

ZEP-RE (PTA REINSURANCE COMPANY)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

ZEP-RE (PTA Reinsurance Company)
Annual Report and Financial Statements
For the year ended 31 December 2017

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ZEP-RE (PTA Reinsurance Company)
Corporate information
For the year ended 31 December 2017

Board of Directors

Mr. William Erio - Chairman
Ms. Agito Amela Carole - Vice Chairperson
Ms. Hope Murera - Managing Director
Mr. Aden Saleh Omar
Mr. Caleb Rwamuganza
Mr. George Silutongwe
Mr. Jan Gross
Mr. Jadhah Mwarania
Mr. Mohammed Mousa Idris
Mr. Novat Niyungeko
Mr. Tadesse Admassu
Mr. Yaw Kuffour

Alternate Directors

Mr. Daher Wasarma
Ms. Jacqueline Njui
Ms. Joy Uwinema Ntare
Mr. Miruho Ntale Alexandre
Mr. Mohammed Abdin Babiker
Mr. Peter Lukwesa
Ms. Rehema Namutebi
Mr. Simarjit Singh Sra
Ms. Trinitas Girukwishaka
Ms. Verdiana Nkwabi Macha

Management

Ms. Hope Murera - Managing Director
Mr. Benjamin Kamanga - Finance Director
Mr. Ronald Kasapatu - Operations Director
Mr. Bernard Katambala - Regional Director, Eastern Africa Hub
Mr. Jephitha Gwatipedza - Regional Director, Southern Africa Hub
Mr. Thierry Ravoaja - Regional Director, West African Hub
Mr. Alexio Manyonde - Chief Information Officer
Ms. Deniese Imoukhuede - Chief Risk Officer
Mr. Hatim Mudawi - Head of Retakaful Window
Mr. Jerry Sogoli - Company Secretary
Mr. Joseph Nabimanya - HR & Administration Manager
Mr. Kenneth Oballa - Training Manager
Ms. Miriam Magala - Head of Legal & Regulatory Affairs
Mr. Nicholas Malombe - Head of Life & Health Business
Mr. Reuben Koech - Head of Investments
Mr. Sammy Silamoi - Chief Accountant
Mr. Shipango Muteto - Head, Business Relations & Country Manager, Zambia

Head Office

Nairobi, Kenya
ZEP-RE Place, 8th Floor
Longonot Road, Upper Hill
P. O. Box 42769 – 00100
Nairobi, Kenya
Telephone: +254 20 2738221/4973000
Email: mail@zep-re.com
Website: www.zep-re.com

Regional Hubs

Abidjan, Ivory Coast
Cocody Canebière,
Cocody, Abidjan
08 BP 3791 Abidjan 08
Tel: +225 22 40 27 85

Regional Hubs (continued)

Harare, Zimbabwe
Joina City, 16th Floor -North Wing
Cnr Jason Moyo and Inez Terrace
Harare, Zimbabwe
Telephone +263 4 777 929/932

Country Offices

Douala, Cameroon
Immeuble SCI NESCO
Face ancienne Boulangerie Chococho Bonapriso
BP 1172, Douala - Cameroon
Tel: + 237 233 42 07 67
+ 237 233 42 04 52

Khartoum, Sudan
Reinsurance House Building
P. O. Box 3224
Khartoum, Sudan
Telephone: +249 183 799357/8

Lusaka, Zambia
No. 54, Plot No. 356184,
Base Park (Diamond Park), Alick Nkhata Road
P. O. Box 36966
Lusaka, Zambia
Telephone: +260 211 252586

Addis Ababa, Ethiopia
UNDP Regional Services Building, Ground Floor,
Near Bole Olympia Roundabout,
P. O. Box 873 - 1110
Telephone: +251 911 977970/+ 251 73049409

Kampala, Uganda
Lourdel Towers, 5th Floor,
Plot 1 Lourdel Road, Nakasero
Telephone: +256 782312143

Auditors

PricewaterhouseCoopers
Certified Public Accountants (Kenya)
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P.O. Box 43963 - 00100
Nairobi, Kenya

Bankers

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

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

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

Bankers (continued)

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

Stanbic Bank Uganda Limited
Crested Towers, Plot 17 Hannington Road,
P.O. Box 7131
Kampala, Uganda

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

Commercial Bank of Ethiopia
P.O. Box 255
Addis Ababa, Ethiopia

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

Stanbic Bank Zimbabwe Limited
Parklane Branch
Harare, Zimbabwe

1. **Mr. William Erio**

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

2. **Ms. Agito Amela Carole**

Ms. Agito Amela Carole is the Vice Chairperson of ZEP-RE and has served on the Board of ZEP-RE since 2016. She is the Managing Director of SONAS, the state-owned national insurance company in the Democratic Republic of Congo.

3. **Ms. Hope Murera**

Ms. Hope Murera is the Managing Director of ZEP-RE and has previously served as General Manager of ZEP-RE. Ms. Murera holds a Bachelor of Laws degree from Makerere University in Uganda, an MBA from IMD International, Lausanne, Switzerland and has over 20 years working experience in the insurance and reinsurance industry. Ms. Murera currently holds a Directorship with Uganda Reinsurance Company Limited.

4. **Mr. Aden Saleh Omar**

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

5. **Mr. Caleb Rwamuganza**

Mr. Caleb Rwamuganza is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2014. He is currently the Permanent Secretary in the Ministry of Finance and Economic Planning. Caleb has served in Public Finance Management for more than 15 years in various technical and senior management positions culminating in him appointed as the Permanent Secretary in the Ministry of Finance. Caleb has participated in both a supporting and leading role raising funds for Government of Rwanda projects such as Rwandair, Bank of Kigali's IPO and Rwanda's debut Euro Bond amongst others. Mr. Rwamuganza holds a Bachelor of Business Administration (Accounting) degree from Nkumba University-Uganda and a Master of Art degree in Corporate Finance and Management from Southampton Solent University, UK. He previously served as non-Executive Director of Bank of Kigali and is currently a Director of Rwandair Ltd.

6. **Mr. George Silutongwe**

Mr. George Silutongwe is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2013. He was until April 2017 the Group Managing Director of ZSIC Group Ltd. in Zambia. Mr Silutongwe has served in the Insurance Industry for more than 30 years in various technical and executive posts including those of Managing Director, Professional Life Assurance (PLA) Ltd, and Professional Insurance Corporation Zambia Ltd (PICZ). Mr Silutongwe is an Associate of the Chartered Insurance Institute (ACII), a Chartered Insurer, a fellow of the Insurance Institute of Zambia(FIIZA) and holds an MBA from the University of Lincoln, UK. He currently holds Directorships on the Boards of the IDC subsidiary Mulungushi International Conference Centre Ltd (MICCL), The Zambia College of Pensions & Insurance Trust(ZCPIT), and IZWE Loans Zambia Ltd.

7. **Mr. Mohammed Mousa Idris**

Mr. Mohammed Mousa Idris is a non-Executive Director who was elected to the Board of ZEP-RE in 2012. Mr. Idris is currently the General Manager of the Insurance Supervisory Authority of Sudan. Mr. Idris holds a Bachelor of Science degree from Cairo University and a postgraduate diploma in Zakat and Islamic finance from Omdurman University. He has extensive work experience in insurance business within and outside Sudan and in insurance regulation. Mr. Mousa is a member of the National Committee for anti-money laundering (AML) and counter terrorism financing (CFT), a Member of the Supreme Sharia Board of the Insurance Supervisory Authority, a Director at the Economic and Financial Studies Academy of Sudan and a Director of the National Health Insurance Fund.

8. Mr. Jadhah Mwarania

Mr. Jadhah Mwarania is a non-Executive Director of ZEP-RE and has served on the Board of ZEP-Re since 2011. He was until early 2018, the Managing Director of the Kenya Reinsurance Corporation. He holds a Bachelor of Commerce (B.com.) (Hons.) and Master of Business Administration (MBA) degrees from The University of Nairobi. He is a Fellow of the Chartered Insurance Institute of London (FCII), and the Insurance Institute of Kenya (FIIK).

9. Mr. Tadesse Admassu

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

10. Mr. Jan Gross

Mr. Jan Gross is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in May 2017. He is currently a Senior Investment Manager with the Equity and Mezzanine (Insurance Investments) division of the DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH in Cologne, Germany. Mr. Gross has more than 15 years of experience in the insurance and private equity industry. He holds a degree in Business Engineering from Technical University of Berlin and is a CFA charter holder.

11. Mr. Yaw Kuffour

Mr. Yaw Adu Kuffour is a non-Executive Director of ZEP-RE and has served on the Board of ZEP-RE since June 2011. He is the Division Manager, Trade & Commodity Finance Division, Financial Sector Department, African Development Bank. He led efforts in establishing the Bank's trade finance operations which came on stream 5 years ago. Prior to joining the African Development Bank 11 years ago, Mr. Kuffour worked in banking and industry for more than 10 years and held corporate finance positions in Ghana, London and Johannesburg. He has led and worked on several transactions involving project finance, structured finance, syndicated loans, and fixed income instruments across Africa. Mr. Kuffour holds a Bachelor of Arts Degree in Political Science (with Honours) from the University of Ghana, Legon and an MBA (Finance) from McGill University, Canada.

12. Mr. Novat Niyungeko

Mr. Novat Niyungeko is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in 2016. He is currently the Managing Director of Assurances BICOR in Burundi. Mr. Niyungeko holds a Bachelor of Agronomics from the University of Burundi. He has extensive work experience in agriculture and insurance. He has also published research papers on agriculture and agro-economics including a study on the liberalization of the tea industry to promote private sector investment in Burundi. Mr. Niyungeko has previously served as President of the Executive Committee of the Burundi Business Incubator and a member of the Executive Committee of the East Africa Business Council.

**ZEP-RE (PTA Reinsurance Company)
Notice of the 27th Annual General Assembly
For the year ended 31 December 2017**

NOTICE IS HEREBY GIVEN that the 27th Annual General Assembly of ZEP-RE (PTA Reinsurance Company) will be held at the Dar es Salaam Serena Hotel, Dar-es-Salaam, Tanzania on Friday, 29th June 2018 at 0900 hours Tanzanian time to conduct the following business:

1. To note the presence of a quorum.
2. To adopt the agenda.
3. To confirm minutes of the previous Annual General Assembly held on 22nd May 2017.
4. To consider and adopt the Financial Statements for the year ended 31st December 2017 together with the Chairman's Statement, the Directors' Report and Auditor's Report.
5. To approve the Directors' remuneration for the financial year ended 31 December 2017.
6. To declare a dividend in line with the Board of Directors recommendations. The Directors recommend approval of a dividend of US\$ 5,000,000 for the year 31 December 2017.
7. To consider and if approved, appoint External Auditors for 2018 and approve their remuneration.
9. To undertake any other business.

VENUE

Dar es Salaam Serena Hotel, Dar-es-Salaam, Tanzania

BY ORDER OF THE BOARD



Jarry Sogoli
Secretary to the Board

Note

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on their behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is provided with this NOTICE, must be duly completed by the member and lodged at the Company's headquarters on 8th Floor, ZEP-RE Place, Longonot Road, Upper Hill Nairobi by post, fax or email in time using the following address – P.O. Box 42769 00100 Nairobi, Kenya, Fax - +25420273844 4 or Email – mail@zep-re.com so as to reach the Company not later than Monday 18th June 2018.

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

FOREWORD

On behalf of the Board of Directors, I am delighted to present to you the Company's Annual Report and Financial Statements for the year ended 31 December 2017.

BUSINESS ENVIRONMENT

I GLOBAL ECONOMY

After disappointing global growth rates during the past few years, 2017 witnessed general growth pickup on a global level that is expected to provide opportunities for growth going forward.

According to the IMF, economic activity strengthened in 2017 and global growth rose to 3.6 percent. Growth accelerated in over three quarters of countries, the highest share since 2010. Global trade growth rebounded from its slowest pace since 2009 mainly supported by stronger momentum in global commodity demand as well as supply restraints in the energy sector. This helped offset weak capital spending in the energy sector that had characterised global investment in 2016.

Growth in China and other parts of emerging Asia remained strong, while the difficult conditions faced by several commodity exporters in Latin America, the Commonwealth of Independent States, and sub-Saharan Africa show some signs of improvement. In advanced economies, 2017 growth was broad based, with stronger activity in the United States and Canada, the euro area, and Japan.

II REGIONAL ECONOMY

In 2017, the broad-based slowdown that had been witnessed in sub-Saharan Africa previously began to ease. The underlying situation however remained difficult. Average growth reached 2.8 percent in 2017 (compared to 1.8 per cent in 2016), driven by commodity prices recovery, favourable global financing conditions and slowing inflation lifting household demand. However, the recovery was slightly weaker than forecast and was marked by still-negative per capita income growth, low investment, and a decline in productivity growth. Despite a third of the countries in the region growing at 5 percent or more, a substantial proportion of the region's population witnessed per capita income decline. The key challenge impacting the region was mainly the fact that most of the economies in the region remain poorly diversified and lack infrastructure. The informal economy was a shining light for most economies in sub-Saharan Africa during the year, contributing between 25 and 65 percent of GDP, accounting for between 30 and 90 percent of total non-agricultural employment and providing a substantial contribution to the positive growth realised.

Most of the countries in the region underwent a period of fiscal consolidation in order to ensure macroeconomic stability and sustainable growth. Resource-intensive countries hit hard by the commodity price collapse embraced fiscal consolidation to offset likely permanent revenue losses while other countries who were not affected by commodity prices collapse saw increased public debt and borrowing costs increase. Bottomline, 2017 was a year where growth momentum in sub-Saharan Africa remained fragile, marking a break from the rapid expansion witnessed since the turn of the millennium.

Ghana was the region's star performer in the fourth quarter, expanding a buoyant 8.1% in annual terms due to positive activity in the energy sector and a strong agricultural sector. Botswana's economy accelerated notably in the last quarter of 2017 while rising copper prices spurred faster growth in Zambia. A number of countries including Angola, Ethiopia and South Africa took steps in the right direction to corrective actions regarding either financial assistance from the IMF, bringing on board an inclusive political dispensation and reorganisation of the government to improve the image and restructure state-controlled enterprises.

HIGHLIGHTS OF PERFORMANCE

I PREMIUMS

Gross premium income rose by 18.2% from US\$ 128.7 million in 2016 to US\$ 152.1 million in 2017. A key contributor to the good growth over 2016 was due to positive growth in both facultative and treaty business which grew by 75.7% and 9.6% respectively.

II ECONOMIC PERFORMANCE OF THE COMPANY'S KEY MARKETS

The COMESA region remained the Company's main source of business in 2017, contributing over 73.4% of business underwritten by the Company. The rest of Africa contributed 11.8% of the business while 14.8% came from regions outside Africa (in particular the Indian sub-continent).

Economic factors prevailing in the key markets of the Company that contributed to specific operational performance of the Company in the said territories were as follows: -

Kenya

Kenya remained the Company's largest market contributing US\$ 63.8 million and representing 41.9% of the overall written premium. The market grew by 32.8% over 2016. During the period under review, Kenya's a real GDP growth declined to an estimated 5% in 2017(6.2% in 2016) mainly due to subdued credit growth caused by caps on commercial banks' lending rates, drought, and the prolonged political impasse over the presidential election. The half-year estimates show that the economy remained fairly resilient, growing 4.8%. Services accounted for 82% of that growth, and industry accounted for 17%; agriculture's poor performance continued. The above notwithstanding, Kenya remains an important market for the Company given the size of the market. The Company's strategy going forward is to consolidate its current position while pursuing further growth in profitable untapped sectors of the insurance business.

Zimbabwe

Zimbabwe was the second largest market of the Company in 2017. Despite the economic and political challenges experienced by the country during the first half of 2017, business performance in 2017 was good with the Company writing a total premium income of US\$ 11.5 million which contributed to 7.5% of the overall written premiums. Economic growth improved to an estimated 2.6% in 2017 from 0.7% in 2016, driven by stronger performance in agriculture, mining, electricity, and water. The economy faced structural challenges from high informality, weak domestic demand, high public debt, weak investor confidence and a challenging political environment. The country also experienced a liquidity crisis due to structural deficiencies and distortions in the economy. Changes to the political system during the last quarter of 2017 are expected to help the country going forward and prospects for 2018 look positive. Despite the challenges mentioned above, the Company's sustained business development efforts and physical presence resulted in increased growth in the market share. Zimbabwe remains an important growth market for the Company.

India

India was the third largest market of the Company in 2017 with a premium income of US\$ 11.4 million contributing 7.5% of the overall gross premium income and a growth of 31.2% from 2016. India remains one of the fastest growing emerging market economies having grown by 7.5% in 2017 and the business growth experienced by the Company in this market was mainly due to organic business growth. India's economy remained strong and a bright spot in the global landscape. The halving of global oil prices that began in late 2014 continued to boost economic activity in India in 2017 and fiscal consolidation that reduced government deficits and debt accumulation and an anti-inflationary monetary policy stance helped cement macroeconomic stability. The Company's strategy in this market is to selectively underwrite business that conforms and aligns with our risk appetite.

Uganda

Uganda was the Company's fourth largest market in 2017 and posted the highest year to year growth of ZEP-RE's double down markets (a 52.7% growth from 2016). The US\$9.8 million underwritten from the market contributed 6.4% of overall premiums in 2017. Economic performance generally remained strong despite the recent slowdown in real GDP growth, which reached 4.8% in 2017. Economic growth was driven mainly by public infrastructure investment; recovery in manufacturing and construction; and improvements in the services sector, particularly financial and banking, trade, transport, and information and communication technology services. Uganda pursued a cautious expansionary fiscal policy stance to support key infrastructure projects in transport and energy and kept recurrent expenditure under control seeing the overall budget deficit improve in 2017. Overall the macroeconomic policy focused on containing inflationary pressures and enhancing exchange rate stability. Projection going forward is that Uganda will in the short term maintain this traction while continuing to have a low risk of debt distress. Uganda is a growth target market for ZEP-RE and the Company's strategy for the market is to use its country office to consolidate and ensure ZEP-RE becomes the dominant player in the market.

Tanzania

Tanzania was the fifth largest market of the Company in 2017. The market contributed 5.8% of the total gross premium income. Business growth in the market was well above the market premium growth despite challenges brought about by the quality of underwriting. Economic growth in Tanzania slowed down a little in 2017 to 6.8% from the average of 7% experienced the previous five years. Construction, mining, transport, and communications were key growth drivers in 2017. A tightening trade deficit and public investment, particularly with ongoing implementation of larger infrastructure projects, boosted growth in 2017. On the negative end, stalling private-sector credit growth proved challenging for growth plans. Tanzania remains an important market for the Company given its size and future growth prospects. The Company's strategy going forward is to consolidate its current position while pursuing further growth in the market.

III CLAIMS INCURRED AND OUTSTANDING CLAIMS PROVISION

Net claims incurred in 2017 amounted to US\$ 55.55 million compared to US\$ 62.57 million in 2016. The actual net claims loss ratio for the year ended 31st December 2017 was 49.9% compared to 52.9% in 2016.

The Company's outstanding claims' reserves increased to US\$ 88.1 million in 2017 from US\$ 79.1 million in 2016.

IV UNDERWRITING RESULTS

The Company's underwriting profit in 2017 was US\$ 12.4 million which was slightly better than US\$ 12.0 million reported in 2016.

V INVESTMENTS

Portfolio

The investment portfolio value increased from US\$ 227.5 million as at 31 December 2016 to US\$ 253.7 million as at 31 December 2017, an increase of 11.5%. This growth is attributable to cash flow surplus from operating activities and proceeds from the issue of shares.

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

Performance

The investment income increased from US\$ 13.98 million in 2016 to US\$ 14.32 million in 2017, a modest 2.5% growth. The investment income growth is on account of the aforementioned increase in the value of the investment portfolio and diversification to better yielding instruments.

VI PROFITABILITY

The Company achieved a profit of US\$ 23.85 million in 2017 compared to US\$19.30 million in 2016. The increase in profitability is attributable to both higher investment income and lower loss ratio in 2017.

VII DIVIDEND

The Board of Directors is recommending a dividend of US\$ 5.0 million from the results of 2017 compared to US\$4.5 million for 2016.

VIII SECURITY RATING

A.M. Best Rating

Against economic challenges obtained in the region, the Company maintained its AM Best financial strength rating of "B++" and an issuer credit rating of "bbb".

GCR Rating

The Company retained its Global Credit Ratings (GCR) national claims paying ability rating of AA+.

IX STRATEGIC FOCUS

2017 was the first year of the Company's long-term plan aimed at growing the size and profile of ZEP-RE and ensuring the Company becomes a leading reinsurance service provider on the African continent. To achieve this goal the Company has set itself an ambitious goal of becoming a USD 1 billion premium company in ten years' time. The plans laid out in our 8th Corporate Plan which include business leadership in our core markets and expansion into new business frontiers are meant to build a solid base aimed at catapulting the Company towards achieving the USD 1 billion-dollar goal while maintaining its profitability levels.

X 2018 ECONOMIC OUTLOOK

The global economic upswing that began around mid-2016 is expected to become broader and stronger in 2018. Global growth is expected to tick up to 3.9 percent this year and next, supported by strong momentum, favourable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the United States. The partial recovery in commodity prices should allow conditions in commodity exporters to gradually improve.

In Sub-Saharan Africa, a region that contains the Company's core markets, economic growth is projected to gain momentum in 2018 due to firmer commodity prices, a healthy global economy and recoveries in the region's major players, Nigeria and South Africa. Regional GDP is expected to expand to 3.5% in 2018. There are several weak spots that may threaten this outlook, including high debt loads and large imbalances.

APPRECIATION

I take this opportunity to recognize, with much appreciation, the contribution that my fellow directors have made to make this yet another successful year. I thank you for your wise counsel, support, direction and service as members of the Board and various Board committees.

To management and staff, we are grateful for your hard work that ensured the Company achieved the good results for the year under review, despite a challenging business environment.

To our shareholders, I thank you for the continuous support and confidence in the Board of Directors and Management. To our business partners and other stakeholders, I thank you for your continued cooperation and support and look forward to an even more solid partnership in the years ahead.

XI CONCLUSION

The Board and Management will continue to step up business development efforts by doubling efforts in the key traditional markets while seeking new opportunities in frontier markets and untapped business sectors. It is our belief that renewed focus coupled with co-operation from our trusted business partners and support from our shareholders and member states should help ZEP-RE meet its growth objectives and put the Company in good stead to achieve its growth targets.

BY ORDER OF THE BOARD OF DIRECTORS


William Erio
Chairman, ZEP-RE

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 supervisory practices at all decision levels and a communication policy that is open and transparent both internally and externally.

Corporate Governance is central to ZEP-RE's approach toward the enhancement of shareholder value and the Company recognizes that the maintenance and consistent practice and application of good corporate governance practices is key to the long-term success of the Company's business.

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 regulations in any one particular local jurisdiction but has the benefit of drawing upon best practices of corporate governance from different parts of the world including the Australian Code of Corporate Governance Principles and Recommendations, the CACG Guidelines: Principles for Corporate Governance in the Commonwealth, the Kenyan Code of Best Practice for Corporate Governance, and the UK Corporate Governance Code.

GOVERNANCE STRUCTURE

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

General Assembly

The General Assembly is the highest organ of the Company and is constituted by the shareholders. All powers of the Company are vested in the General Assembly. At ZEP-RE, the principle of "one share, one vote" applies. Shareholders may exercise their voting rights personally or through a proxy appointed in writing. ZEP-RE also values the rights and contributions of minority shareholders and seeks as policy to ensure their interests are always protected.

Board of Directors

Role

The Board of ZEP-RE is responsible for the overall direction of the business of the Company and is accountable to the shareholders for the operations of the Company. The terms of service of the Board are determined by the General Assembly. The Board is accountable to the shareholders for the overall performance of the Company and is collectively responsible for the long-term success of ZEP-RE. The Board discharges its functions with the ultimate goal of achieving success by setting appropriate business strategies and overseeing delivery against the set milestones. The Board is also responsible for ensuring that the Company manages its risks effectively, monitors financial performance and ensure appropriate reporting on performance.

Appointment

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

Composition

The current Board comprises 11 non-executive Directors' and the Managing Director serving in an ex officio capacity. Senior management officials of the Company attend Board meetings by invitation.

Board of Directors (Continued)

Access to information and resources

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

During the year, Directors' were provided with appropriate and timely information by management to enable the Board to maintain full and effective control over strategic, financial, operational and compliance issues. Among the important issues considered by the Board in 2017 included approval of the 2016 financial statements, a review of operational performance in 2017 and approval of the 2018 budget and operational work plan.

Implementation of strategy

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

Charter

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

Other legal instruments

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

Internal Control Framework

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

Board Committees

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

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

Board Risk and Audit Committee

The Board Risk and Audit Committee comprises Mr. Caleb Rwamuganza (Chairman), Mr. Aden Saleh Omar, Mr Jan Gross and Mr. Novat Niyungeko. The Committee serves in an advisory capacity to the Board and ensures that the Company's assets are safeguarded, that there is in place an adequate control framework and material corporate risks are being managed. The Committee met thrice in 2017.

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

Board Strategy and Investments Committee

The Board Investments Committee comprises Mr. Yaw Kuffour (Chairman), Ms. Hope Murera (Managing Director), Mr. Tadesse Admassu, Ms. Carole Amelie Agito and Mr. Jan Gross. The Committee advises the Board on policy issues pertaining to strategy and investments. The Board Strategy and Investments Committee met thrice in 2017.

Board Committees (Continued)

Board Nominations, Remuneration and Human Resources Committee

The Board Nominations, Remuneration and Human Resources Committee comprises Mr. George Silutongwe- (Chairperson), Mr. Jadhiah Mwarania and Mr. Mohamed Mousa Idris. The Committee is mandated to monitor, evaluate, and advise the Board regarding issues of Board nominations and remuneration and general human resources issues affecting staff. The Nominations, Remuneration and Human Resources Committee met thrice in 2017.

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 2017 the aggregate amount of emoluments paid to by Directors' is shown in Note 35 (ii) to the financial statements.

Board Attendance in 2017

The table below shows meeting Board attendance (by substantive Directors' or through their Alternates) in 2017

	Attendance of Board and AGM Meetings in 2017				
	86 th Board (28-04-17)	26 th AGM (22-05-17)	87 th Board (30-06-17)	88 th Board (13-09-17)	89 th Board (01-12-17)
Mr. William Erio	✓	✓	✓	✓	✓
Ms. Carole Amelie Agito	✓	✓	✓	✓	✓
Ms. Hope Murera	✓	✓	✓	✓	✓
Mr. Aden Saleh Omar	✓	✓	✓	✓	✓
Mr. Caleb Rwamuganza	✓	✓	✓	✓	✓
Mr. George Silutongwe	✓	✓	✓	✓	✓
Mr. Jadhiah Mwarania	x	✓	✓	✓	x
Mr. Jan Gross	NOT APPOINTED		✓	✓	✓
Mr. Tadesse Admassu	✓	x	✓	✓	x
Mr. Thomas Kronsbein	x	x	RETIRED		
Mr. Novat Niyungeko	✓	✓	✓	✓	✓
Mr. Yaw Kuffour	✓	x	x	✓	x

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.

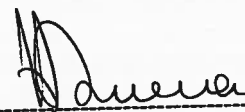
The Managing Director is assisted in his or her role by a Management team. The members of the Management team are appointed by the Board of Directors' on fixed term renewable contracts. Various rules and policy documents issued by the Board of Directors' determine the manner Management shall manage the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

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

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



Chairman
 2018



Managing Director

ZEP-RE (PTA Reinsurance Company)
Report of the Directors
For the year ended 31 December 2017

The Board of Directors hereby submit their report together with the audited financial statements for the year ended 31 December 2017, 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\$ 23.85 million (2016: US\$ 19.30 million) has been transferred to retained earnings. The Directors recommend the payment of a dividend of US\$ 5,000,000 for the year ended 31 December 2017 (2016: US\$ 4,500,000).

Directors

The current Directors of the Company are shown on page 1. This Board was elected by the 25th Annual General Assembly held in Mombasa, Kenya on 27th May 2016 for a term of three years and its term will come to an end in 2019.

Retirements from the Board

Following elections carried out by the 25th Annual General Assembly to constitute a new Board, a number of changes occurred with one substantive Director Mr. Thomas Kronsbein and two Alternate Directors, Mr. Chisimba Chilekwa and Mr. Peter Onyango retiring from their positions on the Board. The Board would like to express sincere gratitude to the aforementioned Board members for the committed service they rendered to the Company during their tenure.

New Appointments to the Board

The 26th Annual General Assembly held on 22nd May 2017 appointed one substantive Director and three Alternate Directors to the Board of the Company. Mr. Jan Gross was appointed to replace Mr. Thomas Kronsbein as Director, Mr. Simarjit Singh Sra was appointed to replace Mr. Peter Onyango as Alternate Director, Mr. Peter Lukwesa was appointed to replace Mr. Chishimba Chilekwa as Alternate Director and Ms. Rehema Namutebi was appointed as Alternate Director to Mr. Caleb Rwamuganza.

Secretary

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

Auditors

The Company's auditors, PricewaterhouseCoopers, expressed willingness to continue in office and a specific resolution will be sought from the 27th Annual General Assembly in this respect.

BY ORDER OF THE BOARD



SECRETARY
2018

ZEP-RE (PTA Reinsurance Company)
Statement of Directors' responsibilities
For the year ended 31 December 2017

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.

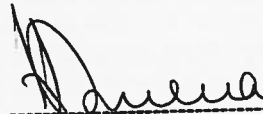
In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

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 28 March 2018 and signed on its behalf by:



Chairman



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 19 to 64 which comprise the statement of financial position at 31 December 2017 and the statements of profit or loss and other 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 financial statements give a true and fair view of the financial position of ZEP-RE (PTA Reinsurance Company) at 31 December 2017 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and 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 directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 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.

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Partners: A Eriksson E Kerich B Kimacia K Muchiru M Mugasa A Murage P Muriu P Ngahu R Njoroge S N Ochieng' B Okundi K Saiti



Independent auditor's report to the shareholders of ZEP-RE (PTA Reinsurance Company) (continued)

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements 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.

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 judgment 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 the directors' 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.



Independent auditor's report to the Shareholders of ZEP-RE (PTA Reinsurance Company) (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Richard Njoroge – Practising certificate No.1244.

**Certified Public Accountants
Nairobi**

12 June 2018



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December	Notes	2017 US\$	2016 US\$
Gross premiums written			
Less: Retrocession premiums	3	152,132,360 (37,976,467)	128,698,286 (23,601,025)
Net written premiums		114,155,893	105,097,261
Movement in unearned premiums reserve		(2,847,515)	13,182,517
Net earned premiums		111,308,378	118,279,778
Investment income		14,322,483	13,975,793
Commissions earned	4	8,615,096	6,462,903
Other income		1,241,708	1,391,156
Total income		135,487,665	140,109,630
Gross incurred claims			
Less: amounts recoverable from retrocessionaires	5	66,533,087 (10,981,738)	68,119,864 (5,545,627)
Net claims incurred		55,551,349	62,574,237
Operating and other expenses			
Commissions expenses	6	16,447,851 39,635,699	17,649,404 40,588,949
Total outgo		111,634,899	120,812,590
Profit for the year		23,852,766	19,297,040
Other comprehensive income for year			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gain/(loss) on revaluation of available for sale equity investments	12	171,028	(1,490,700)
Foreign exchange gain/(loss) on revaluation of available for sale equity investments	12	242,761	(54,397)
Fair value gain on revaluation of offshore investments	19	556,431	184,196
Gain on revaluation of investment in affiliated companies		4,756,286	345,282
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Gain on revaluation of property	25(ii)	139,625	23,298
Total other comprehensive income for the year		5,866,131	(992,321)
Total comprehensive income for year		29,718,897	18,304,719
Earnings per share:			
- Basic and diluted	7	0.421	0.353

The notes on pages 23 to 64 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
At 31 December

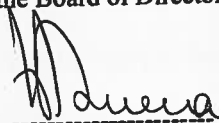
	Notes	2017 US\$	2016 US\$
ASSETS			
Property and equipment	9	1,502,432	1,405,219
Intangible assets	10	6,122	12,244
Investment properties	11	22,034,974	19,011,465
Available-for-sale equity investments	12	15,085,934	12,266,247
Investment in affiliated companies	12	18,847,649	13,642,603
Receivables arising out of reinsurance arrangements	13	43,868,788	28,986,976
Deposits retained by ceding companies	14	6,016,722	4,638,653
Retrocessionaires share of technical liabilities	15	30,963,798	35,668,188
Other receivables	16	7,198,611	6,135,344
Deferred acquisition costs	17	9,219,258	9,179,323
Government securities held to maturity	18	97,950,985	31,439,093
Available -for- sale offshore investments	19	9,246,238	8,689,807
Deposits with financial institutions	20	99,219,720	137,268,634
Corporate bonds and loans	21	10,160,360	18,846,965
Cash and bank balances	22	2,096,029	2,794,248
Total assets		373,417,620	329,985,009
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	24	56,946,503	56,513,129
Share premium	24	49,788,160	47,920,319
Property revaluation reserve	25	531,307	391,682
Available for sale fair value reserve	25	145,197	(825,023)
Investment in affiliated companies revaluation reserve	25	5,201,568	445,282
Retained earnings	26	114,838,344	95,485,578
Total equity		227,451,079	199,930,967
LIABILITIES			
Reinsurance contract liabilities	27	88,129,027	79,135,801
Provision for unearned premiums and unexpired risks	28	33,965,538	27,694,956
Deferred income	29	61,125	61,940
Payables arising from retrocession arrangements	30	7,337,822	7,033,723
Payables arising from reinsurance arrangements	30	4,379,567	5,055,662
Deposits retained on ceded reinsurance business		572,299	565,644
Deferred retrocession commission revenue	31	2,695,511	2,684,586
Other payables	32	7,829,478	6,721,244
Dividends payable	33	996,174	1,100,486
Total liabilities		145,966,541	130,054,042
Total equity and liabilities		373,417,620	329,985,009

The notes on pages 23 to 64 are an integral part of these financial statements.

The financial statements on pages 19 to 64 were approved and authorised for issue by the Board of Directors on 28 March 2018 and were signed on its behalf by:



 Chairman



 Managing Director

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Property revaluation reserve	Available for sale fair value reserve	Investment in affiliated companies revaluation reserve	Retained earnings	Total
		US\$	US\$	US\$	US\$	US\$	US\$	US\$
At 1 January 2016		52,733,095	35,257,209	368,384	535,878	100,000	80,688,538	169,683,104
Shares issued during the year	24	3,375,200	11,306,920	-	-	-	-	14,682,120
Dividends declared – 2015	33	-	-	-	-	-	(4,500,000)	(4,500,000)
Issue of shares through capitalisation of 2015 dividends	33	404,834	1,356,190	-	-	-	-	1,761,024
Total comprehensive income for the year		-	-	23,298	(1,360,901)	345,282	19,297,040	18,304,719
At 31 December 2016		56,513,129	47,920,319	391,682	(825,023)	445,282	95,485,578	199,930,967
At 1 January 2017		56,513,129	47,920,319	391,682	(825,023)	445,282	95,485,578	199,930,967
Shares issued during the year	24	135,518	584,082	-	-	-	-	719,600
Dividends declared – 2016	33	-	-	-	-	-	(4,500,000)	(4,500,000)
Issue of shares through capitalisation of 2016 dividends	33	297,856	1,283,759	-	-	-	-	1,581,615
Total comprehensive income for the year		-	-	139,625	970,220	4,756,286	23,852,766	29,718,897
At 31 December 2017		56,946,503	49,788,160	531,307	145,197	5,201,568	114,838,344	227,451,079

The notes on pages 23 to 64 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December	Notes	2017 US\$	2016 US\$
OPERATING ACTIVITIES			
Net cash generated from operating activities	36	25,276,789	12,526,089
INVESTING ACTIVITIES			
Purchase of property and equipment	9	(77,997)	(176,928)
Purchase of computer software	10	-	(18,366)
Purchase of investment properties	11	(2,578,080)	(1,299)
Purchase of quoted equity shares	12(i)	(3,722,236)	(499,963)
Purchase of shares in affiliated companies	12(ii)	(448,760)	(3,321,184)
Purchase of held to maturity government securities		(69,600,827)	(2,696,548)
Proceeds on maturity of government securities		3,088,935	34,250,000
Proceeds of disposal of property and equipment		11,642	-
Proceeds of disposal of quoted shares		2,919,893	1,173,916
Movement in corporate bonds and loans		8,686,605	3,149,698
Movement in deposits with financial institutions (excluding cash and cash equivalents)		(5,635,954)	(5,954,945)
Net cash generated from / (used in) investing activities		(67,356,779)	25,904,381
FINANCING ACTIVITIES			
Proceeds of issue of shares		719,600	14,682,120
Dividends paid	33	(3,022,697)	(2,500,902)
Net cash generated from financing activities		(2,303,097)	12,181,218
NET INCREASE IN CASH AND CASH EQUIVALENTS		(44,383,087)	50,611,688
CASH AND CASH EQUIVALENTS AT 1 JANUARY		96,412,094	45,800,406
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	37	52,029,007	96,412,094

The notes on pages 23 to 64 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 ESTABLISHMENT

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

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

The company is domiciled in Kenya and has regional offices in Cameroon, Cote D'Voire, Zimbabwe, Zambia 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 and amended standards adopted by the Company

A number of amendments to standards became effective for the first time in the financial year beginning on or after 1 January 2017.

Amendments to IAS 7, 'Statement of Cash Flows' titled Disclosure Initiative: The amendments require enhanced disclosure concerning changes in liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

(ii) New standards and interpretations not yet adopted

The company has not applied the following new and revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2017.

IFRS 9 Financial Instruments (issued in July 2014) – This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:

- IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.
- For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (Continued)

(ii) New standards and interpretations not yet adopted (continued)

IFRS 9 Financial Instruments (continued)

- For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.
- For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.
- The derecognition provisions are carried over almost unchanged from IAS 39

Management has assessed the effects of applying the new standard on the Company’s financial statements and has identified the following areas are likely to be affected:

- Changes in the classification of financial assets
- The introduction of the expected versus the incurred model of estimating the credit risk and use of forward looking information
- 12 months credit loss computed for stage 1 assets and the lifetime expected credit loss for stage 2 and stage 3 assets.

The Directors have assessed the potential financial impact of the adoption of IFRS 9 in 2017 and determined that the profit for the year would have been USD 727,459 higher arising from reclassification of its financial assets (available for sale equity investments and available for sale off-shore investments). Furthermore, based on their assessment of the potential impact of application of the new Standard on its trade receivables, they do not expect that there will be a significant impact on the Company’s financial statements.

Amendments to IFRS 4 titled Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued in September 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018, include a temporary exemption from IFRS 9 for insurers that meet specified criteria and an option for insurers to apply the overlay approach to designated financial assets.

IFRS 17 Insurance Contracts (issued in May 2017) - establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. Management is yet to assess the impact of this standard.

IFRS 16 Leases (issued in January 2016) - The new standard, effective for annual periods beginning on or after 1 January 2019, introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 15 Revenue from Contracts with Customers (issued in May 2014) - The new standard, effective for annual periods beginning on or after 1 January 2018, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance. The Company derives its revenue from insurance premiums, interest income, investment income and dividends. Thus IFRS 15 is not likely to have any effect in the Company’s financial statements.

Amendments to IAS 40 titled Transfers of Investment Property (issued in December 2016) – The amendments, applicable to annual periods beginning on or after 1 January 2018, clarify that transfers to or from investment property should be made when, and only when, there is evidence that a change in use of property has occurred.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of the application of the above, with the exception of IFRS 9 and 17, they do not expect that there will be a significant impact on the Company’s financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Income recognition

i) Premium

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

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

ii) Retrocessions ceded

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

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

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

iii) Claims incurred

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

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

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

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

v) Interest income

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

vi) Dividend income

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

vii) Rental income

Rental income is recognised on a straight line basis over the period of the lease.

All investment income is stated net of investment expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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\$). 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. If there is objective evidence that the reinsurance receivable is impaired, the company reduces the carrying amount of the reinsurance receivable accordingly and recognises that impairment loss in profit or loss. The company gathers the objective evidence that a reinsurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

(e) Provision for bad and doubtful debts

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

(f) Intangible assets – computer software

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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.

(h) 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.

(i) Financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

i. Financial liabilities

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

ii. Financial assets

Classification

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

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

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. The company had no investments in this category at 31 December 2017 and 31 December 2016.

ii) *Loans and receivables*

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

iii) *Held-to-maturity financial assets*

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

iv) *Available-for-sale financial assets*

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

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

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

Recognition

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

ii. Financial assets (continued)

Recognition (continued)

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

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

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 exchange. 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 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.

Impairment of financial assets

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

ii. Financial assets (continued)

Impairment of financial assets (continued)

- a) significant financial difficulty of the counterparty;
- b) a breach of contract, such as default or delinquency in interest or principal repayments;
- c) the company granting to the counterparty, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the company would not otherwise consider;
- d) it becoming probable that the counterparty will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of counterparty in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

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

(i) Assets carried at amortised cost

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

ii. Financial assets (continued)

Impairment of financial assets (continued)

(ii) Assets carried at fair value

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

(iii) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of nonfinancial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

(k) Deferred income

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

(l) Employee entitlements

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

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

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

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

(m) Cash and cash equivalents

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

(n) Dividends

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Taxation

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

(p) 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.

(q) Comparatives

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

3 GROSS PREMIUMS WRITTEN

(i) Class-wise distribution

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

Class of business:	2017	2016
	US\$	US\$
Property	73,865,314	63,328,950
Casualty	27,330,772	21,252,848
Motor	10,316,769	9,958,323
Marine	9,094,935	10,090,923
Aviation	3,255,300	299,005
Life	11,951,512	10,034,357
Medical	16,317,758	13,733,880
	<u>152,132,360</u>	<u>128,698,286</u>

(ii) Geographical distribution

Region	2017		2016	
	Gross premium	%	Gross premium	%
COMESA	111,775,205	73.47	93,755,509	72.85
Non - COMESA (Africa)	17,911,022	11.77	15,803,544	12.28
Other regions	22,446,133	14.76	19,139,233	14.87
Total	<u>152,132,360</u>	<u>100.00</u>	<u>128,698,286</u>	<u>100.00</u>

(iii) Type- distribution

Proportional	100,577,665	66.11	90,611,155	70.41
Non-proportional	22,132,414	14.55	21,337,962	16.58
Facultative	29,422,281	19.34	16,749,169	13.01
Total	<u>152,132,360</u>	<u>100.00</u>	<u>128,698,286</u>	<u>100.00</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2017 US\$	2016 US\$
4 INVESTMENT INCOME		
Interest from government securities held to maturity	3,884,480	5,824,775
Interest from deposits with financial institutions	5,129,512	5,116,676
Interest from corporate bonds	1,555,722	1,159,004
Income from offshore investments	17,077	15,871
Rental income	1,228,284	1,217,445
Dividend income	458,424	339,668
Fair value gain on investment properties (Note 11)	445,429	121,637
Gain on sale of quoted shares (Note 25(i))	1,603,555	180,717
	<u>14,322,483</u>	<u>13,975,793</u>
Investment income earned on financial assets, analysed by category of asset is as follows:		
Held to maturity investments	10,586,791	12,116,326
Available for sale investments	2,061,979	520,385
	<u>12,648,770</u>	<u>12,636,711</u>
Investment income earned on non-financial assets (Property)	1,673,713	1,339,082
	<u>14,322,483</u>	<u>13,975,793</u>
5 GROSS INCURRED CLAIMS		
Gross settled claims	58,481,208	67,874,046
Change in outstanding claims	8,051,879	245,818
	<u>66,533,087</u>	<u>68,119,864</u>
6 OPERATING AND OTHER EXPENSES		
Employee emoluments and benefits (Note 8)	8,559,099	6,754,921
Auditors' remuneration	38,460	38,421
General assembly and Board expenses	349,206	368,090
Depreciation (Note 9)	120,300	158,348
Amortisation of intangible assets (Note 10)	6,122	38,463
Loss on foreign exchange transactions	2,689,848	5,432,281
Impairment charge for doubtful receivables -arising from reinsurance premium receivables (Note 13(iii))	908,126	2,053,695
Repairs and maintenance	243,019	159,527
Premium taxes and charges	1,353,782	787,743
Other expenses	2,179,889	1,857,915
	<u>16,447,851</u>	<u>17,649,404</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2017	2016
7 EARNINGS PER SHARE		
Profit attributable to shareholders (US\$)	23,852,766	19,297,040
Weighted average number of shares issued (Note 24(iii))	56,639,401	54,606,085
Earnings per share (US\$) - basic and diluted	0.421	0.353

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 2017 and 31 December 2016. The diluted earnings per share is therefore the same as the basic earnings per share disclosed above.

	2017 US\$	2016 US\$
8 EMPLOYEE EMOLUMENTS AND BENEFITS		
Staff costs include the following:		
- Salaries and wages	6,798,769	4,843,513
- Staff retirement benefits	727,886	776,877
- Other staff benefits	1,032,444	1,134,531
	<u>8,559,099</u>	<u>6,754,921</u>

The number of persons employed by the company at the year-end was 60 (2016: 58).

9 PROPERTY AND EQUIPMENT		
Cost or valuation	2,666,879	2,710,979
Accumulated depreciation	(1,164,447)	(1,305,760)
Net book value	<u>1,502,432</u>	<u>1,405,219</u>
Comprising:		
Buildings	1,238,075	1,120,867
Motor vehicles	-	23,917
Office furniture and fittings	215,358	199,890
Office equipment	32,138	34,315
Computers equipment	16,861	26,230
Net book value	<u>1,502,432</u>	<u>1,405,219</u>

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 locations. The valuation, done annually, was carried out as at 31 December 2017 on an open market value basis. In estimating the fair value of the buildings, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. Had the Company's buildings been measured on a historical cost basis, their carrying amount would have been US\$ 1,043,396 (2016: US\$ 1,043,396).

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\$ 1,052,111 (2016: US\$ 836,178) 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\$ 247,243 (2016: US\$ 183,493).

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 PROPERTY AND EQUIPMENT (continued)

COST OR VALUATION	Land and Buildings US\$	Motor vehicles US\$	Office furniture and fittings US\$	Office equipment US\$	Computer equipment US\$	Total US\$
At 1 January 2016	1,119,968	294,521	608,887	135,827	373,949	2,533,152
Additions	-	-	125,738	15,172	36,018	176,928
Revaluation surplus	899	-	-	-	-	899
At 31 December 2016	1,120,867	294,521	734,625	150,999	409,967	2,710,979
At 1 January 2017	1,120,867	294,521	734,625	150,999	409,967	2,710,979
Additions	-	-	59,279	6,712	12,006	77,997
Disposals	-	(74,972)	(47,057)	(61,494)	(55,782)	(239,305)
Revaluation surplus	117,208	-	-	-	-	117,208
At 31 December 2017	1,238,075	219,549	746,847	96,217	366,191	2,666,879
ACCUMULATED DEPRECIATION						
At 1 January 2016	-	221,022	493,862	102,934	351,993	1,169,811
Charge for the year	22,399	49,582	40,873	13,750	31,744	158,348
Written back on revaluation	(22,399)	-	-	-	-	(22,399)
At 31 December 2016	-	270,604	534,735	116,684	383,737	1,305,760
At 1 January 2017	-	270,604	534,735	116,684	383,737	1,305,760
Charge for the year	22,417	23,912	43,726	8,889	21,356	120,300
Eliminated on disposals	-	(74,967)	(46,972)	(61,494)	(55,763)	(239,196)
Written back on revaluation	(22,417)	-	-	-	-	(22,417)
At 31 December 2017	-	219,549	531,489	64,079	349,330	1,164,447
NET BOOK VALUE						
At 31 December 2017	1,238,075	-	215,358	32,138	16,861	1,502,432
At 31 December 2016	1,120,867	23,917	199,890	34,315	26,230	1,405,219

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 2017 are as follows:

	2017 US\$	2016 US\$
Level 1	-	-
Level 2	1,238,075	1,120,867
Level 3	-	-
	<u>1,238,075</u>	<u>1,120,867</u>
Fair value as at 31 December	<u>1,238,075</u>	<u>1,120,867</u>

There were no transfers between the levels during the year.

10 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2017 US\$	2016 US\$
Cost	896,697	896,697
Accumulated amortisation	(890,575)	(884,453)
	<u>6,122</u>	<u>12,244</u>
Net book value	<u>6,122</u>	<u>12,244</u>

Movement analysis:	Software licences US\$	Other software US\$	Total US\$
COST			
At 1 January 2016	621,931	256,400	878,331
Additions - 2016	-	18,366	18,366
At 31 December 2016	<u>621,931</u>	<u>274,766</u>	<u>896,697</u>
At 1 January 2017 and 31 December 2017	<u>621,931</u>	<u>274,766</u>	<u>896,697</u>
ACCUMULATED AMORTISATION			
At 1 January 2016	614,965	231,025	845,990
Charge for the year 2016	6,966	31,497	38,463
At 31 December 2016	<u>621,931</u>	<u>262,522</u>	<u>884,453</u>
Charge for the year - 2017	-	6,122	6,122
At 31 December 2017	<u>621,931</u>	<u>268,644</u>	<u>890,575</u>
NET BOOK VALUE			
At 31 December 2017	<u>-</u>	<u>6,122</u>	<u>6,122</u>
At 31 December 2016	<u>-</u>	<u>12,244</u>	<u>12,244</u>

All software is amortised over a period of five years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

			2017 US\$	2016 US\$			
11 INVESTMENT PROPERTIES							
Fair value of investment properties			<u>22,034,974</u>	<u>19,011,465</u>			
Investment properties comprise:							
	Zep-Re Place US\$	Prosperity House US\$	Upper Hill Parking US\$	Zambia land US\$	Mombasa Road US\$	Harare Property	Total US\$
At fair value:							
At 1 January 2016	8,480,030	5,200,000	1,900,000	2,208,499	800,000	300,000	18,888,529
Additions	-	-	-	1,299	-	-	1,299
Gain (loss) on revaluation	9,881	85,929	22,156	(1,299)	64,970	(60,000)	121,637
At 31 December 2016	<u>8,489,911</u>	<u>5,285,929</u>	<u>1,922,156</u>	<u>2,208,499</u>	<u>864,970</u>	<u>240,000</u>	<u>19,011,465</u>
At 1 January 2017	8,489,911	5,285,929	1,922,156	2,208,499	864,970	240,000	19,011,465
Additions	-	-	-	2,578,080	-	-	2,578,080
Gain on revaluation	159,567	142,532	65,048	22,352	55,930	-	445,429
At 31 December 2017	<u>8,649,478</u>	<u>5,428,461</u>	<u>1,987,204</u>	<u>4,808,931</u>	<u>920,900</u>	<u>240,000</u>	<u>22,034,974</u>

Investment properties were last valued by Gimco Limited for the Kenya properties, Knight Frank Zambia Limited for the Zambia property and Knight Frank Zimbabwe for the Zimbabwe property, registered valuers, as at 31 December 2017, 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 as at 31 December 2017 are as follows:

	2017 US\$	2016 US\$
Level 1	-	-
Level 2	22,034,974	19,011,465
Level 3	-	-
Fair value as at 31 December	<u>22,034,974</u>	<u>19,011,465</u>

There were no transfers between the levels during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 (i) AVAILABLE-FOR-SALE EQUITY INVESTMENTS

Quoted equity shares: At fair value	2017	2016
	US\$	US\$
At 1 January	12,266,247	14,047,833
Additions	3,722,236	499,963
Disposals	(1,316,338)	(736,452)
Fair value gains/(losses) (Note 25 (i))	171,028	(1,490,700)
Exchange difference on revaluation (Note 25 (i))	242,761	(54,397)
	<u>15,085,934</u>	<u>12,266,247</u>
At 31 December		

The prior year comparatives, on this note have been adjusted as amounts relating to the PineBridge Equity Fund have been re-classified from deposits with financial institutions to available for sale equity investments.

(ii) INVESTMENT IN AFFILIATED COMPANIES AT NET ASSET VALUE

	Uganda Reinsurance Corporation US\$	WAICA Reinsurance Corporation US\$	Tanzania Reinsurance Corporation US\$	African Trade Insurance Agency US\$	TDB US\$	Total US\$
At 1 January 2016	799,877	2,240,000	1,432,260	500,000	5,004,000	9,976,137
Additions	249,742	3,071,442	-	-	-	3,321,184
Fair value gains (Note 25(iii))	(207,708)	552,990	-	-	-	345,282
At 31 December 2016	<u>841,911</u>	<u>5,864,432</u>	<u>1,432,260</u>	<u>500,000</u>	<u>5,004,000</u>	<u>13,642,603</u>
At 1 January 2017	841,911	5,864,432	1,432,260	500,000	5,004,000	13,642,603
Additions	43,648	-	405,112	-	-	448,760
Fair value gain (Note 25(iii))	318,481	847,335	458,545	15,554	3,116,371	4,756,286
At 31 December 2017	<u>1,204,040</u>	<u>6,711,767</u>	<u>2,295,917</u>	<u>515,554</u>	<u>8,120,371</u>	<u>18,847,649</u>
Net book value:						
At 31 December 2017	<u>1,204,040</u>	<u>6,711,767</u>	<u>2,295,917</u>	<u>515,554</u>	<u>8,120,371</u>	<u>18,847,649</u>
At 31 December 2016	<u>841,911</u>	<u>5,864,432</u>	<u>1,432,260</u>	<u>500,000</u>	<u>5,004,000</u>	<u>13,642,603</u>

The investments above are reported at fair value except where the fair value cannot be reliably measured. The investments at 31 December 2017 have been reported at the company's share of the affiliated companies' net assets value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	2017 US\$	2016 US\$
Receivables from reinsurance arrangements	51,513,525	35,723,587
Allowance for doubtful arrangements (Note 13 (ii) below)	(7,644,737)	(6,736,611)
	<hr/>	<hr/>
Net carrying value	<u>43,868,788</u>	<u>28,986,976</u>

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

(i) Ageing of unimpaired receivables

	2017 US\$	2016 US\$
0 - 90 days	11,901,484	5,016,270
91-120 days	3,060,190	1,425,629
121-270 days	13,215,468	12,690,877
271 - 360 days	4,202,909	2,035,232
Over 360 days	11,488,737	7,818,968
	<hr/>	<hr/>
At 31 December	<u>43,868,788</u>	<u>28,986,976</u>
	<hr/>	<hr/>
Average age (days) – gross written premium basis	105	82

(ii) Movement in the allowance for doubtful debts

At 1 January	6,736,611	4,813,658
Charge for the year inward debtors	908,126	2,025,431
Charge for the year outward debtors	-	28,264
Exchange difference on revaluation	-	(130,742)
	<hr/>	<hr/>
At 31 December	<u>7,644,737</u>	<u>6,736,611</u>

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

Arising from reinsurance arrangements (inward)	908,126	2,025,431
Arising from reinsurance arrangements (outward)	-	28,264
	<hr/>	<hr/>
	<u>908,126</u>	<u>2,053,695</u>

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:

	2017 US\$	2016 US\$
At 1 January	4,638,653	3,861,244
Increase during the year	1,378,069	777,409
	<u>6,016,722</u>	<u>4,638,653</u>
At 31 December	<u>6,016,722</u>	<u>4,638,653</u>

15 RETROCESSIONAIRES SHARE OF REINSURANCE LIABILITIES

	2017 US\$	2016 US\$
Retrocessionaires share of :		
Provision for unearned premiums and unexpired risks (Note 28)	10,786,220	5,971,841
Notified outstanding claims (Note 27)	13,895,922	23,714,539
Incurred but not reported (Note 27)	6,281,656	5,981,808
	<u>30,963,798</u>	<u>35,668,188</u>

16 OTHER RECEIVABLES

Receivable from Retakaful window	1,065,645	1,524,928
Staff receivables	1,860,164	933,507
Prepayments	659,954	363,525
Deposits	33,999	33,999
Rent receivable	535,778	364,938
Others	3,043,071	2,914,447
	<u>7,198,611</u>	<u>6,135,344</u>

17 DEFERRED ACQUISITION COSTS (DAC)

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

	2017 US\$	2016 US\$
At 1 January	9,179,323	15,012,130
Increase during the year	39,935	(5,832,807)
	<u>9,219,258</u>	<u>9,179,323</u>
At 31 December	<u>9,219,258</u>	<u>9,179,323</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 GOVERNMENT SECURITIES - HELD TO MATURITY

	2017 US\$	2016 US\$
(i) Treasury bonds & bills maturing:		
- Within 6 months	5,546,799	5,904,201
- In 6 months to 1 year	-	4,844,733
- In 1 to 5 years	34,689	58,285
- After 5 years	972,854	980,702
	<u>6,554,342</u>	<u>11,787,921</u>
(ii) Loans & receivables due from the Government maturing:		
- Within 6 months	25,222,731	-
- In 6 months to 1 year	10,159,165	15,000,000
- In 1 to 5 years	51,041,966	4,651,172
- After 5 years	4,972,781	-
	<u>91,396,643</u>	<u>19,651,172</u>
At 31 December		
Analysis by currency denomination:		
Securities in US Dollars	96,943,442	26,097,854
Securities in Kenya Shillings	1,007,543	4,723,584
Securities in Sudanese Pounds	-	617,655
	<u>97,950,985</u>	<u>31,439,093</u>

19 OFFSHORE INVESTMENTS - AVAILABLE FOR SALE

Discretionary fund	5,793,153	5,288,372
Wealth fund	3,453,085	3,401,435
	<u>9,246,238</u>	<u>8,689,807</u>
Movement during the year		
At 1 January	8,689,807	8,505,611
Fair value gain (Note 25(i))	556,431	184,196
	<u>9,246,238</u>	<u>8,689,807</u>

20 DEPOSITS WITH FINANCIAL INSTITUTIONS

Analysis by currency denomination:		
Deposits in United States Dollars	84,229,022	126,460,277
Deposits in Kenya Shillings	5,101,426	4,626,543
Deposits in Sudanese Pound	4,639,048	2,248,190
Deposits in Ethiopian Birr	5,250,224	3,933,624
	<u>99,219,720</u>	<u>137,268,634</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

	2017 US\$	2016 US\$
Maturity analysis:		
Within 3 months of placement	49,932,978	93,617,846
After 3 months of placement	49,286,742	43,650,788
	<u>99,219,720</u>	<u>137,268,634</u>

Deposits with financial institutions have an average maturity of 3 to 12 months (2016: 3 to 12 months).

21 CORPORATE BONDS AND LOANS

	2017 US\$	2016 US\$
Analysis by currency denomination:		
United States Dollars	9,063,693	17,666,150
Kenya Shillings	825,945	905,304
Sudanese Pound	270,722	275,511
	<u>10,160,360</u>	<u>18,846,965</u>

Corporate bonds and loans maturing:

- Within 6 months	995,726	-
- In 1 to 5 years	9,164,634	18,846,965
	<u>10,160,360</u>	<u>18,846,965</u>

At 31 December

22 CASH AND BANK BALANCES

	2017 US\$	2016 US\$
Analysis by currency denomination:		
United States Dollars	904,395	1,202,636
Kenya Shillings	294,013	141,936
Sudanese Pound	291,128	529,826
Zambian Kwacha	127,073	1,511
West African CFA Franc	396,707	441,904
Malawi Kwacha	43,019	4,620
Ethiopian Birr	2,554	449,777
Others	37,140	22,038
	<u>2,096,029</u>	<u>2,794,248</u>

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:

	2017 %	2016 %
Government securities		
Securities in Kenya Shillings	12.5	17.4
Securities in Sudanese Pound	25.7	12.3
Securities in United States Dollars	3.6	6.7

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 WEIGHTED AVERAGE EFFECTIVE INTEREST/RETURN RATES (continued)

	2017	2016
Deposits with financial institutions		
Deposits in United States Dollars	5.0	4.3
Deposits in Kenya Shillings	14.5	9.8
Deposits in Sudanese Pound	14.2	5.1
Deposits in Ethiopian Birr	4.8	-
	<u> </u>	<u> </u>
Available for Sale Offshore investments		
Investments in United States Dollars	6.6	2.2
	<u> </u>	<u> </u>

24 ISSUED CAPITAL

(i) Issued capital	2017	2016
	US\$	US\$
Ordinary shares of US\$ 1 each:		
Share capital	56,946,503	56,513,129
Share premium	49,788,160	47,920,319
	<u> </u>	<u> </u>
Paid up capital	106,734,663	104,433,448
	<u> </u>	<u> </u>

(ii) Paid up shares	No of shares	Share capital	Share premium
		US\$	US\$
Ordinary shares of US\$ 1 each:			
At 1 January 2016	52,733,095	52,733,095	35,257,209
Issue of shares	3,375,200	3,375,200	11,306,920
Dividends capitalised	404,834	404,834	1,356,190
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2016	56,513,129	56,513,129	47,920,319
	<u> </u>	<u> </u>	<u> </u>
At 1 January 2017	56,513,129	56,513,129	47,920,319
Issue of shares	135,518	135,518	584,082
Dividends capitalised	297,856	297,856	1,283,759
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2017	56,946,503	56,946,503	49,788,160
	<u> </u>	<u> </u>	<u> </u>

(iii) Weighted average number of shares (Note 7)	2017	2016
	56,639,401	54,606,085
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

25 RESERVES	2017	2016
	US\$	US\$
Available for sale investments revaluation reserve (Note 25 (i))	145,197	(825,023)
Property revaluation reserve (Note 25 (ii))	531,307	391,682
Investment in affiliated companies revaluation reserve (Note 25 (iii))	5,201,568	445,282
	<u>5,878,072</u>	<u>11,941</u>

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

	2017	2016
	US\$	US\$
At 1 January	(825,023)	535,878
Revaluation gain	1,774,583	(1,309,983)
Gain realised on disposal of shares (Note 4)	(1,603,555)	(180,717)
Net revaluation gain (Note 12)	171,028	(1,490,700)
Exchange difference on revaluation (Note 12)	242,761	(54,397)
Revaluation gain on offshore investments (Note 19)	556,431	184,196
At 31 December	<u>145,197</u>	<u>(825,023)</u>

The available for sale fair value reserve represents accumulated gains and losses arising on the revaluation of available for sale financial assets that have been recognised in the other comprehensive income net of amounts reclassified to profit or loss for the year when those assets have been disposed of or are determined to be impaired. This reserve is not available for distribution.

The Company reviews the status of the investment portfolio regularly to assess impairment. In determining whether an impairment loss should be recognized in profit or loss, the company checks whether there is objective evidence that the assets are impaired and that the fair values have declined irreversibly. At 31 December 2017 and 31 December 2016, 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

	2017	2016
	US\$	US\$
At 1 January	391,682	368,384
Revaluation surplus (Note 9)	117,208	899
Depreciation written back on revaluation (Note 9)	22,417	22,399
Net gain on revaluation of property	139,625	23,298
At 31 December	<u>531,307</u>	<u>391,682</u>

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 2017, a net fair value gain of US\$ 4,756,286 (2016:US\$ 345,282) was realized in the year.

	2017	2016
	US\$	US\$
At 1 January	445,282	100,000
Fair value gain	4,756,286	345,282
	<u>5,201,568</u>	<u>445,282</u>

26 RETAINED EARNINGS

	2017	2016
	US\$	US\$
Retained earnings	114,838,344	95,485,578

The movement in retained earnings is as follows:

At 1 January	95,485,578	80,688,538
Dividend declared (Note 33)	(4,500,000)	(4,500,000)
Profit for year	23,852,766	19,297,040
	<u>114,838,344</u>	<u>95,485,578</u>

During the year ended 31 December 2017, the 2016 dividend amounting to US\$ 4,500,000 was declared at the Annual General Meeting and paid out as detailed under Note 33.

Retained earnings include fair value gains on revaluation of investment properties which are unrealised and are not available for distribution. At 31 December 2017 the unrealised fair value gains on revaluation of investment properties amounted to US\$ 7,050,041 (2016: US\$ 6,604,612).

27 REINSURANCE CONTRACT LIABILITIES

	2017	2016
	US\$	US\$
Reinsurance contracts		
- claims reported and claims handling expenses	61,915,238	55,963,313
- claims incurred but not reported	26,213,789	23,172,488
	<u>88,129,027</u>	<u>79,135,801</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

27 REINSURANCE CONTRACT LIABILITIES (continued)

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.

	2017			2016		
	Gross US\$	Retrocessions US\$	Net US\$	Gross US\$	Retrocessions US\$	Net US\$
Outstanding claims	61,915,238	(13,895,922)	48,019,316	55,963,313	(23,714,539)	32,248,774
IBNR	26,213,789	(6,281,656)	19,932,133	23,172,488	(5,981,808)	17,190,680
Total outstanding claims	88,129,027	(20,177,578)	67,951,449	79,135,801	(29,696,347)	49,439,454

The Company's outstanding claims and IBNR were reviewed by an independent actuary; Actuarial Services (EA) Limited, registered Actuaries as at 31 December 2017.

For the current year, the company's actuaries used a combination of the Chain Ladder and the Bournhuetter Fergusson ("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.

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 movement in the reserve is as shown below:

	2017			2016		
	Gross US\$	Retrocessions US\$	Net US\$	Gross US\$	Retrocessions US\$	Net US\$
At 1 January	27,694,956	(5,971,841)	21,723,115	44,934,826	(7,416,752)	37,518,074
Movement in the year:						
- Unearned premiums	7,661,894	(4,814,379)	2,847,515	(14,627,428)	1,444,911	(13,182,517)
- Foreign exchange gain	(1,391,312)	-	(1,391,312)	(2,612,442)	-	(2,612,442)
	6,270,582	(4,814,379)	1,456,203	(17,239,870)	1,444,911	(15,794,959)
At 31 December	33,965,538	(10,786,220)	23,179,318	27,694,956	(5,971,841)	21,723,115
		(Note 15)			(Note 15)	

NOTES TO THE FINANCIAL STATEMENTS (continued)

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:

	2017 US\$	2016 US\$
Arising from Government grant - At 1 January and at 31 December	80,686	80,686
Accumulated amortisation:		
At 1 January	18,746	17,931
Credited to other income for the year	815	815
At 31 December	<u>19,561</u>	<u>18,746</u>
At 31 December	<u>61,125</u>	<u>61,940</u>

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:

	2017 US\$	2016 US\$
At 1 January	7,033,723	3,050,948
Increase during the year	304,099	3,982,775
At 31 December	<u>7,337,822</u>	<u>7,033,723</u>

(ii) PAYABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

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

	2017 US\$	2016 US\$
At 1 January	5,055,662	2,414,017
(Decrease)/increase during the year	(676,095)	2,641,645
At 31 December	<u>4,379,567</u>	<u>5,055,662</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DEFERRED RETROCESSION COMMISSION REVENUE

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

	2017 US\$	2016 US\$
At 1 January	2,684,586	3,088,059
Increase/decrease during the year	10,925	(403,473)
	<u>2,695,511</u>	<u>2,684,586</u>

32 OTHER PAYABLES

Rent deposits	344,856	349,995
Other liabilities	5,866,514	4,298,642
Leave pay provision	140,128	255,599
Provision for gratuity	1,477,980	1,817,008
	<u>7,829,478</u>	<u>6,721,244</u>

33 DIVIDENDS PAYABLE

The movement in dividends payable is as follows:

At 1 January	1,100,486	862,412
Final dividend declared	4,500,000	4,500,000
Dividend paid	(3,022,697)	(2,500,902)
Dividend capitalised	(1,581,615)	(1,761,024)
	<u>996,174</u>	<u>1,100,486</u>

In respect of the current year, the Directors' propose that a dividend of US\$ 5,000,000 (2016 - US\$ 4,500,000) be paid to shareholders. This dividend is subject to approval of shareholders at the Annual General Meeting to be held on 29th June 2018 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:

	2017 US\$	2016 US\$
Property and equipment	1,123,440	883,850
Investment properties	13,225,000	26,050,000
	<u>14,348,440</u>	<u>26,933,850</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

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. 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:

	2017	2016
	US\$	US\$
(i) Transactions with related parties		
Gross earned premium:		
- Shareholders	16,059,773	14,022,643
Claims Paid		
- Shareholders	5,217,971	5,470,267
(ii) Directors' remuneration		
Directors' fees	89,407	85,400
Other emoluments paid (per diem)	53,213	61,750
	<u>142,620</u>	<u>147,150</u>
(iii) Key management remuneration		
Salaries and other short-term employment benefits	1,003,666	1,741,523
Gratuity	585,482	247,350
	<u>1,589,148</u>	<u>1,988,873</u>
(iv) Outstanding balances with related parties		
Premiums receivable from related parties	3,118,182	3,225,569
Staff car and other loans	1,860,164	933,507
	<u>4,978,346</u>	<u>4,159,076</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 CASH GENERATED FROM OPERATIONS

		2017	2016
		US\$	US\$
Profit for the year		23,852,766	19,297,040
Adjustments for:			
Gain on disposal of property and equipment		(11,533)	(562)
Gain on sale of quoted shares	4	(1,603,555)	(180,717)
Fair value gain on investment properties	4	(445,429)	(121,637)
Depreciation	9	120,300	158,348
Amortisation of intangible assets	10	6,122	38,463
Amortisation of deferred income	29	(815)	(815)
Changes in:			
- Provision for unearned premiums and unexpired risks		6,270,582	(17,239,870)
- Reinsurance contract liabilities		8,993,226	(2,260,759)
- Deposits retained by ceding companies		(1,378,069)	(777,409)
- Deposits retained on ceded reinsurance business		6,655	127,528
- Deferred acquisition costs (DAC)		(39,935)	5,832,807
- Receivables arising out of reinsurance arrangements		(14,881,812)	(2,367,936)
- Retrocessionaires share of technical liabilities		4,704,390	3,933,093
- Payables arising out of retrocession arrangements		304,099	3,982,775
- Deferred retrocession commission revenue (DRR)		10,925	(403,472)
- Payables arising from reinsurance arrangements		(676,095)	2,641,646
- Other receivables		(1,063,267)	(2,288,016)
- Other payables		1,108,234	2,155,582
		<u>25,276,789</u>	<u>12,526,089</u>

37 CASH AND CASH EQUIVALENTS

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

	2017	2016
	US\$	US\$
Cash and bank balances	2,096,029	2,794,248
Deposits with financial institutions maturing within 3 months (note 20)	49,932,978	93,617,846
	<u>52,029,007</u>	<u>96,412,094</u>

38 OPERATING LEASE COMMITMENTS

Net rental income earned during the year was US\$ 1,228,284 (2016: US\$ 1,217,445). At the end of the reporting period, the company had contracted with tenants for the following future lease receivables:

	2017	2016
	US\$	US\$
Not later one year	620,373	218,199
Later than 1 year but not later than 5 years	594,779	1,744,386
More than 5 years	8,485	-
	<u>1,223,637</u>	<u>1,962,585</u>

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

Impairment losses

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

Useful lives of property and equipment

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

Held-to-maturity investments

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

Available for sale investments

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

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 instrument.

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 all classes of business, namely Property, Casualty, Motor, Marine, Aviation and Life.

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

Frequency and severity of claims

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

The possibility of such occurrences cannot be eliminated. The only option is to minimise the financial consequences of each occurrence as far as possible. The company has 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 adjusters and information on the cost of settling claims with similar characteristics in previous periods. The main assumption underlying this technique is that the company's past claims development experience be used to project future claims development and hence ultimate claims costs.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Reinsurance risk (continued)

**Concentration risk
 At 31 December 2017**

Class of business		Maximum insured loss			Total
		US\$ 0m - US\$ 0.25m	US\$ 0.25m - US\$ 1m	Over US\$ 1m	
Property	Gross	96,778,414	347,812,195	8,313,502,453	8,758,093,062
	Net	85,868,255	294,080,613	2,642,252,482	3,022,201,350
Casualty	Gross	68,647,609	188,099,182	731,759,081	988,505,872
	Net	66,240,689	176,050,697	347,285,435	589,576,821
Motor	Gross	26,904,572	41,494,521	51,059,929	119,459,022
	Net	25,712,143	35,438,934	27,230,197	88,381,274
Marine	Gross	41,885,804	84,670,704	268,764,034	395,320,542
	Net	38,396,418	81,015,836	144,778,178	264,190,432
Aviation	Gross	5,818,729	4,092,175	7,100,021,150	7,109,932,054
	Net	5,818,729	4,092,175	3,176,250	13,087,154
Life	Gross	10,849,824	4,352,809	30,400,237	45,602,870
	Net	10,282,992	3,628,730	21,379,236	35,290,958
Medical	Gross	1,682,306	380,750	-	2,063,056
	Net	1,682,306	380,750	-	2,063,056
Total	Gross	252,567,258	670,902,336	16,495,506,884	17,418,976,478
	Net	234,001,532	594,687,735	3,186,101,778	4,014,791,045

At 31 December 2016

Class of business		Maximum insured loss			Total
		US\$ 0m - US\$ 0.25m	US\$ 0.25m - US\$ 1m	Over US\$ 1m	
Property	Gross	88,173,968	305,330,500	5,920,217,196	6,313,721,664
	Net	80,543,354	266,195,406	2,612,117,973	2,958,856,733
Casualty	Gross	57,933,818	152,283,750	278,791,267	489,008,835
	Net	57,764,160	146,587,175	183,002,521	387,353,856
Motor	Gross	24,869,127	38,936,380	15,374,247	79,179,754
	Net	24,408,421	34,407,359	10,799,572	69,615,352
Marine	Gross	37,522,587	60,319,699	94,899,616	192,741,902
	Net	37,062,940	58,567,368	49,864,706	145,495,014
Aviation	Gross	4,285,573	4,317,469	7,691,250	16,294,292
	Net	4,285,573	4,307,661	1,751,250	10,344,484
Life assurance business	Gross	9,646,054	1,689,343	23,808,956	35,144,353
	Net	9,411,700	1,689,343	19,784,997	30,886,040
Total	Gross	223,481,223	564,685,482	6,343,127,885	7,131,294,590
	Net	214,526,244	513,562,653	2,879,666,372	3,607,755,269

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

Class	2017		2016	
	Limit (US\$)		Limit (US\$)	
Fire/Engineering risk & Cat XL	107,000,000 in excess of	3,000,000	82,000,000 in excess of	3,000,000
Accident and Motor	4,000,000 in excess of	1,000,000	3,000,000 in excess of	1,000,000
Marine & Energy XL	11,500,000 in excess of	1,000,000	7,000,000 in excess of	1,000,000

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Financial risk management

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

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

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

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

(a) Credit risk

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

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

The Company manages its exposure in the following ways:

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

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

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

Maximum exposure to credit risk before collateral held:

At 31 December 2017	Performing	Past due but not impaired	Past due and impaired	Provision
	US\$	US\$	US\$	US\$
Deposits retained by ceding companies	6,016,722	-	-	-
Retrocessionaires share of technical liabilities	30,963,798	-	-	-
Other receivables (excluding prepayments) (note 16)	6,538,657	-	-	-
Receivables arising out of reinsurance arrangements	32,380,050	11,488,738	7,644,737	(7,644,737)
Government securities held to maturity (note 18)	97,950,985	-	-	-
Offshore investments (note 19)	9,246,238	-	-	-
Deposits with financial institutions (note 20)	99,219,720	-	-	-
Corporate Bonds and Loans (note 21)	10,160,360	-	-	-
Bank balances (note 22)	2,096,029	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Gross financial assets	294,572,559	11,488,738	7,644,737	(7,644,737)

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Financial risk management (Continued)

(a) Credit risk (continued)

31 December 2016	Performing	Past due but not impaired	Past due and impaired	Provision
	US\$	US\$	US\$	US\$
Deposits retained by ceding companies	4,638,653	-	-	-
Retrocessionaires share of technical liabilities	35,668,188	-	-	-
Other receivables (excluding prepayments) (note 16)	5,771,819	-	-	-
Receivables arising out of reinsurance arrangements	21,168,008	7,818,968	6,736,611	(6,736,611)
Government securities held to maturity (note 18)	31,439,093	-	-	-
Offshore investments (note 19)	8,689,807	-	-	-
Deposits with financial institutions (note 20)	137,268,634	-	-	-
Corporate Bonds and Loans (note 21)	18,846,965	-	-	-
Bank balances (note 22)	2,794,248	-	-	-
	<u>266,285,415</u>	<u>7,818,968</u>	<u>6,736,611</u>	<u>(6,736,611)</u>

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

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

Receivables arising out of reinsurance arrangements are summarized as follows:

	2017 US\$	2016 US\$
Neither past due nor impaired:		
- up to 90 days	11,901,484	5,016,270
- up to 91 to 120 days	3,060,190	1,425,629
- up to 121 to 270 days	13,215,468	12,690,877
- up to 271 to 360 days	4,202,908	2,035,232
Past due but not impaired – over 360 days	11,488,738	7,818,968
Impaired	7,644,737	6,736,611
	<u>51,513,525</u>	<u>35,723,587</u>
Less provision for impairment	(7,644,737)	(6,736,611)
	<u>43,868,788</u>	<u>28,986,976</u>

(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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Financial risk management (continued)

(b) Market risks(continued)

Interest rate risk (continued)

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.

At 31 December 2017 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 388,448 (2016: USD 582,477) lower/higher.

At 31 December 2017 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 512,951 (2016: USD 629,155) lower/higher.

At 31 December 2017 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 155,572 (2016: USD 115,900) 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 small portfolio of equity investments quoted in Nairobi Stock Exchange (NSE) and as such it is exposed to share price fluctuations. The company manages its exposure to this risk as follows:

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

At 31 December 2017, 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\$ 1,206,875 (2016: US\$ 981,300) higher/lower, and equity would have been US\$ 1,206,875 (2016: US\$ 981,300) 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 2017, if the US dollar had weakened/strengthened by 10% against the Kenya shilling with all other variables held constant, the net assets for the year would have been US\$1,320,795 higher/lower (2016: US\$ 893,856 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 5.8% (2016: 4.1%) of the company's net assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Financial risk management (Continued)

(b) Market risks (Continued)

Currency risk (continued)

At 31 December 2017, if the US dollar had weakened/strengthened by 10% against the Nepalese Rupee with all other variables held constant, the net assets for the year would have been US\$ 861,590 (2016: US\$ 1,468,156) higher/lower mainly as a result of Nepalese Rupee denominated deposits, receivables and payables. This is significant as the portion of Nepalese Rupee denominated net assets constitute 3.8% (2016: 6.7%).

At 31 December 2017, if the US dollar had weakened/strengthened by 10% against the Sudanese Pound (SDG) with all other variables held constant, the net assets would have been US\$ 455,533 (2016: US\$ 261,507) higher/lower, mainly as a result of Sudanese Pound denominated investments, receivables and payables.

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)

(i) Financial risk management (Continued)

(b) Market risks (continued)

Currency risk (continued)

At 31 December 2017

	US\$	NPR	KES	SDG	UGX	IZS	RWF	ETB	ZMW	Others	Total
Assets											
Investment properties	22,034,974	-	-	-	-	-	-	-	-	-	22,034,974
Available-for-sale equity investments	5,278,248	-	9,807,686	-	-	-	-	-	-	-	15,085,934
Investment in Affiliated companies	15,347,692	-	-	-	1,204,040	2,295,917	-	-	-	-	18,847,649
Receivables arising out of reinsurance arrangements	8,918,650	960,605	9,359,526	1,696,697	1,680,649	2,520,154	1,478,418	5,601,493	2,376,701	9,275,895	43,868,788
Retcessionaires share of technical liabilities	30,963,798	-	-	-	-	-	-	-	-	-	30,963,798
Deposits retained by ceding companies	76,089	(1,591)	1,142,153	-	-	286	152,807	-	-	4,646,978	6,016,722
Deferred acquisition costs	1,723,070	371,495	3,485,334	299,046	454,259	408,223	157,568	383,385	252,660	1,684,216	9,219,256
Government securities held to maturity	91,970,661	-	1,007,543	-	-	-	-	-	-	4,972,781	97,950,985
Available for sale offshore investments	9,246,238	-	-	4,639,048	-	-	-	5,250,224	-	-	9,246,238
Deposits with financial institutions	84,229,022	-	5,101,426	-	-	-	270,722	-	-	-	99,219,720
Corporate Bonds and Loans	9,063,693	-	825,945	-	-	-	-	-	-	458,312	10,160,360
Cash and bank balances	904,395	-	294,013	291,128	15,723	-	2,830	2,554	127,073	-	2,096,028
Total	279,756,530	1,330,509	31,023,626	6,925,919	3,354,671	5,224,580	2,062,345	11,237,656	2,756,434	21,038,182	364,710,452

Liabilities

Reinsurance contract liabilities	18,290,965	8,496,061	30,613,473	967,917	2,677,678	4,256,782	1,262,810	3,034,084	1,713,171	16,816,086	88,129,027
Payables arising from retrocession arrangements	4,072,423	51,154	486,870	188,449	150,016	97,453	4,702	10,108	37,492	2,239,155	7,337,822
Payables arising from reinsurance arrangements	2,430,619	30,531	290,588	112,476	89,537	58,165	2,806	6,033	22,377	1,336,435	4,379,567
Deposits retained on ceded reinsurance business	572,299	-	-	-	-	-	-	-	-	-	572,299
Unearned premium reserves	6,348,126	1,368,660	12,840,647	1,101,745	1,673,580	1,503,973	580,512	1,412,464	930,850	6,204,981	33,965,538
Deferred Retrocession Revenue	2,695,511	-	-	-	-	-	-	-	-	-	2,695,511

Total

	34,409,943	9,946,406	44,231,578	2,370,587	4,590,811	5,916,373	1,850,830	4,462,689	2,703,890	26,596,657	137,079,764
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Net financial position exposure

	245,346,587	(8,615,897)	(13,207,952)	4,555,332	(1,236,140)	(691,793)	211,515	6,774,967	52,544	(5,558,475)	227,630,68
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NOTES TO THE FINANCIAL STATEMENTS (continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Financial risk management (Continued)
(b) Market risks (Continued)

	US\$	NPR	KES	SDG	UGX	TZS	RWF	ETB	ZMK	Others	Total
Currency risk (continued)											
At 31 December 2016											
Assets											
Investment properties	19,011,465	-	-	-	-	-	-	-	-	-	19,011,465
Available-for-sale equity investments	4,743,168	-	7,294,453	-	-	-	228,626	-	-	-	12,266,247
Investment in Affiliated companies	11,368,432	-	-	-	841,911	1,432,259	-	-	-	-	13,642,602
Receivables arising out of reinsurance arrangements	3,050,888	113,705	8,365,392	2,729,650	1,360,052	1,282,139	1,401,254	6,325,553	1,150,725	3,207,618	28,986,976
Retrocessionaires share of technical liabilities	35,668,188	-	-	-	-	-	-	-	-	-	35,668,188
Deposits retained by ceding companies	4,638,653	-	-	-	-	-	-	-	-	-	4,638,653
Deferred acquisition costs	9,179,323	-	-	-	-	-	-	-	-	-	9,179,323
Government securities held to maturity	26,097,854	-	4,723,584	617,655	-	-	-	-	-	-	31,439,093
Available for sale offshore investments	8,689,807	-	-	-	-	-	-	-	-	-	8,689,807
Deposits with financial institutions	126,460,277	-	4,626,543	2,248,190	-	-	-	3,933,624	-	-	137,268,634
Corporate Bonds and Loans	17,666,150	-	905,304	-	-	-	275,511	-	-	-	18,846,965
Cash and bank balances	1,202,636	-	141,936	529,826	16	1	2,897	449,777	1,511	465,648	2,794,248
Total	267,776,841	113,705	26,057,212	6,125,321	2,201,979	2,714,399	1,908,288	10,708,954	1,152,236	3,673,266	322,432,201
Liabilities											
Reinsurance contract liabilities	15,313,143	12,218,542	23,107,439	1,681,332	1,912,171	3,579,696	1,203,669	4,501,254	777,404	14,841,151	79,135,801
Payables arising from retrocession arrangements	7,033,723	-	-	-	-	-	-	-	-	-	7,033,723
Payables arising from reinsurance arrangements	5,055,662	-	-	-	-	-	-	-	-	-	5,055,662
Deposits retained on ceded reinsurance business	565,644	-	-	-	-	-	-	-	-	-	565,644
Unearned premium reserves	4,978,141	1,108,564	10,994,474	2,090,423	1,100,306	963,569	501,830	1,493,127	685,887	3,778,635	27,694,956
Deferred Retrocession Revenue	2,684,586	-	-	-	-	-	-	-	-	-	2,684,586
Total	35,630,899	13,327,106	34,101,913	3,771,755	3,012,477	4,543,265	1,705,499	5,994,381	1,463,291	18,619,786	122,170,372
Net financial position exposure	232,145,942	(13,213,401)	(8,044,701)	2,353,566	(810,498)	(1,828,866)	202,789	4,714,573	(311,055)	(14,946,520)	200,261,829

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) 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 2017:

	Total Amount 2017	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 5 yrs
Financial assets:							
Available-for-sale equity investments	15,085,934	15,085,934	-	-	-	-	-
Receivables arising out of reinsurance arrangements	43,868,788	-	43,868,788	-	-	-	-
Deposits retained by ceding companies	6,016,722	-	6,016,722	-	-	-	-
Retrocessionaires share of technical liabilities	30,963,798	-	30,963,798	-	-	-	-
DAC	9,219,258	-	9,219,258	-	-	-	-
Government securities held to maturity	115,109,752	-	42,068,586	10,840,000	1,938,569	51,247,822	9,014,775
Offshore investments	9,246,238	9,246,238	-	-	-	-	-
Deposits with financial institutions	96,986,138	-	96,986,138	-	-	-	-
Corporate Bonds and Loans	11,636,958	-	1,009,157	311,757	9,514,857	801,187	-
Cash and bank balances	2,096,029	-	2,096,029	-	-	-	-
Total	340,229,615	24,332,172	232,228,476	11,151,757	11,453,426	52,049,009	9,014,775
Reinsurance liabilities:							
Reinsurance contract liabilities	88,129,027	-	88,129,027	-	-	-	-
Payables arising from retrocession arrangements	7,337,822	-	7,337,822	-	-	-	-
Payables arising from reinsurance arrangements	4,379,567	-	4,379,567	-	-	-	-
Deposits retained on ceded reinsurance business	572,299	-	572,299	-	-	-	-
Deferred retrocession revenue	2,695,511	-	2,695,511	-	-	-	-
Total	103,114,226	-	103,114,226	-	-	-	-
Net liquidity surplus	237,115,389	24,332,172	129,114,250	11,151,757	11,453,426	52,049,009	9,014,775

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Financial risk management (continued)

(c) Liquidity risk (continued)

The table below shows the contractual timing of cash flows arising from assets and liabilities included in the company's ALM framework for management of short term reinsurance contracts as of 31 December 2016:

	Total Amount 2016	No stated maturity	0-1 yr	Contractual cash flows (undiscounted)			
				1-2 yrs	2-3 yrs	3-4 yrs	> 5 yrs
Financial assets:							
Available-for-sale equity investments	12,266,247	12,266,247	-	-	-	-	-
Receivables arising out of reinsurance arrangements	28,986,976	-	28,986,976	-	-	-	-
Deposits retained by ceding companies	4,638,653	-	4,638,653	-	-	-	-
Retrocessionaires share of technical liabilities DAC	35,668,188	-	35,668,188	-	-	-	-
	9,179,323	-	9,179,323	-	-	-	-
Government securities held to maturity	31,439,093	-	25,748,934	344,667	-	4,364,790	980,702
Offshore investments	8,689,807	8,689,807	-	-	-	-	-
Deposits with financial institutions	137,268,634	-	136,928,428	340,206	-	-	-
Corporate Bonds and Loans	18,846,965	-	-	655,413	305,177	3,341,134	14,545,241
Cash and bank balances	2,794,248	-	2,794,248	-	-	-	-
Total	289,778,134	20,956,054	243,944,750	1,340,286	305,177	7,705,924	15,525,943
Reinsurance liabilities:							
Reinsurance contract liabilities	79,135,801	-	79,135,801	-	-	-	-
Payables arising from retrocession arrangements	7,033,723	-	7,033,723	-	-	-	-
Payables arising from retrocession arrangements	5,055,662	-	5,055,662	-	-	-	-
Deposits retained on ceded reinsurance business	565,644	-	565,644	-	-	-	-
Deferred retrocession revenue	2,684,586	-	2,684,586	-	-	-	-
Total	94,475,416	-	94,475,416	-	-	-	-
Net liquidity surplus	195,302,718	20,956,054	149,469,334	1,340,286	305,177	7,705,924	15,525,943

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

The fair value of held-to-maturity investment securities as at 31 December 2017 is estimated at US\$ 108,136,605 (2016: US\$ 49,831,366) compared to their carrying value of Shs 108,111,345 (2016: US\$ 50,286,059). The available for sale investment securities are carried at fair value in the Company's books. 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.

(ii) Fair value hierarchy

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

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

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

Some of the 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
	2017 US\$	2016 US\$				
Available for sale - quoted equity investments	15,085,934	12,266,247	Level 1	Quoted bid prices in an active market	N/A	N/A
Available for sale – offshore investments	9,246,238	8,689,807	Level 1	Quoted bid prices in an active market	N/A	N/A
Investment in affiliated companies	18,847,649	13,642,603	Level 3	Net Asset value	N/A	N/A

There were no transfers between levels 1 and 2 in the period (2016: nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

(ii) Fair value hierarchy (continued)

At 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale equity investments	15,085,934	-	-	15,085,934
Offshore investments	9,246,238	-	-	9,246,238
Investment in affiliated companies	-	-	18,847,649	18,847,649
Total	24,332,172	-	18,847,649	43,179,821

At 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets:				
Available-for-sale equity investments	12,266,247	-	-	12,266,247
Offshore investments	8,689,807	-	-	8,689,807
Investment in affiliated companies	-	-	13,642,603	13,642,603
Total	20,956,054	-	-	34,598,657

(iii) Financial assets by category

At 31 December 2017

	Loans and receivables US\$	Held to maturity US\$	Available-for- sale US\$	Total US\$
Available-for-sale equity investments	-	-	15,085,934	15,085,934
Investment in affiliated companies	-	-	18,847,649	18,847,649
Receivables arising out of reinsurance arrangements	43,868,788	-	-	43,868,788
Deposits retained by ceding companies	6,016,722	-	-	6,016,722
Other receivables	7,198,611	-	-	7,198,611
Government securities held to maturity	-	97,950,985	-	97,950,985
Available -for- sale offshore investments	-	-	9,246,238	9,246,238
Deposits with financial institutions	-	99,219,720	-	99,219,720
Corporate bonds and loans	-	10,160,360	-	10,160,360
Cash and bank balances	-	2,096,029	-	2,096,029
	57,084,121	209,427,094	43,179,821	309,691,036

At 31 December 2016

	Loans and receivables US\$	Held to maturity US\$	Available- for-sale US\$	Total US\$
Available-for-sale equity investments	-	-	12,266,247	12,266,247
Investment in affiliated companies	-	-	13,642,603	13,642,603
Receivables arising out of reinsurance arrangements	28,986,976	-	-	28,986,976
Deposits retained by ceding companies	4,638,653	-	-	4,638,653
Other receivables	6,135,344	-	-	6,135,344
Government securities held to maturity	-	31,439,093	-	31,439,093
Available -for- sale offshore investments	-	-	8,689,807	8,689,807
Deposits with financial institutions	-	137,268,634	-	137,268,634
Corporate bonds and loans	-	18,846,965	-	18,846,965
Cash and bank balances	-	2,794,248	-	2,794,248
Total assets	39,760,973	190,348,940	34,598,657	264,708,570

NOTES TO THE FINANCIAL STATEMENTS (continued)

41 CAPITAL MANAGEMENT

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

The company's objectives in managing its capital are:

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

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

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

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

	2017	2016
	US\$	US\$
Share capital	56,946,503	56,513,129
Share premium	49,788,160	47,920,319
Property revaluation reserve	531,307	391,682
Available for sale fair value reserve	145,197	(825,023)
Investment in affiliated companies revaluation reserve	5,201,568	445,282
Retained earnings	114,838,344	95,485,578
	<hr/>	<hr/>
	<u>227,451,079</u>	<u>199,930,967</u>

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REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2017

Class of insurance Business

	Property US\$	Casualty US\$	Motor US\$	Marine US\$	Aviation US\$	Life US\$	Medical US\$	Total US\$
Gross premiums written	73,865,314	27,330,772	10,316,769	9,094,935	3,255,300	11,951,512	16,317,758	152,132,360
Less: retrocession premiums	(29,291,612)	(2,426,030)	(339,316)	(1,998,408)	(3,120,082)	(766,492)	(34,527)	(37,976,467)
Net premiums written	44,573,702	24,904,742	9,977,453	7,096,527	135,218	11,185,020	16,283,231	114,155,893
Change in UPR	(190,099)	(747,677)	70,390	116,217	(96,062)	(511,200)	(97,773)	(1,456,204)
Exchange gains on revaluation of UPR	(491,052)	(550,956)	9,183	(115,249)	(300)	(24,898)	(218,040)	(1,391,312)
Net earned premiums	43,892,551	23,606,109	10,057,026	7,097,495	38,856	10,648,922	15,967,418	111,308,377
Gross claims paid	23,674,024	8,993,489	5,765,978	5,690,200	92,714	3,931,110	10,333,693	58,481,208
Change in gross outstanding claims	3,208,426	(1,414,757)	4,617,217	19,864	68,968	183,394	2,310,114	8,993,226
Exchange gains on revaluation of outstanding claims	181,646	(484,526)	(566,486)	(66,950)	227	(1,242)	(4,016)	(941,347)
Less: amounts recoverable from retrocessionaires	(5,940,439)	(247,616)	(582,450)	(3,533,159)	-	(647,354)	(30,720)	(10,981,738)
Net claims incurred	21,123,657	6,846,590	9,234,259	2,109,955	161,909	3,465,908	12,609,071	55,551,349
Commissions earned	(7,207,828)	(547,374)	(78,374)	(489,393)	(105,853)	(170,393)	(15,881)	(8,615,096)
Commissions expense	20,964,076	7,535,132	1,169,052	2,862,055	101,358	3,011,096	3,992,930	39,635,699
Charges and taxes	657,306	243,209	91,806	80,933	28,968	106,353	145,207	1,353,782
Expenses of management	5,332,128	1,972,932	744,739	656,538	234,991	862,746	1,177,933	10,982,007
Total expenses and commissions	19,745,682	9,203,899	1,927,223	3,110,133	259,464	3,809,802	5,300,189	43,356,392
Underwriting profit/(loss)	3,023,212	7,555,620	(1,104,456)	1,877,407	(382,517)	3,373,212	(1,941,842)	12,400,636

Key ratios:

Loss ratio (<i>net claims incurred/net earned premium</i>)	48.1	29.0	91.8	29.7	416.7	32.5	79.0	49.9
Commissions ratio (<i>net commissions /net earned premium</i>)	31.3	29.6	10.8	33.4	(11.6)	26.7	24.9	27.9
Expense ratio (<i>management expenses/net earned premium</i>)	12.1	8.4	7.4	9.3	604.8	8.1	7.4	9.9
Combined ratio (underwriting outgo/net earned premium)	93.1	68.0	111.0	73.5	1,084.4	68.3	112.2	88.9

APPENDIX I

ZEP-RE (PTA Reinsurance Company)
Supplementary information

APPENDIX II

REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016

Class of insurance Business	Property US\$	Casualty US\$	Motor US\$	Marine US\$	Aviation US\$	Life US\$	Medical US\$	Total US\$
Gross premiums written	63,328,950	21,252,848	9,958,323	10,090,923	299,005	10,034,357	13,733,880	128,698,286
Less: retrocession premiums	(19,404,804)	(1,077,203)	(196,069)	(1,515,286)	-	(1,407,663)	-	(23,601,025)
Net premiums written	43,924,146	20,175,645	9,762,254	8,575,637	299,005	8,626,694	13,733,880	105,097,261
Change in UPR	8,506,653	3,447,559	45,461	1,849,732	(4,859)	509,112	1,441,301	15,794,959
Exchange gains on revaluation of UPR	(1,227,330)	(588,493)	(40,133)	(225,066)	(6,435)	(185,958)	(339,027)	(2,612,442)
Net earned premiums	51,203,469	23,034,711	9,767,582	10,200,303	287,711	8,949,848	14,836,154	118,279,778
Gross claims paid	36,468,226	9,094,712	6,103,494	3,104,007	44,178	3,849,201	9,210,228	67,874,046
Change in gross outstanding claims	(7,656,700)	3,501,734	2,007,465	1,441,488	(19,865)	(442,334)	(1,092,547)	(2,260,759)
Exchange gains on revaluation of outstanding claims	1,243,802	308,008	650,173	215,806	12,124	17,217	59,447	2,506,577
Less: amounts recoverable from retrocessionaires	(4,078,892)	(277,430)	601,033	(1,507,772)	-	(282,566)	-	(5,545,627)
Net claims incurred	25,976,436	12,627,024	9,362,165	3,253,529	36,437	3,141,518	8,177,128	62,574,237
Commissions earned	(5,272,631)	(471,395)	(24,636)	(394,600)	(18,613)	(281,028)	-	(6,462,903)
Commissions expense	22,038,554	7,927,027	922,553	3,683,424	56,639	2,726,427	3,234,325	40,588,949
Charges and taxes	374,392	149,891	69,007	82,123	3,337	10,746	98,246	787,742
Expenses of management	4,322,769	1,450,698	679,745	688,796	20,410	684,935	937,461	8,784,814
Total expenses and commissions	21,463,084	9,056,221	1,646,669	4,059,743	61,773	3,141,080	4,270,032	43,698,602
Underwriting profit/(loss)	3,763,949	1,351,466	(1,241,252)	2,887,031	189,501	2,667,250	2,388,994	12,006,939
Key ratios:								
Loss ratio (<i>net claims incurred/net earned premium</i>)	50.7	54.8	95.8	31.9	12.7	35.1	55.1	52.9
Commissions ratio (<i>net commissions /net earned premium</i>)	32.7	32.4	9.2	32.2	13.2	27.3	21.8	28.9
Expense ratio (<i>management expenses/net earned premium</i>)	8.4	6.3	7.0	6.8	7.1	7.7	6.3	7.4
Combined ratio (<i>underwriting outgo/net earned premium</i>)	92.6	94.1	112.7	71.7	34.1	70.2	83.9	89.8

SCHEDULE OF MEMBERSHIP

APPENDIX III

Class	Shareholder	2017		2016	
		Shareholding		Shareholding	
		US\$	%	US\$	%
CLASS A	Kenya Reinsurance Corporation Ltd	10,883,111	19.13	10,652,978	18.85
	TDB	10,777,206	18.93	5,754,498	10.18
	Government of Rwanda	3,653,100	6.41	3,653,100	6.46
	PPF	2,397,553	4.21	2,397,553	4.24
	Government of Sudan	2,209,327	3.88	2,175,874	3.85
	National Insurance Corporation (T) Ltd	2,005,904	3.52	2,005,904	3.55
	Government of Djibouti	1,837,544	3.23	1,837,544	3.25
	Government of Zambia	1,508,938	2.65	1,508,938	2.67
	ZSIC - Pension Trust	1,438,823	2.53	1,438,823	2.55
	NICE	1,391,854	2.44	1,201,109	2.13
	Government of Kenya	492,417	0.86	492,417	0.87
	Sheikan Ins. & Reins. Ltd	411,256	0.72	405,029	0.72
	SOCABU	400,365	0.7	400,365	0.71
	COMESA Secretariat	376,453	0.66	376,453	0.67
	EMOSE	371,562	0.65	371,562	0.66
	Industrial Development Corporation - Zambia	323,073	0.57	-	-
	Government of Mauritius	261,161	0.46	261,161	0.46
	ZSIC Life	257,275	0.45	-	-
	CMAR (NY Havana)	245,244	0.43	245,244	0.43
	Société Nationale d'Assurances (SA)	174,342	0.31	171,702	0.3
ZIC	130,215	0.23	130,215	0.23	
ZSIC Ltd	-	-	646,147	1.14	
CLASS B	Mayfair Insurance Company Ltd	725,390	1.27	714,407	1.26
	SORAS	516,673	0.91	516,673	0.91
	United Insurance Company Ltd	500,192	0.88	492,618	0.87
	Amerga	497,334	0.87	489,803	0.87
	Baobab Reinsurance Company Ltd	488,397	0.86	488,397	0.86
	Juba Insurance Company Ltd	406,511	0.71	400,355	0.71
	Blue Shield Insurance Company Ltd	372,953	0.65	372,953	0.66
	GXA	266,237	0.47	266,237	0.47
	Assurances BICOR	244,375	0.43	240,644	0.43
	Statewide Insurance Company Ltd	228,675	0.4	228,675	0.4
	SONARWA	144,322	0.25	144,322	0.26
	National Insurance Corporation (U) Ltd	127,663	0.22	127,663	0.23
	Apollo Insurance Company Ltd	124,984	0.22	124,984	0.22
	Lion Assurance of Uganda Ltd	113,845	0.2	113,845	0.2
	CLASS C	African Development Bank	7,277,029	12.78	7,277,029
DEG		3,365,200	5.91	8,387,908	14.85
	TOTAL	56,946,503	100	56,513,129	100

Key:

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

ZEP-RE (PTA Reinsurance Company)
Supplementary information
For the year ended 31 December 2017

APPENDIX IV

CREDIT RATING CERTIFICATE

A.M. Best Company

certifies that

ZEP-RE

(PTA Reinsurance Company)

has a

Best's Financial Strength Rating

of

B++ (Good)



Certificate Publication Date: February 15, 2017

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

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Arthur Boyd II
President

Stefan Wolfberger
Chief Rating Officer

