145,168,130	638,847,467	820,984,772
	Net	35,965,932	120,681,710	396,120,075	552,767,717
Casualty	Gross	30,512,391	48,784,665	41,383,238	120,680,294
	Net	29,076,266	36,318,554	14,465,657	79,860,477
Motor	Gross	6,666,313	7,022,982	3,605,016	17,294,311
	Net	5,980,929	3,808,604	319,232	10,108,765
Marine & Aviation	Gross	23,881,043	33,980,606	25,857,483	83,719,132
	Net	23,732,368	29,366,324	9,110,744	62,209,436
Life assurance business	Gross	786,156	688,141	-	1,474,297
	Net	786,156	688,141	-	1,474,297
Total	**Gross**	**98,815,078**	**235,644,524**	**709,693,204**	**1,044,152,806**
	Net	**95,541,651**	**190,863,333**	**420,015,708**	**706,420,692**

Notes to the Financial Statements (Continued)

34 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

Class	2009 Limit (US$)	2008 Limit (US$)
Fire/Engineering risk	5,000,000 in excess of 1,000,000	5,250,000 in excess of 750,000
Catastrophe	13,100,000 in excess of 1,000,000	11,350,000 in excess of 750,000
Accident and Motor	1,375,000 in excess of 125,000	1,400,000 in excess of 100,000
Marine XL	2,250,000 in excess of 250,000	2,250,000 in excess of 250,000

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

(ii) Financial risk

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

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

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

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

(a) Credit risk

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

The key areas that the Company is exposed to credit risk are:

- Receivables arising out of reinsurance arrangements both inward and outward;
- Retrocessionaires' share of outstanding claims;
- Deposits and cash balances held with banks and other financial institutions;
- Investments in Government securities

The Company manages its exposure in the following ways:

- places its retrocession programme with rated securities – investment grade and above;
- dealing with only credit-worthy counterparties;
- placing limits on the company's exposure to a single counterparty or group of counterparties while placing investments. The company only places its investments with investment grade rated counterparties by reputable international rating agencies.

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 debts considered doubtful at the end of reporting period. 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

Notes to the Financial Statements (Continued)

34 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Financial risk (Continued)

(a) Credit risk (Continued)

those provided for at the statement of financial position 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.

Maximum exposure to credit risk before collateral held

	2009	2008
	US$	US$
Other receivables (excluding prepayments) (note 16)	287,374	312,044
Receivables arising out of reinsurance arrangements	5,756,317	6,061,923
Government securities held to maturity (note 17)	9,762,352	8,479,856
Deposits with financial institutions	40,225,184	34,103,602
Bank balances (note 19)	556,988	172,750
	56,588,215	49,130,175

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

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

Receivables arising out of reinsurance arrangements are summarized as follows:

	2009	2008
	US$	US$
Neither past due nor impaired:		
-up to 90 days	1,738,210	698,632
-up to 91 to 120 days	447,530	(290,500)
-up to 121 to 270 days	1,545,839	1,785,076
-up to 270 to 360 days	1,193,917	136,226
Past due but not impaired	830,821	3,732,489
Impaired	3,352,607	1,530,214
	9,108,924	7,592,137
Less provision for impairment	(3,352,607)	(1,530,214)
Total	5,756,317	6,061,923

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

Notes to the Financial Statements (Continued)

34 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Financial risk (Continued)

(b) Market risks

Interest rate risk

Exposure to interest sensitive assets is managed by use of a yield curve in order to ensure that the company does not hold low yielding investments in a high interest environment.

The company has an investment committee which sets investment guidelines that seek to reduce exposure to interest rate risks.

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

Note 20 discloses the weighted average interest rate on principal interest bearing investments.

Currency risk

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

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

At 31 December 2009, if the US dollar had weakened/strengthened by 10% against the Kenya shilling with all other variables held constant, the net assets for the year would have been US$ 683,737 higher/lower (2008: US$ 441,672 lower/higher) mainly as a result of Kenya shilling denominated trade receivables, trade payables and bank balances. This is significant as the portion of Kenya shilling denominated net assets constitute 16.69% (2008: 12.63%) of the company's net assets.

At 31 December 2009, if the US dollar had weakened/strengthened by 10% against the sterling pound with all other variables held constant, the net assets for the year would have been US$ 842,417 (2008: US$ 1,173,955) higher/lower mainly as a result of sterling pound denominated trade receivables and payables. This is also significant as the portion of sterling pound denominated net assets constitute 20.56% (2008: 33.56%).

At 31 December 2009, if the US dollar had weakened/strengthened by 10% against the Sudanese Pound (SDG) with all other variables held constant, the net assets would have been US$ 513,115 (2008: US$ 418,944) higher/lower, mainly as a result of Sudanese Pound denominated trade receivables. This is also significant as the portion of Sudanese Pound denominated net assets constitute 12.52% (2008: 11.98%).

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

34 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Financial risk (Continued)

(b) Market risks (Continued)

Currency risk (Continued)

At 31 December 2009	**US$**	**GBP**	**KES**	**SDG**	**UGX**	**TZS**	**RWF**	**ETB**	**ZMK**	**Others**	**Total**
Assets											
Available-for-sale equity investments	718,750	-	1,631,186	-	-	-	-	-	-	-	2,349,936
Receivables arising out of reinsurance arrangements	462,885	(104,973)	1,149,993	1,003,296	734,371	(150,699)	278,465	651,103	(404,888)	2,136,764	5,756,317
Retrocessionaires share of technical liabilities	1,719,998	4,490	2,958,737	518,440	441,951	440,883	131,237	360,810	145,432	1,272,954	7,994,932
Deposits retained by ceding companies	110,667	-	674,866	-	-	23,902	63,196	39,555	251	831,063	1,743,500
Government securities held to maturity	-	-	4,313,379	5,448,973	-	-	-	-	-	-	9,762,352
Deposits with financial institutions	20,801,701	7,680,535	10,944,265	727,080	-	-	-	-	71,603	-	40,225,184
Cash and bank balances	307,085	21,975	137,290	10,749	-	-	-	-	52,842	27,047	556,988
Total	**24,121,086**	**7,602,027**	**21,809,716**	**7,708,538**	**1,176,322**	**314,086**	**472,898**	**1,051,468**	**(134,760)**	**4,267,828**	**68,389,209**
Liabilities											
Reinsurance contract liabilities	4,134,112	8,718	8,038,947	898,023	770,116	1,222,366	461,569	1,539,886	389,274	2,565,116	20,028,127
Payables arising from retrocession arrangements	2,185,856	-	95,272	290,031	79,791	98,135	54,851	1,296	98,522	431,003	3,334,757
Deposits retained on ceded reinsurance business	316,392	-	-	-	-	-	-	-	-	-	316,392
Unearned premium reserves	3,679,883	11,560	7,521,863	1,902,450	1,537,405	1,380,500	434,614	1,224,958	509,227	2,685,555	20,888,015
Total	**10,316,243**	**20,278**	**15,656,082**	**3,090,504**	**2,387,312**	**2,701,001**	**951,034**	**2,766,140**	**997,023**	**5,681,674**	**44,567,291**

Notes to the Financial Statements (Continued)

34 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Market risks (Continued)

Currency risk (Continued)

At 31 December 2008	**US$**	**GBP**	**KES**	**SDG**	**UGX**	**TZS**	**RWF**	**ETB**	**ZMK**	**Others**	**Total**
Assets											
Available-for-sale equity investments	718,750	-	1,519,650	-	-	-	-	-	-	-	2,238,400
Receivables arising out of reinsurance arrangements	(6,682)	86,420	1,855,767	192,645	666,277	145,281	555,637	615,583	36,962	1,914,033	6,061,923
Retrocessionaires share of technical liabilities	1,323,571	3,130	2,745,106	316,870	357,164	1,144,858	153,524	214,372	186,117	1,303,951	7,748,663
Deposits retained by ceding companies	34,148	-	440,307	-	-	(12,540)	99,241	105,208	18,220	1,082,494	1,767,078
Government securities held to maturity	-	-	3,844,562	4,635,294	-	-	-	-	-	-	8,479,856
Deposits with financial institutions	16,128,293	10,491,907	6,716,315	501,850	-	-	-	-	265,237	-	34,103,602
Cash and bank balances	79,419	1,239	34,785	25,375	-	-	-	-	1,074	30,858	172,750
Total	18,277,499	10,582,696	17,156,492	5,672,034	1,023,441	1,277,599	808,402	935,163	507,610	4,331,336	60,572,272
Liabilities											
Reinsurance contract liabilities	3,497,951	4,194	6,349,142	810,833	586,447	2,285,646	449,485	1,397,220	614,178	2,610,904	18,606,000
Payables arising from retrocession arrangements	3,343,515	-	219,391	-	66,178	73,545	28,396	1,707	59,711	1,023,269	4,815,712
Deposits retained on ceded reinsurance business	291,712	-	-	-	-	-	-	-	-	-	291,712
Unearned premium reserves	2,348,379	12,904	6,612,912	1,090,701	1,343,445	766,278	484,168	785,400	682,004	2,336,462	16,462,653
Total	**9,481,557**	**17,098**	**13,181,445**	**1,901,534**	**1,996,070**	**3,125,469**	**962,049**	**2,184,327**	**1,355,893**	**5,970,635**	**40,176,077**

Notes to the Financial Statements (Continued)

34 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Financial risk (Continued)

(b) Market risks (Continued)

Equity price risk

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

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

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

At 31 December 2009, if the share prices at the NSE had increased/decreased by 8% with all other variables held constant and all the company's equity instruments moved according to the historical correlation to the index, total comprehensive income for the year would have been US$ 4,242 (2008: US$ 64,637) higher/lower, and equity would have been US$ 4,242 (2008: US$ 64,637) higher/lower.

(c) Liquidity risk

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

The table below shows the contractual timing of cash flows arising from assets and liabilities included in the company's ALM framework for management of reinsurance contracts as of 31 December 2009:

Financial assets	Total Amount 31.12.2009	No stated maturity	Contractual cash flows (undiscounted) 0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 5 yrs
Available-for-sale equity investments	2,349,936	2,349,936	-	-	-	-	-
Receivables arising out of reinsurance arrangements	5,756,317	-	5,756,317	-	-	-	-
Deposits retained by ceding companies	1,743,500	-	1,743,500	-	-	-	-
Retrocessionaires share of technical liabilities	7,994,932	-	7,994,932	-	-	-	-
Government securities held to maturity	9,762,352	-	7,466,132	547,915	131,733	159,007	1,457,565
Deposits with financial institutions	40,225,184	-	39,957,509	-	-	-	267,675
Cash and bank balances	556,988	-	556,988	-	-	-	-
Total	68,389,209	2,349,936	63,475,378	547,915	131,733	159,007	1,725,240
Reinsurance liability							
Reinsurance contract liabilities	20,028,127	-	20,028,127	-	-	-	-
Payables arising from retrocession arrangements	3,334,757	-	3,334,757	-	-	-	-
Deposits retained on ceded reinsurance business	316,392	-	316,392	-	-	-	-
Total	23,679,276	-	23,679,276	-	-	-	-

Notes to the Financial Statements (Continued)

34 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Financial risk (Continued)

(b) Liquidity risk (Continued)

The table below shows the contractual timing of cash flows arising from assets and liabilities included in the company's ALM framework for management of short term reinsurance contracts as of 31 December 2008:

	Total Amount	No stated	Contractual cash flows (undiscounted)				
Financial assets	**31.12.2008**	**maturity**	**0-1 yr**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**> 5 yrs**
Available-for-sale equity investments	2,238,400	2,238,400	-	-	-	-	-
Receivables arising out of reinsurance arrangements	6,061,923	-	6,061,923	-	-	-	-
Deposits retained by ceding companies	1,767,078	-	883,540	883,539	-	-	-
Retrocessionaires share of technical liabilities	7,748,663	-	7,748,663	-	-	-	-
Government securities held to maturity	8,479,856	-	7,285,672	362,292	540,276	131,559	160,056
Deposits with financial institutions	34,103,602	-	33,839,364	-	-	-	264,238
Cash and bank balances	172,750	-	172,750	-	-	-	-
Total	60,572,272	2,238,400	55,991,912	1,245,831	540,276	131,559	424,294
Reinsurance liability							
Reinsurance contract liabilities	18,606,000	-	18,606,000	-	-	-	-
Payables arising from retrocession arrangements	4,815,712	-	4,815,712	-	-	-	-
Deposits retained on ceded reinsurance business	291,712	-	145,856	145,856	-	-	-
Total	23,713,424	-	23,567,568	145,856	-	-	-

Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

Disclosures of fair value of financial instruments not measured at fair value have not been made because the financial instruments carrying amounts is a reasonable approximation of their fair values.

Notes to the Financial Statements (Continued)

34 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Financial risk (Continued)

Fair value of financial assets and liabilities (continued)

(ii) Fair value hierarchy

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi stock exchange.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).This level includes equity investments and debt instruments with significant unobservable components.

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

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

31 December 2009		**Level 1**	**Level 2**	**Level 3**	**Total**
	Note	**US$**	**US$**	**US$**	**US$**
Financial assets:					
Available for sale					
- Quoted equity instruments	13	1,631,186	-	-	1,631,186
		==========	=====	=====	==========

35 CAPITAL MANAGEMENT

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

The company's objectives in managing its capital are:

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

Notes to the Financial Statements (Continued)

35 CAPITAL MANAGEMENT (Continued)

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

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

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

	2009 US$	2008 US$
Share capital	30,011,275	29,998,013
Share premium	337,619	322,899
Property revaluation reserve	211,294	9,042
Available for sale fair value reserve	(824,432)	(771,408)
Retained earnings	7,137,774	1,922,496
Equity	36,873,530	31,481,042
Total capital	**36,873,530**	**31,481,042**

Supplementary Information

REVENUE ACCOUNT

APPENDIX I

	2009				2008			
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	43,821,047	6,246,723	5,681,141	55,748,911	33,491,705	4,957,210	7,537,584	45,986,500
Change in gross UPR	(3,340,961)	(363,181)	234,036	(3,470,107)	(1,539,553)	95,860	(554,748)	(1,998,441)
Gross earned premiums	40,480,086	5,883,542	5,915,177	52,278,805	31,952,152	5,053,070	6,982,836	43,988,059
Less: retrocession premiums	(10,624,285)	(828,369)	(29,641)	(11,482,295)	(8,647,348)	(446,609)	-	(9,093,958)
Net earned premiums	29,855,801	5,055,172	5,885,536	40,796,509	23,304,804	4,606,461	6,982,836	34,894,101
Gross claims paid	19,537,294	2,166,553	3,544,787	25,248,634	12,883,396	1,452,196	5,303,308	19,638,900
Change in gross o/s claims	2,314,951	(68,056)	(115,782)	2,131,113	932,030	930,270	103,111	1,965,411
Less: amounts recoverable from retrocessionaires	(3,832,886)	(92,629)	(16,778)	(3,942,293)	(3,053,596)	(71,058)	-	(3,124,654)
Net claims incurred	18,019,359	2,005,868	3,412,227	23,437,454	10,761,830	2,311,408	5,406,419	18,479,657
Commissions receivable	(4,116,711)	(289,173)	-	(4,405,884)	(2,834,908)	(121,357)	-	(2,956,265)
Commissions payable	11,803,750	1,946,670	1,481,960	15,232,380	8,802,211	1,510,196	1,392,373	11,704,780
Charges & taxes	246,948	36,749	2,714	286,411	151,844	28,672	2,508	183,024
Expenses of management	2,450,993	349,391	317,757	3,118,141	2,399,759	355,196	540,086	3,295,041
Total expenses and commissions	10,384,980	2,043,637	1,802,431	14,231,048	8,518,906	1,772,707	1,934,967	12,226,580
Underwriting profit/(loss)	1,451,462	1,005,667	670,878	3,128,008	4,024,068	522,346	(358,550)	4,187,865
Key ratios:	%	%	%	%	%	%	%	%
Loss ratio *(net claims incurred/net earned premium)*	60.35	39.68	57.98	57.45	46.2	50.2	77.4	53.0
Commissions ratio *(commissions payable/gross premium written)*	26.94	31.16	26.09	27.32	26.3	30.5	18.5	25.5
Expense ratio *(management exps/ gross written premium)*	5.59	5.59	5.59	5.59	7.2	7.2	7.2	7.2
	========	========	========	========	========	========	========	========

Supplementary Information (Continued)

APPENDIX II

SCHEDULE OF MEMBERSHIP, SHARE ALLOCATIONS, PAID UP SHARE CAPITAL AND VOTING POWER POSITION

Country/ institution	Shareholder	2009 Share Capital US$	2009 Paid-up Voting power	2008 Share Capital US$	2008 Paid-up Voting power
Burundi	SOCABU	383,531	1.28	383,531	1.28
	Assurances BICOR	219,566	0.73	219,566	0.73
Kenya	Kenya Reinsurance Corporation Ltd	7,656,293	25.51	7,656,293	25.52
	Government of Kenya	492,417	1.64	492,417	1.64
	Blue Shield Insurance Company Ltd	447,464	1.49	447,464	1.49
	Mayfair Insurance Company Ltd	604,526	2.01	604,526	2.02
	Apollo Insurance Company Ltd	124,984	0.42	124,984	0.42
Mauritius	Government of Mauritius	261,161	0.87	261,161	0.87
Mozambique	EMOSE	306,320	1.02	306,320	1.02
Rwanda	Government of Rwanda	3,266,442	10.88	3,266,442	10.89
	SONARWA	140,055	0.47	140,055	0.47
	SORAS	506,223	1.69	506,223	1.69
Sudan	Government of Sudan	1,762,005	5.87	1,748,743	5.83
	United Insurance Company Ltd	266,790	0.89	266,790	0.89
	Sheikan Ins. & Reins. Ltd	347,701	1.16	347,701	1.16
	Juba Insurance Company Ltd	291,845	0.97	291,845	0.97
Tanzania	National Insurance Corporation (T) Ltd	1,921,807	6.40	1,921,807	6.41
	ZIC	127,670	0.43	127,670	0.43
PPF	PPF	1,232,886	4.11	1,232,886	4.11
Uganda	National Insurance Corporation (U) Ltd	127,663	0.43	127,663	0.43
	Lion Assurance of Uganda Ltd	113,845	0.38	113,845	0.38
	Statewide Insurance Company Ltd	217,018	0.72	217,018	0.72
Zambia	ZSIC Ltd	600,919	2.00	600,919	2.00
	ZSIC – Pension Trust	1,350,702	4.50	1,350,702	4.50
	Government of Zambia	1,417,187	4.72	1,417,187	4.72
COMESA	PTA Bank	2,527,498	8.42	2,527,498	8.43
	COMESA Secretariat	350,570	1.17	350,570	1.17
Zimbabwe	Baobab Reinsurance Company Ltd	445,833	1.49	445,833	1.49
Madagascar	CMAR (NY Havana)	240,721	0.80	240,721	0.80
D.R. Congo	Société Nationale d'Assurances (SA)	125,661	0.42	125,661	0.42
Eritrea	NICE	870,370	2.90	870,370	2.90
Djibouti	Government of Djibouti	1,263,602	4.21	1,263,602	4.21
Total		30,011,275	100.00	29,998,013	100.00

Key:

SOCABU	=	Société d'Assurances du Burundi
EMOSE	=	Empresa Mocambicana de Seguros
SONARWA	=	Société Nouvelle d'Assurances du Rwanda
SORAS	=	Société Rwandaise d'Assurances
ZIC	=	Zanzibar Insurance Corporation
PPF	=	Parastatal Pensions Fund
ZSIC (Pension Trust)	=	Zambia State Insurance Pension Trust Fund
PTA Bank	=	The Eastern and Southern African Development Bank
CMAR (NY Havana)	=	Compagnie Malgache d'Assurances et Reassurances (NY Havana)
NICE	=	National Insurance Corporation of Eritrea (Share) Company
COMESA	=	Common Market for Eastern and Southern Africa

Supplementary Information (Continued)

AMB Credit Report - Insurance Professional for ZEP-RE (PTA REINSURANCE COMPANY) **APPENDIX III**

Composite

ZEP-RE Place, Longonot Road, Upper Hill, P.O. Box 42769 - 00100, Nairobi, Kenya
Web: http://www.zep-re.com/

Tel: 254-20-497-3000 **Fax:** 254-20-273-8444
AMB#: 78388

Report Revision Date: 12/01/2009

Financial Strength Ratings
Rating: **B (Fair)**
Financial Size Category: **VI** ($25 Million to $50 Million)
Outlook: **Positive**
Action: **Affirmed**
Effective Date: **November 12, 2009**

Issuer Credit Ratings
Long-Term: **bb+**
Outlook: **Positive**
Action: **Affirmed**
Date: **November 12, 2009**

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of B (Fair). The company's Financial Size Category is Class VI.

RATING RATIONALE

Rating Rationale: The rating of ZEP-RE (PTA Reinsurance Company) reflects its improving adjusted capitalisation, good underwriting performance and its robust risk management framework. An offsetting factor is its developing business profile.

In A.M. Best's opinion, ZEP-RE's risk-adjusted capitalisation has strengthened, as the decline in the level of support from earnings in 2008 was offset by the issuing of additional share capital (USD 6.6 million). The positive outlook reflects A.M. Best's expectation of sustained improvements in underwriting performance and risk based capitalisation, as the company pursues its growth objectives.

ZEP-RE's underwriting profits increased to USD 4.2 million in 2008 (USD 1.0 million in 2007). A.M. Best estimates that the company's underwriting performance will remain at this broad level in the next three years, although the combined ratio is expected to increase slightly to 93% (88% in 2008). A.M. Best, however, projects improved longer-term financial performance as premium growth of approximately 13% per annum is augmented by improved underwriting and stronger investment performance. A.M. Best believes that the considerable progress the company's management has made in developing its risk management framework will further enhance the scope for improved operational performance in the longer term.

ZEP-RE is a Kenya-based reinsurer, created by countries of COMESA, where it has established itself as an important reinsurer. ZEP-RE's domestic market comprises countries that are members of COMESA, while the rest of Africa and markets outside Africa make up its international market. A.M. Best believes ZEP-RE will continue to strengthen its operations in the African reinsurance market, growing between 10%-15% in each of the next two years, with gross premiums written in excess of USD 55 million. ZEP-RE's business profile benefits from good geographical and product diversification, particularly on its non-life business. A.M. Best believes the company will increase its market share and business leads especially in attracting business from small to medium-sized insurance companies.

Best's Financial Strength Rating: B **Outlook: Positive**

GCR GLOBAL CREDIT RATING CO.
Local Expertise • Global Presence

ZEP Re (PTA Reinsurance Company) Limited

Kenya Reinsurance Analysis **July 2009**

Security class	Rating scale	Currency	Rating	Rating watch	Expiry date
Claims paying ability	National	KShs	AA	No	07/2010
Claims paying ability	International	US$	BBB-	No	07/2010

Financial data:

(US$'m Comparative)

	31/12/07	31/12/08
Total assets	53.4	64.5
Total capital	23.4	31.3
Cash and equiv.	21.8	34.3
GPI	37.9	46.0
U/w result	1.1	4.4
NPAT	1.9	7.9
Op. cash flow	10.0	5.8
Market cap	n.a.	
Market share	n.a.	

Fundamentals:

ZEP Re (PTA Reinsurance Company) Limited ("ZEP RE") was established in 1990 to promote trade in the insurance and reinsurance sectors of the COMESA region. The company is exempt from taxation in the member states in which it operates. The company is headquartered in Nairobi, Kenya and operates regional offices in Sudan, Zambia and Cameroon. The Board of the company is comprised of 10 non-executive members elected every three years.

GCR contacts:

Marc Joffe
+2711 784-1771
joffe@globalratings.net

Website: www.globalratings.net

Rating rationale

The rating is based on the following key factors:

- ZEP RE's favourable strategic position given its legal mandatory cessions was positively viewed, while its well diversified sovereign equity participation serves to significantly reduce sovereign interference risk.
- The rate of capital accumulation has exceeded growth in net premiums over the past two years, driving a consecutive increase in the international solvency ratio to a review period high.
- Further capital raising initiatives are expected to see shareholders interest increase to approximately US$48m in 2009, with solvency budgeted to pierce 100%.
- ZEP RE maintains a conservative investment policy with a strong focus on liquidity and the preservation of capital.
- The company continues to exhibit a high level of dependence on the Kenyan market, while the ability to price and accept risk in other regions is somewhat constrained by ZEP RE's limited participation in some of these markets.
- While retrocession arrangements on the excess of loss programme are led by counterparties rated at least A internationally, ZEP RE's exposure to various non-investment grade retrocessionaires implies a level of business risk.

Solvency and liquidity

Supported by the issue of new share capital of US$6.6m, shareholders interest increased by 34% to US$31m in F08. The international solvency ratio increased accordingly, to 85% in F08 (F07: 79%). The conservative reinsurance programme provides further protection to the capital base, whereby an XOL treaty limits maximum potential exposure to any single risk to US$1m (around 3% of FYE08 capital). Cash holdings increased by 57% to US$34m in F08, driving an increase in the cash claims coverage ratio to 22 months from 16 months previously. Cash and liquid assets accounted for 63% of total investments in F08, and are mainly held in US Dollars (47%) and British Pounds (31%).