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Corporate Information

EXECUTIVE MANAGEMENT

Mr. Rajnikant Varia - Managing Director
Mrs. Hope Murera - General Manager

HEAD OFFICE:

Nairobi, Kenya
ZEP-RE Place
Longonot Road, Upper Hill
P. O. Box 42769 - 00100
Nairobi
Telephone: +254 20 2738221
Fax: +254 20 2738444
Email: mail@zep-re.com
Website: www.zep-re.com

REGIONAL OFFICES:

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Reinsurance House Building
P. O. Box 3224
Khartoum
Telephone: +249 183 799357/8
Fax: +249 183 799359
Email: zep-re@sudanmail.net

Lusaka, Zambia
Ground Floor, Africa Life House
Corner of Nasser and Ituma Road
P. O. Box 36966
Lusaka
Telephone: +260 211 252586
Fax: +260 211 251227
Email: email@zep-re.com.zm

Douala, Cameroon
AIO Building, 2nd Floor
Charles De Gaulle Avenue
P. O. Box 300, Bonanjo
Douala
Telephone: +237 33 47265
Fax: +237 33 420472

AUDITORS:

Deloitte & Touche
Certified Public Accountants
"Kirungii", Ring Road, Westlands
P. O. Box 40092 - 00100
Nairobi

BANKERS:

Barclays Bank of Kenya Limited
Barclays Plaza, Loita Street Branch
P. O. Box 47278 - 00200
Nairobi, Kenya

Barclays Bank of Zambia Limited
Longachres Branch
P. O. Box 50347
Lusaka, Zambia

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

Lloyds TSB Bank PLC
Business Banking Service Center
113 - 116 Leadenhall Street
London, EC3A 4AX
United Kingdom

PTA Bank
Bishops Road
P. O. Box 48596 - 00100
Nairobi, Kenya

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

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

Corporate Information (continued)

BOARD OF DIRECTORS

KENYA

Hon. Peter Kenneth, MP - Director (Chairman)
 Assistant Minister
 Ministry of Planning & Vision 2030
 Kenya

Mr. Tushar Shah - Alternate Director
 Managing Director
 Mayfair Insurance Company
 Kenya

Mrs. Eunice Mbogo - Director
 Managing Director
 Kenya Reinsurance Corporation
 Kenya

Mr. Kulova Wanjala - Alternate Director
 Managing Director
 Blue Shield Insurance Company
 Kenya

TANZANIA

Mrs. Margaret T. Ikongo - Director (Vice Chairperson)
 Managing Director
 National Insurance Corporation of Tanzania
 Tanzania

Mr. Iddi K. Haji - Alternate Director
 General Manager
 Zanzibar Insurance Corporation
 Tanzania

Mr. William Erio - Director
 Director General
 Parastatal Pensions Fund (PPF)
 Tanzania

Mr. Hosea Kashimba - Alternate Director
 Chief Internal Auditor
 Parastatal Pensions Fund (PPF)
 Tanzania

ZAMBIA

Ms. Irene M. Muyenga - Director
 Managing Director
 Zambia State Insurance Corporation
 Zambia

Mr. Chris M. Mapipo - Alternate Director
 Registrar
 Pensions and Insurance Authority
 Zambia

Corporate Information (continued)

BOARD OF DIRECTORS (Continued)

SUDAN

Ms. Amna A. Mohammed - Director
General Manager
The Insurance Supervisory Authority
Sudan

Mrs. Shamoum M. A. Alamin - Alternate Director
Deputy General Manager
The Insurance Supervisory Authority
Sudan

DJIBOUTI

Mr. Aden Saleh - Director
Commissioner of Insurance
Ministry of Finance
Djibouti

Mr. Mohammed Seyadou - Alternate Director
Assistant Commissioner of Insurance
Ministry of Finance
Djibouti

RWANDA

Mrs. Marie Claire Mukasine - Director
Permanent Secretary
Ministry of Infrastructure
Rwanda

Mr. Corneille Karekezi - Alternate Director
Managing Director
Société Nouvelle d'Assurances du Rwanda
Rwanda

MOZAMBIQUE

Mr. Venancio Mondlane - Director
Chairman
Empresa Mocambicana de Seguros,
SARL (EMOSE)
Mozambique

Mr. Cesar Bento Madivadua - Alternate Director
Managing Director
Empresa Mocambicana de Seguros,
SARL (EMOSE)
Mozambique

PTA BANK

Dr. Michael Gondwe - Director
President
PTA Bank
Kenya

Mr. James M. Kabuga - Alternate Director
Principal Officer
Credit Facilities and Business Development
PTA Bank
Kenya

Members of the Board of Directors



Hon. Peter Kenneth M.P.
Chairman



Mrs. Margaret T. Ikongo
Vice-Chairperson



Mr. Aden Saleh Omar
Director



Ms. Irene M. Muyenga
Director



Mr. William Erio
Director



Dr. Michael Gondwe
Director



Mr. Venancio Mondlane
Director



Mrs. Marie Claire Mukasine
Director



Mrs. Eunice Mbogo
Director



Ms. Amna A. Mohammed
Director

Executive Management



Mr. Rajni Varia
Managing Director



Mrs. Hope Murea
General Manager

Notice of the 18th Annual General Assembly

NOTICE IS HEREBY GIVEN that the 18th Annual General Assembly of ZEP-RE (PTA Reinsurance Company) will be held in Kampala, Uganda on Tuesday 19th May 2009 at 0900 hours, Ugandan time.

Venue

Kampala, Uganda.

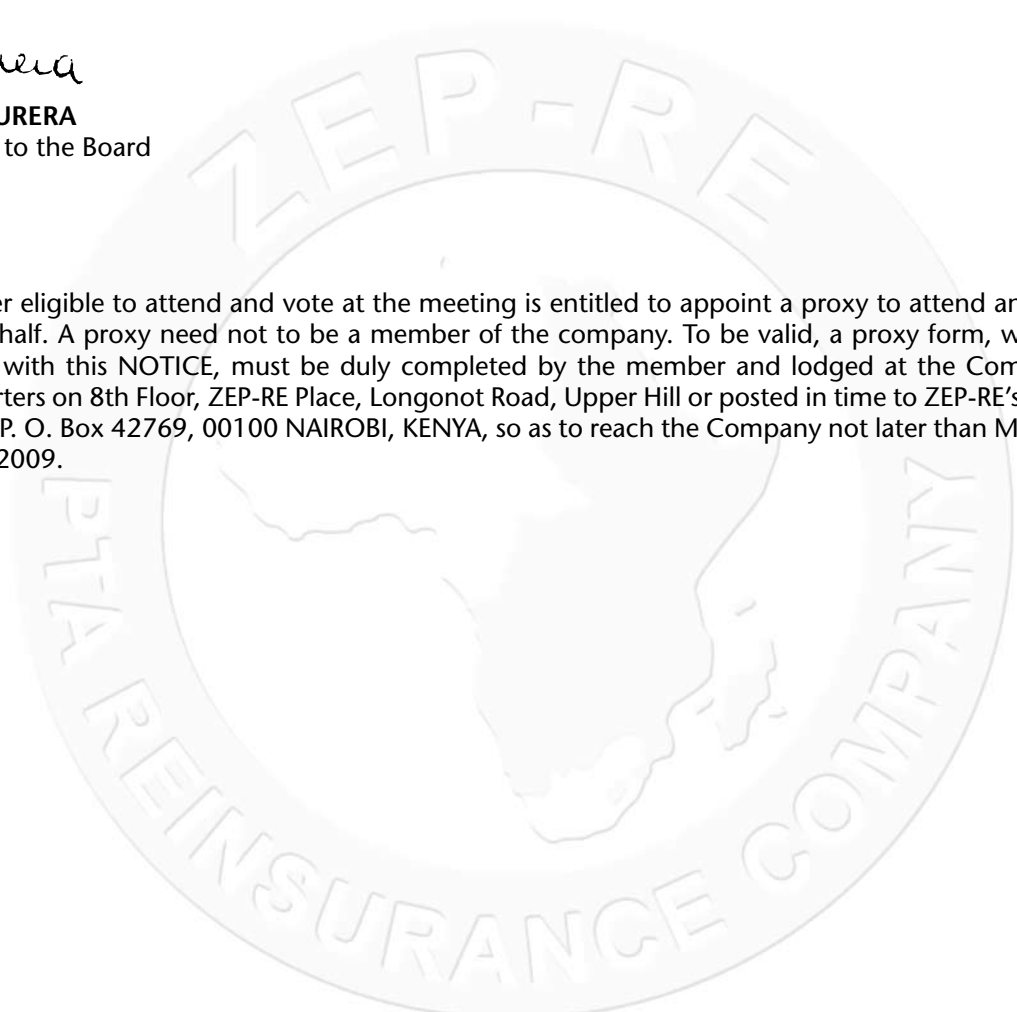
BY ORDER OF THE BOARD



HOPE MURERA
Secretary to the Board

Note

A member eligible to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not to 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 or posted in time to ZEP-RE's postal address - P. O. Box 42769, 00100 NAIROBI, KENYA, so as to reach the Company not later than Monday, 5th May 2009.



Fifteenth Annual Report of ZEP-RE

In accordance with Article 12 (f) of the Agreement establishing ZEP-RE (PTA Reinsurance Company) I have the honour, on behalf of the Board of Directors, to submit the 15th Annual Report and Audited Accounts of ZEP-RE (PTA Reinsurance Company) for the twelve (12) months ending 31st December 2008.

Please accept, your Excellencies, the assurances of my highest consideration.



Peter Kenneth, MP
Chairman of the Board



Report of the Chairman of the Board of Directors



Foreword

On behalf of the Board of Directors, I am delighted to present to you the Annual Report and Financial Statements of ZEP-RE for the year ended 31 December 2008.

Business Environment

2008 was a most challenging year for the business of the Company.

The year commenced with political turmoil in the company's largest market, Kenya. The post election impasse that gripped the country greatly affected Kenya's economic performance in the first quarter of the year resulting in our projections for the quarter falling short of expectations. The Company, however,

made business recovery in the Kenyan market as the year progressed. In addition, the company's market diversification programme that saw focus shift to new markets in the western and southern regions of Africa, managed to cushion ZEP-RE's overall business performance during the first three quarters of 2008.

At the close of 2008, however, the global economy suffered massive financial meltdown due to the collapse of the US sub-prime mortgage market, the decline of the housing boom in other industrialized economies and a global credit crunch. The immediate effect of this crisis was manifest in the weakening of regional currencies and a decline in base interest rates for some of the major convertible currencies. Although the global financial crisis mildly impacted on the overall growth of economies in sub-Saharan Africa, mainly due to Africa's generally weak integration with the rest of the global economy, the growth prospect for sub Saharan Africa going into the future is expected to take a beating with forecasts being downgraded from 10% to 3% given that there will be a reduction in foreign direct investments, African diaspora remittances, diminished foreign aid and increased demands for debt repayment.

In spite of the foregoing, the Company continued with its growth objectives in 2008 and its business diversification programme is now well entrenched with the regional offices in Lusaka and Douala registering increased business in their respective territories.

Managing Director's contract

During the year, the General Assembly renewed the Managing Director's contract for a further period of five years.

Highlights of performance

I. Premium

Premium income grew by 21.3% from US\$ 37.92 million in 2007 to US\$ 45.99 million in 2008.

II. Underwriting results

Despite incurring some mid-sized claims namely; the Alaf claim in Tanzania, the Ashton claim in Kenya and the Miranda claim in Mozambique the Company registered an underwriting profit of US\$ 4.19 million in 2008 compared to US\$ 0.97 million in 2007. Claims incurred in 2008 were US\$ 18.48 million compared to US\$ 16.93 million in 2007.

III. Outstanding Claims provision

An actuarial valuation resulted in the Company's outstanding claims increasing to US\$ 14.49 million in 2008 from US\$ 12.53 million in 2007.

Report of the Chairman of the Board of Directors

IV. Investments

Investments increased to US\$ 53.88 million in 2008 from US\$ 41.36 million in 2007 while investment and rental income increased to US\$ 3.95 million from US\$ 3.23 million the previous year. The less than expected increase is attributed to a reduction in interest rates during the first half of the year on some of the major convertible currencies.

The Company however experienced a fair value loss of US\$0.88 million on its equity investments following a fall in stock prices at the Nairobi Stock Exchange during the last half of 2008.

V. Profitability

The Company achieved a profit of US\$ 1.91 million in 2008 compared to US\$ 5.26 million in 2007. The reduction in profits is mainly attributable to translation losses incurred by the Company amounting to US\$ 6.48 million. The exchange losses were brought about mainly by the strengthening of the United States dollar (which is the reporting currency of the Company) against other major currencies and local trading currencies of the region during the last quarter of 2008.

Membership and Share Capital Restructuring

Members, at the 17th Annual General Assembly, approved the restructuring of the Company's membership and capital set up. The restructuring process approved by the General Assembly introduced a number of changes including:-

- Broadening the membership criteria of the Company to allow admission of international development agencies.
- Splitting the ZEP-RE share (then valued at US\$ 1,364) into 1, 364 shares of par value US\$1 each,
- Increasing the authorised share capital of the Company from US\$50,000,000 to US\$100,000,000 divided into 100,000,000 shares of par value US\$1,
- Providing for a minimum shareholding of 68,200 shares and a maximum shareholding of 15% of the total paid up capital,
- Revising the composition of the Board by providing for at least 2 minority positions on the Board, and
- Adoption of a new share trading value of US\$2.11 for every share.

Two members namely Mayfair Insurance Company and SORAS were allocated additional 183 and 266 shares respectively.

Capitalisation of Dividends and Reserves

The 17th Annual General Assembly approved the capitalisation of dividends amounting to US\$ 750,000 and reserves amounting to US\$ 9,852,399 respectively. Responding to the call of the 16th AGM, a number of shareholders made payments towards outstanding share capital balances and the uncalled portion of shares allocated.

The aforementioned capitalisation together with members' remittances saw the paid up share capital of the Company increase to US\$ 29.99 million in 2008 from US\$ 12.8 million in 2007.

Corporate Governance Statement

ZEP-RE is committed to the highest standards of Corporate Governance. The Company strives to regularly review its processes, rules, regulations and structures with a view to ensuring the best performance of the Board, Board committees and overall management of its business in line with recommended international standards.

Report of the Chairman of the Board of Directors

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

The Board of Directors

ZEP-RE has a unitary Board comprising of 10 non executive Directors. The roles of the Chairman and Managing Director are clearly defined and distinct. The ZEP-RE Board meets a minimum of three times a year and provides overall strategic direction, reviews performance and takes material policy decisions. Responsibility for implementing strategy and day to day operations is delegated to the Managing Director.

The Board is accountable to the shareholders of the Company for the operations of the Company.

Board Charter

The Board of Directors is guided by a Charter that defines its functions, accountabilities and responsibilities. The Charter considers each member's professional competencies and personal qualities to ensure the effectiveness of each Director's contribution and the performance of the Board as a whole consistent with standards of independent judgement, ethics and integrity expected from holders of a Director's office.

Directors are provided with appropriate and timely information by management to enable them maintain full and effective control over strategic, financial, operational and compliance issues.

Board Evaluation

The Board also has in place an Evaluation Policy that is meant to help review members' performance and assist them in adding value and fulfilling their responsibilities to the organisation and its stakeholders.

Appointment of Board Members

The appointment of Board members is effected 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 for the positions of Director and Alternate Director. Equally all members participate in the voting and appointment of Directors into office. Mid-term replacements, where necessary, are done through a transparent by-election process.

During the year, a by-election was held and Mr. Tushar Shah of Mayfair Insurance Company, Kenya was elected as an Alternate Director to Honourable Peter Kenneth. Mr. Tushar Shah replaced Mr. David S. Nalo formerly of the Ministry of Trade, Kenya.

Access to Company Resources

All Directors have access to management and to such information as is needed to carry out their duties and responsibilities fully and effectively. All Directors are kept informed on latest developments regarding the Company's business and industry wide issues through a formal communication process.

Board Committees

The Company has established three Committees (Audit, Investments and Human Resource) to assist it in discharging its responsibilities. All Board Committees have formally delegated terms of reference and report to the Board as required. All Directors are remunerated for their service to the Committees.

- The Board Audit Committee

The Board Audit Committee comprises Ms. Irene M. Muyenga (Chairperson), Mrs. Margaret T. Ikongo and Mr. Aden Saleh Omar. The Committee meets at least twice a year and as part of its oversight role consults with senior Management on issues concerning internal controls and general

Report of the Chairman of the Board of Directors

financial matters. The Internal Auditor (outsourced) and External Auditors also attend these meetings to ensure that the Committees' independence is not impaired and both have unrestricted access to the Committee and its Chairperson.

The Audit Committee serves in an advisory capacity to the Board and assists in ensuring that Company assets are safeguarded, an adequate control framework is in place and material corporate risks are being managed.

- The Board Investments Committee comprises Dr. Michael Gondwe (Chairman), Mrs. Eunice Mbogo and Mr. William Erio. The Committee meets at least twice a year and as part of its oversight role consults with senior Management on all policy issues pertaining to investments.
- The Human Resource Committee comprises Ms. Amna Ali Mohammed (Chairperson), Mrs. Marie Claire Mukasine and Mr. Venancio Mondlane. The Committee meets at least once a year and as part of its oversight role monitors, evaluates and advises the Board on all human resource issues.

Directors' Emoluments

The emoluments paid to Directors for services rendered in 2008 are disclosed in Note 32 to the Financial Statements.

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. Management has implemented an internal control framework meant to ensure that the Company's operations run smoothly and efficiently. The framework is also meant to ensure that the business, operational, financial and compliance risks are managed effectively so that the Company's objectives can be met.

Corporate Social Responsibility

Responsible corporate citizenship is one of the core values of ZEP-RE and the Company has continuously committed itself to this principle. During the year, ZEP-RE contributed to the Kenya Red Cross Society post election violence alleviation programme in Kenya. The Company also supported education for less privileged children by helping renovate the computer laboratory of Farasi Lane Primary School, a school based in the outskirts of Nairobi. The Farasi Lane project is a Corporate Social Responsibility initiative the Company adopted in 2005 and has since then been making annual contributions to it.

AM Best Credit Rating

During the year the Company undertook a rating exercise with the internationally recognized AM Best rating agency and secured a Financial Credit Rating of "B" and an Issuer Credit Rating of "bb+". The good rating is attributed to a number of factors including; ZEP-RE's good underwriting policies and claims management which saw the Company maintain a loss ratio that was below regional industry average, an adequate reinsurance programme, good risk adjusted capital, a well implemented risk management programme and the Company's plans for future growth and expansion.

BY ORDER OF THE BOARD OF DIRECTORS



Peter Kenneth, MP
Chairman.

27th March 2009

Report of the Directors

The Board of Directors hereby submit their report together with the audited financial statements for the year ended 31 December 2008 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 defined by Article 31 of the Agreement Establishing ZEP-RE (PTA Reinsurance Company). The business is divided into the following classes:

- Fire and accident (including engineering and motor)
- Marine and aviation
- Life

RESULTS FOR THE YEAR

The net profit for the year is US\$ 1.91 million compared to US\$ 5.26 million in 2007. The financial highlights for the period are as shown below:

	2008 US\$	2007 US\$
Gross premium	45,986,500	37,923,564
Investment and rental income	3,949,150	3,226,220
Claims incurred	18,479,657	16,927,172
Commission expenses – net	8,748,516	7,034,235
Management expenses	3,295,040	2,649,034
Underwriting profit	4,187,864	971,686
Profit for the year	1,910,269	5,255,989
Provision for outstanding claims	14,495,000	12,529,589
Unearned premium reserve	12,824,990	10,826,549
Total assets	64,463,431	53,374,139
Shareholders' funds	31,322,584	23,390,814
Investments	53,878,088	41,358,918
Management expenses ratio – earned premium	9.44%	9.56%
Loss ratio	53.0%	61.06%
	=====	=====

For 2008, a dividend of US\$ 480,000 has been proposed. In 2007, US\$ 750,000 was proposed and approved. The directors recommend the approval of this proposed dividend.

Report of the Directors (continued)

UNDERWRITING RESULTS

	2008 US\$	2007 US\$
Gross premium	45,986,500	37,923,564
Retroceded premium	9,093,958	8,386,629
Net premium	36,892,542	29,536,935
Earned premium	34,894,101	27,720,240
Claims incurred	18,479,657	16,927,172
Commission expenses - net	8,748,516	7,034,235
Charges and taxes	183,024	138,115
Management expenses	3,295,040	2,649,034
Underwriting profit	4,187,865	971,685
	=====	=====

PREMIUM DISTRIBUTION

(i) Geographical distribution

Region	2008		2007	
	Gross premium US\$	%	Gross premium US\$	%
COMESA	34,195,903	74.36	28,515,941	75.19
NON – COMESA (AFRICA)	9,748,472	21.20	7,444,679	19.63
OTHERS	2,042,125	4.44	1,962,944	5.18
Total	45,986,500	100.00	37,923,564	100.00
	=====	=====	=====	=====

(ii) Class-wise distribution

Class of business	2008		2007	
	Gross premium US\$	%	Gross premium US\$	%
Fire and accident	33,491,705	72.83	28,797,171	75.94
Marine and aviation	4,957,210	10.78	5,253,077	13.85
Life	7,537,585	16.39	3,873,316	10.21
Total	45,986,500	100.00	37,923,564	100.00
	=====	=====	=====	=====

Report of the Directors (continued)

INVESTMENTS

During the year, the Company's investments increased by 30.29 % from US\$ 41.36 million in 2007 to US\$ 53.88 million in 2008.

Investment income increased by 22.40% from US\$ 3.23 million in 2007 to US\$ 3.95 million in 2008. Interest rates of some of the major currencies dropped in the first half of the year and marginally rose during the second half of the year.

DIRECTORS

The current Directors of the Company are as shown on pages 3, 4 and 5.

Appointed during the year

Mr. Tushar Shah (Kenya) was appointed on 14 July 2008.

Continuing during the year

Hon. Peter Kenneth (Kenya), Mrs. Eunice Mbogo (Kenya), Mrs. Margaret T. Ikongo (Tanzania), Mr. William Erio (Tanzania), Ms. Irene M Muyenga (Zambia), Ms Amna A Mohammed (Sudan), Mrs. Marie Claire Mukasine (Rwanda), Dr. Michael Gondwe (PTA Bank), Mr. Aden Saleh Omar (Djibouti) and Mr. Venancio Mondlane (Mozambique); all appointed on 16th July 2007, continued in service during the year.

Retired during the year

Mr David Nalo (Kenya) retired in 2008.

AUDITORS

The Company's auditors Deloitte and Touche, have expressed willingness to continue in office for the next financial year. Accordingly a resolution will be proposed to reappoint them as auditors for the financial year 2009.

By order of the Board



SECRETARY

27th March 2009

Statement of Directors' Responsibilities

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

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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



Peter Kenneth, MP
Chairman



Rajni Varia
Managing Director

27th March 2009

Independent Auditors' Report

We have audited the financial statements of ZEP-RE (PTA Reinsurance Company) set out on pages 17 to 50 which comprise the balance sheet as at 31 December 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and Article 31 of the Agreement establishing ZEP-RE (PTA Reinsurance Company). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment and include an assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the Financial Statements give a true and fair view of the state of affairs of the Company at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with Article 31 of the Agreement Establishing ZEP-RE (PTA Reinsurance Company).



Deloitte & Touche
Certified Public Accountants (Kenya)

27th March 2009


Income Statement for the Year ended 31 December 2008

	Notes	2008 US\$	2007 US\$
Gross premium written	2	45,986,500	37,923,564
Less: Retrocession premium		(9,093,958)	(8,386,629)
Net premium		36,892,542	29,536,935
Movement in unearned premiums reserve	23	(1,998,441)	(1,816,695)
Earned premium		34,894,101	27,720,240
Investment income	3	3,063,184	2,492,722
Rental Income		885,966	733,498
Commissions earned		2,956,265	2,992,507
Other income	4	638,297	119,193
Net income		42,437,813	34,058,160
Gross settled and outstanding claims payable	5	21,604,311	19,976,995
Less: amounts recoverable from retrocessionaires		(3,124,654)	(3,049,823)
Net claims incurred		18,479,657	16,927,172
Operating and other expenses	6	10,343,107	1,848,256
Commissions payable		11,704,780	10,026,743
		22,047,887	11,874,999
Profit for the year		1,910,269	5,255,989
Dividends:			
Proposed final dividend	27	480,000	750,000

Balance Sheet as at 31 December 2008

	Notes	2008 US\$	2007 US\$
ASSETS			
Property and equipment	8	1,939,312	1,121,050
Intangible assets	9	199,323	291,754
Prepaid operating leases	10	68,459	69,274
Investment property	11	9,202,461	8,705,524
Available-for-sale equity investments	12	2,092,169	1,023,369
Receivables arising out of reinsurance arrangements	13	6,061,923	7,523,214
Deposits retained by ceding companies		1,767,078	1,359,445
Other receivables	14	376,498	457,314
Government securities held to maturity	15	8,479,856	10,995,175
Deposits with financial institutions	16	34,103,602	20,634,850
Cash and bank balances	17	<u>172,750</u>	<u>1,193,170</u>
Total assets		<u>64,463,431</u>	<u>53,374,139</u>
EQUITY AND RESERVES			
Share capital	19	29,998,013	12,808,863
Share premium		322,899	-
Revaluation surplus	20	9,042	11,830
Fair value reserve	20	(917,639)	(32,278)
Retained earnings	21	<u>1,910,269</u>	<u>10,602,399</u>
Shareholders' funds		<u>31,322,584</u>	<u>23,390,814</u>
LIABILITIES			
Reinsurance contract liabilities	22	14,495,000	12,529,589
Unearned premium reserve	23	12,824,990	10,826,549
Payables arising from retrocession arrangements	24	4,815,712	5,556,836
Deposits retained on ceded reinsurance business		291,710	212,193
Deferred income	25	68,460	69,275
Other payables	26	643,142	779,863
Dividends payable	27	<u>1,833</u>	<u>9,020</u>
Total liabilities		<u>33,140,847</u>	<u>29,983,325</u>
Total equity and liabilities		<u>64,463,431</u>	<u>53,374,139</u>

The financial statements on pages 17 to 50 were approved by the Board of Directors on 27th March 2009 and were signed on its behalf by:



 Chairman



 Managing Director

Statement of Changes in Equity

Notes	Share capital US\$	Share premium US\$	Revaluation surplus US\$	Fair value reserve US\$	Retained earnings US\$	Total US\$
At 1 January 2007	11,771,887	-	11,830	10,985	5,846,410	17,641,112
Share capital issued during the year	1,036,976	-	-	-	-	1,036,976
Fair value loss on available-for-sale equity investments	-	-	-	(43,263)	-	(43,263)
Profit for the year	-	-	-	-	5,255,989	5,255,989
Dividends	-	-	-	-	(500,000)	(500,000)
- final approved for 2006	-	-	-	-	(500,000)	(500,000)
	<u>12,808,863</u>	<u>-</u>	<u>11,830</u>	<u>(32,278)</u>	<u>10,602,399</u>	<u>23,390,814</u>
At 1 January 2008	12,808,863	-	11,830	(32,278)	10,602,399	23,390,814
Share capital issued during the year	6,586,751	322,899	-	-	-	6,909,650
Revaluation surplus written back on disposal of property	-	-	(11,830)	-	-	(11,830)
Revaluation surplus on property – office space	-	-	9,042	-	-	9,042
Fair value loss on available-for-sale equity investments	-	-	-	(885,361)	-	(885,361)
Profit for the year	-	-	-	-	1,910,269	1,910,269
Issue of shares through capitalisation of retained earnings	9,852,399	-	-	-	(9,852,399)	-
Dividends	-	-	-	-	(750,000)	(750,000)
- final approved and capitalised for 2007	-	-	-	-	(750,000)	(750,000)
	<u>29,998,013</u>	<u>322,899</u>	<u>9,042</u>	<u>(917,639)</u>	<u>1,910,269</u>	<u>31,322,584</u>
At 31 December 2008	29,998,013	322,899	9,042	(917,639)	1,910,269	31,322,584

Cash Flow Statement

	Notes	2008 US\$	2007 US\$
Operating activities			
Reconciliation of profit for the year to net cash generated from operating Activities			
Profit for the year		1,910,269	5,255,989
Adjustments for:			
(Gain) / loss on disposal of equipment		(158,678)	6,042
Fair value gain on investment property	3	(496,937)	(636,975)
Depreciation	8	151,374	99,196
Amortisation of intangible assets	9	99,258	106,081
Amortisation of prepaid operating leases	10	815	815
Amortisation of deferred income	25	(815)	(815)
Impairment charge on equity investments	12	-	130,000
Revaluation surplus write back on disposal of property		(11,830)	-
Changes in:			
Unearned premium reserve	23	1,998,441	1,816,695
Reinsurance contract liabilities	5	1,965,411	3,854,589
Deposits retained by ceding companies		(407,633)	112,992
Deposits retained on ceded reinsurance business		79,517	(7,870)
Receivables arising out of reinsurance arrangements		1,461,291	(1,123,232)
Payables arising out of retrocession arrangements	24	(741,124)	131,043
Other receivables	14	80,816	(45,941)
Other payables	26	(136,721)	308,597
Net cash generated from operating activities		<u>5,793,454</u>	<u>10,007,206</u>
Investing activities			
Purchase of property and equipment	8	(1,060,358)	(107,967)
Purchase of intangible assets	9	(6,827)	(1,102)
Purchase of quoted shares	12	(1,954,161)	(235,483)
Net investment in government securities held to maturity		(2,061,600)	(1,615,286)
Loans repaid	28	-	(2,430,000)
Proceeds from disposal of property and equipment		<u>258,442</u>	<u>1,582</u>
Net cash used in investing activities		<u>(4,824,504)</u>	<u>(4,388,256)</u>
Financing activities			
Proceeds from issue of shares		6,909,650	1,036,976
Dividends paid	27	<u>(7,187)</u>	<u>(513,058)</u>
Net cash generated from financing activities		<u>6,902,463</u>	<u>523,918</u>
Increase in cash and cash equivalents		7,871,413	6,142,868
Cash and cash equivalents at the beginning of the year		<u>29,339,157</u>	<u>23,196,289</u>
Cash and cash equivalents at the end of the year	31	<u><u>37,210,570</u></u>	<u><u>29,339,157</u></u>

Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

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

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

(b) Statement of compliance with International Financial Reporting Standards (IFRS)

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

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

Standards and interpretations effective in the current period

The following new interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and revised standard issued by International Accounting Standards Board (IASB) are effective for the current period:

- IFRIC 12, Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective 1 July 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective 1 January 2008);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008);
- IAS 39, Financial Instruments: Recognition and Measurement: Reclassification of financial assets (effective for accounting periods beginning on or after 1 November 2008);
- IFRS 7 Financial instruments: Disclosures consequential amendments arising from amendments to IAS 39 (effective for accounting periods beginning on or after 1 November 2008).

Adoption of these interpretations and the revised standards has not led to any changes in the Company's accounting policies.

Accounting Policies

New and revised standards and interpretations in issue not yet effective.

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 18, Transfers of Assets from Customers (effective for accounting periods beginning on or after 1 July 2009)
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 3, Business Combinations – Comprehension revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009)
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
- IAS 1, Presentation of Financial Statements (effective for accounting periods beginning on or after 1 January 2009)
- IAS 23 (Revised), Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009)
- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009)
- “Improvements to IFRSs” was issued in May 2008 and its requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 January 2009. The IASB’s annual improvements process deals with non-urgent, minor amendments to the standards.

The directors anticipate that the adoption of these standards and interpretations and amendments to other IFRSs resulting from the International Accounting Standards Board (IASB)’s annual improvements project published in May 2008, when effective, will have no material impact on the financial statement of the Company.

(c) Income recognition

Premium and related expenses are accounted for in the underwriting revenue account when advised by the ceding companies.

Accounting Policies

Gross earned premium comprise gross premium relating to risks assumed in the year after accounting for any movement in gross unearned premium. Unearned premium represent the proportion of the premium written in the year that are attributable to the subsequent accounting period and are estimated at 40% of net premium.

Commissions receivable are recognised to income when advised by the ceding companies.

Investment income is stated net of investment expenses. Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset. Rental income is recognised as income in the period in which it is earned.

(d) 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 balance sheet date, 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").

(e) Retrocession

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

(f) Currency translation

i) Functional and presentation currency

The Company's reporting currency is the United States Dollar (US\$)

Monetary assets and liabilities expressed in the various functional currencies of member states are translated into United States Dollars (US\$) using the closing rate method.

ii) Transactions and balances

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

Closing balances are translated into the US Dollar at rates ruling at the balance sheet date. The resultant translation gains or losses on short term assets and liabilities are recognised in the income statement.

Accounting Policies

Translation differences on long term assets and liabilities such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(g) Deferred income

This represents the value of land (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 the income statement.

(h) Cash and cash equivalents

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

(i) Property and equipment

All property and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at market value, based on triennial 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 a revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to the income statement.

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

Interests in leasehold land are accounted for as prepayments and are amortised over the term of the lease.

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

(j) Intangible assets

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)

Accounting Policies

Costs associated with developing or maintaining computer software programmes are recognised as an expense as 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.

(k) Investment property

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 balance sheet dates are dealt with through the income statement.

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

(l) Other investments

The Company classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which an investment is acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. The Company had no investments in this category at 31 December 2008 and 31 December 2007.

ii) Loans and receivables

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

Accounting Policies

iii) Held-to-maturity financial assets

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

iv) Available-for-sale financial assets

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

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

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

The fair values of quoted investments are based on current bid prices.

(m) Impairment of financial assets

At each balance sheet date, the Company assesses whether there is objective evidence that a financial asset (or group of financial assets) is impaired. If any such evidence exists, the recoverable amount of the asset is estimated and an impairment loss recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

The impairment loss so recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Accounting Policies

(n) Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlements at the balance sheet date is recognised as an expense accrual.

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

(o) Retirement benefit obligations

The Company operates a provident fund, which is a defined contribution plan for its employees. 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 the income statement as they fall due.

(p) Dividends

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

(q) Taxation

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

(r) Provision for bad & doubtful debts

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

(s) Comparatives

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

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 Sudan and Zambia and a liaison office in Cameroon.

2 Gross premium income

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

	2008 US\$	2007 US\$
Fire and accident	33,491,705	28,797,171
Marine and aviation	4,957,210	5,253,077
Life	<u>7,537,585</u>	<u>3,873,316</u>
	<u>45,986,500</u>	<u>37,923,564</u>

3 Investment income

Interest from government securities held to maturity

Interest from government securities held to maturity	1,037,166	908,743
Interest from deposits with financial institutions	1,466,186	936,929
Dividend income	53,457	2,166
Loan interest receivable	9,438	7,909
Fair value gain on investment property (note 11)	<u>496,937</u>	<u>636,975</u>
	<u>3,063,184</u>	<u>2,492,722</u>

4 Other income

Interest on reinsurance deposits	49,288	34,709
Gain / (loss) on disposal of property and equipment	158,678	(6,042)
Income from other sources*	325,331	10,526
COMESA Yellow Card management fees	<u>105,000</u>	<u>80,000</u>
	<u>638,297</u>	<u>119,193</u>

* Income from other sources comprise: interest on current accounts, additional 2007 management fee and receivables & payables write-back.

Notes to the Financial Statements (continued)

	2008	2007
	US\$	US\$
5 Gross settled and outstanding claims payable		
Gross settled claims	19,638,900	16,122,406
Change in outstanding claims	1,965,411	3,854,589
	<u>21,604,311</u>	<u>19,976,995</u>
	=====	=====
6 Operating and other expenses		
Employee emoluments and benefits (note 7)	2,195,788	1,750,378
Auditors' remuneration	18,000	16,000
General assembly and board expenses	195,240	224,937
Depreciation (note 8)	151,374	99,196
Amortisation of intangible assets (note 9)	99,258	106,081
Amortisation of prepaid operating leases (note 10)	815	815
(Gain) / loss on exchange	6,483,827	(2,695,181)
Impairment charge for doubtful receivables		
- Reinsurance premium receivables	(125,593)	1,054,865
- Available - for - sale equity investments - unlisted	-	130,000
Repairs and maintenance	173,972	115,292
Interest on borrowings	-	66,205
Taxes and charges	183,024	138,115
Property letting fees	42,122	58,191
Other	925,280	783,362
	<u>10,343,107</u>	<u>1,848,256</u>
	=====	=====
7 Employee emoluments and benefits	2008	2007
	US\$	US\$
Staff costs include the following:		
- Salaries and wages	1,739,614	1,402,451
- Gratuity costs	211,319	141,699
- Provident fund costs	85,320	81,371
- Leave pay provision	18,134	4,415
- Other	141,401	120,442
	<u>2,195,788</u>	<u>1,750,378</u>
	=====	=====

The number of persons employed by the Company at the year end was 36 (2007: 35).

Notes to the Financial Statements (continued)

8 Property and equipment

	Freehold / Leasehold land	Buildings	Motor vehicles	Office furniture & fittings	Office equipment	Computers	Work – in - Progress	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Year ended 31 December 2008:								
Cost or valuation								
At 1 January 2008	99,764	736,482	112,513	376,502	101,001	118,599	-	1,544,861
Additions	572,906	-	187,382	14,389	12,134	35,002	238,545	1,060,358
Revaluation of office space	-	9,042	-	-	-	-	-	9,042
Disposals	(99,764)	-	(37,797)	-	(15,567)	(9,111)	-	(162,239)
At 31 December 2008	572,906	745,524	262,098	390,891	97,568	144,490	238,545	2,452,022
Depreciation								
At 1 January 2008	-	38,052	68,916	130,403	79,603	106,837	-	423,811
Charge for the year	-	14,911	61,376	48,863	7,230	18,994	-	151,374
Eliminated on disposals	-	-	(37,797)	-	(15,567)	(9,111)	-	(62,475)
At 31 December 2008	-	52,963	92,495	179,266	71,266	116,720	-	512,710
Net book value								
At 31 December 2008	572,906	692,561	169,603	211,625	26,302	27,770	238,545	1,939,312

Notes to the Financial Statements (continued)

8 Property and equipment (continued)

	Freehold land	Buildings	Motor vehicles	Office furniture & fittings	Household furniture	Office equipment	Household equipment	Computers	Total
Year ended 31 December 2007:	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Cost or valuation									
At 1 January 2007	99,764	736,482	135,184	343,751	17,599	121,696	5,815	175,986	1,636,277
Additions	-	-	58,129	32,751	-	3,811	-	13,276	107,967
Disposals	-	-	(80,800)	-	(17,599)	(24,506)	(5,815)	(70,663)	(199,383)
At 31 December 2007	99,764	736,482	112,513	376,502	-	101,001	-	118,599	1,544,861
Depreciation									
At 1 January 2007	-	23,322	135,184	83,340	14,303	96,003	3,107	161,115	516,374
Charge for the year	-	14,730	14,532	47,063	-	6,486	-	16,385	99,196
Disposals Accum. Depreciation	-	-	(80,800)	-	(14,303)	(22,886)	(3,107)	(70,663)	(191,759)
At 31 December 2007	-	38,052	68,916	130,403	-	79,603	-	106,837	423,811
Net book value									
At 31 December 2007	99,764	698,430	43,597	246,099	-	21,398	-	11,762	1,121,050

Notes to the Financial Statements (continued)

9 Intangible assets

	Computer Software US\$	Other US\$	Total US\$
Year ended 31 December 2008			
Cost			
At 1 January 2008	483,078	240,379	723,457
Additions	-	6,827	6,827
	<hr/>	<hr/>	<hr/>
At 31 December 2008	483,078	247,206	730,284
Amortisation			
At 1 January 2008	193,230	238,473	431,703
Charge for year	96,615	2,643	99,258
	<hr/>	<hr/>	<hr/>
At 31 December 2008	289,845	241,116	530,961
	<hr/>	<hr/>	<hr/>
Net book value at 31 December 2008	193,233	6,090	199,323
	=====	=====	=====
Year ended 31 December 2007			
Cost			
At 1 January 2007	483,078	239,277	722,355
Additions	-	1,102	1,102
	<hr/>	<hr/>	<hr/>
At 31 December 2007	483,078	240,379	723,457
Amortisation			
At 1 January 2007	96,615	229,007	325,622
Charge for year	96,615	9,466	106,081
	<hr/>	<hr/>	<hr/>
At 31 December 2007	193,230	238,473	431,703
	<hr/>	<hr/>	<hr/>
Net book value at 31 December 2007	289,848	1,906	291,754
	=====	=====	=====

The cost of a new reinsurance system software (SICS/nt) whose development was completed within 2006 is being amortised over five years.

Notes to the Financial Statements (continued)

10 Prepaid operating leases

	2008	2007
	US\$	US\$
Cost		
At 1 January	80,686	80,686
At 31 December	80,686	80,686
Amortisation		
At 1 January	11,412	10,597
Charge for the year	815	815
At 31 December	12,227	11,412
Net book value	68,459	69,274

Prepaid operating leases relate to Company-owned leasehold land.

11 Investment property

	2008	2007
	US\$	US\$
At 1 January	8,705,524	8,068,549
Fair value gains (note 3)	496,937	636,975
At 31 December	9,202,461	8,705,524

Investment properties were valued by Gimco Limited, registered valuers, as at 31 December 2008, on an open market basis. The fair value gain arising from the revaluation has been dealt with in the income statement.

12 Available-for-sale equity investments

(i) Unlisted securities: At Cost

	2008	2007
	US\$	US\$
African Insurance Organization (AIO) Software Development Fund	-	30,000
African Trade Insurance Agency	-	100,000
Tanzania Reinsurance Corporation	649,913	718,750
Impairment loss	-	(130,000)
Foreign Exchange losses	(77,394)	(68,837)
At 31 December	572,519	649,913

In the directors' opinion, the fair value of the unlisted equity investments is approximate to cost.

Notes to the Financial Statements (continued)

12 Available-for-sale equity investments (continued)

(ii) Quoted investments: At fair value	2008	2007
	US\$	US\$
At 1 January	373,456	112,399
Additions	1,954,161	235,483
Fair value (losses)/gains	(807,967)	25,574
	<hr/>	<hr/>
At 31 December	1,519,650	373,456
	<hr/>	<hr/>
Total available for sale equity investments	2,092,169	1,023,369
	=====	=====

13 Receivables arising out of reinsurance arrangements

At 1 January	7,523,214	6,399,982
Change during the year	68,923	1,936,748
Provision for bad debts	(1,530,214)	(813,516)
	<hr/>	<hr/>
At 31 December	6,061,923	7,523,214
	=====	=====

Amounts due from reinsurers are stated net of receivables which, in the directors' opinion, cannot be recovered or receivables whose recovery is uncertain at year end.

14 Other receivables

	2008	2007
	US\$	US\$
Staff receivables	194,159	270,193
Prepayments	64,454	67,254
Deposits	24,249	28,998
Rent receivable	9,603	-
Others	84,033	90,869
	<hr/>	<hr/>
	376,498	457,314
	=====	=====

15 Government securities held to maturity

Treasury bills and bonds maturing:		
- Within 1 year	7,285,672	9,797,512
- In 1-5 years	1,194,184	1,197,663
- After 5 years	-	-
	<hr/>	<hr/>
	8,479,856	10,995,175
	=====	=====

Notes to the Financial Statements (continued)

15 Government securities held to maturity (continued)	2008	2007
	US\$	US\$
Analysis of government securities by currency		
Securities in Kenya Shillings (KES)	3,844,562	8,598,782
Securities in Sudanese Pounds (SDG)	4,635,294	2,387,444
Securities in Zimbabwean Dollars (Zim \$)	-	8,949
	<u>8,479,856</u>	<u>10,995,175</u>
	=====	=====

16 Deposits with financial institutions		
Lloyds Bank PLC – London	10,661,973	8,041,906
Barclays Bank of Kenya Limited	13,489,175	6,294,225
PTA Bank	3,782,985	2,854,798
Sudanese French Bank	1,038,202	1,180,816
Commercial Bank of Africa	367,447	571,080
NIC Bank Limited	2,793,023	570,537
CfC Stanbic Bank Limited	752,960	1,031,326
Kenya Commercial Bank Limited	469,504	90,162
Barclays Bank of Zambia Plc	<u>748,333</u>	<u>-</u>
	34,103,602	20,634,850
	=====	=====
Analysis of deposits with financial institutions by currency		
Deposits in United States Dollars (US\$)	16,128,293	13,192,834
Deposits in Sterling Pounds (UKP)	10,491,907	4,451,891
Deposits in Kenya Shillings (KES)	6,716,315	2,215,128
Deposits in Sudanese Pounds (SDG)	501,850	774,997
Deposits in Zambian Kwacha (ZMK)	<u>265,237</u>	<u>-</u>
	34,103,602	20,634,850
	=====	=====

Deposits with financial institutions have an average maturity of 3 to 6 months (2007: 3 to 6 months)

17 Cash and bank balances	2008	2007
	US\$	US\$
Lloyds Bank PLC – London	2,279	525,954
Kenya Commercial Bank Ltd	55,768	138,610
Barclays Bank of Kenya Ltd	53,056	128,611
Sudanese French Bank	28,322	387,844
Reserve Bank of Zimbabwe	-	11,992
Barclays Bank of Zambia Plc	2,015	-
SCB Cameroon	30,837	-
Cash in hand	<u>473</u>	<u>159</u>
	172,750	1,193,170
	=====	=====

Notes to the Financial Statements (continued)

18 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:

	2008	2007
	%	%
Government securities		
Securities in Kenya Shillings (KES)	9.90	9.09
Securities in Sudanese Pound (SDG)	15.00	16.00
Deposits with financial institutions		
Deposits in United States Dollars (US\$)	3.50	4.59
Deposits in Sterling Pounds (UKP)	5.17	4.76
Deposits in Kenya Shillings (KES)	8.85	6.95
Deposits in Sudanese Pounds (SDG)	9.00	8.00
Deposits in Zambian Kwacha (ZMK)	11.63	-
	=====	=====

19 Share Capital

Members at the 17th Annual General Meeting approved the restructuring of the Company's capital set up as indicated below:

- (i) The general assembly passed a resolution number 7/08 to increase the authorised share capital to US\$ 100,000,000 (2007: US\$ 50,000,000) made up of 100,000,000 shares with par value of US\$ 1 per share (2007: US\$ 1,364 per share).
- (ii) The General Assembly also approved the capitalisation of dividends amounting to US\$ 750,000 based on the voting power position as at 31 December 2007.
- (iii) The Board also approved capitalisation of reserves amounting to US\$ 9,852,399 to be applied towards the issue of bonus shares.

At 31 December 2008 the position was as follows:

(i) Paid-up capital	2008	2007
	US\$	US\$
Issued and paid up capital	29,998,013	12,808,863
Unsubscribed	70,001,987	37,191,137
Authorised capital	100,000,000	50,000,000
	=====	=====
(ii) Paid-up shares	2008	2007
	No of shares	No of shares
Shares allotted and subscribed	29,998,013	21,034
Unsubscribed	70,001,987	15,622
Shares called	100,000,000	36,656
Shares un-paid	(70,001,987)	(27,266)
Subscribed and paid-up shares	29,998,013	9,390
	=====	=====

Notes to the Financial Statements (continued)

20 Revaluation surplus and fair value reserves

	2008 US\$	2007 US\$
Revaluation surplus	9,042	11,830
Fair value reserve	(917,639)	(32,278)
	<u>(908,597)</u>	<u>(20,448)</u>
	=====	=====

Movements in the revaluation and other reserves are shown in the statement of changes in equity on page 19.

Fair value reserve

The fair value reserve relates to the cumulative net change in the fair value of available for sale investments and revaluation surplus on office building.

21 Retained earnings

The retained earnings balance represents the amount available for distribution to the shareholders of the Company. The movements for the year are as follows:

	2008 US\$	2007 US\$
Balance at 1 January	10,602,399	5,846,410
Profit for the year	1,910,269	5,255,989
Dividends capitalised / paid	(750,000)	(500,000)
Capitalisation of reserves	(9,852,399)	-
	<u>1,910,269</u>	<u>10,602,399</u>
	=====	=====

The General Assembly in their meeting held on 14th July 2008 approved capitalisation of dividends and reserves amounting to US\$ 10,602,399 to be applied towards the issue of bonus shares to existing shareholders.

22 Reinsurance contract liabilities

	2008 US\$	2007 US\$
Short term reinsurance contracts		
- claims reported and claims handling expenses	11,324,000	10,463,397
- claims incurred but not reported	3,171,000	2,066,192
	<u>14,495,000</u>	<u>12,529,589</u>
	=====	=====

Notes to the Financial Statements (continued)

i) Short term reinsurance contracts

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries. The expected recoveries at the end of 2008 and 2007, are not material.

Claims incurred comprise claims paid in the year and changes in provision for outstanding claims. Claims paid represent all claims payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent an estimate of the ultimate net cost of settling all claims arising from incidents occurring prior to the balance sheet date but not settled at that date. Provisions for outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provision for claims incurred but not reported (IBNR). The development of reinsurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims.

23 Unearned premium reserve

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

	2008			2007		
	Gross US\$	Retrocession US\$	Net US\$	Gross US\$	Retrocession US\$	Net US\$
At 1 January	14,176,370	(3,349,821)	10,826,549	11,934,522	(2,924,668)	9,009,854
Increase in the period (net)	2,286,283	(287,842)	1,998,441	2,241,848	(425,153)	1,816,695
At 31 December	16,462,653	(3,637,663)	12,824,990	14,176,370	(3,349,821)	10,826,549

24 Payables arising from retrocession arrangements

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

	2008 US\$	2007 US\$
At 1 January	5,556,836	5,425,793
Decrease during the year	(1,896,983)	(1,284,326)
Receivables and payables write - back	1,155,859	1,415,369
At 31 December	4,815,712	5,556,836

Notes to the Financial Statements (continued)

25 Deferred income

Deferred income relates to the cost of the leasehold land owned by the Company. This land was granted to the Company by the Kenya Government. The amounts are non-refundable and are released to income over the lease term. The movement on the deferred income account during the year is as follows:

	2008 US\$	2007 US\$
At 1 January	69,275	70,090
Amortisation	(815)	(815)
	<hr/>	<hr/>
At 31 December	68,460	69,275
	=====	=====

26 Other payables

Due to United Insurance co. ltd (under statutory management)	251,677	251,677
Rent deposits	204,833	209,439
Other liabilities	(29,599)	148,113
Leave pay provision	107,943	89,809
Provision for gratuity	108,134	79,345
Advance rent	154	1,480
	<hr/>	<hr/>
	643,142	779,863
	=====	=====

27 Dividends

In July 2008, a dividend of US\$ 79.87 per share amounting to US\$ 750,000, relating to the year ended 31 December 2007 was capitalised.

In respect of the current year, the directors propose that a dividend of US\$ 0.016 per share be paid out to shareholders. This dividend is subject to approval by shareholders at the General Assembly scheduled for May 2009 and has not been included as a liability in these financial statements. The total estimated dividend to be paid is US\$ 480,000.

The movement in dividends payable is as follows:

	2008 US\$	2007 US\$
At 1 January	9,020	22,078
Final dividend declared	750,000	500,000
Dividend paid	(7,187)	(513,058)
Dividend capitalised	(750,000)	-
	<hr/>	<hr/>
At 31 December	1,833	9,020
	=====	=====

Notes to the Financial Statements (continued)

28 Borrowings

This was a loan obtained from PTA Bank for the construction of the Company's head office building and to partly finance the purchase of an investment property. The loan was repayable in quarterly instalments over a period of sixty (60) months with effect from July 2006. This amount was repaid in full during the year 2007 as follows:

	2008 US\$	2007 US\$
At 1 January	-	2,430,000
Additions during the year	-	-
Repayments	-	(2,430,000)
	<hr/>	<hr/>
At 31 December	-	-
	<hr/> <hr/>	<hr/> <hr/>

29 Contingent liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of reinsurance business. The directors are of the opinion that any outstanding litigation from this source will not have a material effect on the financial position or profits of the Company.

30 Commitments

Capital commitments

Capital expenditure authorised but not contracted for at the balance sheet date and which is not recognised in the financial statements is as follows:

	2008 US\$	2007 US\$
Property and equipment	580,750	1,645,900
	<hr/> <hr/>	<hr/> <hr/>

31 Cash and cash equivalents

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

	2008 US\$	2007 US\$
Cash and bank balances	172,750	1,193,170
Deposits with financial institutions	34,103,602	20,634,850
Treasury bills	2,934,218	7,511,137
	<hr/>	<hr/>
	37,210,570	29,339,157
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements (continued)

32 Related parties

The Company is owned by governments, private and public institutions of member COMESA states. Most of the private and public institutions comprise Insurance and Reinsurance companies in the COMESA sub-region.

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

i) Transactions with related parties	2008 US\$	2007 US\$
Gross earned premium - Shareholders	6,596,231	5,551,827
Claims Paid - Shareholders	1,434,868 =====	2,222,597 =====
	2008 US\$	2007 US\$
Directors' fees	46,650	41,550
Other emoluments (per diem)	56,737	62,590
	103,387 =====	104,140 =====
iii) Key management remuneration		
Salaries and other short-term employment benefits	382,838	410,556
Gratuity	85,875	67,222
	468,713 =====	477,778 =====
iv) Outstanding balances with related parties		
Premium receivable from related parties	805,821	371,504
Staff car and other loans	194,159 =====	270,193 =====

Notes to the Financial Statements (continued)

33 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 balance sheet date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The ultimate liability arising from claims payable under reinsurance contracts

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

Impairment losses

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

Useful lives of property and equipment

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

Notes to the Financial Statements (continued)

34 Risk management objectives and policies

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

The Company manages risks as follows:

I) Reinsurance risk

The risk under any one reinsurance contract is the possibility that the insured event occurs and also the uncertainty surrounding the amount of the resulting claim. By the very nature of a reinsurance contract, this risk is not easily predictable.

For a portfolio of reinsurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its reinsurance contracts is that the actual claims and benefit payments will exceed the carrying amount of the reinsurance liabilities. This could occur if the frequency or severity of actual claims and benefits are greater than estimated. Insurance events are not easily predictable and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar reinsurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its reinsurance underwriting strategy to diversify the type of reinsurance risks accepted.

Factors that aggravate reinsurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Notes to the Financial Statements (continued)

34 Risk management objectives and policies (continued)

Year ended 31 December 2008		Maximum insured loss			Total
		US\$ 0m - US\$ 0.5m	US\$ 0.5m - US\$ 1m	US\$ 1m - US\$ 12m	
Class of business					US\$
General Insurance business					
Property	Gross	5,553,866	-	2,187,624	7,741,490
	Net	3,530,173	-	1,098,803	4,628,976
Casualty	Gross	4,053,250	-	-	4,053,250
	Net	3,849,936	-	-	3,849,936
Motor	Gross	2,909,973	-	-	2,909,973
	Net	2,930,715	-	-	2,930,715
Marine & Aviation	Gross	1,815,136	-	-	1,815,136
	Net	1,750,684	-	-	1,750,684
Life assurance business	Gross	5,319,346	-	-	5,319,346
	Net	5,319,346	-	-	5,319,346
Total	Gross	19,651,571	-	2,187,624	21,839,195
	Net	17,380,854	-	1,098,803	18,479,657

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

Year ended 31 December 2007		Maximum insured loss			Total
		US\$ 0m - US\$ 0.5m	US\$ 0.5m - US\$ 1m	US\$ 1m - US\$ 12m	
Class of business					US\$
General Insurance business					
Property	Gross	7,928,179	516,500	1,169,142	9,613,821
	Net	6,365,830	176,488	165,434	6,707,752
Casualty	Gross	2,679,432	-	-	2,679,432
	Net	2,638,711	-	-	2,638,711
Marine & Aviation	Gross	4,658,975	-	-	4,658,975
	Net	4,618,534	-	-	4,618,534
Motor	Gross	1,028,201	-	-	1,028,201
	Net	965,609	-	-	965,609
Life assurance business	Gross	1,996,566	-	-	1,996,566
	Net	1,996,566	-	-	1,996,566
Total	Gross	18,291,353	516,500	1,169,142	19,976,995
	Net	16,585,250	176,488	165,434	16,927,172

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

Notes to the Financial Statements (continued)

II) Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), 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 and investment contracts. 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 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 under reinsurance and investment contracts.

The Company has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the Company's ALM framework.

Short-term reinsurance contracts

The Company engages in short term reinsurance contracts and funds the reinsurance liabilities with a portfolio of equity and debt securities exposed to market risk. During the year, the Company increased the portion of financial assets invested in debt securities to mitigate the impact of the volatility of equity prices experienced in recent years. An analysis of the Company's financial assets and its short term reinsurance liabilities is presented below;

	2008 US\$	2007 US\$
Financial assets		
Available-for-sale equity investments	2,092,169	1,023,369
Receivables arising out of reinsurance arrangements	6,061,923	7,523,214
Deposits retained by ceding companies	1,767,078	1,359,445
Government securities held to maturity	8,479,856	10,995,175
Deposits with financial institutions	34,103,602	20,634,850
Cash and bank balances	172,750	1,193,170
Total	52,677,378	42,729,223
Reinsurance liabilities		
Reinsurance contract liabilities	14,495,000	12,529,589
Payables arising from retrocession arrangements	4,815,712	5,556,836
Deposits retained on ceded reinsurance business	291,710	212,193
Total	19,602,422	18,298,618

Short-term reinsurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non interest bearing.

Notes to the Financial Statements (continued)

Financial risk (continued)

Short-term reinsurance contracts (continued)

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from the reinsurance contracts in force at the balance sheet date (both incurred claims and future claims arising from the unexpired risks at the balance sheet date). The mean durations in both 2008 and 2007 is less than one year.

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 2008:

Financial assets	Total	No stated maturity	Contractual cash flows (undiscounted)				
	31.12.2008		0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 5 yrs
Available-for-sale equity investments	2,092,169	2,092,169	-	-	-	-	-
Receivables arising out of reinsurance arrangements	6,061,923	-	6,061,923	-	-	-	-
Deposits retained by ceding companies	1,767,078	-	883,540	883,539	-	-	-
Government securities held to maturity	8,479,856	-	7,285,672	362,292	540,276	131,559	160,056
Deposits with financial institutions	34,103,602	-	33,839,364	-	-	-	264,238
Cash and bank balances	172,750	-	172,750	-	-	-	-
Total	52,677,378	2,092,169	48,243,249	1,245,831	540,276	131,559	424,294
Reinsurance liability							
Reinsurance contract liabilities	14,495,000	-	6,087,900	5,798,000	2,029,300	289,900	289,900
Payables arising from retrocession arrangements	4,815,712	-	4,815,712	-	-	-	-
Deposits retained on ceded reinsurance business	291,710	-	145,855	145,855	-	-	-
Total	19,602,422	-	11,049,467	5,943,855	2,029,300	289,900	289,900

Notes to the Financial Statements (continued)

34 Risk management objectives and policies (continued)

Financial risk (continued)

Short-term reinsurance contracts (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 2007:

Financial assets	Total Amount 31.12.2007	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	> 5 yrs
Available-for-sale equity investments	1,023,369	1,023,369	-	-	-	-	-
Receivables arising out of reinsurance arrangements	7,523,214	-	7,523,214	-	-	-	-
Deposits retained by ceding companies	1,359,445	-	679,722	679,723	-	-	-
Government securities held to maturity	10,995,175	-	9,797,513	-	195,564	650,832	351,267
Deposits with financial institutions	20,634,850	-	20,316,700	-	-	-	318,150
Cash and bank balances	1,193,170	-	1,193,170	-	-	-	-
Total	42,729,223	1,023,369	39,510,319	679,723	195,564	650,832	669,417
Reinsurance liability							
Reinsurance contract liabilities	12,529,589	-	5,262,427	5,011,836	1,754,142	250,592	250,592
Payables arising from retrocession arrangements	5,556,836	-	5,556,836	-	-	-	-
Deposits retained on ceded reinsurance business	212,193	-	106,097	106,096	-	-	-
Total	18,298,618	-	10,925,360	5,117,932	1,754,142	250,592	250,592

Notes to the Financial Statements (continued)

34 Risk management objectives and policies (continued)

III) Credit risk

The Company faces an exposure to credit risk which is the risk that a reinsured will be unable to pay premiums in full when due. Impairment charges are recognised for debts considered doubtful at the balance sheet date. Significant changes in the economy, or in the health of a particular class of business that represents a concentration of the Company's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

Exposure to credit risk is managed through regular analysis of the ability of the existing and potential clients to meet premium obligations and by reviewing signed shares where appropriate, having close relations with cedants and intermediaries to enhance timely settlement of premiums, offsetting of outstanding premiums against claims and avoiding renewal of treaties with cedants who have poor underwriting and credit history.

There is no concentration of credit risk

IV) 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 10 percentage points in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the Company's overall exposure to interest rate sensitivities included in the Company's ALM framework and its impact on the Company's profit or loss by business.

Note 18 discloses the weighted average interest rate on principal interest bearing investments.

V) Currency risk

The Company operates in a number of countries and is exposed to currency fluctuations in those countries. The Company's policy is to minimise the currency risk by holding assets in the same currency as the underlying liabilities or in major convertible currencies.

VI) 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.

Notes to the Financial Statements (continued)

The table below provides a contractual maturity analysis of the Company's financial liabilities:

	31 December 2008				31 December 2007			
	6 months or on demand	Between 6 months and 1 year	More than 1 year	Total	6 months or on demand	Between 6 months and 1 year	More than 1 year	Total
Reinsurance liability	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Payables arising from retrocession arrangements	1,829,926	1,829,927	-	3,659,853	2,070,734	2,070,733	-	4,141,467
Deposits retained on ceded reinsurance business	145,855	145,855	-	291,710	106,096	106,097	-	212,193
Total	1,975,781	1,975,782	-	3,951,563	2,176,830	2,176,830	-	4,353,660

Capital management

The Company maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the Company's risk profile and market requirements of its business.

The Company's objectives in managing its capital are:

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

Notes to the Financial Statements (continued)

34 Risk management objectives and policies (continued)

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

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

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

	2008 USD	2007 USD
Share capital	29,998,013	12,808,863
Share premium	322,899	-
Revaluation surplus	-	11,830
Fair value reserve	(908,597)	(32,278)
Retained earnings	1,910,269	10,602,399
Equity	<u>31,322,584</u>	<u>23,390,814</u>
Total borrowings	-	-
Net debt	<u>-</u>	<u>-</u>
Total capital	<u>31,322,584</u>	<u>23,390,814</u>
Gearing	0%	0%

Revenue Account

Appendix I

Class of insurance Business	2008			2007			Total
	Fire & Accident	Marine & Aviation	Life	Fire & Accident	Marine & Aviation	Life	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Gross premiums written	33,491,705	4,957,210	7,537,584	28,797,171	5,253,077	3,873,316	37,923,564
Change in gross UPR	(1,539,553)	95,860	(554,748)	(1,006,164)	(633,132)	(177,399)	(1,816,695)
Gross earned premiums	31,952,152	5,053,070	6,982,836	27,791,007	4,619,925	3,695,917	36,106,869
Less: retrocession premiums	(8,647,348)	(446,609)	-	(7,883,602)	(503,026)	-	(8,386,629)
Net earned premiums	23,304,804	4,606,461	6,982,836	19,907,405	4,116,919	3,695,917	27,720,241
Gross claims paid	12,883,396	1,452,196	5,303,308	12,874,663	1,210,742	2,037,001	16,122,406
Change in gross o/s claims	932,030	930,270	103,111	4,077,565	(182,541)	(40,435)	3,854,589
Less: amounts recoverable from retrocessionaires	(3,053,596)	(71,058)	-	(2,987,231)	(62,592)	-	(3,049,823)
Net claims incurred	10,761,830	2,311,408	5,406,419	13,964,997	965,609	1,996,566	16,927,172
Commissions receivable	(2,834,908)	(121,357)	-	(2,800,370)	(192,137)	-	(2,992,507)
Commissions payable	8,802,211	1,510,196	1,392,374	7,832,855	1,570,110	623,777	10,026,742
Charges & taxes	151,844	28,672	2,507	115,020	23,095	-	138,115
Expenses of management	2,399,759	355,196	540,086	2,011,538	366,937	270,559	2,649,034
Total expenses and commissions	8,518,906	1,772,707	1,934,967	7,159,043	1,768,005	894,336	9,821,384
Underwriting profit/(loss)	4,024,066	522,346	(358,550)	(1,216,634)	1,383,305	805,015	971,686
Key ratios:	%	%	%	%	%	%	%
Loss ratio (net claims incurred/net earned premium)	46.2	50.2	77.4	69.5	23.5	54.0	60.5
Commissions ratio (commissions payable/gross premium written)	26.3	30.5	18.5	27.2	29.9	16.1	26.4
Expense ratio (management exps/ gross written premium)	7.2	7.2	7.2	7.0	7.0	7.0	7.0

Schedule of Membership, Share Allocations, Paid Up Share Capital and Voting Power Position Year Ended 31 December 2008

Appendix II

Country/ institution	Shareholder	2008		2007	
		Share Capital US\$	Paid-up Voting power	Share Capital US\$	Paid-up Voting power
Burundi	SOCABU	383,530	1.28	136,400	1.06
	Assurances Bicolor	194,986	0.65	111,820	0.87
Kenya	Kenya Reinsurance Corporation	7,656,293	25.52	2,728,000	21.30
	Government of Kenya	492,417	1.64	238,700	1.86
	Blue Shield Insurance Company	447,464	1.49	249,612	1.95
	Mayfair Insurance Company	604,526	2.02	126,360	0.99
	Apollo Insurance Company	124,984	0.42	69,000	0.54
Mauritius	Government of Mauritius	261,161	0.87	136,400	1.06
Mozambique	EMOSE	306,320	1.02	109,120	0.85
Rwanda	Republic of Rwanda	3,266,442	10.89	1,754,352	13.70
	SONARWA	140,055	0.47	76,533	0.60
	SORAS	506,223	1.69	8,920	0.07
Sudan	Government of Sudan	1,748,743	5.83	968,440	7.56
	United Insurance Company	266,790	0.89	136,400	1.06
	Sheikan Ins. & Reins.	347,701	1.16	170,500	1.33
	Juba Insurance Company	316,425	1.05	136,400	1.06
Tanzania	NIC(T)	1,921,807	6.41	1,050,280	8.20
	ZIC	127,670	0.43	68,200	0.53
PPF	PPF	1,232,886	4.11	682,000	5.32
Uganda	NIC(U)	127,663	0.43	68,200	0.53
	Lion Assurance (U)	113,845	0.38	68,200	0.53
	SWIC	217,018	0.72	98,525	0.77
Zambia	ZSIC	600,919	2.00	364,510	2.85
	ZSIC – Pension Trust	1,350,702	4.50	300,000	2.34
	Government of Zambia	1,417,187	4.72	613,800	4.79
PTA Bank	PTA Bank	2,527,498	8.43	841,588	6.57
Zimbabwe	ZIM-RE	445,833	1.49	272,800	2.13
Madagascar	NY Havana	240,721	0.80	131,574	1.03
D.R. Congo	SONAS	125,660	0.42	68,200	0.53
Eritrea	NICE	870,370	2.90	391,000	3.05
Djibouti	Government of Djibouti	1,263,602	4.21	428,429	3.34
COMESA	COMESA Secretariat	350,570	1.17	204,600	1.60
Total		29,998,011	100.00	12,808,863	100.00