Committed to
Quality Service

2018

Annual Report & Financial Statements

ABOUT US

ZEP-RE the Company

ZEP-RE is a specialized institution of the Common Market for Eastern and Southern Africa (COMESA) mandated to work with governments and local players in the region to develop the insurance business and support capacity building. The Company was established on 23rd November 1990 in Mbabane, Swaziland through an Agreement of Heads of State and Governments. The current signatories to the Company's charter include; Angola, Burundi, Comoros, D.R. Congo, Djibouti, Kenya, Eritrea, Ethiopia, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Somali, Sudan, Tanzania, Uganda, Zambia and Zimbabwe.

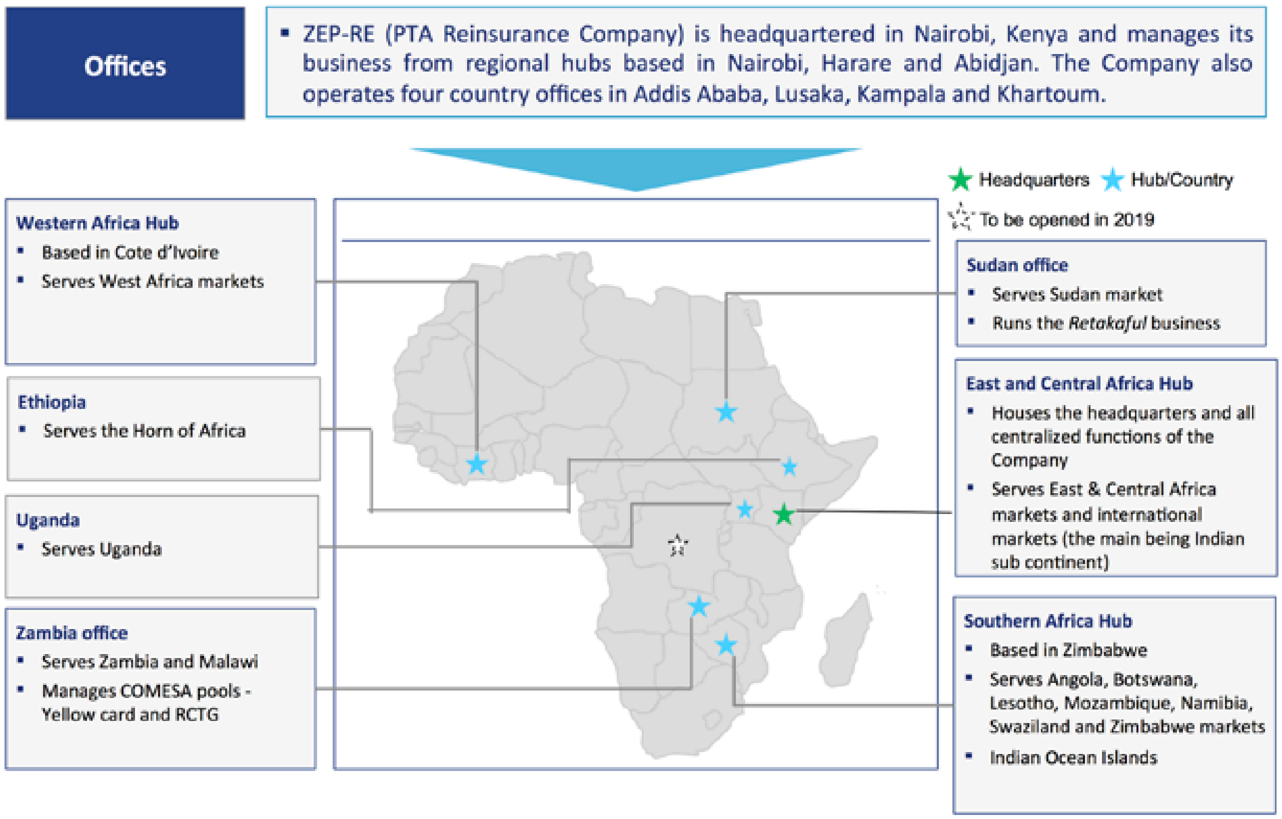
Objectives of the Company

The core objectives of the Company are to foster the development of the insurance and reinsurance industry in the COMESA Region; promote the growth of national, regional underwriting and retention capacity; deepen insurance penetration by broadening access and financial inclusion and support regional economic development.

Our Value Proposition

ZEP-RE's operational activities are driven by the desire to provide excellent technical services to all our clients and to actively participate in and support the development of the region's insurance and reinsurance industry. Over the last 25 years, ZEP RE has grown exponentially from a small re-insurance company to become a respected regional Reinsurer within the COMESA region and beyond.

In achieving this remarkable success, ZEP RE has been guided by its Vision to be a world class leading reinsurer in Africa, and its Mission to provide first class security and services to clients. The Company continuously strives to offer tailor-made solutions that are responsive to the needs of each individual client driven by its motto of Commitment to Quality Service. ZEP-RE offers state of the art solutions aimed to assist our clients and partners to extract more value from their operations.



Products & Services

Reinsurance is ZEP-RE's core business. The Company provides reinsurance cover across a broad spectrum of products both life and non-life.

Property

Fire and Engineering business are the classes the company provides reinsurance under the property portfolio. Fire Reinsurance would include among others, the traditional fire and allied perils and Industrial all risks whilst engineering reinsurance include Contractors All Risks, Advance Loss of Profits, Electronic Equipment, Machinery Breakdown among others.

Casualty

ZEP Re provides casualty reinsurance capacity among others, the general liabilities resulting to bodily injuries and property damages, Professional liabilities, Personal Accident, Work Injury benefits among others.

Marine

The company's reinsurance cover under marine include Hull and Cargo. Marine Hull being the loss of or damage to water vessels at the ports, sea, or inland waterways while Marine Cargo covers loss of or damage to Cargo whilst on transit on sea or land.

Aviation

Aviation reinsurance provides protection against Hull and related liability risks.

ABOUT US

Life

The Company's life products cover a wide range of long and short-term life products including term insurance and variable life policies.

Medical

Medical insurance is one of the fastest growing sectors in the region and ZEP-RE has been at the forefront of providing technical support and capacity to underwrite reimbursement health products in the inpatient and outpatient sectors.

Motor

Motor insurance is another growing segment in the region and the Company provides reinsurance cover for all types of risks related to a motor vehicle. These risks would include mostly the statutory legal liabilities of injury, death, property damage as a result of an accident. Motor will also financial protection against loss or theft of vehicles, and losses brought by natural disasters.

Reinsurance Pools

Among the key founding mandates of the Company is the creation and administration of pools for various risks for the account and to the interest of the Region's insurance and reinsurance markets. In this respect the Company offers pool management services for various projects in the region including the COMESA Yellow Card Scheme, the COMESA RCTG (Regional Customs Transit Guarantee) Scheme and Retakaful business.

The COMESA Yellow Card Scheme

The Yellow Card is essentially a Regional third-party motor vehicle insurance Scheme that provides third party legal liability cover and compensation for medical expenses resulting from road traffic accidents caused by visiting motorists. Besides offering third party liability protection to the insured or the driver whilst in a foreign country, the COMESA Yellow Card Scheme also offers emergency medical cover to the driver and passengers of the foreign motor vehicle involved in the traffic accident. The COMESA Yellow Card Scheme is currently operational in twelve COMESA Member Countries and one non-COMESA member Country namely; Burundi, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Sudan, Tanzania, Uganda, Zambia and Zimbabwe

The Scheme which has been in operation for over 32 years was created to address problems raised by inter-state traffic with regard to motor vehicle liability insurance. In order to boost Yellow Card operations, build capacity, enhance efficiency and profitability of the participating Insurance Companies, the Council of Bureaux established Reinsurance Pool which was actualised in the year 1998 and ZEP-RE was subsequently appointed Pool Manager and has been managing the Pool since then.

The COMESA RCTG Scheme

The COMESA RCTG is a customs transit regime designed to facilitate the movement of goods in transit in the COMESA region by providing adequate security of guarantee to the transit countries to recover duties and taxes should the goods in transit be illegally disposed of for home consumption in the country of transit. The Scheme is a component of the COMESA Protocol on Transit Trade and Transit Facilitation that forms part of the COMESA Treaty.

Under the RCTG Scheme, only one bond RCTG Carnet is issued, discarding the need for a bond through every transit country. The RCTG Carnet therefore facilitates and improves the movement, clearance and release of transit goods and reduces the cost of guarantees, collateral amount, transit time and overall cost of doing cross border business in the region.

A reinsurance Pool was established to support the scheme and ZEP-RE was appointed as Pool manager of this reinsurance scheme in June,2010.

Retakaful Window

Takaful insurance has been registering phenomenal growth over the years and according to a report by Dubai Centre for Islamic Banking and Finance (DCIBF), the global takaful insurance market is expected to reach US$ 52.5 billion by 2020. Takaful in Africa has largest presence in Sudan, Egypt, Tunisia, Algeria, Senegal and smaller presence in South Africa and Gambia. Takaful insurance was introduced as an alternative to traditional commercial insurance and seeks to address Islamic law requirements on riba (interest), al-maisir (gambling) and al-gharar (uncertainty) principles.

It is in recognition of the growing importance of this sector and at the request of our clients that ZEP-RE set up a Retakaful Window in Sudan, Africa's first and longest serving takaful market. The Window which became operational in January 2010 serves the Sudan market and markets beyond.

At the time of setting up this Window, ZEP-RE was the first African multinational company to do so in the African continent. The Company has in place a qualified and technically knowledgeable team on the ground in Sudan managing the Window operations and who provide service, advise and products that are compliant with Sharia law.

Risk Management Services

The Company has in place an in-house team that offers value addition risk management services in areas such as technical advisory, risk surveys and actuarial support. The services were set up in recognition of the growing complexity of insurance business and the need to assist our clients and the regional industry at large in managing risks appropriately with a view to improving the technical performance of the industry.

Training and the ZEP-RE Academy

The ZEP-RE Academy was launched in 2016 to foster the development of the insurance and reinsurance sectors of the region through training and technical skill development. The Academy's key goal is to provide thought leadership in the insurance industry of the region and create a space for interaction and brainstorming of key issues affecting local industry. The Academy has also been designed to be the continental provider of insurance training solutions aimed at translating our strong belief in insurance and reinsurance professionalism into reality.

The flagship course currently offered by the Academy is the Proficiency in Short Term Reinsurance Practice & Claims Management (PSTRPCM). The Academy runs this course in conjunction with the College of Insurance in Kenya. The course targets all employees deployed in Insurance and Reinsurance Companies, Brokers and other Industry Service Providers in the departments of Direct Underwriting, Claims, Reinsurance Underwriting and Reinsurance Accounting. ZEP-RE Academy also conducts workshops in Fire, Engineering, Life Accident & Motor and Medical classes of business.

Since 2017, the Academy has also broadened its skills development programs to include high level workshops for and specially designed courses for industry captains (CEO Forums) and regulator specific courses.

Our People

In line with our vision of being a world class leading reinsurer in Africa, ZEP-RE has a diversified staff intended to grow our physical footprint aimed at getting closer to our clients for first-class service delivery. Our objective is to be a trusted thought-partner providing access to world-leading technical expertise and ground-breaking approaches to our clients' underwriting and risk management needs.

At ZEP-RE, the attraction and retention of talent is therefore imperative, hence we endeavour to recruit and invest in the best talent in the market. We make strategic investments in our human capital through targeted training and recruitment while further establishing a high performance and collaborative culture within our organisation. The Company's terms & conditions of service are structured with staff retention in mind.

ZEP-RE is an equal opportunity employer and undertakes competitive recruitment processes to achieve the aforesaid talented staff. A training budget is provided for all staff and actioned in line with their personal development plans that are aligned to the Company's objectives.

In addition, the Company focuses on developing young leaders who are critical to our business success and continuity. The Young Professional Program (YPP) represents one of such initiatives. The YPP is a one-year

ABOUT US

program designed for outstanding young graduates in the fields of Actuarial Science, Engineering and Finance & Accounting. The program enables each Young Professional (YP) to receive extensive exposure and experience of the Company's various activities through job rotations in different departments. The Program aims to create a pool of highly trained and experienced young professionals that can be called upon as and when the Company requires professional service. The YPP is decentralized to countries where ZEP-RE operates. As a strategic talent pipeline for the professional career in ZEP-RE, the YPP is designed for outstanding young graduates who can significantly help the Company to carry out its mission and attain its objectives. The program enables each Young Professional (YP) to receive extensive exposure and experience of the Company's various activities through job rotations in different departments.

Selected YPs spend twelve months at the Company's offices in the country where the program is applicable, with a possibility of being deployed in other countries where the company has offices. YPs benefit from a coaching/career counselling arrangement and a wide range of relevant training and developmental opportunities. Upon successful program completion, the YPs are released to return to the marketplace and / or their countries of origin if the program is held at Head Office for YPs from other countries. ZEP-RE meets all living expenses for the YPs and pays them an allowance for the duration of their program.

OUR VISION

To be a world class leading reinsurer in Africa

OUR MISSION

To provide first class security and quality service to our clients

OUR VALUES

We are customer driven

We are a professional team

We are committed to our work

We act with integrity

We are a responsible corporate citizen

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In these times when business presents itself in increasingly complex risk, ZEP-RE strives to provide its clients with a little more than the what traditional reinsurers used to offer their clients in the past. ZEP-RE has adopted a holistic approach to client service by striving to provide a wide range of services aimed at helping clients meet their goals with minimum fuss.

CORPORATE INFORMATION

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. Jadiah Mwarania	Resigned on 29 June 2018
	Mr. David Kibet Kemei	Appointed on 29 June 2018
	Mr. Mohammed Mousa Idris	
	Mr. Novat Niyungeko	
	Mr. Tadesse Admassu	
	Mr. Yaw Kuffour	
Alternate Directors	Mr. Dahir Warsama	
	Ms. Jacqueline Njui	
	Ms. Joy Uwinema Ntare	
	Mr. Miruho Ntale Alexandre	
	Mr. Mohammed Abdin Babiker	Resigned on 29 June 2018
	Mr. Peter Lukwesa	Resigned on 29 June 2018
	Ms. Rehema Namutebi	
	Mr. Simarjit Singh Sra	
	Ms. Trinitas Girukwishaka	
	Ms. Verdiana Nkwabi Macha	
	Mr. Zuheir Hassan Ibrahim	Appointed on 29 June 2018
	Ms. Christabel Michel Banda	Appointed on 29 June 2018
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. Jephita Gwatipedza	- Regional Director, Southern Africa Hub
	Mr. Alexio Manyonde	- Chief Information Officer
	Ms. Deniese Imoukhuede	- Chief Risk Officer
	Dr. Hatim Mudawi	- Head of Retakaful Window
	Mr. Jerry Sogoli	- Company Secretary
	Mr. Joseph Nabimanya	- HR & Administration Manager
	Ms. Miriam Magala	- Head of Legal & Regulatory Affairs
	Mr. Nicholas Malombe	- Assistant Director, Life & Health
	Mr. Reuben Koech	- Head of Investments
	Mr. Shipango Muteto	- Assistant Director, ZEP-RE Academy

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

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
Kamplala, 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

Mr. William Erio

Chairman

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 National Social Security Fund of Tanzania and holds directorship positions in Tanzania National Reinsurance Corporation Limited, IHPL Limited and PPL Limited.

Ms. Agito Amela Carole

Vice Chairperson

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

Ms. Hope Murera

Managing Director

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 the Uganda Reinsurance Company Limited.

BOARD OF DIRECTORS' PROFILES

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.

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 in the Republic of Rwanda. 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 and Economic Planning. 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 Arts degree in Corporate Finance and Management from Southampton Solent University, UK. He previously served as a non-Executive Director of Bank of Kigali and is currently a Director of Rwandair Ltd.

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.

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 The Technical University of Berlin and is a CFA charter holder.

Mr. David Kemei

Mr. David Kemei is a non-Executive Director of ZEP-RE. He joined the Board of ZEP-RE in June 2018. He is currently the Chairman of Kenya Reinsurance Corporation. He holds a Bachelor of Commerce Degree in Accounting and a Masters in Business Administration (MBA), both from the University of Nairobi. He is also a Certified Public Accountant (CPA) as well as a Certified Regulation Specialist. He has served in various positions including teaching at the University of Nairobi, Credit Control at Nation Media Group, Finance Manager at Windsor Golf Hotel and Country Club Ltd and a Financial analyst at the Energy Regulatory Commission. He is currently the Chief Executive at DGMB Financial Services Ltd.

Mr. Mohammed Mousa Idris

Mr. Mohammed Mousa Idris is a non-Executive Director who was elected to the Board of ZEP-RE in 2012. 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, Sudan. 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.

BOARD OF DIRECTORS' PROFILES

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 Degree 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.

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 the Vice-Chairman of the African Association of Development Finance Institutions, a Non-Executive Director at Gulf Africa Bank and a Director at GAIN in Geneva and FISEA in Paris.

Mr. 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

Seated from Left to Right – Mr. Yaw Kuffour, Ms. Hope Murera, Mr. William Erio, Silhoutte-Mr. Aden Saleh Omar, Mr. George Silutongwe,

Standing from Left to right – Mr. Zuheir Hassan Ibrahim (alternate to Mr. Mohammed Mousa Idris), Silhoutte - Mr. David Kibet Kemei, Mr. Miruho Ntale Alexandre (alternate to Ms. Agito Amela Carole), Mr. Caleb Rwamuganza, Mr.Novat Niyungeko, Silhoutte - Mr. Tadesse Admassu, Mr. Jan Gross

MANAGEMENT TEAM

Ms. Hope Murera
Managing Director

Mr. Benjamin Kamanga
Finance Director

Mr. Ronald Kasapatu
Operations Director

Mr. Bernard Katambala
Regional Director, Eastern Africa Hub

Mr. Jephita Gwatipedza
Regional Director, Southern Africa Hub

Mr. Alexio Manyonde
Chief Information Officer

Ms. Deniese Imoukhuede
Chief Risk Officer

Dr. Hatim Mudawi
Head of Retakaful Window

Mr. Jerry Sogoli
Company Secretary

Mr. Joseph Nabimanya
HR & Administration Manager

Ms. Miriam Magala
Head of Legal & Regulatory Affairs

Mr. Nicholas Malombe
Assistant Director, Life & Health

Mr. Reuben Koech
Head of Investments

Mr. Shipango Muteto
Assistant Director, ZEP-RE Academy

NOTICE IS HEREBY GIVEN that the 28th Annual General Assembly of ZEP-RE (PTA Reinsurance Company) will be held at the Radisson Blu Hotel in Nairobi, Kenya on Monday 24th June 2019 at 0900 hours Kenyan time to conduct the following business.

1. To note the presence of a quorum.
2. To adopt the agenda of the meeting.
3. To confirm minutes of the previous Annual General Assembly held on 29th June 2018.
4. To consider and adopt the Financial Statements for the year ended 31st December 2018 together with the Chairman's Statement, the Directors' Report and Auditor's Report.
5. To approve the Directors' remuneration for the financial year ended 31st December 2018.
6. To declare a dividend in line with the Board of Directors recommendations. The Directors recommend approval of a dividend of US$ 2,500,000 for the year 31st December 2018.
7. Election of a new Board of Directors.
8. Election of a Chairman and Vice Chairman of the Company.
9. To consider and if approved, appoint External Auditors for 2019 and approve their remuneration.
10. To undertake any other business.

VENUE

Nairobi, Kenya

BY ORDER OF THE BOARD

Jerry Sogoli

Secretary to the Board

Note

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on their behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is provided with this NOTICE, must be duly completed by the member and lodged at the Company's headquarters on 8th Floor, ZEP-RE Place, Longonot Road, Upper Hill, Nairobi by post, fax or email in time using the following address – P.O. Box 42769 - 00100 Nairobi, Kenya, Fax - +25420273844 4 or Email – mail@zep-re.com so as to reach the Company not later than Monday, 17th June 2019.

" 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 2018."

William Erio
Chairman

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 2018.

2018 ECONOMIC CONDITIONS

GLOBAL

Global economic growth for 2018 is estimated at 3.7% but projections for 2019 and 2020 are lower mainly on account of tensions associated with the US-China trade wars. Economic growth rates in the Sub-Saharan region, where most of our key markets are located, were mixed with some economies registering good growth while other remained stagnant. Overall growth was modest and stable.

According to the IMF global expansion deteriorated due to weaker performance in some economies, notably Europe and Asia. The downward movement reflects carry over effects from softer momentum in the second half of 2018 due to financial conditions in advanced economies tightening, equity markets correcting after sustained rallies on concerns that earnings would not supportive of stretched share prices, effects of new emission standards in Germany, concerns about sovereign and financial risks in markets such as Italy and continued contraction in previously robust markets like Turkey.

REGIONAL

2018 saw the economic recovery in Sub-Saharan Africa continue. There were, however, mixed performance and prospects within the region. The region's more diversified economies continued to make good recovery and were expected to sustain growth at 5 percent or more and remain on the impressive per capita convergence path they had been on since the early 2000s. The picture was however different for the more resource-dependent economies, including the two largest economies (Nigeria and South Africa). Growth was and is expected to remain anaemic in the near term. This therefore implies a much slower improvement in standards of living for the lion's share of Sub-Saharan Africans.

Armed conflict and terrorism in its various forms also negatively impacted the region. A declining trend in the incidence and intensity of conflicts had been observed since the early 2000s but there has been an uptick in violence in recent years that mirrors the global increase in conflict. Overall, about a third of the countries in the region have been affected by conflict and terrorism in 2018.

One key positive in 2018 was the fact that the African Union took a major step to boost regional trade and economic integration by establishing the African Continental Free Trade Area (AfCFTA). The free trade area is meant to eliminate tariffs on most goods, liberalize trade of key

2018 HIGHLIGHTS

17%

Growth of gross premium income over that of previous year.

US$ 2.5M

The Board of Directors is recommending a dividend of US$ 2.5 million from the results of 2018 compared to US$5.0 million for 2017.

services, address non-tariff obstacles to intraregional trade, and eventually create a continental single market with free movement of labour and capital. The AfCFTA, now ratified by 23 countries came into take effect in May 2019. AfCFTA has the potential to open and coalesce an economic bloc with a combined GDP of US$2.5 trillion. This would be an economic game changer for the continent and open massive opportunities for the insurance industry on the continent.

The COMESA sub-region, home to the Company, and Africa's largest trade bloc also continued to register positive recovery after a previous year in which intra-regional trade declined due to effects of declined oil and commodity prices that had impacted the regional bloc since 2014. The sub-region was a beneficiary of increased FDI inflows with a growth of 3.6 per cent over the previous year and accounted for nearly half of Africa's inflows. This trend was in contrast to global and continental movements. Projections point to increased growth given the fact that a large number of the region's economies are more diversified and are expected to be less impacted by volatilities in the global commodities market.

BUSINESS PERFORMANCE

Insurance markets' growth was subdued. Despite this, the Company managed to register a 17% growth of gross premium income over that of previous year. Kenya remained the largest contributor of the company's business in 2018 followed by Zimbabwe, India, Uganda and Tanzania. The fastest growing sectors remained the motor and medical classes. These are thin margin portfolios which the Company underwrote on a limited basis.

The growth was however accompanied by a significant upward movement in claims, a factor that negatively impacted performance. Exchange rates for most local currencies during the year were stable and resilient save for a few currencies which depreciated. The Sudanese Pound (SDG) was a major culprit with an 85% depreciation. The combination of these two factors, deterioration of loss experience and currency depreciation, reduced the Company's profit for the year from a high of US$ 23.9 million in 2017 to a low of US$ 10.1 million, a 57.7% reduction.

DIVIDEND

The Board of Directors is recommending a dividend of US$ 2.5 million from the results of 2018 compared to US$5.0 million for 2017.

The reduction in the recommended dividend is informed by the reduced profit for the year as explained in the preceding paragraphs.

STRATEGIC FOCUS

The Company is committed to its strategic focus aimed at business leadership in its core markets and expansion into new business frontiers as a means of building a solid base aimed at catapulting the Company towards realising the USD 1 billion-dollar premium goal. Currently, the Company underwrites business from all COMESA Member States and has a physical presence in seven countries on the continent. Our goal is to sustain these efforts while ensuring that we remain vigilant and responsive to the needs of our clients and key business partners.

GOVERNANCE

During the year we had a change of membership on the Board of the Company. Mr. David Kemei was appointed to replace Mr. Jadiah Mwarania as Director while Ms. Christabel Michel Banda and Mr. Zuheir Hassan Ibrahim were appointed as Alternate Directors to replace Mr. Peter Lukwesa and Mr. Abdin Mohammed. We wish to thank the retired Director and Alternate Directors for the service they rendered to the Company during their tenure.

On a related note we are pleased to advise that during the year, the Company undertook a governance review exercise aimed at benchmarking against best practice. The exercise, facilitated by a London based consulting firm, was partly funded by the technical support unit of our shareholder Deutsche Investitions- und Entwicklungsgesellschaft (DEG). On behalf of the Board and shareholders, I wish to thank DEG for the support. Overall the report determined that the Company had in place a comprehensive governance policy framework and demonstrated a strong commitment to good governance. The consultants made a number of proposals to strengthen the governance framework further. The incoming Board due to be elected by the 28th Annual General Assembly will be overseeing implementation of these improvements.

2019 ECONOMIC OUTLOOK

Global expansion has weakened, and the global economy is projected to grow at 3.5 percent in 2019. Risks to global growth in 2019 tilt to the downside. An escalation of trade tensions beyond those already incorporated in the forecast remains a key source of risk to the outlook. Financial conditions have already tightened since the fall. A range of triggers beyond escalating trade tensions could spark a further deterioration in risk sentiment with adverse growth implications, especially given the high levels of public and private debt. These potential triggers include a “no-deal” withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China.

In Sub-Saharan Africa, the economic prospects for 2019 look promising. Economic growth is set to pick up from 3 percent in 2018 to 3.5 percent in 2019, before stabilizing at close to 4 percent over the medium term. Beneficiaries of this positive outlook are mostly non-resource-intensive countries who are expected to grow at 5 percent or more, which would see per capita incomes rise faster than the rest of the world on average over the medium term. For the resource-intensive countries, improvements in living standards will be slower. The region will still face the challenge of strengthening resilience and creating higher, more inclusive and durable growth. Addressing these challenges will require augmenting fiscal framework by mobilizing revenues and boosting productivity.

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 our shareholders, I thank you for the continuous support and confidence in the Board of Directors and Management. For the management and staff, we are grateful for the hard work that was put in which ensured the Company was steered effectively and managed to overcome a most challenging year. 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.

William Erio

Chairman

" The COMESA region remained the Company's main source of business in 2018, contributing 74.6% of business underwritten by the Company. "

Hope Murera
Managing Director

Dear Shareholder,

It is my pleasure to present a review of our business performance in FY 2018.

STRATEGIC FOCUS

In 2016, ZEP-RE initiated a 10 year I BELIEVE (1B) strategic plan (2017-2026) which is centred on the following themes:

- Business growth through focus on the largest and fastest growing lines of business;
- Relationship-based underwriting - deepening technical skills whilst making good the value proposition of strong service and relationships;
- Customer centricity in Claims - creating a level of claims service which makes Zep-Re distinctive to our clients;
- Information technology -enabling the growth agenda through technology as well as aiming for operational excellence by improving efficiencies through automation;
- Skill building and performance management culture - doubling down on people development as a key competitive advantage with individual ownership and accountability to deliver the agreed outcomes; and,
- Enterprise risk management - strengthening the risk culture to become a stronger part of the organization's DNA.

Two years into the execution of our I BELIEVE strategy, we have recorded a number of achievements and encountered challenges as outlined below.

2018 HIGHLIGHTS

It has been an exciting and yet challenging year. Through the team's combined efforts, we have been able to record a number of achievements, notably:

- This is the second full year of executing our 1B strategy which has resulted in topline growth rate above the market growth and that of our competitors. Our growth is attributed to the focus on building strong client relationships through our rigorous coverage model;
- Our Regional footprint has grown and the new offices of Uganda and Ethiopia are doing well;
- Partnerships have seen us access new markets especially in West Africa and also provided additional capacity to write more business. We continue to work with our partners to turn around the growing but loss

making classes of motor and medical business and we have recruited actuaries to boost our analytics capacity to support these efforts;

- In line with our development mandate, we managed to support the Government of Zambia through the Ministry of Agriculture in implementing the Farmer Input Support Program (FISP) by providing an Agricultural Insurance Cover for one million farmers in 2017/2018 and 2018/2019 farming seasons;
- We continue to be the leader in claim settlement which is a position we aim to consolidate with further investment in the areas of workflows and document management system;
- On the people side, we:
  - i) have strengthened our team by 15 new staff in the areas of medical and motor underwriting, claims actuaries and IT; and,
  - ii) Continue to invest in developing our people through tailored staff trainings;
- ZEP-RE Academy has been entrenched as the industry's Premier partner in training from CEO breakfasts to technical courses covering our main markets. In 2018, the Academy trained and certified 64 participants under the PSTRP program;
- Our core systems- SICS and SUN have been upgraded resulting in improved controls and efficiencies;
- In addition to our successful CEO Breakfast series focusing on Digital/Analytics as a driver of insurance, we hosted an exciting Hackathon in October around improving Customer Experience in Claims; and
- Our AM Best Rating of Financial Strength B++, and Issuer Credit bbb has been affirmed, in a challenging period for African and Mid-Eastern Re-insurers.

On the flipside, the Company experienced a challenging business environment which slowed down our anticipated growth, notably:

- A number of our core markets have faced economic challenges impacting negatively on growth, currency value and receivables;
- We have recorded high loss ratios mainly on account of a higher frequency of medium and large claims that have cumulatively resulted in large payouts affecting our bottom line; and,
- Our efforts in opening offices in other strategic locations are still ongoing despite the challenges we have encountered arising from political and economic factors.

OPERATING ENVIRONMENT

INSURANCE INDUSTRY REVIEW

a) GLOBAL

2018 saw Global pricing environment in non-life reinsurance stabilizing as the market responded to the 2017 catastrophic losses, though the pricing levels were still below long-term adequacy levels. By their nature, Reinsurance companies assumed risks worldwide and hence climate change remained a significant threat to the sector. Some of the significant insured events that occurred in 2018 included: Windstorm Frederik in Europe, multiple outbreaks of severe weather and two major winter storms in the United States, and significant July flooding and the Osaka earthquake in Japan. As such, market observers estimate a higher than normal combined ratio for the full year 2018. The market conditions posed a challenge for reinsurance companies to achieve profitable organic growth in the face of extreme competition. Better risk selection, greater diversification of product offerings, a wider geographical reach, and conservative loss picks are keys to survival of the reinsurance sector.

b) SUB SAHARAN AFRICA

In general, the reinsurance sector in Sub-Saharan Africa remained characterized by excess capacity leading to downward pressure in pricing conditions. However, technical margins remained sufficient as a whole relative to the global market. The difficult operating environment continued to prevail in most Sub-Saharan Africa countries. Political instabilities, currency devaluation against hard currencies, and inflation affected some countries in the region. Despite these challenges, the region still provided diversification and growth opportunities for regional and international reinsurers. Currency devaluation was the main cause for depressed growth in United States Dollar terms, however in local currency terms the insurance sector continued to experience growth. The sector recorded large losses during 2018 significantly affecting underwriting performance. In recent years there has been regulatory changes supporting localization of reinsurance business. This has supported the domestication of insurance premiums enhancing growth opportunities for regional players.

KEY MARKETS

The COMESA region remained the Company's main source of business in 2018, contributing 74.6% of business underwritten by the Company. The rest of Africa contributed 12.0% of the business while 13.4% came from regions outside Africa (in particular the Indian sub-continent).

In 2018 the markets we operated in were affected by varying economic and business conditions. We experienced a general increase in claims frequency and severity across the markets. Volatility in currencies and inflation eroded our earnings for the year. Climate change continues to pose a huge threat to the insurance industry mainly through flooding. The economic and operating environment in our key markets is summarized below:

KENYA

Kenya remained the Company's largest market and posted a premium growth of 10.7% over 2017. The Country's GDP grew by 6.3% from that of 2017 according to Kenya Bureau of Statistics. Inflation reduced from 8% in 2017 to 4.7% in 2018 whilst the Kenya shilling remained stable against the major currencies during the year with an average exchange rate against the United States Dollar of Kshs. 101.30. The effects of the contested 2017 electioneering process spread through into early 2018 but the political reconciliation commonly referred to as 'the handshake' considerably cooled down the political temperatures in the country and improved the environment for government to champion its key growth initiatives under the 'Big Four Agenda' (universal healthcare, manufacturing, food security and housing). The insurance industry growth continued to be sluggish mainly due to a downward trend in original rate development across all the lines of business. It is hoped that this trend will reverse in 2019 as concerted market efforts aim to revive the large risk rating committee. The Insurance market incurred significant losses resulting in underwriting losses.

ZIMBABWE

Zimbabwe was the second largest market of the Company in 2018 and posted a premium growth of 31.1% from that of 2017. The Zimbabwe economy performed better than expected in 2018 expanding by an estimated 3.6% with the GDP growth being largely driven by agriculture. The challenges of cash and the 3-tier pricing system continued to constrain the goods and services markets. Fiscal deficit improved by 14% to close at 10.7% of GDP in 2018 (2017;12.5%). External debts to GDP also improved by 16% to close at 45.3%(2017;54%). Despite these gains, the country continued to be plagued by macro-economic instability, lack of foreign funding, lack of production capacity and poor energy supply. These remain key challenges for private development. The AfDB Economic outlook report indicates that despite these headwinds the economy is expected to grow by 3% in 2019.

INDIA

India was the third largest market of the Company in 2018 with an overall premium growth of 13.7% from that of 2017. The Indian GDP grew by 7.1% in 2018. The market was however characterized by soft pricing, increased risk of catastrophe exposures, reduced underwriting margins and stiff competition. Gross premiums written in India reached Rs 5.53 trillion (US$ 94.48 billion) in FY18. The year-on-year growth rate was12.4%. The average inflation for 2018 was 4.85%.

UGANDA

Uganda was the Company's fourth largest market in 2018 and posted a premium growth of 26.7% from that of 2017. The insurance premiums in Uganda grew by 17% in 2018 whilst the reinsurance premiums grew by 21%. A key contributor to the growth in reinsurance premiums was regulatory directives requiring utilization of local capacity before risks are ceded outside the country. Outlook for 2019 is positive following the implementation of a requirement to fully utilise local capacity for treaty business beginning January 2019. Liquidity in the sector is expected to improve following the coming into force of the Insurance Act of 2017, which prohibits insurance broker or agent to collect any premiums from the insuring public either in cash or cheque on behalf of the insurance company or Health Membership Organisation as has been the case before.

On macroeconomic level, the Uganda Bureau of statistics reported a GDP growth of 6.1% in 2018 whilst the Uganda Shilling depreciated against the US dollar by 3.6% to Uganda shillings 3,659 per US dollar. Average inflation rate was at 2.63%.

TANZANIA

Tanzania was the fifth largest market of the Company in 2018 with a 14.8% premium growth over the previous year. Liquidity profiles in the market remained within a strong range, supported by the implementation of the no cash no cover regulation. Tanzania has sustained relatively high economic growth over the last decade, averaging 6–7% a year. In 2018 inflation remained low and stable and was estimated at 3.5% by the AFDB Economic outlook report. Key opportunities in the Country are derived from peace, political stability and strategic location. Key challenges that impacted business from Tanzania was the quality of underwriting, and poor performance of reinsurance business in the market. Management is positive about the market's outlook considering measures being implemented at regulatory level which includes published minimum rates on major classes of business.

ZAMBIA

Zambia was the sixth largest market of the Company in 2018 with a premium growth of 37.5% from 2017. The Zambian market experienced sluggish industry & economic growth. The Zambian Kwacha depreciated during the year and lost 24% of its value by October 2018 but recouped some of the losses at year end. Liquidity challenges for cedants impacted on premium remittances. Intense competition manifested in undercutting practices and premium rebates impacting on pricing.

ETHIOPIA

Ethiopia was the Company's seventh largest market in 2018 and posted a premium growth of 11.3% from that of 2017. In 2017/18 the GDP growth for the country slowed down to 7.7% due to political instability, civil unrest and fiscal policy adjustments. The Ethiopian market reinsurance premium grew by 26% in local currency but only 11% in USD terms due to currency devaluation.

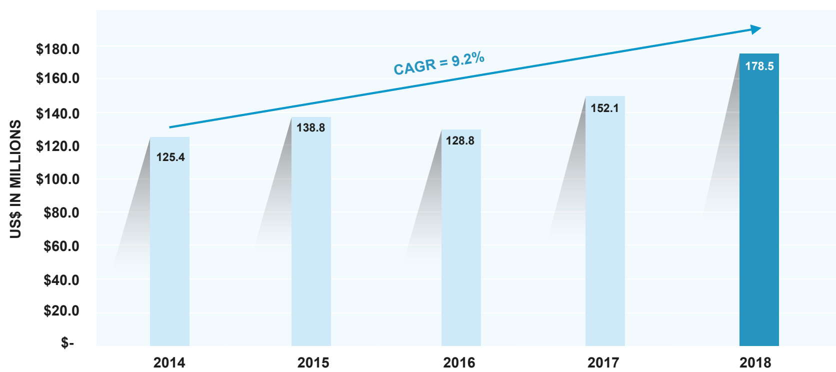
Access to reinsurance business for non-local players also reduced largely due to the regulatory requirements for 5% mandatory policy cessions and 25% mandatory treaty cessions to Ethiopia Reinsurance Company and a local capacity promotion initiative that mandated risk sharing of facultative business amongst local players before the same is availed to other players. Insurance companies also increased their retention level to align with the regulatory requirements.

FINANCIAL PERFORMANCE

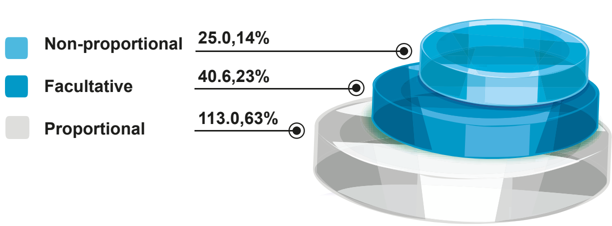
GROSS PREMIUM INCOME

Gross premium income rose by 17.4% from US$ 152.1 million in 2017 to US$ 178.5 million in 2018. A key contributor to the good growth over 2017 was positive growth in both facultative and treaty business which grew by 37.8% and 12.4% respectively.

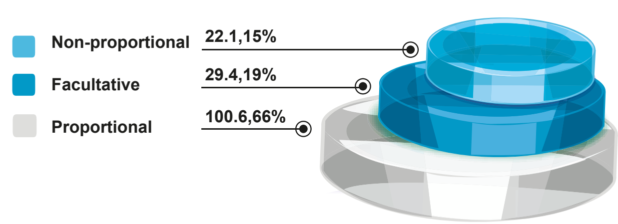
GROSS PREMIUM INCOME



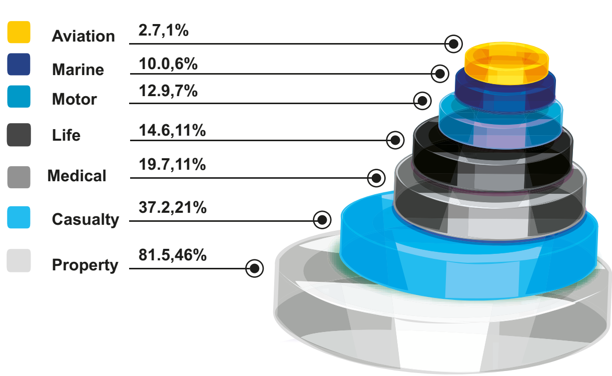
GROSS PREMIUMS WRITTEN IN US$ MILLION & % BY TYPE - 2018



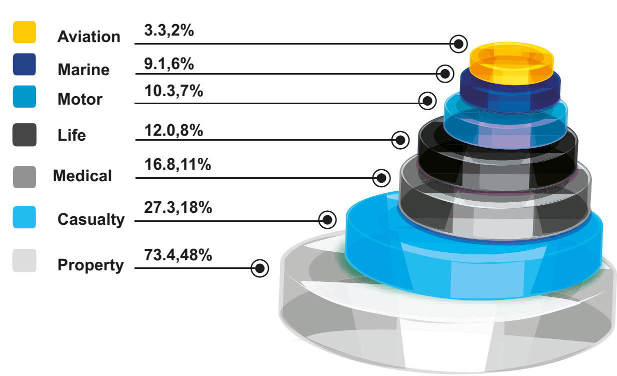
GROSS PREMIUMS WRITTEN IN US$ MILLION & % BY TYPE - 2017



GROSS PREMIUMS WRITTEN IN US$ MILLION & % BY CLASS - 2018



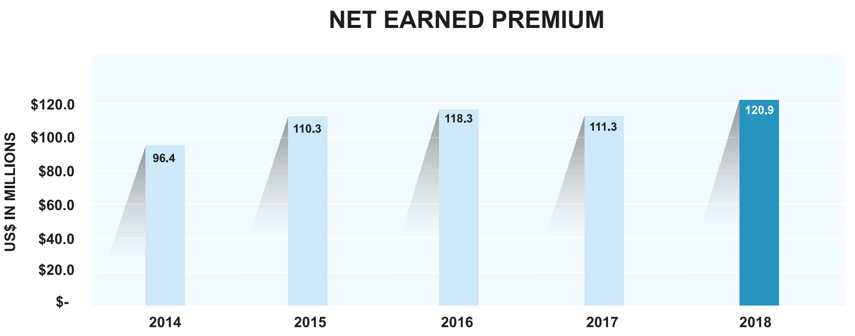
GROSS PREMIUMS WRITTEN IN US$ MILLION & % BY CLASS - 2017



BUSINESS AND FINANCIAL PERFORMANCE REVIEW (continued)

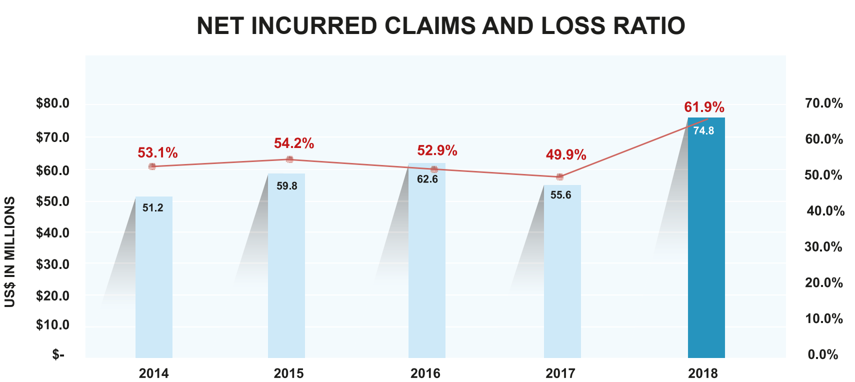
NET EARNED PREMIUM

Net Earned Premium income rose by 8.7% from US$ 111.3 million in 2017 to US$ 120.9 million in 2018. As explained under gross premium income, the key contributor to the good growth over 2017 was positive growth in both facultative and treaty business.



NET INCURRED CLAIMS

Net claims incurred in 2018 amounted to US$ 74.8 million compared to US$ 55.6 million in 2017. The actual net claims loss ratio for the year ended 31st December 2018 was 61.9% compared to 49.9% in 2017.



The Company's outstanding claims' reserves also increased to US$ 94.0 million in 2018 from US$ 88.1 million in 2017.

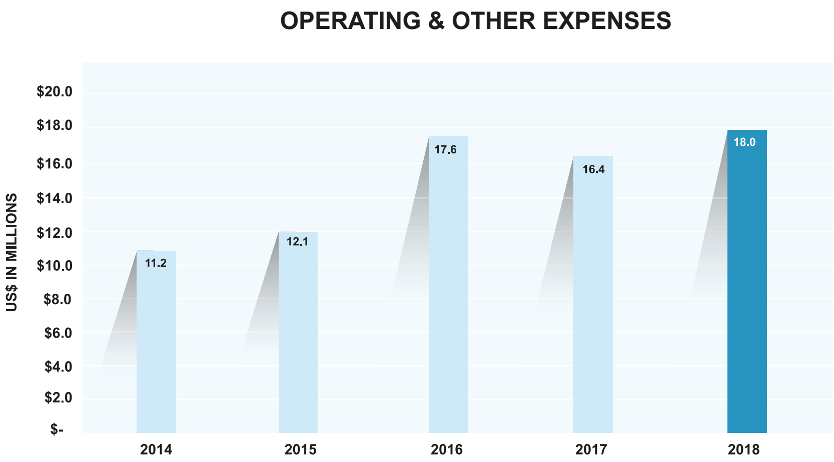
The deterioration in the loss experience is attributable to increased frequency and severity of claims across the region and the major classes of business. The Company is working with the industry stakeholders to improve the underwriting standards, loss assessment and adjustment practices and transparency in the core markets of the Company.

OPERATING & OTHER EXPENSES

Operating & Other expenses in 2018 amounted to US$ 18.0 million compared to US$ 16.4 million in 2017. The main drivers of the increase in the expenses in 2018 over that of 2017 were increase in exchange losses and provision for bad debts.

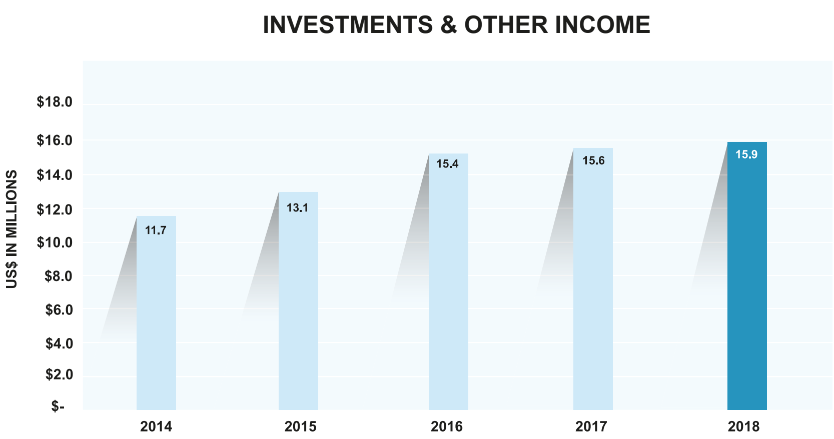
The exchange losses increased from US$ 2.7 million in 2017 to US$ 4.3 million in 2018 was mainly due to exchange losses arising from the devaluation of the Sudanese Pound to the US Dollar. The Sudanese Pound depreciated from a rate of SDG 15.0 to the US Dollar in December 2017 to close at a rate of SDG 47.6 as at 31st December 2018 resulting in a net exchange loss of US$ 3.8 million.

The increase in provision for bad debts was in line with the growth of the premium income in 2018.



INVESTMENTS & OTHER INCOME

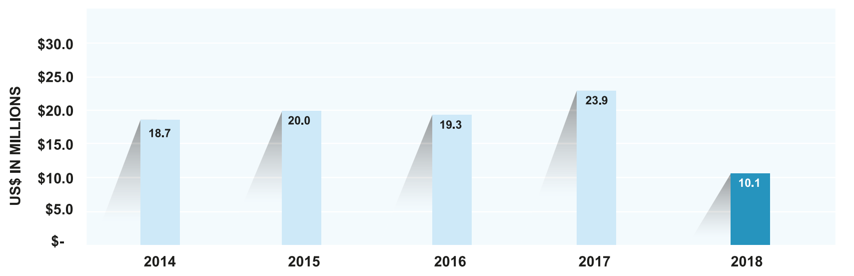
The investment income and other income increased from US$ 15.6 million in 2017 to US$ 15.9 million in 2018, a modest 1.9% growth. Despite an impressive growth in interest income of 18.7% in 2018, the overall growth in investment income was curtailed by decline in rental income (US$ 1.2 million in 2017 compared to US$ 0.7 million in 2018) and decline in gain on sale of equity investments (US$ 1.6 million in 2017 compared to nil in 2018).



PROFIT FOR THE YEAR

The Company achieved a profit of US$ 10.1 million in 2018 compared to US$23.9 million in 2017. The decrease in profitability is attributable to both higher loss ratio and exchange losses in 2018.

PROFIT FOR THE YEAR



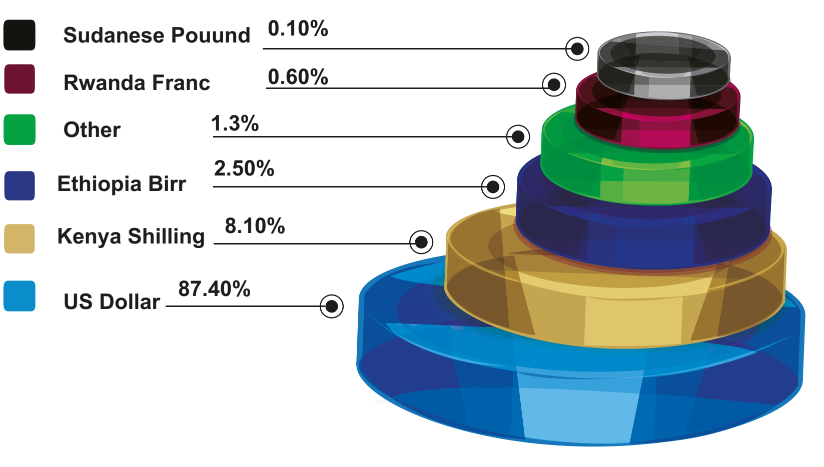
INVESTMENTS PORTFOLIO

The investments portfolio value increased from US$ 272.5 million as at 31 December 2017 to US$ 285.7 million as at 31 December 2018, an increase of 4.8%. The growth/increase was reduced by an impairment charge on financial assets of US$ 0.7 million and investment revaluation losses on equity and offshore investments of US$ 4.1 million.

Currency Exposure of the Investment Portfolio

US Dollar denominated assets represent 87.4% of the investment portfolio with 8.1% invested in Kenya Shillings, 2.5% in Ethiopian Birr, 0.6% in Sudanese Pounds and 0.1% in Rwanda Francs. US Dollar denominated assets are favored in order to protect the value of the Company's assets as most currencies of the region tend to depreciate significantly against the United States Dollar.

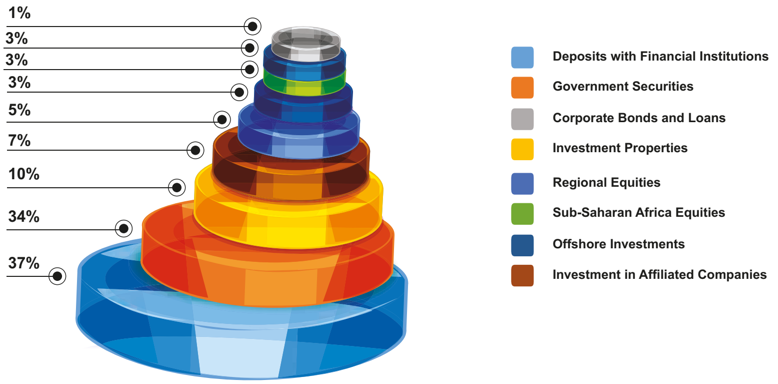
CURRENCY SPREAD



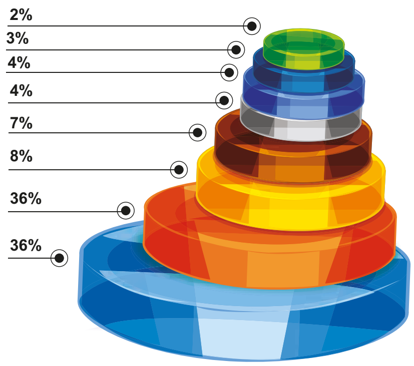
Asset allocation

Deposits with Financial Institutions and investments in Government Securities continue to dominate the investment portfolio with a combined exposure at 71% of the entire portfolio as at 31 December 2018. Increased exposure to investment properties reflect disbursements to the Lusaka building project which is due for completion during 2019. Investments in Regional and in the wider Sub-Saharan equities were increased during the year 2018 as part of rebalancing activities undertaken to enhance long term investment returns.

31 DECEMBER 2018



31 DECEMBER 2017



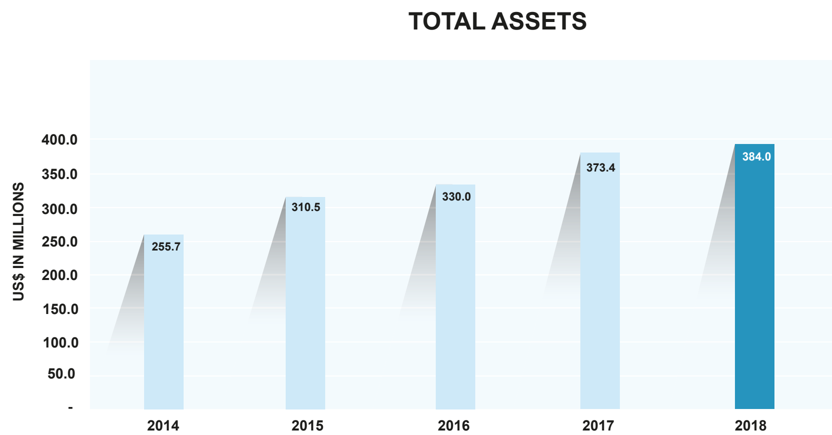
Liquidity

Adequate liquid assets are held to support payments obligations. As of 31 December 2018, money market and fixed income instruments maturing within one year were valued at US$ 137.2 million (2017 – US$ 140.3 million). Given that the average claims paid during the five-year period to 31 December 2018 was US$ 64.3 million, the liquid funds are more than adequate to cater for the claims obligations.

TOTAL ASSETS

The Company's asset base grew by 2.8% from US$373.4 million in 2017 to US$ 384.0 million as at 31st December 2018.

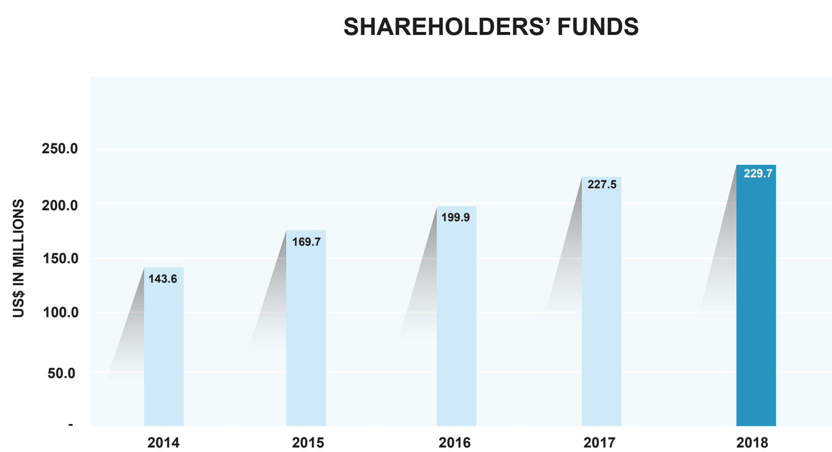
This growth is despite an impairment charge on financial assets of US$ 0.7 million and investment revaluation losses on equity and offshore investments of US$ 4.1 million.



SHAREHOLDERS' FUNDS

The shareholders' funds increased by 1.0% from US$ 227.5 million in 2017 to US$ 229.7 million as at 31st December 2018. The marginal increase in shareholders' funds despite a profit in the year of US$ 10.1 million and recapitalization of 2017 dividends amounting to US$ 0.6 million is attributable to:

- Payment of 2017 dividends of US$ 4.4 million,
- Unrealized revaluation losses of US$ 4.0 million on equity investments due to the poor performance at the Nairobi Securities Exchange; and,
- Impairment charge on financial assets of US$ 0.7 million on initial implementation of IFRS 9;



ZEP-RE ACADEMY

In line with the founding goals of the Company, ZEP-RE is required to facilitate the training of insurance and reinsurance industry personnel in the region and provide technical assistance to the insurance and reinsurance institutions of the region. The ZEP-RE Academy undertakes on average about twelve training workshops in a year. The training focuses on providing affordable high quality programs aimed at improving insurance and reinsurance practice.

It is ZEP-RE's vision to be a trainer of choice and to expand its training programmes to reach as many industry personnel as possible. To this end the Academy has emerged as a centre of excellence in capacity building. Going forward the Academy intends to broaden its reach in the region by expanding the number of countries and frequency of courses.

Zep - Re Academy, Proficiency in short term Reinsurance Practice & Claims Management Workshop held in Nairobi, Kenya from 12 - 16 March 2018

Zep - Re Academy, Proficiency in short term Reinsurance Practice & Claims Management Workshop held in Dar es Salaam, Tanzania from 23 - 27 July 2018

DEVELOPMENT MANDATE

One of ZEP-RE's core mandate is development with key objectives of helping with capacity building and economic development in the region. To fulfil this mandate the Company undertook a number of initiatives during the year.

Engagement with Regulators and key stakeholders

Regulators play a critical role in shaping policy and determining how the industry should be managed and regulated. Engagement with regulators has been identified as a key engagement aspect that can assist to drive policy aimed at strengthening the region's insurance industry. The key objective of engagements with regulators was to determine how best insurance, reinsurance and regulation could work to accelerate the growth and development of insurance and reinsurance markets within Africa.

Among the initiatives undertaken to this end included: -

(i) Brainstorming workshops with Regulators of the East Africa Insurance market

A forum was held in collaboration with the East Africa Insurance Supervisors Association (EAISA) to brainstorm and determine how challenges facing the East African insurance markets could be overcome. The workshop also discussed opportunities present in the industry such as expanded financial inclusion, capacity augmentation for local companies, new platforms such as insurtech and the important role that effective risk management could assist in supporting prudent growth of the business. EAISA and ZEP-RE agreed to continue working together on the issues and opportunities identified.

(ii) Engagements with the Pensions and Insurance Authority of Zambia

The Company also engaged with the Zambian legislator on the changes being introduced to supervisory landscape in Zambia. ZEP-RE shared its experiences on how best policy and regulation could be utilised to spur growth and strengthen the local insurance market.

Collaboration with COMESA:

Article 174 of the COMESA Treaty recognises ZEP-RE as one of the key institution of the trade organisation. The Company works closely with COMESA Secretariat to assist with the promotion of a better business environment in order to support regional economic development. Some of the collaborations done with COMESA Secretariat during the year included.

i) Policy alignments

Engagements with the COMESA Secretary General are ongoing with the specific goal of exploring and determining how regional policy can be enhanced to support the insurance industry in the region.

ii) Regional capacity building and industry growth

The Company is also working with the COMESA to determine how local players can be strengthened and policies put in place to assist the local industry prevent premium flight that is currently being experienced in the region especially with regard to large risks.

*ZEP-RE hosted **Her. Excellency Madam. Chileshe Mpundu Kapwepwe on 13th August 2018** our offices. She was accompanied by **Ambassador Dr. Kipyego Cheluget** who is the Assistant Secretary General (Programmes), **Mr. Simal . O Amor** - Chief-Strategic Planning & Research, **Mr. Ibrahim Zeidy** who is the Director, Comesa Monetary Institute*

iii) Strengthening of COMESA Yellow Card & RCTG Schemes

The COMESA Yellow Card and RCTG schemes play a critical role in facilitating across border trade. ZEP-RE, the current manager of the Reinsurance Pools, has been working with the COMESA Secretary General and the Council of Bureaux of the two Schemes to enhance their visibility and strengthen their influence in the region.

iv) Financial inclusion

During the 2018 Summit of the Authority of Heads and Government of the region, the following resolution sponsored by ZEP-RE was passed to support and enhance financial inclusion in the insurance markets of the region:

"In order to enable sustainable socio-economic development and better standards of living, member states should ensure that actions enabling comprehensive financial inclusion and deepening are provided for in their respective laws and development policies."

Since then the Company has engaged with the COMESA Secretariat on the best way to implement this Resolution and enhance financial inclusion within the COMESA region. Among the options being explored include: -

- Availing micro insurance solutions to low income earners & SMEs;
- Supporting low cost/affordable housing (Collateral Replacement Indemnity);
- Expanding agriculture reinsurance services; and,
- Publicising consumer education initiatives.

v) Collaboration with regional Governments

The Company is also working directly with Governments to support their development agendas. ZEP-RE has participated in a number of Government led initiatives aimed at improving the living standards of their population. ZEP-RE's role has been to provide advisory services on how to structure the various projects and reinsurance capacity where needed. The projects the Company has been involved in include a long -term savings scheme (Rwanda), affordable housing Scheme (Kenya, Uganda and Rwanda) and agriculture schemes (Kenya, Uganda and Zambia).

The Tunisian Minister for Commerce ***Honourable Omar Behi****, Minister of Commerce visited the ZEP-RE Head office in Nairobi Kenya on* ***21st March 2019****. He was accompanied by* ***Honourable Mohammed Salim Hafsad****, Minister Plenipotentiary and* ***Mr. Slim Yahia****, Charge d'Affaires and Head of the Tunisian Trade Office at the Tunisian Embassy in Nairobi. During the visit, the Minister held discussions with the Managing Director of ZEP-RE* ***Ms. Hope Murera*** *about co-operation and partnership on various issues including reinsurance trade, product and service support and the facilitation of ZEP-RE activities in Tunisia.*

CSR REPORT

One of ZEP-RE's corporate values is to be a responsible corporate citizen. In 2018, the Company engaged in a number of Corporate Social Responsibility (CSR) initiatives within the COMESA region. The CSR initiatives revolved around the key focus areas of education, health and community development.

Beneficiaries of the CSR program comprised of non-governmental and educational institutions. These included Gashora Girls Academy in Rwanda and Kenyan Community Development Foundation (KCDF) in Kenya where ZEP-RE supported tuition and living expenses for needy girls.

*ZEP-RE staff visiting **Gashora Girls Academy** in Bugesera, Rwanda on 26th June 2018*

ZEP-RE staff were also involved in the CSR initiatives by way of supporting the Global Give Back Circle (GGBC) program through mentoring of girls under the said program.

*Participants during a GGBC luncheon hosted on **5th October 2018** by ZEP-RE CEO in honour of the GGBC Program. In attendance was **Linda Lockhart** the GGBC Founder and **Dr. Mrs Elizabeth Okelo**, Director and Co-Founder, Makini Schools.*

Other social initiatives

During the year, the Company also participated in the following initiatives:

Faraja Cancer Support Trust

The Faraja Cancer Support Trust aims at providing emotional, practical and healing support to anyone affected by cancer. The Trust works alongside several institutions and hospitals that offer conventional cancer treatments such as radiotherapy, chemotherapy and surgery. The Company participated by way of contributions and staff involvement in the 2018 water rafting challenge at Sagana waterfalls in Kenya.

ZEP-RE staff participating in the 2018 White Water Rafting Challenge organized by ***Faraja Cancer Support Trust***

Nairobi Marathon

In 2018, the Company sponsored over 40 staff to participate in the 2018 Nairobi marathon. For more than a decade, proceeds from the marathon have helped millions of people in Africa tackle avoidable blindness and visual impairment.

*ZEP-RE staff participating in the **2018 Nairobi Marathon** on 28th October 2018*

Day of the African Child in Zimbabwe

Further, in 2018 ZEP-RE sponsored the annual commemoration of the day of the African Child in Zimbabwe. The theme for the year was “Leave no Child Behind for Africa’s Development”. The event hosted over 180 disadvantaged and vulnerable children aged between 5 to 16 years drawn from various childcare homes, orphanages and rural schools in Zimbabwe. The occasion was used to inspire and encourage vulnerable children to look beyond their present circumstances and work towards redefining themselves and their lives.

Farmers’ market in Uganda

As part of its core founding mandate aimed at supporting economic development in the region, ZEP-RE sponsored an initiative of the Insurance Regulatory Authority of Uganda to construct a permanent market structure in Gombe Town Council. The market structure greatly helped small scale farmers in the area to market their products.

OUR PEOPLE

Our staff drive the vision of the Company and are at the centre of service delivery to our clients. During the year 2018, an additional 15 new members of staff were recruited comprising of 11 females and 4 males from 8 different countries. The new hires helped to strengthen areas of technical accounting, legal & regulatory, information & communication technology and actuarial services. At the end of the year 2018, our staff compliment which delivered our mandate and promise to our clients was 69.

As a learning institution, ZEP-RE places premium focus on skills development to ensure its staff are attuned to new developments and market needs. In 2018 the Company maintained its focus on training and developing its staff to keep them abreast with the professional requirements of the business. Training resources were allocated in line with each staff’s personal development plans, business unit requirements and the general strategic focus of the Company. Critical disciplines undertaken in the 2018 training calendar included coaching, management development, and specialized professional programs in insurance, accounting, and actuarial competency.

The Company also recognizes the importance of developing skills for young professionals in the industry. In this regard, the Company’s Young Professional Program (YPP) sourced and trained 6 young professionals from Kenya, Zambia, and Zimbabwe during the year in the fields of accounting and actuarial sciences.

2019 OUTLOOK

Markets

GDP growth in our markets is expected to improve in 2019 with growth averaging 3.4% up from an estimated 2.7% in 2018. Markets not dependant on commodity trade are expected to register higher growth rates underpinned by public investment and agricultural production while resource dependent economies should continue with recovery that started in 2018. Overall outlook for reinsurance business looks positive in 2018 underpinned by an above average economic growth. The only challenge likely to impact on this growth is local currency depreciation factors.

Business growth

Supported by general economic growth, prospects for business growth in ZEP-RE’s key markets in 2019 look positive. Consequently, the Company will double down on growth and expansion to take advantage of growth opportunities. The Company has reviewed its underwriting philosophy and is focussing on turning around loss making treaties and strengthening our retrocession program in order to improve technical performance and overall profitability in 2019.

Client relationship and business processes

Strengthening of client relationships and improving customer experience will remain a key lever for driving business growth. We are strategically investing in IT and automation of key business processes to create efficiencies as we continue to build technical capacity internally and through partnerships and work on improving our rating to enhance our profile.

Our Team

People remain a key priority and ZEP-RE is enhancing its people development programs to upskill and equip our staff to deliver results and grow. As part of our mandate to promote insurance and reinsurance in the region, we are strengthening the ZEP-RE Academy to provide technical and thought leadership in the industry.

Financial inclusion

The Company remains cognisant of the importance of broadening access to insurance services and deepening the penetration of insurance in the economies of the region. The Company will be engaging in a number of financial inclusion initiatives through partnerships with governments and development partners to improve insurance penetration.

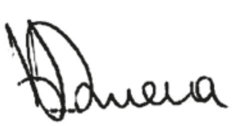
Insurtech

ZEP-RE recognises the role technology is increasingly playing in product distribution and service delivery. The advent of insurtech has forced the insurance industry to rethink its approach to business and customer relationship management. We believe the fact that markets in the region are not weighed down by long tailed legacies in the processes and practice makes this region's markets the right setting for the next technology revolution. The Company is investing in the knowledge and technology of insurtech space to take advantage of opportunities presenting themselves. Several initiatives have been planned for 2019 around this objective.

APPRECIATION

I want to thank the management team and staff for their relentless contribution to making our company the success it has become, and our business partners and clients for their support and loyalty. I would also like to thank the ZEP-RE board for their support, wisdom and counsel. I am proud of what we have achieved despite a challenging business environment.

Finally, I would like to thank the shareholders for their belief and confidence in the Company. I am confident that with your continued support and commitment, we can steer ZEP-RE to even greater heights.



Hope Murera

Managing Director, ZEP-RE

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.

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

CORPORATE GOVERNANCE STANDARDS

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

GOVERNANCE STRUCTURE

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

General Assembly

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

Share Classes

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

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

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

(c) Class C shareholders - Development finance institutions.

Non delegable powers of the General Assembly

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

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

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

Board of Directors

Role

The Board of ZEP-RE is responsible for the overall direction of the business of the Company and is accountable to the shareholders for the operations of the Company.

The charter of the Company outlines the following key functions of the Board:-

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

The terms of service and remuneration of the Board are determined by the General Assembly.

Appointment

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

Composition

The current Board comprises 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.

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 2018 included approval of the 2017 financial statements, implementation of the strategy plan, a review of operational performance in 2018, approval of the 2019 budget and the operational work plan.

Implementation of strategy

The Board is responsible for providing strategic direction and strategic oversight. However, the primary responsibility of implementing strategy and day-to-day operations has been delegated to the Managing Director. The Managing Director is supported in this role by a Management team.

Charter

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

Other legal instruments

In addition, the Board has in place other legal instruments including 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. David Kemei. The Committee's main objective is to promote good corporate governance and enhance accountability within the Company by: -

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

(b) Ensuring the highest standards in financial reporting.

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

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

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

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

The Committee, which serves in an advisory capacity to the Board, met thrice in 2018.

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

Board Strategy and Investments Committee

The Board strategy and Investments Committee comprises Mr. Yaw Kuffour (Chairman), Ms. Hope Murera (Managing Director), Mr. Tadesse Admassu, Ms. Agito Amela Carole and Mr. Jan Gross.

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

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

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

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

The Board Strategy and Investments Committee met thrice in 2018.

Board Nominations, Remuneration and Human Resources Committee

The Board Nominations, Remuneration and Human Resources Committee comprises Mr. George Silutongwe-(Chairperson), Mr. Novat Niyungeko and Mr. Mohammed Mousa Idris.

The Committee is charged with the primary responsibility of examining and reviewing the selection and appointment system for Board members, appraisal standards and remuneration incentive proposals of directors and senior management and the monitoring, evaluation, advising and recommending to the Board with regard to all issues affecting staff working conditions.

The Nominations, Remuneration and Human Resources Committee met twice in 2018.

Committees Reporting to the Board

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

Directors' Remuneration

For services on the Board and Board Committees, Directors received remuneration in line with terms approved by the General Assembly. In 2018 the aggregate amount of emoluments paid to Directors is shown in Note 34 (ii) to the financial statements.

Board Attendance in 2018

The table overleaf shows meeting Board attendance (by substantive Directors or through their Alternates) in 2018:

	Attendance of Board and AGM Meetings in 2018				
	90th Board	91st Board	27th AGM	92nd Board	93rd Board
Mr. William Erio	√	√	√	√	√
Ms. Agito Amela Carole*	√	√	√	√	√
Ms. Hope Murera	√	√	√	√	√
Mr. Mohammed Idris**	√	√	√	√	√
Mr. Caleb Rwamuganza	√	√	√	√	√
Mr. Aden Saleh Omar	√	√	√	√	√
Mr. Yaw Kuffour	X	√	√	√	√
Mr. Jan Gross	√	√	√	√	X
Mr. Tadesse Admassu	√	√	√	√	√
Mr. George Silutongwe	√	√	√	√	√
Mr. Novat Niyungeko***	√	√	√	√	√
Mr. Jadiah Mwarania	√	X			
Mr. David Kemei			√	√	√

*Represented in all meetings during the year by the Alternate Director Mr. Miruho Ntale Alexandre

** Represented in the last two Board meetings of the year by the Alternate Director Mr. Zuheir Hassan

*** Represented during the 91st Board meeting by the Alternate Director Ms. Trinitas Girukwishaka

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

Managing Director

The Board of Directors hereby submit their report together with the audited financial statements for the year ended 31 December 2018, 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$ 10.14 million (2017: US$ 23.85 million) has been transferred to retained earnings. The Directors recommend the payment of a dividend of US$ 2,500,000 for the year ended 31 December 2018 (2017: US$ 5,000,000).

Directors

The current Directors of the Company are shown on page 6. 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 by-elections carried out by the 25th Annual General Assembly to constitute a new Board a number of changes occurred with one substantive Director Mr. Jadiah Mwarania and two Alternate Directors, Mr. Peter Lukwesa and Mr. Abdin Mohammed 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 27th Annual General Assembly held on 29th June 2017 appointed one substantive Director and three Alternate Directors to the Board of the Company. Mr. David Kemei was appointed to replace Mr. Jadiah Mwarania as Director, Ms. Christabel Michel Banda was appointed as Alternate Director to replace Mr. Peter Lukwesa and Mr. Zuheir Hassan Ibrahim was appointed as Alternate Director to replace Mr. Abdin Mohammed.

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 28th Annual General Assembly in this respect.

BY ORDER OF THE BOARD

SECRETARY

29 March 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Article 31 of the Agreement establishing ZEP–RE (PTA Reinsurance Company) requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; disclose with reasonable accuracy at any time the financial position of the company; and that enables them to prepare financial statements of the company that comply with prescribed financial reporting standards and the requirements of the Agreement establishing ZEP-RE (PTA Reinsurance Company). They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

ii. Selecting suitable accounting policies and then applying them consistently; and

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

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

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

Approved by the Board of Directors on 29 March 2019 and signed on its behalf by:

-- --

Chairman Managing Director


PROSPERITY HOUSE

pwc

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 48 to 114 which comprise the statement of financial position at 31 December 2018 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 2018 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 other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and 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.

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.

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Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Norbert's B Okundi K Saiti

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.

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.

Certified Public Accountants 13 June 2019

Nairobi

FCPA Richard Njoroge, Practising certificate No. 1244

Signing partner responsible for the independent audit

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December	Notes	2018 US$	2017 US$
Gross premiums written	3	178,534,940	152,132,360
Less: Retrocession premiums		(51,943,363)	(37,976,467)
Net written premiums		126,591,577	114,155,893
Movement in unearned premiums reserve		(5,653,370)	(2,847,515)
Net earned premiums		120,938,207	111,308,378
Investment income	4	14,429,275	14,322,483
Commissions earned		11,404,036	8,615,096
Other income		1,506,550	1,241,708
Total income		148,278,068	135,487,665
Gross incurred claims	5	83,187,852	66,533,087
Less: amounts recoverable from retrocessionaires		(8,382,904)	(10,981,738)
Net claims incurred		74,804,948	55,551,349
Operating and other expenses	6	17,972,448	16,447,851
Commissions expenses		45,355,912	39,635,699
Total outgo		138,133,308	111,634,899
Profit for the year		10,144,760	23,852,766
Other comprehensive income for year			
Items that may be reclassified subsequently to profit or loss:			
Fair value (loss)/gain on revaluation of equity investments	25(i)	-	171,028
Foreign exchange gain on revaluation of equity investments	25(i)	-	242,761
Fair value (loss) gain on revaluation of offshore investments	19	-	556,431
Gain on revaluation of investment in affiliated companies	25 (iii)	-	4,756,286
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property	25(ii)	20,703	139,625
Fair value (loss)/gain on revaluation of equity investments	25(i)	(3,945,856)	-
Foreign exchange gain on revaluation of equity investments	25(i)	208,344	-
Fair value (loss) gain on revaluation of offshore investments	19	(530,199)	-
Gain on revaluation of investment in affiliated companies	25 (iii)	1,351,023	-
Total other comprehensive income for the year		(2,895,985)	5,866,131
Total comprehensive income for year		7,248,775	29,718,897
Earnings per share:			
- Basic and diluted	7	0.178	0.421

STATEMENT OF FINANCIAL POSITION

At 31 December	Notes	2018 US$	2017 US$
ASSETS			
Property and equipment	9	1,798,622	1,502,432
Intangible assets	10	26,834	6,122
Investment properties	11	27,777,039	22,034,974
Equity investments	12	22,295,615	15,085,934
Investment in affiliated companies	12	20,198,672	18,847,649
Receivables arising out of reinsurance arrangements	13	36,980,365	43,868,788
Deposits retained by ceding companies	14	5,590,671	6,016,722
Retrocessionaires share of technical liabilities	15	31,149,478	30,963,798
Other receivables	16	9,740,078	7,198,611
Deferred acquisition costs	17	10,127,063	9,219,258
Government securities	18	97,159,762	97,950,985
Offshore investments	19	9,944,024	17,314,205
Deposits with financial institutions	20	106,759,144	99,219,720
Corporate bonds and loans	21	1,088,996	2,092,393
Cash and bank balances	22	3,338,914	2,096,029
Total assets		383,975,277	373,417,620
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	24	57,068,271	56,946,503
Share premium	24	50,395,786	49,788,160
Property revaluation reserve	25	552,010	531,307
Investments revaluation reserve	25	(4,122,514)	145,197
Investment in affiliated companies revaluation reserve	25	6,552,591	5,201,568
Retained earnings	26	119,299,739	114,838,344
Total equity		229,745,883	227,451,079
LIABILITIES			
Reinsurance contract liabilities	27	90,396,723	88,129,027
Provision for unearned premiums and unexpired risks	28	37,999,423	33,965,538
Deferred income	29	60,310	61,125
Payables arising from retrocession arrangements	30	10,334,191	7,337,822
Payables arising from reinsurance arrangements	30	5,294,529	4,379,567
Deposits retained on ceded reinsurance business		695,656	572,299
Deferred retrocession commission revenue	31	2,331,202	2,695,511
Other payables	32	5,760,184	7,829,478
Dividends payable	33	1,357,176	996,174
Total liabilities		154,229,394	145,966,541
Total equity and liabilities		383,975,277	373,417,620

The financial statements on pages 48 to 114 were approved and authorised for issue by the Board of Directors on 29 March 2019 and were signed on its behalf by:

Chairman

Managing Director

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Share premium	Property revaluation reserve	Investments revaluation reserve	Investment in affiliated companies revaluation reserve	Retained earnings	Total
		US$	US$	US$	US$	US$	US$	US$
At 1 January 2017		56,513,129	47,920,319	391,682	(825,023)	445,282	95,485,578	199,930,967
Total comprehensive income for the year		-	-	139,625	970,220	4,756,286	23,852,766	29,718,897
Transactions with owners								
Shares issued during the year	24	135,518	584,082	-	-	-	-	719,600
Dividends declared	33	-	-	-	-	-	(4,500,000)	(4,500,000)
Issue of shares through capitalisation of 2016 dividends	33	297,856	1,283,759	-	-	-	-	1,581,615
At 31 December 2017		56,946,503	49,788,160	531,307	145,197	5,201,568	114,838,344	227,451,079
At 1 January 2018		56,946,503	49,788,160	531,307	145,197	5,201,568	114,838,344	227,451,079
Changes on initial application of IFRS 9		-	-	-	-	-	(683,365)	(683,365)
Total comprehensive income for the year		-	-	20,703	(4,267,711)	1,351,023	10,144,760	7,248,775
Transactions with owners								
Shares issued during the year	24	24,441	121,959	-	-	-		146,400
Dividends declared	33	-	-	-	-	-	(5,000,000)	(5,000,000)
Issue of shares through capitalisation of 2017 dividends	33	97,327	485,667	-	-	-	-	582,994
At 31 December 2018		57,068,271	50,395,786	552,010	(4,122,514)	6,552,591	119,299,739	229,745,883

STATEMENT OF CASH FLOWS

Year ended 31 December	Notes	2018 US$	2017 US$
OPERATING ACTIVITIES			
Net cash generated from operating activities	36	20,475,457	25,276,789
INVESTING ACTIVITIES			
Purchase of property and equipment	9	(497,406)	(77,997)
Purchase of computer software	10	(40,251)	-
Purchase of investment properties	11	(4,935,011)	(2,578,080)
Purchase of quoted equity shares	12(i)	(12,247,218)	(3,722,236)
Purchase of shares in affiliated companies	12(ii)	-	(448,760)
Purchase of government securities		(41,135,848)	(69,600,827)
Proceeds on maturity of government securities		41,927,071	3,088,935
Proceeds of disposal of offshore securities		6,839,982	1,276,570
Proceeds of disposal of property and equipment		1,715	11,642
Proceeds of disposal of quoted shares		1,300,025	2,919,893
Movement in corporate bonds and loans		1,003,397	7,410,035
Movement in deposits with financial institutions (excluding cash and cash equivalents)		(27,226,761)	(31,488,373)
Net cash used in investing activities		(35,010,305)	(93,209,198)
FINANCING ACTIVITIES			
Proceeds of issue of shares		146,400	719,600
Dividends paid	33	(4,056,004)	(3,022,697)
Net cash generated from financing activities		(3,909,604)	(2,303,097)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(18,444,452)	(70,235,506)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		26,176,588	96,412,094
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	37	7,732,136	26,176,588

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 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 standards and interpretations adopted by the Company

The following standards and interpretations have been applied by the Company for the first time for the financial reporting year commencing on or after 1 January 2018:

IFRS 9 - Financial Instruments

The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Company did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments as *IFRS 7 'Financial Instruments: Disclosures'*.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company.

a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and the new measurement categories under IFRS 9 are compared as follows:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 US$	New carrying amount under IFRS 9 US$
Equity investments	Available-for-sale	Fair value through other comprehensive income	15,085,934	15,085,934
Offshore investments	Available-for-sale	Fair value through other comprehensive income	17,314,205	17,314,205
Receivables arising out of reinsurance arrangements	Loans and receivables	Amortised cost	43,868,788	43,868,788
Other receivables	Loans and receivables	Amortised cost	6,502,674	6,499,072
Government securities	Held to maturity	Amortised cost	97,950,985	97,841,556
Corporate bonds	Held to maturity	Amortised cost	2,092,393	2,069,553
Deposits with financial institutions	Held to maturity	Amortised cost	99,219,720	98,697,640
Cash and bank balances	Loans and receivables	Amortised cost	2,096,029	2,070,615
Total financial assets			**284,130,728**	**283,447,363**

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(i) New standards and interpretations adopted by the Company (continued)

IFRS 9 - Financial Instruments

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued):

	IAS 39 carrying amount 31 December 2017 US$	Re-classifications US$	Remeasurements US$	IFRS 9 carrying amount 1 January 2018 US$
Financial assets at amortised cost				
Cash and balances				
Opening balances as per IAS 39	-	-	-	-
Add: From loans and receivables (IAS 39)	-	2,096,029	-	-
Remeasurement: ECL allowance	-	-	(25,414)	-
Closing balances as per IFRS 9	-	-	-	2,070,615
Deposits with financial institutions				
Opening balances as per IAS 39	-	-	-	-
Add: From held to maturity (IAS 39)	-	99,219,720	-	-
Remeasurement: ECL allowance	-	-	(522,080)	-
Closing balances as per IFRS 9	-	-	-	98,697,640
Government securities				
Opening balances as per IAS 39	-	-	-	-
Add: From held to maturity (IAS 39)	-	97,950,985	-	-
Remeasurement: ECL allowance	-	-	(109,429)	-
Closing balances as per IFRS 9	-	-	-	97,841,556
Receivables arising out of reinsurance arrangements				
Opening balances as per IAS 39	-	-	-	-
Add: From loans and receivables (IAS 39)	-	43,868,788	-	-
Closing balances as per IFRS 9	-	-	-	43,868,788
Corporate bonds and commercial papers				
Opening balances as per IAS 39	-	-	-	-
Add: From held to maturity (IAS 39)	-	2,092,393	-	-
Remeasurement: ECL allowance	-	-	(22,840)	-
Closing balances as per IFRS 9	-	-	-	2,069,553
Other receivables				
Opening balances as per IAS 39	-	-	-	-
Add: From loans and receivables (IAS 39)	-	6,502,674	-	-
Remeasurement: ECL allowance	-	-	(3,602)	-
Closing balances as per IFRS 9	-	-	-	6,499,072
Total financial assets measured at amortised cost	**-**	**251,730,589**	**(683,365)**	**251,047,224**

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(i) New standards and interpretations adopted by the Company (continued)

IFRS 9 - Financial Instruments (continued)

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued):

	IAS 39 carrying amount 31 December 2017 US$	Re-classifications US$	Remeasurements US$	IFRS 9 carrying amount 1 January 2018 US$
Loans and receivables				
Receivables arising out of reinsurance arrangements				
Opening balances as per IAS 39	43,868,788	-	-	-
Less: To amortised cost	-	(43,868,788)	-	-
Closing balances as per IFRS 9	-	-	-	-
Other receivables				
Opening balances as per IAS 39	6,502,674			-
Less: To amortised cost	-	(6,502,674)		-
Closing balances as per IFRS 9	-	-	-	-
Cash and bank balances				
Opening balances as per IAS 39	2,096,029			-
Less: To amortised cost	-	(2,096,029)		-
Closing balances as per IFRS 9	-	-	-	-
Total loans and receivables (IAS 39)	52,467,491	(52,467491)	-	-
Held to maturity				
Government securities				
Opening balances as per IAS 39	97,950,985	-	-	-
Less: To amortised cost	-	(97,950,985)	-	-
Closing balances as per IFRS 9	-	-	-	-
Corporate bonds				
Opening balances as per IAS 39	2,092,393			-
Less: To amortised cost	-	(2,092,393)		-
Closing balances as per IFRS 9	-	-	-	-
Deposits with financial institutions				
Opening balances as per IAS 39	99,219,720			-
Less: To amortised cost	-	(99,219,720)		-
Closing balances as per IFRS 9	-	-	-	-
Total financial assets held to maturity (IAS 39)	199,263,098	(199,263,098)	-	-

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(i) New standards and interpretations adopted by the Company (continued)

IFRS 9 - Financial Instruments (continued)

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued):

	IAS 39 carrying amount 31 December 2017 US$	Re-classifications US$	Remeasurements US$	IFRS 9 carrying amount 1 January 2018 US$
Fair value through other comprehensive income (FVOCI):				
Equity investments				
Opening balances as per IAS 39	-	-	-	-
Add: From Available-for sale (IAS 39)	-	15,085,934	-	-
Closing balances as per IFRS 9	-	-	-	15,085,934
Offshore investments				
Opening balances as per IAS 39	-			
Add: From Available-for sale (IAS 39)	-	17,314,205	-	
Closing balances as per IFRS 9	-	-	-	17,314,205
Total financial assets at FVTOCI	-	32,400,139	-	32,400,139
Available-for-sale financial assets				
Equity investments				
Opening balances as per IAS 39	15,085,934	-	-	-
Less: To fair value through other comprehensive income	-	(15,085,934)	-	-
Closing balances as per IFRS 9	-	-	-	-
Offshore investments				
Opening balances as per IAS 39	17,314,205	-	-	-
Less: To fair value through other comprehensive income	-	(17,314,205)		-
Closing balances as per IFRS 9	-	-	-	-
Total financial assets at available-for sale (IAS 39)	32,400,139	(32,400,139)	-	-
Total financial assets	284,130,728	-	(683,365)	283,447,363

Designation of equity investments at fair value through other comprehensive income (FVOCI):

The Company has elected to irrevocably designate certain investments of non-trading equity investments at FVOCI as permitted under IFRS 9. The changes in fair value of these investments will no longer be reclassified to profit or loss when they are disposed of.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(i) New standards and interpretations adopted by the Company (continued)

IFRS 9 - Financial Instruments (continued)

c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Financial asset	Impairment under IAS 39 US$	Re-classifications US$	Remeasurements US$	Expected credit loss under IFRS 9 US$
Cash and bank balances	-	-	(25,414)	(25,414)
Deposits with financial institutions	-	-	(522,080)	(522,080)
Receivables arising from reinsurance arrangements	(7,644,737)	-	-	(7,644,737)
Other receivables	-	-	(3,602)	(3,602)
Government securities at amortised cost	-	-	(109,429)	(109,429)
Corporate bonds and commercial paper	-	-	(22,840)	(22,840)
Total	(7,644,737)	-	(683,365)	(8,328,102)

Reclassification from retired categories with no change in measurement

In addition to the above, the following instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 was 'retired', with no changes to their measurement basis:

- Available-for-sale (AFS) under IAS 39 have been reclassified to fair value through other comprehensive income under IFRS 9,
- Rent and other receivables previously classified as loans and receivables and now classified as measured at amortised cost; and
- Cash and bank balances previously classified as loans and receivables and now classified as measured at amortised cost.

The impact of the reclassifications and remeasurement following adoption of IFRS 9 on Company's retained earnings as at 1 January 2018 was US$ 683,365.

In addition to IFRS 9, the Company has also the following standards and interpretations applied for the first time to their annual reporting commencing 1 January 2018:

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(i) New standards and interpretations adopted by the Company (continued)

IFRS 9 - Financial Instruments

IFRS 15 Revenue from contracts with customers

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. Premium income makes up the biggest portion of the Company's revenue income and falls under the scope of IFRS 4 Insurance Contracts. Interest income, dividend income and other investment income falls under IFRS 9. As such, thus IFRS 15 has no effect in the Company's financial statements.

Amendments to IAS 40 titled *Transfers of Investment Property*

These amendments, applicable to annual periods beginning on or after 1 January 2018, clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

IFRIC 22 titled Foreign Currency Transactions and Advance Consideration

The Interpretation, applicable to annual periods beginning on or after 1 January 2018, addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.

Annual improvements 2014-2016 cycle

These amendments impact IFRS 1, First-time adoption of IFRS', regarding the deletion of short term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10.

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

The following standards and interpretations have been issued but were not mandatory for annual reporting periods ending 31 December 2018:

IFRS 16 Leases

Effective 1 January 2019, IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

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

IFRS 16 Leases (continued)

The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

At the reporting date, the Company has non-cancellable operating lease commitments of US$ 89,883. The Company estimates that approximately 100% of these relate to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss. However, the Company has not yet assessed what other adjustments, if any, are necessary for example,, because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is, therefore, not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Company's profit or loss and classification of cash flows going forward.

IFRS 17 Insurance Contracts

IFRS 17, effective 1 January 2022, was issued in May 2017 as a replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: (i) discounted probability-weighted cash flows; (ii) an explicit risk adjustment; and (iii) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policy holders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The quantitative impact of adopting IFRS 17 is expected to be material, however, this is yet to be determined.

Interpretation 23 Uncertainty over Income Tax Treatments - effective 1 January 2022

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

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

IFRS 17 Insurance Contracts (continued)

- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation and modification of financial liabilities - effective 1 January 2019 covers two issues:

- The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities.
- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

Annual Improvements to IFRS Standards 2015-2017 Cycle - effective 1 January 2019

The following improvements were finalised in December 2017:

- IFRS 3 - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.
- IAS 12 - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.
- IAS 23 - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings

The Directors do not plan to apply the above standards, until they become effective. Based on their assessment of the potential impact of application of the above, only IFRS 17 are expected to have a significant impact on the Company's financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Income recognition (continued)

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

There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions.

(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.

ii) Commissions

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

iii) Retrocessions ceded

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

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

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

iv) Claims incurred

Claims incurred comprise claims paid in the year and 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").

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Income recognition (continued)

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

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

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

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

vi) Interest income

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

vii) Dividend income

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

viii) Rental income

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

All investment income is stated net of investment expenses.

(c) Currency translation

i) Functional and Presentation Currency

Even though the Company is domiciled in Kenya whose functional currency is the Kenya Shilling, the Company operates in many countries and has significant activities of the Company being conducted in United States Dollars (US$). As such the Company's functional currency is the United States Dollar (US$). The financial statements are presented in United States Dollars (US$) which is the Company's functional and presentation currency.

ii) Transactions and balances

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Receivables and payables related to reinsurance contracts

Receivables and payables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. These include amounts due to and from cedants and brokers. Subsequent to initial recognition, receivables related to reinsurance contracts are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment, with the impairment loss determined using the expected credit loss model, recorded in the statement of profit or loss.

(e) Intangible assets – computer software

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

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

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

(f) Property and equipment

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property and equipment (continued)

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

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

(g) Investment properties

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

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

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

(h) Financial instruments

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

(i) Classification

From 1 January 2018, the Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

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

(ii) Recognition and derecognition

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(iii) Measurement

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depends on:

(i) the Company's business model for managing the financial assets; and

(ii) the cash flow characteristics of the asset.

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/ (losses) and impairment expenses are presented as a separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/ (losses) in the period in which it arises.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

iii) Measurement (continued)

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

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

Equity instruments

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

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

(iv) Determination of fair value

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(iv) Determination of fair value (continued)

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

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

(v) Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Prior to 1 January 2018, the Company would assess at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or 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 have occurred after the 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 events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:

√ An adverse change in the payment status of issuers or debtors in the Company; or

√ National or local economic conditions that correlate with defaults on the assets in the Company.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(v) Impairment (continued)

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

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

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

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

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

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

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

Measurement of expected credit losses

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(v) Impairment (continued)

Measurement of expected credit losses

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

Expected credit losses

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

ECL = PD x LGD x EAD

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

- The general approach
- The simplified approach

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

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

The General Approach

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

- **Stage 1** - where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Company will recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.
- **Stage 2** - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Company will recognise lifetime ECL but interest income will continue to be recognised on a gross basis.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(v) Impairment (continued)

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

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

The Simplified approach

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

Definition of default

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

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

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

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

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

Significant increase in credit risk (SIICR)

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

((i) Financial instruments (continued)

(v) Impairment (continued)

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

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

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

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a 'base case' view of the future direction of relevant economic variables and forecast scenarios based on consideration of a variety of external actual and forecast information. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates.

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

Measurement of ECL

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(v) Impairment (continued)

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

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

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

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

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

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

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

Receivables arising out of reinsurance contracts

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(vi) Modification of contracts

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

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

If the terms are substantially different, the Company derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered the date of initial recognition for impairment calculation purposes, including the purpose of determining whether a SICR has occurred.

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

(vii) Write off policy

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

The Company may write-off financial assets that are still subject to enforcement activity. There were no assets written off during the years ended 31 December 2018 and 31 December 2017.

(viii) Accounting policies applied until 31 December 2017

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Classification

Until 31 December 2017, the Company classified its financial assets in the following categories:

- loans and receivables;

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(viii) Accounting policies applied until 31 December 2017 (continued)

- held-to-maturity investments; and
- available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

Reclassification

The Company could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Company could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Company had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised as follows:

- for financial assets at FVPL – in profit or loss within other gains/(losses).
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income.
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and losses from investment securities.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(viii) Accounting policies applied until 31 December 2017 (continued)

Impairment

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

(j) Deferred income

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

(k) Employee entitlements

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

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

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

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

(l) Cash and cash equivalents

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

(m) Dividends

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

(n) Taxation

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(viii) Accounting policies applied until 31 December 2017 (continued)

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

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

(o) Share Capital

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

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

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

(p) 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:

	2018 US$	2017 US$
Class of business:		
Property	81,452,925	73,865,314
Casualty	37,164,603	27,330,772
Motor	12,948,132	10,316,769
Marine	10,006,285	9,094,935
Aviation	2,684,384	3,255,300
Life	14,611,972	11,951,512
Medical	19,666,639	16,317,758
	178,534,940	152,132,360

(ii) Geographical distribution

	2018		2017	
	Gross premium	%	Gross premium	%
Region				
COMESA	133,292,294	74.66	111,775,205	73.47
Non – COMESA (Africa)	21,349,960	11.96	17,911,022	11.77
Other regions	23,892,686	13.38	22,446,133	14.76
Total	178,534,940	100.0	152,132,360	100.00

(iii) Type- distribution

	2018 Gross premium	2018 %	2017 Gross premium	2017 %
Proportional	113,017,862	63.30	100,577,665	66.11
Non-proportional	24,962,571	13.98	22,132,414	14.55
Facultative	40,554,507	22.72	29,422,281	19.34
Total	178,534,940	100.00	152,132,360	100.00

4 INVESTMENT INCOME

	2018 US$	2017 US$
Interest from government securities	7,464,230	3,884,480
Interest from deposits with financial institutions	4,618,729	5,129,512
Interest from corporate bonds	466,952	1,555,722
Income from offshore investments	16,872	17,077
Rental income	655,533	1,228,284
Dividend income	399,905	458,424
Fair value gain on investment properties (Note 11)	807,054	445,429
Gain on sale of quoted shares	-	1,603,555
	14,429,275	14,322,483
Investment income earned on financial assets, analysed by category of asset is as follows:		
Investments held at fair value through other comprehensive income	416,777	2,079,056
Investments held at amortised cost	12,549,911	10,569,714
	12,966,688	12,648,770
Investment income earned on non-financial assets (investment properties)	1,462,587	1,673,713
Total investment income	14,429,275	14,322,483

5 GROSS INCURRED CLAIMS

	2018 US$	2017 US$
Gross settled claims	78,799,565	58,481,208
Change in outstanding claims	4,388,287	8,051,879
	83,187,852	66,533,087

6 OPERATING AND OTHER EXPENSES

	2018 US$	2017 US$
Employee emoluments and benefits (Note 8)	6,653,695	8,559,099
Auditors' remuneration	40,000	38,460
General assembly and Board expenses	442,119	349,206
Depreciation (Note 9)	220,809	120,300
Amortisation of intangible assets (Note 10)	19,539	6,122
Loss on foreign exchange transactions	4,315,118	2,689,848
Provision for expected credit losses arising from reinsurance premium receivables (Note 13(iii))	2,310,725	908,126
Repairs and maintenance	334,022	243,019
Premium taxes and charges	1,201,683	1,353,782
Other expenses	2,434,738	2,179,889
	17,972,448	16,447,851

7 EARNINGS PER SHARE

	2018 US$	2017 US$
Profit attributable to shareholders (US$)	10,144,760	23,852,766
Weighted average number of shares issued (Note 24(iii))	57,017,704	56,639,401
Earnings per share (US$) - basic and diluted	0.178	0.421

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 2018 and 31 December 2017. The diluted earnings per share is therefore the same as the basic earnings per share disclosed above.

8 EMPLOYEE EMOLUMENTS AND BENEFITS

	2018 US$	2017 US$
Staff costs include the following:		
- Salaries and wages	4,650,973	6,798,769
- Staff retirement benefits	796,033	727,886
- Other staff benefits	1,206,689	1,032,444
	6,653,695	8,559,099

The number of persons employed by the Company at the year-end was 69 (2017: 60).

9 PROPERTY AND EQUIPMENT

	2018 US$	2017 US$
Cost or valuation	3,109,104	2,666,879
Accumulated depreciation	(1,310,482)	(1,164,447)
Net book value	1,798,622	1,502,432
Comprising;		
Buildings	1,234,016	1,238,075
Motor vehicles	85,834	
Office furniture and fittings	255,031	215,358
Office equipment	47,802	32,138
Computers equipment	175,939	16,861
Net book value	1,798,622	1,502,432

An independent valuation of the Company's land and buildings was carried out by Gimco Limited, registered property 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 2018 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$ 682,006 (2017: US$ 706,768).

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$ 980,405 (2017: US$ 1,052,111) 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$ 234,144 (2017: US$ 247,243).

9 PROPERTY AND EQUIPMENT (continued)

	Land and buildings US$	Motor vehicles US$	Office furniture and fittings US$	Office equipment US$	Computer equipment US$	Total US$
Cost or Valuation						
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
At 1 January 2018	1,238,075	219,549	746,847	96,217	366,191	2,666,879
Additions	-	114,445	94,501	26,515	261,945	497,406
Disposals	-	-	(27,487)	(2,700)	(20,935)	(51,122)
Revaluation surplus	(4,059)	-	-	-	-	(4,059)
At 31 December 2018	1,234,016	333,994	813,861	120,032	607,201	3,109,104
ACCUMULATED DEPRECIATION						
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
At 1 January 2018	-	219,549	531,489	64,079	349,330	1,164,447
Charge for the year	24,762	28,611	53,824	10,745	102,867	220,809
Eliminated on disposals	-	-	(26,483)	(2,594)	(20,935)	(50,012)
Written back on revaluation	(24,762)	-	-	-	-	(24,762)
At 31 December 2018	-	248,160	558,830	72,230	431,262	1,310,482
NET BOOK VALUE						
At 31 December 2018	1,234,016	85,834	255,031	47,802	175,939	1,798,622
At 31 December 2017	1,238,075	-	215,358	32,138	16,861	1,502,432

9 PROPERTY AND EQUIPMENT (continued)

Details of the Company's freehold land and buildings and information about fair value hierarchy as at 31 December 2018 are as follows:

	2018 US$	2017 US$
Level 1	-	-
Level 2	-	-
Level 3	1,234,016	1,238,075
Fair value as at 31 December	1,234,016	1,238,075

There were no transfers between the levels during the year.

10 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2018 US$	2017 US$
Cost	936,948	896,697
Accumulated amortisation	(910,114)	(890,575)
Net book value	26,834	6,122

Movement analysis: **COST**	**Software licences US$**	**Other software US$**	**Total US$**
At 1 January 2017	621,931	274,766	896,697
At 31 December 2017	621,931	274,766	896,697
At 1 January 2018	621,931	274,766	896,697
Additions – 2018	-	40,251	40,251
At 31 December 2018	621,931	315,017	936,948
ACCUMULATED AMORTISATION			
At 1 January 2017	621,931	262,522	884,453
Charge for the year 2017	-	6,122	6,122
At 31 December 2017	621,931	268,644	890,575
Charge for the year - 2018	-	19,539	19,539
At 31 December 2018	621,931	288,183	910,114
NET BOOK VALUE			
At 31 December 2018	-	26,834	26,834
At 31 December 2017	-	6,122	6,122

All software is amortised over a period of five years.

11 INVESTMENT PROPERTIES

	2018 US$	2017 US$
Fair value of investment properties	27,777,039	22,034,974

Investment properties comprise:

At fair value	Zep-Re Place US$	Prosperity House US$	Upper Hill Parking US$	Zambia Land US$	Mombasa Road Land US$	Harare Property US$	Total US$
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 (loss) on revaluation	159,567	142,532	65,048	22,352	55,930	-	445,429
At 31 December 2017	8,649,478	5,428,461	1,987,204	4,808,931	920,900	240,000	22,034,974
At 1 January 2018	8,649,478	5,428,461	1,987,204	4,808,931	920,900	240,000	22,034,974
Additions	126,439	-	-	4,808,572	-	-	4,935,011
Gain on revaluation	104,965	169,103	75,057	396,800	61,129	-	807,054
At 31 December 2018	8,880,882	5,597,564	2,062,261	10,014,303	982,029	240,000	27,777,039

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 2018, 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 2018 are as follows:

	2018 US$	2017 US$
Level 1	-	-
Level 2	-	-
Level 3	27,777,039	22,034,974
Fair value as at 31 December	27,777,039	22,034,974

There were no transfers between the levels during the year.

12 (i) EQUITY INVESTMENTS

Equity investments are measured at fair value through other comprehensive income.

	2018 US$	2017 US$
At 1 January	15,085,934	12,266,247
Additions	12,247,218	3,722,236
Disposals	(1,300,025)	(1,316,338)
Fair value gains/(losses) (Note 25 (i))	(3,945,856)	171,028
Exchange difference on revaluation (Note 25 (i))	208,344	242,761
At 31 December	22,295,615	15,085,934

(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$	Trade & Development Bank US$	Total US$
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 gains (Note 25(iii))	318,481	847,335	458,545	15,554	3,116,371	4,756,286
At 31 December 2017	1,204,040	6,711,767	2,295,917	515,554	8,120,371	18,847,649
At 1 January 2018	1,204,040	6,711,767	2,295,917	515,554	8,120,371	18,847,649
Additions	-	-	-	-	-	-
Fair value gain (Note 25(iii))	310,167	666,238	(230,264)	36,736	568,146	1,351,023
At 31 December 2018	1,514,207	7,378,005	2,065,653	552,290	8,688,517	20,198,672

The investments above are reported at fair value except where the fair value cannot be reliably measured. The investments at 31 December 2018 have been reported at the Company's share of the affiliated companies' net assets value.

13 RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	2018 US$	2017 US$
Receivables from reinsurance arrangements	45,093,539	51,513,525
Provision for expected credit losses (Note 13 (ii) below)	(8,113,174)	(7,644,737)
Net carrying value	36,980,365	43,868,788

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

(i) Ageing of receivables arising out of reinsurance arrangements

	2018 US$	2017 US$
0 - 90 days	10,786,806	11,901,484
91-120 days	1,853,476	3,060,190
121-270 days	10,487,317	13,215,468
271 – 360 days	2,753,689	4,202,909
Over 360 days	11,099,077	11,488,737
At 31 December	36,980,365	43,868,788
Average age (days) – gross written premium basis	76	105

(ii) Movement in the provision for expected credit losses

	2018	2017
At 1 January	7,644,737	6,736,611
Charge for the year inward debtors	1,974,823	908,126
Charge for the year outward debtors	335,902	-
Exchange difference on revaluation	(1,842,288)	-
At 31 December	8,113,174	7,644,737

The impact of adoption of IFRS 9 on the provision for expected credit losses on receivables arising out of reinsurance arrangements was assessed to be immaterial.

(iii) Provision for expected credit losses (Note 6)

	2018	2017
Arising from reinsurance arrangements (inward)	1,974,823	908,126
Arising from reinsurance arrangements (outward)	335,902	-
	2,310,725	908,126

14 DEPOSITS RETAINED BY CEDING COMPANIES

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

	2018 US$	2017 US$
At 1 January	6,016,722	4,638,653
(Decrease)/increase during the year	(426,051)	1,378,069
At 31 December	5,590,671	6,016,722

15 RETROCESSIONAIRES' SHARE OF REINSURANCE LIABILITIES

	2018 US$	2017 US$
Retrocessionaires share of :		
Provision for unearned premiums and unexpired risks (Note 28)	10,567,002	10,786,220
Notified outstanding claims (Note 27)	12,076,775	13,895,922
Incurred but not reported (Note 27)	8,505,701	6,281,656
	31,149,478	30,963,798

16 OTHER RECEIVABLES

	2018 US$	2017 US$
Receivable from Retakaful window	548,365	1,065,645
Staff receivables	1,198,922	1,860,164
Prepayments	731,244	659,954
Deposits	34,892	33,999
Rent receivable	428,427	535,778
Others	6,808,454	3,043,071
Provision for expected credit losses	(10,226)	-
	9,740,078	7,198,611

17 DEFERRED ACQUISITION COSTS (DAC)

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

	2018 US$	2017 US$
At 1 January	9,219,258	9,179,323
Increase during the year	907,805	39,935
At 31 December	10,127,063	9,219,258

18 GOVERNMENT SECURITIES

	2018 US$	2017 US$
Comprised of:		
Treasury bonds and bills	10,609,000	6,554,342
Loans and receivables due from Governments	86,679,631	91,396,643
	97,288,631	97,950,985
Provision for expected credit losses	(128,869)	-
	97,159,762	97,950,985
(i) Treasury bonds & bills maturing:		
- Within 6 months	9,453,424	5,546,799
- In 6 months to 1 year	-	-
- In 1 to 5 years	168,888	34,689
- After 5 years	986,688	972,854
	10,609,000	6,554,342
(ii) Loans & receivables due from the Government maturing:		
- Within 6 months	-	25,222,731
- In 6 months to 1 year	-	10,159,165
- In 1 to 5 years	71,364,777	51,041,966
- After 5 years	15,314,854	4,972,781
At 31 December	86,679,631	91,396,643
Analysis by currency denomination:		
Securities in US Dollars	96,133,056	96,943,442
Securities in Kenya Shillings	1,155,575	1,007,543
	97,288,631	97,950,985
(iii) Movement in provision for expected credit losses		
At 1 January	-	-
Changes on initial application of IFRS 9	(109,429)	-
Charge for the year	(19,440)	-
At 31 December	(128,869)	-

19 OFFSHORE INVESTMENTS

	2018 US$	2017 US$
Discretionary fund	5,364,608	5,793,153
Wealth fund	3,286,444	3,453,085
Ashburton Investments fund	1,292,972	8,067,967
	9,944,024	17,314,205
Movement during the year		
At 1 January	17,314,205	18,034,344
Disposals	(6,839,982)	(1,276,570)
Fair value (loss)/gain (Note 25(i))	(530,199)	556,431
At 31 December	9,944,024	17,314,205

20 DEPOSITS WITH FINANCIAL INSTITUTIONS

	2018 US$	2017 US$
Analysis by currency denomination:		
Deposits in United States Dollars	90,576,386	84,229,022
Deposits in Kenya Shillings	7,703,587	5,101,426
Deposits in Sudanese Pound	1,792,451	4,639,048
Deposits in Ethiopian Birr	6,995,168	5,250,224
Deposits in Malawian Kwacha	144,406	-
	107,211,998	99,219,720
Provision for expected credit losses	(452,854)	-
	106,759,144	99,219,720
Maturity analysis:		
Within 3 months of placement	4,393,222	24,080,559
After 3 months of placement	102,818,776	75,139,161
	107,211,998	99,219,720
Movement in provision for expected credit losses		
At 1 January	-	-
Changes on initial application of IFRS 9	(522,080)	-
Charge for the year	69,226	-
At 31 December	(452,854)	-

Deposits with financial institutions have an average maturity of 3 to 12 months (2017: 3 to 12 months).

21 CORPORATE BONDS AND LOANS

	2018 US$	2017 US$
Analysis by currency denomination:		
United States Dollar	-	995,726
Kenyan Shillings	837,669	825,945
Rwandese Francs	260,971	270,722
	1,098,640	2,092,393
Provision for expected credit losses	(9,644)	-
	1,088,996	2,092,393
Corporate bonds and loans maturing:		
- Within 1 year	-	-
- Between 1 to 5 years	1,088,996	2,092,393
- Over 5 years	-	-
At 31 December	1,088,996	2,092,393
Movement in provision for expected credit losses		
At 1 January	-	-
Changes on initial application of IFRS 9	(22,840)	-
Charge for the year	13,196	-
At 31 December	(9,644)	-

22 CASH AND BANK BALANCES

	2018 US$	2017 US$
Analysis by currency denomination:		
United States Dollars	707,977	904,395
Central African XAF Franc	543,701	110,717
Ethiopian Birr	517,307	2,554
Sudanese Pound	472,831	291,128
Burundian Francs	433,904	-
Kenya Shillings	267,067	294,013
West African CFA Franc	243,375	285,990
Zambian Kwacha	89,169	127,073
Malawi Kwacha	33,398	43,019
Others	67,346	37,140
	3,376,075	2,096,029
Provision for expected credit losses	(37,161)	-
	3,338,914	2,096,029
Movement in provision for expected credit losses		
At 1 January	-	-
Changes on initial application of IFRS 9	(25,414)	-
Charge for the year	(11,747)	-
At 31 December	(37,161)	-

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:

	2018 US$	2017 US$
Government securities		
Securities in Kenya Shillings	12.9	12.5
Securities in Sudanese Pounds	-	25.7
Securities in United States Dollars	7.5	3.6
Deposits with financial institutions		
Deposits in United States Dollars	4.2	5.0
Deposits in Kenya Shillings	8.8	3.6
Deposits in Sudanese Pounds	-	14.2
Deposits in Ethiopian Birr	10.3	4.8
Deposits in Malawian Kwacha	4.0	-
Offshore investments		
Investments in United States Dollars	(6.3)	6.6

24 ISSUED CAPITAL

(i) Issued capital

	2018 US$	2017 US$
Ordinary shares of US$ 1 each:		
Share capital	57,068,271	56,946,503
Share premium	50,395,786	49,788,160
Paid up capital	107,464,057	106,734,663

(ii) Paid up shares

	No of shares	2018 US$	2017 US$
Ordinary shares of US$ 1 each:			
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
At 31 December 2017	56,946,503	56,946,503	49,788,160
At 1 January 2018	56,946,503	56,946,503	49,788,160
Issue of shares	24,441	24,441	-
Dividends capitalised	97,327	97,327	607,626
At 31 December 2018	57,068,271	57,068,271	50,395,786

	2018 US$	2017 US$
(iii) Weighted average number of shares (Note 7)	57,017,704	56,639,401

25 RESERVES

	2018 US$	2017 US$
Investments revaluation reserve (Note 25 (i))	(4,122,514)	145,197
Property revaluation reserve (Note 25 (ii))	552,010	531,307
Investment in affiliated companies revaluation reserve (Note 25 (iii))	6,552,591	5,201,568
	2,982,087	5,878,072

25 RESERVES (continued)

(i) Investments revaluation reserve

	2018 US$	2017 US$
At 1 January	145,197	(825,023)
(Loss)/gain on revaluation of equity investments	(3,953,007)	1,774,583
Transfer of gain on disposal of equity investments to profit or loss (Note 4)	-	(1,603,555)
Net revaluation (loss)/gain on equity investments (Note 12)	(3,945,856)	171,028
Exchange difference on revaluation of equity investments (Note 12)	208,344	242,761
Revaluation (loss)/gain on offshore investments (Note 19)	(530,199)	556,431
At 31 December	(4,122,514)	145,197

The investments revaluation reserve represents accumulated gains and losses arising on the revaluation of financial assets that have been recognised in the other comprehensive income. Prior to 1 January 2018 and adoption of IFRS 9, this amount was reported net of amounts reclassified/transferred to profit or loss for the year when those assets have been disposed of. This reserve is not available for distribution.

The Company reviews the status of the investment portfolio at every financial reporting for expected credit losses. In determining whether an impairment loss should be recognized in profit or loss, the Company checks whether there is evidence that the assets are impaired and that the fair values have declined irreversibly. At 31 December 2018 and 31 December 2017, 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

	2018 US$	2017 US$
At 1 January	531,307	391,682
Revaluation surplus (Note 9)	(4,059)	117,208
Depreciation written back on revaluation (Note 9)	24,762	22,417
Net gain on revaluation of property	20,703	139,625
At 31 December	552,010	531,307

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.

25 RESERVES (continued)

(iii) Investment in affiliated Companies revaluation reserve

This relates to valuation gains or losses in investments in affiliated Companies. In 2018, a net fair value gain of US$ 1,351,023 (2017:US$ 4,756,286) was realized in the year.

	2018 US$	2017 US$
At 1 January	5,201,568	445,282
Fair value gain	1,351,023	4,756,286
	6,552,591	5,201,568

26 RETAINED EARNINGS

	2018 US$	2017 US$
Retained earnings	119,299,739	114,838,344
The movement in retained earnings is as follows:		
At 1 January	114,838,344	95,485,578
Dividend declared (Note 33)	(5,000,000)	(4,500,000)
Changes on initial application of IFRS 9	(683,365)	-
Profit for year	10,144,760	23,852,766
At 31 December	119,299,739	114,838,344

During the year ended 31 December 2018, the dividend arising out of 2017 profits amounting to US$ 5,000,000 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 2018 the unrealised fair value gains on revaluation of investment properties amounted to US$ 7,857,095 (2017: US$ 7,050,041).

27 REINSURANCE CONTRACT LIABILITIES

	2018 US$	2017 US$
Reinsurance contracts		
- claims reported and claims handling expenses	60,229,405	61,915,238
- claims incurred but not reported (IBNR)	30,167,318	26,213,789
Total reinsurance liabilities	90,396,723	88,129,027

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.

	2018 Gross US$	2018 Retrocessions US$	2018 Net US$	2017 Gross US$	2017 Retrocessions US$	2017 Net US$
Outstanding claims	60,229,405	(12,076,775)	48,152,630	61,915,238	(13,895,922)	48,019,316
IBNR	30,167,318	(8,505,701)	21,661,617	26,213,789	(6,281,656)	19,932,133
Total outstanding claims	90,396,723	(20,582,476)	69,814,247	88,129,027	(20,177,578)	67,951,449

The Company's outstanding claims and IBNR were reviewed by an independent actuary; Actuarial Services (EA) Limited, registered actuaries as at 31 December 2018.

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

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:

	2018 Gross US$	2018 Retrocessions US$	2018 Net US$	2017 Gross US$	2017 Retrocessions US$	2017 Net US$
At 1 January	33,965,538	(10,786,220)	23,179,318	27,694,956	(5,971,841)	21,723,115
Movement in the year:						
- Unearned premiums	5,434,152	219,218	5,653,370	7,661,894	(4,814,379)	2,847,515
- Foreign exchange gain	(1,400,267)	-	(1,400,267)	(1,391,312)	-	(1,391,312)
	4,033,885	219,218	4,253,103	6,270,582	(4,814,379)	1,456,203
At 31 December	37,999,423	(10,567,002)	27,432,421	33,965,538	(10,786,220)	23,179,318
		(Note 15)			(Note 15)	

29 DEFERRED INCOME

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

	2018 US$	2017 US$
Arising from Government grant - At 1 January and at 31 December	80,686	80,686
Accumulated amortisation:		
At 1 January	19,561	18,746
Credited to other income for the year	815	815
At 31 December	20,376	19,561
At 31 December	60,310	61,125

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:

	2018 US$	2017 US$
At 1 January	7,337,822	7,033,723
Increase during the year	2,996,369	304,099
At 31 December	10,334,191	7,337,822

(ii) PAYABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

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

	2018 US$	2017 US$
At 1 January	4,379,567	5,055,662
Increase/(decrease) during the year	914,962	(676,095)
At 31 December	5,294,529	4,379,567

31 DEFERRED RETROCESSION COMMISSION REVENUE

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

	2018 US$	2017 US$
At 1 January	2,695,511	2,684,586
(Decrease)/increase during the year	(364,309)	10,925
At 31 December	2,331,202	2,695,511

32 OTHER PAYABLES

	2018 US$	2017 US$
Rent deposits	253,359	344,856
Other liabilities	3,946,474	5,866,514
Leave pay provision	147,565	140,128
Provision for gratuity	1,412,786	1,477,980
	5,760,184	7,829,478

33 DIVIDENDS PAYABLE

The movement in dividends payable is as follows:

	2018 US$	2017 US$
At 1 January	996,174	1,100,486
Final dividend declared	5,000,000	4,500,000
Dividend paid	(4,056,004)	(3,022,697)
Dividend capitalised	(582,994)	(1,581,615)
At 31 December	1,357,176	996,174

In respect of the current year, the Directors propose that a dividend of US$ 2,500,000 (2017: US$ 5,000,000) be paid to shareholders. This dividend is subject to approval of shareholders at the Annual General Meeting to be held on 20th June 2019 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:

	2018 US$	2017 US$
Property and equipment	6,348,515	1,123,440
Investment properties	420,000	13,225,000
	6,768,515	14,348,440

35 RELATED PARTIES

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

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

	2018 US$	2017 US$
(i) Transactions with related parties		
Gross earned premium:		
- Shareholders	17,884,767	16,059,773
Claims Paid		
- Shareholders	7,259,122	5,217,971
(ii) Directors' remuneration		
Directors' fees	125,620	89,407
Other emoluments paid (per diem)	96,677	53,213
	222,297	142,620
(iii) Key management remuneration		
Salaries and other short-term employment benefits	1,339,535	1,003,666
Gratuity	-	585,482
	1,339,535	1,589,148
(iv) Outstanding balances with related parties		
Premiums receivable from related parties	6,070,485	3,118,182
Staff car and other loans	1,198,922	1,860,164
	7,269,407	4,978,346

36 CASH GENERATED FROM OPERATIONS

		2018 US$	2017 US$
Profit for the year		10,144,760	23,852,766
Adjustments for:			
Gain on disposal of property and equipment		(605)	(11,533)
Gain on sale of quoted shares	4	-	(1,603,555)
Fair value gain on investment properties	4	(807,054)	(445,429)
Provision for expected credit losses		(683,365)	-
Depreciation	9	220,809	120,300
Amortisation of intangible assets	10	19,539	6,122
Amortisation of deferred income	29	(815)	(815)
Changes in:			
- Provision for unearned premiums and unexpired risks		4,033,885	6,270,582
- Reinsurance contract liabilities		2,267,696	8,993,226
- Deposits retained by ceding companies		426,051	(1,378,069)
- Deposits retained on ceded reinsurance business		123,357	6,655
- Deferred acquisition costs (DAC)		(907,805)	(39,935)
- Receivables arising out of reinsurance arrangements		6,888,423	(14,881,812)
- Retrocessionaires share of technical liabilities		(185,680)	4,704,390
- Payables arising out of retrocession arrangements		2,996,369	304,099
- Deferred retrocession commission revenue (DRR)		(364,309)	10,925
- Payables arising from reinsurance arrangements		914,962	(676,095)
- Other receivables		(2,541,467)	(1,063,267)
- Other payables		(2,069,294)	1,108,234
Net cash generated from operations		20,475,457	25,276,789

37 CASH AND CASH EQUIVALENTS

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

	2018 US$	2017 US$
Cash and bank balances	3,338,914	2,096,029
Deposits with financial institutions maturing within 3 months (note 20)	4,393,222	24,080,559
	7,732,136	26,176,588

38 OPERATING LEASE COMMITMENTS

Net rental income earned during the year was US$ 655,533 (2017: US$ 1,228,284). At the end of the reporting period, the Company had contracted with tenants for the following future lease receivables:

	2018 US$	2017 US$
Not later one year	326,533	620,373
Later than 1 year but not later than 5 years	562,425	594,779
More than 5 years	65,356	8,485
	954,314	1,223,637

Leases are for a period of six years.

39 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Key sources of estimation uncertainty

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

The ultimate liability arising from claims payable under reinsurance contracts

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

Measurement of expected credit loss allowance

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

- Determining criteria for significant increase in credit risk;

- Choosing the appropriate models and assumptions for the measurement of ECL;

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

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

Useful lives of property and equipment

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

Fair value of financial instruments

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

Impairment of non-financial assets

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

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

Other areas of judgement

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

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

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

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, retrocession planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and retrocessionaires. Investment policies are in place which help manage liquidity and seek to maximise return within an acceptable level of interest rate and credit risk.

(i) Reinsurance risk

ZEP- RE writes the following classes of business: Property, Casualty, Motor, Marine, Aviation, Medical and Life.

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

Frequency and severity of claims

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

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

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

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

Sources of uncertainty in the estimation of future claim payments

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

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

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

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

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Reinsurance risk (continued)

Concentration risk

At 31 December 2018 Class of business		**Maximum insured loss** **US$ 0m - US$ 0.25m**	**US$ 0.25m - US$ 1m**	**Over US$ 1m**	**Total**
Property	Gross	89,569,173	330,006,530	14,617,309,335	15,036,885,038
	Net	80,086,518	302,320,810	3,783,798,568	4,166,205,896
Casualty	Gross	75,009,728	227,016,534	2,560,479,934	2,862,506,196
	Net	72,563,071	212,435,826	476,420,946	761,419,843
Motor	Gross	30,707,185	41,553,654	102,859,275	175,120,114
	Net	28,904,270	38,125,081	79,874,411	146,903,762
Marine	Gross	47,912,377	94,675,078	283,513,679	426,101,134
	Net	43,720,638	92,052,021	217,643,244	353,415,903
Aviation	Gross	5,108,560	3,945,131	545,326,068	554,379,759
	Net	5,108,560	3,045,131	5,735,000	13,888,691
Life	Gross	15,265,474	6,144,256	74,903,036	96,312,766
	Net	14,982,285	5,358,386	19,129,618	39,470,289
Medical	Gross	2,404,982	-	-	2,404,982
	Net	2,257,758	-	-	2,257,758
Total	**Gross**	**265,977,479**	**703,341,183**	**18,184,391,327**	**19,153,709,989**
	Net	**247,623,100**	**653,337,255**	**4,582,601,787**	**5,483,562,142**

At 31 December 2017 Class of business		**Maximum insured loss** **US$ 0m - US$ 0.25m**	**US$ 0.25m - US$ 1m**	**Over US$ 1m**	**Total**
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 assurance	Gross	10,849,824	4,352,809	30,400,237	45,602,870
business	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**

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

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Class	2018 Limit US$	2017 Limit US$
Fire/Engineering risk & Catastrophe Excess of loss	161,500,000 in excess of 3,500,000	107,000,000 in excess of 3,000,000
Accident and Motor	5,000,000 in excess of 1,500,000	4,000,000 in excess of 1,000,000
Marine & Energy Excess of loss	18,500,000 in excess of 1,500,000	11,500,000 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.

(ii) Financial risk management

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

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

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

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

(a) Credit risk

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

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

The Company manages its exposure in the following ways:

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

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

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

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

Maximum exposure to credit risk before collateral held:
At 31 December 2018

	US$
Deposits retained by ceding companies	5,590,671
Retrocessionaires' share of technical liabilities	31,149,478
Other receivables (excluding prepayments) (note 16)	9,019,060
Receivables arising out of reinsurance arrangements	45,093,539
Government securities (note 18)	97,288,632
Offshore investments (note 19)	9,944,024
Deposits with financial institutions (note 20)	107,212,000
Corporate bonds and loans (note 21)	1,098,639
Bank balances (note 22)	3,376,076
Gross financial assets	**309,772,119**

31 December 2017	**US$**
Deposits retained by ceding companies	6,016,722
Retrocessionaires's share of technical liabilities	30,963,798
Other receivables (excluding prepayments) (note 16)	6,538,657
Receivables arising out of reinsurance arrangements	51,513,525
Government securities (note 18)	97,950,985
Offshore investments (note 19)	17,314,205
Deposits with financial institutions (note 20)	99,219,720
Corporate bonds and loans (note 21)	2,092,393
Bank balances (note 22)	2,096,029
Gross financial assets	**313,706,034**

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

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

	31 December 2018 12-month ECL Shs '000	1 January 2018 12-month ECL Shs '000
Deposits with financial institutions	107,211,998	99,219,720
Loss allowance	(452,854)	(522,080)
Amortised cost	106,759,144	98,697,640
Government bonds at amortised cost	97,288,631	97,950,985
Loss allowance	(128,869)	(109,429)
Amortised cost	97,159,762	97,841,556
Corporate bonds and commercial papers at amortised cost	1,098,640	2,092,393
Loss allowance	(9,644)	(22,840)
Amortised cost	1,088,996	2,069,553
Cash and cash equivalents	3,376,075	2,096,029
Loss allowance	(37,161)	(25,414)
Amortised cost	3,338,914	2,070,615
Receivables arising out of reinsurance arrangements	45,093,539	51,513,525
Loss allowance	(8,113,174)	(7,644,737)
Amortised cost	36,980,365	43,868,788
Other receivables	9,019,060	6,538,657
Loss allowance	(10,226)	(3,602)
Amortised cost	9,008,834	6,535,055
Total financial assets	**263,087,945**	**259,411,309**
Total loss allowance	**(8,751,930)**	**(8,328,102)**
Total financial assets at amortised cost	**254,336,015**	**251,083,207**

(b) Market risks

Interest rate risk

Exposure to interest sensitive assets is managed by use of a yield curve in order to ensure that the Company does not hold low yielding investments in a high interest environment. The Company has an investment committee which sets investment guidelines that seek to reduce exposure to interest rate risks.

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

At 31 December 2018 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 746,423 (2017: USD 388,448) lower/higher.

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

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

(b) Market risks (continued)

Equity price risk

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

The Company has a portfolio of equity investments quoted in Nairobi Securities 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 2018, 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$ 1,783,649 (2017: US$ 1,206,875) higher/lower, and equity would have been US$ 1,783,649 (2017: US$ 1,206,875) 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 2018, 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$540,915 higher/lower (2017: US$ 1,320,795 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 2.4% (2017: 5.8%) of the Company's net assets.

At 31 December 2018, 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$ 711,858 (2017: US$ 861,590) higher/lower mainly as a result of Nepalese Rupee denominated deposits, receivables and payables. At 31 December 2018, the Nepalese Rupee denominated net assets constitute 3.2% (2017: 3.8%) of the net assets.

At 31 December 2018, 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$ 136,230 (2017: US$ 455,533) 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)

(ii) Financial risk management (continued)

(b) Market risks (continued)

Currency risk (continued)

At 31 December 2018	US$	NPR	KES	SDG	UGX	TZS	RWF	ETB	ZMW	Others	Total
Assets											
Investment properties	27,777,039	-	-	-	-	-	-	-	-	-	27,777,039
Equity investments	8,833,990	-	13,461,625	-	-	-	-	-	-	-	22,295,615
Investment in Affiliated companies	16,618,812	-	-	-	1,514,207	2,065,653	-	-	-	-	20,198,672
Receivables arising out of reinsurance arrangements	7,123,706	881,700	8,376,698	815,876	1,609,325	1,217,922	1,522,856	3,412,387	3,325,231	8,694,664	36,980,365
Retrocessionaires' share of technical liabilities	31,149,478	-	-	-	-	-	-	-	-	-	31,149,478
Deposits retained by ceding companies	512,531	-1,460	-21,935	-	-	278	130,461	-	-	4,970,796	5,590,671
Deferred acquisition costs	2,277,641	280,018	3,575,591	264,755	457,967	358,257	256,550	402,177	429,211	1,824,896	10,127,063
Government securities	86,550,761	-	1,155,575	-	-	-	-	-	-	9,453,426	97,159,762
Offshore investments	9,944,024	-	-	-	-	-	-	-	-	-	9,944,024
Deposits with financial institutions	90,123,532	-	7,703,587	1,792,451	-	-	-	6,995,168	-	144,406	106,759,144
Corporate Bonds and Loans	-	-	828,025	-	-	-	260,971	-	-	-	1,088,996
Cash and bank balances	434,395	-	267,067	472,831	4,357	474	62,077	517,307	89,169	1,491,237	3,338,914
Total	281,345,909	1,160,258	35,346,233	3,345,913	3,585,856	3,642,584	2,232,915	11,327,039	3,843,611	26,579,425	372,409,743
Liabilities											
Reinsurance contract liabilities	21,234,741	6,752,629	25,753,480	975,940	2,736,425	4,909,917	1,952,685	3,458,099	2,319,293	20,303,514	90,396,723
Payables arising from retrocession arrangements	4,649,810	314,419	1,054,652	9,415	14,343	357,095	79,074	24,412	1,275,856	2,555,115	10,334,191
Payables arising from reinsurance arrangements	2,382,243	161,087	540,331	4,824	7,348	182,951	40,512	12,507	653,661	1,309,065	5,294,529
Deposits retained on ceded reinsurance business	695,656	-	-	-	-	-	-	-	-	-	695,656
Unearned premium reserves	8,546,314	1,050,703	13,416,564	993,430	1,718,413	1,344,277	962,642	1,509,075	1,610,514	6,847,491	37,999,423
Deferred Retrocession Revenue	2,331,202	-	-	-	-	-	-	-	-	-	2,331,202
Total	39,839,966	8,278,838	40,765,027	1,983,609	4,476,529	6,794,240	3,034,913	5,004,093	5,859,324	31,015,185	147,051,724
Net financial position exposure	241,505,943	(7,118,580)	(5,418,794)	1,362,304	(890,673)	-3,151,656	(801,998)	6,322,946	(2,015,713)	(4,435,760)	225,358,019

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

(b) Market risks (continued)

Currency risk (continued)

At 31 December 2017	US$	NPR	KES	SDG	UGX	TZS	RWF	ETB	ZMK	Others	Total
Assets											
Investment properties	22,034,974	-	-	-	-	-	-	-	-	-	22,034,974
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
Retrocessionaires' 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	91,970,661	-	1,007,543	-	-	-	-	-	-	4,972,781	97,950,985
Offshore investments	9,246,238	-	-	-	-	-	-	-	-		9,246,238
Deposits with financial institutions	84,229,022	-	5,101,426	4,639,048	-	-	-	5,250,224	-		99,219,720
Corporate Bonds and Loans	9,063,693	-	825,945	-	-	-	270,722	-	-		10,160,360
Cash and bank balances	904,395	-	294,013	291,128	15,723	-	2,830	2,554	127,073	458,312	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	-	-	-	-	-	-	-	-	0	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
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)	227,630,688

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Financial risk management (continued)

(c) Liquidity risk

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

The table below shows the contractual timing of cash flows arising from assets and liabilities included in the Company's ALM framework for management of reinsurance contracts as of 31 December 2018:

	Total Amount 2018	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	4-5 yrs	'5yrs
Financial assets:							
Receivables arising out of reinsurance arrangements	36,980,365	-	36,980,365	-	-	-	-
Deposits retained by ceding companies	5,590,671	-	5,590,671	-	-	-	-
Retrocessionaires' share of technical liabilities	31,149,478	-	31,149,478	-	-	-	-
Deferred acquisition costs	10,127,063	-	10,127,063	-	-	-	-
Government securities	97,240,792	-	9,587,131	20,279,741	-	42,843,225	24,530,695
Deposits with financial institutions	106,759,144	-	48,006,948	58,752,196	-	-	-
Corporate bonds and loans	1,108,160	-	-	260,971	-	-	847,189
Cash and bank balances	3,338,914	-	3,338,914	-	-	-	-
Total	292,294,587	-	144,780,570	79,292,908	-	42,843,225	25,377,884
Reinsurance liabilities:							
Reinsurance contract liabilities	90,396,723	-	90,396,723	-	-	-	-
Payables arising from retrocession arrangements	10,334,191	-	10,334,191	-	-	-	-
Payables arising from reinsurance arrangements	5,294,529	-	5,294,529	-	-	-	-
Deposits retained on ceded reinsurance business	695,656	-	695,656	-	-	-	-
Deferred retrocession revenue	2,331,202	-	2,331,202	-	-	-	-
Total	109,052,301	-	109,052,301	-	-	-	-
Net liquidity surplus	183,242,286	-	35,728,269	79,292,908	-	42,843,225	25,377,884

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) 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 2017:

	Total Amount 2017	No stated maturity	Contractual cash flows (undiscounted) 0-1 yr	1-2 yrs	2-3 yrs	4-5 yrs	'5yrs
Financial assets:							
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	-	-	-	-
Deferred acquisition costs	9,219,258	-	9,219,258	-	-	-	-
Government securities	115,109,752	-	42,068,586	10,840,000	1,938,569	51,247,822	9,014,775
Deposits with financial institutions	96,986,138	-	96,986,138	-	-	-	-
Corporate bonds and loans	2,081,456	-	995,726	270,722	288,333	526,675	-
Cash and bank balances	2,096,029	-	2,096,029	-	-	-	-
Total	306,341,941	-	232,215,045	11,110,722	2,226,902	51,774,497	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 retrocession 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	203,227,715	-	129,100,819	11,110,722	2,226,902	51,774,497	9,014,775

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 investment securities held at amortised cost as at 31 December 2018 is estimated at US$ 99,780,436 (2017: US$ 108,136,605) compared to their carrying value of US$ 99,680,243 (2017: US$ 108,111,345). 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.

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Fair value of financial assets and liabilities (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 2017:

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
	2018 US$	2017 US$				
Equity investments	22,295,615	15,085,934	Level 1	Quoted bid prices in an active market	N/A	N/A
Offshore investments	9,944,024	17,314,205	Level 2	Quoted bid prices in an active market	N/A	N/A
Investment in affiliated companies	20,198,672	18,847,649	Level 3	Net Asset value	N/A	N/A

There were no transfers between levels 1 and 2 in the period (2017: nil).

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

At 31 December 2018	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Financial assets:				
Equity investments	22,295,615	-	-	22,295,615
Offshore investments	9,944,024	-	-	9,944,024
Investment in affiliated companies	-	-	20,198,672	20,198,672
Total	32,239,639	-	20,198,672	52,438,311

At 31 December 2017	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Financial assets:				
Equity investments	15,085,934	-	-	15,085,934
Offshore investments	17,314,205	-	-	17,314,205
Investment in affiliated companies	-	-	18,847,649	18,847,649
Total	32,400,139	-	18,847,649	51,247

(iii) Financial assets by category

At 31 December 2018	Amortised cost US$	Fair value through other comprehensive income US$	Total US$
Equity investments	-	22,295,615	22,295,615
Investment in affiliated companies	-	20,198,672	20,198,672
Receivables arising out of reinsurance arrangements	36,980,365	-	36,980,365
Deposits retained by ceding companies	5,590,671	-	5,590,671
Other receivables	9,740,079	-	9,740,079
Government securities	97,159,762	-	97,159,762
Offshore investments	-	9,944,024	9,944,024
Deposits with financial institutions	106,759,144	-	106,759,144
Corporate bonds and loans	1,088,996	-	1,088,996
Cash and bank balances	3,338,914	-	3,338,914
Total assets	**260,657,931**	**52,438,311**	**313,096,242**

40 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

At 31December 2017	Amortised cost US$	Fair value through other comprehensive income US$	Total US$
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	97,950,985	-	97,950,985
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
Total assets	**266,511,215**	**43,179,821**	**309,691,036**

41 CAPITAL MANAGEMENT

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

The Company's 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.

41 CAPITAL MANAGEMENT (continued)

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

	2018 US$	2017 US$
Share capital	57,049,300	56,946,503
Share premium	50,301,119	49,788,160
Property revaluation reserve	552,010	531,307
Investments revaluation reserve	(4,122,514)	145,197
Investment in affiliated companies revaluation reserve	6,552,591	5,201,568
Retained earnings	119,299,739	114,838,344
	229,632,245	227,451,079

REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018

APPENDIX I

Class of insurance Business	Property US$	Casualty US$	Motor US$	Marine US$	Aviation US$	Life US$	Medical US$	Total US$
Gross premiums written	81,452,925	37,164,603	12,948,132	10,006,285	2,684,384	14,611,972	19,666,639	178,534,940
Less: retrocession premiums	(29,958,720)	(12,084,684)	(976,529)	(1,720,922)	(3,416,466)	(3,772,518)	(13,524)	(51,943,363)
Net premiums written	51,494,205	25,079,919	11,971,603	8,285,363	(732,082)	10,839,454	19,653,115	126,591,577
Change in UPR	(2,113,327)	(211,281)	(297,717)	(291,097)	5,829	(452,410)	(893,099)	(4,253,102)
Exchange gains on revaluation of UPR	(680,890)	(442,451)	(14,936)	(92,451)	(27)	(9,393)	(160,120)	(1,400,268)
Net earned premiums	**48,699,988**	**24,426,187**	**11,658,950**	**7,901,815**	**(726,280)**	**10,377,651**	**18,599,896**	**120,938,207**
Gross claims paid	30,318,088	12,561,483	9,366,026	4,495,821	307,737	7,440,391	14,310,019	78,799,565
Change in gross outstanding claims	(7,493,919)	4,162,969	3,086,096	736,205	(81,757)	1,392,850	465,252	2,267,696
Exchange gains on revaluation of outstanding claims	1,355,794	296,584	387,235	57,155	239	1,052	22,532	2,120,591
Less: amounts recoverable from retrocessionaires	2,113,444	(6,932,320)	40,646	(1,837,583)	(2,392)	(1,541,984)	(222,715)	(8,382,904)
Net claims incurred	**26,293,407**	**10,088,716**	**12,880,003**	**3,451,598**	**223,827**	**7,292,309**	**14,575,088**	**74,804,948**
Commissions earned	(7,942,612)	(1,882,717)	(128,714)	(397,614)	(311,543)	(734,608)	(6,228)	(11,404,036)
Commissions expense	23,592,780	9,174,434	1,507,964	2,992,527	244,510	3,466,863	4,376,834	45,355,912
Charges and taxes	681,827	168,646	79,026	83,576	14,297	7,369	166,942	1,201,683
Expenses of management	4,178,405	1,906,488	664,219	513,307	137,705	749,572	1,008,869	9,158,565
Total expenses and commissions	**20,510,400**	**9,366,851**	**2,122,495**	**3,191,796**	**84,969**	**3,489,196**	**5,546,417**	**44,312,124**
Underwriting profit/(loss)	**1,896,181**	**4,970,620**	**(3,343,548)**	**1,258,421**	**(1,035,076)**	**(403,854)**	**(1,521,609)**	**1,821,135**
Key ratios:								
Loss ratio *(net claims incurred/net earned premium)*	54.0	41.3	110.5	43.7	(30.8)	70.3	78.4	61.9
Commissions ratio *(net commissions /net earned premium)*	32.1	29.9	11.8	32.8	9.2	26.3	23.5	28.1
Expense ratio *(management expenses/net earned premium)*	8.6	7.8	5.7	6.5	(19.0)	7.2	5.4	7.6
Combined ratio *(underwriting outgo/net earned premium)*	96.1	79.7	128.7	84.1	(42.5)	103.9	108.2	98.5

REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2017

Class of insurance Business	Property	Casualty	Motor	Marine	Aviation	Life	Medical	Total
	US$	US$	US$	US$	US$	US$	US$	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 *(net claims incurred/net earned premium)*	48.1	29.0	91.8	29.7	416.7	32.5	79.0	49.9
Commissions ratio *(net commissions /net earned premium)*	31.3	29.6	10.8	33.4	(11.6)	26.7	24.9	27.9
Expense ratio *(management expenses/net earned premium)*	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

Class	Shareholder	2018 US$	2018 Shareholding %	2017 US$	2017 Shareholding %
CLASS A	Kenya Reinsurance Corporation Ltd	10,883,111	19.08	10,883,111	19.13
	TDB	10,777,206	18.88	10,777,206	18.93
	Government of Rwanda	3,653,100	6.40	3,653,100	6.41
	PSSSF	2,397,553	4.20	2,397,553	4.21
	Government of Sudan	2,241,558	3.93	2,209,327	3.88
	National Insurance Corporation (T) Ltd	2,005,904	3.51	2,005,904	3.52
	Government of Djibouti	1,837,544	3.22	1,837,544	3.23
	Government of Zambia	1,508,938	2.64	1,508,938	2.65
	ZSIC – Pension Trust	1,438,823	2.52	1,438,823	2.53
	NICE	1,435,266	2.51	1,391,854	2.44
	Government of Kenya	492,417	0.86	492,417	0.86
	Sheikan Ins. & Reins. Ltd	417,256	0.73	411,256	0.72
	SOCABU	406,265	0.71	400,365	0.7
	COMESA Secretariat	376,453	0.66	376,453	0.66
	EMOSE	371,562	0.65	371,562	0.65
	Industrial Development Corporation - Zambia	323,073	0.57	323,073	0.57
	Government of Mauritius	261,161	0.46	261,161	0.46
	ZSIC Life	260,435	0.46	257,275	0.45
	CMAR (NY Havana)	245,244	0.43	245,244	0.43
	Société Nationale d'Assurances (SA)	174,342	0.31	174,342	0.31
	ZIC	130,215	0.23	130,215	0.23
CLASS B	Mayfair Insurance Company Ltd	735,972	1.29	725,390	1.27
	SORAS	516,673	0.91	516,673	0.91
	United Insurance Company Ltd	507,489	0.89	500,192	0.88
	Amerga	504,589	0.88	497,334	0.87
	Emeritus Reinsurance (Zimbabwe) Ltd	488,397	0.86	488,397	0.86
	Juba Insurance Company Ltd	412,442	0.72	406,511	0.71
	Blue Shield Insurance Company Ltd	372,953	0.65	372,953	0.65
	GXA	266,237	0.47	266,237	0.47
	Assurances BICOR	244,375	0.43	244,375	0.43
	Statewide Insurance Company Ltd	228,675	0.40	228,675	0.4
	SONARWA	144,322	0.25	144,322	0.25
	National Insurance Corporation (U) Ltd	127,663	0.22	127,663	0.22
	Apollo Insurance Company Ltd	124,984	0.22	124,984	0.22
	Sanlam Uganda General Insurance Ltd	113,845	0.20	113,845	0.2
CLASS C	African Development Bank	7,277,029	12.75	7,277,029	12.78
	DEG	3,365,200	5.90	3,365,200	5.91
	TOTAL	**57,068,271**	**100**	**56,946,503**	**100**

Key:		
SOCABU	=	Société d’Assurances du Burundi
EMOSE	=	Empresa Mocambicana de Seguros
SONARWA	=	Société Nouvelle d’Assurances du Rwanda
SORAS	=	Société Rwandaise d’Assurances
ZIC	=	Zanzibar Insurance Corporation
PSSSF	=	Public Service Social Security Fund
ZSIC	=	Zambia State Insurance Corporation
TDB	=	The Eastern and Southern African Trade Development Bank
CMAR (NY Havana)	=	Compagnie Malgache d' Assurances et de 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

A.M. Best Company

certifies that

ZEP-RE
(PTA Reinsurance Company)

has a

Best's Financial Strength Rating

of

B++ (Good)

Certificate Publication Date: December 18, 2018

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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