ZEP-RE (PTA Reinsurance Company)

Annual Report & Financial Statements 2013

"Committed to Quality Service"

Zep-Re (Pta Reinsurance Company)

Annual Report and Financial Statements For The Year Ended 31 December 2013

Contents

Corporate Information

BOARD OF DIRECTORS

Mr. William Erio	-	Chairman
Mr. Aden Saleh Omar	-	Vice Chairman
Mr. Rajni Varia	-	Managing Director
Mr. Elias Baingana		
Mr. George Silutongwe		
Mr. Mohammed Mousa Idris		
Mrs. Nelius Kariuki		
Mr. Tadesse Admassu		
Mr. Tushar Shah		
Mr. Yaw Kuffour		
Mr. Zeru Woldemichael		

ALTERNATE DIRECTORS

Mr. Justine Mwandu
Mr. Daher Wasarma
Mr. Benjamin Mbundi
Mr. Chisimba Chilekwa
Mr. Abdelaal Eldawi Abdelaal
Mr. Jadiah Mwarania
Mr. Patience Matshe
Mr. Anjay Patel
Mr. Mesghina Mariam

MANAGEMENT

Mr. Rajni Varia	-	Managing Director
Mrs. Hope Murera	-	General Manager
Mr. Benjamin Kamanga	-	Finance Director
Mr. Ronald Kasapatu	-	Operations Director
Mr. Jephita Gwatipedza	-	Regional Director, Southern Africa Hub
Mr. Thierry Ravoaja	-	Regional Director, West African Hub
Mr. Ali Osman	-	Head, ZEP-RE Retakaful Window, Sudan
Mr. Jerry Sogoli	-	Company Secretary
Mr. Joseph Nabimanya	-	HR & Administration Manager
Mr. Kenneth Oballa	-	Training Manager
Mr. Nicholas Malombe	-	Life & Micro Insurance Manager
Mr. Sammy Silamoi	-	Chief Accountant
Mr. Shipango Muteto	-	Head, Business Relations & Country Manager, Zambia
Mr. Tunde Adebiyi	-	Country Manager, WAICA
Mr. Victor Chasinda	-	ICT Manager

Corporate Information (Continued)

HEAD OFFICE

Nairobi, Kenya
ZEP-RE Place, 8th floor
Longonot Road, Upper Hill
P. O. Box 42769 – 00100
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Website:	www.zep-re.com

REGIONAL HUBS

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7 Avenue Nogues, Abidjan Plateau
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P. O. Box 3224
Khartoum, Sudan

Telephone:	+249 183 799357/8
Fax:	+249 183 799359

Lusaka, Zambia
Plot No. 356184,
Base Park (Diamond Park), Alick Nkhata Road
P. O. Box 36966
Lusaka, Zambia

Telephone:	+260 211 252586

Corporate Information (Continued)

AUDITORS

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

BANKERS

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

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

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

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

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

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

Stanbic Bank Zimbabwe Limited
Parklane Branch
Harare, Zimbabwe

The Board of Directors

Standing from left: Mr. Aden Saleh Omar, Mr. George Silutongwe, Mr. Yaw Kuffour, Mr. Zeru Woldemichael, Mr. Elias Baingana, Mr. Mohammed Mousa Idris, Mr. Tushar Shah.

Seated from left: Mr. Rajni Varia, Mr. William Erio, Mrs. Nelius Kariuki.

The Board of Directors' Profiles

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

Mr. Aden Saleh Omar
Mr. Aden Saleh Omar is a Vice Chairman 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. Aden has a lengthy experience in insurance regulation, having been involved in reforming the insurance sector in Djibouti by preparing a new insurance regulatory framework that was adopted in 1999 and overseeing the creation of a new regulated market in 2001. Mr. Aden is currently the Commissioner of Insurance of the Republic of Djibouti.

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

The Board of Directors' Profiles

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. George Silutongwe

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

Mr. Mohammed Mousa Idris

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

The Board of Directors' Profiles

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

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.

The Board of Directors' Profiles

Mr. Yaw Kuffour

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

Mr. Zeru Woldemichael

Mr. Zeru Woldemichael is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2013 (he had previously served as a non-Executive Director at Zep Re for six years, from 2001 to 2006). He is currently the Managing Director/CEO of the National Insurance Corporation of Eritrea and the New Sudan Insurance Company (South Sudan). Mr Woldemichael is a Chartered Insurer and holds a Bachelor degree in Management and Accounting. He has over 40 years' experience in the insurance industry. Mr. Woldemichael has served as a Board Member in Africa Reinsurance Corporation and was its Vice Chairman for a year.

Notice of The 23rd Annual General Assembly

NOTICE IS HEREBY GIVEN that the 23rd Annual General Assembly of ZEP-RE (PTA Reinsurance Company) will be held in Nairobi, Kenya on Friday 9th May 2014 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 10th May 2013.
4. To consider and if approved, adopt the Financial Statements for the year ended 31st December 2013 together with the Chairman's Statement, the Directors', and Auditors Report.
5. To approve the director's remuneration for the financial year ended 31 December 2013.
6. To declare a dividend. The directors recommend approval of a dividend of US$ 3,226,200 for the year ended 31 December 2013.
7. To consider and if approved, appoint a new External Auditor and approve their remuneration.
8. 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 Friday, 25th April 2014.

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 2013. I am happy to report that the Company witnessed yet another steady and solid operational performance despite a number of challenges.

Business Environment and Outlook

The global economy made small yet significant recovery steps after a long slump that had been brought about by the global financial and the Euro crisis. Five years after the global financial crisis, the world economy bounced back in 2013, pulled along by a recovery in high-income economies. The resulting effect of this recovery was that regional economies, where the Company underwrites most of its business, enjoyed a much needed boost resulting in overall positive business experience for ZEP-RE.

According to the IMF's World Economic Outlook report, January 2014, average growth in developing countries is expected to pick up from 4.8 percent in 2013 to 5.3 percent in 2014. Although this pace is about 2.2 percentage points lower than during the boom period of 2003-07, the slower growth is not a cause for concern since almost all of the difference reflects a cooling off of the unsustainable turbo-charged pre-crisis growth, with very little due to an easing of growth potential in developing countries.

Economic growth in Sub-Saharan Africa picked up in 2013, supported by strong resource-based investments. Real GDP growth strengthened to an estimated 4.7 percent for the region. The average growth for the region was 6.0 percent. The silver lining to the slightly reduced growth is that emerging economies will be able to grow at a steady yet sustainable pace which makes for good growth conditions for the insurance industry.

Highlights of performance

I. Premiums

Premium income grew by 22.6% from US$ 81.71 million in 2012 to US$ 100.18 million in 2013. In original currencies, however, all our key markets grew on an average by more than 20%.

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

Highlights of performance (Continued)

II. Performance in key markets in the region

The COMESA region remains our key market and over 68.1% of business underwritten by the Company originated from this region. The rest of Africa contributed 14.9% of the business while 17.0% came from regions outside Africa (in particular the Indian sub-continent).

Economic factors prevailing in the key markets of the Company during the period including the operational performance of the Company was 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 expansion in infrastructure sector and a recovery in agriculture. This growth was also reflected in the insurance business sector. The one offsetting factor was sustained pressure the Kenyan economy brought about by acts of terrorism which affected the tourism industry. Kenya remains an important market for the Company given the size of the market and the fact that the Company has a physical presence in Kenya. The Company's Country strategy continues to be consolidation of its position while pursuing further growth in profitable business.

Tanzania

Tanzania was the second largest market of the Company in 2013. Like other markets in the region, Tanzania's economy registered remarkable growth in 2013 registering a GDP growth of 7%. The main drivers of growth were mining, agriculture, manufacturing, wholesale and retail trade, transport and communication activities. Tanzania remains an important market for the Company given the size of the market and growth prospects. The Company's Country strategy continues to be consolidation of its current position while pursuing further growth in the market.

Ethiopia

Ethiopia was the third largest market of the Company in 2013. The Ethiopian economy has been one of the fastest growing in the region although it slowed down a bit in 2013, but still managed to record an impressive a real GDP growth of 7%. The good performance was mainly driven by growth in the agricultural sector, services industry and increased investment in infrastructural projects. ZEP-RE recognises the importance of Ethiopia as one of its core markets and to address the needs of this market, the Company recruited an underwriter to cater for this market and is currently following up with the Government to open an office in Addis Ababa.

Zambia

Zambia rose from the sixth largest market of the Company the previous year to being the fourth largest market in 2013. This is attributable to increased business opportunities that got availed to the Company in 2013 by virtue of a vibrant growing economy. During the period under review the Zambian economy grew by 7%. Growth was driven by expansion in agriculture, construction, manufacturing, transport and finance. Copper mining rebounded in 2013 largely due to investment in new mines and the expansion of capacity of existing plants. Robust international copper prices also provided additional stimulus to mining.

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

Highlights of performance (Continued)

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

Uganda

Uganda was the fifth largest market of the Company in 2013. During the period under review, Uganda's real economic growth was 4.2%. The growth was mainly due to sustained macroeconomic policies and increased exports in commodities. With a rich and diversified base, natural resources weigh heavily on the Ugandan economy and the recent discovery of commercially viable oil reserves is expected to provide a unique opportunity for the country to carry out an economic structural transformation.

Sudan

The Sudanese market rose from the eight largest market the previous year to the sixth largest market in 2013 mainly due to improved business underwritten by the Company (74% growth). The Sudanese economy grew by 3.9% in 2013. Natural resources (mainly oil and gold) still underpin medium-term economic growth but challenges still abound in particular currency pressures driven by the United States sanctions currently in place.

III. Underwriting results

In 2013 the Company's underwriting profit increased to US$ 8.41 million from the underwriting profit of US$ 5.99 million in 2012. This was the case inspite of some major claims in 2013 on account of good growth, improved business profile and sound protection of the net account. Net claims incurred in 2013 were US$ 40.67 million compared to the incurred claims of US$ 30.36 million in 2012.

IV. Investments

Portfolio

The investment portfolio value increased from US$ 109.14 million as at 31 December 2012 to US$ 147.11 million as at 31 December 2013, an increase of US$ 37.97 million (34.79%). This growth is attributable to cash flow surplus from operating activities and proceeds of issue of shares to existing shareholders of US$ 10.3 million.

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

Performance

The investment income decreased from US$ 9.35 million in 2012 to US$ 9.08 in 2013, a 2.9% decline. This was on account of lower interest rates in 2013, than those earned in 2012 for all major currencies we hold our investments.

V. Profitability

The Company achieved a profit of US$ 15.36 million in 2013 compared to US$ 11.68 million in 2012. The increase in profitability is attributable to improved underwriting results and lower operating and other expenses.

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

Dividend

The Company's profit for the year was US$ 15.36 million compared to US$ 11.68 million in 2012. Based on these results, the Board of Directors is recommending a dividend of US$ 3.23 million compared to US$ 2.36 million in 2012.

Changes to the Board

The 22nd Annual General Assembly held on 10th May 2013 elected a new Board of Directors and appointed me as the new Chairman of the Company to succeed Dr. Michael Gondwe. The meeting also appointed Mr. Aden Saleh as Vice Chairman to succeed Ms. Irene Muyenga. The meeting also witnessed new appointments to the Board including Mr. George Silutongwe, Mr. Tadesse Admassu and Mr. Zeru Woldemichael while Mr. Albert Nduna and Justine Mwandu retired from their positions as substantive Directors. May I take this opportunity to recognize, with much appreciation, the contribution my predecessor Dr. Michael Gondwe and his Vice Chair Ms. Irene Muyenga together with the retired Directors made during their tenure as members of the Board. The Company achieved great milestones during this period and we shall forever be grateful for their role and contribution to the growth of the Company.

Security Rating

The Company maintained its investment grade financial rating of "B+" with a stable outlook and issuer credit rating of "bbb-" with AM Best. The good rating was mainly attributable to the Company's improved risk adjusted capitalisation, good underwriting performance and a robust risk management framework. The stable outlook was a reflection of the expectation of sustained improvements in underwriting performance and risk based capitalisation as the company pursued its growth objectives.

Admission of DEG into membership of ZEP-RE

Members will recall that the Board was mandated to negotiate with Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) with a view to getting the development finance institution into membership of the Company. Preliminary negotiations were concluded in December 2013 and in March 2014 an Extra Ordinary General Assembly admitted DEG into membership of the Company. DEG membership is expected to bring in a number of benefits. The immediate benefits expected to accrue to ZEP-RE include raising the company's profile, DEG being a premier tripple A (AAA) rated development finance institution.

20 years of service to the region

2013 saw the Company celebrate twenty years since it started operations. It has been a long arduous and challenging journey but fulfilling in many aspects given the achievements we have made over the years. We are proud to report that 2013 saw the Company mark a number of key milestones including surpassing the USD 100 million mark in both premiums underwritten and shareholder funds while our assets now have passed the USD 200 million point. I wish to convey sincere appreciation to the founding and current shareholders for the faith and vision they had in setting up and subsequently investing in this Company. I also wish to recognise the founding staff members and Board of Directors who charted the Company through difficult times. As we celebrate this milestones let us not lose sight of focus and our goal to make ZEP-RE a 'world class leading reinsurer in Africa".

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

Appreciation

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

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

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

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

Outlook

In 2014, the Global GDP is projected to grow from 2.4 percent in 2013 to 3.2 percent in 2014. In sub-Saharan Africa, which comprises the Company's core markets, robust domestic demand, relatively resilient foreign direct investment inflows and lower inflation is expected to cushion regional growth and support growth in 2014 at a low yet sustainable 5.3%. Although the region is relatively insensitive to rising global interest rates, it is still very vulnerable to sharper than projected declines in commodity prices, domestic risks related to weather shocks to local harvests and food prices, political strife and terrorism attacks in selected territories which could disrupt regional trade..

It is our trust that the renewed business confidence globally coupled with a resilient and steady regional economy should help us consolidate and increase business currently underwritten in our core markets. This should put the Company in good stead to achieve its business goals and objectives.

BY ORDER OF THE BOARD OF DIRECTORS

William Erio
Chairman, ZEP-RE

26 March 2014

Corporate Governance Report

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

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

CORPORATE GOVERNANCE STANDARDS

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

GOVERNANCE STRUCTURE

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

General Assembly

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

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

Board of Directors

Role

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

Appointment

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

Composition

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

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

Corporate Governance Report (Continued)

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

Implementation of strategy

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

Charter

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

Other legal instruments

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

Internal Control Framework

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

Board Committees

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

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

Board Risk and Audit Committee

The Board Risk and Audit Committee comprises Mr. Tushar Shah (Chairman), Mr. Aden Saleh Omar and Mr. Zeru Woldemichael.

The Committee serves in an advisory capacity to the Board and ensures that the Company's assets are safeguarded, that there is in place an adequate control framework and material corporate risks are being managed. The Committee met thrice in 2013.

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

Corporate Governance Report (Continued)

Board Strategy and Investments Committee

The Board Investments Committee comprises Mr. Yaw Kuffour (Chairman), Mr. Rajni Varia (Managing Director), Mr. Tadesse Admassu and Mr. Elias Baingana. The Committee advises the Board on policy issues pertaining to strategy and investments. The Strategy and Investments Committee met thrice in 2013.

Board Nominations, Remuneration and Human Resources Committee

The Board Nominations, Remuneration and Human Resources Committee comprises Mrs. Nelius Kariuki (Chairperson), Mr. George Silutongwe and Mr. Mohamed Mousa Idris. The Committee is mandated to monitor, evaluate, and advise the Board regarding issues of Board nominations and remuneration and general human resources issues affecting staff. The Nominations, Remuneration and Human Resources Committee met thrice in 2013.

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 2013 the aggregate amount of emoluments received by Directors is shown in Note 35 (ii) to the financial statements.

Board Attendance in 2013

The table below shows meeting Board attendance (by substantive Directors or through their Alternates) in 2013

	72nd Board meeting	22nd AGM	73rd Board meeting	74th Board meeting
CONTINUING IN OFFICE				
Mr. William Erio	✓	✓	✓	✓
Mr. Aden Saleh Omar	✓	✓	✓	✓
Mr. Rajni Varia	✓	✓	✓	✓
Mr. Mohammed Mousa Idris	✓	✓	✓	✓
Mrs. Nelius Kariuki	✓	✓	✓	✓
Mr. Elias Baingana	✓	✓	✓	✓
Mr. Tushar Shah	✓	✓	✓	✓
Mr. Yaw Kuffour	✓	✓	✓	✓
NEW APPOINTMENTS BY 22AGM ON 10TH MAY 2013				
Mr. Tadesse Admassu	-	-	✓	x
Mr. George Silutongwe	-	-	✓	✓
Mr. Zeru Woldemichael	-	-	✓	✓
RETIREMENTS AFTER 22AGM ON 10TH MAY 2013				
Dr. Michael Gondwe	✓	✓	-	-
Ms. Irene Muyenga	✓	✓	-	-
Mr. Albert Nduna	✓	✓	-	-
Mr. Justine Mwandu*	✓	✓	-	-

**Justine Mwandu was reappointed by the 22Annual General Assembly as an Alternate to Mr. William Erio.*

Corporate Governance Report (Continued)

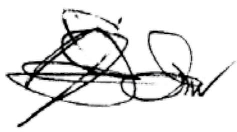
Managing Director and the Management team

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

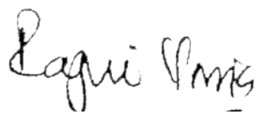
The Managing Director is assisted in his or her role by a Management team. The members of the Management team are appointed by the Board of Directors on fixed term renewable contracts. Various rules and policy documents issued by the Board of Directors determine the manner Management shall manage the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

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

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



William Erio
Chairman



Rajni Varia
Managing Director

26 March, 2014

Report of the Directors

The Board of Directors hereby submit their report together with the audited financial statements for the year ended 31 December 2013, which disclose the state of affairs of the Company. The report is made in accordance with the provisions of Article 31 of the Agreement Establishing ZEP–RE (PTA Reinsurance Company).

PRINCIPAL ACTIVITIES

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

The business is divided into the following business classes:

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

RESULTS AND DIVIDEND FOR THE YEAR

The profit for the year of US$ 15.36 million (2012: US$ 11.68 million) has been transferred to retained earnings. The directors recommend the payment of a dividend of US$ 3,226,200 for the year ended 31 December 2013 (2012: US$ 2,359,800).

DIRECTORS

The current Directors of the Company are shown on page 2. This Board was elected by the 22nd Annual General Assembly held in Mombasa, Kenya on 10th May 2013 for a term of three years.

Retirements from the Board

Following elections carried out by the 22nd Annual General Assembly to constitute a new Board, a number of Directors including the then Chairman, Dr Michael Gondwe, the then Vice Chairperson Ms Irene Muyenga and Directors Albert Nduna and Justine Mwandu retired from their positions as Directors of the Company. The Board would like to express sincere gratitude to the aforementioned Board members for the committed service they rendered to the Company during their tenure.

New Appointments to the Board

The elections undertaken out by the 22nd Annual General Assembly to constitute a new Board saw new appointments to positions of Directors including, Mr Zeru Woldemichael from Eritrea, Mr Tadesse Admassu from the PTA Bank and Mr George Silutongwe from Zambia.

SECRETARY

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

AUDITORS

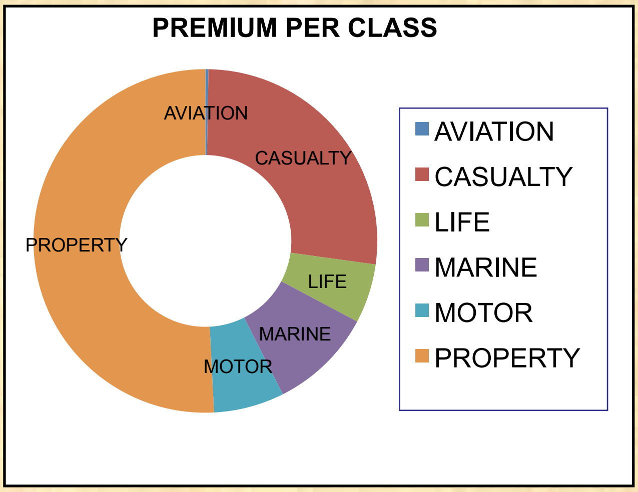
Deloitte and Touche retire from office at the conclusion of the 23rd Annual General Meeting having served the maximum three terms as per the Company's Criteria for Selection of External Auditors. The General Assembly will be requested to appoint a new external auditor and approve their remuneration.

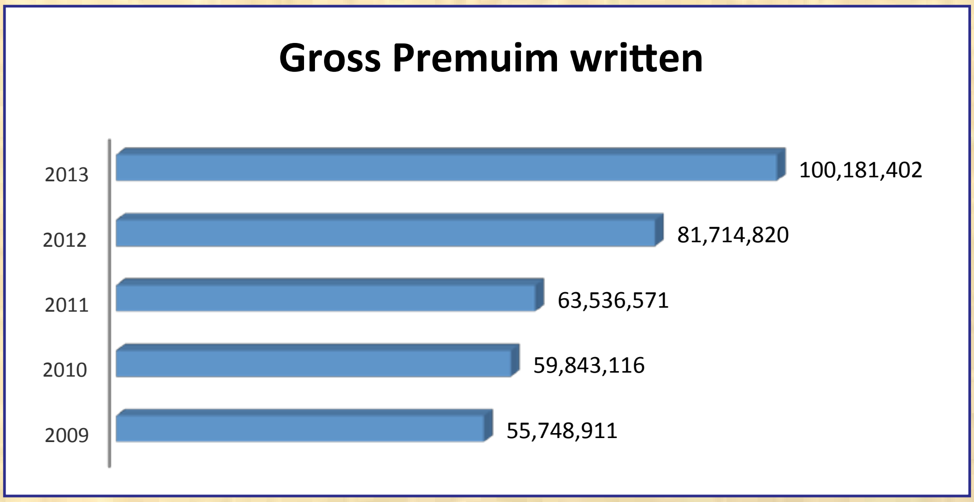
BY ORDER OF THE BOARD

Jerry Sogoli
Secretary
26 March, 2014

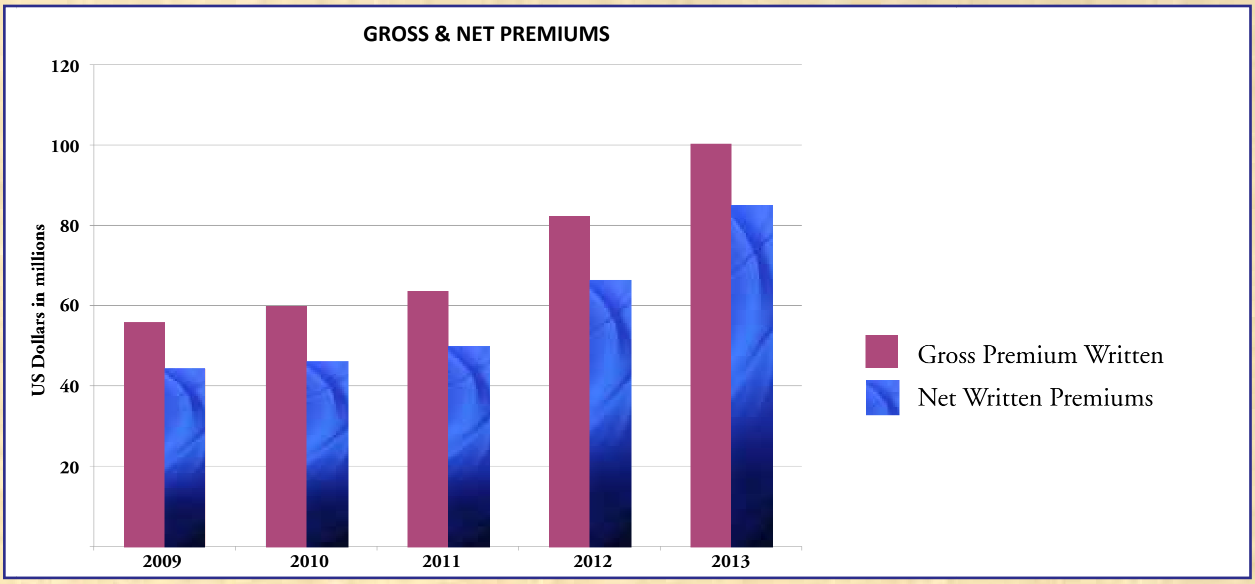
Financial Highlights
for the Year Ended 31 December 2013

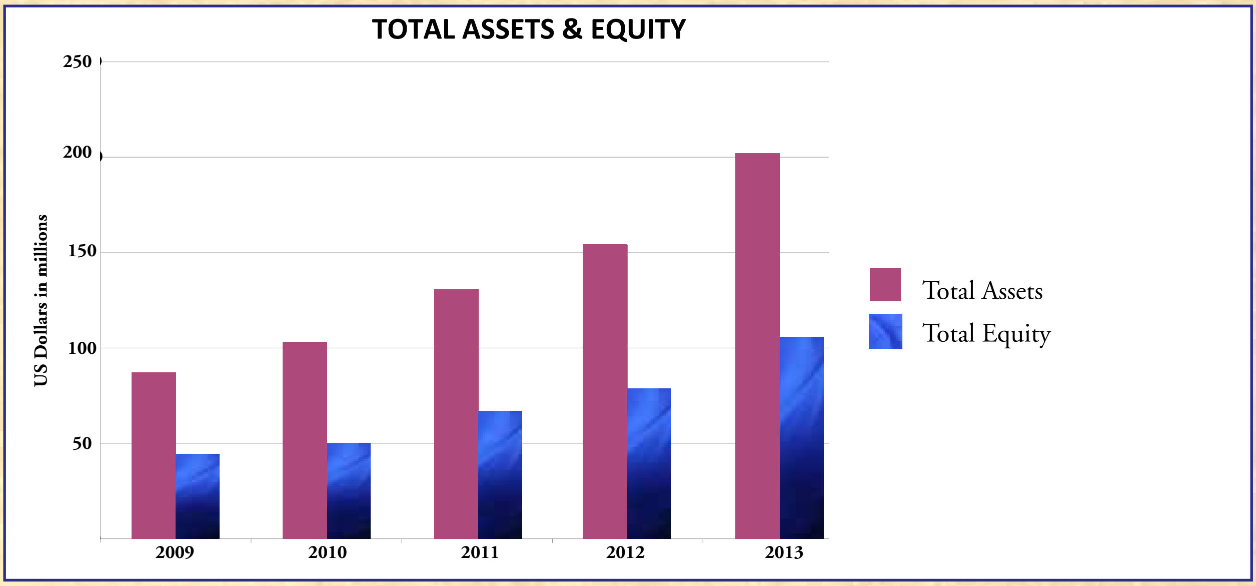
	2009	2010	2011	2012	2013
Gross Premium Written	55,748,911	59,843,116	63,536,571	81,714,820	100,181,402
Net Written Premiums	44,266,616	46,042,768	49,846,359	66,307,584	83,964,961
Net Earned Premiums	40,214,408	44,361,208	46,489,807	60,683,391	77,695,433
Investment & other Income	8,253,469	10,117,026	11,083,593	15,255,819	14,921,584
Total Income	48,467,877	54,478,234	57,573,400	75,939,210	92,617,017
Claims Incurred	23,437,454	27,097,758	26,103,374	30,355,413	40,667,775
Commisions & other operating expenses	18,602,983	22,133,214	22,693,198	33,902,114	36,586,089
Profit for the year	6,427,440	5,247,262	8,776,828	11,681,683	15,363,153
Dividends Paid & Capitalized	1,200,000	1,311,000	1,573,200	2,359,800	3,226,200
Total Assets	**87,128,548**	**103,110,370**	**130,337,123**	**154,088,372**	**201,843,403**
Total Equity	**44,474,180**	**49,987,272**	**66,656,019**	**78,774,839**	**105,728,865**

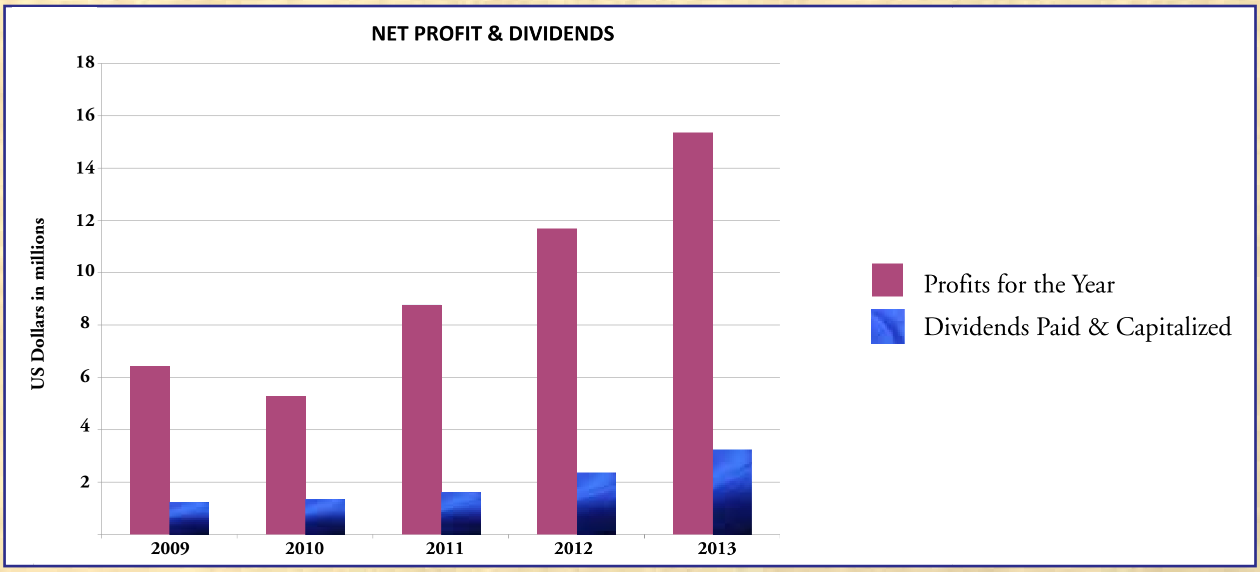




Financial Highlights (Continued)







Statement of Directors' Responsibilities

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

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

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

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

William Erio
Chairman

Rajni Varia
Managing Director

26 March, 2014

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ZEP–RE (PTA REINSURANCE COMPANY)

We have audited the accompanying financial statements of ZEP–RE (PTA Reinsurance Company), set out on pages 26 to 74, which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, together with a 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 responsibiiity is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2013 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).

The engagement partner responsible for the audit resulting in this independent auditors' report is ***Fredrick Okwiri (P/No1699).***

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya

9 April 2014

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income
for the Year Ended 31 December 2013

	Notes	2013 US$	2012 US$
Gross premiums written	3	100,181,402	81,714,820
Less: Retrocession premiums		(16,216,441)	(15,407,236)
Net written premiums		83,964,961	66,307,584
Movement in unearned premiums reserve	27	(6,269,528)	(5,624,193)
Net earned premiums		77,695,433	60,683,391
Investment income	4	9,080,850	9,351,886
Commissions earned		5,131,137	5,079,239
Other income		709,597	824,694
Total income		**92,617,017**	**75,939,210**
Gross incurred claims	5	53,518,271	34,303,795
Less: amounts recoverable from retrocessionaires		(12,850,496)	(3,948,382)
Net claims incurred		40,667,775	30,355,413
Operating and other expenses	6	11,079,494	12,084,010
Commissions expenses		25,506,595	21,818,104
Total out go		**77,253,864**	**64,257,527**
Profit for the year		**15,363,153**	**11,681,683**
Other comprehensive income for year			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain on revaluation of available for sale equity investments	12	2,282,810	859,614
Foreign exchange gain/(loss) on revaluation of available for sale equity investments	12	77,350	(76,150)
Fair value gain on revaluation of offshore investments	19	323,080	-
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property and equipment	24(ii)	583	123,680
Total other comprehensive income for the year		2,683,823	907,144
Total comprehensive income for year		**18,046,976**	**12,588,827**
		=========	=========
Earnings per share:			
- Basic and diluted	7	0.395	0.318
		=========	=========

Statement of Financial Position

At 31 December 2013

	Notes	2013	2012
ASSETS		US$	US$
Property and equipment	9	1,793,951	1,659,554
Intangible assets	10	23,237	24,255
Investment properties	11	16,448,486	14,579,132
Available-for-sale equity investments	12	12,585,977	5,365,063
Receivables arising out of reinsurance arrangements	13	16,598,636	14,693,128
Deposits retained by ceding companies	14	4,622,901	3,726,983
Retrocessionaires share of technical liabilities	15	16,344,842	11,145,160
Other receivables	16	2,977,064	3,041,983
Deferred acquisition costs	17	11,163,940	8,702,052
Government securities	18	21,658,610	23,683,126
Offshore investments	19	8,509,940	5,186,860
Deposits with financial institutions	20	87,910,664	60,324,207
Cash and bank balances	21	1,205,155	1,956,869
Total assets		**201,843,403**	**154,088,372**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	23	42,268,284	36,928,546
Share premium	23	11,682,765	5,755,653
Property revaluation reserve	24	315,168	314,585
Available for sale fair value reserve	24	2,099,298	(583,942)
Retained earnings	25	49,363,350	36,359,997
Total equity		**105,728,865**	**78,774,839**
LIABILITIES			
Reinsurance contract liabilities	26	51,177,926	38,989,563
Provision for unearned premiums and unexpired risks	27	33,177,356	25,897,037
Deferred income	28	64,385	65,200
Payables arising from retrocession arrangements	29	3,720,953	3,876,849
Deposits retained on ceded reinsurance business		656,562	540,519
Deferred retrocession commission revenue	30	2,931,449	2,322,593
Other payables	31	3,893,930	3,509,684
Dividends payable	32	491,977	112,088
Total liabilities		**96,114,538**	**75,313,533**
Total equity and liabilities		**201,843,403**	**154,088,372**

The financial statements on pages 26 to 74 were approved and authorised for issue by the Board of Directors on 26 March, 2014 and were signed on its behalf by:

William Erio
Chairman

Rajni Varia
Managing Director

Statement of Changes in Equity
for the Year Ended 31 December 2013

	Notes	Share capital US$	Share premium US$	Property revaluation reserve US$	Available for sale fair value reserve US$	Retained earnings US$	Total US$
At 1 January 2012		36,405,708	5,175,298	190,905	(1,367,406)	26,251,514	66,656,019
Shares issued during the year	23	266,825	296,175	-	-	-	563,000
Dividends declared - 2011	32	-	-	-	-	(1,573,200)	(1,573,200)
Issue of shares through capitalisation of 2011 dividends	32	256,013	284,180	-	-	-	540,193
Total comprehensive income for the year		-	-	123,680	783,464	11,681,683	12,588,827
At 31 December 2012		**36,928,546**	**5,755,653**	**314,585**	**(583,942)**	**36,359,997**	**78,774,839**
At 1 January 2013		36,928,546	5,755,653	314,585	(583,942)	36,359,997	78,774,839
Shares issued during the year	23	4,896,178	5,434,760	-	-	-	10,330,938
Dividends declared - 2012	32	-	-	-	-	(2,359,800)	(2,359,800)
Issue of shares through capitalisation of 2012 dividends	32	443,560	492,352	-	-	-	935,912
Total comprehensive income for the year		-	-	583	2,683,240	15,363,153	18,046,976
At 31 December 2013		**42,268,284**	**11,682,765**	**315,168**	**2,099,298**	**49,363,350**	**105,728,865**

Statement of Cash Flows
for the Year Ended 31 December 2013

	Notes	2013 US$	2012 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		15,363,153	11,681,683
Adjustments for:			
Gain/(loss) on disposal of property and equipment		(23,126)	7,164
Gain on sale of quoted shares	4	(237,895)	(213,458)
Fair value gain on investment properties	4	(1,869,354)	(1,164,138)
Depreciation	9	167,820	161,743
Amortisation of intangible assets	10	11,618	8,085
Amortisation of deferred income	28	(815)	(815)
Changes in:			
Provision for unearned premiums and unexpired risks		7,280,319	5,188,838
Reinsurance contract liabilities		12,188,363	5,013,445
Deposits retained by ceding companies	14	(895,918)	(1,957,566)
Deposits retained on ceded reinsurance business		116,043	313,868
Deferred acquisition costs (DAC)	17	(2,461,888)	(1,744,206)
Receivables arising out of reinsurance arrangements		(1,905,508)	(3,736,290)
Retrocessionaires share of technical liabilities		(5,199,682)	(24,687)
Payables arising out of retrocession arrangements	29	(155,896)	(1,165,589)
Deferred retrocession commission revenue (DRR)	30	608,856	312,663
Other receivables		64,919	(1,184,777)
Other payables		384,246	1,894,493
Net cash generated from operating activities		**23,435,255**	**13,390,456**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9	(301,634)	(458,610)
Purchase of computer software	10	(10,600)	-
Purchase of investment properties	11	-	(848,591)
Purchase of quoted equity shares	12(i)	(2,787,554)	(2,053,912)
Purchase of unquoted equity shares	12(ii)	(3,544,480)	-
Purchase of held to maturity Government securities		(2,848,155)	(15,820,737)
Proceeds on maturity of Government securities		4,872,671	11,899,969
Proceeds of disposal of property and equipment		23,126	3,154
Proceeds of disposal of quoted shares		2,032,255	1,289,084
Purchase of offshore investments	19	(3,000,000)	(5,186,860)
Movement in deposits with financial institutions (excluding cash and cash equivalents)		(10,123,720)	(2,996,671)
Net cash used in investing activities		**(15,688,091)**	**(14,173,174)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of issue of shares		10,330,938	563,000
Dividends paid	32	(1,043,999)	(957,481)
Net cash generated from/(used in) financing activities		**9,286,939**	**(394,481)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**17,034,103**	**(1,177,199)**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**6,654,079**	**7,831,278**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	35	**23,688,182**	**6,654,079**
		==========	=========

Notes to the Financial Statements
for the Year Ended 31 December 2013

1 ACCOUNTING POLICIES

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

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

(a) Statement of compliance

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

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2013

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

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	The Company has applied the amendments to IAS 1, Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, "the Statement of Comprehensive Income" is renamed as the "statement of profit or loss and other comprehensive income" (and "the income statement" is renamed as "the statement of profit or loss"). The amendment to IAS 1 retains the option to present profit or loss and other comprehensive income in a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be classified into two categories in the other comprehensive income section: (a) items that will not be subsequently reclassified to profit or loss, (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(a) Statement of compliance (Continued)

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

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2013 (Continued)*

Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	Amends the disclosure requirements in IFRS 7 *Financial Instruments*: Disclosure to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments have been applied prospectively. The application of the amendments had no effect on the Company's financial statements.
IFRS 13 Fair Value Measurement	The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply 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 for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes). IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements. IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the company has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(a) Statement of compliance (Continued)

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

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2013

New and Amendments to the standards	*Effective for annual periods beginning on or after*
IFRS 9, Financial Instruments	1 January 2015
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures	1 January 2015
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
New interpretation	
IFRIC 21 Levies	1 January 2014

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods

IFRS 9, Financial Instruments

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2011 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 directors anticipate that IFRS 9 will be adopted in the Company's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may not have significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(a) Statement of compliance (Continued)

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

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods (Continued)

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'.
- the application of simultaneous realisation and settlement.
- the offsetting of collateral amounts.
- the unit of account for applying the offsetting requirements.

The above amendments are generally effective for annual periods beginning on or after 1 January 2014. 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 2013.

(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 on a straight line basis over the period of the lease.

All investment income is stated net of investment expenses.

Notes to the Financial Statements (Continued)

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 has significant activities of the company being conducted in United States Dollars (US$). The financial statements are presented in United States Dollars (US$) which is the company's functional and presentation currency.

ii) Transactions and balances

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

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

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

(e) Receivables and payables related to reinsurance contracts

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

(f) Provision for bad and doubtful debts

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

(g) Intangible assets – computer software

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

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

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

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(h) Property and equipment

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

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

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

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

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

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

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

(i) Investment properties

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

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

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

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

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(j) Financial instruments

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

i. Financial liabilities

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

ii. Financial assets

Classification

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

i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. The company had no investments in this category at 31 December 2013 and 31 December 2012.

ii) *Loans and receivables*

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

iii) *Held-to-maturity financial assets*

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

iv) *Available-for-sale financial assets*

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

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

Available for sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured 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.

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

ii. Financial assets (Continued)

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

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

ii. Financial assets (Continued)

Impairment of financial assets (Continued)

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

(i) Assets carried at amortised cost

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

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

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

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

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

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

Notes to the Financial Statements (Continued)

1 ACCOUNTING POLICIES (Continued)

(j) Financial instruments (Continued)

ii. Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) *Assets carried at fair value*

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

(k) Deferred income

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

(l) Employee entitlements

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

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

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

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

(m) Cash and cash equivalents

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

(n) Dividends

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

(o) Taxation

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

(p) Comparatives

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

Notes to the Financial Statements (Continued)

2 ESTABLISHMENT

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

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

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

3 GROSS PREMIUMS WRITTEN

(i) Class-wise distribution

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

	2013 US$	2012 US$
Class of business:		
Property	50,893,774	38,435,365
Casualty	26,949,563	21,884,573
Motor	6,652,307	7,642,949
Marine	9,799,689	9,196,641
Aviation	294,911	262,532
Life	5,591,158	4,292,760
	100,181,402	**81,714,820**
	=========	=========

(ii) Geographical distribution

Region	2013 Gross premium US$	2013 %	2012 Gross premium US$	2012 %
COMESA	68,263,181	68.14	58,445,133	71.52
Non – COMESA (Africa)	14,876,871	14.85	11,547,019	14.13
Other regions	17,041,350	17.01	11,722,668	14.35
Total	**100,181,402**	**100.00**	**81,714,820**	**100.00**
	===========	========	=========	======

(iii) Type- distribution

	2013 Gross premium US$	2013 %	2012 Gross premium US$	2012 %
Proportional	72,884,160	72.75	58,695,431	71.83
Non-proportional	15,665,390	15.64	14,646,950	17.92
Facultative	11,631,852	11.61	8,372,439	10.25
Total	**100,181,402**	**100.00**	**81,714,820**	**100.00**
	==========	======	==========	======

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2013 US$	2012 US$
4	**INVESTMENT INCOME**		
	Interest from Government securities held to maturity	1,887,860	1,951,923
	Interest from deposits with financial institutions	3,709,264	4,731,803
	Rental income	1,105,004	989,759
	Dividend income	217,757	263,684
	Loan interest receivable	53,716	37,121
	Fair value gain on investment properties (Note 11)	1,869,354	1,164,138
	Gain on sale of quoted shares (Note 24(i))	237,895	213,458
		9,080,850	**9,351,886**
		========	========
	Investment income earned on financial assets, analysed by category of asset is as follows:		
	Held to maturity investments	5,597,124	6,683,726
	Loans and receivables	53,716	37,121
	Available for sale investments	455,652	477,142
		6,106,492	7,197,989
	Investment income earned on non-financial assets	2,974,358	2,153,897
	Total investment income	**9,080,850**	**9,351,886**
		========	========
5	**GROSS INCURRED CLAIMS**		
	Gross settled claims	40,658,859	26,977,669
	Change in outstanding claims	12,859,412	7,326,126
		53,518,271	**34,303,795**
		=========	=========
6	**OPERATING AND OTHER EXPENSES**		
	Employee emoluments and benefits (Note 8)	5,902,669	5,765,371
	Auditors' remuneration	29,500	26,500
	General assembly and board expenses	306,574	272,521
	Depreciation (Note 9)	167,820	161,743
	Amortisation of intangible assets (Note 10)	11,618	8,085
	Loss on foreign exchange transactions	1,363,378	3,477,816
	Impairment charge for doubtful receivables - arising from reinsurance premium receivables (Note 13(iii))	950,007	537,782
	Repairs and maintenance	140,488	145,433
	Premium taxes and charges	830,037	564,914
	Property letting fees	10,035	-
	Other	1,367,368	1,123,845
		11,079,494	**12,084,010**
		========	=========

Notes to the Financial Statements (Continued)

7 EARNINGS PER SHARE

	2013	2012
Profit attributable to shareholders (US$)	15,363,153	11,681,683
	=========	=========
Weighted average number of shares issued (Note 23(iii))	38,848,266	36,710,697
	=========	=========
Earnings per share (US$) - basic and diluted	0.395	0.318
	========	========

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 2013 and 31 December 2012. The diluted earnings per share is therefore the same as the basic earnings per share.

8 EMPLOYEE EMOLUMENTS AND BENEFITS

	2013 US$	2012 US$
Staff costs include the following:		
- Salaries and wages	4,819,777	4,620,855
- Staff retirement benefits	591,383	627,792
- Other staff benefits	491,509	516,724
	5,902,669	**5,765,371**
	=========	=========

The number of persons employed by the company at the year-end was 43 (2012: 41).

9 PROPERTY AND EQUIPMENT

	2013	2012
Cost or valuation	2,779,211	2,578,286
Accumulated depreciation	(985,260)	(918,732)
Net book value	**1,793,951**	**1,659,554**
	========	========
Comprising;		
Buildings	1,400,434	1,422,521
Motor vehicles	161,448	5,308
Office furniture and fittings	130,036	151,439
Office equipment	50,042	45,332
Computers equipment	51,991	34,954
Net book value	**1,793,951**	**1,659,554**
	========	========

Notes to the Financial Statements (Continued)

9 PROPERTY AND EQUIPMENT (Continued)

An independent valuation of the Company's buildings was carried out by Messrs. Gimco Limited for the Kenya properties and Messrs Knight Frank Zimbabwe for the Zimbabwe property, registered valuers, to determine the fair value of buildings. The valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation, done annually, was carried out as at 31 December 2013 on an open market value basis. In estimating the fair value of the buildings, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. Had the Company's buildings been measured on a historical cost basis, their carrying amount would have been US$ 1,085,266 (2012: US$ 1,107,936).

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$ 658,130 (2012: US$ 326,970) 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$ 139,089 (2012: US$ 87,033).

Notes to the Financial Statements (Continued)

9 PROPERTY AND EQUIPMENT (Continued)

	Land and Buildings	Motor vehicles	Office furniture and fittings	Office equipment	Computer equipment	Total
	US$	US$	US$	US$	US$	US$
COST OR VALUATION						
At 1 January 2012	1,030,450	230,603	435,815	108,592	227,653	2,033,113
Additions	289,000	-	118,149	15,717	35,744	458,610
Disposals	-	-	-	(16,508)	-	(16,508)
Revaluation surplus	103,071	-	-	-	-	103,071
At 31 December 2012	**1,422,521**	**230,603**	**553,964**	**107,801**	**263,397**	**2,578,286**
At 1 January 2013	1,422,521	230,603	553,964	107,801	263,397	2,578,286
Additions	-	215,261	8,588	17,694	60,091	301,634
Disposals	-	(78,622)	-	-	-	(78,622)
Revaluation surplus	(22,087)	-	-	-	-	(22,087)
At 31 December 2013	**1,400,434**	**367,242**	**562,552**	**125,495**	**323,488**	**2,779,211**
ACCUMULATED DEPRECIATION						
At 1 January 2012	-	219,990	333,279	57,887	172,632	783,788
Charge for the year	20,609	5,305	69,246	10,772	55,811	161,743
Eliminated on disposals	-	-	-	(6,190)	-	(6,190)
Written back on revaluation	(20,609)	-	-	-	-	(20,609)
At 31 December 2012	**-**	**225,295**	**402,525**	**62,469**	**228,443**	**918,732**
At 1 January 2013	-	225,295	402,525	62,469	228,443	918,732
Charge for the year	22,670	59,121	29,991	12,984	43,054	167,820
Eliminated on disposals	-	(78,622)	-	-	-	(78,622)
Written back on revaluation	(22,670)	-	-	-	-	(22,670)
At 31 December 2013	**-**	**205,794**	**432,516**	**75,453**	**271,497**	**985,260**
NET BOOK VALUE						
At 31 December 2013	**1,400,434**	**161,448**	**130,036**	**50,042**	**51,991**	**1,793,951**
	========	======	=======	=======	=======	=======
At 31 December 2012	**1,422,521**	**5,308**	**151,439**	**45,332**	**34,954**	**1,659,554**
	========	======	=======	=======	=======	=======
NET BOOK VALUE – COST BASIS						
At 31 December 2013	**1,085,266**	**161,448**	**130,036**	**50,042**	**51,991**	**1,478,783**
	========	======	=======	=======	======	=======
At 31 December 2012	**1,107,936**	**5,308**	**151,439**	**45,332**	**34,954**	**1,344,969**
	========	======	=======	=======	======	=======

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 PROPERTY AND EQUIPMENT (Continued)

Details of the company's freehold land and buildings and information about fair value hierarchy as at 31 December 2013 are as follows:

	2013 US$	2012 US$
Level 1	-	-
Level 2	1,400,434	1,422,521
Level 3	-	-
Fair value as at 31 December 2013	1,400,434	1,422,521
	========	========

There were no transfers between level 1 and level 2 during the year.

10 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2013 US$	2012 US$
Cost	781,307	770,709
Accumulated amortisation	(758,070)	(746,454)
Net book value	**23,237**	**24,255**
	========	========

Movement analysis:

COST	Software licences US$	Other software US$	Total US$
At 1 January 2012 and at 31 December 2012	590,426	180,283	770,709
At 1 January 2013	590,426	180,283	770,709
Additions	-	10,600	10,600
At 31 December 2013	**590,426**	**190,883**	**781,309**
ACCUMULATED AMORTISATION			
At 1 January 2012	558,086	180,283	738,369
Charge for the year	8,085	-	8,085
At 31 December 2012	**566,171**	**180,283**	**746,454**
At 1 January 2013	566,171	180,283	746,454
Charge for the year	8,085	3,533	11,618
At 31 December 2013	**574,256**	**183,816**	**758,072**
NET BOOK VALUE			
At 31 December 2013	**16,170**	**7,067**	**23,237**
	=======	=======	=======
At 31 December 2012	**24,255**	**-**	**24,255**
	=======	=======	=======

All software is amortised over a period of five years.

11 INVESTMENT PROPERTIES

	2013	2012
	US$	US$
Fair value of investment properties	**16,448,486**	**14,579,132**
	=========	=========

Investment properties comprise:

At fair value:	Zep-Re Place US$	Prosperity House US$	Upperhill Parking US$	Zambia Land US$	Mombasa Road US$	Total US$
At 1 January 2012	5,627,274	4,294,623	775,326	1,300,877	568,303	12,566,403
Additions	-	237,384	34,709	576,498	-	848,591
Gain on revaluation	561,840	191,522	81,485	244,123	85,168	1,164,138
At 31 December 2012	**6,189,114**	**4,723,529**	**891,520**	**2,121,498**	**653,471**	**14,579,132**
	========	=======	=======	=======	=======	========
At 1 January 2013	6,189,114	4,723,529	891,520	2,121,498	653,471	14,579,132
Gain on revaluation	1,044,250	144,269	615,179	23,727	41,929	1,869,354
At 31 December 2013	**7,233,364**	**4,867,798**	**1,506,699**	**2,145,225**	**695,400**	**16,448,486**
	========	=======	=======	=======	=======	========

Investment properties were last valued by Gimco Limited for the Kenya properties and by Knight Frank Zambia Limited for the Zambia property, registered valuers, as at 31 December 2013, on an open market basis . The valuers have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. The fair value gain arising from the revaluation has been dealt with in profit and loss.

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

Details of the company's investment properties and information about fair value hierarchy as at 31 December 2013 are as follows:

	2013	2012
	US$	US$
Level 1	-	-
Level 2	16,448,486	14,579,132
Level 3	-	-
Fair value as at 31 December	16,448,486	14,579,132
	=========	=========

There were no transfers between level 1 and level 2 during the year.

Notes to the Financial Statements (Continued)

12 AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	2013 US$	2012 US$
Quoted equity shares – at fair value (Note (i) below)	8,198,782	4,522,348
Unquoted equity shares – at cost (Note (ii) below)	4,387,195	842,715
	12,585,977	**5,365,063**
	========	========
(i) Quoted equity shares: At fair value		
At 1 January	4,522,348	2,760,598
Additions	2,787,554	2,053,912
Disposals	(1,471,280)	(1,075,626)
Fair value gains (Note 24 (i))	2,282,810	859,614
Exchange difference on revaluation (Note 24 (i))	77,350	(76,150)
At 31 December	**8,198,782**	**4,522,348**
	========	========

Notes to the Financial Statements (Continued)

12 AVAILABLE-FOR-SALE EQUITY INVESTMENTS (Continued)

(i) Quoted equity shares: At fair value (Continued)

		Uganda Reinsurance Corporation US$	WAICA Re-insurance Corpora-tion US$	Tanzania Reinsurance Corpora-tion US$	AIO Software Develop-ment US$	African Trade Insurance Agency US$	Total US$
(ii)	**Unquoted equity shares: At Cost**						
	At 1 January 2012 and 31 December 2012	-	-	**842,715**	**30,000**	**100,000**	**972,715**
	At 1 January 2013	-	-	842,715	30,000	100,000	972,715
	Additions	714,935	2,240,000	589,545	-	-	3,544,480
	At 31 December 2013	**714,935**	**2,240,000**	**1,432,260**	**30,000**	**100,000**	**4,517,195**
	Impairment loss:						
	At 1 January 2012 and 31 December 2012	-	-	-	(30,000)	(100,000)	(130,000)
	At 1 January 2013 and 31 December 2013	-	-	-	(30,000)	(100,000)	(130,000)
	Net book value:						
	At 31 December 2013	**714,935**	**2,240,000**	**1,432,260**	-	-	**4,387,195**
	At 31 December 2012	-	-	**842,715**	-	-	**842,715**

Notes to the Financial Statements (Continued)

13 RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	2013	2012
	US$	US$
Receivables from reinsurance arrangements	20,057,817	17,519,723
Allowance for doubtful arrangements (Note(ii) below)	(3,459,181)	(2,826,595)
Net carrying value	**16,598,636**	**14,693,128**

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

(i) Ageing of unimpaired receivables

	2013	2012
	US$	US$
0 - 90 days	7,317,496	4,750,919
91-120 days	2,555,927	964,497
121-270 days	4,928,691	6,997,980
271 – 360 days	1,796,522	1,979,732
At 31 December	**16,598,636**	**14,693,128**
Average age (days) – gross premium basis	60	66

(ii) Movement in the allowance for doubtful debts

	2013	2012
At 1 January	2,826,595	3,013,909
Charge for the year inward	611,627	537,782
Charge for the year outward	20,959	(14,277)
Written off during the year as uncollectible	-	(710,819)
At 31 December	**3,459,181**	**2,826,595**

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

	2013	2012
Arising from reinsurance arrangements - inward	611,627	537,782
Arising from reinsurance arrangements - outward	20,959	-
Arising from deposits retained by ceding companies (Note 14)	317,421	-
	950,007	**537,782**

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:

	2013 US$	2012 US$
At 1 January	3,726,983	1,769,417
Increase during the year	1,213,339	1,957,566
Allowance for doubtful receivables	(317,421)	-
At 31 December	**4,622,901**	**3,726,983**

15 RETROCESSIONAIRES SHARE OF REINSURANCE LIABILITIES

	2013 US$	2012 US$
Retrocessionaires share of :		
Provision for unearned premiums and unexpired risks (Note 27)	6,655,500	5,282,279
Notified outstanding claims (Note 26)	7,224,901	3,817,382
Incurred but not reported (Note 26)	2,464,441	2,045,499
	16,344,842	**11,145,160**

16 OTHER RECEIVABLES

Receivable from Retakaful window	1,090,489	1,176,609
Staff receivables	1,082,322	1,153,192
Prepayments	228,877	259,435
Deposits	35,672	37,850
Rent receivable	294,333	166,677
Others	245,371	248,220
	2,977,064	**3,041,983**

17 DEFERRED ACQUISITION COSTS (DAC)

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

	2013 US$	2012 US$
At 1 January	8,702,052	6,957,846
Increase during the year	2,461,888	1,744,206
At 31 December	**11,163,940**	**8,702,052**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2013 US$	2012 US$
18	**GOVERNMENT SECURITIES - HELD TO MATURITY**		
	Treasury bonds maturing:		
	- Within 6 months	1,850,291	232,288
	- In 6 months to 1 year	17,575,672	5,964,353
	- In 1 to 5 years	951,498	16,197,965
	- After 5 years	1,281,149	1,288,520
		21,658,610	**23,683,126**
	Analysis by currency denomination:		
	Securities in US Dollars	16,894,318	17,233,283
	Securities in Kenya Shillings	1,281,149	1,666,509
	Securities in Sudanese Pounds	3,483,143	4,783,334
		21,658,610	**23,683,126**
19	**OFFSHORE INVESTMENTS – AVAILABLE FOR SALE**		
	Discretionary fund	5,451,643	5,186,860
	Wealth fund	3,058,297	-
		8,509,940	**5,186,860**
	Movement		
	At 1 January	5,186,860	-
	Investment during the year	3,000,000	5,186,860
	Fair value gain (Note 24(i))	323,080	-
	At 31 December	**8,509,940**	**5,186,860**
20	**DEPOSITS WITH FINANCIAL INSTITUTIONS**		
	Analysis by currency denomination:		
	Deposits in United States Dollars	73,507,372	44,671,777
	Deposits in Kenya Shillings	8,853,162	12,370,193
	Deposits in Sudanese Pound	1,990,079	1,439,199
	Deposits in Zambian Kwacha	2,381,701	769,856
	Deposits in Rwandese Francs	1,178,350	1,073,182
		87,910,664	**60,324,207**
	Maturity analysis:		
	Within 3 months of placement	22,483,027	4,697,210
	After 3 months of placement	65,427,637	55,626,997
		87,910,664	**60,324,207**

Deposits with financial institutions have an average maturity of 3 to 12 months (2012: 3 to 12 months).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 CASH AND BANK BALANCES

	2013 US$	2012 US$
Analysis by currency denomination:		
United States Dollars	634,175	607,419
Kenya Shillings	43,553	557,428
Sudanese Pound	2,127	1,938
Zambian Kwacha	39,131	265,343
Cameroon CFA	334,784	334,740
Malawi Kwacha	151,247	189,242
Others	138	759
	1,205,155	**1,956,869**

22 WEIGHTED AVERAGE EFFECTIVE INTEREST/RETURN RATES

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

	2013 %	2012 %
Government securities		
Securities in Kenya Shillings	14.73	12.90
Securities in Sudanese Pound	19.93	16.33
Securities in United States Dollars	4.24	6.34
Deposits with financial institutions		
Deposits in United States Dollars	4.7	4.4
Deposits in Kenya Shillings	12.9	16.6
Deposits in Sudanese Pound	15.3	11.2
Deposits in Zambian Kwacha	9.8	4.5
Deposits in Rwandese Francs	10.4	9.6
Offshore investments		
Investments in United States Dollars	4.04	3.74

23 ISSUED CAPITAL

(i) Issued Capital

	2013 US$	2012 US$
Ordinary shares of US$ 1 each:		
Share capital	42,268,284	36,928,546
Share premium	11,682,765	5,755,653
Paid up capital	**53,951,049**	**42,684,199**

Notes to the Financial Statements (Continued)

23 ISSUED CAPITAL (Continued)

(ii) Paid up shares

	No of shares	Share capital US$	Share premium US$
Ordinary shares of US$ 1 each:			
At 1 January 2012	36,405,708	36,405,708	5,175,298
Issue of shares	266,825	266,825	296,175
Dividends capitalised	256,013	256,013	284,180
At 31 December 2012	**36,928,546**	**36,928,546**	**5,755,653**
	=========	=========	=========
At 1 January 2013	36,928,546	36,928,546	5,755,653
Issue of shares	4,896,178	4,896,178	5,434,760
Dividends capitalised	443,560	443,560	492,352
At 31 December 2013	**42,268,284**	**42,268,284**	**11,682,765**
	=========	=========	=========

	2013	2012
(iii) Weighted average number of shares (Note 7)	38,848,266	36,710,697
	=========	=========

24 RESERVES

	2013 US$	2012 US$
Available for sale investments revaluation reserve(Note 24 (i))	2,099,298	(583,942)
Property revaluation reserve (Note 24 (ii))	315,168	314,585
	2,414,466	**(269,357)**
	========	========

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

	2013 US$	2012 US$
At 1 January	(583,942)	(1,367,406)
Revaluation gain	2,520,705	1,073,072
Realised on disposal of shares (Note 4)	(237,895)	(213,458)
Net revaluation gain (Note 12)	2,282,810	859,614
Exchange difference on revaluation (Note 12)	77,350	(76,150)
Revaluation gain on offshore investments (Note 19)	323,080	-
At 31 December	**2,099,298**	**(583,942)**
	========	========

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

Notes to the Financial Statements (Continued)

24 RESERVES (Continued)

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

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 2013 and 31 December 2012, 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.

(ii) Property revaluation reserve - Buildings

	2013 US$	2012 US$
At 1 January	314,585	190,905
Revaluation (deficit)/surplus (Note 9)	(22,087)	103,071
Depreciation written back on revaluation (Note 9)	22,670	20,609
Net gain on revaluation of property	583	123,680
At 31 December	**315,168**	**314,585**

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.

25 RETAINED EARNINGS

	2013 US$	2012 US$
Retained earnings	**49,363,350**	**36,359,997**
The movement in retained earnings is as follows:		
At 1 January	36,359,997	26,251,514
Dividend declared (Note 32)	(2,359,800)	(1,573,200)
Profit for year	15,363,153	11,681,683
At 31 December	**49,363,350**	**36,359,997**

In 2013, a dividend of US$ 0.0639 per share amounting to US$ 2,359,800 was paid to holders of fully paid ordinary shares. In 2012 the dividend of US$ 1,573,200 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 2013 the unrealised fair value gains on revaluation of investment properties amounted to US$ 4,815,694 (2012: US$ 2,946,340).

Notes to the Financial Statements (Continued)

26 REINSURANCE CONTRACT LIABILITIES

	2013 US$	2012 US$
Reinsurance contracts		
- claims reported and claims handling expenses	35,582,468	24,962,436
- claims incurred but not reported	15,595,458	14,027,127
Total reinsurance liabilities	**51,177,926**	**38,989,563**
	=========	=========

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.

	2013 Gross US$	2013 Retrocessions US$	2013 Net US$	2012 Gross US$	2012 Retrocessions US$	2012 Net US$
Outstanding claims	35,582,468	(7,224,901)	28,357,567	24,962,436	(3,817,382)	21,145,054
IBNR	15,595,458	(2,464,441)	13,131,017	14,027,127	(2,045,499)	11,981,628
Total outstanding claims	**51,177,926**	**(9,689,342)**	**41,488,584**	**38,989,563**	**(5,862,881)**	**33,126,682**
	========	========	========	========	========	========

The Company's outstanding claims and IBNR were reviewed by an independent actuary; Actuarial Services (EA) Limited, registered Actuaries as at 31 December 2013.

The company's actuaries have used the chain-ladder method to estimate the ultimate cost of claims including the IBNR provision. In 2012 the actuaries used the "Bornhuetter-Ferguson" (B-F) method. Whereas the B-F method is considered appropriate in producing stable and consistent results from one financial year to the next; it requires an initial estimate of the loss ratio as an input. The chain-ladder methodology adopted for 2013 was significantly changed from the B-F method to better reflect the claim characteristics of claims experience.

27 PROVISION FOR UNEARNED PREMIUMS AND UNEXPIRED RISKS (UPR)

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

	2013 Gross US$	2013 Retrocessions US$	2013 Net US$	2012 Gross US$	2012 Retrocessions US$	2012 Net US$
At 1 January	25,897,037	(5,282,279)	20,614,758	20,708,199	(4,632,492)	16,075,707
Increase in the year:						
- Unearned premiums	7,642,749	(1,373,221)	6,269,528	6,273,980	(649,787)	5,624,193
- Foreign exchange gain	(362,430)	-	(362,430)	(1,085,142)	-	(1,085,142)
	7,280,319	(1,373,221)	5,907,098	5,188,838	(649,787)	4,539,051
At 31 December	**33,177,356**	**(6,655,500)**	**26,521,856**	**25,897,037**	**(5,282,279)**	**20,614,758**
	=========	=========	=========	=========	=========	=========
		(Note 15)			(Note 15)	

Notes to the Financial Statements (Continued)

28 DEFERRED INCOME

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

	2013 US$	2012 US$
Arising from Government grant - At 1 January and at 31 December	80,686	80,686
Accumulated amortisation:		
At 1 January	15,486	14,671
Credited to other income for the year	815	815
At 31 December	16,301	15,486
Carrying amount at 31 December	**64,385**	**65,200**

29 PAYABLES ARISING FROM RETROCESSION ARRANGEMENTS

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

	2013 US$	2012 US$
At 1 January	3,876,849	5,042,438
Decrease during the year	(155,896)	(1,165,589)
At 31 December	**3,720,953**	**3,876,849**

30 DEFERRED RETROCESSION COMMISSION REVENUE

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

	2013 US$	2012 US$
At 1 January	2,322,593	2,009,930
Increase during the year	608,856	312,663
At 31 December	**2,931,449**	**2,322,593**

Notes to the Financial Statements (Continued)

		2013 US$	2012 US$
31	**OTHER PAYABLES**		
	Rent deposits	343,106	257,003
	Other liabilities	1,922,662	1,782,477
	Leave pay provision	273,927	266,138
	Provision for gratuity	1,354,235	1,204,066
		3,893,930	**3,509,684**
		=======	=======
32	**DIVIDENDS PAYABLE**		
	The movement in dividends payable is as follows:		
	At 1 January	112,088	36,562
	Final dividend declared	2,359,800	1,573,200
	Dividend paid	(1,043,999)	(957,481)
	Dividend capitalised	(935,912)	(540,193)
	At 31 December	**491,977**	**112,088**
		========	========

In respect of the current year, the directors propose that a dividend of US$ 3,226,200 (2012 - US$ 2,359,800) be paid to shareholders. This dividend is subject to approval of shareholders at the Annual General Meeting to be held on 9th May 2014 and has therefore not been recognised as a liability in these financial statements.

33 CAPITAL COMMITMENTS

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

	2013 US$	2012 US$
Property and equipment	633,400	517,150
Investment properties	14,550,000	7,000,000
	=========	========

34 RELATED PARTIES

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 RELATED PARTIES (Continued)

(i) Transactions with related parties

	2013 US$	2012 US$
Gross earned premium:		
- Shareholders	9,915,417	8,803,110
	========	========
Claims Paid		
- Shareholders	8,202,113	2,091,146
	========	========
Deposits with financial institutions		
- Shareholder	1,549,564	10,795,974
	========	========

(ii) Directors' remuneration

	2013 US$	2012 US$
Directors' fees	79,050	80,050
Other emoluments paid (per diem)	75,600	60,375
	154,650	**140,425**
	========	=========

(iii) Key management remuneration

	2013 US$	2012 US$
Salaries and other short-term employment benefits	1,395,013	1,188,168
Gratuity	207,501	236,754
	1,602,514	**1,424,922**
	========	========

(iv) Outstanding balances with related parties

	2013 US$	2012 US$
Premiums receivable from related parties	1,622,489	1,830,430
Staff car and other loans	1,082,323	1,158,549
	========	=========

35 CASH AND CASH EQUIVALENTS

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

	2013 US$	2012 US$
Cash and bank balances	1,205,155	1,956,869
Deposits with financial institutions maturing within 3 months (note 20)	22,483,027	4,697,210
	23,688,182	**6,654,079**
	=========	========

Notes to the Financial Statements (Continued)

36 OPERATING LEASE COMMITMENTS

Net rental income earned during the year was US$ 1,105,004 (2012: US$ 989,759). At the end of the reporting period, the company had contracted with tenants for the following future lease receivables:

	2013 US$	2012 US$
Not later one year	3,992	653,637
Later than 1 year but not later than 5 years	5,497,688	1,922,619
More than 5 years	-	130,121
	5,501,680	**2,706,377**
	========	========

Leases are for a period of six years.

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

Notes to the Financial Statements (Continued)

37 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.

38 RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(i) Reinsurance risk

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

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

Frequency and severity of claims

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

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

Notes to the Financial Statements (Continued)

38 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(i) Reinsurance risk (Continued)

Frequency and severity of claims (Continued)

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

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

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)

38 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(i) Reinsurance risk (Continued)

Concentration risk

At 31 December 2013

Class of business		Maximum insured loss US$ 0m - US$ 0.25m	US$ 0.25m - US$ 1m	Over US$ 1m	Total
Property	Gross	85,035,583	278,880,227	2,627,314,259	2,991,230,069
	Net	82,276,143	245,765,846	1,553,840,042	1,881,882,031
Casualty	Gross	69,015,215	146,627,136	181,453,566	397,095,918
	Net	68,157,492	137,060,378	124,513,046	329,730,916
Motor	Gross	20,409,146	23,560,164	6,255,366	50,224,676
	Net	19,936,578	19,760,935	4,113,812	43,811,325
Marine	Gross	43,493,270	73,886,645	98,778,393	216,158,309
	Net	43,239,894	69,221,951	46,484,845	158,946,690
Aviation	Gross	1,446,724	1,636,707	6,000,000	9,083,431
	Net	1,446,724	1,636,707	-	3,083,431
Life assurance business	Gross	6,228,033	1,822,670	1,483,198	9,533,902
	Net	6,040,628	879,391	37,080	6,957,099
Total	**Gross**	**225,627,971**	**526,413,549**	**2,921,284,782**	**3,673,326,303**
	Net	**221,097,459**	**474,325,208**	**1,728,988,825**	**2,424,411,492**

At 31 December 2012

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

Notes to the Financial Statements (Continued)

38 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(i) Reinsurance risk (Continued)

Concentration risk (Continued)

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

	2013	2012
Class	**Limit (US$)**	**Limit (US$)**
Fire/Engineering risk	6,000,000 in excess of 2,000,000	6,500,000 in excess of 1,500,000
Catastrophe	20,000,000 in excess of 2,000,000	16,500,000 in excess of 1,500,000
Accident and Motor	900,000 in excess of 700,000	1,000,000 in excess of 600,000
Marine XL	4,500,000 in excess of 500,000	2,500,000 in excess of 500,000

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

(ii) Financial risk

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

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

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

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

(a) Credit risk

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

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

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

The Company manages its exposure in the following ways:

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

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.

Notes to the Financial Statements (Continued)

38 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

ii) Financial risk (Continued)

(a) Credit risk (Continued)

Maximum exposure to credit risk before collateral held:

	2013 US$	2012 US$
Available for sale equity investments	12,585,977	5,365,063
Deposits retained by ceding companies	4,622,901	3,726,983
Retrocessionaires share of technical liabilities	16,344,842	11,145,160
Other receivables (excluding prepayments) (note 16)	2,748,187	2,782,548
Receivables arising out of reinsurance arrangements	16,598,636	14,693,128
Government securities held to maturity (note 18)	21,658,610	23,683,126
Offshore investments (note 19)	8,509,940	5,186,860
Deposits with financial institutions (note 20)	87,910,664	60,324,207
Bank balances (note 21)	1,205,155	1,956,869
	172,184,912	**128,863,944**

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:

	2013 US$	2012 US$
Neither past due nor impaired:		
- up to 90 days	7,317,496	4,750,919
- up to 91 to 120 days	2,555,927	964,497
- up to 121 to 270 days	4,928,691	6,997,980
- up to 271 to 360 days	785,911	420,164
Past due but not impaired – over 360 days	1,010,611	1,559,568
Impaired	3,459,181	2,826,595
	20,057,817	17,519,723
Less provision for impairment	(3,459,181)	(2,826,595)
Total	**16,598,636**	**14,693,128**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

ii) Financial risk (Continued)

(b) Market risks

Interest rate risk

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

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

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

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

Notes to the Financial Statements (Continued)

38 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

ii) Financial risk (Continued)

(b) Market risks (Continued)

Equity price risk

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

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

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

At 31 December 2013, 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$ 632,220 (2012: US$ 361,788) higher/lower, and equity would have been US$ 632,220 (2012: US$ 361,788) 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 2013, 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$ 690,355 higher/lower (2012: US$ 281,346 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 5.88 % (2012:3.21%) of the company's net assets.

At 31 December 2013, if the US dollar had weakened/strengthened by 10% against the Nepalese Rupee with all other variables held constant, the net assets for the year would have been US$ 273,343 (2012: US$ 281,595) higher/lower mainly as a result of sterling pound denominated deposits, receivables and payables. This is not significant as the portion of Nepalese Rupee denominated net assets constitute 2.33 % (2012: 3.22%).

At 31 December 2013, 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$ 574,303 (2012: US$ 456,567) 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 4.89 % (2012: 5.22%).

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

Notes to the Financial Statements (Continued)

38 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Market risks (Continued)

Currency risk (Continued)

At 31 December 2013	US$	NPR	KES	SDG	UGX	TZS	RWF	ETB	ZMK	Others	Total
Assets											
Investment properties	16,448,486	-	-	-	-	-	-	-	-	-	16,448,486
Available-for-sale equity investments	2,240,000	-	7,739,130	-	714,936	1,432,259	459,652	-	-	-	12,585,977
Receivables arising out of reinsurance arrangements	2,375,714	651,526	1,927,068	2,086,702	1,148,991	1,429,608	667,320	3,749,199	609,075	1,953,433	16,598,636
Retrocessionaires share of technical liabilities	16,344,842	-	-	-	-	-	-	-	-	-	16,344,842
Deposits retained by ceding companies	4,622,901	-	-	-	-	-	-	-	-	-	4,622,901
Deferred acquisition costs	11,163,940	-	-	-	-	-	-	-	-	-	11,163,940
Government securities held to maturity	16,894,318	-	1,281,149	3,483,143	-	-	-	-	-	-	21,658,610
Deposits with financial institutions	82,017,312	-	8,853,162	1,990,079	-	-	1,178,350	-	2,381,701	-	96,420,604
Cash and bank balances	634,175	-	43,554	2,127	11	95	32	-	39,131	486,030	1,205,155
Total	152,741,688	651,526	19,844,063	7,562,051	1,863,938	2,861,962	2,305,354	3,749,199	3,029,907	2,439,463	197,049,151
Liabilities											
Reinsurance contract liabilities	15,444,413	1,916,221	16,015,434	889,236	1,727,374	2,644,800	565,420	2,130,369	950,511	8,894,148	51,177,926
Payables arising from retrocession arrangements	3,720,953	-	-	-	-	-	-	-	-	-	3,720,953
Deposits retained on ceded reinsurance business	656,562	-	-	-	-	-	-	-	-	-	656,562
Unearned premium reserves	10,515,875	1,195,393	10,041,823	1,504,085	1,275,841	1,356,126	379,710	1,523,680	1,144,460	4,240,363	33,177,356
Deferred Retrocession Revenue	2,931,449	-	-	-	-	-	-	-	-	-	2,931,449
Total	33,269,252	3,111,614	26,057,257	2,393,321	3,003,215	4,000,926	945,130	3,654,049	2,094,971	13,134,511	91,664,246
Net financial position exposure	**119,472,436**	**(2,460,088)**	**(6,213,194)**	**5,168,730**	**(1,139,277)**	**(1,138,964)**	**1,360,224**	**95,150**	**934,936**	**(10,695,048)**	**105,384,905**

Notes to the Financial Statements (Continued)

38 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Market risks (Continued)

Currency risk (Continued)

At 31 December 2012	**US$**	**NPR**	**KES**	**SDG**	**UGX**	**TZS**	**RWF**	**ETB**	**ZMK**	**Others**	**Total**
Assets											
Investment properties	14,579,132	-	-	-	-	-	-	-	-	-	14,579,132
Available-for-sale equity investments	-	-	3,719,372	-	36,856	1,221,264	387,571	-	-	-	5,365,063
Receivables arising out of reinsurance arrangements	2,125,496	527,782	2,848,374	959,664	896,725	802,255	723,923	3,141,589	629,929	2,037,391	14,693,128
Retrocessionaires share of technical liabilities	11,145,160	-	-	-	-	-	-	-	-	-	11,145,160
Deposits retained by ceding companies	3,726,983	-	-	-	-	-	-	-	-	-	3,726,983
Deferred acquisition costs	8,702,052	-	-	-	-	-	-	-	-	-	8,702,052
Government securities held to maturity	17,233,283	-	1,666,509	4,783,334	-	-	-	-	-	-	23,683,126
Deposits with financial institutions	49,858,637	-	12,370,194	1,439,199	-	-	1,073,182	-	769,855	-	65,511,067
Cash and bank balances	607,419	-	557,428	1,938	181	451	128	-	265,342	523,982	1,956,869
Total	107,978,162	527,782	21,161,877	7,184,135	933,762	2,023,970	2,184,804	3,141,589	1,665,126	2,561,373	149,362,580
Liabilities											
Reinsurance contract liabilities	9,198,841	1,556,818	13,484,304	2,302,779	1,692,397	2,053,816	686,763	2,504,281	943,977	4,565,587	38,989,563
Payables arising from retrocession arrangements	3,876,849	-	-	-	-	-	-	-	-	-	3,876,849
Deposits retained on ceded reinsurance business	540,519	-	-	-	-	-	-	-	-	-	540,519
Unearned premium reserves	4,009,506	1,505,319	10,209,687	772,255	1,383,573	1,431,731	482,947	1,649,023	1,033,606	3,419,390	25,897,037
Deferred Retrocession Revenue	2,322,593	-	-	-	-	-	-	-	-	-	2,322,593
Total	19,948,308	3,062,137	23,693,991	3,075,034	3,075,970	3,485,547	1,169,710	4,153,304	1,977,583	7,984,977	71,626,561
Net financial position exposure	**88,029,854**	**(2,534,355)**	**(2,532,114)**	**4,109,101**	**(2,142,208)**	**(1,461,577)**	**1,015,094**	**(1,011,715)**	**(312,457)**	**(5,423,604)**	**77,736,019**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38 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 2013:

	Total Amount 2013	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	12,585,977	12,585,977	-	-	-	-	-
Receivables arising out of reinsurance arrangements	16,598,636	-	16,598,636	-	-	-	-
Deposits retained by ceding companies	4,622,901	-	4,622,901	-	-	-	-
Retrocessionaires share of technical liabilities	16,344,842	-	16,344,842	-	-	-	-
DAC	11,163,940	-	11,163,940	-	-	-	-
Government securities held to maturity	21,658,610	-	19,425,963	-	-	-	2,232,647
Offshore investments	8,509,940	8,509,940	-	-	-	-	-
Deposits with financial institutions	87,910,664	-	77,485,502	-	1,513,849	-	8,911,313
Cash and bank balances	1,205,155	-	1,205,155	-	-	-	
Total	**180,600,665**	**21,095,917**	**146,846,939**	**-**	**1,513,849**	**-**	**11,143,960**
Reinsurance liabilities:							
Reinsurance contract liabilities	51,177,926	-	51,177,926	-	-	-	-
Payables arising from retrocession arrangements	3,720,953	-	3,720,953	-	-	-	-
Deposits retained on ceded reinsurance business	656,562	-	656,562	-	-	-	-
Deferred retrocession revenue	2,931,449	-	2,931,449	-	-	-	-
Total	58,486,890	-	58,486,890	-	-	-	-
Net liquidity surplus	**122,113,775**	**21,095,917**	**88,360,049**	**-**	**1,513,849**	**-**	**11,143,960**
	=========	=========	========	======	=======	======	=======

Notes to the Financial Statements (Continued)

38 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 2012:

	Total Amount 2012	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	5,365,063	5,365,063	-	-	-	-	-
Receivables arising out of reinsurance arrangements	14,693,128	-	14,693,128	-	-	-	-
Deposits retained by ceding companies	3,726,983	-	3,726,983	-	-	-	-
Retrocessionaires share of technical liabilities	11,145,160	-	11,145,160	-	-	-	-
DAC	8,702,052	-	8,702,052	-	-	-	-
Government securities held to maturity	23,683,126	-	6,206,789	16,192,212	-		1,284,125
Offshore investments	5,186,860	5,186,860	-	-	-	-	-
Deposits with financial institutions	60,324,207	-	59,285,157	-	1,039,050	-	-
Cash and bank balances	1,956,869		1,956,869	-	-	-	-
Total	**134,783,448**	**10,551,923**	**105,716,138**	**16,192,212**	**1,039,050**	**-**	**1,284,125**
Reinsurance liabilities:							
Reinsurance contract liabilities	38,989,563	-	38,989,563				
Payables arising from retrocession arrangements	3,876,849	-	3,876,849				
Deposits retained on ceded reinsurance business	540,518	-	540,518				
Deferred retrocession revenue	2,322,593	-	2,322,593				
Total	45,729,523	-	45,729,523	-	-	-	-
Net liquidity surplus	**89,053,925**	**10,551,923**	**59,986,615**	**16,192,212**	**1,039,050**	**-**	**1,284,125**

Notes to the Financial Statements (Continued)

38 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

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

(ii) Fair value hierarchy

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

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

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

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

Financial assets/ liabilities	Fair value as at 31 December		Fair value hierarchy	Valuation tech-nique(s) and key inputs	Significant unobserv-able inputs	Relationship of unobserv-able inputs to fair value
	2013	2012				
	US$	US$				
Available for sale - quoted equity investments	8,198,782	4,522,348	Level 1	Quoted bid prices in an active market	N/A	N/A
Available for sale – offshore investments	8,509,940	5,186,860	Level 1	Quoted bid prices in an active market	N/A	N/A

There were no transfers between levels 1and 2 in the period (2012: none).

Notes to the Financial Statements (Continued)

38 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value of financial assets and liabilities (Continued)

Reconciliation of level 3 fair value measurements

There were no financial assets or financial liabilities measured at fair value on level 3 fair value measurement (2012: none)

(ii) Fair value hierarchy (Continued)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale equity investments	12,585,977	-	-	12,585,977
Receivables arising out of reinsurance arrangements	-	16,598,636	-	16,598,636
Government securities held to maturity	21,658,610	-	-	21,658,610
Offshore investments	8,509,940	-	-	8,509,940
Deposits with financial institutions	85,910,664	-	-	85,910,664
Cash and bank balances	1,205,155	-	-	1,205,155
Total	**129,870,346**	**16,598,636**	**-**	**146,468,982**
Reinsurance liabilities:				
Reinsurance contract liabilities	-	51,177,926	-	51,177,926
Payables arising from retrocession arrangements	-	3,720,953	-	3,720,953
Total	**-**	**54,898,879**	**-**	**54,898,879**

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis with the most significant inputs being the discount rate that reflects the credit risk of counter parties.

Notes to the Financial Statements (Continued)

39 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:

	2013 US$	2012 US$
Share capital	42,268,284	36,928,546
Share premium	11,682,765	5,755,653
Property revaluation reserve	315,168	314,585
Available for sale fair value reserve	2,099,298	(583,942)
Retained earnings	49,363,350	36,359,997
Total capital - Equity	**105,728,865**	**78,774,839**

SUPPLEMENTARY INFORMATION
2013 REVENUE ACCOUNT

APPENDIX I

Class of insurance Business	**Property US$**	**Casualty US$**	**Motor US$**	**Marine US$**	**Aviation US$**	**Life US$**	**Total US$**
Gross premiums written	50,893,774	26,949,563	6,652,307	9,799,689	294,911	5,591,158	100,181,402
Less: retrocession premiums	(12,974,899)	(812,141)	(153,820)	(1,198,153)	(93,234)	(984,194)	(16,216,441)
Net premiums written	37,918,875	26,137,422	6,498,487	8,601,536	201,677	4,606,964	83,964,961
Change in gross UPR	(3,001,004)	(2,188,960)	(212,567)	(240,384)	(11,409)	(252,774)	(5,907,098)
Exchange gains on revaluation of UPR	(156,114)	(130,645)	(1,198)	(46,017)	(1,146)	(27,310)	(362,430)
Net earned premiums	**34,761,757**	**23,817,817**	**6,284,722**	**8,315,135**	**189,122**	**4,326,880**	**77,695,433**
Gross claims paid	21,619,597	10,186,259	3,652,615	2,875,975	262,892	2,061,521	40,658,859
Change in gross outstanding claims	11,424,792	(1,813,589)	3,468,599	843,331	84,093	(1,818,862)	12,188,364
Exchange gains on revaluation of outstanding claims	276,532	152,610	141,561	59,108	3,294	37,943	671,048
Less: amounts recoverable from retrocessionaires	(12,106,928)	(409,564)	(14,826)	(494,433)	61,637	113,618	(12,850,496)
Net claims incurred	**21,213,993**	**8,115,716**	**7,247,949**	**3,283,981**	**411,916**	**394,220**	**40,667,775**
Commissions earned	(4,044,588)	(489,736)	(53,078)	(329,681)	(12,141)	(201,913)	(5,131,137)
Commissions expense	13,781,090	7,191,925	551,478	2,839,371	45,826	1,096,905	25,506,595
Charges and taxes	427,557	192,755	49,337	139,682	568	20,138	830,037
Expenses of management	3,764,666	1,993,488	492,078	724,893	21,815	413,584	7,410,524
Total expenses and commissions	**13,928,725**	**8,888,432**	**1,039,815**	**3,374,265**	**56,068**	**1,328,714**	**28,616,019**
Underwriting profit/(loss)	**(380,961)**	**6,813,669**	**(2,003,042)**	**1,656,889**	**(278,862)**	**2,603,946**	**8,411,639**
Key ratios:							
Loss ratio *(net claims incurred/net earned premium)*	61.03	34.07	115.33	39.49	217.80	9.11	52.34
Commissions ratio *(commissions payable/gross premium written)*	27.08	26.69	8.29	28.97	15.54	19.62	25.46
Expense ratio *(management expenses/gross written premium)*	7.40	7.40	7.40	7.40	7.40	7.40	7.40
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SUPPLEMENTARY INFORMATION (Continued)

2012 REVENUE ACCOUNT

APPENDIX II

Class of insurance Business	Property	Casualty	Motor	Marine	Aviation	Life	Total
	US$	US$	US$	US$	US$	US$	US$
Gross premiums written	38,435,365	21,884,573	7,642,949	9,196,641	262,532	4,292,760	81,714,820
Less: retrocession premiums	(11,783,370)	(1,317,745)	(513,897)	(1,392,656)	(95,967)	(303,601)	(15,407,236)
Net premiums written	26,651,995	20,566,828	7,129,052	7,803,985	166,565	3,989,159	66,307,584
Change in gross UPR	(1,808,126)	(1,850,118)	(73,154)	(522,803)	7,030	(291,880)	(4,539,051)
Exchange gains on revaluation of UPR	(477,044)	(376,485)	(339)	(141,302)	(4,871)	(85,101)	(1,085,142)
Net earned premiums	**24,366,825**	**18,340,225**	**7,055,559**	**7,139,881**	**168,724**	**3,612,178**	**60,683,391**
Gross claims paid	10,177,012	8,175,552	4,138,802	2,442,866	59,800	1,983,637	26,977,669
Change in gross outstanding claims	(83,957)	2,865,356	789,784	1,307,082	147,357	612,923	5,638,545
Exchange gains on revaluation of outstanding claims	802,115	282,350	393,450	127,909	4,257	77,500	1,687,581
Less: amounts recoverable from retrocessionaires	(3,360,547)	(144,925)	(116,442)	(100,118)	-	(226,350)	(3,948,382)
Net claims incurred	**7,534,623**	**11,178,333**	**5,205,594**	**3,777,739**	**211,414**	**2,447,710**	**30,355,413**
Commissions earned	(3,980,615)	(510,028)	(68,986)	(429,808)	(8,808)	(80,994)	(5,079,239)
Commissions expense	11,426,906	6,074,501	587,161	2,722,144	43,525	963,867	21,818,104
Charges and taxes	212,002	150,465	54,957	132,039	1,307	14,144	564,914
Expenses of management	3,308,816	1,883,995	657,965	791,718	22,601	369,554	7,034,649
Total expenses and commissions	**10,967,109**	**7,598,933**	**1,231,097**	**3,216,094**	**58,625**	**1,266,571**	**24,338,428**
Underwriting profit/(loss)	**5,865,093**	**(437,041)**	**618,868**	**146,048**	**(101,315)**	**(102,103)**	**5,989,550**
Key ratios:							
Loss ratio *(net claims incurred/net earned premium)*	30.92	60.95	73.78	52.91	125.30	67.76	50.02
Commissions ratio *(commissions payable/gross premium written)*	29.73	27.76	7.68	29.60	16.58	22.45	26.70
Expense ratio *(management expenses/gross written premium)*	8.60	8.60	8.60	8.60	8.60	8.60	8.60
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SUPPLEMENTARY INFORMATION (Continued) APPENDIX III

SCHEDULE OF MEMBERSHIP

Country/ Institution	Shareholder	2013 Shareholding US$	%	2012 Shareholding US$	%
Burundi	SOCABU	392,291	0.93	392,291	1.06
	Assurances BICOR	230,926	0.55	224,099	0.61
Kenya	Kenya Reinsurance Corporation Ltd	7,656,293	18.13	7,656,293	20.73
	Government of Kenya	492,417	1.17	492,417	1.33
	Blue Shield Insurance Company Ltd	372,953	0.88	372,953	1.01
	Mayfair Insurance Company Ltd	700,000	1.66	604,526	1.64
	Apollo Insurance Company Ltd	124,984	0.30	124,984	0.34
Mauritius	Government of Mauritius	261,161	0.62	261,161	0.71
Mozambique	EMOSE	329,375	0.78	319,724	0.87
Rwanda	Government of Rwanda	3,435,437	8.13	3,333,871	9.03
	SONARWA	144,322	0.34	140,055	0.38
	SORAS	516,673	1.22	516,673	1.40
Sudan	Government of Sudan	2,048,311	4.85	1,873,670	5.07
	United Insurance Company Ltd	464,927	1.10	283,697	0.77
	Sheikan Ins. & Reins. Ltd	380,896	0.90	369,736	1.00
	Juba Insurance Company Ltd	367,948	0.87	310,339	0.84
Tanzania	National Insurance Corporation (T) Ltd	2,005,904	4.75	2,005,904	5.43
	ZIC	127,670	0.30	127,670	0.35
PPF	PPF	2,397,553	5.68	1,754,597	4.75
Uganda	National Insurance Corporation (U) Ltd	127,663	0.30	127,663	0.35
	Lion Assurance of Uganda Ltd	113,845	0.27	113,845	0.31
	Statewide Insurance Company Ltd	228,675	0.54	221,975	0.60
Zambia	ZSIC Ltd	646,147	1.53	627,215	1.70
	Government of Zambia	1,446,442	3.42	1,446,442	3.92
	ZSIC – Pension Trust	1,409,807	3.34	1,409,807	3.82
COMESA	PTA Bank	5,754,573	13.62	2,527,498	6.84
	COMESA Secretariat	361,250	0.86	350,570	0.95
Zimbabwe	Baobab Reinsurance Company Ltd	488,397	1.16	474,087	1.28
Madagascar	CMAR (NY Havana)	240,721	0.57	240,721	0.65
D.R. Congo	Société Nationale d'Assurances (SA)	129,489	0.31	125,661	0.34
Eritrea	NICE	1,051,746	2.49	920,370	2.49
Djibouti	Government of Djibouti	1,796,120	4.25	1,529,912	4.14
	Amerga	375,837	0.89	266,825	0.72
	GXA	266,237	0.63	-	-
AfDB	African Development Bank	5,381,295	12.74	5,381,295	14.57
Total		**42,268,284**	**100.00**	**36,928,546**	**100.00**

Key:

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

SUPPLEMENTARY INFORMATION (Continued)
CREDIT 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: June 18 , 2013
Best's Ratings are subject to change.
To confirm the latest rating or to learn more about A.M. Best's ratings, visit www.ambest.com
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