ANNUAL REPORT AND FINANCIAL STATEMENTS

2021

ZEP-RE (PTA Reinsurance Company)

Mission, Vision, Values

Our vision

To be a world class leading reinsurer in Africa.

Our mission

To provide first class security and quality service to our clients

Our values

- Customer driven
- A professional team
- Committed to our work
- We act with integrity
- We are a responsible corporate citizen

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We are committed to delivering on our Mandate

1

Our **founding mandate** is to develop the insurance and reinsurance industry in the **COMESA region**.

We are a Pan African reinsurer established through a 1990 Agreement of Heads of States and Governments of the COMESA region.

2

Wide footprint with a **focus on Africa** where over 90% of our business is drawn.

Head-quartered in Nairobi and with established presence in Uganda, Zimbabwe, Zambia, Rwanda, Ivory Coast, Democratic Republic of Congo, Ethiopia and Sudan where we operate a Retakaful business. We underwrite over 4,000 treaties and support close to 500 companies drawn from over 50 countries in Africa, the Middle East, and the Indian sub-continent.

3

Shareholding
We boast of a diverse shareholding composed of Governments of the region, Quasi Government bodies, Insurance companies, COMESA sister organisations and Development Finance institutions.

8

Sustainability
We have entrenched sustainability at the core of our operations and have demonstrated this commitment by becoming signatories to both the UN Principles of Sustainable Insurance and to the Nairobi Declaration on Sustainable Insurance.

9

Capacity Building for the insurance industry

a) Technical and professional skill building at all levels through our ZEP-RE academy
b) Working with insurance regulators to drive up standards and trust in the insurance industry through our annual Regulators forum

10

Regional trade and economic development
We invest across Africa and facilitate regional trade through the COMESA Yellow Card and Regional Customs Transit Guarantee pools.

People
We endeavour to recruit and invest in the best talent in the market and we currently have an experienced staff of 85 drawn from over 16 countries with a strong and diverse skill set.

4

5

Solid and sustained growth in **Gross Premium written** averaging (CAGR) 8.8% over the last 5 years.

Rating
Robust and resilient company rated B++ (Good) and AAA by AM Best rating and GCR ratings respectively.

6

7

Championing insurance inclusivity
We are leading efforts to close the protection gap through agriculture and micro-insurance initiatives to deepen financial inclusion. We augment these efforts by partnering with governments, development partners and other stakeholders. Key among these initiatives are:

a) Purchase of a majority share by ZEP-RE in Acre Africa, a leading provider of risk management solutions for farmers in Africa to provide access to insurance to millions of African farmers, previously excluded from the financial system.

b) The appointment of ZEP-RE by regional Governments in the Horn of Africa as the implementer of the 5-year De-risking, Inclusion and Value chain enhancement for Pastoralist economies (DRIVE) project, a World Bank funded project that aims to strengthen resilience of over 1.6 million pastoralists against climate risk shock. The project will be implemented in the Republic of Kenya, the Federal Democratic Republic of Ethiopia, the Federal Republic of Somalia and the Republic of Djibouti. ZEP-RE is charged with facilitating the provision of a package of financial services for climate resilience including insurance, savings products and digital accounts.

c) Supporting National Agriculture insurance schemes across the COMESA region notably in Uganda and Zambia.

Board of Directors

1

Christabel Michel Banda

Christabel Michel Banda, the Managing Director of ZSIC Life Limited (Zambia) was appointed as a Non-Executive Director to the Board in May 2019. She was elected by the 30th Annual General Assembly in May 2021 as the Chairperson of the Board. She replaced Mr. William Erio who retired at the same meeting. Prior to her appointment at ZSIC Life Limited, she served in various capacities in the private sector as an insurance, audit, and finance professional. She spearheaded the set-up of the Insurers Association of Zambia Secretariat and served as its first Executive Director. She is currently the President of the Association. She is also the immediate past Chairperson of the National Road Fund (Zambia) Agency.

She is currently studying towards a Doctorate in Business Administration. She is a holder of a Masters degree in Business Administration, a Chartered Insurer and a Chartered Accountant.

2

Jan Gross

Jan Gross is a non-Executive Director of ZEP-RE. He joined the Board in May 2017. He serves as the Vice President at DEG–Deutsche Investitions- und Entwicklungsgesellschaft mbH in Cologne, Germany. He is with the Equity and Mezzanine (Insurance Investments) division of DEG. Jan has more than 15 years of experience in the insurance and private equity.

He holds a degree in Business Engineering from Technical University of Berlin and is a CFA charter holder.

3

Hope Murera

Hope Murera is the Managing Director of ZEP-RE and previously served as the General Manager and Company Secretary of ZEP-RE. Hope has over 20 years working experience in the insurance and reinsurance industry. She currently sits on the Boards of Uganda Reinsurance Company Limited, the Organisation of Eastern and Southern Africa (OESAI) and serves as the Vice Chairperson on the Board of Africa Trade Insurance Agency (ATI).

Hope holds a Bachelor of Laws degree from Makerere University in Uganda and an MBA from IMD International, Lausanne, Switzerland.

Board of Directors (Continued)

4

Admassu Tadesse

Admassu Tadesse is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2013.He is an international banker and business leader with experience at board and executive-levels globally and in Africa. He is currently the President Emeritus & Group Managing Director Eastern and Southern African Trade and Development Bank (TDB) Group. Since he joined the Bank in 2012, Mr. Tadesse has launched new business operations, centres of excellence in risk management and treasury as well as critical institutional reforms which have transformed TDB, in terms of impact, ownership, geographical scope, organizational structure, investment-grade ratings and asset base growth from USD1bn to about USD 8bn. Previously, he served as the Executive Vice President at the Development Bank of Southern Africa, and senior advisor and specialist with various funds and international organizations globally. Admassu serves on various boards and industry bodies and is a recipient of several industry honors and awards notably, the Africa Banker of the Year and Africa Business Leader of the Year in 2021 and 2019, from Africa Banker Awards, Africa Investor Magazine, Financial Afrik and the US Corporate Council on Africa.

He 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.

5

Chileshe Mpundu Kapwepwe

Chileshe Mpundu Kapwepwe is a Non- Executive Director on the Board of ZEP- Re. She was elected to the Board in June 2019. She is the Secretary General of the Common Market of Eastern and Southern Africa (COMESA) and has extensive experience in both the public and private sectors spanning over 30 years in both local and international organisations. She has served as an Executive Director at the International Monetary Fund as well as Member of Parliament, Deputy Minister of Finance and Managing Director of the National Airports Corporation Limited in Zambia. She has served and continues to serve on several boards including the Zambia Revenue Authority, Bank of Zambia, Ecobank Zambia Limited, BP Zambia Limited, Zambia Privatisation Trust Fund, Airports Council International, African Civil Aviation Commission, Global Water Partnership Southern Africa.

Kapwepwe is a Chartered Accountant and holds a Masters degree in Business Administration from the University of Bath, United Kingdom.

Board of Directors (Continued)

6

Chiboli Shakaba

Chiboli Induli Shakaba served as a Non-Executive Director on the Board of ZEP- RE until June 2021. He was elected to the Board in August 2020. He is a seasoned public officer with over 30 years of experience in the Kenya civil service. He has held positions in the Government of the Republic of Kenya, in various capacities in the Office of the President, the National Treasury and Ministries of Health, Home Affairs as well as Lands and Housing. He also served as the Permanent Secretary in the Ministry of East Africa Community Affairs. Chiboli is a member of the Institute of Directors of Kenya and has further served as Alternate Director on the Boards of National Housing Corporation of Kenya, Post Office Savings Bank, Development Bank of Kenya, Nzoia Sugar Company Ltd, Kenya National Examinations, Communications Commission of Kenya. He was appointed to the Board of Kenya Reinsurance Corporation Ltd, in June 2014 and with effect from 1st August 2019 was appointed the Chairman of the Board, a position he held until his retirement from the Board in June 2021.

He holds a Bachelor of Arts degree in Political Science from the University of Nairobi (Kenya), and a Masters degreee in Public Administration (MPA) from Harvard University (USA).

7

Daher Warsama Robleh

Daher Warsama Robleh is a Non- Executive Director on the Board of ZEP- Re. He was elected to the Board in June 2019. He is currently the Finance and Accounting director of AMERGA Insurance (Djibouti). He has held the position since 2001. Prior to that, he worked with two subsidiary French insurance companies (PFA and Prudence Créole). Daher has over 31 years' experience in the insurance and reinsurance industry.

He holds a University degree in Technology and Finance and Accounting from Ch Anta Diop University of Dakar, Senegal.

8

Ewan Wheeler

Ewan Wheeler joined the Board in June 2019. Ewan is a private equity consultant and an investment adviser. He also sits on the boards of Swan General Insurance Zambia Ltd, Ascent Capital Africa II Ltd and Acre Africa Ltd. Among his present roles, Ewan further advises the Mauritian insurer, Swan Group, on international development and expansion. Prior to his current appointments, he worked as the CIO of Aprica Investments Ltd, an investment vehicle focused on African insurance investments and before that with the African Development Bank where he was responsible for managing the Bank's investments in East Africa.

He holds a BSc Economics (London School of Economics), MSc State, Society and Development (School of Oriental and African Studies), and a post graduate qualification in Investment Appraisal & Risk Analysis (Queens University, Canada).

Board of Directors (Continued)

9

Hosea Kashimba

Hosea Ezekiel Kashimba joined the Board in May 2021 as a non-Executive Director. He currently serves as the Director General of the Public Service Social Security Fund (PSSSF), a position he was appointed to in 2019. Kashimba has over 17 years experience in the public sector. Prior to his current appointment, he was the Acting Director General Parastatal Pensions Fund (PPF) and previously, the Director of Internal Audit PPF. He presently sits on the Board of Directors of Tanzania Reinsurance Company Ltd (TAN- RE), CRDB Bank Plc and is the Chairman of CRDB Bank Burundi.

He is a holder of an MBA in Corporate Management and a Fellow Certified Public Accountant (FCPA) with knowledge and experience in Enterprise Risk Management, Internal Controls and Governance in both the Public and Private Sectors.

10

Jadiah Mwarania

Jadiah Mwarania was elected to the Board in June 2019. as a non-Executive Alternate Director. He is the Managing Director of the Kenya Reinsurance Corporation Limited. He has worked with the Corporation for over 25 years and was previously the General Manager (Reinsurance Operations) and Acting Managing Director.

Mwarania is the Chairman of the Association of Kenya Reinsurers (AKR) and sits on the Boards of Industrial Development Bank (IDB), the Insurance Training and Education Trust (ITET) Board and is a member of the Finance and Development Board Committee of the College of Insurance of Kenya.

Mwarania is a Chartered Insurer of the Chartered Insurance Institute of London, a Fellow of the Insurance Institute of London, a Fellow of the Kenya Institute of Management (FMKIM) and a Fellow of Insurance Institute of Kenya (FIIK). He is currently pursuing a PHD in strategic management at the University of Nairobi.

He holds a Bachelor of Commerce (Hons.) and Master of Business Administration (MBA) degrees from the University of Nairobi. He is also a holder of the Order of Grand Warrior Award (OGW).

11

Mohammed Satti

Mohammed Satti is a Non-Executive Director on the Board of ZEP- RE. He was elected to the Board in August 2020. He is a highly qualified insurance and reinsurance professional with over 30 years' experience in varied components of the sector, including insurance, reinsurance, brokerage and insurance agency in Sudan. Mohammed has served in both Management and Underwriting positions and is currently the Secretary General of the National Insurance Regulatory Authority of Sudan.

He holds a BSC (Insurance) from the Cairo University (Egypt).

Board of Directors (Continued)

12

Rehemah Namutebi

Rehemah Namutebi is a Non-Executive Director on the Board of ZEP- Re. She was elected to the Board in June 2019 as an Alternate Director. The 30th General Assembly in May 2021 elected her as a substantive Director representing the Government of Rwanda. She is the Director General of National Budget at the Ministry of Finance and Economic Planning of Rwanda. Rehema has wide experience in strategic planning, budgeting and public finance management and has held several senior positions in the Government of Rwanda. She has also served as the Chairperson of several Boards of public and private organisations in Rwanda. She currently sits on the Board of Prime Holding Limited.

She is a Member of ACCA-UK and the Institute of Certified Public Accountants of Rwanda (ICPAR). She holds a Master of Science Degree in Finance and Accounting from Makerere University, Kampala, Uganda

13

Simon Putsai Chikumbu

Simon Putsai Chikumbu serves as an Independent Director on the Board of ZEP- RE. He was elected to the Board in June 2019. He currently serves as the Non- Executive Chairman of Aon Re Africa Pty Ltd, t/a Aon Reinsurance Solutions, where he worked for more than 25 years. Prior to his current position, he served as CEO & Principal Officer for 13 years. He has also served in the capacity of President of the Insurance Institute of Zimbabwe (IIZ), President and Chairman of the Insurance Institute of South Africa (IISA), Executive Committee member of the African Insurance Organization (AIO) and Chairman of the South Africa Reinsurance Brokers Association (SARBA). Simon sits on the Boards of FBC Reinsurance Company Ltd, Zimbabwe, and other companies in Southern Africa.

He is a Chartered Insurer, a Fellow of the Insurance Institute of South Africa and a Certified Director of the Institute of Directors (South Africa). He holds a BSC degree in Mechanical Engineering (University of Zimbabwe).

Management Team

Managing Director
Hope Murera

Chief Operating Officer
Jephita Gwatipedza

Director, Strategy & Investments
Benjamin Kamanga

Director, Partnerships, Govt Relations, Agriculture & Micro Insurance
Ronald Kasapatu

Chief Finance Officer
Rachael Gitonga

Company Secretary/ Head of Legal & Regulatory Affairs
Miriam Magala

Chief Technology Officer
Alexio Manyonde

Regional Director, Eastern Africa Hub
Bernard Katambala

Chief Risk Officer
Deniese Imoukhuede

Assistant Director, Claims & Quality Assurance
Eliud Nderitu

Head of Retakaful Window
Hatim Mudawi

Head of COMESA Pools & Stakeholder Relations
Jerry Sogoli

HR & Administration Manager
Joseph Nabimanya

Assistant Director, Life & Micro-Insurance
Nicholas Malombe

Head of Investments
Reuben Koech

Assistant Director, ZEP-RE Academy
Shipango Muteto

Head of Financial Reporting and Accounting
Simon Ndung'u

Head of Technical Accounting & Credit Control
Beneah Otieno

Head of Transformation & Project Management
Sheila Byenkya

Claims Manager
William Nyaindiga

Notice of The 31st Annual General Assembly

NOTICE IS HEREBY GIVEN that the **31st Annual General Assembly** of ZEP-RE (PTA Reinsurance Company) will be held at Raddison Blu Hotel, Upperhill ,Nairobi, Kenya on **24th June 2022** at **0930** hours Kenyan time, as a hybrid (physical/virtual meeting) to conduct the following business:

1. To note the presence of a quorum.
2. To adopt the agenda.
3. To confirm minutes of the previous Annual General Assembly held on 27th May 2021.
4. To consider and adopt the Financial Statements for the year ended 31st December 2021 together with the Chairperson's Statement, the Directors' Report and Auditor's Report.
5. To approve the Directors' remuneration for the financial year ended 31 December 2021
6. To declare a dividend in line with the Board of Directors recommendations. The Directors recommend approval of a dividend of US$ 5.3 million for the year ended 31 December 2021.
7. To approve an appropriation to the development impact fund in line with the Board of Directors recommendations. The Directors recommend appropriation of US$ 90,722 to the development impact fund (2020 – US$ 86,302).
8. To consider and if approved, appoint External Auditors for 2022 and approve their remuneration.
9. To undertake any other business.

BY ORDER OF THE BOARD

Miriam Magala

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 with the Company Secretary via email mmagala@zep-re.com and copy awanjohi@zep-re.com and not later than 1700 hours (EAT) on Wednesday, 10th June 2022.

Report of the Chairperson 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 2021.

1. 2021 ECONOMIC CONDITIONS

1.1 GLOBAL

Global GDP in 2021 is estimated to grow at 5.9% from a global recession of -3.1% reported in 2020. The contraction in 2020 was 1.1 percentage points lower than projected in the October 2020 World Economic Outlook (WEO). This reflected the higher-than-expected growth outturns in the second half of 2020 for most regions after lockdowns were eased and as economies adapted to new ways of working. The rebound in the global economic activity in the first half of 2021 reflected additional fiscal support in a few large economies, the anticipated vaccine-powered recovery, and continued adaptation of economic activity to subdued mobility.

"Remarkable resilience in spite of a slow-down in the economy due to the global pandemic"

Christabel Michel Banda, *Chairperson*

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

However, adverse developments in the last quarters indicated that the global economy was entering 2022 in a weaker position than anticipated (downgrade of 1 percentage points from July estimates). Supply disruptions continued hindering global manufacturing especially in Europe and the United States. A resurgence in COVID cases (particularly in Europe) also held back a broader recovery. In China, disruptions from COVID outbreaks, interruptions to industrial production from power outages, declining real estate investment, and a faster-than-expected withdrawal of public investment all contributed to a second-half slowdown. Although there were signs of a global turnaround in November with a pickup in international trade and upside surprises for services activity and industrial production data this only partially offset earlier declines. The emergence of a new variant was not the only risk that has crystallized in the last months. Inflation continued to rise throughout the second half of 2021, driven by several factors of varying importance across regions. Fossil fuel prices have almost doubled in the past year, driving up energy costs and causing higher inflation, most prominently in Europe.

Differences in policy support across countries continued to underlay gaps in recovery speeds. The Latin America and the Caribbean area which is estimated to have been hit the hardest contracting by -6.9% in 2020, experienced a remarkable rebound in 2021 with an estimated GDP of 6.8% in 2021. Close behind was the Euro Area (-6.4% in 2020 to 5.2% in 2021), advanced economies: Japan (from -4.5% in 2020 to 1.6% in 2021) and the United States (from -3.4% in 2020 to 5.6% in 2020). Emerging and Developing Asia were estimated to be least affected (from -0.9% in 2020 to 7.2% in 2020), as China, recovered from an initial recession in the first quarter of 2020 to 2.3% estimated at the end of 2020 to a predicted 8.1% by end 2021

1.2 REGIONAL

Real GDP growth in the sub- Saharan region is estimated to have declined to 3.7% in 2021 from 4% in 2020 hovered by a cloud of the remerging Covid variants and increased social unrest and conflicts. By January 2021, only six months after the initial crisis, the region experienced a second wave that swiftly outpaced the scale and speed of the first, with countries confronted by a new, more infectious Beta variant. Six months later, in July, sub-Saharan Africa faced a third wave and another even more dangerous Delta variant. Infections reached more than 210,000 per week—triple or quadruple the January peaks for some countries. A return to normal hinged and will continue to hinge largely on two factors: vaccination and variants. So far, the pace of vaccination in sub-Saharan Africa has been significantly slower than in other regions, a direct consequence of stockpiling by advanced economies and export restrictions by the vaccine manufacturers. Without vaccines, lockdowns were the only option for containing the virus. Although the stringencies of the lockdowns in 2021 were not as restricted as those in 2020, the impact on business activity continued to fade (not vanish) towards the end of 2021 on account of high economic and social costs associated with long periods of inactivity.

The number of internally displaced persons in sub-Saharan Africa continued to increase from 16.5 million recorded in 2020, driven largely by conflicts and, to a lesser degree, by natural disasters (for example in, Burkina Faso, the DRC, Ethiopia, Mali, and Mozambique). Despite a smaller number of natural disasters in the first half of 2021, some countries continued to suffer from adverse climate shocks. More conducive weather conditions in southern and east Africa resulted in bumper cereal outputs, but droughts and floods in Angola, Kenya, and Madagascar weighed on crop and livestock production, putting more pressure on inflation.

Consequently, headline inflation in the region averaged 11% largely driven by a rise of food prices and to a substantial degree, supply constraints/disruptions due conflicts. A rise in global prices due to increasing oil prices, weather related shocks and export restrictions also contributed to an overall rise in prices across the board.

A more favourable external environment cushioned regional growth from declining further. Global trade significantly recovered in comparison to 2020. Commodity prices surpassed pre-pandemic levels particularly metals (copper, cobalt, lead, manganese, nickel, zinc) surged over the past year, and global prices for many food commodities (coffee, sugar, wheat) increased to record highs. Oil prices were buoyant despite of a slow recovery in oil production in many sub-Saharan African countries. Global financial conditions remained accommodative, with several sub-Saharan African frontier economies returning to the market in 2021. Inflows to emerging and frontier markets in sub-Saharan Africa totalled US$4.4 billion between January and August 2021. Remittances in particular are estimated to have grown by 2.6% in 2021.

2. BUSINESS PERFORMANCE

Insurance markets' growth remained subdued. The Company managed to register a 2.3% growth in gross premium income over that of the previous year showing remarkable resilience inspite of a slow-down in the economy due to the global pandemic. Kenya remained the largest contributor of the company's business in 2021 followed by Uganda, Zimbabwe, Tanzania, Ethiopia and Rwanda.

The Company's improved performance in 2021 was majorly attributable to improvement in the loss experience in our various markets. Exchange rates for most local currencies depreciated against the United States Dollar. However, some African currencies rebounded from the 2020 depreciation resulting in reversal of the forex gains reported in 2020. The investment income grew from US$ 12.4 million in 2020 to US$ 14.5 million in 2021. The Company reported a decline in rental income attributable to impact of tenants who vacated from the Company's rental properties as well as waivers of rent granted to some of the tenants who have been affected by the COVID-19 pandemic. The major contributing factor to the growth in investment income was improved yields in deposits arising from recovery of major economies as well as impact of reclassification of Uganda Reinsurance Corporation from an affiliate to an associate which resulted in a gain of US$ 0.4 million.

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

Overall, the Company reported a growth in profit of 5.1% mainly attributable to improved underwriting performance and growth in investment income.

Our Asset base increased from US$ 447.0 million in 2020 to US$ 476.6 million in 2021, a growth of 6.6% while the Shareholders funds increased by 6.9% from US$ 275.8 million in 2020 to US$ 294.8 million in 2021.

3. DIVIDEND

The Board of Directors recommend a dividend of US$ 5.3 million from the results of 2021 (2020 – US$ 5.0 million).

4. RATING

A.M. Best affirmed the Company's financial strength rating of B++ and the issuer credit rating of 'bbb'. The outlooks on both rating remained stable. GCR also affirmed ZEP-RE's national scale financial strength rating of AAA with a stable outlook in November 2021. This reaffirms the strong financial position and proven best practices at a time when many other international reinsurers were downgraded or found their ratings put on watch.

5. GOVERNANCE

During the year, Mr. Erio retired as Chairman and from the Board of ZEP-RE during the 30th Annual General Meeting. Ms Namutebi joined the Board as a substantive Director upon her election during the 30th AGM. She previously served as Alternate Director. Mr Kashimba was also elected to the Board as substantive Director at the 30th AGM. Mr Mwarania serves in the capacity of Alternate Director in the role served by Mr. Shakaba until his retirement in June 2021.

6. 2022 ECONOMIC OUTLOOK

Global growth is expected to moderate from 5.9% in 2021 to 4.4% in 2022, half a percentage point lower for 2022 than in the October World Economic Outlook (WEO), largely reflecting forecast markdowns in the two largest economies: USA and China. The USA economy is projected to grow at 4% in 2022 (-1.2 percentage points from the October WEO) due to an earlier than expected withdrawal in regard to monetary accommodation from the Federal Reserve (accelerated its taper of asset purchases and signaled that it will raise rates further in 2022 than previously expected) as well as continued supply shortages. In China, GDP growth is projected to grow at 4.8%, (-0.8 percentage points lower than October stats) as disruption in the housing sector has served as a prelude to a broader slowdown. Additionally, a strict zero-COVID strategy leading to recurrent mobility restrictions and deteriorating prospects for construction sector employment and private consumption is likely to be lower than anticipated. In the Euro area, prolonged supply constraints and COVID disruptions produced a less severe revision of 0.4 percentage point led by a markdown of 0.8 percentage point for Germany largely due to the economy's exposure to supply chain shocks.

Sub-Saharan Africa growth is projected to grow at 3.7% in 2022 from 4% in 2021 (-0.1 percentage downgrade from October WEO). Further delays to the vaccine rollout will leave sub-Saharan Africa exposed to new, more virulent strains of the virus, raising the prospect that COVID-19 will ultimately become a permanent, endemic problem across the region inevitably weighing on confidence, growth, and the strength of the recovery. The big economies: Nigeria (2.7% from 3%) and South Africa (1.9% from 4%, a -0.3-percentage downgrade from October WEO). South Africa's growth forecast is downgraded in light of a softer-than-expected second half in 2021 and a weaker outlook for investment as business sentiment remains subdued.

Elevated inflation is expected to persist for longer than envisioned in the October 2021 WEO, with ongoing supply chain disruptions and high energy prices continuing in 2022. Inflation continued to rise throughout the second half of 2021, albeit with considerable regional differentiation. Facing mounting price pressures, many emerging market central banks have continued to raise policy rates, above pre-pandemic levels in several countries. Market participants expect the tightening cycle in emerging markets to continue over the next few quarters, particularly in Latin America and emerging Europe. Spill over effects to emerging markets from the policy normalization process in advanced economies could result in a marked rise in real rates. Such further tightening of domestic financial conditions at a time of high fiscal deficits and external financing needs could generate significant strains, putting the nascent growth recovery at risk. Global trade is also expected to moderate in 2022 and 2023, in line with the overall pace of the expansion. Assuming that the pandemic eases over 2022, supply chain problems are expected to abate later in the year. The accompanying moderation in global goods demand will also help reduce imbalances. Cross-border services trade particularly tourism, is expected to remain subdued.

Of recent concern is Russia's invasion of Ukraine which has been rapid and dramatic. The situation remains highly fluid and although the outlook is subject to extraordinary uncertainty, the economic consequences are already very serious. The war in Ukraine is resulting in tragic loss of life and human suffering, as well as causing massive damage to Ukraine's physical infrastructure. It has sent a wave of more than 1 million refugees to neighbouring countries. With the United States, Europe, Canada, Britain, and Japan uniting to punish Russia with unprecedented financial sanctions, the war has triggered a "major geopolitical realignment". The sanctions on Russia will result into isolation of the world's 11th-largest economy and one of its largest commodity producers (energy and commodity prices including wheat and other grains). The immediate global implications will be higher inflation, lower growth, and some disruption to financial markets as deeper sanctions take hold. Should the conflict escalate, the economic damage would be all the more devastating.

So far, financial markets have reacted swiftly to news of Russia's invasion. The MSCI All Country World Index, a leading global equity gauge, fell to its lowest level in almost a year. The price of oil rose above $110 a barrel, while European natural gas prices initially surged by almost 70%. These energy-price increases will negatively affect the global economy.

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

Net Loss Ratio **58.8%**	Combined ratio **97.3%**	Growth in Total assets **6.6%**	Growth in overall profit **5.1%**
Commission ratio **28.8%**	Growth in underwriting results **603%**	Growth in Share holders' equity **6.9%**	Proposed dividends **US$ 5.3 million**

Europe is especially vulnerable, because it did little in recent years to reduce its dependence on Russian gas, and in some cases – notably, Germany, which abandoned nuclear power – even exacerbated it. Monetary authorities will need to carefully monitor the pass-through of rising international prices to domestic inflation, to calibrate appropriate responses. Fiscal policy will need to support the most vulnerable households, to help offset rising living costs. This crisis will create complex policy trade-offs, further complicating the policy landscape as the world economy recovers from the pandemic crisis.

APPRECIATION

I take this opportunity to recognize, with much appreciation, the contribution my predecessor Mr. William Erio made during his tenure as Chairman of the Board. The Company achieved great milestones during this period and we shall forever be grateful for his role and contribution to the growth of the Company.

On behalf of the Board of Directors I would like to thank everyone who contributed to this performance especially my fellow directors and Management, led by Ms. Hope Murera for their dedication and hard work in 2021. Our gratitude also goes to all ceding companies, brokers and business partners for their continuous support and trust.

Christabel Michel Banda

Chairperson

Managing Director's Report

Dear Shareholders,

It is my pleasure to present a review of our business performance in the 2021 financial year.

2021 was a year of resilience as the world entered the second year of the COVID-19 pandemic. We continued to adapt to the ever-changing environment to deliver on our service promise.

Our relationship-based underwriting initiative continues to play an integral role in understanding our customers. We believe that this has helped us serve you better and drive premium growth during the pandemic. The ZEP-RE brand continues to build strong partnerships across the continent through an intentional and focused relationship management that creates great client intimacy. This has consolidated our position and supported us to protect our market share in key markets.

"The ZEP-Re team supported by our business partners and stakeholders, achieved a commendable growth in 2021, despite the COVID-19 pandemic"

Ms. Hope Murera , *Managing Director*

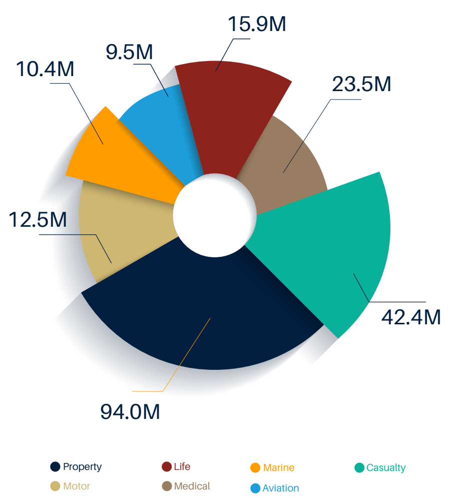
Financial Highlights

The ZEP-RE team supported by our business partners and stakeholders, achieved a commendable growth in 2021, despite the COVID-19 pandemic, with the Company recording a profit of US$ 18.1 Million, a growth of 5.1% from 2020. This was achieved from the growth in Gross written premium, an improved loss experience and growth in investment income. The key financial highlights are here below:

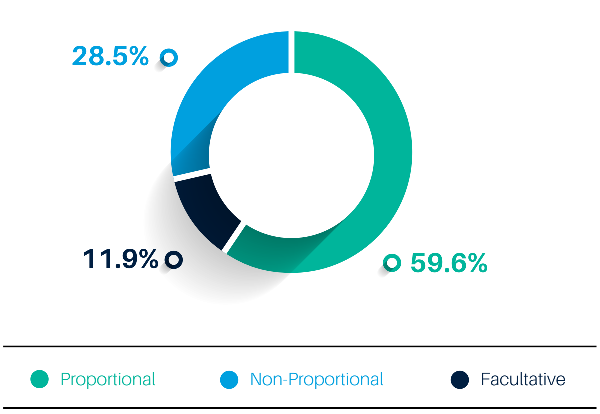
Gross premium Income

Gross written premium for the year grew by a modest 2.3% to US$213.0 million compared to US$208.2 million in 2020. The growth was largely from our key markets which albeit the challenging economic times offered modest opportunities. However, some of the markets were more adversely affected by the pandemic impacting on their rate of economic recovery. Other drivers of the recorded low growth are deliberate cancellation of poor performing portfolios in some markets as well as the adverse exchange rate fluctuation on many African local currencies which negatively impacted the Company's actual figures reported in US dollars.

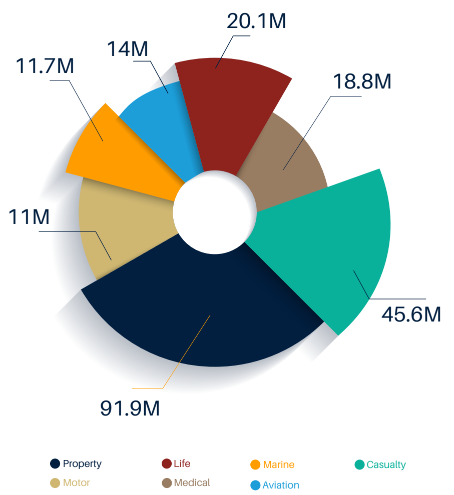
2020
GPI BY CLASS
US Dollars in millions



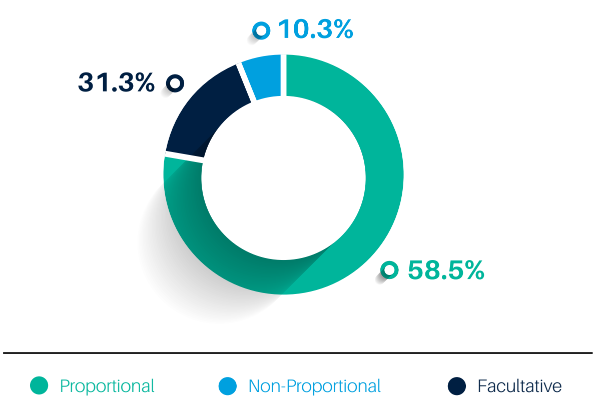
GPI by Type - 2020



2021
GPI BY CLASS
US Dollars in millions



GPI by Type - 2021



Loss ratio

Underwriting discipline remained our top priority and selective risk acceptance resulted in a more stable loss ratio and enabled the Company post an improved net loss ratio of 58.8% in 2021 compared to 64.8% in 2020.

Underwriting profit

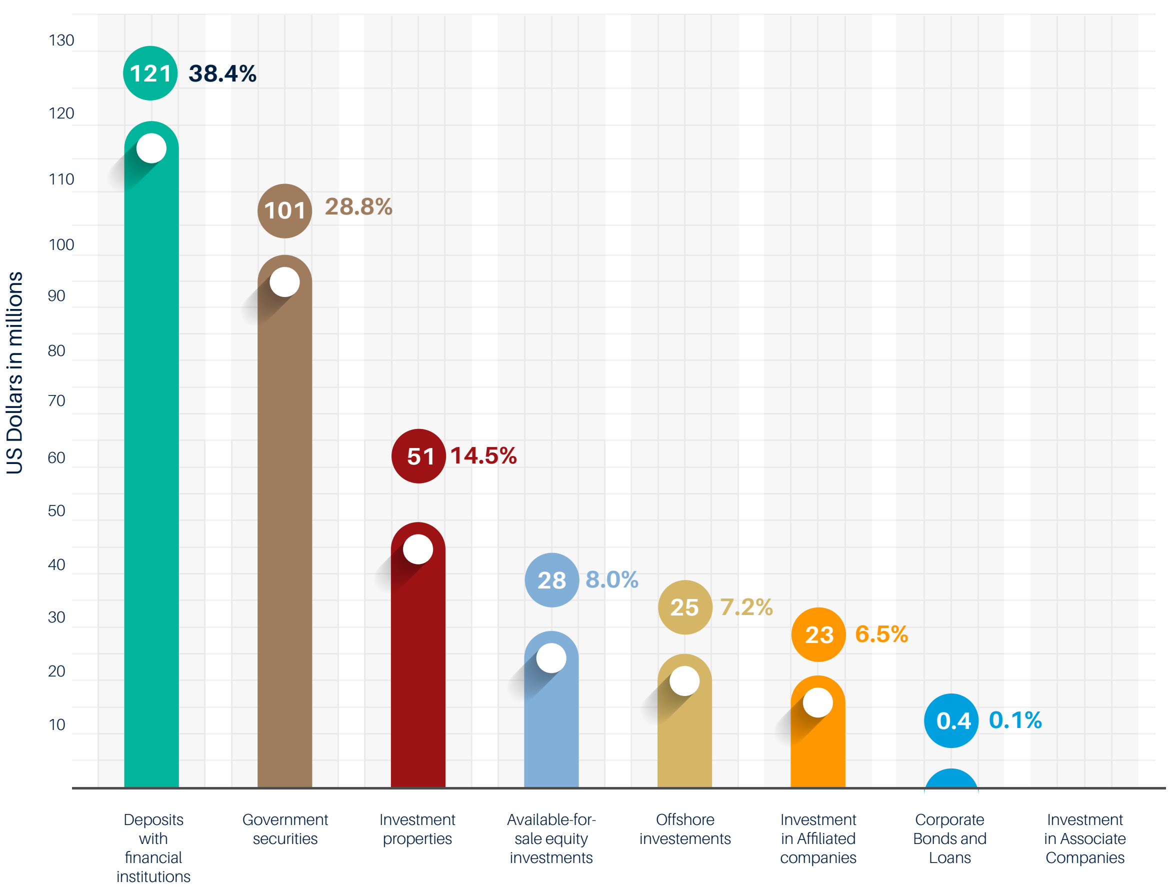
The company posted an improvement in underwriting performance in 2021 compared to 2020. Given the low premium income growth and the improved claims experience recorded during the year, the growth in underwriting profit demonstrates a strong commitment to profitable underwriting.

Investment Income

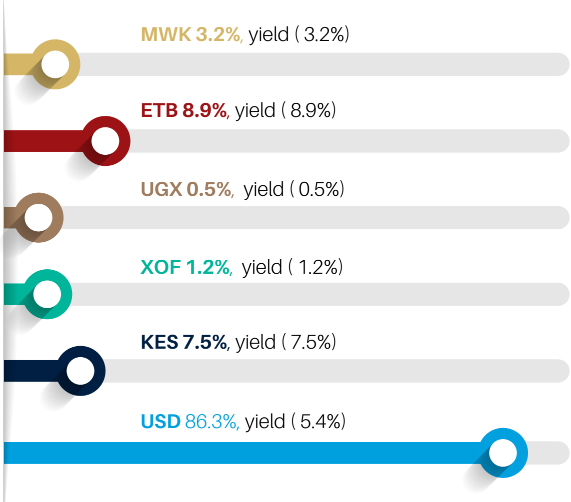
Income from investments amounted to **US$14.5** million compared to **US$12.4** million reported in the previous period, representing an impressive 17.2% increase. This is particularly due to the good performance of the equity markets and the fixed income instruments.

The investment portfolio increased by **US$ 17.9** million from **US$ 349.7** million in 2020 to **US$ 367.6** million in December 2021. The increase was due to reinvestment of investment income receipts net of the Company's liquidity requirements as well impact of recovery of the regional equities and revaluation gain on Uganda Re in 2021.

Asset Allocation Chart - 2021



Interest Earnings Investments - Currency Spread and Average Yield



Profit for the year

The profit reported growth of 5.1% to close at US$ 18.1 million in 2021 compared to USS$ 17.3 million in 2020. This was mainly on account of growth in investment income and improved underwriting performance.

Shareholders' Funds

Shareholders' funds as at 31 December 2021 stood at US$ 294.8 million against US$275.8 million in 2020, representing a 6.9% increase.

Market Review

COMESA remains the company's main market with a contribution of 78% in 2021. In line with the company's revised strategic focus the company continued with its decision to implement a managed exit and or reduced involvement in none core, CAT exposed and poor performing markets in India and selected markets in North Africa. The company exited a number of markets. This resulted in the gross premium written contribution from the captioned markets reducing to 6.8% down from 9.4% in 2020. In 2021 the company reduced its geographical underwriting scope from 59 to 49 countries and the decision to shed off poor performing accounts led to the contraction of the company's ceding companies' client base from 445 to 425 in 2021.

The company's eight dominant markets remained Kenya, Uganda, Zimbabwe, Tanzania, Ethiopia, Rwanda, Zambia and Democratic Republic of Congo (DRC). These eight countries' contributions to the company's gross written premium increased to 80% in 2021 (75% in 2020). The increase in contribution was supported by robust growth in Kenya, Zimbabwe, and the DRC. Management is pleased to report significant growth in these key markets despite the economic and operating environments being continuously disrupted by the effects of the Covid-19 pandemic which continued to affect government spending in infrastructure projects, reduced imports, and a decline in economic growth. The overall effect of these disruptions was the continued reduction in the demand for insurance and reinsurance purchasing.

The challenging environment made it difficult for companies to grow their business. Faced with a deteriorating operating environment the company implemented several growth strategies and selective underwriting control initiatives in key markets of Kenya, Zimbabwe, Tanzania, Rwanda and DRC. The targeted measures resulted in these markets recording a combined growth rate of 16% up from 2% in 2020. Despite the volatile business environment and the fact that the company cancelled annualised business worth US$ 31m in the last 18-24 months, Management is pleased to report that the robust growth from the above captioned key markets pushed the company's overall growth to 2.35% in 2021. A detailed report on each of the company's key markets is summarized below:

KENYA

Following five years of below-average performance, the company implemented several selective underwriting and strategic growth initiatives in the main market of Kenya. The measures which included better large claims management, the repricing of poor performing lines, and existing certain classes led to the main market of Kenya registering a growth rate of 11% in 2021.

Kenya maintained its position as the company's largest market. The improved underwriting and pricing conditions pushed Kenya's contribution to the overall gross premium income to 41% up from 38% in 2020. Management is pleased to report that the growth and increased contributions were achieved despite Kenya facing a recession for the first time in 25 years. The economic challenges continued to impact industry production capacity and new government infrastructure projects financing.

The company expects a strong performance in 2022 to be mainly underpinned by improved conditions in pricing, claims management, and underwriting measures in classes of life, medical, property, engineering, bonds and guarantees, and motor.

UGANDA

The company implemented several targeted corrective/ selective underwriting and claims measures in its main market of Uganda. The said measures resulted in some key clients being dropped in 2021. Uganda retained its position as the company's second-largest market and its contribution remained significant at 10% despite its gross premium growth rate being negative 1% during the period under review.

The market continues to get dedicated support, discipline, and guidance from the regulator's enforcement of minimum rates and localisation rules. The company's improved underwiring measures resulted in an improved performance which saw the loss ratio closing at 54% compared to 73% in 2020.

Uganda continues to be a well-regulated market and the company expects strong performance in 2022 supported by the expected strengthening and observance of localisation, minimum rates, and the cash and carry-on premium payment rules.

ZIMBABWE

Zimbabwe recorded the third-highest gross premium written growth at 36%. The country continues to face economic challenges in areas of foreign exchange stability, low production capacity, poor energy supply which continues to hamper private and public sector infrastructure development.

Despite all these challenges the company maintained its strong presence in the market by writing dollar-denominated businesses. Zimbabwe was the company's third-largest market in 2021 and its contribution increased to 9% from 7% in 2020. The increase in contribution was supported by the facultative business segment which grew by 13%.

The country has so far recorded heavy rains in the 2021/2022 agriculture season. This is likely to affect the agriculture output and loss performance of the agriculture insurance business.

The company expects pricing conditions in classes of life, agriculture, motor, engineering, and property to improve and support the company's growth targets.

TANZANIA

Several claims, underwriting, and pricing control measures were introduced in Tanzania and these measures resulted in the company's gross premium income growing by 4%. There was an improvement in the loss ratio from 43% in 2020 to 36% in 2021. Tanzania was the company's fourth-largest market with a contribution of 8% in 2021 (same as 2020).

Tanzania is a well-regulated market. The company continued to benefit from the strong regulatory changes introduced in the Tanzania insurance markets which included the introduction of minimum rates, localisation of risks, and the adoption of the cash and carry legislation on premium payment.

The company expects strong 2022 performance backed by strong localisation and minimum rates implementation rules.

ETHIOPIA

The problems in the North of the country continue to cause economic and political challenges for the country. These challenges have hindered economic and therefore insurance growth. The company's gross premium written shrunk by 7% compared to the prior year. The market continues to be low in reinsurance cessions because of the high compulsory sessions enjoyed by the local reinsurer Ethiopia Re. Ethio Re currently enjoys a 5% policy and 25% treaty cessions.

Despite these restrictions on business growth, Ethiopia is the company's fifth-largest market and its contribution to the overall premium remained strong at 4%. The major challenges in Ethiopia have been cutthroat competition which led to poor pricing and underwriting of motor, engineering, bonds, and guarantee. The company has recorded an increase in claims, especially in bonds and guarantees mainly because of contractors abandoning construction sites due to the currency crisis. Engagements with the relevant stakeholders are ongoing.

The company hopes that the current issues affecting the country will be resolved soon and this is important for the company's future growth prospects.

RWANDA

The company registered its second-highest growth rate at 37% in Rwanda. Rwanda became the country's 6th largest market and its contribution remained steady at 3%. The company continues to maintain its dominant market share position at 26%.

Following the finalisation of the host agreement with the Rwanda government in 2021, the company is now finalising the opening of the Rwanda Country Office. The said office will also oversee the other markets of Mauritius, Seychelles, Madagascar, Burundi, and Djibouti.

Rwanda is a well-regulated market, and the company expects robust performance in 2022. The opening of the local office and further strengthening of localisation rules will further support the company's growth initiatives in 2022.

ZAMBIA

The Zambian economy faced several economic challenges in 2021. Due to these challenges the company registered a 100% decline in gross premium written. Zambia's contribution to the company's gross premium income declined to 3% from 5% in 2020. The decline in premium was caused by the depreciation of the currency and the loss of one agriculture deal which used to contribute over 45% of the office's revenue. Zambia became the country's 7th largest market.

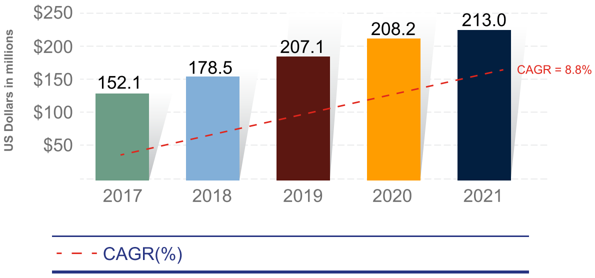
Following the holding of successful internationally recognised democratic elections in 2022 and the subsequent thawing of relations between Zambia and its major creditors' ; growth is expected in Zambia. The recent finalisation of the Insurance regulations in Zambia and the expected enforcement of localisation rules through the introduction of the reinsurance externalisation tax will further give impetus to the management growth narrative.

DEMOCRATIC REPUBLIC OF CONGO (DRC)

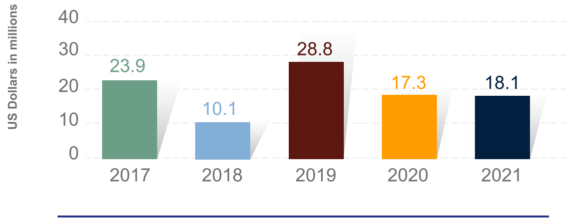
The company opened the DRC office in 2019, With the opening of the local office the company registered its highest growth rate at 187% in 2021. Prior to the opening of the office, the company used to write US$300 000 in gross written premium but as of 31st December 2021, the company wrote a gross premium income of US$ 5.8m.

The DRC market is now a significant contributor to the company's gross premium income and its contribution was 3% in 2021. There are discussions to enforce localisation and introduce minimum rates in the market in 2021. The company, therefore, foresees a lot of opportunities in the DRC market.

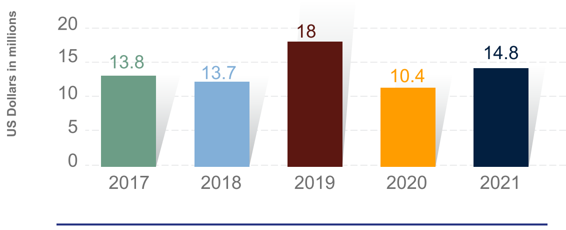
Gross Premium Written



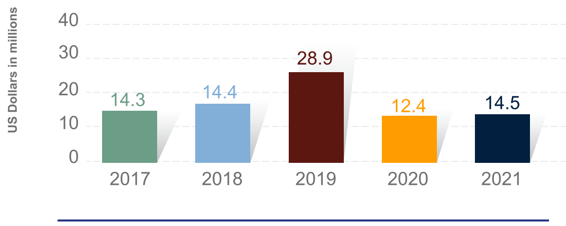
Profit For The Year



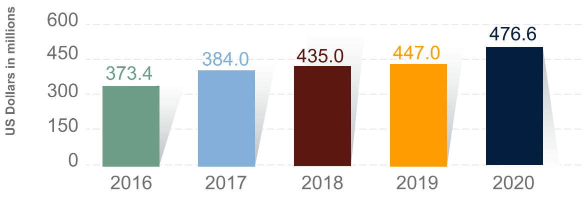
Operating Expenses



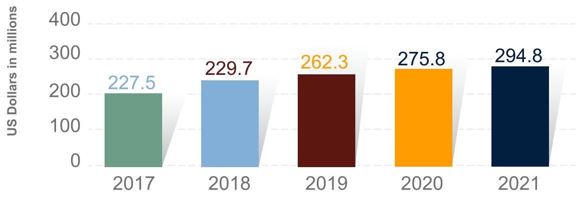
Investment Income



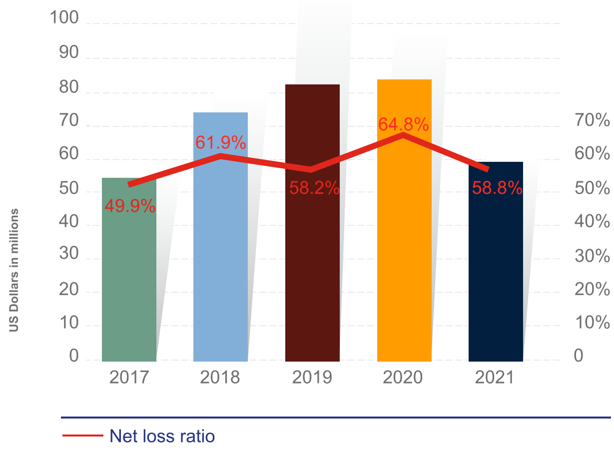
Total Assets



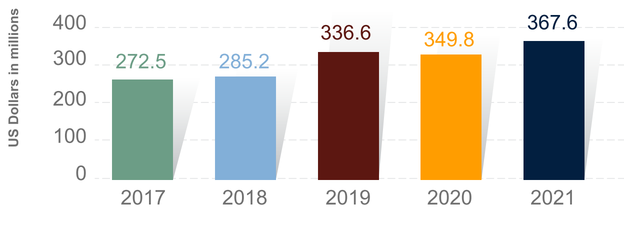
Shareholders' Funds



Net Incurred claims and loss ratio



Investment Portfolio



The Zep-Re Academy

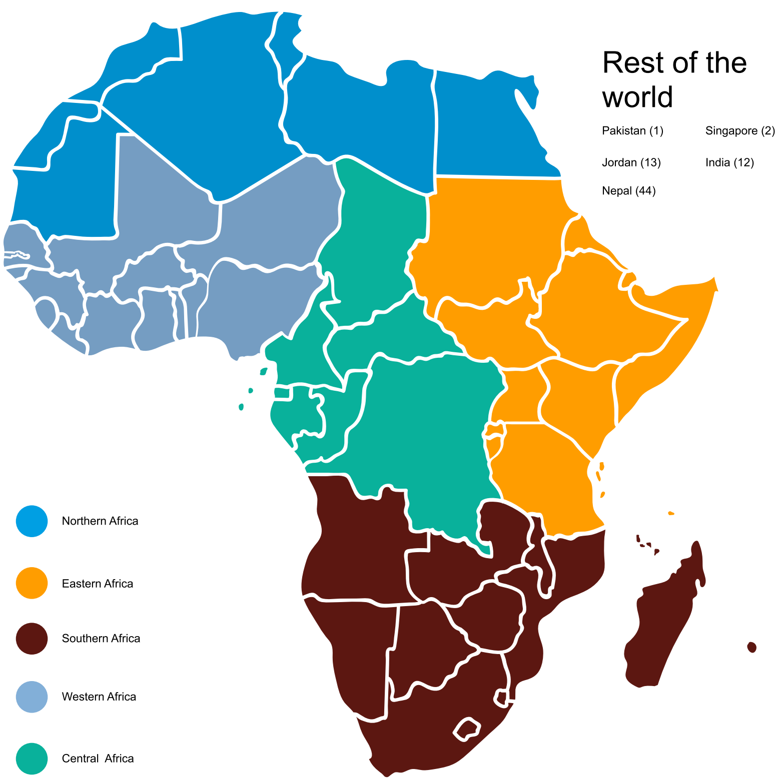
Before the global COVID-19 pandemic, the ZEP-RE Academy conducted training through the mode of face-to-face learning. This had to quickly change during the pandemic since various governments put in place measures to mitigate the spread of the virus. Among such measures was the cessation of movement between nations. Faced with such a reality, the Academy had to confront the fact that it was no longer feasible to hold in-person training.

The Academy consequently was compelled to re-strategize and leverage technology to offer training through webinars. The shift to online training has brought about achievements that would not have been attainable with in-person training, notably, huge numbers of participants from a larger geographic scope, cultural and professional diversity in the virtual classrooms, and availability of international expert trainers.

Indisputably, through technology, the world has become a global village, and, for ZEP-RE Academy, this is manifest in the significant reach of trainees from all over the African continent and beyond, enabled by technology.
The ZEP-RE Academy conducted 35 webinars, a mix of international, regional, country specific and in-house webinars in 2021. From these, 2410 participants from 40 countries in Africa and beyond attended and were trained during the webinar sessions. Of those trained, 1,782 were presented with certificates of full attendance of the different webinars they fully attended.

Below is a representation of the countries from which the participants attending the webinars came from:

Participants Attendance By Country



Region			
Northern Africa			Egypt (8)
Eastern Africa	Uganda (393)	Burundi (34)	Rwanda (58)
	Tanzania (135)	Sudan (65)	Eritrea (9)
	Mauritius (65)	Ethiopia (116)	Kenya (446)
Southern Africa	South Africa (18)	Lesotho (2)	Botswana (10)
	Zambia (425)	Eswatini (1)	Madagascar (22)
	Malawi (16)	Mozambique (32)	
Western Africa	Cote D'Ivoire (44)	Ghana (41)	Gambia (1)
	Guinea (9)	Liberia (7)	Nigeria (123)
	Togo (3)	Siera Leone (7)	Senegal (5)
	Burkina Faso (4)		
Central Africa	Cameroon (69)	DRC (65)	Chad (1)
	Congo Brazza (1)		

1.Key Highlights from Training Carried Out

i. Online Delivery of Proficiency in Short-Term Reinsurance Practice & Claims Management (PSTRP)

In 2021, one of the key training highlights was the online execution of the ZEP-RE Academy flagship program –PSTRP. The Academy had suspended the program at the onset of the COVID-19 pandemic since the program was initially structured and designed for in-person training delivery.

The Academy in collaboration with the College of Insurance (Kenya) – who are the examiners for the course, have successfully managed to modify the course to be delivered and examined online. The move is a huge milestone for the Academy, with yet another notch in its belt relating to conducting examinable programs using online methods.

Over the year, the Academy has successfully carried out four (4) PSTRP programs which have been well received in the markets targeted.

ii. Introduction of Specialty Webinars

Following the conclusion of each webinar, the Academy collects feedback from the participants on different topics they would appreciate to receive training. The Academy strives to ensure that the training conducted are relevant to the needs of the market. With these views in mind, we have sought and partnered with some of the leading service providers to offer webinars on the following speciality classes.

- Advanced Marine Cargo Insurance
- Oil & Gas Insurance Underwriting and Claims Management
- Agriculture Insurance & Underwriting
- International Loss Adjusting Webinar
- Financial Lines Webinar

The speciality webinars have proved extremely popular with some receiving over 100 participants for the sessions. The feedback from participants who have attended these webinars is that they are timely and the content is highly relevant to equipping them as practitioners with the best practice to underwrite and rate the risks properly and handle the claims properly.

Some of these webinars have come at a cost to the Academy, where we have outsourced the facilitators. Where this is the case, a nominal fee has been charged to the participants to attend these webinars. Overall, the Academy has earned a net income of about $17,945 from these speciality webinars.

Insurtech As A Growth Tool

ZEP-RE aims to be the thought leader in insurance technology. The insurance industry has seen numerous investments in technology, driven both by external disruptors and internal innovation. This is a wave that presents continued opportunity to grow the size of the market, cost saving through enhanced efficiency, and deepening of financial inclusion.

In the year under review the company made interactions in industry, investment in solutions, and partnerships with the tech companies to ride the wave of innovation.

Interactions in the industry

In order to place ZEP-RE as a thought leader in Insurtech, the Company has been involved in various forums in the year. The business showcased its insurtech activity output by submitting the Engineering Facultative Rating Tool for an award to the CIO100 Awards. ZEP-RE won two awards: Insurance Sector Award for the submission, and the GOLD MARK in recognition of excellence in Enterprise Information Technology Adoption.

The Managing Director, ZEP-RE presented the keynote address at the CIO Africa Insurtech summit, on the topic "Driving Insurance adoption through Insurtech". The Chief Technology Officer (CTO) presented to the Uganda Insurance Training College 2021 International Conference on the topic of "New Business Models - Artificial Intelligence & Big Data". The CTO also presented to the Insurance Association of Zambia on the topic "Intermediaries, insure-tech and changing trends in insurance service delivery".

In July 2021 ZEP-RE hosted the annual Insurance Regulators forum. The technology focus was on the importance of reliable & timely data in informing sustainable actions, & readiness for IFRS17.

Investment in solutions

In 2021, ZEP-RE invested in the acquisition of a Guarantee Management System to support the Collateral Indemnity Replacement (CRI) microinsurance product. This will enable the Company to support growth in microinsurance by introducing low-cost insurance value chain. In particular, growth in the CRI product will support objectives of COMESA governments to provide low-cost housing.

The investment in Acre Africa in 2020 provided a suite of technology solutions capable of supporting Agriculture insurance in COMESA. In 2021, these solutions found their way into the Agriculture programs that ZEP-RE is supporting with reinsurance. ZEP-RE presented these solutions to a workshop by the Zambian Government on "National Dissemination of Blended FISP Insurance and roll out of digital platforms". Under the title "Digital Technology on National Schemes", the aim was to showcase these technology solutions and make them available to stakeholders in Agriculture insurance.

Partnerships with Technology companies

In 2021, ZEP-RE entered into partnerships with motor insurance technology companies. The first partnership saw ZEP-RE bring telematics technology into the motor insurance products. This is aimed at improving driving behaviour in the market, and hence reduce frequency and severity of accidents. The second brought in motor vehicle valuation technology, which is aimed at reducing fraud at cover inception.

Looking Ahead

ZEP-RE will continue expanding its development role through technology. The business will act as an advocate for technology adoption through various forums available in the year. It will also take the lead in generating solutions and bringing them to the market.

Development Mandate

Market development and Regional collaboration

ZEP-RE stayed true to its value proposition of being a partner to countries in the region. We supported initiatives meant to develop policies and activities that positively impact the region through growth, innovation, and insurance penetration.

1.0 Engagement with Regulators

1.1 2021 East Africa Insurance Supervisors Association (EAISA) – ZEP-RE Annual Regulators strategic forum

The forum held on an annual basis since 2019 was held in July 2021, and in attendance, were the insurance market regulators of Burundi, DRC, Kenya, Rwanda, Uganda, and Tanzania. The forum is intended to enable a confluence of business and regulatory practice with the objective of developing and growing a sustainable regional insurance market, whilst considering the peculiar circumstances of each market, experiences of the respective markets and best practice at a regional and global level.

The sessions addressed and reviewed:

- Key regulatory developments in the East Africa (EA) markets over the past 3 years
- Market overview, performance & challenges & proposed recommendations
- The need for separate regulation of the medical class of business to enable better performance and growth of the class.
- Implementation of IFRS 17 & the case for data

Whilst noting regulatory steps that had been taken, the forum remained cognizant of the challenges that continue to govern the EA markets as well as the need to address such challenges. In particular, the need for exhaustion of local capacity, appropriate pricing of risks to ensure market sustainability and consumer protection, prompt settlement of reinsurance premiums to ensure that reinsurers duly meet their obligations to cedants. Additional challenges ;were high loss ratios, absence of/ insufficient data to enable informed decisions/strategies, growing management expenses as well as fraud in the medical class.

The significant impact of the global COVID-19 pandemic on the insurance markets was further discussed, including the augmentation/acceleration of existing challenges (as highlighted above) thereby resulting into further shrinkage of underwriting margins. Most of the EA markets were noted as making underwriting losses – a factor of undercutting and/or inappropriate pricing. The better performing markets of Uganda and Tanzania were noted as governed by minimum rates.

In light of the extent of changes within the markets due to the global Covid- 19 pandemic and primarily driven by uncertainties associated with the pandemic, decline in economic activity resulting from lockdowns/border restrictions; redressing the current challenges remained critical. Further, the use of technology in both internal process and a business lever was acknowledged as imperative. The advent of accounting standard IFRS 17 was highlighted as an aspect that would alter business operations as they are known today and as one that offered the opportunity to accelerate the digital transformation journey within the industry. Capacity building in this area at both industry and regulatory level was agreed upon as well.

In terms of way forward, it was agreed that addressing the challenges would remain a priority for the Regulators and the following steps would be undertaken:

a) That all EA markets shall actively take steps to ensure that local capacity is fully exhausted – prior to risks being placed in foreign markets.

b) In order to ensure that reinsurers meet their obligations in a timeous manner, the cash and carry payment requirement for clients to insurers will be replicated at the reinsurance level. This is already in place in Kenya and will be adapted within the rest of the EA markets.

c) In order to ensure that risks are properly priced, protection of consumers and market sustainability, the Regulators shall examine the introduction of minimum rates and /or actuarially based rates in markets where these do not exist, and address compliance.

d) Data collation and mining would be prioritized to address key challenges and inform necessary changes, including IFRS 17. Related to this, EAISA will examine and consider the regulation of medical insurance as a separate class of business to enable better monitoring and performance.

e) EAISA to create a Steering Committee to monitor and supervise the implementation of IFRS 17 by Cedants within the respective markets.

1.2 Periodic engagements

To enable discussions on a continued basis, periodic engagements were also held with the Regulators of Kenya, Rwanda, Uganda, Tanzania, Sudan, Ethiopia, DRC, Zambia, all targeted to address market specific challenges (as highlighted above) and to devise as well as implement particularized solutions.

2.0 Government policy, regulatory framework and financial inclusion

Collaborative initiatives with governments of the region during 2021, focused on helping government implement new laws aimed at supporting insurance growth, creating sustainable insurance markets, enhancing financial inclusion initiatives, and growing the micro insurance sector for both crop and livestock agriculture.

2.1 Policy Support for local markets

a) COMESA mandate

The COMESA Policy Organs through the 42nd COMESA Council of Ministers held in November 2021 asked Member States to collaborate with and support financial inclusion initiatives by ZEP-RE by allocating resources and putting in place policies that will support access to insurance especially at micro level. The Company plans to engage Member States to leverage this goodwill and collaborate on financial inclusion initiatives. The Company also plans to partner with COMESA Secretariat and get onboarded on their agriculture strategy as part of developmental initiatives in 2022.

b) Democratic Republic of Congo

We have collaborated with ARCA, the DRC Regulator and engaged the market on initiatives aimed at formalizing the domestication of reinsurance business and adoption of minimum rates for fire and motor with a view to helping the adoption of prudent underwriting. Currently premium retention stands at about 15% and it is expected to increase further once the afore-mentioned initiatives are implemented fully. Premised on the company's experience within varied markets, the company is also supporting the institution of an appropriate inspection & control framework.

c) Malawi

Considering its growth potential and the company's mandate, the company is supporting the capacity building initiatives within the market. The company is further seeking local recognition in the market.

d) Zambia

The Zambia Insurance Act came into effect in May 2021. ZEP-RE has been supporting the regulator and stakeholders in the market to action the new Act with a focus on helping the market strengthen its solvency ratio, increase retentions and ensure long term sustainability of businesses. The new subsidiary regulations and guidelines being implemented are expected to help overall market technical performance and increase premium retentions locally for economic development and market growth.

e)Ethiopia and Tanzania

The Company engaged regulators and stakeholders in the Ethiopian and Tanzanian markets to discuss challenges and co-operate on solutions to support growth and development. Key focus area for collaboration in mid-term planned include improvement in underwriting standards and technical capacity development.

f) Micro insurance regulatory framework

The Company also engaged and collaborated with governments in the region to support financial inclusion initiatives. Key engagements centered on discussions with regulators and key stakeholders in DRC, Malawi and Zambia with the aim of exploring how micro insurance regulatory frameworks could be established.

There is growth potential for micro insurance industry in the three countries with currently 2 million people remaining uninsured in the micro insurance sector of Malawi and Zambia having a rural population in excess of 10 million to whom microinsurance remains critical to providing risk mitigation solutions for this demography. The Company intends to keep up efforts in 2022 to assist in implementation of the regulatory and business development framework.

g) National Agriculture Insurance Schemes (NAIS) framework (DRC, Malawi and Tanzania)

The Company assisted Governments with the study and preliminary activities associated with NAIS. These schemes are part of risk management in agriculture (crop and livestock) with the intention of providing financial support to the farmers in the event of failure due to climate risk, natural calamities, pests and diseases. NAIS programmes in the three countries have the potential to provide crop risk cover to over 4 million farmer households at inception.

2.2 Financial inclusion

In 2021, ZEP-RE worked with countries in the region to support financial inclusion initiatives aimed at scaling up penetration and the protection of low to middle income households from risks attendant including health, income, and savings.

a) Micro-credit products initiatives

The Company has been working with governments and market players in Ethiopia, Kenya, Uganda, Rwanda, Zambia, and Zimbabwe to offer micro insurance products in life with the benefit payable being outstanding loan balances. In 2021, over 220,000 lives were covered and loans assured stood at approximately US$ 2.7 million. In Uganda over 200,000 lives have been covered and loan amounts assured stood at approximately US$ 8.9 million.

b) Universal insurance

A long-term savings scheme in Rwanda is currently being supported in partnership with the government and stakeholders in the market. The main cover is life and funeral expenses (with an element of government subsidy). In 2021, 90,000 lives were insured with total benefits totaling US$ 117.8 million.

c) Collateral Replacement Indemnity

The collateral replacement indemnity (CRI) is a product that targets borrowers in the lower to middle income mortgage market without the requisite deposit usually demanded by mortgage financing companies but have the capacity to pay if spread over a period. The product is offered in over 11 countries through local insurers and ZEP-RE provides reinsurance capacity. In 2021 over US$ 6 million in loans were guaranteed and over 50 lenders were participating in the programme. Beneficiaries since inception of the product total over 10,000 families.

d) Agriculture insurance

ZEP-RE supported regional government food security agenda programs through reinsurance and technical capacity development in the following countries.

- Zambia

  ZEP-RE supported the FISP programme in 2021. The FISP programme has covered over 3.3 million farmers over the years and is the largest agriculture program supported by the Company. Among the support provided included reinsurance, product development and monitoring. The Company also worked with the Technical Working Group comprising the Ministry of Agriculture, the World Food Programme, SMART Zambia, Mayfair, etc.) to explore ways of restructuring the scheme and make it more sustainable.

- Uganda

  The Company supported the NAIS consortium with reinsurance capacity, product improvement and capacity development. The NAIS programme provides cover to 300,000 farmers and has potential for scalability especially in the pastoral sector.

- Kenya

  ZEP-RE participated in the Kenya Livestock Insurance Program (KLIP). The company supports the provision of livestock insurance for 18,000 farmers. The company also supports crop insurance for 250,000 farmers under the KAIP program. Both the KLIP and KAIP address income protection and dependency within the covered households. Over 18,000 households and 90,000 livestock units were covered last year.

- Horn of Africa DRIVE

  Drought shocks in the past have been a key course of livestock asset depletion and has led to underinvestment, perpetuating a cycle of low investment-low productivity in pastoral economies.

  The Horn of Africa DRIVE project aims to scale up financial protection for pastoralists across the Horn of Africa with a package of financial services to help address severe shocks. ZEP-RE was appointed The Implementing Agent of Component 1 to support the provision of financial de-risking in anticipation of climate change risks. The project development objective is to protect pastoralists against drought shocks, increase their financial inclusion and connect them to markets. It is anticipated to support over 1 million households at inception and enable sustainability of the de-risking scheme.

  Key outputs of the program is to increase the number of pastoral production groups accessing financial services, de-risking and capacity building, community ownership of the scheme, maintaining core assets of pastoralists in time of drought shocks, breaking the "low investment, low productivity" trap and long term sustainability of the program with target pastoral production groups.

  The main beneficiaries will be pastoral production groups that have the capacity to undertake commercial activities and move up the value chain. The pastoral population is estimated at 22 million people, with an incidence of extreme poverty of 41%. Between 33% and 65% of people depend on livestock for their livelihoods. One contributor to extreme poverty is the recurrence of droughts, which are increasing in frequency.

3.0 COMESA Pools and support for regional trade

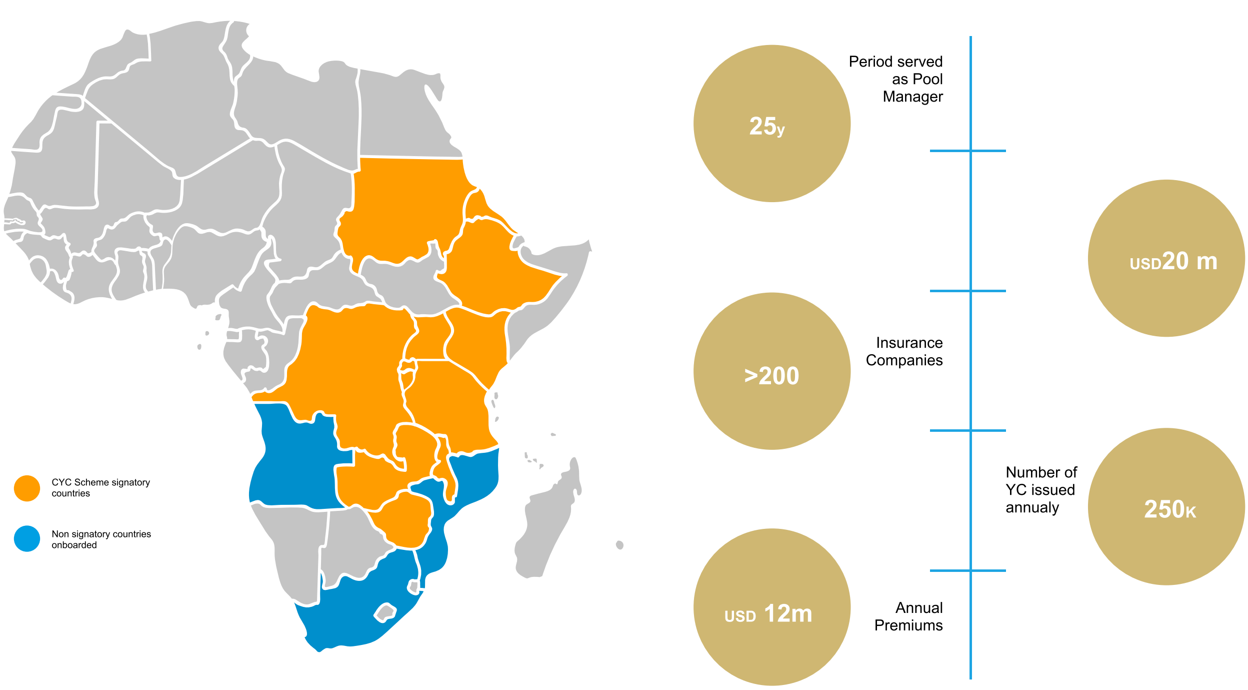
ZEP-RE manages two schemes that promote regional cross border trade. The COMESA Yellow Card scheme is a regional third-party motor vehicle insurance scheme, and the COMESA RCTG scheme is a cross border custom guarantee bond scheme used for the transit of goods through all transiting Member States.

3.1 COMESA Yellow Card Scheme

The COMESA Yellow Card Scheme is a regional third-party motor vehicle insurance scheme established in 1994 and provides third party legal liability cover and compensation for medical expenses resulting from road traffic accidents caused by visiting motorists. ZEP-RE manages the Reinsurance Pool of the Scheme and is responsible for business acceptance, payment of claims, all administrative work, management of investments and preparation of the accounts of the Schemes.

The Yellow Card Scheme is operational in 15 countries and is being expanded to 3 more countries in 2022. In 2021 250,000 yellow cards issued annually and over 200 insurance companies participate annually. The Scheme insures over 200,000 vehicles using card annually. Claims paid in 2021 amounted to US$ 6 million.

Key Highlights of COMESA Yellow Card Scheme

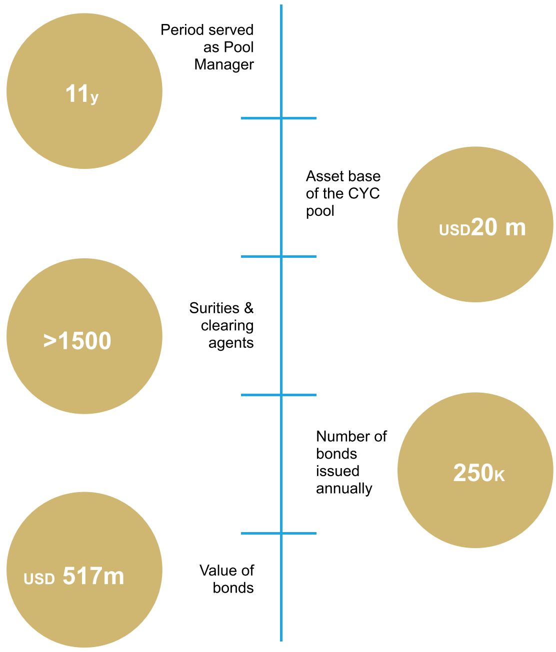


3.2 The COMESA RCTG Scheme

The COMESA RCTG Scheme is a regional transit movement facility that allows a single customs guarantee bond to be used for the transit of goods across custom borders of the participating countries. As manager of the Reinsurance Pool of the RCTG Scheme, we are responsible for business acceptance, payment of claims, structuring of the retrocession programme, management of investments and preparation of the accounts of the Schemes.

The RCTG Scheme is fully operational in the Northern Corridor, namely: Burundi, Kenya, Rwanda, Tanzania and Uganda. The Djibouti corridor is being operationalised in 2022. In 2021 bonds issued amounted to US$ 517 million. Over 1500 sureties and clearing agents participate in the Scheme annually. The Scheme has played a critical role in supporting the US$ 10 billion intra COMESA trade.supporting the US$ 10 billion intra COMESA trade.

Key Highlights of COMESA RCTG Scheme



Other Key highlights

ZEP-RE becomes a signatory to UNPSI: In 2021, ZEP-RE became a signatory to the UN Principles for Sustainable Insurance. Through this initiative, we aim to work together with other companies and agencies to ensure that our industry will embed social, economic, and environmental sustainability in their company strategies for a better world. ZEP-RE will also mobilize its staff, shareholders, customers and all our partners towards the fulfillment of this promise.

Rwanda Host Agreement signed: In July 2021 the Government of Rwanda signed the ZEP-RE Host Agreement and we are now at an advanced stage of setting up a regional office in Kigali. As you already know, Rwanda is one of our key markets and receiving a host agreement came at an opportune time for us to be physically present on the ground. The Rwanda insurance industry is growing fast, and the country has great infrastructure that makes it easy for ZEP-RE to set up smoothly to support the growing industry.

Corporate Social Responsibility (CSR)

ZEP-RE supports girl child education and has continued to sponsor the Rwanda Girls' Initiative (Gashora Girls' Academy) in 2021. It has been very rewarding to see the beneficiaries of our financial sponsorship graduating from high school and joining world-class universities across the globe.

Likewise, under the Global Give Back Circle (GGBC) initiative, which is managed by Kenya Community Development Foundation (KCDF), ZEP-RE provides scholarships for university education for at-risk girls. These girls, upon completion of their studies usually return to their communities and initiate change. The GGBC teaches the girls to pay it forward by lifting other people in their communities through socio-economic and other activities.

In 2021, in response to a request by the male staff for inclusion of the boy-child in our CSR programmes, ZEP-RE joined the MenTenda, a male mentorship programme which is managed by KCDF as our contribution to impact on the boy-child. In this programme, ZEP-RE adopted Highway Secondary School in Nairobi, whose students will be mentored by our male colleagues.

ZEP-RE also partnered with insurance organizations in the region including the Insurance Institute of Uganda, Insurers Association of Zambia, Insurers Association of Zimbabwe and OESAI by way of sponsorship of their events and continues to build on these partnerships.

Our People

ZEP-RE recognizes that all achievement is ascribed to a resolute and professional staff. Drawn from COMESA and beyond, our staff are the core drivers of the Company's strategy and service to our clients. During the year 2021, 12 new members of staff were recruited. The new hires were a great addition to the team, spread over all our offices in the COMESA region. At the end of the year 2021, our staff compliment was 85, composed of 40 Female and 45 Male, moving closer to gender parity, one of ZEP-RE's focuses as an Equal Opportunity Employer.

The year 2021 was, like the previous year 2020, interrupted by the COVID-19 pandemic. Our staff were empowered to work from home when the pandemic was at its peak, thereby achieving the targeted work plans. Moreso, we stepped up skills development initiatives for staff via online platforms to keep abreast with the professional requisites of servicing our clients. The ZEP-RE Academy continued to offer online programs to all our clients in the region. Courses offered included, but were not limited to, Loss Adjusting, Risk Management and Finance programs.

The Company's Young Professional Program (YPP) continued to be a pillar to developing skills for young professionals in the industry. In the year 2021, the Company's Young Professional Program (YPP) sourced and trained 4 young professionals from Kenya, Zambia, Zimbabwe, and Ethiopia in the fields of Underwriting, Accounting and Actuarial Sciences.

Gratitude

In a year that saw an unprecedented global pandemic, we are grateful to have come this far and not only survived but remained a resilient people and company.

I thank you most sincerely for the trust that you our shareholders, partners, clients place in us each and every day. I appreciate your continued support and loyalty.

My appreciation and gratitude to the management team and staff whose dedication to their daily efforts collectively generate value for our stakeholders.

My special thanks go to the ZEP-RE Board of Directors for their support, wisdom, and counsel.

Despite a challenging business environment, I am proud of what we have achieved during the year. In the midst of this, we found an opportunity that allowed us to adapt quickly to the rapidly changing environment and as a result strengthened us to face future challenges with a better perspective.

Looking ahead, we will continue to strengthen our brand while fulfilling our mandate to deliver our value proposition.

Thank you.

Hope Murera
Managing Director, ZEP-RE

5.

Our Control Environment

Our Enterprise Risk Management (ERM) Framework

A comprehensive Enterprise Risk Management framework is an essential prerequisite for supporting the achievement of ZEP RE's strategic objectives. The framework facilitates decision-making across the organisation that is consistent with our Board-approved risk appetite objectives.

We seek to ensure the long-term profitability and financial strength of our organisation by employing a robust and comprehensive risk management system, that is closely linked with the process of accepting risks. This requires that responsible persons identify, analyze and measure the level of profitability and risks associated with a business opportunity, whilst measuring, monitoring and reporting on the amount and use of, as well as return on, capital allocated to this opportunity.

The Enterprise Risk Management system supports the company's ability to effectively deal with future uncertainties, thereby reducing the downside implications, whilst allowing for opportunity to cease on upside potential, allowing for sustainable value-creation for our shareholders and the safeguarding of our policyholders.

Roles and Responsibilities

At the heart of any good risk management system, is the governance that underpins it. ZEP RE employs a 'three lines of defence' model in executing its risk management. This comprises:

» The business functions (**the first line**) – where both staff and line management actively control business risks undertaken through day-to-day decisions made within their roles.

» The oversight function (**the second line**) – where the risk and compliance (and other related) functions validate the integrity and effectiveness of the company's risk management systems and oversee the decisions of the business functions, ensuring that the company's risk appetite objective remain intact.

» The assurance line (**the third line**) – which consists of the internal and external audit function that are mandated with the responsibility of providing independent assurance on the validity and effectiveness of the company's risk management systems.

Although Executive Management are not directly involved within the lines of defence, they play a key role as the primary stakeholders serviced by the three lines of defence, given their responsibility for the operations of the three lines of defence model.

The Chief Risk officer leads the company's risk management function and is tasked with the responsibility for the overall leadership and co-ordination of the risk management function.

A Risk Management Steering Committee meet periodically to discuss the management of all of the company's material risks. The committee consists of the heads of all business functions and is headed by the Chief Risk officer. All outcomes are reported to Executive Management and the Board.

The Risk and Audit Committee, which meet quarterly, supervises the adequacy and effectiveness of ZEP RE's risk management capabilities and monitor the risk profile of the company; whilst the Supervisory Board has ultimate control over the company's risk management framework, monitoring the risk profile and capital adequacy of the company and ensuring that risks are being taken within the risk-appetite objectives, as approved.

The Risk Management Framework

The risk management activity of the company incorporates all aspect of risk management, but with specific regards to drivers that can materially impair ZEP RE's strategic objectives.

In the process of establishing the objectives of the company over the strategic period, Management defines the risks underpinning the strategy and the amount and type of risk that it is willing to take in order to achieve its targets. The impact of these events on the company's objectives is assessed and measures taken to manage the risks, are defined.

To define the events underpinning the company's strategic objectives, identified risks are classified and measured through the use of risk registers, which evaluates the likely impact and the probability of occurrence of the event. This analysis serves as a basis for Management to consider the risk management approach to utilise, i.e. to accept, mitigate, transfer or avoid, for the purpose of minimizing the potential exposure. From this point onwards, the risks are monitored and controlled, with reporting to the various stakeholders of the company.

The risk appetite statement defines the key indicators for each material risk, as well as their target and threshold values. Of significance is the capital adequacy ratio, defined within ZEP RE's capital management framework, which defines the target range and tolerances, amongst other things, and is detailed in the internal document regulating the company's capital management. The monitoring of ZEP RE's capital adequacy position, in relation to the organisation's risk appetite, is an ongoing process, which considers changes in the business decisions that impact the company's risk profile and profitability.

The Risk Management Function regular evaluates the ZEP RE's risk profile relative to the Board-approved risk appetite objectives and communicates breaches to Management, the Risk and Audit Committee and the Supervisory Board. An essential aspect within ZEP RE's risk management framework is the establishment of an appropriate risk culture across the organisation. This is based on knowledge, cooperation and open communication about the company's risks, with the supervisory Board tasked with setting the tone of the company's risk appetite and Executive Management driving the message across the organisation.

Risk Types

Defining ZEP RE's risk appetite requires the identification of the main risks to which the company is exposed to, as it executes its strategy. The following risk classification are used for internal risk monitoring purposes:

1. Reinsurance Risk, which consists of:

   » **Underwriting/Pricing Risk** – Risk of loss due to inappropriate selection or approval of inwards business acceptances and from fluctuations in timing, frequency & severity of insured events, relative to expectations at the time of underwriting/pricing.

   » **Reserving Risk** – Risk of loss due to current reserve provisions being underestimated and hence insufficient to cover their run-off.

   » **Catastrophe Risk** – Risk of loss arising due to a single event or series of events, of major magnitude, usually over a short period, leads to a significant deviation in actual claims from the total expected claims.

2. Financial Risk, which consists of:

   » **Market Risk** - Risk of loss arising from changes in the market value of assets relative to liabilities, due to adverse financial scenarios. Market risks covers interest rates risk, currency risk, equity risk, credit spread risk, property risk and concentration risk.

» **Credit Risk** – Risk of loss arising due to the failure of a counterparty to meet its obligations in terms of timing, quality and quantity, either in part of wholly, or due to the inability or unwillingness to meet its obligations.

» **Liquidity Risk** - Risk of loss due to the proceeds of financial assets being insufficient to fund the obligations of the reinsurance business and other short-term maturing obligations.

3. **Operational Risk** - Risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events and their impact.

4. **Regulatory and Compliance Risk** - Risk of loss arising from failure to comply with existing local, regional or international laws or regulatory policies. This also includes unexpected changes to existing policies or the development, administration and enforcement of regulations in markets where Zep-Re operates.

5. **Governance Risk** - Risk of loss arising from the system by which ZEP RE is directed and controlled and the distribution of rights and responsibilities among different participants in the company (such as the general assembly the board of directors, managers, shareholders, creditors, auditors and regulators).

6. **Strategic and Business Risk** - Risk of loss due to adverse business decisions, improper implementation of adopted strategic decisions and insufficient responsiveness to changes in the business environment Strategic and business risk include reputational risk and risk of credit rating downgrade.

7. **Capital Management**

ZEP RE is not subject to any regulatory imposition on capital requirements. However, the company's capital adequacy position at any given time has a significant bearing on its ratings. Therefore, the capital needs of the organisation is determined using the proprietary capital model of the rating agency, A.M. Best. This is a risk-based tool, under which ZEP RE's capital requirements are calculated according the level of risks associated with its balance sheet, for example, financial, reserving and pricing risks.

Furthermore, ZEP RE's risk appetite objective for its capital management seeks to ensure that the company is able to continue in operation following the occurrence of extreme adverse losses arising from its operations in any given year. As per the criteria of A.M. Best, ZEP RE is required to maintain a capital adequacy position at a level that is consistent with the value at risk measure and annual solvency probability of 99.6%. Under this scenario, the company is expected to be able to withstand an exceptional year of losses that statistically occurs once every 250 years. At year-end 2020, ZEP RE remained strongly capitalised and complaint with the rating agency's requirement, as the capital adequacy position remained largely supported by retained earnings.

The capital management framework seeks to secure the going concern of the organisation, guarantee the profitability of the business and safeguard the long-term and stable return on shareholders' investments, by paying out dividends based on a defined criteria, as established in the company's dividend policy. In this manner, the risk management function regularly reviews ZEP RE's prospective capital adequacy position, to ensure capital is optimally allocated, in view of the changes to the business environment.

Financial Strength Ratings of ZEP RE

In October 2021, A.M. Best affirmed the company's financial strength rating of B++ and the issuer credit rating of 'bbb'. The outlooks on both rating remained stable. GCR also affirmed ZEP-RE's national scale financial strength rating of AAA with a stable outlook in November 2021.

According to A.M. Best, ZEP RE's balance sheet strength is designated as very strong, with the operating performance also considered strong, while the impact of the business profile and enterprise risk management are considered to have a neutral and marginal contribution, respectively, to the rating outcome. The agency's opinion regarding ZEP RE's very strong balance sheet strength is underpinned by the company's risk-adjusted capitalisation, which is considered to be held at the strongest level, as well as its high earnings retention, conservative investment allocation and low underwriting leverage. The agency also recognises the company's good financial flexibility derived through a supportive shareholder base. Nonetheless, A.M. Best points to the high-country risk exposure, through the high level of economic, political and financial system risk associated with the company's core markets, as a partially offsetting factor underpinning its opinion of ZEP RE's very strong balance sheet strength. The company's strong operating performance reflects its track record of producing solid underwriting performance, with the expectation for this to continue supported by stringent underwing controls and prudent risk selection. The agency recognises ZEP RE's competitive position within markets that offer attractive profit potential and considers the organisation's enterprise risk management framework to be evolving.

According to GCR, the key factors underpinning ZEP-RE's rating outcome, included the company's strong financial profile, preferential treatment within the COMESA region, along with its strong risk-adjusted capitalisation and liquidity coverage. Despite the pressures brought about by the COVID-19 pandemic, through flat premium growth and lower investment yields, the agency expects cross cycle earnings to be supported by operational cost savings and reduced exposure to weaker performing markets.

6.

Corporate Governance Report

Corporate Governance Report

Governance Statement

ZEP-RE is committed to good principles of Corporate Governance. We adhere to responsible company management and control with specific focus on long term creation of wealth, continued value addition to our shareholders and recognition of the interest of other stakeholders. We place critical importance on promoting and respecting the interests of shareholders, efficient 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 the UK Corporate Governance Code, the Common Wealth Association for Corporate Governance (CACG) Guidelines: Principles for Corporate Governance in the Commonwealth, King IV Code of Corporate Governance, the Kenya Code of Best Practice for Corporate Governance. With the objective of enhancing corporate governance in line with best practice;

following approval by the Board, the Company is further implementing recommendations of the Corporate Governance Assessment undertaken in March 2019 by Nestor Advisers (a Global leader based in the United Kingdom in providing corporate governance advisory services).

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.

Share Classes

The Company's shareholders are divided into three classes: -

(a) Class A shareholders – They comprise Member States and Signatory States, institutions owned by Member States or Signatory States and COMESA institutions who elect to become members subject to ratification by the General Assembly.

(b) Class B shareholders – Private insurance and reinsurance institutions from the region and eligible investors from the within and outside the Region (Class 'B' Shareholders).

(c) Class C shareholders - Development finance institutions.

Non delegable powers of the General Assembly

Under the Charter, the following key powers are reserved for the General Assembly and may not be delegated under any circumstances: -

- Increasing of the authorised Share Capital of the Company;
- Electing and removing Directors and their Alternates and determining their allowances;
- Appointing and dismissing the Managing Director;
- Selecting external auditors of the Company and to certify the balance sheet and the statement of profit and loss of the Company;
- Allocating and distributing the net income of the Company;
- Terminating the operations of the Company and distribute its assets;
- Admitting new Members.

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 Charter of the Company outlines the following key functions of the Board:-

- Administering the organisation structure and determining the responsibilities attaching to all posts within the Company.
- Determining the terms of service of the Managing Director.
- Approving the budget of the Company.
- Provide guidance and ensuring that the Company operates on sound reinsurance principles.
- Submission to the General Assembly for approval the accounts for each financial year and an annual report.
- Preparing the work of the General Assembly and disseminate its decisions.

The terms of service and remuneration 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 12 directors, that is ten (10) Non-Executive directors', one (01) Independent director and the Managing Director as Executive director. Senior management officials of the company attend Board meetings by invitation.

Access to information and resources

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

During the year, the directors were provided with appropriate and timely information by Management to enable the Board to maintain full and effective control over strategic, financial, operational and compliance issues.

The important issues considered by the Board in 2021 included; the approval of the 2020 audited financial statements, review of the implementation status of the IB strategy plan, the impact and sustainability initiatives, 2021 operational performance, approval of the 2022 budget and strategy, and risk management.

Implementation of strategy

The Board is responsible for providing strategic direction and strategic oversight. However, the primary responsibility of implementing strategy and day to day operations has been delegated to the Managing Director. The Managing Director is supported in this role by a 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 a Code of Business Conduct and Ethics, Rules of Procedure to guide the conduct of meetings and an Evaluation Policy to enable review of the board's performance.

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, the Board Risk & Audit Committee, the Board Strategy & Investments Committee and the Nominations, Remuneration & Human Resources Committee have been put in place. 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.

Risk and Audit Committee

The Committee members are: Mr. Simon Chikumbu (Chairman), Mr. Daher Robleh Warsama, Ms. Chileshe Mpundu Kapwepwe, Mr Chiboli Induli Shakaba[1], Mr. Jadiah Mwarania (Alternate Director).

The Committee's main objective is to promote good corporate governance and enhance accountability within the Company by: -

(a) Ensuring that the Company implements best practice standards in risk management, legal, ethical and moral practices.

(b) Ensuring the highest standards in financial reporting.

(c) Advising and ensuring that the Board of Directors makes informed decisions regarding risk management issues, accounting and financial policies.

(d) Providing guidance to the Company on how to augment the risk management regime.

(e) Constantly reviewing Internal and External audit systems and reports.

(f) Ensure and maintain shareholder/investor confidence in the Company.

The Risk and Audit Committee held three (03) meetings in 2021.

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

Strategy and Investments Committee

The Committee comprises of Jan Gross (Chairman), Hope Murera (Managing Director), Tadesse Admassu, Ewan Wheeler, Simon Chikumbu and Rehemah Namutebi.

The Committee's main objectives are to assist the Board in fulfilling its obligations by providing guidance and making recommendations to the Board on the following matters: -

(a) Implementation and or revision of all Company strategy initiatives,

(b) Provide guidance and oversight on the investment policy of the Company and all major investment transactions,

(c) Monitor the effectiveness of strategy plans and investment policies.

The Strategy and Investments Committee held four (04) meetings in 2021.

Nominations, Remuneration and Human Resources Committee

The Committee is charged with the primary responsibility of

(a) Examining and reviewing the selection and appointment of members of staff including management,

1 Mr. Shakaba served on the Committee between August 2020 to June 2021 when he retired from the ZEP-RE Board. The rest of the meetings were attended by his Alternate Director Mr. Mwarania.

(b) Appraisal standards and remuneration incentive proposals of senior management and directors,

(c) Evaluation, advisory and making recommendations to the Board with regard to all issues affecting staff working conditions.

(d) Ensuring that the company's governance standards are adhered to and reviewed from time to time to ensure that these are in line with best practice.

The members of the committee also form part of the Special Vetting Committee that vet Director appointees to the Board of ZEP-RE.

The Committee comprises Ms.Chileshe Mpundu Kapwepwe (Chairperson)[2] Ms. Rehemah Namutebi, and Mr. Mohammed Satti.

The Nominations, Remuneration and Human Resources Committee held three (03) meetings in 2021.

Committees Reporting to the Board

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 2021 the aggregate amount of emoluments paid to by Directors' is shown in Note 35 (ii) to the financial statements.

2 Ms. Christabel Banda served as the Chairperson of the Committee until her appointed as Chairperson of the Board at the 30th Annual General Meeting held in May 2021

Board Attendance in 2021

The table below shows Board and General Meetings attendance by substantive Directors or through their Alternates,

	Attendance of Board and AGM Meetings in 2021							
	101st Board	Special Board meeting 1/2021	Special Board meeting 2/2021	30th AGM	102nd Board	103rd Board	104th Board	
Mr William Erio*	✓	✓	✓	✓				
Ms Chileshe Kapwepwe	✓	✓	✓	✓	✓	✓	✓	
Ms Hope Murera	✓	✓	✓	✓	✓	✓	✓	
Mr Jan Gross		✓	✓	✓	✓	✓	✓	
Mr Admassu Tadesse	✓	✓	✓	✓	✓	✓	✓	
Mr Chiboli Shakaba**	✓	✓	✓		✓			
Mr Jadiah Mwarania***				✓		✓	✓	✓
Mr Daher Warsama	✓	✓	✓	✓	✓	✓	✓	✓
Ms Christabel Banda	✓	✓	✓	✓	✓	✓	✓	✓
Ms Rehemah Namutebi****	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Simon Chikumbu	✓	✓	✓	✓	✓	✓	✓	
Mr. Mohammed Satti		✓	✓	✓	✓	✓	✓	✓
Mr. Hosea Kashimba*****					✓	✓	✓	✓
Mr. Ewan Wheeler	✓	✓	✓	✓	✓	✓		
Mr. Zuheir Hassan******	✓							

*Mr. Erio retired as Chairman and of the Board of ZEP-RE during the 30th Annual General Meeting.

** Mr Chiboli Induli Shakaba was elected to the Board as substantive Director representing Kenya Reinsurance Corporation (Kenya Re) at the 29th AGM of the Company held on 8th August 2020 and retired in June 2021.

***Mr Mwarania serves in the capacity of Alternate Director in the role served by Mr. Shakaba until his retirement in June 2021.

**** Ms Namutebi joined the Board as a substantive Director upon her election during the 30th AGM. She previously served as Alternate Director.

***** Mr Kashimba was elected to the Board as substantive Director at the 30th AGM.

******Mr. Zuheir Hassan attended the 101st Board meeting as Mr. Satti's Alternate Director.

Managing Director and the Management team

The Managing Director is responsible for the day to day running of the Company. He or She is appointed by the General Assembly upon recommendation of the Board of Directors on a 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. Rules and policy documents issued by the Board of Directors determine the manner Management manages the Company and executes 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 the day-to-day operational issues.

Chairperson

Managing Director

Report of the Directors

The Board of Directors hereby submit their report together with the audited financial statements for the year ended 31 December 2021, 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
- Medical

Results and dividend for the year

The profit for the year of US$ 18.14 million (2020: US$ 17.26 million) has been transferred to retained earnings. The Directors recommend a dividend of US$ 5,300,000 for the year ended 31 December 2021 (2020: US$ 5,000,000).

Directors

The current Directors of the Company are shown on pages 4 - 8. This Board was elected by the 28th Annual General Assembly held in Nairobi, Kenya on 24th June 2019 for a term of three years and its term will come to end in 2022.

Changes to the Board

Mr. Erio retired as Chairman from the Board of ZEP-RE during the 30th Annual General Meeting. Ms Namutebi joined the Board as a substantive Director upon her election during the 30th AGM. She previously served as Alternate Director. Mr Kashimba was also elected to the Board as substantive Director at the 30th AGM. Mr Mwarania serves in the capacity of Alternate Director in the role served by Mr. Shakaba until his retirement in June 2021.

Secretary

Miss Miriam Magala continued in service as the Company Secretary.

Auditors

The Company's auditors, PricewaterhouseCoopers LLP, expressed willingness to continue in office and a specific resolution will be submitted to the 31st Annual General Assembly in this respect.

BY ORDER OF THE BOARD

Secretary

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 financial position of the Company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the company that comply with prescribed financial reporting standards and the requirements of the Agreement establishing ZEP-RE (PTA Reinsurance Company). They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and as per the Agreement establishing ZEP-RE (PTA Reinsurance Company). They also accept responsibility for:

i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

ii) Selecting suitable accounting policies and then apply them consistently; and

iii) Making judgements and accounting estimates that are reasonable in the circumstances.

Having made an assessment of the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors on 29th March, 2022 and signed on its behalf by:

Chairperson

Managing Director

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZEP-RE (PTA REINSURANCE COMPANY)

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of ZEP-RE (PTA Reinsurance Company) (the "Company") set out on pages 46 to102 which comprise the statement of financial position at 31 December 2021, the statements of comprehensive income, changes in equity, and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of ZEP-RE (PTA Reinsurance Company) as at 31 December 2021, and of its financial performance 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).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Other information

The other information comprises Corporate information, Board of Directors' profiles, Notice of the 31st annual General Assembly, Report of the Chairperson of the Board of Directors, Corporate governance report, Report of the Directors, Statement of Directors' responsibilities and Supplementary information which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 the requirements of Article 31 of the Agreement establishing ZEP-RE (PTA Reinsurance Company), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZEP-RE (PTA REINSURANCE COMPANY) (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

» Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

» Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

» Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

» Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

» Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Bernice Kimacia

Bernice Kimacia, Practicing Certificate Number 1457

Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP

Certified Public Accountants

Nairobi

31 May, 2022

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December	Notes	2021 US$	2020 US$
Gross premiums written	3	213,012,675	208,159,650
Less: Retrocession premiums		(78,698,993)	(69,051,176)
Net written premiums		134,313,682	139,108,474
Movement in unearned premiums reserve		1,859,054	(37,541)
Net earned premiums		136,172,736	139,070,933
Investment income	4	14,495,255	12,365,944
Commissions earned		11,706,102	13,826,049
Other income		1,557,251	1,936,573
Total income		163,931,344	167,199,499
Gross incurred claims	5	90,937,937	107,916,380
Less: amounts recoverable from retrocessionaires		(10,886,063)	(17,824,758)
Net claims incurred		80,051,874	90,091,622
Operating and other expenses	6	14,833,005	10,444,759
Gain on foreign exchange transactions		(38,983)	(2,742,451)
Commissions expenses		50,941,127	52,145,073
Total outgo		145,787,023	149,939,003
Profit for the year		18,144,321	17,260,496
Other comprehensive income for year			
Items that will not be reclassified subsequently to profit or loss:			
Fair value gain on revaluation of property	25(ii)	393,355	144,055
Fair value gain/(loss) on revaluation of equity investments	25(i)	331,351	(5,034,549)
Foreign exchange loss on revaluation of equity investments	25(i)	(502,375)	(781,260)
Fair value gain on revaluation of offshore investments	25(i)	54,068	387,983
Fair value (loss)/gain on revaluation of government securities	25(i)	(255,662)	154,124
Fair value gain on revaluation of investment in affiliated companies	25 (iii)	1,752,229	1,441,534
Total other comprehensive income for the year		1,772,966	(3,688,113)
Total comprehensive income for year		19,917,287	13,572,383
Earnings per share:			
- Basic and diluted	7	0.311	0.300

Statement of Financial Position

At 31 December	Notes	2021 US$	2020 US$
ASSETS			
Property and equipment	9	2,287,397	2,072,044
Intangible assets	10	1,103,178	735,153
Investment properties	11	50,335,931	50,676,760
Equity investments at FVOCI			
-Quoted equity investments	12	27,639,732	27,348,265
-unquoted equity investments	12	1,522,988	753,381
-Investment in affiliated companies	12	22,619,385	22,831,809
Equity investments at FVTPL			
-Investment in Associate	12	3,300,452	-
Receivables arising out of reinsurance arrangements	13	32,429,282	32,423,064
Deposits retained by ceding companies	14	7,674,411	6,189,747
Retrocessionaires share of reinsurance liabilities	15	34,995,508	31,897,451
Other receivables	16	7,862,357	6,589,413
Deferred acquisition costs	17	9,599,362	10,442,816
Government securities			
- Amortised cost	18	96,895,063	98,430,839
- FVOCI	18	1,916,961	2,185,046
Offshore investments - FVOCI	19	25,349,903	25,300,318
Deposits with financial institutions	20	137,370,180	121,823,833
Corporate bonds and loans	21	643,408	421,906
Cash and bank balances	22	13,075,816	6,870,355
Total assets		476,621,314	446,992,200
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	24	58,476,731	57,983,758
Share premium	24	58,507,819	55,613,910
Property revaluation reserve	25	1,182,161	788,806
Investments revaluation reserve	25	(5,878,033)	(5,505,415)
Investment in affiliated companies revaluation reserve	25	10,066,571	9,185,139
Retained earnings	26	172,485,439	157,685,720
Total equity		294,840,688	275,751,918
LIABILITIES			
Reinsurance contract liabilities	27	101,284,908	94,073,192
Provision for unearned premiums and unexpired risks	28	38,481,461	39,517,615
Deferred income	29	57,865	58,679
Payables arising from retrocession arrangements	30	12,360,650	11,291,993
Payables arising from reinsurance arrangements	30	13,101,436	11,970,272
Deposits retained on ceded reinsurance business		437,807	441,778
Deferred retrocession commission revenue	31	3,163,931	2,588,541
Other payables	32(i)	11,209,392	9,963,192
Dividends payable	33	1,683,176	1,335,020
Total liabilities		181,780,626	171,240,282
Total equity and liabilities		476,621,314	446,992,200

The financial statements on pages 46 to102 were approved and authorised for issue by the Board of Directors on

29th March, 2022 and were signed on its behalf by:

Chairperson

Managing Director

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital US$	Share premium US$	Property revaluation reserve US$	Investments revaluation reserve US$	Investment in affiliated companies revaluation reserve US$	Retained earnings US$	Total US$
At 1 January 2020		57,255,956	51,341,712	644,751	(231,713)	7,743,605	145,565,224	262,319,535
Total comprehensive income for the year		-	-	144,055	(5,273,702)	1,441,534	17,260,496	13,572,383
Transactions with owners Transfer to development impact fund	32(ii)	-	-	-	-	-	(140,000)	(140,000)
Dividends declared	33	-	-	-	-	-	(5,000,000)	(5,000,000)
Issue of shares through capitalisation of 2019 dividends	33	727,802	4,272,198	-	-	-	-	5,000,000
At 31 December 2020		57,983,758	55,613,910	788,806	(5,505,415)	9,185,139	157,685,720	275,751,918
At 1 January 2021		57,983,758	55,613,910	788,806	(5,505,415)	9,185,139	157,685,720	275,751,918
Total comprehensive income for the year		-	-	393,355	(372,618)	1,752,229	18,144,321	19,917,287
Transactions with owners Shares issued during the year	24	3,470	20,369	-	-	-	-	23,839
Dividends declared	33	-	-	-	-	-	(5,000,000)	(5,000,000)
Transfer to development impact fund	32(ii)	-	-	-	-	-	(86,302)	(86,302)
Impact of revaluation of affiliate to associate		-	-	-	-	-	870,903	870,903
Changes on initial reclassification of affiliate to associate	25(iii)	-	-	-	-	(870,797)	870,797	-
Issue of shares through capitalisation of 2020 dividends	33	489,503	2,873,540	-	-	-	-	3,363,043
At 31 December 2021		58,476,731	58,507,819	1,182,161	(5,878,033)	10,066,571	172,485,439	294,840,688

STATEMENT OF CASH FLOWS

Year ended 31 December	Notes	2021 US$	2020 US$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operating activities	36	23,726,009	22,165,176
Interest paid on lease liabilities	32	(43,500)	(43,500)
		23,682,509	22,121,676
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9	(39,081)	(159,070)
Purchase of intangible assets	10	(570,984)	(265,874)
Purchase of investment properties	11	(118,627)	(1,052,158)
Purchase of quoted equity investments	12(i)	(2,381,913)	(9,011,424)
Purchase of unquoted equity investments	12(i)	(998,276)	(753,381)
Purchase of offshore investments		(307,720)	(413,754)
Purchase of shares in associate		(746)	-
Purchase of shares in affiliated companies		-	(589)
Purchase of government securities		(42,133,897)	(18,493,248)
Proceeds on maturity of government securities		43,682,096	25,678,456
Proceeds of disposal of offshore securities		312,203	455,842
Proceeds of disposal of property and equipment		-	1,270
Proceeds of disposal of quoted equity investments		1,919,422	1,225,308
Proceeds of disposal of unquoted equity investments		228,669	-
Movement in corporate bonds and loans		(221,502)	589,504
Net movement in deposits with financial institutions		(16,770,425)	(29,764,998)
Net cash used in investing activities		(17,400,781)	(31,964,116)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of issue of shares		23,839	-
Dividends paid	33	(1,288,801)	(233,853)
Payment of the principal portion of lease liability	32	(49,919)	(36,899)
Net cash generated from financing activities		(1,314,881)	(270,752)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		4,966,847	(10,113,192)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		15,370,575	25,483,767
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	37	20,337,422	15,370,575

NOTES TO THE FINANCIAL STATEMENTS

1 ESTABLISHMENT

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

1) Fostering the development of the Insurance and Reinsurance industry in the COMESA sub-region;
2) Promotion of the growth of national, sub-regional and regional underwriting and retention capacities; and
3) Supporting sub-regional economic development.

The company is domiciled in Kenya and has regional offices in Cote D'Voire and Zimbabwe and country offices in Zambia, Ethiopia, Uganda, DRC and a Retakaful Window in Sudan.

2 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

(i) New standards and interpretations adopted by the Company

The following standards and interpretations have been applied by the Company for the first time for the financial reporting year commencing on or after 1 January 2021:

Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' – interest rate benchmark (IBOR) reform (Phase 2)

The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.

Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform

For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform (for example, where lease payments are indexed to an IBOR rate).

(ii) New standards and interpretations not yet adopted by the Company

IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment - Annual periods beginning on or after 1 June 2020

The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current - Annual periods beginning on or after 1 January 2022

The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).

Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use - Annual periods beginning on or after 1 January 2022

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is

NOTES TO THE FINANCIAL STATEMENTS (Continued)

preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.

Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract - Annual periods beginning on or after 1 January 2022

The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.

IFRS 17 Insurance Contracts - Annual periods beginning on or after 1 January 2023

The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new e poch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.

(b) Income recognition

i) *Premium*

Gross writtn 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.

ii) *Commissions*

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

iii) *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.

iv) *Claims incurred*

Claims incurred comprise claims paid in the year and

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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").

v) *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.

vi) *Interest income*

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

vii) *Dividend income*

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

viii) *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.

(c) 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$). As such the Company's functional currency is the United States Dollar (US$). 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.

(d) 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. Subsequent to initial recognition, receivables related to reinsurance contracts are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment, with the impairment loss determined using the expected credit loss model, recorded in the statement of profit or loss.

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

(f) Property and equipment

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

Increases in the carrying amount of land and buildings arising from revaluations are credited to 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.

(g) Investment properties

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

Investment properties are not subject to depreciation. Changes in their carrying amount between the ends of each reporting periods are recognised through profit or loss. On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

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

(h) Financial instruments

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

(i) Classification

The Company classifies its financial assets in the following measurement categories:

- » those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- » those to be measured at amortised cost.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

(ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iii) **Measurement**

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depends on:
(i) the Company's business model for managing the financial assets; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

» Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

» FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/ (losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

» FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/ (losses) in the period in which it arises.

Business model: the business model reflected how the Company manages the assets in order to generate cash flows i.e. whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flow represent solely payments of principal and interest ('SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Equity instruments

The Company subsequently measures all equity investments at fair value. The Company's management has elected to present fair value gains and losses on equity investments in OCI, with no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchanges (NSE, USE). The quoted market price used for financial assets held by the Company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.

For example a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- » Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- » Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- » Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

(v) Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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 events:

- » significant financial difficulty of the issuer or debtor;
- » a breach of contract, such as a default or delinquency in payments;
- » it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- » 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 flow 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 Company, including:
  - » An adverse changes in the payment status of issuers or debtors in the Company; or
  - » National or local economic conditions that correlate with defaults on the assets in the Company.

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The expected credit loss impairment model applies to the following financial instruments that are not measured at FVTPL or FVTOCI:

- » Government securities measured at amortised cost;
- » Receivables arising from reinsurance arrangements;
- » Other receivables;
- » Corporate bonds;
- » Deposits with financial institutions; and
- » Cash and bank balances.

No impairment loss is recognised on equity investments and offshore investments measured at FVOCI.

The Company recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Company will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- Debt instruments that are determined to have low credit risk at the reporting date. The Company considers a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in government securities; and
- Other financial instruments (other than reinsurance receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for receivables arising out of reinsurance arrangements will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, the Company follows one of the approaches below:

- The general approach
- The simplified approach

Measurement of expected credit losses

The Company will apply the approaches below to each of its assets subject to impairment under IFRS 9:

Financial Asset	Impairment approach
Receivables arising out of reinsurance arrangements	Simplified approach
Other receivables	General approach
Government securities at amortised cost	General approach
Corporate bonds	General approach
Deposits with financial institutions	General approach
Cash and bank balances	General approach

The General Approach

Under the general approach, at each reporting date, the Company determines whether the financial asset is in one of three stages in order to determine both the amount of ECL to recognise as well as how interest income should be recognised.

- **Stage 1** - where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Company will recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.

- **Stage 2** - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Company will recognise lifetime ECL but interest income will continue to be recognised on a gross basis.

- **Stage 3** - where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Company will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. As such, interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.

The Simplified approach

Under the simplified approach, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

Definition of default

The Company will consider a financial asset to be in default when:

- the counterparty or borrower is unlikely to pay their credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the counterparty or borrower is more than 90 days past due on any material credit obligation to the Company. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Company; or

In assessing whether the counterparty or borrower is in default, the Company considers indicators that are:

- Qualitative: e.g. Breach of covenant and other indicators of financial distress;
- Quantitative: e.g. Overdue status and non-payment of another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk (SIICR)

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience, expert credit assessment and forward-looking information.

The Company primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a 'base case' view of the future

NOTES TO THE FINANCIAL STATEMENTS (Continued)

direction of relevant economic variables and forecast scenarios based on consideration of a variety of external actual and forecast information. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates.

The base case represents a best estimate and is aligned with information used by the Company for other purposes, such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of the following variables:

» Probability of Default;
» Loss given default (LGD); and
» Exposure at default (EAD).

To determine lifetime and 12-month PDs, the Company uses the PD tables supplied by [Rating Agency X based on the default history of obligors with the same credit rating. The Company adopts the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings (see (i)).The PDs are recalibrated based on current bond yields and CDS prices, and adjusted to reflect forward-looking information as described above. Changes in the rating for a counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-¬value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, which include:

» instrument type;
» credit risk grading;
» collateral type;
» date of initial recognition;
» remaining term to maturity; industry; and
» geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external benchmark information that the Company uses to derive the default rates of its portfolios. This includes the PDs provided in the Standard and Poor's default study.

Receivables arising out of reinsurance contracts

The ECL of receivables arising out or reinsurance contracts are determined using a loss rates. Loss rates are calculated with reference to days past due and actual credit loss experience over the past seven years.

(vi) Modification of contracts

The Company rarely renegotiates or otherwise modifies the contractual cash flows of securities. When this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

» If the counterparty is in financial difficulty;
» Whether any substantial new terms are introduced that affect the risk profile of the instrument;
» Significant extension of the contract term when the borrower is not in financial difficulty;
» Significant change in interest rate;
» Change in the currency the security is denominated in; and
» Inclusion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for

NOTES TO THE FINANCIAL STATEMENTS (Continued)

the asset. The date of renegotiation is consequently considered the date of initial recognition for impairment calculation purposes, including the purpose of determining whether a SICR has occurred.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR.

(vii) Write off policy

The Company writes off financial assets, in whole or in part when it has exhausted all practical recovery effort and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity; and (ii) the Company is foreclosing on collateral and the value of the collateral is such as there is no reasonable expectation of recovering in full.

The Company may write-off financial assets that are still subject to enforcement activity. There were no assets written off during the year ended 31 December 2020 and 31 December 2019.

(i) Deferred income

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

(j) 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.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short term highly liquid investments with original maturities of three months to less.

(l) Dividends

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

(m) Development Impact Fund

The Company has set up a Development Impact Fund who's key objective is to support the Company's CSR mandate which considers the social, environmental, and economic wellbeing of its stakeholders while protecting the shareholders through minimizing any impact such activities would have on the income statement.

(n) Taxation

In accordance with Article 7 (Income Tax Exemptions) of the Headquarters agreement between The Government of the Republic of Kenya and ZEP-RE (PTA Reinsurance Company), (the "Agreement") exempts the Company, its property and assets from all forms of direct taxation.

Article 8 (Duty and Tax Exemptions) of the Agreement allows the Company to import or purchase free of duty and Value added Tax (VAT), material, equipment and motor vehicles. Article 9 (Privileges and Immunities for the Directors of the Company and their Alternates) provides that Directors of the Company and their Alternates are accorded immunities, exemptions and privileges as accorded to non-resident diplomatic missions and envoys and no taxes shall be levied on or in respect of emoluments paid by the Company to its non-resident Directors and alternate directors.

Article 10 (Officials, Experts and Consultants of the Company) exempts the officials of the Company from any form of direct taxation of salaries and emoluments and any income derived from sources outside Kenya. It also exempts from tax salaries and emoluments paid to officials designated by the Managing Director. Article 10 also provides that applicability of the exemptions to Kenyan nationals shall be determined by the Government of Kenya, which is yet to be agreed.

The tax status of the Company may vary depending on changes to the income tax rules applicable in the member states it operates.

(o) Share Capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.

Shares are classified as equity when there is no obligation to transfer cash or other assets.

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual agreement.

Notes to the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 GROSS PREMIUMS WRITTEN

(i) Class-wise distribution

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

	2021 US$	2020 US$
Class of business:		
Property	91,870,094	94,001,138
Casualty	45,625,148	42,402,479
Motor	10,950,009	12,473,098
Marine	11,676,902	10,369,720
Aviation	13,969,653	9,529,451
Life	20,102,052	15,867,809
Medical	18,818,817	23,515,955
	213,012,675	208,159,650
	========	========

(ii) Geographical distribution

	2021		2020	
Region	Gross premium US$	%	Gross premium US$	%
COMESA	166,178,455	78.01	161,653,276	77.66
Non – COMESA (Africa)	34,154,517	16.04	31,238,385	15.01
Other regions	12,679,703	5.95	15,267,989	7.33
Total	213,012,675	100.00	208,159,650	100.00
	========	=====	========	======

(iii) Type - distribution

	2021		2020	
Proportional	124,559,248	58.47	124,018,407	59.58
Non-proportional	21,851,795	10.26	24,770,356	11.90
Facultative	66,601,632	31.27	59,370,887	28.52
Total	213,012,675	100.00	208,159,650	100.00
	========	=====	========	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 INVESTMENT INCOME

	2021 US$	2020 US$
Interest from government securities	6,862,565	6,901,181
Interest from deposits with financial institutions	5,663,719	5,128,850
Interest from corporate bonds	52,589	87,898
Associate share of profit	464,150	-
Income from offshore investments	17,340	16,135
Rental income	525,614	641,721
Dividend income	981,487	522,600
Fair value losses on investment properties (Note 11)	(459,456)	(932,441)
Write back of investment accruals	387,247	-
	14,495,255	12,365,944

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

	2021 US$	2020 US$
Investments held at fair value through other comprehensive income	998,827	538,735
Investments held at amortised cost	13,430,270	12,117,929
	14,429,097	12,656,664
Investment income on non-financial assets (investment properties)	66,158	(290,720)
Total investment income	14,495,255	12,365,944

5 GROSS INCURRED CLAIMS

	2021 US$	2020 US$
Gross settled claims	80,868,800	103,798,851
Change in outstanding claims	10,069,137	4,117,529
	90,937,937	107,916,380

6 OPERATING AND OTHER EXPENSES

	2021 US$	2020 US$
Employee emoluments and benefits (Note 8)	9,427,663	6,700,645
Auditors' remuneration	54,996	50,004
General assembly and Board expenses	291,144	208,057
Depreciation of property and equipment (Note 9)	217,083	339,147

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 OPERATING AND OTHER EXPENSES (Continued)

	2021 US$	2020 US$
Amortisation of intangible assets (Note 10)	202,959	26,458
Provision for expected credit losses arising from reinsurance premium receivables (Note 13(ii))	577,283	(624,787)
Repairs and maintenance costs	461,477	303,526
Premium taxes and charges	2,136,835	1,910,468
Other expenses	1,463,565	1,531,241
	14,833,005	10,444,759

7 EARNINGS PER SHARE

	2021	2020
Profit attributable to shareholders (US$)	18,144,321	17,260,496
Weighted average number of shares issued (Note 24(iii))	58,351,648	57,619,856
Earnings per share (US$) - basic and diluted	0.311	0.300

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 2021 and 31 December 2020. The diluted earnings per share is therefore the same as the basic earnings per share disclosed above.

8 EMPLOYEE EMOLUMENTS AND BENEFITS

	2021 US$	2020 US$
Staff costs include the following:		
- Salaries and wages (including bonuses)	7,103,459	4,712,733
- Staff retirement benefits	1,102,465	887,943
- Other staff benefits	1,221,739	1,099,969
	9,427,663	6,700,645

The number of persons employed by the company at the year-end was 85 (2020: 78).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 PROPERTY AND EQUIPMENT

	2021 US$	2020 US$
Cost or valuation	4,167,395	3,763,360
Accumulated depreciation	(1,879,998)	(1,691,316)
Net book value	2,287,397	2,072,044
Comprising;		
Buildings	1,784,983	1,420,029
Motor vehicles	46,634	59,888
Office furniture and fittings	174,232	203,329
Office equipment	89,138	109,143
Computers equipment	29,223	34,868
Right of use assets	163,187	244,787
Net book value	2,287,397	2,072,044

An independent valuation of the Company's land and buildings was carried out by Gimco Limited, property registered valuers, to determine the fair value of buildings. The valuer has appropriate qualifications and recent experience in the valuation of properties in the relevant location. The valuation, done annually, was carried out as at 31 December 2021 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$ 602,823 (2020: US$ 631,224).

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$ 2,225,377 (2020: US$ 2,117,271) 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$ 620,681 (2020: US$ 591,426).

	Land and Buildings US$	Motor vehicles US$	Office furniture and fittings US$	Office equipment US$	Computer equipment US$	Right of use assets US$	Total US$
COST OR VALUATION							
At 1 January 2020	1,301,995	263,108	815,043	181,567	636,777	407,984	3,606,474
Additions	-	-	76,694	40,641	41,735	-	159,070
Disposals	-	(95,648)	(3,161)	-	-	-	(98,809)
Reclassifications	(1)	1	(28,536)	(1,147)	8,273	-	(21,410)
Revaluation surplus	118,035	-	-	-	-	-	118,035
At 31 December 2020	1,420,029	167,461	860,040	221,061	686,785	407,984	3,763,360
At 1 January 2021	1,420,029	167,461	860,040	221,061	686,785	407,984	3,763,360
Additions	-	-	20,591	-	41,735	-	39,081
Reclassifications	-	-	-	958	(958)	-	-
Revaluation surplus	364,954	-	-	-	-	-	364,954
At 31 December 2021	1,784,983	167,461	880,631	221,019	704,317	407,984	4,167,395

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 PROPERTY AND EQUIPMENT (continued)

	Land and Buildings US$	Motor vehicles US$	Office furniture and fittings US$	Office equipment US$	Computer equipment US$	Right of use assets US$	Total US$
ACCUMULATED DEPRECIATION							
At 1 January 2020	-	166,125	610,044	91,765	533,309	81,597	1,482,840
Charge for the year	26,020	37,097	47,919	15,955	130,556	81,600	339,147
Eliminated on disposals	-	(95,648)	(2,783)	-	-	-	(98,431)
Reclassifications	-	(1)	1,531	4,198	(11,948)		(6,220)
Written back on revaluation	(26,020)	-	-	-	-	-	(26,020)
At 31 December 2020	-	107,573	656,711	111,918	651,917	163,197	1,691,316
At 1 January 2021	-	107,573	656,711	111,918	651,917	163,197	1,691,316
Charge for the year	28,401	13,254	49,688	18,163	25,977	81,600	217,083
Reclassifications	-	-	-	2,800	(2,800)		-
Written back on revaluation	(28,401)	-	-	-	-	-	(28,401)
At 31 December 2021	-	120,827	706,399	132,881	675,094	244,797	1,879,998
NET BOOK VALUE							
At 31 December 2021	1,784,983	46,634	174,232	89,138	29,223	163,187	2,287,397
At 31 December 2020	1,420,029	59,888	203,329	109,143	34,868	244,787	2,072,044

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 2021 are as follows:

	2021 US$	2020 US$
Level 1	-	-
Level 2	-	-
Level 3	1,784,983	1,420,029
Fair value at 31 December	1,784,983	1,420,029
	=======	=======

There were no transfers between the levels during the year.

10 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2021	2020
Cost	2,298,478	1,727,494
Accumulated amortisation	(1,195,300)	(992,341)
Net book value	1,103,178	735,153
	=======	=======

Movement analysis: **COST**	**Software licences US$**	**Other software US$**	**Work in Progress US$**	**Total US$**
At 1 January 2020	636,533	339,540	456,236	1,432,309
Additions	-	-	265,874	265,874
Reclassifications	-	29,311	-	29,311
At 31 December 2020	636,533	368,851	722,110	1,727,494
At 1 January 2021	636,533	368,851	722,110	1,727,494
Additions	-	-	570,984	570,984
Capitalization	-	569,753	(569,753)	-
At 31 December 2021	636,533	938,604	723,344	2,298,481
ACCUMULATED AMORTISATION				
At 1 January 2020	626,793	309,779	-	936,572
Charge for the year	4,862	21,596	-	26,458
Reclassifications	-	29,311	-	29,311
At 31 December 2020	631,655	360,686	-	992,341
At 1 January 2021	631,655	360,686	-	992,341
Charge for the year	4,878	198,081	-	202,959
At 31 December 2021	636,533	558,767	-	1,195,300

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 INTANGIBLE ASSETS – COMPUTER SOFTWARE (continued)

Movement analysis:	Software licences US$	Other software US$	Work in Progress US$	Total US$
NET BOOK VALUE				
At 31 December 2021	-	379,837	723,344	1,103,178
	=======	=======	=======	=======
At 31 December 2020	4,878	8,165	722,110	735,153
	=======	=======	=======	=======

All software is amortised over a period of three years.

11 INVESTMENT PROPERTIES

	2021 US$	2020 US$
Fair value of investment properties	50,335,931	50,676,760
	========	=======

Investment properties comprise:

At fair value:	*Zep-Re Place US$	Prosperity House US$	Zambia land US$	Zambia Business Park US$	Mombasa Road Land US$	Harare Property US$	Sudan Property US$	Total US$
At 1 January 2020	10,948,076	5,174,004	199,439	33,000,000	985,524	250,000	-	50,557,043
Additions	131,002	-	-	-	-	-	921,156	1,052,158
Fair value gain/ (loss) on revaluation	(1,152,690)	74,741	-	-	155,508	(10,000)	-	(932,441)
At 31 December 2020	9,926,388	5,248,745	199,439	33,000,000	1,141,032	240,000	921,156	50,676,760
	=======	=======	======	=======	========	======	======	========
At 1 January 2021	9,926,388	5,248,745	199,439	33,000,000	1,141,032	240,000	921,156	50,676,760
Additions	-	22,843		-	12,436	-	83,348	118,627
Fair value (loss)/ gain on revaluation	(275,725)	(57,500)	(199,439)	8,000	79,072	-	(13,864)	(459,456)
At 31 December 2021	9,650,663	5,214,088	-	33,008,000	1,232,540	240,000	990,640	50,335,931
	=======	=======	=======	========	=======	=====	======	========

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 INVESTMENT PROPERTIES (continued)

Investment properties were last valued by Gimco Limited for the Kenya properties, Knight Frank Zambia Limited for the Zambia property, Knight Frank Zimbabwe for the Zimbabwe property and Elshibly Consultants for the Sudan property, registered valuers, at 31 December 2021, 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 or 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 at 31 December 2020 are as follows:

	2021 US$	2020 US$
Level 1	-	-
Level 2	-	-
Level 3	50,335,931	50,676,760
Fair value at 31 December	50,335,931	50,676,760
	=======	========

There were no transfers between the levels during the year.

12 (i) EQUITY INVESTMENTS AT FVOCI

Quoted equity investments

	2021	2020
At 1 January	27,348,265	25,377,958
Additions	2,381,913	9,011,424
Disposals	(1,919,422)	(1,225,308)
Fair value gains/(losses) (Note 25 (i))	331,351	(5,034,549)
Exchange difference on revaluation (Note 25 (i))	(502,375)	(781,260)
At 31 December	27,639,732	27,348,265
	=======	=======

Unquoted equity investments

	2021	2020
At 1 January	753,381	-
Additions	998,276	753,381
Disposals	(228,669)	-
At 31 December	1,522,988	753,381
	=======	=======

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 (i) EQUITY INVESTMENTS AT FVOCI (continued)

Investment in affiliated Companies

	Uganda Reinsurance Corporation	WAICA Reinsurance Corporation	Tanzania Reinsurance Corporation	African Trade Insurance Agency	TDB	Total
	US$	US$	US$	US$	US$	US$
At 1 January 2020	1,637,530	7,207,002	2,429,914	555,191	9,560,049	21,389,686
Additions	589	-	-	-	-	589
Fair value gains (Note 25(iii))	326,534	286,252	152,803	48,716	627,229	1,441,534
At 31 December 2020	1,964,653	7,493,254	2,582,717	603,907	10,187,278	22,831,809
At 1 January 2021	1,964,653	7,493,254	2,582,717	603,907	10,187,278	22,831,809
Reclassification of Affiliate to Associate	(1,964,653)	-	-	-	-	(1,964,653)
Fair value gain (Note 25(iii))	-	718,189	324,168	106,548	603,324	1,752,229
At 31 December 2021	-	8,211,443	2,906,885	710,455	10,790,602	22,619,385
	=======	========	========	=======	========	=======

The investments above are reported at fair value. The investments at 31 December 2021 have been reported at the company's share of the affiliated companies' net assets value based on the affiliates' last audited financial statements. In 2021, Uganda Reinsurance Corporation was reclassified from an affiliate to an associate as the Company had a 21.0% ownership in the associate.

12 (ii) EQUITY INVESTMENTS AT FVTPL

Investment in associate

Equity investments measured at fair value through profit or loss.

	2021	2020
	US$	US$
At 1 January	-	-
Reclassification from affiliate	1,964,653	-
Additions	746	-
Impact of revaluation in the year	870,903	-
Associate share of profit	464,150	-
At 31 December	3,300,452	-
	========	=======

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	2021 US$	2020 US$
Receivables from reinsurance arrangements	43,243,287	42,659,786
Provision for expected credit losses (Note 13 (ii) below)	(10,814,005)	(10,236,722)
Net carrying value	32,429,282	32,423,064

Receivables from reinsurance arrangements are stated net of provision for expected credit losses.

(i) Ageing of receivables arising out of reinsurance arrangements

	2021 US$	2020 US$
0 - 90 days	9,443,328	10,176,716
91-120 days	3,846,201	1,921,901
121-270 days	6,938,368	9,604,227
271 – 360 days	3,442,757	3,252,415
Over 360 days	8,758,628	7,467,805
At 31 December	32,429,282	32,423,064
Average age (days) – gross written premium basis	56	57

(ii) Movement in the provision for expected credit losses

	2021 US$	2020 US$
At 1 January	10,236,722	10,856,939
Charge/(credit) for the year inward debtors (Note 6)	577,283	(624,787)
Written- off during the year as uncollectible	-	4,570
At 31 December	10,814,005	10,236,722

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:

	2021 US$	2020 US$
At 1 January	6,189,747	5,883,243
Increase during the year	1,484,664	306,504
At 31 December	7,674,411	6,189,747
	========	========

15 RETROCESSIONAIRES SHARE OF REINSURANCE LIABILITIES

Retrocessionaires share of :		
- Provision for unearned premiums and unexpired risks (Note 28)	15,545,360	12,552,114
- Notified outstanding claims (Note 27)	8,341,860	9,321,035
- Incurred but not reported (Note 27)	11,108,288	10,024,302
	34,995,508	31,897,451
	=========	=========

16 OTHER RECEIVABLES

Receivable from Retakaful window	1,354,175	1,354,175
Staff receivables	2,965,143	2,965,143
Prepayments	687,220	687,220
Deposits	42,146	42,146
Rent receivable	330,642	330,642
Other receivables	2,649,074	2,649,074
Provision for expected credit losses	(166,043)	(166,043)
	=======	=======
	7,862,357	6,589,413
	========	========

17 DEFERRED ACQUISITION COSTS (DAC)

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

	2021 US$	2020 US$
At 1 January	10,442,816	11,392,067
Decrease during the year	(843,454)	(949,251)
At 31 December	9,599,362	10,442,816
	=========	=========

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 GOVERNMENT SECURITIES

		2021 US$	2020 US$
	Comprised of:		
	Treasury bonds and bills	62,657,729	51,028,514
	Loans and receivables due from Governments	37,466,854	50,906,796
		100,124,583	101,935,310
	Provision for expected credit losses	(1,312,559)	(1,319,425)
		98,812,024	100,615,885
	Maturity profile:		
(i)	Treasury bonds & bills maturing:		
	- Within 6 months	-	32,918
	- In 6 months to 1 year	-	-
	- In 1 to 5 years	14,859,062	19,871,056
	- After 5 years	47,798,667	31,124,540
		62,657,729	51,028,514
(ii)	Loans and receivables due from the Governments maturing:		
	- Within 6 months	10,486,410	459,746
	- In 6 months to 1 year	-	-
	- In 1 to 5 years	20,013,772	42,152,782
	- After 5 years	6,966,672	8,294,268
	At 31 December	37,466,854	50,906,796
	Analysis by currency denomination:		
	Securities in US Dollars	95,577,055	100,979,051
	Securities in Kenya Shillings	4,547,528	956,259
		100,124,583	101,935,310
(iii)	Movement in provision for expected credit losses		
	At 1 January	(1,319,425)	(732,955)
	Credit/(charge) for the year	6,866	(586,470)
	At 31 December	(1,312,559)	(1,319,425)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 OFFSHORE INVESTMENTS

	2021 US$	2020 US$
Wealth fund	3,465,382	3,606,746
Credit Suisse Discretionary Fund	6,807,027	6,611,595
Credit Suisse Floating Rate Bond Fund	15,077,494	15,081,977
	25,349,903	25,300,318
	=========	=========
Movement during the year		
At 1 January	25,300,318	24,954,423
Additions	307,720	413,754
Disposals	(312,203)	(455,842)
Fair value gain (Note 25(i))	54,068	387,983
At 31 December	25,349,903	25,300,318
	=========	=========

20 DEPOSITS WITH FINANCIAL INSTITUTIONS

Analysis by currency denomination:

	2021 US$	2020 US$
Deposits in United States Dollars	107,944,812	97,248,446
Deposits in Kenya Shillings	17,501,773	11,715,774
Deposits in Ethiopian Birr	10,495,860	8,584,026
Deposits in Uganda Shillings	1,543,610	-
Deposits in Malawian Kwacha	175,086	312,761
Deposits in Sudanese Pound	59,601	-
Deposits in Zambian Kwacha	10	-
Deposits in West African Franc	-	4,327,934
	137,720,752	122,188,941
Provision for expected credit losses	(350,572)	(365,108)
	=======	=======
	137,370,180	121,823,833
	==========	==========
<u>Maturity analysis:</u>		
Deposits with financial institutions maturing:		
- Within 3 months of placement	7,261,606	8,500,220
- After 3 months of placement	130,459,146	113,688,721
	==========	==========
	137,720,752	122,188,941
	==========	==========
Movement in provision for expected credit losses		
At 1 January	(365,108)	(332,020)
Credit/ (charge) for the year	14,536	(33,088)
At 31 December	(350,572)	(365,108)
	=======	=======

Deposits with financial institutions have an average maturity of 3 to 12 months (2020: 3 to 12 months).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 CORPORATE BONDS AND LOANS

	2021 US$	2020 US$
Analysis by currency denomination:		
Kenyan Shillings	665,641	438,707
Rwanda Francs	-	-
	665,641	438,707
Provision for expected credit losses	(22,233)	(16,801)
	643,408	421,906
Maturity analysis:		
Corporate bonds and loans maturing:		
- Within 1 year	-	-
- Between 1 to 5 years	643,408	421,906
	643,408	421,906
Movement in provision for expected credit losses		
At 1 January	(16,801)	(11,694)
Charge for the year	(5,432)	(5,107)
At 31 December	(22,233)	(16,801)

22 CASH AND BANK BALANCES

	2021 US$	2020 US$
Analysis by currency denomination:		
West African CFA Franc	5,256,336	640,159
United States Dollars	3,541,944	1,802,539
Burundian Francs	1,032,230	726,234
Zimbabwean Dollar	1,018,718	385,299
Central African XAF Franc	641,218	13,699
Ethiopian Birr	639,955	1,042,635
Kenya Shillings	456,175	168,471
European Euro	126,801	1,067,532
Uganda Shilling	136,401	4,008
Tanzania Shilling	124,295	51,682
Zambian Kwacha	63,017	15,247
Rwandese Francs	60,303	244,538
Sudanese Pound	8,069	767,364
Malawian Kwacha	6,596	619
	13,112,058	6,930,026
Provision for expected credit losses	(36,242)	(59,671)
	13,075,816	6,870,355

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 CASH AND BANK BALANCES (Continued)

	2021 US$	2020 US$
Movement in provision for expected credit losses		
At 1 January	(59,671)	(26,369)
Credit/ (charge) for the year	23,429	(33,302)
At 31 December	(36,242)	(59,671)
	=======	=======

23 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:

	2021 %	2020 %
Government securities		
Securities in Kenya Shillings	9.9	13.1
Securities in United States Dollars	6.8	6.2
	===	===
Deposits with financial institutions		
Deposits in United States Dollars	3.6	4.1
Deposits in Kenya Shillings	7.0	7.3
Deposits in Sudanese Pound	-	8.9
Deposits in Ethiopian Birr	8.8	8.6
Deposits in West African Francs	0.6	0.4
Deposits in Malawian Kwacha	3.7	0.9
Deposits in Zambian Kwacha	0.2	3.6
Deposits in Uganda Shilling	1.0	-
	===	===

24 ISSUED CAPITAL

(i) **Issued capital**	2021 US$	2020 US$
Ordinary shares of US$ 1 each:		
Share capital	58,476,731	57,983,758
Share premium	58,507,819	55,613,910
Paid up capital	116,984,550	113,597,668
	==========	==========

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 ISSUED CAPITAL (Continued)

(ii) Paid up shares	No of shares	Share capital US$	Share premium US$
Year ended 31 December 2020			
Ordinary shares of US$ 1 each:			
At 1 January 2020	57,255,956	57,255,956	51,341,712
Dividends capitalised	727,802	727,802	4,272,198
At 31 December 2020	57,983,758	57,983,758	55,613,910
Year ended 31 December 2021			
At 1 January 2021	57,983,758	57,983,758	55,613,910
Issue of shares	3,470	3,470	20,369
Dividends capitalised	489,503	489,503	2,873,540
At 31 December 2021	58,476,731	58,476,731	58,507,819

	2021	2020
(iii) **Weighted average number of shares (Note 7)**	58,351,648	57,619,856

25 RESERVES

	2021 US$	2020 US$
Investments revaluation reserve (Note 25 (i))	(5,878,033)	(5,505,415)
Property revaluation reserve (Note 25 (ii))	1,182,161	788,806
Investment in affiliated companies revaluation reserve (Note 25 (iii))	10,066,571	9,185,139
	5,370,699	4,468,530

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 RESERVES (continued)

(i) Investments revaluation reserve

	2021 US$	2020 US$
At 1 January	(5,505,415)	(231,713)
Fair value (loss)/gain on revaluation of equity investments	331,351	(5,034,549)
Foreign exchange loss on revaluation of equity investments (Note 12)	(502,375)	(781,260)
Fair value gain on revaluation of offshore investments (Note 19)	54,068	387,983
Fair value gain on government securities	(255,662)	154,124
At 31 December	(5,878,033)	(5,505,415)

The investments revaluation reserve represents accumulated gains and losses arising on the revaluation of financial assets that have been recognised in the other comprehensive income. This reserve is not available for distribution.

The Company reviews the status of the investment portfolio at every financial reporting for expected credit losses. In determining whether an impairment loss should be recognized in profit or loss, the Company checks whether there is evidence that the assets are impaired and that the fair values have declined irreversibly. At 31 December 2021 and 31 December 2020, 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.

(ii) Property revaluation reserve – Buildings

	2021 US$	2020 US$
At 1 January	788,806	644,751
Revaluation surplus (Note 9)	364,954	118,035
Depreciation written back on revaluation (Note 9)	28,401	26,020
Net gain on revaluation of property	393,355	144,055
At 31 December	1,182,161	788,806

The property revaluation reserve arises on the revaluation of buildings that are classified as part of property and equipment- owner occupied. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 RESERVES (continued)

(iii) Investment in affiliated Companies revaluation reserve

This relates to valuation gains or losses in investments in affiliated Companies. In 2021, a net fair value gain of US$ 1,752,229 (2020:US$ 1,441,534) was realized in the year.

	2021 US$	2020 US$
At 1 January	9,185,139	7,743,605
Fair value gain	1,752,229	1,441,534
Reclassification to Associate	(870,797)	-
	10,066,571	9,185,139

26 RETAINED EARNINGS

	2021	2020
Retained earnings	172,485,439	157,587,968
The movement in retained earnings is as follows:		
At 1 January	157,685,720	145,565,224
Dividend declared (Note 33)	(5,000,000)	(5,000,000)
Transfer to development impact fund	(86,302)	(140,000)
Changes on initial reclassification of Affiliate to Associate	870,797	-
Impact of revaluation of Affiliate to Associate	870,903	-
Profit for year	18,144,321	17,260,496
	172,485,439	157,685,720

During the year ended 31 December 2021, the dividend arising out of 2020 profits amounting to US$ 5,000,000 was declared at the Annual General Meeting and paid out as detailed under Note 33.

In respect of 2020, the appropriation to the development impact fund from retained earnings was US$ 86,302 as detailed under Note 32.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 REINSURANCE CONTRACT LIABILITIES

	2021 US$	2020 US$
Reinsurance contracts comprise:		
- claims reported and claims handling expenses	56,546,687	54,238,674
- claims incurred but not reported (IBNR)	44,738,221	39,834,518
Total reinsurance liabilities	101,284,908	94,073,192
	=========	=========

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.

	2021			2020		
	Gross US$	Retrocessions US$	Net US$	Gross US$	Retrocessions US$	Net US$
Outstanding claims	56,546,687	(8,341,860)	48,204,827	54,238,674	(9,321,035)	44,917,639
IBNR	44,738,221	(11,108,288)	33,629,933	39,834,518	(10,024,302)	29,810,216
Total outstanding claims	101,284,908	(19,450,148)	81,834,760	94,073,192	(19,345,537)	74,727,855
	=========	=========	=========	=========	=========	=========

The Company's outstanding claims and IBNR were reviewed by an independent actuary; Actuarial Services (EA) Limited, registered Actuaries at 31 December 2021.

For the current year, the Company's actuaries used a combination of the Chain Ladder and the Bornhuetter Ferguson ("B-F") methods to determine estimated claims. The Chain-Ladder method uses historical claim patterns to determine expected future ultimate claims from each year. The B-F Method uses both estimated loss ratios and claim development patterns to project the ultimate claims. The Chain Ladder was first used to determine initial claims losses with the B-F Method then applied to determine the ultimate claim losses from which the IBNR reserves were estimated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 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 Unearned Premium Reserve ('UPR') was calculated using a time-apportionment basis. A combination of the 8ths method and the 24ths method were applied in computing UPR. The 8ths method was used for Proportional Treaty business where the risk profile is evenly spread over an underwriting quarter, and the 24ths method was used for Facultative business, which assumes that the risk profile of the business is spread evenly over the year. The movement in the reserve is as shown below:

=========	2021			2020		
	Gross US$	Retrocessions US$	Net US$	Gross US$	Retrocessions US$	Net US$
At 1 January	39,517,615	(12,552,114)	26,965,501	42,630,213	(11,720,947)	30,909,266
Movement in the year:						
Unearned premiums	1,134,192	(2,993,246)	(1,859,054)	868,708	(831,167)	37,541
Foreign exchange gain	(2,170,346)	-	(2,170,346)	(3,981,306)	-	(3,981,306)
	(1,036,154)	(2,993,246)	(4,029,400)	(3,112,598)	(831,167)	(3,943,765)
At 31 December	38,481,461	(15,545,360)	22,936,101	39,517,615	(12,552,114)	26,965,501
	========	========	========	=======	========	=======
		(Note 15)			(Note 15)	

29 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:

	2021 US$	2020 US$
Arising from Government grant		
- At 1 January and at 31 December	80,686	80,686
Accumulated amortisation:		
At 1 January	22,007	21,191
Credited to other income for the year	814	816
At 31 December	22,821	22,007
At 31 December	57,865	58,679
	=======	=======

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 (i) PAYABLES ARISING FROM RETROCESSION ARRANGEMENTS

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

	2021 US$	2020 US$
At 1 January	11,291,993	11,594,070
Increase/(decrease) during the year	1,068,657	(302,077)
At 31 December	12,360,650	11,291,993

(ii) PAYABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

This amount represents credit balances in reinsurance balances. The movement in the account is shown below:

	2021 US$	2020 US$
At 1 January	11,970,272	6,754,962
Increase during the year	1,131,164	5,215,310
At 31 December	13,101,436	11,970,272

31 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:

	2021 US$	2020 US$
At 1 January	2,588,541	2,756,449
Increase/(decrease) during the year	575,390	(167,908)
At 31 December	3,163,931	2,588,541

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 (i) OTHER PAYABLES	2021 US$	2020 US$
Rent deposits	293,866	289,597
Other liabilities	8,609,422	7,641,981
Leave pay provision	180,491	191,687
Provision for gratuity	1,635,001	1,385,698
Lease liabilities	264,310	314,229
Development impact fund (Note 32 (ii))	226,302	140,000
	11,209,392	9,963,192
The lease liabilities are split as follows:		
Current	101,533	53,085
Non-current	162,777	261,144
	264,310	314,229
The movement in lease liabilities is as follows:		
At 1 January	314,229	351,128
Interest on lease liabilities	43,500	43,500
Lease payments made in the year	(93,419)	(80,399)
	264,310	314,229
The total cash outflow for lease in the year was:		
Interest on lease liabilities	43,500	43,500
Payments of the principal portion of lease liabilities	49,919	36,899
	93,419	80,399

32 (ii) DEVELOPMENT IMPACT FUND

The movement in the development impact fund is as follows:

	2021 US$	2020 US$
At 1 January	140,000	140,000
Appropriation from retained earnings	86,302	-
At 31 December	226,302	140,000

In respect of the current year, the Directors' propose an appropriation of US$ 90,722 from the retained earnings (2020: US$ 86,302). This appropriation is subject to approval of shareholders at the Annual General Meeting to be held on 31st May 2022 and has therefore not been recognised as a liability in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 DIVIDENDS PAYABLE

	2021 US$	2020 US$
The movement in dividends payable is as follows:		
At 1 January	1,335,020	1,568,873
Final dividend declared	5,000,000	5,000,000
Dividend paid	(1,288,801)	(233,853)
Dividend capitalised	(3,363,043)	(5,000,000)
At 31 December	1,683,176	1,335,020

In respect of the current year, the Directors' propose a dividend of US$ 5,300,000 (2020: US$ 5,000,000). This dividend is subject to approval of shareholders at the Annual General Meeting to be held on 24th June 2022 and has therefore not been recognised as a liability in these financial statements.

34 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:

	2021 US$	2020 US$
Investment properties	11,533	-

35 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. All related parties transactions are carried out on an arms-length basis. The transactions carried out with related parties during the year and the balances due from or due to related parties at year end are disclosed below:

(i) Transactions with related parties	2021 US$	2020 US$
Gross earned premium:		
- Shareholders	22,835,522	21,549,538
Claims paid		
- Shareholders	9,250,327	8,685,283

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 RELATED PARTIES (continued)

		2021 US$	2020 US$
(ii)	Directors' remuneration		
	Directors' fees	181,965	126,300
	Other emoluments paid (per diem)	1,050	-
		183,015	126,300
(iii)	Key management remuneration		
	Salaries and other short-term employment benefits	1,353,971	1,406,923
	Gratuity	332,534	233,679
		1,686,505	1,640,602
(iv)	Outstanding balances with related parties		
	Premiums receivable from related parties	2,902,545	4,411,745
	Staff car and other loans	2,965,143	2,863,258
		5,867,688	7,275,003

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 CASH GENERATED FROM OPERATIONS

		2021 US$	2020 US$
Profit for the year		18,144,321	17,260,496
Adjustments for:			
Loss on disposal of property and equipment		-	28,422
Fair value loss on investment properties	4	459,456	932,441
Associate share of profit		(464,150)	-
Provision for expected credit losses			
Provision for expected credit losses - deposits with financial institutions	20	(14,536)	33,088
Depreciation of property and equipment		135,483	257,547
Depreciation of right of use asset	9	81,600	81,600
Amortisation of intangible assets	10	202,959	26,458
Interest on lease liabilities	32	43,500	43,500
Amortisation of deferred income	29	(814)	(816)
Changes in:			
- Provision for unearned premiums and unexpired risk		(1,036,154)	(3,112,598)
- Reinsurance contract liabilities		7,211,716	(1,268,224)
- Deposits retained by ceding companies		(1,484,664)	(306,504)
- Deposits retained on ceded reinsurance business		(3,971)	(197,190)
- Deferred acquisition costs (DAC)		843,454	949,251
- Receivables arising out of reinsurance arrangements		(6,218)	4,222,763
- Retrocessionaires share of technical liabilities		(3,098,057)	462,821
- Payables arising out of retrocession arrangements		1,068,657	(302,077)
- Deferred retrocession commission revenue (DRR)		575,390	(167,908)
- Payables arising from reinsurance arrangements		1,131,164	5,215,310
- Other receivables		(1,272,944)	(631,297)
- Other payables		1,209,817	(1,361,907)
Net cash generated from operations		23,726,009	22,165,176

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 CASH AND CASH EQUIVALENTS

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

	2021 US$	2020 US$
Cash and bank balances	13,075,816	6,870,355
Deposits with financial institutions maturing within 3 months (Note 20)	7,261,606	8,500,220
	20,337,422	15,370,575

38 OPERATING LEASE COMMITMENTS

Net rental income earned during the year was US$ 525,614 (2020: US$ 641,722). At the end of the reporting period, the Company had contracted with tenants for the following future lease receivables:

	2021 US$	2020 US$
Not later one year	589,970	625,683
Later than 1 year but not later than 5 years	1,512,537	1,766,997
More than 5 years	-	-
	2,102,507	2,392,680

Leases are for a period of six years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 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 applied in the estimation of the ultimate claims liability is the expectation that the Company's past claims experience can be used to project future claims development and hence ultimate claims costs. Actuarial 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.

Measurement of expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgements are also required in applying the accounting requirement for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing the appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL;
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities; and
- Determining the appropriate business models and assessing the "solely payments of principal and interest (SPPI)" requirements for financial assets.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Fair valuation of investment properties and property

The fair value model has been applied in accounting for investment property and property. The Company commissioned external, independent and professionally qualified real estate valuers that hold recognised relevant professional qualification and have recent experience in the locations and types of investment properties valued to determine the fair value of the investment property as at 31 December 2021 and 31 December 2020 on the basis of open market value. The current use of the investment properties equates to the highest and best use.

Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques are used to determine fair values, they are calibrated and periodically reviewed by qualified management personnel independent of the area that created them to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require the directors to make estimates.

Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded securities or other available fair value indicators.

Other areas of judgement

Management exercises critical judgment in determining the classification of debt and equity instruments and considers the substance of the contractual terms of the various instruments.

Management has also made critical judgements in determining its functional currency.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 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 the following classes of business: Property, Casualty, Motor, Marine, Aviation, Medical 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 Company aims to have a diversified portfolio of business with a sufficiently large population of risks, in order to reduce reliance on one geographical area or class of business.

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 endeavoured to achieve this by putting in place reinsurance programmes that provide protection for individual risks and catastrophic events. The Company has subsequently entered into retrocession arrangements with reputable retrocessionaires. The objective is to make sure that the Company is adequately protected against all the liabilities assumed from its business transactions.

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

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

Sources of uncertainty in the estimation of future claim payments

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

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

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from loss adjustors 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)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Reinsurance risk (continued)

At 31 December 2021		Maximum insured loss			Total
Class of business		US$ 0m - US$ 0.25m	US$ 0.25m - US$ 1m	Over US$ 1m	
Property	Gross	78,219,462	240,616,395	44,201,406,078	44,520,241,935
	Net	68,504,857	187,362,410	17,733,329,851	17,989,197,119
Casualty	Gross	36,481,957	206,629,539	4,398,315,666	4,641,427,161
	Net	28,641,500	130,542,653	2,302,411,857	2,461,596,010
Motor	Gross	37,541,313	50,859,798	61,769,163	150,170,274
	Net	35,668,107	45,164,426	47,621,062	128,453,596
Marine	Gross	27,605,219	49,543,544	2,421,106,148	2,498,254,911
	Net	24,894,128	42,488,421	1,299,208,689	1,366,591,237
Aviation	Gross	4,569,099	12,315,600	11,451,418,344	11,468,303,043
	Net	4,298,249	10,725,600	7,127,292,473	7,142,316,322
Life	Gross	4,639,312	2,788,837	120,812,040	128,240,189
	Net	4,408,505	2,788,837	62,104,468	69,301,810
Medical	Gross	1,219,763	1,030,341	549,959,097	552,209,201
	Net	1,219,763	1,030,341	275,281,597	277,531,701
Total	**Gross**	190,276,126	563,784,054	63,204,786,535	63,958,846,714
	Net	**167,635,110**	**420,102,687**	**28,847,249,997**	**29,434,987,794**

At 31 December 2020		Maximum insured loss			Total
Class of business		US$ 0m - US$ 0.25m	US$ 0.25m - US$ 1m	Over US$ 1m	
Property	Gross	93,020,163	357,979,414	8,445,020,672	8,896,020,249
	Net	84,226,986	316,030,519	2,763,953,675	3,164,211,180
Casualty	Gross	54,073,150	177,415,586	1,197,945,688	1,429,434,424
	Net	52,062,840	159,072,026	349,477,409	560,612,275
Motor	Gross	36,518,726	52,960,814	72,918,324	162,397,864
	Net	35,177,958	44,758,952	56,484,526	136,421,436
Marine	Gross	39,617,311	79,481,325	307,288,990	426,387,626
	Net	36,938,669	77,457,023	91,979,309	206,375,001
Aviation	Gross	3,993,974	7,346,588	1,382,940,996	1,394,281,558
	Net	3,993,974	6,496,588	4,135,000	14,625,562
Life	Gross	12,326,236	6,481,888	75,531,674	94,339,798
	Net	12,268,918	5,991,873	20,460,298	38,721,089
Medical	Gross	1,574,240	2,598,423	-	4,172,663
	Net	1,565,945	2,598,423	-	4,164,368
Total	**Gross**	**241,123,800**	**684,264,038**	**11,481,646,344**	**12,407,034,182**
	Net	**226,235,290**	**612,405,404**	**3,286,490,217**	**4,125,130,911**

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Reinsurance risk (continued)

Class	2021 Limit (US$)	2020 Limit (US$)
Fire/Engineering risk & Cat Excess of loss	171,500,000 in excess of 3,500,000	171,500,000 in excess of 3,500,000
Accident and Motor	8,500,000 in excess of 1,500,000	8,500,000 in excess of 1,500,000
Marine & Energy Excess of loss	18,500,000 in excess of 1,500,000	18,500,000 in excess of 1,500,000

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

(ii) Financial risk management

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

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

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

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

(a) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company. The key areas that the Company is exposed to credit risk are:

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

Provision for impairment losses are recognised for debts at the end of reporting period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

(a) Credit risk (continued)

Maximum exposure to credit risk before collateral held:

At 31 December 2021

	US$
Deposits retained by ceding companies	7,674,411
Retrocessionaires share of technical liabilities	34,995,508
Other receivables (excluding prepayments) (Note 16)	7,341,180
Receivables arising out of reinsurance arrangements (Note 13)	43,243,287
Government securities (Note 18)	100,124,583
Offshore investments (Note 19)	25,349,903
Deposits with financial institutions (Note 20)	137,720,752
Corporate bonds and loans (Note 21)	665,641
Bank balances (Note 22)	13,112,058
	370,227,323

31 December 2020

	US$
Deposits retained by ceding companies	6,189,747
Retrocessionaires share of technical liabilities	31,897,451
Other receivables (excluding prepayments) (Note 16)	6,124,071
Receivables arising out of reinsurance arrangements (Note 13)	42,659,786
Government securities (Note 18)	101,935,310
Offshore investments (Note 19)	25,300,318
Deposits with financial institutions (Note 20)	122,188,941
Corporate bonds and loans (Note 21)	438,707
Bank balances (Note 22)	6,930,026
	343,664,357

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

(a) Credit risk (continued)

The following table sets out the expected credit loss analysis for financial assets measured at amortised cost:

	31 December 2021 12-month ECL Shs'000	31 December 2020 12-month ECL Shs'000
Deposits with financial institutions	137,720,752	122,188,941
Loss allowance	(350,572)	(365,108)
Amortised cost	**137,370,180**	**121,823,833**
Government bonds at amortised cost	100,124,583	101,935,310
Loss allowance	(1,312,559)	(1,319,425)
Amortised cost	**98,812,024**	**100,615,885**
Corporate bonds and commercial papers at amortised cost	665,641	438,707
Loss allowance	(22,233)	(16,801)
Amortised cost	**643,408**	**421,906**
Cash and cash equivalents	13,112,058	6,930,026
Loss allowance	(36,242)	(59,671)
Amortised cost	**13,075,816**	**6,870,355**
Receivables arising out of reinsurance arrangements	43,243,287	42,659,786
Loss allowance	(10,814,005)	(10,236,722)
Amortised cost	**32,429,282**	**32,423,064**
Other receivables	7,341,180	6,124,071
Loss allowance	(166,043)	(133,817)
Amortised cost	**7,175,137**	**5,990,254**
Total financial assets	**302,207,501**	**280,276,841**
Total loss allowance	**(12,701,654)**	**(12,131,544)**
Total financial assets at amortised cost	**289,505,847**	**268,145,297**

(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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

(b) Market risks (continued)

Interest rate risk (continued)

At 31 December 2021 if interest rates on government securities had been 10% higher/lower with all other variables held constant, profit for the year would have been USD 686,257 (2020: USD 690,118) lower/higher.

At 31 December 2021 if interest rates on deposits with financial institutions had been 10% higher/lower with all other variables held constant, profit for the year would have been USD 566,372 (2020: USD 512,885) lower/higher.

At 31 December 2021 if interest rates on corporate bonds and loans had been 10% higher/lower with all other variables held constant, profit for the year would have been USD 5,259 (2020: USD 8,790) lower/higher.

Note 23 discloses the weighted average interest rate on principal interest-bearing investments.

Equity price risk

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

The Company has a portfolio of equity investments quoted in Nairobi Stock Exchange (NSE), Uganda Securities Exchange (USE) and Rwanda Stock Exchange (RSE). 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 2021, 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$ 2,211,179 (2020: US$ 2,187,861) higher/lower, and equity would have been US$ 2,211,179 (2020: US$ 2,187,861) 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 2021, 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$ 353,423 higher/lower (2020: US$ 635,170 lower/higher) mainly as a result of Kenya shilling denominated investments, receivables, payables and bank balances. This is not significant as the portion of Kenya shilling denominated net assets constitute 1.2% (2020: 2.3%) of the company's net assets.

At 31 December 2021, if the US dollar had weakened/strengthened by 10% against the Ethiopian Birr with all other variables held constant, the net assets for the year would have been US$ 748,700 (2020: US$ 747,670) higher/lower mainly as a result of Ethiopian Birr denominated deposits, receivables and payables. At 31 December 2021, the Ethiopian Birr denominated net assets constitute 2.5% (2020: 2.7%) of the net assets.

At 31 December 2021, if the US dollar had weakened/strengthened by 10% against the Zambian Kwacha (ZMW) with all other variables held constant, the net assets would have been US$ 144,749 (2020: US$ 532,561) higher/lower, mainly as a result of Zambian Kwacha denominated investments, receivables and payables. At 31 December 2021, the Zambian Kwacha denominated net assets constitute 0.5% (2020: 1.9%) of the net assets.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

(b) *Market risks (continued)*

Currency risk (continued)

At 31 December 2021	US$	NPR	KES	SDG	UGX	TZS	RWF	ETB	ZMW	Others	Total
Assets											
Investment properties	50,335,931	-	-	-	-	-	-	-	-	-	50,335,931
Quoted equity investments	13,445,721	-	14,194,011	-	-	-	-	-	-	-	27,639,732
Unquoted equity investments	1,522,988	-	-	-	-	-	-	-	-	-	1,522,988
Investment in Affiliated companies	19,712,500	-	-	-	-	2,906,885	-	-	-	-	22,619,385
Investment in Associate companies	-	-	-	-	3,300,452	-	-	-	-	-	3,300,452
Receivables arising out of reinsurance arrangements	7,951,196	621,903	5,510,225	465,474	1,541,644	2,170,912	1,588,148	2,807,969	918,721	8,853,090	32,429,282
Retrocessionaires share of technical liabilities	34,995,508	-	-	-	-	-	-	-	-	-	34,995,508
Deposits retained by ceding companies	412,963	15,947	175,190	-	-	3,094	316,900	(31,139)	-	6,781,456	7,674,411
Deferred acquisition costs	2,853,360	31,585	3,626,758	123,207	472,641	481,716	307,259	406,878	181,752	1,114,206	9,599,362
Government securities	94,264,496	-	4,547,528	-	-	-	-	-	-	-	98,812,024
Offshore investments	25,349,903	-	-	-	-	-	-	-	-	-	25,349,903
Deposits with financial institutions	107,594,240	-	17,501,773	59,601	1,543,610	-	-	10,495,860	10	175,086	137,370,180
Corporate Bonds and Loans	-	-	643,408	-	-	-	-	-	-	-	643,408
Cash and bank balances	3,497,610	-	456,175	8,069	136,401	124,295	60,303	639,955	63,017	8,089,991	13,075,816
Total	361,936,416	669,435	46,655,068	656,351	6,994,748	5,686,902	2,272,610	14,319,523	1,163,500	25,013,829	465,368,382
Liabilities											
Reinsurance contract liabilities	26,838,705	4,909,197	26,345,380	647,840	4,895,974	5,466,337	2,125,620	5,718,171	1,818,917	22,518,767	101,284,908
Payables arising from retrocession arrangements	5,288,199	105,405	1,936,948	3,192	467,715	331,142	122,008	24,042	42,724	4,039,275	12,360,650
Payables arising from reinsurance arrangements	5,605,129	111,722	2,053,031	3,383	495,746	350,987	129,320	25,483	45,284	4,281,351	13,101,436
Deposits retained on ceded reinsurance business	437,807	-	-	-	-	-	-	-	-	-	437,807
Unearned premium reserves	15,732,569	110,479	12,785,482	342,850	1,670,064	1,636,307	1,027,239	1,064,826	704,060	3,407,585	38,481,461
Deferred Retrocession Revenue	3,163,931	-	-	-	-	-	-	-	-	-	3,163,931
Total	57,066,340	5,236,803	43,120,841	997,265	7,529,499	7,784,773	3,404,187	6,832,522	2,610,985	34,246,978	168,830,193
Net financial position exposure	304,870,076	(4,567,368)	3,534,227	(340,914)	(534,751)	(2,097,871)	(1,131,577)	7,487,001	(1,447,485)	(9,233,149)	296,538,189
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

(b) Market risks (continued)

Currency risk (continued)

At 31 December 2020	US$	NPR	KES	SDG	UGX	TZS	RWF	ETB	ZMW	Others	Total
Assets											
Investment properties	50,676,760	-	-	-	-	-	-	-	-	-	50,676,760
Quoted equity investments	14,152,660	-	13,195,605	-	-	-	-	-	-	-	27,348,265
Unquoted equity investments	753,381	-	-	-	-	-	-	-	-	-	753,381
Investment in Affiliated companies	18,284,439	-	-	-	1,964,653	2,582,717	-	-	-	-	22,831,809
Receivables arising out of reinsurance arrangements	7,462,465	956,302	5,467,498	1,240,582	1,381,286	1,790,748	988,971	3,078,078	829,412	9,227,722	32,423,064
Retrocessionaires share of technical liabilities	31,897,451	-	-	-	-	-	-	-	-	-	31,897,451
Deposits retained by ceding companies	333,072	12,862	141,298	-	-	2,496	255,594	(25,115)	-	5,469,540	6,189,747
Deferred acquisition costs	2,151,574	100,463	3,649,618	888,118	543,744	518,500	326,061	468,565	656,044	1,140,129	10,442,816
Government securities	99,659,626	-	956,259	-	-	-	-	-	-	-	100,615,885
Offshore investments	25,300,318	-	-	-	-	-	-	-	-	-	25,300,318
Deposits with financial institutions	96,883,338	-	11,715,774	-	-	-	-	8,584,026	-	4,640,695	121,823,833
Corporate Bonds and Loans	438,707	-	(16,801)	-	-	-	-	-	-	-	421,906
Cash and bank balances	1,732,478	-	168,471	767,364	4,008	51,682	244,538	1,042,635	15,247	2,843,932	6,870,355
Total	349,726,269	1,069,627	35,277,722	2,896,064	3,893,691	4,946,143	1,815,164	13,148,189	1,500,703	23,322,018	437,595,590
Liabilities											
Reinsurance contract liabilities	18,978,963	5,062,178	26,033,422	2,196,667	4,403,782	5,711,804	1,426,655	4,441,597	2,052,835	23,765,289	94,073,192
Payables arising from retrocession arrangements	3,460,390	211,062	1,543,248	70,594	335,531	260,230	65,129	12,424	821,569	4,511,816	11,291,993
Payables arising from reinsurance arrangements	3,668,246	223,740	1,635,947	74,834	355,686	275,862	69,041	13,170	870,918	4,782,828	11,970,272
Deposits retained on ceded reinsurance business	441,778	-	-	-	-	-	-	-	-	-	441,778
Unearned premium reserves	11,458,775	351,958	12,416,802	2,375,199	1,847,571	1,679,618	1,109,662	1,204,303	3,080,989	3,992,738	39,517,615
Deferred Retrocession Revenue	2,588,541	-	-	-	-	-	-	-	-	-	2,588,541
Total	40,596,693	5,848,938	41,629,419	4,717,294	6,942,570	7,927,514	2,670,487	5,671,494	6,826,311	37,052,671	159,883,391
Net financial position exposure	309,129,576	(4,779,311)	(6,351,697)	(1,821,230)	(3,048,879)	(2,981,371)	(855,323)	7,476,695	(5,325,608)	(13,730,653)	277,712,199

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

(c) Liquidity risk

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

The table below shows the contractual timing of cash flows arising from assets and liabilities included in the Company's ALM framework for management of reinsurance contracts as of 31 December 2021:

	Total Amount 2021	No stated maturity	Contractual cash flows (undiscounted) 0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs
Financial assets:								
Receivables arising out of reinsurance arrangements	32,429,282	-	32,429,282	-	-	-	-	-
Deposits retained by ceding companies	7,674,411	-	7,674,411	-	-	-	-	-
Notified outstanding claims (Note 15)	8,341,860	-	8,341,860	-	-	-	-	-
Government securities	101,637,667	1,916,961	10,486,410	-	26,803,827	8,883,307	-	53,547,162
Deposits with financial institutions	137,720,752	5,353,360	121,925,925	9,228,770	-	-	-	1,212,697
Corporate bonds and loans	643,408	-	-	-	643,408	-	-	-
Cash and bank balances	13,075,816	-	13,075,816	-	-	-	-	-
Total	301,523,196	7,270,321	193,933,704	9,228,770	27,447,235	8,883,307	-	54,759,859
Reinsurance liabilities:								
Outstanding Claims (Note 27)	56,546,687	-	56,546,687	-	-	-	-	-
Payables arising from retrocession arrangements	12,360,650	-	12,360,650	-	-	-	-	-
Payables arising from reinsurance arrangements	13,101,436	-	13,101,436	-	-	-	-	-
Deposits retained on ceded reinsurance business	437,807	-	437,807	-	-	-	-	-
Other payables	10,945,082	226,302	9,083,779	-	1,635,001	-	-	-
Dividends payable	1,683,176	-	1,683,176	-	-	-	-	-
Total	95,074,838	-	93,213,535	-	1,635,001	-	-	-
Net liquidity surplus	**206,448,358**	**7,270,321**	**100,720,169**	**9,228,770**	**25,812,234**	**8,883,307**	**-**	**54,759,859**
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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 2020:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

(c) Liquidity risk (continued)

	Total Amount	No stated	Contractual cash flows (undiscounted)					
	2020	**maturity**	**0-1 yr**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**> 5 yrs**
Financial assets:								
Receivables arising out of reinsurance arrangements	32,423,064	-	32,423,064	-	-	-	-	-
Deposits retained by ceding companies	6,189,747	-	6,189,747	-	-	-	-	-
Notified outstanding claims (Note 15)	9,321,035	-	9,321,035	-	-	-	-	-
Deferred acquisition costs	105,969,083	2,185,046	492,664	19,668,993	4,972,781	27,019,162	11,421,488	40,208,949
Government securities	122,188,941	3,673,252	118,515,689	-	-		-	-
Deposits with financial institutions	421,906	-	-	-	-	421,906	-	-
Corporate bonds and loans	6,870,355	-	6,870,355	-	-	-	-	-
Cash and bank balances	32,423,064	-	32,423,064	-	-	-	-	-
Total	283,384,131	5,858,298	173,812,554	19,668,993	4,972,781	27,441,068	11,421,488	40,208,949
Reinsurance liabilities:								
Outstanding Claims (Note 27)	54,238,674	-	54,238,674	-	-	-	-	-
Payables arising from retrocession arrangements	11,291,993	-	11,291,993	-	-	-	-	-
Payables arising from reinsurance arrangements	11,970,272	-	11,970,272	-	-	-	-	-
Deposits retained on ceded reinsurance business	441,778	-	441,778	-	-	-	-	-
Other Payables	9,648,963	140,000	8,123,265	-	1,385,698	-	-	-
Dividends payable	1,335,020	-	1,335,020	-	-	-	-	-
Total	88,926,700	140,000	87,401,002	-	1,385,698	-	-	-
Net liquidity surplus	**194,457,431**	**5,718,298**	**86,411,552**	**19,668,993**	**3,587,083**	**27,441,068**	**11,421,488**	**40,208,949**
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Fair value of financial assets and liabilities

(1) Financial instruments not measured at fair value

The fair value of investment securities held at amortised cost as at 31 December 2021 is estimated at US$ 101,035,334 (2020: US$ 105,071,566) compared to their carrying value of US$ 99,455,434 (2020: US$ 101,037,792). The fair values of the Company's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above.

(2) 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 Company's 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 technique(s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	2021	2020				
	US$	US$				
Quoted equity investments	27,639,732	28,101,646	Level 1	Quoted bid prices in an active market	N/A	N/A
Offshore investments	25,349,904	25,300,318	Level 1	Quoted bid prices in an active market	N/A	N/A
Investment in affiliated companies	22,619,385	22,831,809	Level 3	Net Asset value	N/A	N/A

There were no transfers between the levels during the period (2020: nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Fair value of financial assets and liabilities (continued)

(2) *Fair value hierarchy(continued)*

At 31 December 2021	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Financial assets:				
Quoted equity investments	27,639,732	-	-	27,639,732
Offshore investments	25,349,904	-	-	25,349,904
Investment in affiliated companies	-	-	22,619,385	22,619,385
Investment in associate	-	-	3,300,452	3,300,452
Total	52,989,636	-	25,919,837	78,909,472

At 31 December 2020 Financial assets:	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Quoted equity investments	28,101,646	-	-	28,101,646
Offshore investments	25,300,318	-	-	25,300,318
Investment in affiliated companies	-	-	22,831,809	22,831,809
Total	53,401,964	-	22,831,809	76,233,773

(iv) Financial assets by category

At 31 December 2021	Amortised cost US$	Fair value through other comprehensive income US$	Total US$
Quoted equity investments	-	27,639,732	27,639,732
Unquoted equity investments	-	1,522,988	1,522,988
Investment in affiliated companies	-	22,619,385	22,619,385
Investment in associate	-	3,300,452	3,300,452
Receivables arising out of reinsurance arrangements	32,429,282	-	32,429,282
Deposits retained by ceding companies	7,674,411	-	7,674,411
Other receivables	7,862,357	-	7,862,357
Government securities	99,739,237	1,898,430	101,637,667
Offshore investments	-	25,349,904	25,349,903
Deposits with financial institutions	137,370,180	-	137,370,180
Corporate bonds and loans	643,408	-	643,408
Cash and bank balances	13,075,816	-	13,075,816
Total assets	298,794,691	82,330,890	381,125,581

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Financial assets by category (continued)

At 31 December 2020	Amortised cost US$	Fair value through other comprehensive income US$	Total US$
Quoted equity investments	-	27,348,265	27,348,265
Unquoted equity investments	-	753,381	753,381
Investment in affiliated companies	-	22,831,809	22,831,809
Receivables arising out of reinsurance arrangements	32,423,064	-	32,423,064
Deposits retained by ceding companies	6,189,747	-	6,189,747
Other receivables	6,589,413	-	6,589,413
Government securities	103,814,990	2,154,093	105,969,083
Offshore investments	-	25,300,318	25,300,318
Deposits with financial institutions	121,823,833	-	121,823,833
Corporate bonds and loans	421,906	-	421,906
Cash and bank balances	6,870,355	-	6,870,355
Total assets	278,133,308	78,387,866	356,521,174

41 CAPITAL MANAGEMENT

The Company is not subject to any externally imposed capital requirements. However, the Company continues 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 capital management remains within the company's set appetite, as defined in the capital management framework, and hence its risk-adjusted capital position continues to reflect the "strongest' category as defined by A.M. Best. The objective of the framework is to ensure that the company's risk-adjusted capital position remains at a sufficiently strong level.

The Company's objectives in managing its capital are:

» to match the profile of its assets and liabilities, taking account of the risks inherent in the business;

» to maintain financial strength to support new business growth;

» to satisfy the requirements of its reinsured and rating agencies;

» to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;

» to allocate capital efficiently to support growth;

» to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

» to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 CAPITAL MANAGEMENT (Continued)

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

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

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

	2021 US$	2020 US$
Share capital	58,476,731	57,983,758
Share premium	58,507,819	55,613,910
Property revaluation reserve	1,182,161	788,806
Investments revaluation reserve	(5,878,033)	(5,505,415)
Investment in affiliated companies revaluation reserve	10,066,571	9,185,139
Retained earnings	172,485,439	157,685,720
	294,840,688	275,751,918

REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2021

APPENDIX I

Class of insurance Business	Property US$	Casualty US$	Motor US$	Marine US$	Aviation US$	Life US$	Medical US$	Total US$
Gross premiums written	91,870,094	45,625,148	10,950,009	11,676,902	13,969,653	20,102,052	18,818,817	213,012,675
Less: retrocession premiums	(39,449,662)	(16,678,393)	(661,211)	(4,773,667)	(13,163,773)	(3,970,447)	(1,840)	(78,698,993)
Net premiums written	**52,420,432**	**28,946,755**	**10,288,798**	**6,903,235**	**805,880**	**16,131,605**	**18,816,977**	**134,313,682**
Change in UPR	1,457,949	260,317	247,057	93,084	46,704	969,859	954,430	4,029,400
Exchange gains on revaluation of UPR	(1,169,356)	(89,657)	(95,545)	(134,679)	(1,161)	(74,215)	(605,733)	(2,170,346)
Net earned premiums	**52,709,025**	**29,117,415**	**10,440,310**	**6,861,640**	**851,423**	**17,027,249**	**19,165,674**	**136,172,736**
Gross claims paid	26,806,133	16,233,414	7,312,064	2,794,706	169,965	12,485,191	13,268,554	79,070,027
Change in gross outstanding claims	2,618,345	4,728,118	(110,284)	(1,354,669)	(15,498)	1,519,434	(173,730)	7,211,716
Exchange gains on revaluation of outstanding claims	1,671,508	798,137	1,076,961	383,323	292	75,994	649,979	4,656,194
Less: amounts recoverable from retrocessionaires	(5,751,397)	(4,354,525)	(399,818)	1,306,383	6,725	(1,489,529)	(203,902)	(10,886,063)
Net claims incurred	**25,344,589**	**17,405,144**	**7,878,923**	**3,129,743**	**161,484**	**12,591,090**	**13,540,901**	**80,051,874**
Commissions earned	(5,608,370)	(3,429,510)	(52,405)	(515,551)	(1,168,373)	(931,437)	(456)	(11,706,102)
Commissions expense	24,919,696	10,993,341	1,119,004	2,972,714	1,086,750	5,229,695	4,619,926	50,941,126
Charges and taxes	861,454	276,506	86,413	86,602	25,323	345,084	455,453	2,136,835
Expenses of management	4,791,067	2,379,370	571,048	608,955	728,523	1,048,331	981,409	11,108,703
Total expenses and commissions	**24,963,847**	**10,219,707**	**1,724,060**	**3,152,720**	**672,223**	**5,691,673**	**6,056,332**	**52,480,562**
Underwriting profit/(loss)	**2,400,589**	**1,492,564**	**837,327**	**579,177**	**17,716**	**(1,255,514)**	**(431,559)**	**3,640,300**
Key ratios:								
Loss ratio *(net claims incurred/net earned premium)*	48.1	59.8	75.5	45.6	19.0	73.9	70.7	58.8
Commissions ratio *(net commissions /net earned premium)*	36.6	26.0	10.2	35.8	(9.6)	25.2	24.1	28.8
Expense ratio *(management expenses/net earned premium)*	9.1	8.2	5.5	8.9	85.6	6.2	5.1	8.2
Combined ratio (underwriting outgo/net earned premium)	95.4	94.9	92.0	91.6	97.9	107.4	102.3	97.3
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REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2020

APPENDIX II

Class of insurance Business	Property US$	Casualty US$	Motor US$	Marine US$	Aviation US$	Life US$	Medical US$	Total US$
Gross premiums written	94,001,138	42,402,479	12,473,098	10,369,720	9,529,451	15,867,809	23,515,955	208,159,650
Less: retrocession premiums	(37,353,414)	(15,396,116)	(817,077)	(2,798,352)	(8,859,912)	(2,897,662)	(928,643)	(69,051,176)
Net premiums written	**56,647,724**	**27,006,363**	**11,656,021**	**7,571,368**	**669,539**	**12,970,147**	**22,587,312**	**139,108,474**
Change in UPR	1,217,330	1,947,793	(447,126)	(48,498)	(86,473)	389,359	971,380	3,943,765
Exchange gains on revaluation of UPR	(1,094,914)	(2,104,336)	(89,392)	(86,377)	(1,167)	(215,830)	(389,290)	(3,981,306)
Net earned premiums	**56,770,140**	**26,849,820**	**11,119,503**	**7,436,493**	**581,899**	**13,143,676**	**23,169,402**	**139,070,933**
Gross claims paid	41,818,427	25,842,965	8,499,244	3,274,355	137,549	6,573,474	17,652,840	103,798,854
Change in gross outstanding claims	805,644	(1,330,633)	(3,032,440)	(977,035)	69,967	665,690	2,530,583	(1,268,224)
Exchange gains on revaluation of outstanding claims	1,621,556	1,159,690	1,815,973	489,415	854	90,285	207,980	5,385,753
Less: amounts recoverable from retrocessionaires	(8,489,906)	(7,531,006)	(272,791)	92,029	(20,866)	(521,443)	(1,080,775)	(17,824,758)
Net claims incurred	**35,755,721**	**18,141,016**	**7,009,986**	**2,878,764**	**187,504**	**6,808,006**	**19,310,628**	**90,091,625**
Commissions earned	(7,947,788)	(3,757,531)	(123,534)	(454,343)	(594,169)	(716,885)	(231,799)	(13,826,049)
Commissions expense	25,884,122	11,767,548	1,050,077	2,883,754	590,587	4,537,149	5,431,835	52,145,072
Charges and taxes	772,387	271,921	119,010	140,940	41,960	80,406	483,844	1,910,468
Expenses of management	3,717,412	1,676,866	493,267	410,086	376,856	627,515	929,972	8,231,974
Total expenses and commissions	**22,426,133**	**9,958,804**	**1,538,820**	**2,980,437**	**415,234**	**4,528,185**	**6,613,852**	**48,461,465**
Underwriting profit/(loss)	**(1,411,714)**	**(1,250,000)**	**2,570,697**	**1,577,292**	**(20,839)**	**1,807,485**	**(2,755,078)**	**517,843**
Key ratios:								
Loss ratio *(net claims incurred/net earned premium)*	63.0	67.6	63.0	38.7	32.2	51.8	83.3	64.8
Commissions ratio *(net commissions /net earned premium)*	31.6	29.8	8.3	32.7	(0.6)	29.1	22.4	27.6
Expense ratio *(management expenses/net earned premium)*	6.5	6.2	4.4	5.5	64.8	4.8	4.0	5.9
Combined ratio (underwriting outgo/net earned premium)	102.5	104.7	76.9	78.8	103.6	86.2	111.9	99.6
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SCHEDULE OF MEMBERSHIP

APPENDIX III

Class	Shareholder	2021 Shareholding		2020 Shareholding	
		US$	%	US$	%
CLASS A	Kenya Reinsurance Corporation Ltd	11,916,140	20.40	11,101,187	19.15
	TDB	10,982,923	18.78	10,914,426	18.82
	Government of Rwanda	3,773,073	6.45	3,726,301	6.43
	PSSSF	2,443,318	4.18	2,428,080	4.19
	Government of Sudan	2,315,114	3.96	2,286,416	3.94
	National Insurance Corporation (T) Ltd	2,044,193	3.50	2,031,444	3.50
	Government of Djibouti	1,772,303	3.03	1,760,940	3.04
	Government of Zambia	1,537,741	2.63	1,528,151	2.64
	ZSIC – Pension Trust	1,476,864	2.53	1,467,654	2.53
	NICE	1,497,521	2.56	1,488,181	2.57
	Government of Kenya	501,816	0.86	498,687	0.86
	Sheikan Ins. & Reins. Ltd	428,277	0.73	425,606	0.73
	SOCABU	416,994	0.71	414,394	0.71
	COMESA Secretariat	386,030	0.66	381,246	0.66
	EMOSE	378,654	0.65	376,293	0.65
	Industrial Development Corporation - Zambia	333,355	0.57	327,187.00	0.56
	Government of Mauritius	266,145	0.46	264,486	0.46
	ZSIC Life	267,315	0.46	265,648.00	0.46
	CMAR (NY Havana)	249,925	0.43	248,367	0.43
	Société Nationaled'Assurances (SA)	178,952	0.31	177,836	0.31
	ZIC	116,017	0.23	131,873	0.23
	Mayfair Insurance Company Ltd	72,877	0.12	745,343	1.29
CLASS B	SORAS	526,534	0.90	523,251	0.90
	United Insurance Company Ltd	524,141	0.90	517,645	0.89
	Amerga	621,777	1.06	614,687	1.06
	Baobab Reinsurance Company Ltd	497,719	0.85	494,615	0.85
	Juba Insurance Company Ltd	425,975	0.73	420,695	0.73
	Blue Shield Insurance Company Ltd	380,072	0.65	377,702	0.65
	GXA	271,319	0.46	269,627	0.46
	Assurances BICOR	249,039	0.43	247,486	0.43
	Statewide Insurance Company Ltd	236,183	0.40	233,257	0.40
	SONARWA	147,077	0.25	146,160	0.25
	National Insurance Corporation (U) Ltd	135,910	0.23	129,288	0.22
	Apollo Insurance Company Ltd	127,369	0.22	126,575	0.22
	Sanlam General Insurance Uganda Ltd	116,017	0.20	115,294	0.20
CLASS C	African Development Bank	7,415,934	12.68	7,369,683	12.71
	DEG	3,429,435	5.86	3,408,047	5.88
	TOTAL	**58,476,731**	**100**	**57,983,758**	**100**

Key:

SOCABU	=	Sociétéd'Assurances du Burundi
EMOSE	=	EmpresaMocambicana de Seguros
SONARWA	=	Société Nouvelle d'Assurances du Rwanda
SORAS	=	SociétéRwandaised'Assurances
ZIC	=	Zanzibar Insurance Corporation
PSSSF	=	Public Service Social Security Fund
ZSIC	=	Zambia State Insurance Corporation
TDB	=	The Eastern and Southern African Trade Development Bank
CMAR (NY Havana)	=	CompagnieMalgached'Assurances et Reassurances (NY Havana)
NICE	=	National Insurance Corporation of Eritrea (Share) Company
COMESA	=	Common Market for Eastern and Southern Africa
DEG	=	Deutsche Investitions- und EntwicklungsgesellschaftmbH

CREDIT RATING CERTIFICATE

AM BEST

certifies that

ZEP-RE (PTA Reinsurance Company)

AM Best Number: 78388

has a

BEST'S FINANCIAL STRENGTH RATING

of

B++ (Good)

Effective Date: October 14, 2021

President & CEO, AM Best Rating Services

Chief Rating Officer, AM Best Rating Services

Best's Credit Ratings are subject to change. To confirm the latest rating or to learn more about Best's Credit Ratings, visit www.ambest.com.

APPENDIX IV

CREDIT RATING CERTIFICATE

GCR RATINGS

Certifies that

ZEP-Re (PTA Reinsurance Company)

Has a

Financial Strength Rating of

National Scale: **AAA(KE) / Outlook: Stable**

29-Nov-21

DATE

Group Head of Ratings

GCR's ratings are subject to change.
To confirm the latest rating or to learn more about GCR, visit www.GCRratings.com

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