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Corporate Information

BOARD OF DIRECTORS	Dr. Michael Gondwe	-	(Chairman)
	Ms. Irene Muyenga	-	(Vice Chairperson)
	Mr. Rajni Varia	-	(Managing Director)
	Mr. Aden Saleh Omar		
	Mr. Albert Nduna		
	Ms. Amna Ali Mohammed		
	Mr. Elias Baingana		
	Mr. Justine Mwandu		
	Mrs. Nelius Kariuki		
	Mr. Tushar Shah		
	Mr. William Erio		
	Mr. Yaw Kuffour		
ALTERNATE DIRECTORS	Mr. Alex Gitari		
	Mr. Anjay Patel		
	Mr. Hosea Kashimba		
	Mr. Iddi Haji		
	Mr. Jadiah Mwarania		
	Mr. Leo Huvaya		
	Mr. Marc Rugenera		
	Mr. Mohammed Seyadou		
	Mr. Patrick Khaemba		
	Mr. Peter Chasekwa Lukwesa		
	Mrs. Shamoum 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
	Mr. Jephita Gwatipedza	-	Country Manager, Zimbabwe

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
No. 54, Plot No. 1014A,
Church Road, Rhodes Park
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
B. P. 12671
Charles De Gaulle Avenue
Bonanjo, Douala, Cameroon
Telephone: +237 33 47265
Fax: +237 33 420472

Harare, Zimbabwe
Joina City, 16th Floor
Jason Moyo Avenue / Inez Terrace
Tel: +263 4777429

AUDITORS

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

BANKERS:

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

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

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

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

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

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

Stanbic Bank Zimbabwe Limited
Parklane Branch, Social Security Centre, 77 Parklane
Harare, Zimbabwe

The Board of Directors Profiles

Dr. Michael Gondwe

Dr. Michael Gondwe is the Chairman of the Board. He was appointed to this position in May 2010 and had previously served as a non-Executive Director of ZEP-RE since 2000. Dr. Gondwe holds Law degrees from Universities of Zambia and Virginia, an MBA from Moi University, a Diploma in Financial Management from the Kenya College of Accountancy and is an alumnus of the Advanced Management Program of the University of Oxford. Dr. Gondwe has extensive work experience in the banking industry and is the immediate past President of the PTA Bank, a sister COMESA institution and a leading regional development institution and is currently the Governor of the Bank of Zambia. He also holds a directorship position with Gulf African Bank.

Ms. Irene Muyenga

Ms. Irene Muyenga is the Vice-Chairperson of the Board. She was appointed to this position in May 2011 and had previously served as a non-Executive Director of ZEP-RE since 2004. Ms. Muyenga holds a Bachelor of Arts (Ed) degree from the University of Zambia, an LIII diploma from Bombay and a DIS diploma from the Business Insurance Institute of Zambia. Ms. Muyenga has extensive work experience in the insurance industry and is currently the Group Managing Director of ZSIC Limited in Zambia. She also holds directorship positions in the following institutions: ZAMBEEF Limited, Barclays Bank of Zambia Limited, ZSIC Group and Mulungushi University.

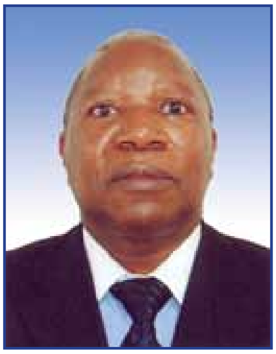
Mr. Rajni Varia

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

Mr. Aden Saleh Omar

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

The Board of Directors Profiles (Continued)



Mr. Albert Nduna

Mr. Albert Nduna is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2011. He is a graduate of the University of Lancaster in UK in Accounting and Finance and holds a Masters in Business Administration from Bradford University in the UK. He has served in various positions in the private and public sectors and is currently the Group Managing Director of ZIM Re Holdings. Mr. Nduna currently holds directorship positions in a number of companies in Zimbabwe, Malawi, Mozambique, South Africa and Uganda.

Ms. Amna Ali Mohammed

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

Mr. Elias Baingana

Mr. Elias Baingana is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2011. Mr. Baingana is a holder of a Bachelor of Arts, Economics (Hons) and a Masters in International Taxation from Sydney University (Australia). He has extensive work experience in the Government having previously served as Director of Corporate Planning, Research and Statistics in the Rwanda Revenue Authority and Director of National Budget in the Ministry of Finance and Economic Planning. He is currently the Director General of National Budget in the Ministry of Finance and Economic Planning of the Government of Rwanda. Mr. Baingana currently holds directorship positions at the Students Financing Agency for Rwanda (SFAR) and the Fund for Support of Genocide Survivors (FARG).

Mr. Justine Mwandu

Mr. Justine Mwandu is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2011. Mr. Mwandu holds a Master of Arts degree in Public and Social Administration from Brunel University, London; an Advanced Diploma in Insurance and a Postgraduate Diploma in Financial Management, both from the Institute of Finance Management, Dar es Salaam; and an ACII diploma, UK. Mr. Mwandu is currently the Acting Managing Director of National Insurance Corporation of Tanzania. He is also Chairman of the Insurance Examination Board at the Institute of Finance Management, Dar es Salaam.

The Board of Directors Profiles (Continued)

Mrs. Nelius Kariuki

Mrs. Nelius Kariuki is a non-Executive Director of ZEP-RE. She joined the Board of ZEP-RE in May 2011. Mrs. Kariuki is a holder of a Bachelor of Arts, Economics (Hons) and a Masters of Art (Econ) degree from the University of Nairobi. She worked in various positions in the Government rising to the level of Principal Economist. Mrs. Kariuki is currently the Chairperson of Kenya Reinsurance Corporation, ZEP-RE's largest shareholder and a member of the Institute of Directors (Kenya).

Mr. Tushar Shah

Mr. Tushar Shah is a non-Executive Director of ZEP-RE and has served on the Board of ZEP-RE since 2010. Mr. Shah is an automobile engineer by profession and is currently the Managing Director of Mayfair Insurance Company in Kenya.

Mr. William Erio

Mr. William Erio is a non- Executive Director of ZEP-RE and has served on the Board of ZEP-RE since 2006. Mr. Erio holds Bachelor of Laws degree from the University of Dar es Salaam and a Master of Laws degree from the University of Hull, United Kingdom. He currently serves as the Director General of the Parastatal Pensions Fund of Tanzania and holds directorship positions in Tanzania National Reinsurance Corporation Limited, Azania Bank and PPL Limited.

Mr. Yaw Kuffour

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

Notice of the 21st Annual General Assembly

NOTICE IS HEREBY GIVEN that the 21st Annual General Assembly of ZEP-RE (PTA Reinsurance Company) will be held at Crowne Plaza, Nairobi, Kenya on Monday 14th May 2012 at 0900 hours Kenyan time to conduct the following business

1. To note the presence of a quorum.
2. To adopt the agenda.
3. To confirm minutes of the previous Annual General Assembly held on 27th May 2011.
4. To consider and adopt the Financial Statements for the year ended 31st December 2011 together with the Chairman's Statement, the Directors' and Auditors' Reports.
5. To approve the directors' remuneration for the financial year ended 31 December 2011.
6. To declare a dividend. The directors recommend of a dividend of US$ 1,573,200 for the year ended 31 December 2011.
7. To approve the appointment of Deloitte & Touche as External Auditors for 2012 and approve their remuneration.
8. To undertake a by-election for vacant positions of Directors and Alternate Directors.
9. To undertake any other business.

VENUE

Crowne Plaza Hotel, Nairobi, Kenya

BY ORDER OF THE BOARD

Jerry Sogoli
Secretary to the Board

Note

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on their behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is provided with this NOTICE, must be duly completed by the member and lodged at the Company's headquarters on 8th Floor, ZEP-RE Place, Longonot Road, Upper Hill, Nairobi by post, fax or email in time using the following address - P.O. Box 42769 00100 Nairobi, Kenya, Fax - +25420273844 4 or Email - mail@zep-re.com so as to reach the Company not later than Monday 30th April 2012.

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 2011.

Business Environment

The gains that the Sub-Saharan Africa's economies secured after rebounding from the global economic down turn were sustained throughout 2011. Infact the economies of the region were among the best performing globally, fuelled by strong domestic demand and surging exports due to good weather and a renewed international demand in raw materials. The IMF reports that strong domestic demand and resurgent exports were projected to boost average growth rates in the region to between 5% and 5½% by year end.

The above notwithstanding, the debt crisis in the Euro zone coupled with a devastating earthquake in the world's third largest economy, Japan, threatened to curtail the economic gains countries of the region had made during the year.

Highlights of performance

I. Premiums

Premium income grew by 6.2% from US$ 59.84 million in 2010 to US$ 63.54 million in 2011. In original currencies, however, all our key markets grew by an average of 20%. The dollarized growth was affected mainly by a depreciation of key local currencies during the period.

II. Performance in key markets in the region

The COMESA region remains our key market and over 75% of business underwritten by the Company originated from this region. Economic factors prevailing in the key markets of the Company during the period and the operational performance of the Company were as follows: -

Kenya

Kenya remained the Company's largest market. During the period under review Kenya's economy experienced a 5% GDP growth largely due to a rebound in tourism; expansion in telecommunications, transport and construction; and, a recovery in agriculture. This growth was also reflected in the insurance business sector. The main offsetting factor was sustained pressure which the Kenyan shilling suffered in the second half of the year, a position that has since improved.

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

Tanzania

Tanzania was the second largest market for the Company in 2011. Like other markets in the region, Tanzania's economy registered remarkable growth in 2011 registering a GDP growth of 7%. The good growth was mainly attributable to good performance in the agricultural sector, traditional exports and the manufacturing industry.

Sudan

Sudan was the third largest market for the Company in 2011. A Retakaful Window established in 2010 continued consolidating its position in the market during 2011. Like other markets in the region, Sudan made good economic progress during the year registering a GDP growth of 5%. The growth was mainly attributable to increased demand for oil from the global market and sustained gains from the non-oil sector.

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

Highlights of performance (continued)

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

Ethiopia

Ethiopia was the fourth largest market for the Company in 2011. The Ethiopian economy has been one of the fastest growing in the region and, in 2011, it recorded a real GDP growth of 9% catapulting it to the top of the eastern African economies. The good performance was mainly driven by growth in the agricultural sector and increased investment in infrastructural projects.

Zambia

Zambia was the fifth largest market for the Company in 2011. The Company has a physical presence in Lusaka, having opened an office in 2007. During the period under review the Zambian economy grew by 5%. The growth was mainly attributable to renewed worldwide demand in commodities and minerals including Zambia's main export, copper; growth in the agriculture sector and recovery in the tourism sector.

Uganda

Uganda was the sixth largest market for the Company in 2011. During the period under review, Uganda's real economic growth was 6%, higher than that of many other comparable economies. The growth was mainly due to sustained macroeconomic policies and increased exports in commodities.

III. Underwriting results

In 2011 the Company's underwriting profit increased to US$ 3.10 million from the underwriting profit of US$ 1.74 million in 2010. Underwriting performance improved mainly due to a good performance across most major lines during the year. Net claims incurred in 2011 were US$ 26.10 million compared to the restated incurred claims of US$ 27.10 million in 2010.

IV. Outstanding claims provision

The Company's outstanding claims increased to US$ 33.98 million in 2011 from US$ 27.2 million in 2010.

V. Investments

Portfolio

The investment portfolio value increased from US$ 73.5 million as at 31 December 2010 to US$ 95.5 million as at 31 December 2011, an increase of US$ 22.0 million (29.9%). This growth is mainly attributable to a US$ 9.56 million share subscriptions by African Development Bank (AfDB) & the Government of Djibouti and cash flow surplus from operating activities.

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

Performance

The investment income increased from US$ 4,430,022 in 2010 to US$ 5,583,515, a 26% growth. This was on account of the aforementioned increase in the value of the investment portfolio and diversification to better yielding instruments.

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

Highlights of performance (continued)

VI. Profitability

The Company achieved a profit of US$ 8.78 million in 2011 compared to US$ 5.25 million in 2010. The increase in profitability is attributable to improved underwriting results and increased investment income in 2011.

Dividend

The Company's profit for the year was US$ 8.78 million compared to US$ 5.25 million in 2010. Based on these results, the Board of Directors is recommending a dividend of US$ 1.573 million compared to US$ 1.311 million in 2010.

Admission of the African Development Bank into membership of ZEP-RE

Members will recall that, in November 2010, the 2nd Extra Ordinary General Assembly of the Company admitted the African Development Bank into membership of the Company. The member has since paid for its shares and appointed Mr. Yaw Kuffour, as its nominee on the Board of the Company and Mr. Patrick Khaemba as his Alternate.

Security Rating

The Company achieved an improvement in its credit rating from 'B'(fair) to 'B+'(good) and issuer credit rating from bb+ to "bbb-" with AM Best rating agency. The new rating confirms ZEP-RE as an international investment grade security. The improved ratings were mainly attributable to the Company's improved risk adjusted capitalisation, good underwriting performance and a robust risk management framework. The rating agency assigned a stable outlook to the credit rating. The stable outlook is a reflection of the expectation of sustained improvements in underwriting performance and risk based capitalisation as the Company pursues its growth objectives.

Appreciation

We take this opportunity to recognize the Board of Directors for the wise counsel, support, direction and service they have given and/or made as members of the Board and various Board committees.

To management and staff, we are grateful for your hard work that ensured the Company achieved good results in spite of the various challenges.

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

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

BY ORDER OF THE BOARD OF DIRECTORS

Dr. Michael Gondwe
Chairman

27 March 2012

Corporate Governance Report

GOVERNANCE STATEMENT

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

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

CORPORATE GOVERNANCE STANDARDS

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

GOVERNANCE STRUCTURE

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

General Assembly

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

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

Board of Directors

Role

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

Appointment

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

Composition

The current Board comprises 11 non-executive Directors and the Managing Director serving in an ex officio capacity.

Senior management officials of the Company attend Board meetings by invitation.

Corporate Governance Report (continued)

GOVERNANCE STRUCTURE (continued)

Board of Directors (continued)

Access to information and resources

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

During the year, Directors were provided with appropriate and timely information by management to enable the Board maintain full and effective control over strategic, financial, operational and compliance issues. Among the important issues considered by the Board in 2011 included approval of the 2010 financial statements, review of operational performance in 2011,and approval of the 2011 budget and retrocession programme.

Implementation of strategy

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

Charter

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

Other legal instruments

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

Internal Control Framework

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

Board Committees

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

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

Board Audit Committee

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

Corporate Governance Report (continued)

GOVERNANCE STRUCTURE (continued)

Board Committees (continued)

Board Audit Committee (continued)

The Committee serves in an advisory capacity to the Board and ensures that the Company's assets are safeguarded, that there is in place an adequate control framework and material corporate risks are being managed. The Committee met twice in 2011.

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

Board Investments Committee

The Board Investments Committee comprises Mr. William Erio (Chairman), Mr. Rajni Varia (Managing Director), Mrs. Nelius Kariuki, Mr. Tushar Shah and Mr. Yaw Kuffour. The Committee advises the Board on policy issues pertaining to investments. The Investments Committee met twice in 2011.

Board Human Resources Committee

The Board Human Resources Committee comprises Ms. Amna Ali Mohammed (Chairperson), Mr. Albert Nduna and Mr. Justine Mwandu. The Committee is mandated to monitor, evaluate, and advise the Board regarding remuneration, benefits and general human resources issues. The Human Resources Committee met twice in 2011.

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 2011 the aggregate amount of emoluments received by Directors is shown in Note 33 (ii) to the financial statements.

Board Attendance in 2011

The table below shows a record of attendance of Board Meetings by substantive Directors or through their Alternates in 2011:

	66th Board meeting	67th Board meeting	20th AGM	68th Board meeting
Dr. Michael Gondwe	√	√	√	√
Ms. Irene Muyenga	√	√	√	√
Mr. Rajni Varia	√	√	√	√
Mr. Aden Saleh Omar	√	√	√	√
Ms. Amna Ali Mohammed	√	√	√	√
Mrs. Nelius Kariuki	√	√	√	√
Mr. Justine Mwandu	√	√	√	√
Mr. Elias Baingana	√	√	√	√
Mr. Tushar Shah	√	√	√	√
Mr. Albert Nduna	√	√	√	√
Mr. William Erio	√	√	√	√
NEW APPOINTMENT IN OCTOBER 2011				
Mr. Yaw Kuffour				√

Corporate Governance Report (continued)

GOVERNANCE STRUCTURE (continued)

Managing Director and the Management team

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

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

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

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 2011 the Company undertook training workshops in various countries of the region including Kenya, Tanzania, Zambia, Gambia, Ethiopia, Mauritius, Uganda, Burundi, Rwanda, Gabon and Mozambique.

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

CORPORATE SOCIAL RESPONSIBILITY (CSR)

In furtherance of one of its core values of being a responsible corporate citizen, ZEP-RE continues to attach critical importance to CSR.

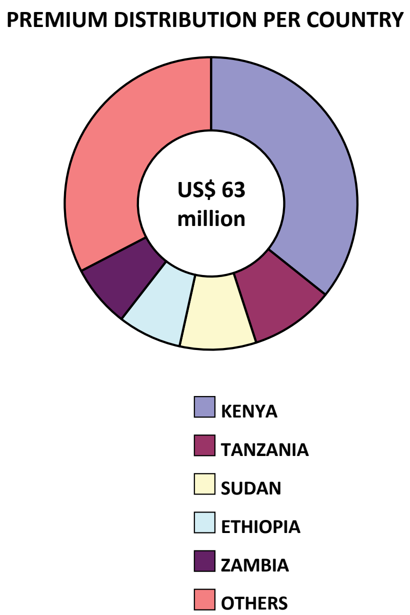
During the year, the Company continued to support Farasi Lane Primary School, a school located in the outskirts of Nairobi, Kenya. The school has approximately 800 children who are from poor backgrounds.

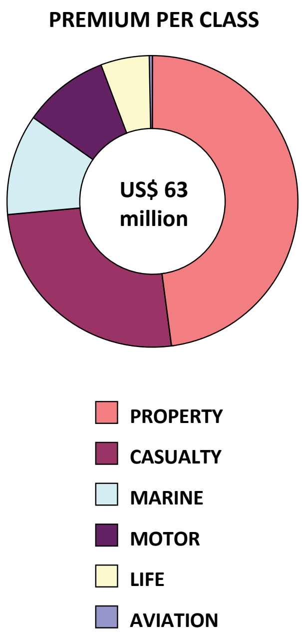
In November 2011, ZEP-RE donated school uniforms to all the pupils of Farasi Lane Primary School. This was aimed at ensuring that all the pupils of the school had school uniform having identified that most of them did not have the uniform because they could not afford it. The initiative was well received by both the school administration and the pupils.

Pupils of Farasi Lane School in their new uniforms donated by ZEP-RE.

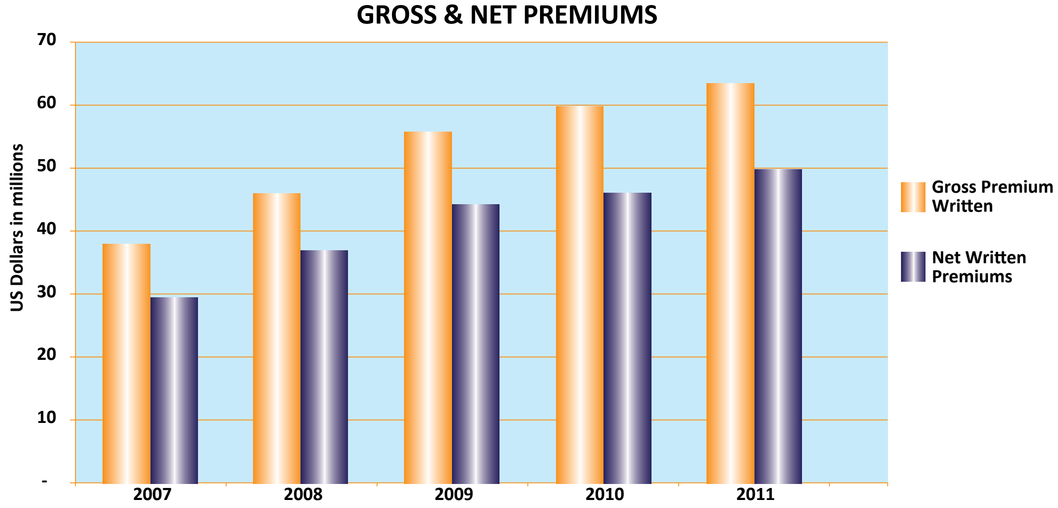
Financial Highlights

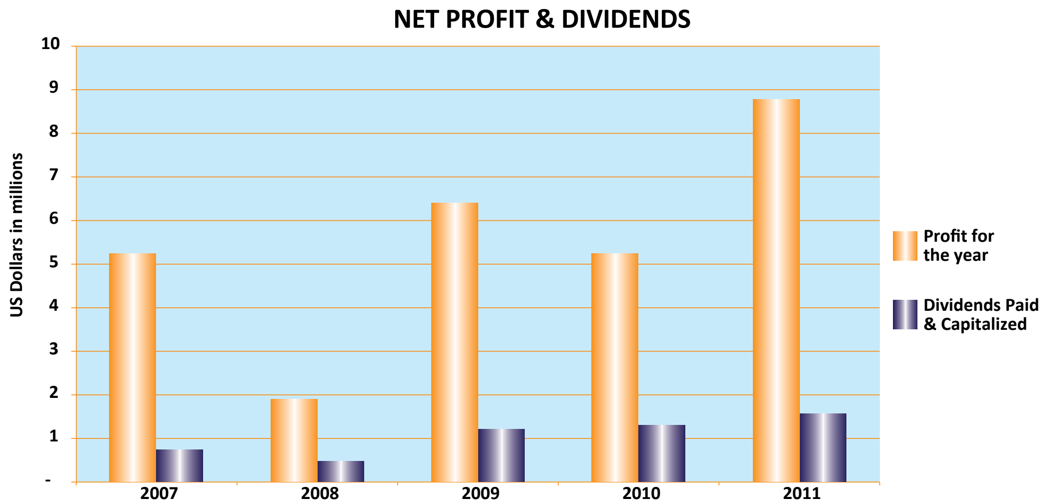
	2007 US$	2008 US$	2009 US$	2010 US$	2011 US$
Gross Premium Written	37,923,564	45,986,500	55,748,911	59,843,116	63,536,571
Net Written Premiums	29,536,935	36,892,542	44,266,616	46,042,768	49,846,359
Net Earned Premiums	27,720,240	34,894,101	40,214,408	44,361,208	46,489,807
Investment & other Income	6,343,962	7,543,712	8,253,469	10,117,026	11,083,593
Total Income	34,064,202	42,437,813	48,467,877	54,478,234	57,573,400
Claims Incurred	16,927,172	18,479,657	23,437,454	27,097,758	26,103,374
Commisions & other operating expenses	11,881,041	22,047,072	18,602,983	22,133,214	22,693,198
Profit for the year	5,255,989	1,911,084	6,427,440	5,247,262	8,776,828
Dividends Paid & Capitalized	750,000	480,000	1,200,000	1,311,000	1,573,200.0
Bonus Issue	9,852,399	-	-	-	-
Total Assetts	60,231,209	75,406,013	87,128,548	103,110,370	130,337,123
Total Equity	23,471,063	38,349,530	44,474,180	49,987,272	66,656,019

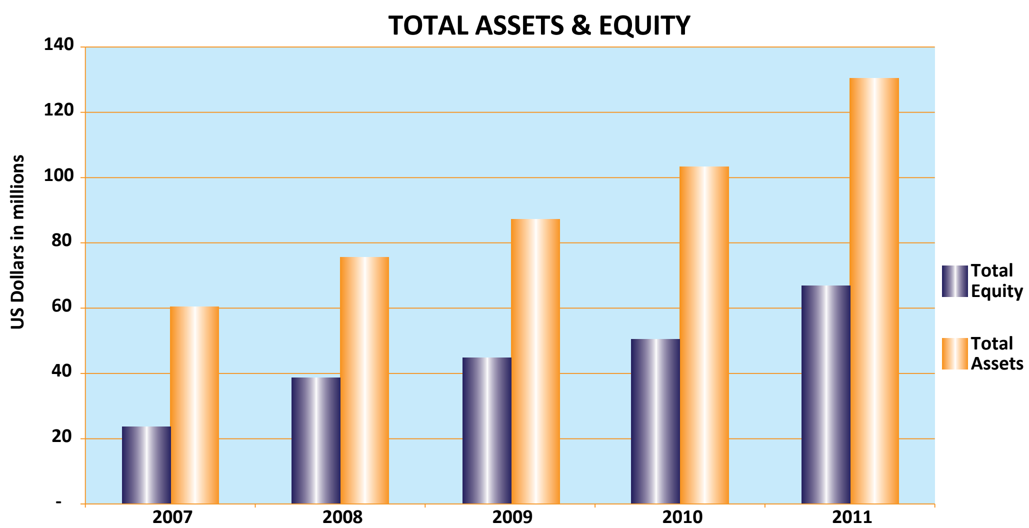




Financial Highlights (continued)







Report of the Directors

The Board of Directors hereby submit their report together with the audited financial statements for the year ended 31 December 2011, which disclose the state of affairs of the Company. The report is made in accordance with the provisions of Article 31 of the Agreement Establishing ZEP–RE (PTA Reinsurance Company).

PRINCIPAL ACTIVITIES

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

The business is divided into the following classes:

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

RESULTS AND DIVIDEND FOR THE YEAR

The profit for the year of US$ 8.78 million (2010: US$ 5.25 million) has been transferred to retained earnings. The directors recommend approval of a dividend of US$ 1,573,200 (2010: US$ 1,311,000) for the year ended 31 December 2011.

DIRECTORS

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

Retirements from the Board

Mr. Iddi Khamis Haji from Tanzania, Alternate Director to Mr. Justine Mwandu, retired from the Board during the course of the year. The Board would like to express sincere gratitude to Mr. Haji for the committed service he rendered to the Company during his tenure.

New Appointments to the Board

Mr. Yaw Kuffour from the African Development Bank was appointed to the Board of Directors in October 2011. His Alternate is Mr. Patrick Khaemba.

SECRETARY

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

AUDITORS

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

APPROVAL OF ANNUAL REPORT AND FINANCIAL STATEMENTS

The Annual Report and Financial Statements were approved by the Board of Directors on 27 March 2012.

BY ORDER OF THE BOARD

JERRY SOGOLI
SECRETARY

27 March 2012

Statement of Directors' Responsibilities

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

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

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

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

Dr. Michael Gondwe
Chairman

Rajni Varia
Managing Director

27 March 2012

Deloitte.

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

Tel: +254 (20) 423 0000
+254 (20) 444 1344/05-12
Fax: +254 (20) 444 8966
Dropping Zone No.92
Email: admin@deloitte.co.ke
www.deloitte.com

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

We have audited the accompanying financial statements of ZEP–RE (PTA Reinsurance Company) set out on pages 20 to 65 which comprise the statement of financial position as at 31 December 2011, 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by Article 31 of the Agreement establishing ZEP–RE (PTA Reinsurance Company), and for such controls as the directors determine are necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the 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 2011 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Article 31 of the Agreement Establishing ZEP–RE (PTA Reinsurance Company).

Deloitte & Touche

Certified Public Accountants (Kenya)

27 March 2012

Nairobi

Statement of Comprehensive Income
For The Year Ended 31 December 2011

	Notes	2011	2010
		US$	US$
Gross premiums written	3	63,536,571	59,843,116
Less: Retrocession premiums		(13,690,212)	(13,800,348)
Net written premiums		49,846,359	46,042,768
Movement in net unearned premiums reserve	26	(3,356,552)	(1,681,560)
Net earned premiums		46,489,807	44,361,208
Investment income	4	5,583,515	4,430,022
Commissions earned		4,757,737	5,138,517
Other income		742,341	548,487
Total income		**57,573,400**	**54,478,234**
Gross incurred claims	5	31,450,815	32,871,089
Less: amounts recoverable from retrocessionaires		(5,347,441)	(5,773,331)
Net claims incurred		26,103,374	27,097,758
Operating and other expenses	6	5,261,104	5,754,120
Commissions expenses		17,432,094	16,379,094
Total out go		**48,796,572**	**49,230,972**
Profit for the year		**8,776,828**	**5,247,262**
Other comprehensive (loss)/income for year			
Gain/(loss) on revaluation of property and equipment	23	38,705	(59,094)
Fair value (loss)/gain on revaluation of available for sale equity investments	12	(831,943)	551,027
Foreign exchange loss on revaluation of available for sale equity investments	12	(174,992)	(87,066)
Total other comprehensive (loss)/income for the year		**(968,230)**	**404,867**
Total comprehensive income for year		**7,808,598**	**5,652,129**
Earnings per share:			
Basic and diluted	7	0.269	0.174

Statement of Financial Position
At 31 December 2011

	Notes	2011	2010
ASSETS		**US$**	**US$**
Property and equipment	9	1,249,325	1,350,223
Intangible assets	10	32,340	-
Investment properties	11	12,566,403	11,981,943
Available-for-sale equity investments	12	3,603,313	4,550,028
Receivables arising out of reinsurance arrangements	13	10,956,838	8,070,459
Deposits retained by ceding companies	14	1,769,417	2,066,665
Retrocessionaires share of technical liabilities	15	11,120,473	9,683,597
Other receivables	16	1,857,206	1,373,855
Deferred acquisition costs	17	6,957,846	6,085,319
Government securities	18	24,271,549	7,156,274
Deposits with financial institutions	19	55,065,875	49,837,655
Cash and bank balances	20	886,538	954,352
Total assets		**130,337,123**	**103,110,370**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	22	36,405,708	30,514,101
Share premium	22	5,175,298	895,756
Property revaluation reserve	23	190,905	152,200
Available for sale fair value reserve	23	(1,367,406)	(360,471)
Retained earnings	24	26,251,514	18,785,686
Total equity		**66,656,019**	**49,987,272**
LIABILITIES			
Reinsurance contract liabilities	25	33,976,118	27,204,105
Unearned premiums reserve	26	20,708,199	18,092,905
Deferred income	27	66,015	66,830
Payables arising from retrocession arrangements	28	5,042,438	4,033,648
Deposits retained on ceded reinsurance business		226,651	311,383
Deferred retrocession commission revenue	29	2,009,930	2,120,655
Other payables	30	1,615,191	1,291,739
Dividends payable	31	36,562	1,833
Total liabilities		**63,681,104**	**53,123,098**
Total equity and liabilities		**130,337,123**	**103,110,370**

The financial statements on pages 20 to 65 were approved by the Board of Directors on 27 March 2012 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 2010		30,011,275	337,619	211,294	(824,432)	14,738,424	44,474,180
Shares issued during the year	22	494,377	548,759	-	-	-	1,043,136
Dividends declared - 2009	31	-	-	-	-	(1,200,000)	(1,200,000)
Issue of shares through capitalisation of 2009 dividends	31	8,449	9,378	-	-	-	17,827
Total comprehensive income/(loss) for the year		-	-	(59,094)	463,961	5,247,262	5,652,129
At 31 December 2010		**30,514,101**	**895,756**	**152,200**	**(360,471)**	**18,785,686**	**49,987,272**
At 1 January 2011		30,514,101	895,756	152,200	(360,471)	18,785,686	49,987,272
Shares issued during the year	22	5,602,248	3,958,352	-	-	-	9,560,600
Dividends declared - 2010	31	-	-	-	-	(1,311,000)	(1,311,000)
Issue of shares through capitalisation of 2010 dividends	31	289,359	321,190	-	-	-	610,549
Total comprehensive income/(loss) for the year		-	-	38,705	(1,006,935)	8,776,828	7,808,598
At 31 December 2011		**36,405,708**	**5,175,298**	**190,905**	**(1,367,406)**	**26,251,514**	**66,656,019**

Statement of Cash Flows
For the Year Ended 31 December 2011

	Notes	2011 US$	2010 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		8,776,828	5,247,262
Adjustments for:			
Gain on disposal of property and equipment		(780)	(1,168)
Loss on disposal of quoted shares		168,955	-
Fair value gain on investment properties	4	(583,583)	(593,298)
Depreciation	9	184,257	191,446
Amortisation of intangible assets	10	8,085	98,892
Exchange difference on revaluation of investment properties	11	-	648,381
Amortisation of deferred income	27	(815)	(815)
Changes in:			
Unearned premiums reserve		2,615,294	1,748,025
Reinsurance contract liabilities		6,772,013	7,175,978
Deposits retained by ceding companies		297,248	(323,165)
Deposits retained on ceded reinsurance business		(84,732)	(5,008)
Receivables arising out of reinsurance arrangements		(2,886,379)	(2,314,142)
Retrocessionaires share of technical liabilities		(1,436,876)	(2,463,898)
Payables arising out of retrocession arrangements		1,008,790	698,891
Deferred acquisition costs (DAC)		(872,527)	(555,019)
Deferred retrocession commission revenue (DRR)		(110,725)	423,104
Other receivables		(483,351)	(994,698)
Other payables		323,452	428,554
Net cash generated from operating activities		**13,695,154**	**9,409,322**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9	(45,169)	(148,647)
Purchase of intangible software	10	(40,425)	-
Purchase of investment properties	11	(877)	-
Purchase of shares	12	(875,117)	(1,736,131)
Purchase of held to maturity Government securities		(13,138,856)	-
Proceeds on maturity of Government securities		489,056	712,201
Proceeds of disposal of property and equipment		1,295	18,250
Proceeds of disposal of quoted shares		645,942	-
Net cash used in investing activities		**(12,964,151)**	**(1,154,327)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of issue of shares		9,560,600	1,043,136
Dividends paid	31	(665,722)	(1,182,173)
Net cash generated from/(used in) financing activities		**8,894,878**	**(139,037)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**9,625,881**	**8,115,958**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**50,835,724**	**42,719,766**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**34**	**60,461,605**	**50,835,724**

Notes To The Financial Statements
For The Year Ended 31 December 2011

1 ACCOUNTING POLICIES

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

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

a) Statement of compliance

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

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2011

The following new and revised IFRSs have been applied in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. The company continued to disclose such items in the statement of changes in equity and the amendment had no effect on the Company's financial statements.
IAS 24 Related Party Disclosures (as revised in 2009)	IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The company is a government-related entity. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard.

Notes To The Financial Statements (continued)

1 ACCOUNTING POLICIES (continued)

(a) Statement of compliance (continued)

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2011 (Continued)

Amendments to IAS 32 Classification of Rights Issues	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments has had no effect on the amounts reported in the current and prior years because the company has not issued instruments of this nature.
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has no material effect on the company's financial statements
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss. The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the company has not entered into any transactions of this nature.
Improvements to IFRSs issued in 2010	The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the company's financial statements.

Notes To The Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(a) Statement of compliance (Continued)

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

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2011

	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation.	1 July 2011
IFRS 1, First-time Adoption of International Financial Reporting Standards – Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement of financial assets	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	1 January 2015
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 July 2012
IAS 12, Income Taxes - Limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 19, Employee Benefits (2011)	1 January 2013
IAS 27, Separate Financial Statements (2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
New interpretation	
IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

Notes To The Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(a) Statement of compliance (Continued)

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

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods

- **IFRS 7, Financial Instruments disclosure**

  The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

  The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the company disclosures.

- **IFRS 9, Financial Instruments**

  IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

  IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

  The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

  IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

  The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on after 1 January 2015.

Notes To The Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(a) Statement of compliance (Continued)

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

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods (continued)

- **IFRS 12 Disclosure of Interests in Other Entities**

  IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

- **IFRS 13 Fair Value Measurements**

  IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

  IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

  With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

  - Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
  - Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
  - Level 3 - unobservable inputs for the asset or liability.

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

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

  The Company is yet to assess IFRS 13's full impact on the amounts reported in the financial statements and the extent of the financial statement disclosures and intends to adopt IFRS 13 no later than the accounting period beginning on after 1 January 2013.

- **Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)**

  These amend IAS 1 Presentation of Financial Statements to revise the way other comprehensive income is presented.

Notes To The Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(a) Statement of compliance (Continued)

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

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods (continued)

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified
- Require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income in either before tax or net of tax).
  The above amendments are generally effective for annual periods beginning on or after 1 July 2012. The company will apply the amendments prospectively. The directors anticipate no material impact to the company's financial statements.

(iv) Early adoption of standards

The Company did not early-adopt any new or amended standards in the financial period.

(b) Basis of preparation

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

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

(c) Income recognition

i) Premium

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

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

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

Notes To The Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(c) Income recognition (Continued)

ii) Retrocessions ceded

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

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

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

iii) Claims incurred

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

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

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

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

v) Interest income

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

vi) Dividend income

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

vii) Rental income

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

All investment income is stated net of investment expenses.

Notes To The Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(d) Currency translation

i) Functional and presentation currency

Even though the company is domiciled in Kenya whose functional currency is Kenya Shilling, the company operates in many countries and as a consequence has many functional currencies. The Company has chosen United States Dollar (US$) as its reporting currency.

ii) Transactions and balances

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

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

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

(e) Property and equipment

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

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

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

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

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

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

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

Notes To The Financial Statements (continued)

1 ACCOUNTING POLICIES (continued)

(f) Intangible assets – computer software

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

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

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

(g) Investment properties

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

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

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

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

(h) Provision for bad and doubtful debts

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

(i) Deferred income

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

(j) Receivables and payables related to reinsurance contracts

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

Notes To The Financial Statements (continued)

1 ACCOUNTING POLICIES (continued)

(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 profit or loss as they fall due.

(l) 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 2011 and 31 December 2010.

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.

Notes To The Financial Statements (continued)

1 ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

I. Financial assets (continued)

iv) Available-for-sale financial assets(continued)

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

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

Recognition

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

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

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

Impairment of financial assets

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

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

a) significant financial difficulty of the counterparty;
b) a breach of contract, such as default or delinquency in interest or principal repayments;
c) the company granting to the counterparty, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the company would not otherwise consider;
d) it becoming probable that the counterparty will enter bankruptcy or other financial reorganisation;

Notes To The Financial Statements (continued)

1 ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

I. Financial assets (continued)

Impairment of financial assets (continued)

e) the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of counterparty in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

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

(i) Assets carried at amortised cost

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

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

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

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

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

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

Notes To The Financial Statements (continued)

1 ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

I. Financial assets (continued)

Impairment of financial assets (continued)

(ii) Assets carried at fair value

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

II. Financial liabilities

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

(m) Cash and cash equivalents

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

(n) Dividends

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

(o) Taxation

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

(p) Comparatives

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

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

Notes To The Financial Statements (continued)

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:

	2011 US$	2010 US$
Class of business:		
Property	30,427,228	27,900,241
Casualty	16,277,292	14,469,301
Motor	6,038,661	5,639,673
Marine	7,104,024	6,658,053
Aviation	257,602	246,468
Life	3,431,764	4,929,380
	63,536,571	**59,843,116**
	=========	=========

(ii) Geographical distribution

	2011		2010	
Region	**Gross premium**	**%**	**Gross premium**	**%**
COMESA	47,237,409	74.35	43,872,959	73.31
Non – COMESA (Africa)	11,913,081	18.75	10,520,064	17.58
Other regions	4,386,081	6.90	5,450,093	9.11
	63,536,571	**100.00**	**59,843,116**	**100.00**
	=========	=======	=========	======

(iii) Type- distribution

Proportional	46,471,123	73.14	43,960,579	73.46
Non-proportional	11,893,673	18.72	11,614,852	19.41
Facultative	5,171,775	8.14	4,267,685	7.13
	63,536,571	**100.00**	**59,843,116**	**100.00**
	==========	======	==========	======

Notes To The Financial Statements (continued)

		2011 US$	2010 US$
4	**INVESTMENT INCOME**		
	Interest from Government securities held to maturity	1,536,355	1,010,614
	Interest from deposits with financial institutions	2,269,206	1,716,443
	Rental income	899,207	914,429
	Dividend income	279,532	180,579
	Loan interest receivable	15,632	14,659
	Fair value gain on investment properties (Note 11)	583,583	593,298
		5,583,515	**4,430,022**
		========	========
	Investment income earned on financial assets, analysed by category of asset is as follows:		
	Held to maturity investments	3,805,561	2,727,057
	Loans and receivables	15,632	14,659
	Available for sale investments	279,532	180,579
		4,100,725	2,922,295
	Investment income earned on non-financial assets	1,482,790	1,507,727
		5,583,515	**4,430,022**
		========	=========
5	**GROSS INCURRED CLAIMS**		
	Gross settled claims	25,529,298	26,044,095
	Change in outstanding claims	5,921,517	6,826,994
		31,450,815	**32,871,089**
		=========	=========
6	**OPERATING AND OTHER EXPENSES**		
	Employee emoluments and benefits (Note 8)	3,211,050	2,979,715
	Auditors' remuneration	24,000	22,000
	General assembly and board expenses	253,979	230,410
	Depreciation (Note 9)	184,257	191,446
	Amortisation of intangible assets (Note 10)	8,085	98,892
	(Gain)/loss on foreign exchange transactions	(350,656)	457,162
	Impairment charge for doubtful receivables		
	- arising from reinsurance premium receivables (Note 13)	510,932	552,344
	- arising from retrocession arrangements (Note 13)	-	46,562
	- arising from deposits retained by ceding companies (Note 13)	-	(138,063)
	Repairs and maintenance	113,355	116,685
	Premium taxes and charges	398,513	335,669
	Property letting fees	22,615	7,400
	Other	884,974	853,898
		5,261,104	**5,754,120**
		========	=========

Notes To The Financial Statements (continued)

		2011	2010
7	**EARNINGS PER SHARE**		
	Profit attributable to shareholders (US$)	8,776,828	5,247,262
		========	========
	Weighted average number of shares issued (Note 22 (iii))	32,642,362	30,098,601
		========	========
	Earnings per share (US$) - basic and diluted	0.269	0.174
		=======	=======

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

There were no potentially dilutive shares outstanding at 31 December 2011 and 31 December 2010. The diluted earnings per share is therefore the same as the basic earnings per share.

		2011 US$	2010 US$
8	**EMPLOYEE EMOLUMENTS AND BENEFITS**		
	Staff costs include the following:		
	- Salaries and wages	2,378,283	2,129,582
	- Staff retirement benefits	468,015	492,089
	- Other staff benefits	364,752	358,044
		3,211,050	**2,979,715**
		========	========

The number of persons employed by the company at the year-end was 41 (2010: 41).

		2011	2010
9	**PROPERTY AND EQUIPMENT**		
	Cost or valuation	2,033,113	1,979,169
	Accumulated depreciation	(783,788)	(628,946)
	Net book value	**1,249,325**	**1,350,223**
		========	========
	Comprising;		
	Buildings	1,030,450	1,011,985
	Motor vehicles	10,613	62,764
	Office furniture and fittings	102,536	148,642
	Office equipment	50,705	58,168
	Computers equipment	55,021	68,664
	Net book value	**1,249,325**	**1,350,223**
		========	========

An independent valuation of the Company's buildings was carried out by Messrs. GIMCO Limited, a registered valuer, to determine the fair value of buildings. The valuation, done annually, was carried out as at 31 December 2011 on an open market value basis.

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$ 131,400 (2010: US$ 78,711) 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$ 37,562 (2010: US$ 22,632). Had the Company's buildings been measured on a historical cost basis, their carrying amount would have been US$ 864,108 (2010: US$ 883,291).

Notes To The Financial Statements (continued)

9 PROPERTY AND EQUIPMENT (continued)

	Buildings US$	Motor vehicles US$	Office furniture and fittings US$	Office equipment US$	Computer equipment US$	Total US$
COST OR VALUATION						
At 1 January 2010	1,071,011	262,098	438,592	108,338	125,696	2,005,735
Additions	21,926	21,221	4,509	2,628	98,363	148,647
Disposals	-	(52,716)	(15,657)	(5,844)	(20,044)	(94,261)
Revaluation deficit	(80,952)	-	-	-	-	(80,952)
At 31 December 2010	**1,011,985**	**230,603**	**427,444**	**105,122**	**204,015**	**1,979,169**
At 1 January 2011	1,011,985	230,603	427,444	105,122	204,015	1,979,169
Additions	-	-	8,371	3,470	33,328	45,169
Disposals	-	-	-	-	(9,690)	(9,690)
Revaluation surplus	18,465	-	-	-	-	18,465
At 31 December 2011	**1,030,450**	**230,603**	**435,815**	**108,592**	**227,653**	**2,033,113**
ACCUMULATED DEPRECIATION						
At 1 January 2010	-	153,874	234,090	40,704	107,869	536,537
Charge for the year	21,858	57,651	53,431	10,979	47,527	191,446
Eliminated on disposals	-	(43,686)	(8,719)	(4,729)	(20,045)	(77,179)
Written back on revaluation	(21,858)	-	-	-	-	(21,858)
At 31 December 2010	**-**	**167,839**	**278,802**	**46,954**	**135,351**	**628,946**
At 1 January 2011	-	167,839	278,802	46,954	135,351	628,946
Charge for the year	20,240	52,151	54,477	10,933	46,456	184,257
Eliminated on disposals	-	-	-	-	(9,175)	(9,175)
Written back on revaluation	(20,240)	-	-	-	-	(20,240)
At 31 December 2011	**-**	**219,990**	**333,279**	**57,887**	**172,632**	**783,788**
NET BOOK VALUE						
At 31 December 2011	**1,030,450**	**10,613**	**102,536**	**50,705**	**55,021**	**1,249,325**
At 31 December 2010	**1,011,985**	**62,764**	**148,642**	**58,168**	**68,664**	**1,350,223**
NET BOOK VALUE – COST BASIS						
At 31 December 2011	**864,108**	**10,613**	**102,536**	**50,705**	**55,021**	**1,082,983**
At 31 December 2010	**883,291**	**62,764**	**148,642**	**58,168**	**68,664**	**1,221,529**

Notes To The Financial Statements (continued)

10 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2011 US$	2010 US$
Cost	770,709	730,284
Accumulated amortisation	(738,369)	(730,284)
Net book value	**32,340**	-

Movement analysis:

	Software licences US$	Other software US$	Total US$
COST			
At 1 January 2010 and At 31 December 2010	550,001	180,283	730,284
At 1 January 2011	550,001	180,283	730,284
Additions	40,425	-	40,425
31 December 2011	**590,426**	**180,283**	**770,709**
ACCUMULATED AMORTISATION			
At 1 January 2010	453,386	178,006	631,392
Charge for the year	96,615	2,277	98,892
At 31 December 2010	**550,001**	**180,283**	**730,284**
At 1 January 2011	550,001	180,283	730,284
Charge for the year	8,085	-	8,085
At 31 December 2011	**558,086**	**180,283**	**738,369**
NET BOOK VALUE			
At 31 December 2011	**32,340**	**-**	**32,340**
At 31 December 2010	**-**	**-**	**-**

All software is amortised over a period of five years.

Notes To The Financial Statements (continued)

	2011	2010
	US$	US$
11 INVESTMENT PROPERTIES		
Fair value of investment properties	**12,566,403**	**11,981,943**
	========	========

Investment properties comprise:

	ZEP-RE Place	Prosperity House	Upperhill Parking	Zambia Land	Mombasa Road	Total
	US$	US$	US$	US$	US$	US$
At fair value:						
At 1 January 2010	5,388,394	4,152,933	719,842	1,248,501	527,356	12,037,026
Gain on revaluation	297,684	185,874	33,457	51,499	24,784	593,298
Exchange difference on revaluation	(323,838)	(249,588)	(43,262)	-	(31,693)	(648,381)
At 31 December 2010	**5,362,240**	**4,089,219**	**710,037**	**1,300,000**	**520,447**	**11,981,943**
	=======	=======	=======	=======	======	========
At 1 January 2011	5,362,240	4,089,219	710,037	1,300,000	520,447	11,981,843
Gain on revaluation	265,034	205,404	65,289	-	47,856	583,583
Additions	-	-	-	877	-	877
At 31 December 2011	**5,627,274**	**4,294,623**	**775,326**	**1,300,877**	**568,303**	**12,566,403**
	=======	=======	=======	=======	======	========

Investment properties were valued by Gimco Limited for the Kenya properties and by Knight Frank Zambia Limited for the Zambia property, registered valuers, as at 31 December 2011, on an open market basis. The fair value gain arising from the revaluation has been dealt with in profit and loss.

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

Notes To The Financial Statements (continued)

12 AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	2011	2010
	US$	US$
Quoted equity shares – at fair value (Note (i) below)	2,760,598	3,831,278
Unquoted equity shares – at cost (Note (ii) below)	842,715	718,750
	3,603,313	**4,550,028**
	========	========

(i) Quoted equity shares: At fair value

	2011	2010
At 1 January	3,831,278	1,631,186
Additions	751,152	1,736,131
Disposals	(814,897)	-
Fair value (losses)/gains (Note 23 (ii))	(831,943)	551,027
Exchange difference on revaluation (Note 23 (ii))	(174,992)	(87,066)
At 31 December	**2,760,598**	**3,831,278**
	========	========

(ii) Unquoted equity shares: At Cost

	Tanzania Reinsurance Corporation	AIO Software Development	African Trade Insurance Agency
	US$	US$	US$
At 1 January 2009, 1 January 2010 and			
At 31 December 2010	718,750	30,000	100,000
Additions in 2011	123,965	-	-
At 31 December 2011	**842,715**	**30,000**	**100,000**
Impairment loss:			
At 1 January 2010 and 31 December 2010,	-	(30,000)	(100,000)
At 1 January 2011 and at 31 December 2011	-	(30,000)	(100,000)
Net book value:			
At 31 December 2011	**842,715**	**-**	**-**
	========	=======	========
At 31 December 2010	**718,750**	**-**	**-**
	========	=======	========

Notes To The Financial Statements (continued)

13 RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	2011	2010
	US$	US$
Receivables from reinsurance arrangements	13,970,747	10,516,507
Allowance for doubtful arrangements	(3,013,909)	(2,446,048)
Net carrying value	**10,956,838**	**8,070,459**
	========	========

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

	2011	2010
(i) Ageing of unimpaired receivables		
	US$	US$
0 - 90 days	6,624,106	2,803,528
91-120 days	571,040	1,425,866
121-270 days	2,176,127	2,523,936
271 – 360 days	1,585,565	1,317,129
At 31 December	**10,956,838**	**8,070,459**
	========	========
Average age (days) – gross premium basis	63	49
	========	========
(ii) Movement in the allowance for doubtful debts		
At 1 January	2,446,048	3,352,607
Charge for the year	510,932	552,344
Written off during the year as uncollectible	(31,350)	(1,458,903)
Reclassified from retrocession arrangements	88,279	-
At 31 December	**3,013,909**	**2,446,048**
	========	========
(iii) Impairment charge for doubtful debts (Note 6)		
Arising from reinsurance arrangements (Charge for the year)	510,932	552,344
Arising from retrocession arrangements	-	46,562
Deposits retained by ceding companies	-	(138,063)
	510,932	**460,843**
	========	========

Notes To The Financial Statements (continued)

14 DEPOSITS RETAINED BY CEDING COMPANIES

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

	2011 US$	2010 US$
At 1 January	2,066,665	1,743,500
(Decrease)/increase during the year	(297,248)	323,165
At 31 December	**1,769,417**	**2,066,665**

15 RETROCESSIONAIRES SHARE OF REINSURANCE LIABILITIES

	2011 US$	2010 US$
Retrocessionaires share of :		
Unearned premiums (Note 26)	4,632,492	4,788,285
Notified Outstanding claims (Note 25)	4,237,740	3,294,857
Incurred but not reported (Note 25)	2,250,241	1,600,455
	11,120,473	**9,683,597**

16 OTHER RECEIVABLES

Receivable from Retakaful window	1,099,918	393,952
Staff receivables	363,488	339,989
Prepayments	168,397	120,335
Deposits	45,547	37,362
Rent receivable	20,535	16,252
Others	159,321	465,965
	1,857,206	1,373,855

17 DEFERRED ACQUISITION COSTS (DAC)

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

	2011 US$	2010 US$
At 1 January	6,085,319	5,530,299
Increase during the year	872,527	555,020
At 31 December	6,957,846	6,085,319

Notes To The Financial Statements (continued)

		2011	2010
		US$	US$
18	**GOVERNMENT SECURITIES - HELD TO MATURITY**		
	Treasury bills and bonds maturing:		
	- Within 6 months - Treasury bills	4,509,192	43,717
	- Within 6 months - Treasury bonds	-	680,452
	- In 6 months to 1 year	17,319,122	4,788,740
	- In 1 to 5 years	141,816	273,355
	- After 5 years	2,301,419	1,370,010
		24,271,549	**7,156,274**
	Analysis by currency denomination:		
	Securities in US Dollars	11,861,690	-
	Securities in Kenya Shillings	5,063,675	2,158,500
	Securities in Sudanese Pounds	6,950,394	4,954,057
	Securities in Zambian Kwacha	395,790	43,717
		24,271,549	**7,156,274**

19	**DEPOSITS WITH FINANCIAL INSTITUTIONS**		
	Analysis by currency denomination:		
	Deposits in United States Dollars	39,173,158	32,188,957
	Deposits in Sterling Pounds	-	1,080,597
	Deposits in Kenya Shillings	13,810,313	13,600,104
	Deposits in Sudanese Pound	902,651	1,878,721
	Deposits in Zambian Kwacha	153,535	173,593
	Deposits in Rwandese Francs	1,026,218	915,683
		55,065,875	**49,837,655**

Deposits with financial institutions have an average maturity of 3 to 9 months (2010: 3 to 9 months).

		2011	2010
20	**CASH AND BANK BALANCES**	US$	US$
	Analysis by currency denomination:		
	United States Dollars	206,012	514,511
	Sterling Pounds	-	23,115
	Kenya Shillings	110,201	108,848
	Sudanese Pound	4,798	53,205
	Zambian Kwacha	54,870	127,626
	Cameroon CFA	230,992	115,682
	Malawi Kwacha	273,890	-
	Others	5,775	11,365
		886,538	**954,352**

Notes To The Financial Statements (continued)

21 WEIGHTED AVERAGE EFFECTIVE INTEREST/RETURN RATES

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

	2011 %	2010 %
Government securities		
Securities in Kenya Shillings	11.80	12.72
Securities in Sudanese Pound	15.62	14.00
	=======	=======
Deposits with financial institutions		
Deposits in United States Dollars	3.54	2.46
Deposits in Sterling Pounds	-	1.44
Deposits in Kenya Shillings	10.98	5.33
Deposits in Sudanese Pound	7.62	9.00
Deposits in Zambian Kwacha	4.16	3.13
	=======	=======

22 ISSUED CAPITAL

(i) Issued Capital

	2011 US$	2010 US$
Share capital	36,405,708	30,514,101
Share premium	5,175,298	895,756
Paid up capital	**41,581,006**	**31,409,857**
	========	========

(ii) Paid up shares

	No of shares	Share capital US$	Share premium US$
At 1 January 2010	30,011,275	30,011,275	337,619
Dividends capitalised	8,449	8,449	9,378
Issue of shares	494,377	494,377	548,759
At 31 December 2010	**30,514,101**	**30,514,101**	**895,756**
Dividends capitalised	289,359	289,359	321,190
Issue of shares	5,602,248	5,602,248	3,958,352
At 31 December 2011	**36,405,708**	**36,405,708**	**5,175,298**
	========	========	========

	2011	2010
(iii) Weighted average number of shares	32,642,362	30,098,601
	========	========

23 RESERVES

	2011 US$	2010 US$
Property revaluation reserve (Note 23 (i))	190,905	152,200
Available for sale investments revaluation reserve (Note 23 (ii))	(1,367,406)	(360,471)
	(1,176,501)	**(208,271)**
	=========	========

Notes To The Financial Statements (continued)

23 RESERVES (continued)

(i) Property revaluation reserve

	Buildings
	US$
At 1 January 2010	211,294
Revaluation deficit (Note 9)	(80,952)
Depreciation written back on revaluation (Note 9)	21,858
Net loss on revaluation of property	(59,094)
At 31 December 2010	**152,200**
At 1 January 2011	152,200
Revaluation surplus (Note 9)	18,465
Depreciation written back on revaluation (Note 9)	20,240
Net gain on revaluation of property	38,705
At 31 December 2011	**190,905**

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

This reserve is not available for distribution.

(ii) Available for sale fair value reserve

	Quoted shares
	US$
At 1 January 2010	(824,432)
Revaluation gain (Note 12)	551,027
Exchange difference on revaluation (Note 12)	(87,066)
At 31 December 2010	**(360,471)**
At 1 January 2011	(360,471)
Revaluation loss	(1,000,898)
Realised on disposal of shares	168,955
Net Revaluation loss (Note 12)	(831,943)
Exchange difference on revaluation (Note 12)	(174,992)
At 31 December 2011	**(1,367,406)**

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

The Company reviews the status of the investment portfolio regularly to assess impairment. In determining whether an impairment loss should be recognized in profit or loss, the company checks whether there is objective evidence that the assets are impaired and that the fair values have declined irreversibly. At 31 December 2011 and 31 December 2010, none of the shares have been determined by the directors to bear a permanent impairment hence no losses have been recognised in profit or loss.

This reserve is not available for distribution.

Notes To The Financial Statements (continued)

24 RETAINED EARNINGS

	2011 US$	2010 US$
Retained earnings	**26,251,514**	**18,785,686**
	=========	=========
The movement in retained earnings is as follows:		
At 1 January	18,785,686	14,738,424
Dividend payment	(1,311,000)	(1,200,000)
Profit for year	8,776,828	5,247,262
At 31 December	**26,251,514**	**18,785,686**
	=========	=========

In 2011, a dividend of US$ 0.0429 per share amounting to US$ 1,311,000 was paid to holders of fully paid ordinary shares. In 2010 the dividend of US$ 1,200,000 was paid out.

Retained earnings include fair value gains on revaluation of investment properties which are unrealised and are not available for distribution. At 31 December 2011 the unrealised fair value gains on revaluation of investment properties amounted to US$ 1,782,202 (2010: US$ 1,198,619).

25 REINSURANCE CONTRACT LIABILITIES

	2011 US$	2010 US$
Reinsurance contracts		
- claims reported and claims handling expenses	23,158,599	19,267,844
- claims incurred but not reported	10,817,519	7,936,261
Total reinsurance liabilities	**33,976,118**	**27,204,105**
	=========	=========

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.

	2011			2010		
	Gross US$	Retrocessions US$	Net US$	Gross US$	Retrocessions US$	Net US$
Outstanding claims	23,158,599	(4,237,740)	18,920,859	19,267,844	(3,294,857)	15,972,987
IBNR	10,817,519	(2,250,241)	8,567,278	7,936,261	(1,600,455)	6,335,806
Total outstanding claims	**33,976,118**	**(6,487,981)**	**27,488,137**	**27,204,105**	**(4,895,312)**	**22,308,793**
	========	========	========	========	========	========

The Company's outstanding claims and IBNR were reviewed by an independent actuary; Actuarial Services (EA) Limited, registered Actuaries as at 31 December 2011.

The company's actuaries use chain-ladder techniques to estimate the ultimate cost of claims including the IBNR provision. Chain ladder techniques are used as they are an appropriate technique for mature classes of business that have a relatively stable development pattern. This involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.

Notes To The Financial Statements (continued)

26 UNEARNED PREMIUMS RESERVE (UPR)

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

	2011			2010		
	Gross	Retrocessions	Net	Gross	Retrocessions	Net
	US$	US$	US$	US$	US$	US$
At 1 January	17,507,440	(4,788,285)	12,719,155	15,440,745	(3,817,685)	11,623,060
Increase/(decrease) in the year	3,200,759	155,793	3,356,552	2,652,160	(970,600)	1,681,560
At 31 December	**20,708,199**	**(4,632,492)**	**16,075,707**	**18,092,905**	**(4,788,285)**	**13,304,620**
	========	========	========	========	=========	========
		(Note 15)			**(Note 15)**	

27 DEFERRED INCOME

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

	2011	2010
	US$	US$
Arising from Government grant		
- At I January and at 31 December	80,686	80,686
Accumulated amortisation:		
At 1 January	13,856	13,041
Credited to other income for the year	815	815
At 31 December	14,671	13,856
Carrying amount at 31 December	**66,015**	**66,830**
	========	========

28 PAYABLES ARISING FROM RETROCESSION ARRANGEMENTS

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

	2011	2010
	US$	US$
At 1 January	4,033,648	3,334,757
Increase during the year	1,008,790	698,891
At 31 December	**5,042,438**	**4,033,648**
	========	========

Notes To The Financial Statements (continued)

29 DEFERRED RETROCESSION COMMISSION REVENUE

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

	2011 US$	2010 US$
At 1 January	2,120,655	1,697,551
(Decrease)/increase during the year	(110,725)	423,104
At 31 December	**2,009,930**	**2,120,655**

30 OTHER PAYABLES

	2011 US$	2010 US$
Rent deposits	249,098	221,912
Other liabilities	6,518	144,656
Leave pay provision	215,379	179,174
Provision for gratuity	1,144,196	745,997
	1,615,191	**1,291,739**

31 DIVIDENDS PAYABLE

The movement in dividends payable is as follows:

	2011	2010
At 1 January	1,833	1,833
Final dividend declared	1,311,000	1,200,000
Dividend paid	(665,722)	(1,182,173)
Dividend capitalised	(610,549)	(17,827)
At 31 December	**36,562**	**1,833**

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

32 CAPITAL COMMITMENTS

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

	2011 US$	2010 US$
Property and equipment	625,050	202,200
Investment properties	6,222,000	5,000,000

Notes To The Financial Statements (continued)

33 RELATED PARTIES

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

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

		2011	2010
(i)	Transactions with related parties	US$	US$
	Gross earned premium:		
	- Shareholders	7,440,778	8,217,352
		========	========
	Claims Paid		
	- Shareholders	3,456,452	2,536,078
		=======	========
	Deposits with financial institutions		
	- PTA Bank	10,846,215	10,997,636
		========	========
(ii)	Directors' remuneration		
	Directors' fees	63,550	88,750
	Other emoluments paid (per diem)	73,200	59,150
		136,750	147,900
		=======	========
(iii)	Key management remuneration		
	Salaries and other short-term employment benefits	917,163	810,668
	Gratuity	187,902	179,454
		1,105,065	990,122
		=======	========
(iv)	Outstanding balances with related parties		
	Premiums receivable from related parties	2,310,521	1,172,371
	Staff car and other loans	368,145	339,989
		=======	=========

34 CASH AND CASH EQUIVALENTS

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

	2011	2010
	US$	US$
Cash and bank balances	886,538	954,352
Deposits with financial institutions	55,065,875	49,837,655
Treasury bills – maturing within 6 months (Note 18)	4,509,192	43,717
	60,461,605	**50,835,724**
	========	========

Notes To The Financial Statements (continued)

35 OPERATING LEASE COMMITMENTS

Net rental income earned during the year was US$ 899,207 (2010: US$ 914,429). At the end of the reporting period, the company had contracted with tenants for the following future lease receivables:

	2011	2010
	US$	US$
Not later one year	888,065	899,207
Later than 1 year but not later than 5 years	1,848,853	2,003,200
More than 5 years	131,477	491,080
	2,868,395	**3,393,487**

Leases are for a period of six years.

36 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Key sources of estimation uncertainty

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

The ultimate liability arising from claims payable under reinsurance contracts

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

Impairment losses

At the end of each 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.

Notes To The Financial Statements (continued)

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

Useful lives of property and equipment

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

Held -to-maturity investments

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

Available for sale investments

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

37 RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(i) Reinsurance risk management

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

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

Frequency and severity of claims

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

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

The retrocession arrangements however do not discharge the company of its obligations to the ceding

Notes To The Financial Statements (continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Reinsurance risk management (continued)

Frequency and severity of claims (continued)

companies and consequently the company has put in place a business review structure that ensures control of risk quality and conservative use of treaty limits, terms and conditions.

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

Sources of uncertainty in the estimation of future claim payments

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

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

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

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

Notes To The Financial Statements (continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Reinsurance risk management (continued)

Concentration risk

At 31 December 2011

Class of business		Maximum insured loss US$ 0m - US$ 0.25m	US$ 0.25m - US$ 1m	Over US$ 1m	Total
Property	Gross	59,785,747	193,761,457	878,197,778	1,131,744,983
	Net	57,593,925	162,397,259	592,286,159	812,277,343
Casualty	Gross	52,725,081	82,054,208	55,573,733	190,353,021
	Net	50,097,704	60,488,278	17,500,272	128,086,254
Motor	Gross	14,038,428	17,326,780	3,741,599	35,106,807
	Net	13,221,203	8,438,656	1,106,933	22,766,792
Marine	Gross	33,462,024	34,577,294	37,390,163	105,429,481
	Net	32,542,315	27,939,460	15,935,703	76,417,477
Aviation	Gross	745,574	631,949	12,000,000	13,377,523
	Net	745,574	-	6,000,000	6,745,574
Life assurance business	Gross	3,082,340	270,334	1,497,952	4,850,625
	Net	3,031,012	148,683	37,449	3,217,144
Total	Gross	**163,839,194**	**328,622,022**	**988,401,225**	**1,480,862,441**
	Net	**157,231,733**	**259,412,336**	**632,866,516**	**1,049,510,585**

At 31 December 2010

Class of business		Maximum insured loss US$ 0m - US$ 0.25m	US$ 0.25m - US$ 1m	Over US$ 1m	Total
Property	Gross	55,107,872	169,656,775	593,971,465	818,736,112
	Net	52,788,308	137,049,062	324,846,842	514,684,212
Casualty	Gross	40,566,549	57,893,944	103,028,674	201,489,167
	Net	38,557,899	43,721,444	28,470,585	110,749,928
Motor	Gross	13,371,577	8,946,772	-	22,318,349
	Net	11,484,960	4,155,621	-	15,640,581
Marine & Aviation	Gross	30,467,588	21,891,680	14,015,247	66,374,515
	Net	29,827,874	18,515,220	4,759,556	53,102,650
Life assurance business	Gross	2,235,758	285,714	-	2,521,472
	Net	2,218,615	157,143	-	2,375,759
Total	Gross	**141,749,344**	**258,674,885**	**711,015,386**	**1,111,439,615**
	Net	**134,877,656**	**203,598,490**	**358,076,983**	**696,553,129**

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

	2011	**2010**
Class	**Limit (US$)**	**Limit (US$)**
Fire/Engineering risk	5,750,000 in excess of 1,250,000	5,000,000 in excess of 1,000,000
Catastrophe	16,750,000 in excess of 1,250,000	13,100,000 in excess of 1,000,000
Accident and Motor	1,000,000 in excess of 600,000	1,000,000 in excess of 500,000
Marine XL	2,375,000 in excess of 375,000	2,200,000 in excess of 300,000

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

Notes To The Financial Statements (continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management

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

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

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

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

(a) Credit risk

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

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

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

The Company manages its exposure in the following ways:

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

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

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

Maximum exposure to credit risk before collateral held

	2011	**2010**
	US$	**US$**
Available for sale equity investments	3,603,313	4,550,028
Deposits retained by ceding companies	1,769,417	4,550,028
Retrocessionaires share of technical liabilities	11,120,473	9,683,597
Other receivables (excluding prepayments) (note 16)	1,688,809	1,259,537
Receivables arising out of reinsurance arrangements	10,956,838	8,070,459
Government securities held to maturity (note 18)	24,271,550	7,156,274
Deposits with financial institutions	55,065,875	49,837,655
Bank balances (note 20)	886,538	954,352
	109,362,813	**86,061,930**
	=========	=========

Notes To The Financial Statements (continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

(a) Credit risk (continued)

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:

	2011	2010
	US$	US$
Neither past due nor impaired:		
-up to 90 days	6,624,106	2,803,528
-up to 91 to 120 days	571,040	1,425,866
-up to 121 to 270 days	2,176,127	2,523,936
-up to 270 to 360 days	1,585,565	1,605,719
Past due but not impaired – over 360 days	-	(288,590)
Impaired	3,013,909	2,446,048
	13,970,747	10,516,507
Less provision for impairment	(3,013,909)	(2,446,048)
Total	**10,956,838**	**8,070,459**
	=========	=========

All receivables past due by more than 360 days are considered to be impaired, and are carried at their estimated recoverable value.

(b) Market risks

Interest rate risk

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

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

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

Note 21 discloses the weighted average interest rate on principal interest bearing investments.

Notes To The Financial Statements (continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (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 2011, 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$ 66,555 (2010: US$ 44,082) higher/lower, and equity would have been US$ 66,555 (2010: US$ 44,082) higher/lower.

Currency risk

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

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

At 31 December 2011, 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$ 1,716,736 higher/lower (2010: US$ 1,800,592 lower/higher) mainly as a result of Kenya shilling denominated investments, receivables, payables and bank balances. This is significant as the portion of Kenya shilling denominated net assets constitute 23.06% (2010: 32.42%) of the company's net assets.

At 31 December 2011, 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$ 2,302 (2010: US$ 109,403) higher/lower mainly as a result of sterling pound denominated deposits, receivables and payables. This is not significant as the portion of sterling pound denominated net assets constitute 0.03% (2010: 1.97%).

At 31 December 2011, 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$ 379,891 (2010: US$ 663,856) higher/lower, mainly as a result of Sudanese Pound denominated investments, receivables and payables. This is also significant as the portion of Sudanese Pound denominated net assets constitute 5.10% (2010: 11.95%).

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

Notes To The Financial Statements (continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risks (continued)

Currency risk (continued)

At 31 December 2011	US$	GBP	KES	SDG	UGX	TZS	RWF	ETB	ZMK	Others	Total
Assets											
Investment properties	1,300,877	-	11,265,526	-	-	-	-	-	-	-	12,566,403
Available-for-sale equity investments	842,715	-	2,527,579	-	-	-	233,019	-	-	-	3,603,313
Receivables arising out of reinsurance arrangements	660,819	-	2,296,983	1,383,103	906,141	306,788	785,540	1,602,628	296,430	2,718,406	10,956,838
Retrocessionaires share of technical liabilities	11,120,473	-	-	-	-	-	-	-	-	-	11,120,473
Deposits retained by ceding companies	1,769,417										1,769,417
Deferred acquisition costs	6,957,846	-	-	-	-	-	-	-	-	-	6,957,846
Government securities held to maturity	11,861,690	-	5,063,676	6,950,393	-	-	-	-	395,790	-	24,271,549
Deposits with financial institutions	39,173,158	-	13,810,313	902,651	-	-	1,026,218	-	153,535	-	55,065,875
Cash and bank balances	206,012	-	110,201	4,798	703	363	4,708	-	54,870	504,883	886,538
Total	73,893,007	-	35,074,278	9,240,945	906,844	307,151	2,049,485	1,602,628	900,625	3,223,289	127,198,252
Liabilities											
Reinsurance contract liabilities	7,576,822	9,179	11,789,600	3,563,603	1,121,327	1,477,546	580,634	1,775,630	404,846	5,676,931	33,976,118
Payables arising from retrocession arrangements	5,042,438	-	-	-	-	-	-	-	-	-	5,042,438
Deposits retained on ceded reinsurance business	226,651	-	-	-	-	-	-	-	-	-	226,651
Unearned premium reserves	2,721,391	11,543	7,864,031	2,258,324	1,234,117	1,279,625	407,265	1,340,686	569,576	3,021,641	20,708,199
Deferred Retrocession Revenue	2,009,930	-	-	-	-	-	-	-	-	-	2,009,930
Total	17,577,232	20,722	19,653,631	5,821,927	2,355,444	2,757,171	987,899	3,116,316	974,422	8,698,572	61,963,336
Net financial position exposure	**56,315,775**	**(20,722)**	**15,420,647**	**3,419,019**	**(1,448,600)**	**(2,450,020)**	**1,061,586**	**(1,513,688)**	**(73,797)**	**(5,475,283)**	**65,234,916**
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Notes To The Financial Statements (continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risks (continued)

Currency risk (continued)

At 31 December 2010	**US$**	**GBP**	**KES**	**SDG**	**UGX**	**TZS**	**RWF**	**ETB**	**ZMK**	**Others**	**Total**
Assets											
Investment properties	1,300,000	-	10,681,943	-	-	-	-	-	-	-	11,981,943
Available-for-sale equity investments	718,750	-	3,831,278	-	-	-	-	-	-	-	4,550,028
Receivables arising out of reinsurance arrangements	1,395,397	(105,410)	2,167,904	878,303	529,989	81,401	486,583	1,004,659	(21,061)	1,652,694	8,070,459
Retrocessionaires share of technical liabilities	9,683,597	-	-	-	-	-	-	-	-	-	9,683,597
Deposits retained by ceding companies	166,803	-	612,817	-	-	14,308	64,168	-	1,931	1,206,638	2,066,665
Deferred acquisition costs	6,085,319	-	-	-	-	-	-	-	-	-	6,085,319
Government securities held to maturity	-	-	2,158,500	4,954,057	-	-	-	-	43,717	-	7,156,274
Deposits with financial institutions	32,188,957	1,080,597	13,600,104	1,878,721	-	-	915,683	-	173,593	-	49,837,655
Cash and bank balances	514,512	23,115	108,848	53,205	909	429	5,233	-	127,626	120,475	954,352
Total	52,053,335	998,302	33,161,394	7,764,286	530,898	96,138	1,471,667	1,004,659	325,806	2,979,807	100,386,292
Liabilities											
Reinsurance contract liabilities	6,024,698	7,681	10,146,962	578,976	1,243,302	1,282,183	635,051	1,601,818	328,860	5,354,574	27,204,105
Payables arising from retrocession arrangements	4,033,648	-	-	-	-	-	-	-	-	-	4,033,648
Deposits retained on ceded reinsurance business	311,383	-	-	-	-	-	-	-	-	-	311,383
Unearned premium reserves	2,479,368	5,995	6,809,106	1,210,603	1,434,801	915,318	579,581	1,142,007	331,415	3,184,711	18,092,905
Deferred retrocession revenue	2,120,655	-	-	-	-	-	-	-	-	-	2,120,655
Total	14,969,752	13,676	16,956,068	1,789,579	2,678,103	2,197,501	1,214,632	2,743,825	660,275	8,539,286	51,762,697
Net financial position exposure	37,083,583	984,626	16,205,326	5,974,707	(2,147,205)	(2,101,363)	257,035	(1,739,166)	(334,469)	(5,559,479)	48,623,595
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Notes To The Financial Statements (continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk

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

The table below shows the contractual timing of cash flows arising from assets and liabilities included in the company's ALM framework for management of reinsurance contracts as of 31 December 2011:

	Total Amount 2011	**No stated maturity**	**Contractual cash flows (undiscounted) 0-1 yr**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**> 5 yrs**
Financial assets:							
Available-for-sale equity investments	3,603,313	3,603,313	-	-	-	-	-
Receivables arising out of reinsurance arrangements	10,956,838	-	10,956,838	-	-	-	-
Deposits retained by ceding companies	1,769,417	-	1,769,417	-	-	-	-
Retrocessionaires share of technical liabilities	11,120,473	-	11,120,473	-	-	-	-
DAC	6,957,846	-	6,957,846	-	-	-	-
Government securities held to maturity	24,271,549		21,828,313		141,816		2,301,420
Deposits with financial institutions	55,065,875		41,734,934		10,701,429	1,470,470	1,159,042
Cash and bank balances	886,538	-	886,538	-	-	-	-
Total	**114,631,849**	**3,603,313**	**95,254,359**	**-**	**10,843,245**	**1,470,470**	**3,460,462**
Reinsurance liabilities:							
Reinsurance contract liabilities	33,976,118	-	33,976,118	-	-	-	-
Payables arising from retrocession arrangements	5,042,438	-	5,042,438	-	-	-	-
Deposits retained on ceded reinsurance business	226,651	-	226,651	-	-	-	-
Deferred retrocession revenue	2,009,930	-	2,009,930	-	-	-	-
Total	**41,255,137**	**-**	**41,255,137**	**-**	**-**	**-**	**-**
Net liquidity surplus	**73,376,712**	**3,603,313**	**53,999,222**	**-**	**10,843,245**	**1,470,470**	**3,460,462**
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Notes To The Financial Statements (continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk (continued)

The table below shows the contractual timing of cash flows arising from assets and liabilities included in the company's ALM framework for management of short term reinsurance contracts as of 31 December 2010:

Financial assets	**Total Amount 2010**	**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	4,550,028	4,550,028	-	-	-	-	-
Receivables arising out of reinsurance arrangements	8,070,459	-	8,070,459	-	-	-	-
Deposits retained by ceding companies	2,066,665	-	2,066,665	-	-	-	-
Retrocessionaires share of technical liabilities	9,683,597	-	9,683,597	-	-	-	-
DAC	6,085,319		6,085,319	-	-	-	-
Government securities held to maturity	7,156,274	-	5,512,909	123,855	149,500	-	1,370,010
Deposits with financial institutions	49,837,655	-	38,840,019	10,796,947	-	-	200,689
Cash and bank balances	954,352	-	954,352	-	-	-	-
Total	**88,404,349**	**4,550,028**	**71,213,320**	**10,920,802**	**149,500**	**-**	**1,570,699**
Reinsurance liabilities							
Reinsurance contract liabilities	27,204,105	-	27,204,105	-	-	-	-
Payables arising from retrocession arrangements	4,033,648	-	4,033,648	-	-	-	-
Deposits retained on ceded reinsurance business	311,383	-	311,383	-	-	-	-
Defferred retrocession revenue	2,120,655	-	2,120,655				
Total	**33,669,791**	**-**	**33,669,791**	**-**	**-**	**-**	**-**
Net liquidity surplus	**54,734,558**	**4,550,028**	**37,543,529**	**10,920,802**	**149,500**	**-**	**1,570,699**
	========	=======	========	========	======	====	=======

Notes To The Financial Statements (continued)

37 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

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

(ii) Fair value hierarchy

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

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

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

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

		Level 1	Level 2	Level 3	Total
	Note	**US$**	**US$**	**US$**	**US$**
31 December 2011					
Financial assets:					
Available for sale					
- Quoted equity investments	**12**	**2,760,598**	**-**	**-**	**2,760,598**
		========	=====	=====	=======
31 December 2010					
Financial assets:					
Available for sale					
- Quoted equity investments	**12**	**3,831,278**	**-**	**-**	**3,831,278**
		========	=====	=====	=======

Notes To The Financial Statements (continued)

38 CAPITAL MANAGEMENT

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

The company's objectives in managing its capital are:

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

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

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

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

	2011	**2010**
	US$	**US$**
Share capital	36,405,708	30,514,101
Share premium	5,175,298	895,756
Property revaluation reserve	190,905	152,200
Available for sale fair value reserve	(1,367,406)	(360,471)
Retained earnings	26,251,514	18,785,686
Total capital - Equity	**66,656,019**	**49,987,272**

Supplementary Information

2011 REVENUE ACCOUNT **APPENDIX I**

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

2010 REVENUE ACCOUNT

APPENDIX II

	Property	Casualty	Motor	Marine	Aviation	Life	Total
	US$	US$	US$	US$	US$	US$	US$
Gross premiums written	27,900,241	14,469,301	5,639,673	6,658,053	246,468	4,929,380	59,843,116
Less: retrocession premiums	(10,481,682)	(1,854,166)	(553,882)	(880,350)	(2,272)	(27,996)	(13,800,348)
Net premiums written	17,418,559	12,615,135	5,085,791	5,777,703	244,196	4,901,384	46,042,768
Change in gross UPR	(252,393)	147,223	(48,686)	(241,147)	7,523	(389,945)	(777,425)
Exchange gains on revaluation of UPR	(403,483)	(321,640)	3,186	(116,558)	(7,246)	(58,394)	(904,135)
Net earned premiums	**16,762,683**	**12,440,718**	**5,040,291**	**5,419,998**	**244,473**	**4,453,045**	**44,361,208**
Gross claims paid	11,563,460	6,476,343	2,031,087	2,474,725	111,861	3,386,619	26,044,095
Change in gross outstanding claims	2,437,758	832,430	974,345	1,440,016	5,326	(7,195)	5,682,680
Exchange gains on revaluation of outstanding claims	478,962	202,932	359,514	98,801	1,888	2,217	1,144,314
Less: amounts recoverable from retrocessionaires	(3,739,826)	(1,513,428)	15,517	(536,468)	-	874	(5,773,331)
Net claims incurred	**10,740,354**	**5,998,277**	**3,380,463**	**3,477,074**	**119,075**	**3,382,515**	**27,097,758**
Commissions earned	(4,232,397)	(526,780)	(78,375)	(300,360)	(605)	-	(5,138,517)
Commissions expense	8,615,481	4,494,384	430,657	1,797,410	62,955	978,207	16,379,094
Charges and taxes	160,105	93,499	40,600	38,439	433	2,593	335,669
Expenses of management	1,841,721	955,132	372,280	439,504	16,270	325,393	3,950,300
Total expenses and commissions	**6,384,910**	**5,016,235**	**765,162**	**1,974,993**	**79,053**	**1,306,193**	**15,526,546**
Underwriting profit/(loss)	**(362,581)**	**1,426,206**	**894,666**	**(32,069)**	**46,345**	**(235,663)**	**1,736,904**
Key ratios:							
Loss ratio (net claims incurred/net earned premium)	59.78	45.41	59.97	61.02	46.55	74.93	57.34
Commissions ratio (commissions expense/gross premium written)	30.88	31.06	7.64	27	25.54	19.84	27.37
Expense ratio (expenses of management/gross written premium)	6.60	6.60	6.60	6.60	6.60	6.60	6.60
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Supplementary Information

APPENDIX III

SCHEDULE OF MEMBERSHIP

Country/ institution	Shareholder	2011 Shareholding US$	2011 Shareholding %	2010 Shareholding US$	2010 Shareholding %
Burundi	SOCABU	383,531	1.05	383,531	1.26
	Assurances BICOR	224,099	0.62	219,566	0.72
Kenya	Kenya Reinsurance Corporation Ltd	7,656,293	21.03	7,656,293	25.09
	Government of Kenya	492,417	1.35	492,417	1.61
	Blue Shield Insurance Company Ltd	372,953	1.02	372,953	1.22
	Mayfair Insurance Company Ltd	604,526	1.66	604,526	1.98
	Apollo Insurance Company Ltd	124,984	0.34	124,984	0.41
Mauritius	Government of Mauritius	261,161	0.72	261,161	0.86
Mozambique	EMOSE	312,643	0.86	306,320	1.00
Rwanda	Government of Rwanda	3,333,871	9.16	3,266,442	10.70
	SONARWA	140,055	0.38	140,055	0.46
	SORAS	516,673	1.42	506,223	1.66
Sudan	Government of Sudan	1,832,171	5.03	1,795,396	5.88
	United Insurance Company Ltd	277,414	0.76	271,846	0.89
	Sheikan Ins. & Reins. Ltd	361,547	0.99	354,290	1.16
	Juba Insurance Company Ltd	303,466	0.83	297,375	0.97
Tanzania	National Insurance Corporation (T) Ltd	1,961,479	5.39	1,921,807	6.30
	ZIC	127,670	0.35	127,670	0.42
	PPF	1,715,415	4.71	1,715,415	5.62
Uganda	National Insurance Corporation (U) Ltd	127,663	0.35	127,663	0.42
	Lion Assurance of Uganda Ltd	113,845	0.31	113,845	0.37
	Statewide Insurance Company Ltd	217,018	0.60	217,018	0.71
Zambia	ZSIC Ltd	613,324	1.68	600,919	1.97
	Government of Zambia	1,446,442	3.97	1,417,187	4.64
	ZSIC – Pension Trust	1,378,584	3.79	1,350,702	4.43
COMESA	PTA Bank	2,527,498	6.94	2,527,498	8.28
	COMESA Secretariat	350,570	0.96	350,570	1.15
Zimbabwe	Baobab Reinsurance Company Ltd	463,587	1.27	454,282	1.49
Madagascar	CMAR (NY Havana)	240,721	0.66	240,721	0.79
D.R. Congo	Société Nationale d'Assurances (SA)	125,661	0.35	125,661	0.41
Eritrea	NICE	920,370	2.53	870,370	2.85
Djibouti	Government of Djibouti	1,496,762	4.13	1,299,395	4.28
AfDB	African Development Bank	5,381,295	14.79	-	-
Total		**36,405,708**	**100.00**	**30,514,101**	**100.00**

Key:

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

Credit Rating Certificate

APPENDIX IV

A.M. Best Company

certifies that

ZEP-RE
(PTA Reinsurance Company)

has a

Best's Financial Strength Rating

of

B+ (Good)

Certificate Publication Date: March 12, 2012

Best's Ratings are subject to change.
To confirm the latest rating or to learn more
about A.M. Best's ratings, visit www.ambest.com
A.M. Best Company
Ambest Road, Oldwick, NJ 08858 USA

President

Senior Vice President
Ratings

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