2012

Annual Report and Financial Statements

Corporate Information and Advisors

Registered Office
East Africa Reinsurance Company Limited
EARe House, 98 Riverside Drive
P. O. Box 20196 - 00200
City Square, Nairobi, Kenya
Tel: (254 20) 4443588 Fax: (254 20) 4455391
Mobile: +254 728111041; +254 733623737
E-mail: info@eastafricare.com
Website: www.eastafricare.com

Company Secretary
L. A. Kimang'a
Certified Public Secretary (Kenya)
P. O. Box 20196 - 00200 City Square,
Nairobi, Kenya

Actuaries
Alexander Forbes Financial Services (EA) Limited
Argwings Kodhek Road, Landmark Plaza
P. O. Box 52439 - 00200 City Square,
Nairobi, Kenya

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

Principal Bankers
NIC Bank Limited
NIC House Branch
P. O. Box 30090 - 00100 GPO,
Nairobi, Kenya

Legal Advisors
Kaplan & Stratton
Williamson House, 4th Ngong Avenue
P. O. Box 40111 - 00100 GPO,
Nairobi, Kenya

Shapley Barret & Co.
Prudential Assurance Building, Wabera Street,
P. O. Box 40286 - 00100 GPO,
Nairobi, Kenya

Vision Statement

To be the leading regional reinsurer in terms of premium volume and profitability.

Mission Statement

To provide quality reinsurance solutions, strong security and excellent service to all our business partners and also protect and enhance shareholder value.

Core Values

Integrity, honesty, respect, innovation, customer satisfaction, productive work ethic, professionalism.

Contents

Board of Directors

J. P. M. Ndegwa
Chairman

M. P. Chandaria (Dr.) OBE, EBS
Vice-Chairman

P. K. Maina
Chief Executive Officer

D. G. M. Hutchison

L. W. Muriuki (Ms.)

S. O. Oluoch

A. K. Roy

L. A. Kimang'a
Company Secretary

Alternate Directors

P. K. Mugambi

A. S. M. Ndegwa

M. N. Sarma

Management

Peter Maina
Chief Executive Officer

L. A. Kimang'a
General Manager
(Finance & Administration)

E. Rahedi
General Manager
(Techincal)

D. Muraguri
Senior Manager
(Risk & Compliance)

Financial Highlights - 5 Years (Combined Business)

Short-Term and Long-Term Business Combined

	2012 Shs 'million	2011 Shs 'million	2010 Shs 'million	2009 Shs 'million	2008 Shs 'million
Shareholders' Funds	1,676	1,314	1,239	1,078	958
Share Capital	800	750	650	650	600
Total Assets	4,698	3,803	3,152	2,617	2,393
Investment Income (net)	425	134	189	154	122
Gross Premiums	2,461	2,152	1,512	1,250	1,056
Net Premiums	2,326	1,885	1,180	943	859
Net Earned Premiums	2,162	1,704	1,169	927	785
Technical profit	202	212	177	131	99
Underwriting profit	79	121	95	54	24
Profit Before Tax	404	150	210	172	128
Profit After Tax	283	102	161	120	86
Total comprehensive income	389	102	161	120	86
Dividend	40	15	27	20	-

Short-Term and Long-Term Business Combined

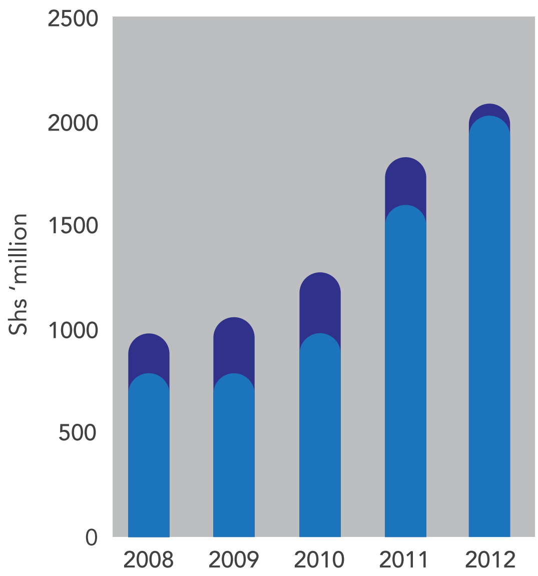
	2012 86.0 USD '000'	2011 85.1 USD '000'	2010 80.8 USD '000'	2009 75.8 USD '000'	2008 77.7 USD '000'
Shareholders' Funds	19,490	15,444	15,345	14,218	12,334
Share Capital	9,302	8,813	8,050	8,573	7,722
Total Assets	54,627	44,688	39,035	34,518	30,797
Investment Income (net)	4,939	1,577	2,341	2,031	1,570
Gross Premiums	28,613	25,290	18,722	16,493	13,592
Net Premiums	27,045	22,148	14,607	12,444	11,058
Net Earned Premiums	25,143	20,028	14,476	12,231	10,098
Technical profit	2,350	2,496	2,197	1,728	1,274
Underwriting profit	923	1,426	1,179	717	307
Profit Before Tax	4,701	1,764	2,600	2,269	1,647
Profit After Tax	3,286	1,204	1,993	1,583	1,107
Total comprehensive income	4,523	1,204	1,993	1,583	1,107
Dividend	465	176	338	214	-

	2012	2011	2010	2009	2008
Net Technical profit/Net WP	9%	11%	15%	14%	10%
Loss ratio	54%	47%	56%	55%	54%
Earnings per Share(Shs)	353	137	242	184	143
Dividend Cover	7	7	6	6	-
Return on equity before tax	27%	12%	18%	17%	14%
Return on equity after tax	19%	8%	14%	12%	9%

Gross and Net Premiums (Shs 'million)

Short-Term Business

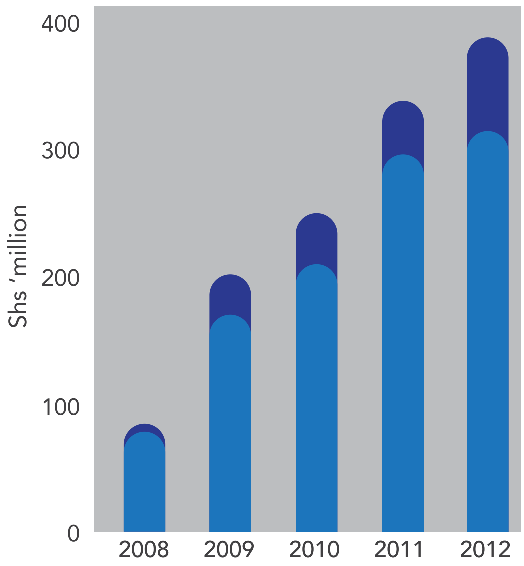
	2008	2009	2010	2011	2012
Gross Premiums	977	1,055	1,272	1,828	2,087
Net Premiums	786	780	980	1,601	2,023



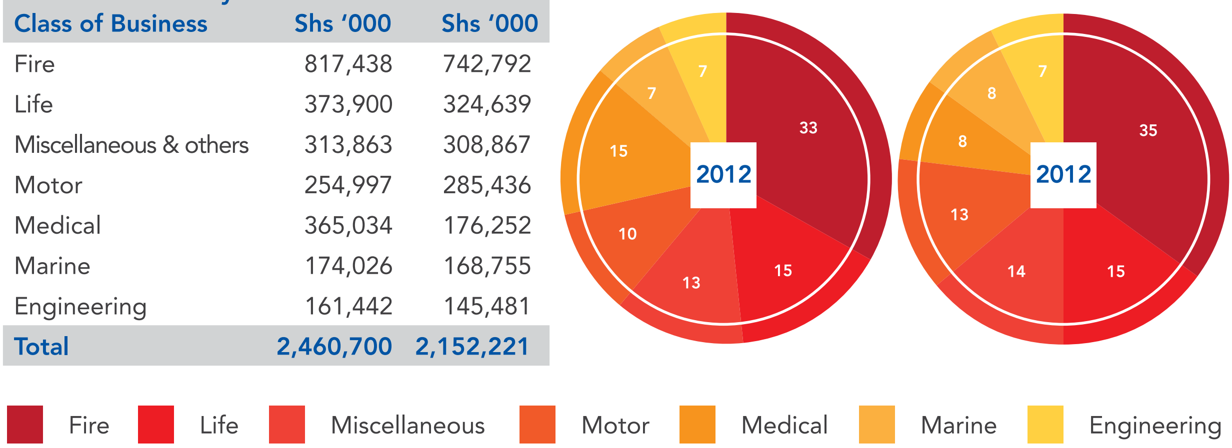
Gross and Net Premiums (Shs 'million)

Long-Term Business

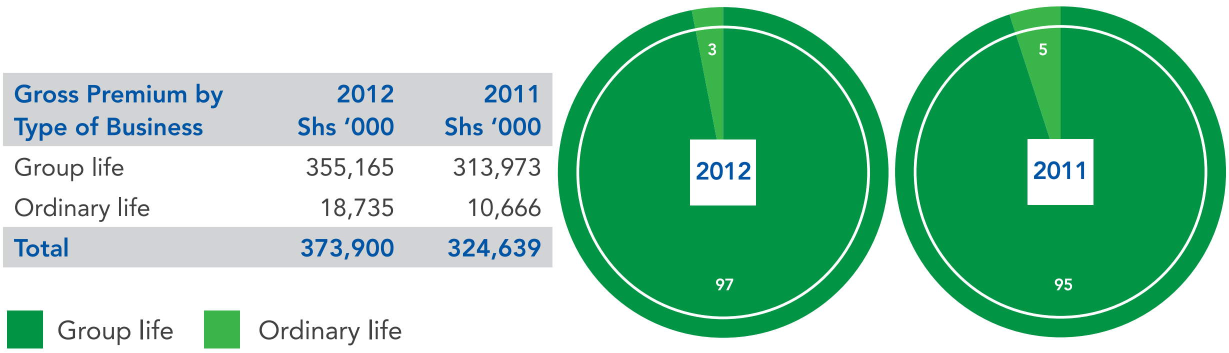
	2008	2009	2010	2011	2012
Gross Premiums	80	195	240	325	374
Net Premiums	74	164	200	284	303



Gross Premiums by Class of Business	2012 Shs '000	2011 Shs '000
Fire	817,438	742,792
Life	373,900	324,639
Miscellaneous & others	313,863	308,867
Motor	254,997	285,436
Medical	365,034	176,252
Marine	174,026	168,755
Engineering	161,442	145,481
Total	**2,460,700**	**2,152,221**



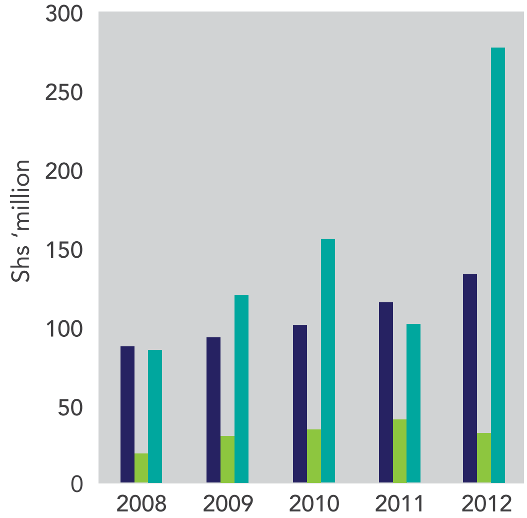
Gross Premium by Type of Business	2012 Shs '000	2011 Shs '000
Group life	355,165	313,973
Ordinary life	18,735	10,666
Total	**373,900**	**324,639**



Short-Term Business (Shs 'million)

Technical Profit, Underwriting Profit and Profit after Taxation

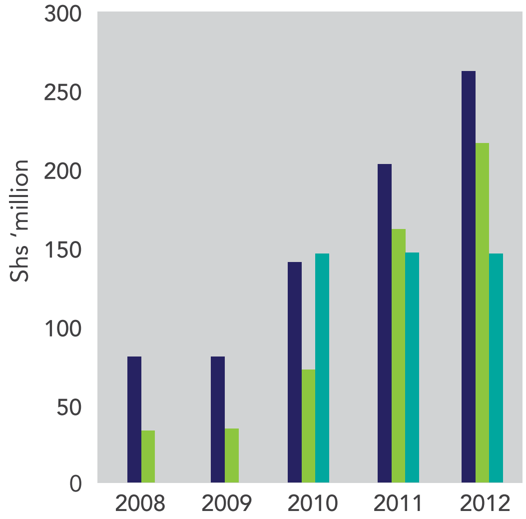
	2008	2009	2010	2011	2012
Technical Profit	88	92	104	118	134
Underwriting Profit	18	26	35	41	29
Profit after Taxation	86	120	161	103	283



Long-Term Business (Shs 'million)

Life Fund, Actuarial Surplus and Shareholders' Funds

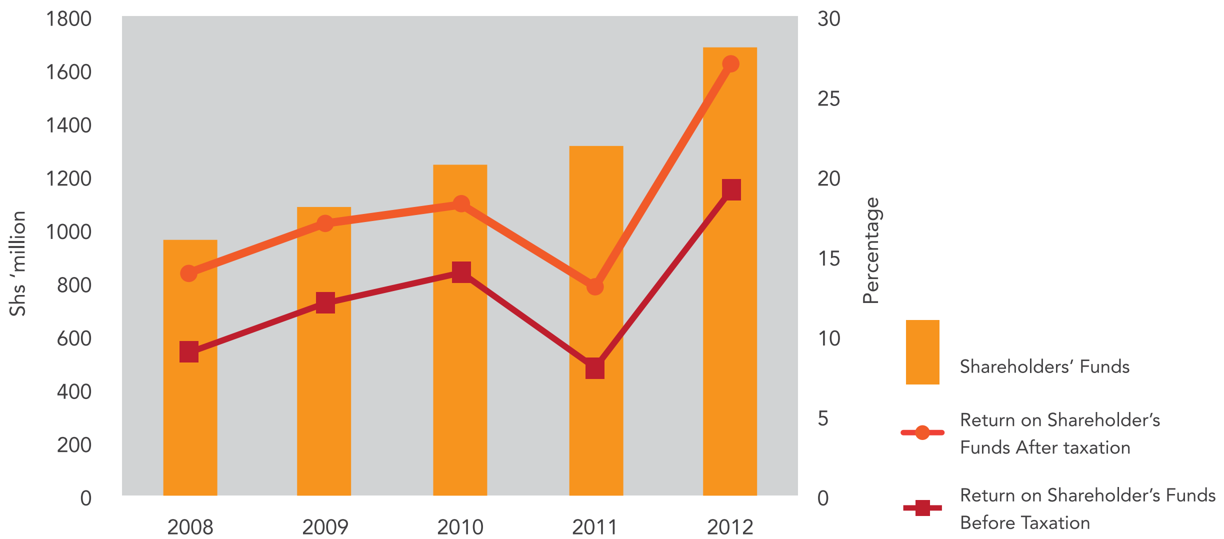
	2008	2009	2010	2011	2012
Life Fund	82	83	144	208	269
Actuarial Surplus	34	36	74	166	222
Shareholders' Funds	-	-	-	150	150



Combined Business (Shs 'million)

Shareholders' Funds and Return on Shareholders' Funds

	2008	2009	2010	2011	2012
Shareholders' Funds	958	1,078	1,239	1,314	1,676
Return after Taxation on Shareholders' Funds	9	12	14	8	19
Return before Taxation on Shareholders' Funds	14	17	18	13	27



Notice of the Twentieth Annual General Meeting

Notice is hereby given that the Twentieth Annual General Meeting of East Africa Reinsurance Company Limited will be held on Thursday, 16 May 2013, in the Company's Training Room, EARe House, 98 Riverside Drive, Nairobi, at twelve noon to transact the following business:

Ordinary Business

1 To confirm the minutes of the Annual General Meeting held on 17 May 2012.
2 To receive, consider and, if appropriate, adopt the financial statements for the year ended 31 December 2012 and the Chairman's, Directors', Actuary's and Auditors' reports thereon together with the statements in respect of corporate governance, social and environmental responsibilities, and Directors' responsibilities.
3 To approve the payment of a dividend.
4 To approve the remuneration of the Directors.
5 To note that Deloitte & Touche continue as the Company's auditors under Section 159(2) of the Kenyan Companies Act subject to approval by the Commissioner of Insurance as required under section 56(4) of the Kenyan Insurance Act.
6 To authorise the Directors to fix the remuneration of the Auditors.
7 To transact any other business of an Annual General Meeting.

Special Business

To consider and, if thought fit, pass the following Resolutions as Ordinary Resolutions of the Company:

1. Increase of Authorized Share Capital

"Resolved that in pursuance of Article 48 of the Company's Articles of Association, the authorized share capital of the Company be increased from Shs 800,000,000 to Shs 1,000,000,000 by the creation of a further 200,000 ordinary shares of Shs 1,000 each, such new shares to rank pari passu in all respects with the existing shares, and the Directors be and are hereby authorised to give effect to this resolution in accordance with the Articles of Association of the Company."

2. Capitalization of Revenue Reserves

"Resolved that in pursuance of Article 120 of the Company's Articles of Association, the sum of Shs 200,000,000 out of the unappropriated profit be capitalized and the same be applied in paying up in full at par 200,000 ordinary shares of Shs 1,000 each in the capital of the Company, such shares to be allotted and distributed as fully paid up to the Shareholders registered as at the close of business on 31 December 2012 in the proportion of one such new share for every four existing shares held by such members respectively and further that thereafter such shares rank pari passu in all respects with the existing shares, and the Directors be and are hereby authorised to give effect to this resolution in accordance with the Articles of Association of the Company."

3. Directors' Retirement by Rotation

"Resolved that all Directors except executive Directors shall have a fixed tenure of office and shall be required to retire from the Board at regular intervals, at least once every three years, with a provision that they could offer themselves for re-election based on a pre-determined policy and criteria, and the Directors be and are hereby authorized to amend the Company's Articles of Association and Shareholders' Agreement accordingly."

By order of the Board

L. A. Kimang'a
Secretary

28 February 2013

NOTE: *Every Shareholder of the Company is a corporate member and is thus entitled to appoint a proxy to attend and vote for it on its behalf. To be valid, proxy forms must be deposited at the Company's registered office not less than 24 hours before the appointed time of the meeting.*

Chairman's Statement

J. P. M. Ndegwa
Chairman

It is with great pleasure that I present the annual report and financial statements for East Africa Reinsurance Company Limited for the year ended 31 December 2012.

Results

The Company's consolidated gross premium income for 2012 was Shs 2.46 billion, which represents a 14% growth over 2011, and it achieved a record total comprehensive income after taxation of Shs 389.1 million which reflects a 280% growth over 2011. The impressive growth in profitability over the previous year was primarily due to higher investment income.

Dividend and Bonus Issue

The Board has recommended the payment of a total dividend of Shs 40 million out of the net profit for the year amounting to Shs 283.1 million to the Shareholders registered as at the close of business on 31 December 2012; this represents an increase of 167% over the previous year's dividend. The balance of the net profit for the year of Shs 243.1 million will remain in the retained earnings to support the Company's growth and development plans.

Further, the Board has recommended that bonus shares amounting to Shs 200 million be issued to the Shareholders registered as at the close of business on 31 December 2012 in the proportion of one new share for every four existing shares, thus increasing the Company's paid up share capital to Shs 1 billion (short-term business: Shs 700 million; long-term business: Shs 300 million) from the current Shs 800 million (short-term business: Shs 650 million; long-term business: Shs 150 million). This will enable the Company to exceed the new statutory capital requirement of Kshs 800 million (short-term: Shs 500 million: long-term: Shs 300) for reinsurers planned for implementation from June 2014.

Business Environment

The economic growth for 2012 in Kenya is estimated at 4.6% which is marginally higher than 4.4% achieved in 2011.

The investment market in Kenya improved in 2012 mainly due to declining inflation, stabilizing of the Kenya Shilling, and strong support from key sectors comprising agriculture, manufacturing, transport and communication. The annual average inflation decreased from 18.3% (2011: 5.4%) in January to 3.2% (2011: 18.9%) in December 2012 primarily on account of lower food and fuel prices. During the year, the Kenya Shilling appreciated marginally against the US Dollar, based on average rates of exchange, from Shs 86.34 (2011: Shs 81.03) in January to Shs 85.99 (2011: Shs 86.66) in December after reaching the high of Shs 83.00 in March and the low of Shs 87.81 in April. However, it depreciated against the Sterling Pound from Shs 133.94 (2011: Shs 127.70) in January to Shs 138.78 (2011: Shs 135.10) in December after gaining to the high of Shs 131.21 in July while against the Euro it depreciated from Shs 111.42 (2011: Shs 108.16) in January to Shs 113.53 (2011: Shs 114.15) in December after peaking at Shs 103.52 in July.

During the year, the Central Bank of Kenya lowered interest rates. The 91-day Treasury bill interest rate decreased from 20.6% (2011: 2.4%) in January to 8.1% (2011: 18.3%) in December and the 182-day Treasury bill interest rates decreased from 19.5% (2011: 2.7%) in January to 8.1% (2011: 18.3%) in December while the 364-day Treasury bill interest rates decreased from 22% (2011: 3.7%) in January to 11.7% (2011: 21%) in December. The Central Bank Rate (CBR), which is determined by the Monetary Policy Committee (MPC), declined from 18% in January to 11% in December 2012.

The equity market at the Nairobi Securities Exchange (NSE) recorded gains in share price increases with the NSE 20 Share Index closing at 4133 points from 3205 points in 2011 which represents a 29% improvement while the turnover at Shs 173 billion from Shs 78 billion the previous year reflects a 122% improvement.

Geographical Distribution of Business

The Company's main country source of business remains Kenya which contributed 58% of the consolidated gross premium income in 2012 compared with 60% in 2011. The Kenyan market accounted for 51% (2011: 53%) of the Company's short-term business and continued to generate almost all of the Company's long-term business.

Chairman's Statement (continued)

Outside of Kenya, the rest of the Common Market for Eastern Africa (COMESA) continued to account for 15% of the Company's gross premium income for the short-term business. The non-COMESA market including India contributed the balance of 34% compared with 32% the previous year.

In the international reinsurance market, a strong security rating is increasingly a key consideration for the placement of business and this poses challenges to the smaller reinsurance players whose ratings may be further limited by the sovereign rating of their countries of domicile.

Short-Term Business Underwriting Performance

The gross premium income for the short-term business at Shs 2.09 billion in 2012 represents a 14% growth over 2011. The proportional treaties continued to contribute the bulk of the Company's business at 85% in the year compared with 84% in 2011. The non-proportional business proportion decreased to 12% from 13% in 2011 while the facultative business maintained its contribution at 3% of the business.

The net claims incurred at Shs 1.05 billion in 2012 were 45% higher than the previous year's figure of Shs 722.4 million. The loss ratio at 57% in 2012 compares unfavourably with 51% in 2011 primarily due to poor claims experience in Medical and Motor classes arising from quota share treaty arrangements. However, in 2013 such treaties with major loss making cedents have been discontinued.

The net acquisition costs at 30% remained at the same level as in 2011 while the management expenses ratio to net premium income marginally increased to 5.2% from 4.8% in 2011. The combined ratio for the short-term underwriting business at 98.5% reflects a borderline result.

The largest classes of short-term business were Fire, Medical and Miscellaneous Accident that contributed 39%, 17% and 15% of the gross premium respectively. In 2011, the largest classes were Fire, Motor and Miscellaneous Accident which contributed 41%, 16% and 14% of the gross premium income respectively. Marine and Fire classes were the largest profit-making classes while the Medical and Motor classes were the largest loss-making classes.

The technical profit for 2012 at Shs 133.7 million reflects a 13% increase over 2011 while the underwriting profit at Shs 28.7 million reflects a 29% decrease from the previous year's level.

Long-Term Business Underwriting Performance

The gross premium income for the long-term business at Shs 373.9 million in 2012 represents a 15% growth over the previous year. The proportional treaties continued to contribute the bulk of the Company's business for this class.

The net claims incurred at Shs 185.4 million in 2012 were 30% higher than the previous year's figure of Shs 143 million. The loss ratio in 2012 at 61% compares unfavourably with 50% of the previous year.

The Company's long-term business registered an actuarial surplus of Shs 222.2 million and the Actuary has recommended a transfer of Shs 51.25 million to the Statement of Comprehensive Income, for the benefit of the Shareholders. This transfer and taxation thereon is within the statutory limit of 30% of the actuarial surplus. Further, the Actuary recommended that the balance of the actuarial surplus be carried forward unappropriated in the life fund. The life fund, after the transfer of actuarial surplus, was Shs 268.9 million as at 31 December 2012 compared with Shs 207.7 million as at 31 December 2011.

Consolidated Management Expenses

The consolidated gross management expenses in 2012 at Shs 153.4 million were 35% higher than the figure of Shs 113.9 million in 2011 which resulted in an unfavourable ratio of consolidated gross management expenses to gross consolidated premium income of 6.2% compared with the previous year's ratio of 5.3%.

Consolidated Foreign Exchange Performance

The consolidated exchange loss in 2012 at Shs 9.9 million is 20% lower than the loss of Shs 12.3 million in 2011. The Company's exposure to foreign exchange risk has increased due to increased short-term business transactions in various foreign currencies. Consequently, the Company adopts extreme caution in its management of foreign currency exposure to minimize the impact of potential adverse effects.

Consolidated Investment Performance

The Company's consolidated gross investment income at Shs 455.4 million compares very favourably with Shs 157 million in 2011. This 190% improvement was primarily due to higher interest rates and the impact of increased investible funds due to effective debt management.

Chairman's Statement (continued)

The total investible funds stood at Shs 3.27 billion at 31 December 2012, representing a 30% growth over 2011.

Total Assets and Shareholders' Funds

The total assets as at 31 December 2012 amounted to Shs 4.7 billion compared with Shs 3.8 billion as at 31 December 2011.

The consolidated shareholders' funds as at 31 December 2012 at Shs 1.68 billion represents a growth of Shs 362 million over the figure of Shs 1.31 billion as at 31 December 2011.

The shareholders' funds for the short-term business at Shs 1.53 billion comprise a share capital of Shs 650 million, retained earnings of Shs 766 million, a revaluation reserve of Shs 94 million and a fair value reserve of Shs 16 million while the shareholders' funds for the long-term business comprise a share capital of Shs 150 million. The Company's total paid up share capital stood at Shs 800 million as at 31 December 2012 compared with Shs 750 million as at 31 December 2011.

Authorized Share Capital

As already reported, the Board has recommended that the Company's authorized share capital be increased by Shs 200 million from Shs 800 million (short-term business: Shs 650 million; long-term business: Shs 150 million) to Shs 1 billion (short-term business: Shs 700 million; long-term: Shs 300 million), representing an increase of Shs 50 million and Shs 150 million in the authorized share capital for the short-term business and the long-term business respectively.

The Company's capital adequacy ratio at 160% was strong with the ratio of 186% and 100% for the short-term business and long-term business respectively.

Solvency Margins

The solvency margins of the Company's short-term business and long-term business were strong and exceeded the requirements of Section 41 of the Insurance Act (Cap 487) at 401% and 388% respectively.

Security Ratings

In 2012, A. M. Best reaffirmed the Company's international security rating of B and issuer credit rating of bb+ with a stable outlook while Global Credit Rating Co. (GCR) of South Africa reaffirmed the Company's domestic security rating of A+. These security ratings confirm the Company's strong risk-adjusted capitalization and capacity for risk acceptance.

Financial Reporting Award

In 2012, the Company was awarded the 1st runners-up position in the Financial Reporting (FiRe) Award for Excellence, in the insurance category. The Award was jointly sponsored by the Institute of Certified Public Accountants of Kenya (ICPAK), the Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE).

Champions of Governance Award

The Company was awarded the 1st position in the 2012 Champions of Governance (COG) Award in the insurance category. The Award was sponsored by the Institute of Certified Public Secretaries of Kenya (ICPSK) jointly with other COG partners, including KASNEB and the Insurance Regulatory Authority (IRA).

Board of Directors and Management

Since my last report of 15 March 2012, there have been changes in the composition of the Board and senior Management.

Mr. Haroon Motara, who was the Managing Director, left the Company on 31 August 2012 and was succeeded by Peter Maina, who joined the Company on 1 August 2012 and was appointed as a Director and as the Chief Executive Officer with effect from 23 August 2012 and 1 September 2012 respectively. I thank Mr. Motara for his service to the Company over the last six years and welcome Mr. Maina, who has had extensive reinsurance and management experience with international reinsurers and financial institutions.

We are also pleased to welcome Ms. Linda Muriuki, a well-respected lawyer and experienced businessperson who was appointed to the Board as an independent Director on 22 November 2012.

Corporate Governance

Throughout the year, the Board remained committed to the principles of corporate governance and best practice. Further, the Board continued with its commitment to comply with the requirements of the Insurance Act and other legislation and regulations that govern the operations of the Company.

A report on the corporate governance practices in the Company is contained in the Corporate Governance Statement forming part of the 2012 Annual Report.

Chairman's Statement (continued)

Outlook

It is projected economic growth in Kenya for 2013 will be at 5.5% and inflation contained within 5%. As the risks posed by increasing international oil prices and persistent balance of payments pressures, due to the high current account deficit, are being assessed, the Central Bank of Kenya has indicated it determination to maintain economic stability and bring down interest rates with the CBR at 9.5% at the date of this report.

In terms of the insurance sector, the penetration rate in Kenya is estimated at 3%, which is marginally higher than the emerging markets' penetration average of 2.7%. It is expected that with the new capitalization requirements taking effect from 14 June 2014 raising minimum share capital for reinsurers to Shs 800 million from Shs 500 million, ie for short-term reinsurance business and long-term reassurance business to Shs 500 million and Shs 300 million from Shs 350 million and Shs 150 million respectively, there will be a valuable contribution towards securing a better managed, stronger and more innovative industry.

Whilst the impact of the "cash-and-carry" rule in Kenya is evident at the primary insurance level, the same is still to be felt in the reinsurance sector. It is still hoped that the Insurance Regulatory Authority will address this issue for the benefit of the reinsurance sector.

The introduction of new insurance guidelines by the Insurance Regulatory Authority (IRA) geared towards risk based supervision in Kenya is a positive development in the industry. However it is hoped that some of the requirements which may directly impact the local reinsurance industry by giving a clear competitive advantage to top-rated international reinsurers will be given further consideration before implementation.

The Company is facing increasing competition from both international reinsurers and governmental/ intergovernmental reinsurers. While competition is welcome, it is inequitable that regulations should favour international companies while others are entitled to mandatory cessions totaling 33% of all treaty business, thus leaving the balance of only 67% to be competed for by all the other reinsurers in the open market.

According to international rating agencies, despite the catastrophe losses of recent years, the outlook for the global reinsurance sector remains stable with capital, underwriting and operating trends all expected to support its current strength in the next few years. The sector has recorded strong risk-adjusted capitalization, prudent enterprise risk management practices, an improving pricing environment and increasing use of e-business all of which will provide reinsurers with the ability to meet the global macroeconomic challenges.

Tribute

I take this opportunity to thank all our cedents, intermediaries, retrocessionaires, regulators, Shareholders and all other business partners for their support to the Company in 2012 and assure them of the Company's continued full commitment to delivery of quality reinsurance solutions.

I am very grateful to my fellow directors for their support and contribution to the Company through the Board and its committees. I also thank Management and staff for their effort and commitment in achieving the impressive results for 2012.

Thank you.

J. P. M. Ndegwa
Chairman

28 February 2013

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 December 2012 which disclose the state of affairs of the Company.

Principal Activities
The principal activity of the Company is that of underwriting all classes of reinsurance and reassurance businesses as defined by the Insurance Act.

Results and Dividend
The total comprehensive income for the year amounted to Shs 389,131,000 (2011: Shs 102,486,000).
The profit for the year of Shs 282,557,000 (2011: Shs 102,486,000) has been added to retained earnings.

The Directors recommend the payment of a first and final dividend of Shs 40,000,000 (2011: Shs 15,000,000) representing a dividend of Shs 50 (2011: Shs 20) per share and a dividend payout ratio of 14 % (2011: 15%).

Bonus Issue
The Directors recommend a bonus issue of Shs 200,000,000 (2011: Shs 50,000,000) representing 1 new share for every 4 existing shares (2011: 1 new share for every 15 existing shares).

Authorised Share Capital
The Directors recommend an increase in the authorized share capital from Kshs 800million to Kshs 1 billion.

Directors
The Directors who held office during the year and to the date of this report were:

J. P. M. Ndegwa *(Alt: A. S. M. Ndegwa)*	- Chairman
M. P. Chandaria (Dr.) OBE EBS *(Alt: M. N. Sarma)*	- Vice-Chairman
P. K. Maina	- Appointed w. e. f. 23 August 2012
D. G. M. Hutchison	
H. M. Motara	- Resigned w. e. f. 31 August 2012
L. W. Muriuki (Ms.)	- Appointed w. e. f. 22 November 2012
S. O. Oluoch *(Alt: P. K. Mugambi)*	
A. K. Roy *(Alt: M. N. Sarma)*	

Auditors
Deloitte & Touche, having expressed their willingness, continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to approval by the Commissioner of Insurance under Section 56(4) of the Kenyan Insurance Act.

By order of the Board

L. A. Kimang'a
Secretary

28 February 2013

Corporate Governance Statement

East Africa Reinsurance Company Limited is fully committed to the principles of transparency, integrity and accountability and has in place a Board Charter and Work Plan as part of its corporate governance. The Directors are ultimately accountable to the stakeholders for ensuring that the Company's business is conducted in accordance with high standards of corporate governance. Of particular importance to the Company are the observance of Shareholders' interest, efficient practices and open corporate communication systems.

1. Board of Directors

The Board is responsible for formulating the Company's policies and strategies and ensuring that business objectives, aimed at promoting and protecting Shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the Company and implements corporate governance policies of the Company. In carrying out the above responsibilities, the Board delegates its authority to the Chief Executive Officer to oversee the day to day business operations of the Company.

The Board has seven Directors comprising six non-executive Directors, including two independent Directors, and one executive Director (Chief Executive Officer); the total number exceeds the required minimum of five directors in accordance with the insurance regulations. The Directors have diverse skills and are drawn from various sectors of the economy. The Chairman, Vice-Chairman and Chairmen of Board Committees are non-executive Directors. The General Manager (Finance and Administration) and the General Manager (Technical) are in attendance at all regular meetings of the Board and its Committees to ensure that any necessary information is readily available for appropriate decision-making.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the Company's Articles of Association and is distributed together with the agenda and board papers to all the Directors beforehand. The Board and Board Committees meet regularly and at least four times annually. In accordance with the Company's practice, one Board meeting is normally scheduled to coincide with the occasion of the Annual General Meeting.

All Insurance Regulatory Authority, Kenya Revenue Authority inspection reports, Auditors' reports, Actuarial reports and rating agencies reports are reviewed at Board meetings and appropriate actions taken.

The Company Secretary is always available to the Board of Directors and Board Committees.

a) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 37(d) to the financial statements for the year ended 31 December 2012. The Company does not advance loans to non-executive Directors as disclosed in note 37(c) to the financial statements.

b) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the Company and its Directors or Management except those disclosed in Note 37 to the financial statements for the year ended 31 December 2012.

2. Board Committees

The Board has in place three committees, namely the Finance, Investment and IT (FII) Committee; the Audit, Risk and Compliance (ARC) Committee; and the Ethics, Nominations and Remuneration (ENR) Committee.

All the committees have detailed terms of reference and hold meetings as necessary. The Committees meet and make recommendations to the Board on matters falling under their respective mandates. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary.

Corporate Governance Statement (continued)

2. Board Committees (continued)

a) Finance, Investment and IT Committee

The Finance, Investment and IT Committee is chaired by a non-executive member of the Board. The other members include the Chief Executive Officer and non-executive appointees of the Board. The General Manager (Finance and Administration) and General Manager (Technical) are in attendance. The Committee meets on a quarterly basis and is mainly responsible for financial, investment, information and communication technology, occupational health and safety matters of the Company, on behalf of the Board. The FII Committee is responsible to the Board.

b) Audit, Risk and Compliance Committee

The Audit, Risk and Compliance (ARC) Committee is chaired by an independent non-executive Director. The other members are non-executive appointees of the Board with the Chief Executive Officer, General Manager (Finance and Administration) and General Manager (Technical) in attendance. The Senior Manager (Risk and Compliance) also attends meetings of the ARC Committee by invitation. The Committee meets on a quarterly basis and is responsible for ensuring that the systems and controls, procedures and policies of the Company as well as Risk Management are properly established, monitored and reported on. The Committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the Board. The ARC Committee is also responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the Company. The ARC Committee is responsible to the Board.

c) Ethics, Nominations and Remuneration Committee

The Ethics, Nominations and Remuneration (ENR) Committee is chaired by a non-executive Director. The other members are non-executive Directors and the Chief Executive Officer. The General Manager (Finance and Administration) and General Manager (Technical) may attend by invitation. The Committee meets on as needed basis but at least once a year and is responsible for compliance with applicable laws, regulations and business ethics and conflicts of interest, including the Company's continuous disclosure obligations. It reviews and monitors related party transactions and transactions with its cedents, intermediaries, retrocessionnaires, employees and other stakeholders to ensure that they are conducted at arm's length, with integrity and transparency. Further, it makes recommendations to the Board on remuneration, recruitment and appointment, termination and removal, competencies, skills, knowledge, experience and incentive policies and procedures. The ENR Committee is also responsible for development of a process for evaluation of the performance of the Board, its Committees and Directors and succession planning. The ENR Committee is responsible to the Board.

3. Risk Management and Internal Control

Management, in consultation with the Board Committees, is responsible for the Company's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Company has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk Management department. This process is also reviewed by the Internal Auditor. The Company has in place a chain of controls and a Balanced Scorecard Tool which include, but are not limited to, an annual strategic planning and budgeting process, a regular review of strategic initiatives, a well defined organizational structure which is kept under regular review by the Board, clearly laid down authority levels, and a review of quarterly financial and operating information by Management and the Board.

4. Responsibility for Staff Welfare and Training

As part of its policy, the Company recognises the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for all its staff. The Company assists its staff to undertake continuous professional and development training programmes to fulfil their potential. This process is appropriately managed to align staff development with the Company's strategic and business goals and objectives, and is reinforced with appropriate remuneration and incentive systems.

Corporate Governance Statement (continued)

5. Shareholders

The list of the Shareholders and their individual holdings at the year end was as follows:

	2012 Holding		2011 Holding	
	Number of Shares	%	Number of Shares	%
First Chartered Securities Limited	200,000	25.00	187,500	25.00
ICEA LION Life Assurance Company Limited	200,000	25.00	187,500	25.00
Kenindia Assurance Company Limited	127,946	15.99	119,949	15.99
General Insurance Corporation of India	118,017	14.75	110,641	14.75
GA Insurance Limited	54,864	6.86	51,435	6.86
Cannon Assurance Limited	35,092	4.39	32,899	4.39
Gateway Insurance Company Limited	24,351	3.04	22,829	3.04
Pioneer Holdings (Africa) Limited	24,000	3.00	22,500	3.00
Apollo Investments Limited	10,779	1.35	10,105	1.35
United Insurance Company Limited	4,951	0.62	4,642	0.62
Total	**800,000**	**100.00**	**750,000**	**100.00**

6. Board and Committee Meetings Attendance

During the year, attendances at meetings of the Board and its committees, namely Finance, Investment and IT Committee and Audit, Risk and Compliance Committee, were as follows:

a) Board Meetings

Name	15 March 2012	17 May 2012	23 August 2012	22 November 2012
J. P. M. Ndegwa (Chairman)	√	√	√	√
M. P. Chandaria (Dr.) OBE EBS (Vice-Chairman)	√	√	√	√
D. G. M. Hutchison	√	x	√	√
P. K. Maina*	N/A	N/A	√	√
H. M. Motara **	√	√	√	N/A
L. W. Muriuki (Ms.)***	N/A	N/A	N/A	√
S. O. Oluoch	√	√	√	√
A. K. Roy	√	√	√	√
In Attendance				
L. A. Kimang'a (Secretary)	√	√	√	√
E. Rahedi	√	√	√	√

Corporate Governance Statement (continued)

6. Board and Committee Meetings Attendance (continued)

b) Finance, Investment and IT (FII) Committee Meetings

Name	7 March 2012	3 May 2012	2 August 2012	12 November 2012
P. K. Mugambi (Chairman)	√	√	√	√
P. K. Maina*	N/A	N/A	√	√
H. M. Motara **	√	√	√	N/A
J. K. Kimeu	√	√	√	√
M. K. Rao	√	x	√	√
In Attendance				
L. A. Kimang'a (Secretary)	√	√	√	√
E. Rahedi	√	√	√	√

c) Audit, Risk and Compliance (ARC) Committee Meetings

Name	7 March 2012	2 August 2012	12 November 2012
D.G.M Hutchison (Chairman)	√	√	√
J. Kimeu	√	√	√
P. K. Mugambi	√	√	√
M.K. Rao	√	√	√
In Attendance			
P. K. Maina*	N/A	√	√
H. M. Motara **	√	√	N/A
L. A. Kimang'a (Secretary)	√	√	√
E. Rahedi	√	√	√

d) Ethics, Nominations and Remuneration Committee

Name	23 August 2012	22 November 2012
J. P. M. Ndegwa (Chairman)	√	√
M. P. Chandaria (Dr.) OBE EBS (Vice-Chairman)	√	√
D. G. M. Hutchison	√	√
P. K. Maina*	√	√
H. M. Motara **	√	N/A
S. O. Oluoch	√	√
In Attendance		
L. A. Kimang'a (Secretary)	√	√
E. Rahedi	√	√

Corporate Governance Statement (continued)

√ Attended (or represented by Alternate in the case of Board meetings).
x Absent with apology and valid reason for non-attendance.
* Appointed as a Director with effect from 23 August 2012.
** Resigned from the Board with effect from 31 August 2012.
*** Appointed as a Director with effect from 22 November 2012.

7. Compliance

The Company operates within the requirements of the Insurance Act, among other laws, and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the Company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act.

J. P. M. Ndegwa	***D. G. M. Hutchison***	***P. K. Maina***
Chairman	Director	Principal Officer
28 February 2013	28 February 2013	28 February 2013

Social and Environmental Responsibilities Statement

East Africa Reinsurance Company Limited recognises that social and environmental responsibilities are an integral part of its overall business practice and has in place a Corporate Social Responsibility (CSR) Charter which guides its CSR activities. The Company is committed to ensuring implementation of the social and environmental responsibility aspects that are relevant to its business. In particular, emphasis is placed on involvement in community developmental activities, care for the environment in which the Company operates and employee welfare. The Company strives to build capacity for sustainable livelihoods and our efforts are about making a difference; providing our staff with the opportunity to make a contribution to the society. Staff are fully engaged in the Company's projects and we ensure that the one-off projects are sustainable.

During the year the Company continued to dedicate its resources towards supporting several initiatives in the key areas of focus, i.e. quality education, health, food, shelter and environment. In line with its underlying commitment to creating and sustaining stakeholder value, the Board takes overall responsibility for continued development and implementation of appropriate social and environmental policies for the Company.

1. *Support to Society*

The Company continues to be a committed corporate citizen. In this regard, the Company, through its staff, continues to support worthwhile community programmes and initiatives, particularly those undertaken by deserving charities in the health, social and child welfare sectors. The Company also extends assistance towards expansion of facilities in the provision of quality education.

During the year ended 31 December 2012 and to the date of this report, the Company contributed towards:

i) Sponsorship of education of rehabilitated street and other needy children.

ii) Sponsorship of hunger alleviation initiative.

iii) Provision of education for the girl child.

iv) Provision of sanitary towels to secondary school girl.

v) Sponsorship of needy top candidates to join national/provincial secondary schools in Kenya.

vi) Sponsorship of secondary schools academic and extra-curricular activities.

vii) Donations of computers to schools aimed at promoting IT skills in secondary schools in Kenya.

viii) Graduate and undergraduate internship programmes within the Company.

ix) Activities organized by professional institutes aimed at promoting professionalism in Kenya.

2. *Protection of Environment*

The Company is conscious of the need to protect the environment and, in this regard, supports efforts to promote its conservation. The Company's premises are environmental friendly exhibiting nature and the Company has continued to preserve trees and other natural vegetation. The Company maximises its natural scenic location and promotes it as cover page in its Annual Report and Financial Statements. In addition, consideration is being given to preserve the environment at our premises by enhancing rain water harvesting. The Company's offices have plenty of natural lighting and environmental features.

J. P. M. Ndegwa	***D. G. M. Hutchison***	***P. K. Maina***
Chairman	Director	Principal Officer
28 February 2013	28 February 2013	28 February 2013

Statement of Directors' Responsibilities

The Kenyan Companies Act 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 its operating results for that year. It also requires the Directors to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. 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.

J. P. M. Ndegwa
Chairman

28 February 2013

D. G. M. Hutchison
Director

28 February 2013

P. K. Maina
Principal Officer

28 February 2013

Report of the Consulting Actuary

I have conducted an actuarial valuation of the long-term business of East Africa Reinsurance Company Limited as at 31 December 2012.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act. These principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies. In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the long-term business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of long-term business did not exceed the amount of funds of the long-term business at 31 December 2012.

J. I. Olubayi
Alexander Forbes Financial Services (E.A.) Limited
Nairobi

28 February 2013

Independent Auditors' Report to the Members of East Africa Reinsurance Company Limited

Report on Financial Statements

We have audited the accompanying financial statements of East Africa Reinsurance Company Limited set out on pages 22 to 66, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Company as at 31 December 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit, that:

i) 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;

ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

iii) the Company's statement of financial position (balance sheet) and statement of comprehensive income (profit and loss account) are in agreement with the books of account.

DELOITTE & TOUCHE

Certified Public Accountants (Kenya), Nairobi
28 February 2013

Statement of Comprehensive Income

For the Year Ended 31 December 2012

	Notes	Short-term business Shs'000	Long-term business Shs'000	Total 2012 Shs'000	Short-term business Shs'000	Long-term business Shs'000	Total 2011 Shs'000
Gross written premiums	7(a)	2,086,800	373,900	2,460,700	1,827,583	324,638	2,152,221
Movement in gross unearned premiums reserve	8	(143,209)	-	(143,209)	(150,838)	-	(150,838)
Gross earned premiums	7(b)	1,943,591	373,900	2,317,491	1,676,745	324,638	2,001,383
Retrocession premiums	7(c)	(63,865)	(70,959)	(134,824)	(226,720)	(40,745)	(267,465)
Movement in retro unearned premium reserves	8	(20,379)	-	(20,379)	(29,522)	-	(29,522)
Net earned premiums		**1,859,347**	**302,941**	**2,162,288**	**1,420,503**	**283,893**	**1,704,396**
Investment and other income	10	338,810	85,919	424,729	101,904	32,336	134,240
Gain on disposal of equipment		2,448	-	2,448	604	-	604
Risk premium rebates earned		965	21,213	22,178	60,278	11,279	71,557
Net income		**2,201,570**	**410,073**	**2,611,643**	**1,583,289**	**327,508**	**1,910,797**
Gross claims incurred	11	1,033,452	211,263	1,244,715	1,120,213	166,635	1,286,848
Amounts recoverable from retrocessionaires		18,671	(25,901)	(7,230)	(397,779)	(23,621)	(421,400)
Net claims incurred		1,052,123	185,362	1,237,485	722,434	143,014	865,448
Operating and other expenses	12	201,953	68,166	270,119	202,826	69,554	272,380
Risk premium rebates		614,274	85,454	699,728	539,451	69,981	609,432
Total expenses		**1,868,350**	**338,982**	**2,207,332**	**1,464,711**	**282,549**	**1,747,260**
Profit before taxation		333,220	71,091	404,311	118,578	44,959	163,537
Transfer of actuarial surplus		51,250	(51,250)	-	31,547	(31,547)	-
Total profit before taxation		384,470	19,841	404,311	150,125	13,412	163,537
Taxation charge	14	(101,327)	(20,427)	(121,754)	(47,639)	(13,412)	(61,051)
Profit/(loss) for the year		**283,143**	**(586)**	**282,557**	**102,486**	**-**	**102,486**
Other comprehensive income							
Gains on revaluation of available for sale financial assets		11,628	586	12,214	-	-	-
Gain on revaluation of leasehold land and building		134,800	-	134,800	-	-	-
Deferred taxation on revaluation of leasehold land and building	22	(40,440)	-	(40,440)	-	-	-
Total other comprehensive income for the year		105,988	586	106,574	-	-	
Total comprehensive income for the year		389,131	-	389,131	102,486	-	102,486
Earnings per share (basic and diluted)	15			353.20			136.65

Statement of Financial Position

For the Year Ended 31 December 2012

	Notes	Short-term business Shs '000	Long-term business Shs '000	Total 2012 Shs '000
Capital Employed				
Share capital	17	650,000	150,000	800,000
Fair value reserve		15,936	-	15,936
Revaluation reserve		94,360	-	94,360
Retained earnings	18	765,890	-	765,890
Shareholders' funds		**1,526,186**	**150,000**	**1,676,186**
Represented By				
Assets				
Property and equipment	19	225,010	-	225,010
Mortgage loans - staff	24	18,149	-	18,149
Receivables arising out of retrocession arrangements		92,170	-	92,170
Receivables arising out of reinsurance arrangements		455,709	8,250	463,959
Retrocessionaires' share of reinsurance liabilities	25(a)	217,310	18,933	236,243
Deferred risk premium rebates	25(b)	254,941	-	254,941
Other receivables	26	150,667	4,425	155,092
Corporate bonds	27	77,313	8,935	86,248
Government securities	28(a)	333,690	167,792	501,482
Deposits with financial institutions	29	2,157,019	449,628	2,606,647
Cash and bank balances	35	34,238	23,819	58,057
Total assets		**4,016,216**	**681,782**	**4,697,998**
Liabilities				
Deferred risk premium rebates arising from retrocession arrangements	25(b)	434	-	434
Reinsurance contract liabilities	31	1,019,908	401,628	1,421,536
Deferred taxation	22	32,439	-	32,439
Provision for unearned premiums	32	872,873	-	872,873
Payables arising from retrocession arrangements		58,399	26,628	85,027
Payables arising from reinsurance arrangements		289,023	19,584	308,607
Other payables	33	172,862	78,268	251,130
Taxation payable	14(c)	44,092	5,674	49,766
Total liabilities		**2,490,030**	**531,782**	**3,021,812**
Net assets		**1,526,186**	**150,000**	**1,676,186**

The financial statements on pages 22 to 66 were approved and authorised for issue by the Board of Directors on 28 February 2013 and were signed on its behalf by:

J. P. M. Ndegwa	***D. G. M. Hutchison***	***P. K. Maina***
Chairman	Director	Principal Officer
28 February 2013	28 February 2013	28 February 2013

Statement of Financial Position

For the Year Ended 31 December 2011

	Notes	Short-term business Shs '000	Long-term business Shs '000	Total 2011 Shs '000
Capital Employed				
Share capital	17	600,000	150,000	750,000
Fair value reserve		28,150	-	28,150
Retained earnings	18	536,119	-	536,119
Shareholders' funds		1,164,269	150,000	1,314,269
Represented By				
Assets				
Property and equipment	19	102,738	-	102,738
Intangible assets	20	-	5,557	5,557
Deferred taxation	22	7,005	-	7,005
Equity investments	23	1,200	262	1,462
Mortgage loans - staff	24	19,366	-	19,366
Receivables arising out of retrocession arrangements		78,035	2,917	80,952
Receivables arising out of reinsurance arrangements		380,410	19,905	400,315
Retrocessionaires' share of reinsurance liabilities	25(a)	346,428	8,166	354,594
Deferred risk premium rebates	25(b)	245,674	-	245,674
Taxation recoverable	14(c)	1,523	-	1,523
Other receivables	26	76,921	9,669	86,590
Corporate bonds	27	71,817	10,209	82,026
Government securities – held to maturity	28(a)	454,525	174,397	628,922
Deposits with financial institutions	29	1,424,794	333,612	1,758,406
Cash and bank balances	35	27,582	244	27,826
Total assets		**3,238,018**	**564,938**	**3,802,956**
Liabilities				
Deferred risk premium rebates arising from retrocession arrangements	25(b)	13,207	-	13,207
Reinsurance contract liabilities	31	889,015	299,034	1,188,049
Provision for unearned premiums	32	720,397	-	720,397
Payables arising from retrocession arrangements		90,191	5,685	95,876
Payables arising from reinsurance arrangements		187,608	31,097	218,705
Other payables	33	173,331	65,710	239,041
Taxation payable	14(c)	-	13,412	13,412
Total liabilities		**2,073,749**	**414,938**	**2,488,687**
Net assets		**1,164,269**	**150,000**	**1,314,269**

The financial statements on pages 22 to 66 were approved and authorised for issue by the Board of Directors on 28 February 2013 and were signed on its behalf by:

J. P. M. Ndegwa	***D. G. M. Hutchison***	***P. K. Maina***
Chairman	Director	Principal Officer
28 February 2013	28 February 2013	28 February 2013

Statement of Changes in Equity

For the Year Ended 31 December 2012

	Share capital Shs'000	Revaluation revenue Shs'000	Fair value reserve Shs'000	Retained earnings Shs'000	Total Shs'000
At 1 January 2011	650,000	-	28,150	560,933	1,239,083
Bonus issue (note 17)	100,000	-	-	(100,000)	-
Profit for the year	-	-	-	102,486	102,486
Dividend paid	-	-	-	(27,300)	(27,300)
As at 31 December 2011	750,000	-	28,150	536,119	1,314,269
At 1 January 2012	750,000	-	28,150	536,119	1,314,269
Bonus issue (note 17)	50,000	-	-	(50,000)	-
Profit for the year	-	-	-	282,557	282,557
Other comprehensive income	-	94,360	(12,214)	12,214	94,360
Total other comprehensive income	-	94,360	(12,214)	294,771	376,917
Dividend paid	-	-	-	(15,000)	(15,000)
As at 31 December 2012	800,000	94,360	15,936	765,890	1,676,186

The reserve accounts in the statement of changes in equity are explained below:

- The revaluation surplus is not distributable and represents the surplus arising from the revaluation of property and equipment.
- The fair value reserve represents the cumulative surplus or deficit arising from revaluation of available-for-sale investment based on the market values of the equities at the end of the reporting period. This reserve is not distributable.
- The retained earnings represent accumulated profit retained by the Company after payment of dividends to the Shareholders.

Statement of Cash Flows

For the Year Ended 31 December 2012

	Notes	2012 Shs '000	2011 Shs '000
Cash Flows From Operating Activities			
Cash generated from operations	36	391,766	277,235
Taxation paid	14(c)	(84,873)	(45,346)
Net cash generated from operating activities		**306,893**	**231,889**
Cash Flows From Investing Activities			
Investment income received		455,395	204,186
Redemption of Government securities		88,114	(140,227)
Purchase of corporate bonds		(4,222)	(75)
Investment in deposits with financial institutions maturing over 3 months.		(126,470)	(618,589)
Purchase of property and equipment and intangible assets	19	(1,647)	(11,823)
Purchase of intangible assets (computer software)	20	-	(8,335)
Purchase of quoted shares	23	-	(20,185)
Mortgage loans advanced	24	(4,500)	(2,915)
Mortgage loans repaid	24	5,717	4,891
Proceeds of disposal of motor vehicles and equipment		6,915	606
Proceeds of disposal of quoted shares		1,480	128,167
Net cash used in investing activities		**420,782**	**(464,299)**
Cash Flows From Financing Activities			
Dividends paid		(15,000)	(27,300)
Net Increase /(Decrease) In Cash And Cash Equivalents		**712,675**	**(259,710)**
Cash And Cash Equivalents At 1 January		194,761	454,471
Cash And Cash Equivalents At 31 December	**35**	**907,436**	**194,761**

Notes to the Financial Statements

For the Year Ended 31 December 2012

1. Reporting Entity

East Africa Reinsurance Company Limited is incorporated in Kenya under the Companies Act as a private limited liability Company and is domiciled in Kenya. The address of its registered office is as follows:

EARe House
98 Riverside Drive
P. O. Box 20196 - 00200 City Square
Nairobi, Kenya

The Company is organised into two main divisions, short-term (general) business and long-term (life) business. Long-term business relates to the underwriting of life risks relating to insured persons. Short-term business relates to all other categories of the insurance business accepted by the Company, analysed into several sub-classes of business based on the nature of the assumed risks.

The results of the two divisions are presented separately in the statement of comprehensive income on page 22 and in the accompanying notes. The statement of financial position on pages 23 and 24 and the accompanying notes disclose the assets attributable to the long term and short term business separately.

2. Accounting Policies

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

(i) Basis of preparation

a) Statement of compliance

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

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is represented by/equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

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

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2012.

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

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2011)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, the Company has chosen to present this analysis in the statement of comprehensive income therefore this has not resulted to any change in presentation.
Amendments to IFRS 1 Removal of Fixed Dates for First-time Adopters	The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.
Amendments to IFRS 7 Disclosures - Transfers of Financial Assets.	The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

2. Accounting Policies (continued)

***(i) Basis of preparation** (continued)*

***Application of new and revised International Financial Reporting Standards (IFRSs)** (continued)*

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2012.
(continued)

Amendments to IAS 12: Deferred Tax - Recovery of Underlying Assets	The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 Investment Property will be recovered entirely through sale.

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2012

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 7, Financial Instruments: Disclosures - Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 7, Financial Instruments: Disclosure - Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments: Classification and Measurement of financial assets	1 January 2015
IFRS 9, Financial Instruments: Accounting for financial liabilities and derecognition	1 January 2015
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 19, Employee Benefits (2012)	1 January 2013
IAS 27, Separate Financial Statements (2012)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2012)	1 January 2013
IAS 32, Financial Instruments: Presentation - Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

***2. Accounting Policies** (continued)*

***(i) Basis of preparation** (continued)*

***Application of new and revised International Financial Reporting Standards (IFRSs)** (continued)*

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods

• IFRS 9, Financial Instruments

IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss. IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The Directors anticipate that the adoption of this new standard will not materially affect the amounts reported in the financial statements.

• IFRS 13, Fair Value Measurements

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - unobservable inputs for the asset or liability.

The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements, however, the Company is yet to assess IFRS 13's full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2013.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

2. Accounting Policies *(continued)*

(i) Basis of preparation (continued)

Application of new and revised International Financial Reporting Standards (IFRSs) *(continued)*

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods

• *Deferred Taxation: Recovery of Underlying Assets (Amendments to IAS 12)*

These amend IAS 12 Income Taxes to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. As a result of the amendments, SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

The above amendments are generally effective for annual periods beginning on or after 1 January 2013. The Company will apply this amendment prospectively. The Directors anticipate no material impact to the Company's financial statements currently. However, the Company would have to apply this standard to any such arrangements entered into in the future.

• *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*

These amend IAS 1 Presentation of Financial Statements to revise the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified
- Require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income in either before tax or net of tax).

The above amendments are generally effective for annual periods beginning on or after 1 July 2013. The Company will apply the amendments prospectively. The Directors anticipate no material impact to the Company's financial statements.

(iv) Early adoption of standards

The Company did not early-adopt new or amended standards in 2012.

ii) Basis of measurement

The financial statements have been prepared on the historical cost basis of accounting as modified by the revaluation of certain assets which are accounted for at fair value.

iii) Functional and presentation currency

The financial statements are presented in Kenya Shillings (Ksh'000), which is also the Company's functional currency.

iv) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and 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 revenue and expenses during the reported year. Actual results may differ from these estimates.

Reinsurance contracts

(i) Classification

The Company underwrites reinsurance risk from reinsurance contracts or financial risk or both. Reinsurance contracts are those contracts that transfer significant reinsurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant reinsurance risk, the possibility of having to pay benefits on the occurrence of a reinsured event that are at least 10% more than the benefits payable if the reinsured event did not occur.

Reinsurance contracts are classified into two main categories, depending on the duration of risk and as per the provisions of the Insurance Act.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

***2. Accounting Policies** (continued)*
***Reinsurance contracts** (continued)*
(i) Classification (continued)

a. Short-term reinsurance business
This represents reinsurance business of any class or classes not being long term reassurance business.

Classes of General Reinsurance include Aviation, Engineering, Fire (domestic risks, industrial and commercial risks), Liability, Marine, Motor (private vehicles and commercial vehicles), Personal Accident, Theft, Workmen's Compensation, Employer's Liability, Medical and Miscellaneous (i.e. class of business not included under those listed above). The Company's main classes, which account for over 75% of the income, are described below.

Miscellaneous Accident reinsurance business comprises the business of effecting and carrying out contracts of reinsurance which are not principally or wholly of any types included in other classes of business but shall include reinsurance of bonds of all types, reinsurance of livestock and crop reinsurance.

Motor reinsurance business comprises the business of effecting and carrying out contracts of reinsurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks.

Fire reinsurance business comprises the business of effecting and carrying out contracts of reinsurance, otherwise than incidental to some other class of reinsurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

b. Long-term reassurance business
This includes reassurance business of all or any of the following classes, namely, ordinary life reassurance business, group life reassurance business and business incidental to any such class of business.

Ordinary life reassurance business comprises the business of, or in relation to, the issuing of, or the undertaking of liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under a continuous disability reinsurance contract), and include a contract which is subject to the payment of premiums for a term dependent on the termination or continuance of human life;

Group life reassurance business comprises life reassurance business, being business of, or in relation to, the issuing of or the undertaking of liability under group life and permanent health reinsurance policy.

(ii) Recognition and measurement
The Company incorporates actual results reported by cedant companies up to the third quarter of each year. Reinsurance income and expenditure transactions for the fourth quarter of the year are based on estimates developed with the assistance of the actuaries. Further details of the process of developing these estimates are disclosed on note 3.

The results of the reinsurance business are determined on an annual basis whereby the incurred cost of claims, commissions and related expenses are charged against the net earned proportion of premiums as follows:

a. Premium income
Gross earned premiums comprise gross premiums including accrued fourth quarter estimated pipeline premiums (being premiums written by cedants but not reported to the Company at the end of each reporting period) relating to risks assumed in the year after accounting for any movement in gross unearned premiums. Unearned premiums for the short-term business represent that proportion of premiums written in the period that are attributable to the subsequent accounting period and are estimated, based on the internationally acceptable eighths (8ths) method, net of deductions. There are no unearned premiums, with regard to non-proportional treaty business.

b. Claims incurred
Claims incurred comprise actual claims paid as at third quarter and accrued paid fourth quarter estimated pipeline claims (being claims paid by cedants but not reported to the Company at the end of each reporting period) and changes in the provision for reinsurance contract liabilities.
Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Reinsurance contract liabilities represent the ultimate cost of settling all claims arising from incidents occurring prior to the end of each reporting period, but not settled at that date.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

2. Accounting Policies (continued)

Reinsurance contracts (continued)

(ii) Recognition and measurement (continued)

b. Claims incurred (continued)

They are determined annually by the Company's consulting actuaries on the basis of the best information available at the time the records for the year are closed, and include any provisions for claims incurred but not reported ("IBNR").

c. Risk premium rebates paid and earned

A proportion of total risk premium rebates payable is deferred and amortised over the period in which the related premium is earned. Risk premium rebates receivable are recognised as income in the period in which they are earned.

d. Deferred risk premium rebates payable ("RPR")

Deferred risk premium rebates payable represent a proportion of the risk premium rebates incurred and revenue receivable that relate to policies that are in force at the year end.

e. Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred RPR. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off RPR and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Long-term reassurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

f. Retrocession contracts held

Contracts entered into by the Company with retrocessionnaires under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for reinsurance contracts are classified as retrocession contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss through profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

g. Receivables and payables related to reinsurance contracts

Receivables and payables are recognised when due. These include amounts due to and from cedents and brokers. If there is objective evidence that the reinsurance receivable is impaired, the Company reduces the carrying amount of the reinsurance receivable accordingly and recognises that impairment loss through profit or loss. The Company gathers the objective evidence that a reinsurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

Other income recognition

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.

Dividends are recognised as income in the period in which the Company's right to receive payment as a Shareholder is established.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

2. Accounting Policies *(continued)*

Property and equipment

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

Increases in the carrying amount of buildings arising from revaluations are credited to other comprehensive income and accumulated in a revaluation reserve under a separate heading in the statement of changes in equity. Decreases that offset previous increases of the same asset are charged against other comprehensive income; all other decreases are charged to the profit or loss.

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

Depreciation is calculated on building 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:

Building (3.57%)	28 years
Motor vehicles (25.0%)	4 years
Computer equipment and software (33.33%)	3 years
Furniture, fittings and office equipment (12.5%)	8 years

Property and equipment values are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

Intangible assets - Computer software

Acquired computer software and related licenses are stated at cost less accumulated amortisation. Acquired computer software licenses are capitalised on the basis of cost incurred to acquire and bring to use the specific software.

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. Direct costs include software development, employee costs and appropriate portion of relevant overheads.

Amortisation is recognised in profit or loss on the straight-line basis over the estimated useful life of the software, from the date that it is available for use, not exceeding 3 years.

Financial instruments

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

A. Financial assets

Classification

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

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 in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable.

Term deposits

Term deposits are classified as held to maturity and are measured at amortised cost.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

2. Accounting Policies *(continued)*

Financial instruments *(continued)*

A. Financial assets *(continued)*

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

Available-for-sale financial assets

This category represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity.

Recognition

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has 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 investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in the profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the profit or loss when the Company's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

Impairment and uncollectability of financial assets

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

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

- adverse changes in the payment status of borrowers or investee in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

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

(i) Assets carried at amortised cost

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

2. Accounting Policies *(continued)*

Financial instruments *(continued)*

A. Financial assets *(continued)*

Impairment and uncollectability of financial assets (continued)

(i) Assets carried at amortised cost *(continued)*

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

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

When a receivable is uncollectible, it is written off against the related provision for the borrower's impairment. Such debts are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for the receivable impairment in the profit or loss.

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

(ii) Assets carried at fair value

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

B. Financial Liabilities

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

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

2. Accounting Policies *(continued)*

Financial instruments *(continued)*

B. Financial Liabilities *(continued)*

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and government securities and deposits with financial institutions with original maturities of 90 days or less.

Dividends

Dividends payable are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings, the functional currency, at rates ruling at the transaction dates. Assets and liabilities at the end of each reporting period which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with through profit or loss in the year in which they arise.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Company as a lessee. All other leases are classified as operating leases.

When a lease includes land and buildings elements, the Company assesses the classification of each element as either a finance lease or an operating lease. In determining classification of the land element, an important consideration is that land normally has an indefinite economic life. Therefore the finance lease or operating lease classification of the land is considered a critical area of judgment. See note 3 to these financial statements.

The Company as lessor

Assets held under finance leases are recognised as assets of the Company at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the statement of comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The Company as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Employee entitlements

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

Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the Company and employees. The employees of the Company are also members of the National Social Security Fund ("NSSF").

The Company's contributions to the defined contribution scheme and NSSF are charged through profit or loss in the year to which they relate.

Share capital

Ordinary shares are classified as equity.

Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation. Tax is recognised as an expense/(income) and included in the profit or loss except to the extent that the tax arises from a transaction which is recognised in other comprehensive income. Current tax is computed in accordance with the Kenyan income tax laws applicable to insurance companies.

Deferred tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted at the end of each reporting period are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised, while deferred tax liabilities are recognised for all taxable temporary differences.

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

2. Accounting Policies (continued)

Comparatives

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

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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 based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical judgements in applying the Company's accounting policies

a) Future benefit payments

The estimation of future benefit payments in relation to long-term and short-term reassurance contracts is the Company's most critical accounting estimate for the long-term business. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The determination of the liabilities under short-term reinsurance contracts and long-term reinsurance contracts is undertaken by the Company's consulting actuaries on an annual basis. Further details on this process are disclosed in note 31.

b) Reinsurance income and expense transactions

The Company adopted a third quarter cut-off date for recording its reinsurance income and expenses in 2006. Consequently, the fourth quarter numbers have been booked based on estimates arrived at together with the support of the Company's actuary.

Reinsurance premiums receivable have been estimated by annualising the income recorded on statements received from cedant companies, based on annual premium projections provided by them.

Retrocession premiums payable, commissions receivable and acquisition costs have been estimated by application of the appropriate ratios to the annualised reinsurance premiums receivable.

Outstanding claims have been projected using chain ladder techniques. Further details of this are presented in note 31.

c) Held-to-maturity investments

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

d) Impairment

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any objective evidence that those assets have suffered an impairment loss. If any such evidence 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.

e) Classification of leases of land and buildings as finance or operating leases

At the inception of each lease of land or building, the Company considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

***(i) Critical judgements in applying the Company's accounting policies** (continued)*

e) Classification of leases of land and buildings as finance or operating leases *(continued)*

The Company also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

(ii) Key sources of estimation uncertainty

Equipment and intangible assets

Critical estimates are made by the Directors in determining depreciation/amortisation rates for property, equipment and intangible assets.

4. Insurance Risk Management

The risk under any one reinsurance contract is the possibility that the reinsured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of a reinsurance contract, this risk is random and therefore unpredictable.

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 may exceed the carrying amount of the reinsurance liabilities and the pricing is inadequate to meet its obligations. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random 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 risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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.

The Company minimizes its exposure by purchasing retrocession protection from credible counter parties.

The tables below provide disclosure of the concentration of reinsurance exposure by the main classes of business in which the Company operates. The amounts are the carrying amounts of the reinsurance exposure (gross and net of reinsurance) arising from reinsurance contracts:

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

4. Insurance Risk Management (continued)

Year ended 31 December 2012

Class of Business		Total Exposure				
Short-term business		0 - 20 million Shs '000	20 - 250 million Shs '000	250 - 1,000 million Shs '000	Over 1,000 million Shs '000	Total Shs '000
Fire	Gross	1,995,557	11,656,273	4,274,451	44,293,602	62,219,883
	Net	1,995,557	11,656,273	4,274,451	44,293,602	62,219,883
Miscellaneous	Gross	1,084,613	1,698,834	-	-	2,783,447
	Net	1,084,613	1,698,834	-	-	2,783,447
Motor	Gross	625,872	482,793	-	-	1,108,665
	Net	625,872	482,783	-	-	1,108,655
Others	Gross	1,055,766	1,519,732	357,784	-	2,933,282
	Net	1,055,766	1,519,732	357,784	-	2,933,282
Long-term business						
Ordinary life	Gross	2,046,223	253,842	-	-	2,300,065
	Net	1,458,631	6,250	-	-	1,464,881
Group life	Gross	51,415,628	2,054,740	-	-	53,470,368
	Net	33,310,507	888,750	-	-	34,199,257
Total	**Gross**	**58,223,659**	**17,666,214**	**4,632,235**	**44,293,602**	**124,815,710**
Total	**Net**	**39,530,946**	**16,252,622**	**4,632,235**	**44,293,602**	**104,709,405**

The Company's retention (net exposure) is protected by retrocession treaties as follows:

Class	Limit (Shs)
General reinsurance business	
Property	1,177.5 million in excess of 22.5 million
Marine	118 million in excess of 7 million
Life reassurance business	
Life business	100 million in excess of 5 million

The concentration by sector or maximum underwriting limits at the end of the year is broadly consistent with the prior year with the exception of long term business which had a significant increase in the volume of business.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

4. Insurance Risk Management *(continued)*

Year ended 31 December 2011

Class of Business		Total Exposure				
Short-term business		**0 - 20 million Shs '000**	**20 - 250 million Shs '000**	**250 - 1,000 million Shs '000**	**Over 1,000 million Shs '000**	**Total Shs '000**
Fire	Gross	1,161,331	8,691,941	8,643,068	35,179,874	53,676,214
	Net	1,161,331	8,691,941	8,643,068	35,179,874	53,676,214
Miscellaneous	Gross	821,215	579,197	-	-	1,400,412
	Net	821,215	579,197	-	-	1,400,412
Motor	Gross	546,663	657,104	-	-	1,203,767
	Net	546,663	657,104	-	-	1,203,767
Others	Gross	1,284,328	4,343,124	584,939	-	6,212,391
	Net	1,284,328	4,343,124	584,939	-	6,212,391
Long-term business						
Ordinary life	Gross	1,126,896	-	-	-	1,126,896
	Net	452,668	-	-	-	452,668
Group life	Gross	45,219,126	-	-	-	45,219,126
	Net	34,495,744	-	-	-	34,495,744
Total	**Gross**	**50,159,559**	**14,271,366**	**9,228,007**	**35,179,874**	**108,838,806**
Total	**Net**	**38,761,949**	**14,271,366**	**9,228,007**	**35,179,874**	**97,441,196**

The Company's retention (net exposure) is protected by retrocession treaties as follows:

Class	Limit (Shs)
Short-term business	
Property	800 million in excess of 20 million
Marine	53 million in excess of 7 million
Long-term business	
Long-term business	100 million in excess of 5 million

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

5. Financial Risk Management

The Company is exposed to financial risk through its financial assets, retrocession assets and reinsurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its reinsurance and investment contracts. The most important types of risk are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate risk, equity price risk and other price risks.

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 strives to manage these positions within an asset-liability management framework to ensure that the liabilities arising from reinsurance and investment contracts are adequately covered.

Market risk

(i) Foreign exchange risk

The Company deals with clients in a number of countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Uganda Shilling and Tanzania Shilling. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities in foreign Operations. The currency profile of the Company's assets and liabilities is presented in note 38 on page 66. The Company's net assets are mainly dominated in the base currency (Kenya Shs).

At 31 December 2012, if the Kenya Shilling had weakened/ strengthened by 10% against the US dollar with all other variables held constant, the net assets for the year would have been Shs 1,743,530 (2011: Shs 3,186,122) higher/ lower, mainly as a result of translation differences on US dollar denominated trade receivables, trade payables and bank balances. This is insignificant as the portion of US Dollar denominated net assets constitute only 1.10% (2011: 0.84%) of the Company's net assets.

At 31 December 2012, if the Kenya Shilling had weakened/ strengthened by 15% against the Uganda Shilling with all other variables held constant, the net assets for the year would have been Shs 647,407 (2011: Shs 6,647,824) lower/higher, mainly as a result of translation differences on Uganda Shilling denominated trade receivables and payables. This is also insignificant as the portion of Uganda Shilling denominated net assets constitute only 2.55% (2011: 1.34%).

At 31 December 2012, if the Kenya Shilling had weakened/ strengthened by 13% against the Tanzania Shilling with all other variables held constant, the net assets would have been Shs 700,571 (2011: Shs 1,474,435) lower/ higher, mainly as a result of translation differences on Tanzania Shilling denominated trade receivables. This is also insignificant as the portion of Tanzania Shilling denominated net assets constitute only 0.15% (2011: 0.02%).

(ii) Price risk

The Company is exposed to equity securities price risk because of investments in quoted shares and tradable bonds classified as at fair value through profit or loss. The Company is not exposed to commodity price risk. To manage its price risk arising from investments in equity and tradable bonds securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Company and in accordance with the Insurance Act of Kenya. All quoted shares held by the Company are traded on the Nairobi Securities Exchange (NSE) and the management of the equity portfolio is outsourced to professional asset managers and is diversified across industries. The Company has a conservative investment policy with regard to equities and available for sale assets. As at 31 December 2012 the Company did not hold any investment in these categories while at 31 December 2011 investments in securities constituted only 0.04% of the total assets.

At 31 December 2011, 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, post tax profit for the year would have been Shs 116,960 higher/lower, and equity would have been Shs 116,960 higher/lower.

At 31 December 2011, if available for sale assets clean prices at the NSE had increased/decreased by 2% with all other variables held constant and all the Company's bond instruments moved according to the historical correlation to the index, the post tax profit for the year would have been Shs 847,482 higher/lower, and equity would have been Shs 847,482 higher/lower.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

5. Financial Risk Management *(continued)*

Market risk *(continued)*

(iii) Interest rate risk

Fixed interest rate financial instruments expose the Company to fair value interest rate risk.

The Company's fixed interest rate financial instruments comprise government securities, deposits with financial institutions and borrowings. Investment contracts with fixed and guaranteed terms, government securities and deposits with financial institutions held to maturity are accounted for at amortised cost and their carrying amounts are not sensitive to changes in the level of interest rates.

The Company does not hold any variable interest rate securities and thus not subject to the interest rate risk.

Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- receivables arising out of reinsurance arrangements;
- receivables arising out of retrocession arrangements; and
- retrocessionnaires' share of reinsurance liabilities.

Other areas where credit risk arises include cash and cash equivalents and deposits with banks and other receivables. Investments in Government Securities are deemed adequately secured by the Government of Kenya with no inherent default risk. The Company has no significant concentrations of credit risk. The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual review. Limits on the level of credit risk by category and territory are reviewed regularly by management.

The exposure to individual counterparties is also managed through other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal audit makes regular reviews to assess the degree of compliance with the Company procedures on credit.

	2012 Shs '000	2011 Shs '000
Maximum exposure to credit risk before collateral held is as below;		
Other receivables (excluding prepayments)	149,677	80,811
Receivables arising out of reinsurance arrangements	463,959	400,316
Receivables arising out of retrocession arrangements	92,170	80,952
Government securities held to maturity (note 28(a))	501,482	628,922
Government securities held as available for sale (note 28(b))	-	-
Loans receivable (mortgage loans) (note 24)	18,149	19,366
Deposits with financial institutions (note 29)	2,606,647	1,758,406
Bank balances (note 35)	58,057	27,826
Corporate bonds (note 27)	86,248	82,026
Credit risk exposures relating to off balance sheet items:		
- Reinsurance premium finance (note 34(b))	4,223	4,972
	3,980,612	**3,083,597**

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

5. Financial Risk Management (continued)
Credit risk (continued)

No collateral is held for any of the above assets. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

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

	2012 Shs '000	2011 Shs '000
Receivables arising out of reinsurance arrangements are summarised below:		
Neither past due nor impaired		
- up to 90 days	230,141	267,152
- 91 to 181 days	55,356	32,978
- 182 to 273 days	34,632	17,500
Past due but not impaired	235,785	123,789
Impaired	60,396	44,446
	616,310	485,865
Less provision for impairment	(60,396)	(44,446)
Total	**555,914**	**441,419**
Receivables arising out of reinsurance arrangements are made up of:		
Receivables arising out of reinsurance arrangements (third parties)	463,959	400,316
Other receivables – related parties (note 26)	91,955	41,103
Total	**555,914**	**441,419**

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

Of the total gross amount of impaired receivables, the following amounts have been individually assessed:

	2012 Shs '000	2011 Shs '000
Receivables arising out of reinsurance arrangements are summarised below:		
- brokers	50,364	36,058
- insurance companies	10,032	8,388
	60,396	44,446

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

5. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. The Company is exposed to daily calls on its available cash for claims settlement and other expenses. The Company maintains adequate cash resources to meet all of these needs and does not require overdraft facilities. Management monitors the level of call deposits to ensure their adequacy to cover expenditure at unexpected levels of demand. These call deposits are placed at competitive interest rates.

The table below presents the cash flows payable by the Company under financial liabilities and assets respectively by remaining contractual maturities at the end of the reporting period.

Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Liabilities

	Up to 1 month Shs '000	1-3 months Shs '000	3-12 months Shs '000	1-5 years Shs'000	Over 5 years Shs '000	Total Shs '000
At 31 December 2012						
Reinsurance contract liabilities	1,421,536	-	-	-	-	1,421,536
Payables arising out of retrocession arrangements	85,027	-	-	-	-	85,027
Payables arising out of reinsurance arrangements	308,607	-	-	-	-	308,607
Other payables	229,715	1,415	20,000	-	-	251,130
Total financial liabilities (contractual maturity dates)	**2,044,885**	**1,415**	**20,000**	**-**	**-**	**2,066,300**
At 31 December 2011						
Reinsurance contract liabilities	1,188,049	-	-	-	-	1,188,049
Payables arising out of retrocession arrangements	95,876	-	-	-	-	95,876
Payables arising out of reinsurance arrangements	218,705	-	-	-	-	218,705
Other payables	221,228	2,703	13,750	-	-	237,681
Total financial liabilities (contractual maturity dates)	**1,723,858**	**2,703**	**13,750**	**-**	**-**	**1,740,311**

(i) Financial instruments not measured at fair value

No disclosures are provided in respect of fair value of financial instruments not measured at fair value because financial instruments carrying amounts are a reasonable approximation of their fair values.

(ii) Fair value hierarchy

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

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

5. Financial Risk Management (continued)

***(ii) Fair value hierarchy** (continued)*

- 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.

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

	Note	Level 1 Shs '000	Level 2 Shs '000	Level 3 Shs '000	Total Shs '000
At 31 December 2012					
Financial assets					
Short-term business					
Fair value through profit or loss					
- Equity investments	23	-	-	-	-
Long-term business					
Fair value through profit or loss					
- Equity investments	23	-	-	-	-
Total		**-**	**-**	**-**	**-**
At 31 December 2011					
Financial assets					
Short-term business					
Fair value through profit or loss					
- Equity investments	23	1,200	-	-	1,200
Long-term business					
Fair value through profit or loss					
- Equity investments	23	262	-	-	262
Total		**1,462**	**-**	**-**	**1,462**

6 Capital Risk Management

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial positions, are:

- to comply with the capital requirements as set out in the Insurance Act;
- to comply with regulatory solvency requirements as set out in the Insurance Act;
- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to Shareholders and benefits for other stakeholders;
- to provide an adequate return to Shareholders by pricing reinsurance and investment contracts commensurately with the level of risk; and
- to safeguard the Company's capital by arranging adequate cover with credible securities.
- To have an adequate level of risk based capital.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

6 Capital Risk Management *(continued)*

The Insurance Act requires each reinsurance Company to hold the minimum level of paid up capital of Shs 500 million. At Shs 800 million (short-term business: Shs 650 million; long-term business: Shs 150 million), the Company's share capital was in excess of the minimum capital requirement as at 31 December 2012 (2011: Shs 750 million)

The Company is subject to solvency regulations in respect of its reinsurance and investment contracts.

Short-term businesses are required to maintain a solvency margin in accordance with the Insurance Act, i.e admitted assets less admitted liabilities equivalent to the higher of Shs 10 million or 15% of the net premium income during the preceding financial year.

Long-term businesses are required to maintain a solvency margin in accordance with the Insurance Act, i.e. admitted assets less admitted liabilities equivalent to the higher of Shs 10 million or 5% of total admitted liabilities.

As at 31 December 2012, the Company's solvency margins for both short-term and long-term business were strong at 401% (2011: 525%) and 388% (2011: 368%) respectively.

7. Gross Written, Gross Earned and Retrocession Premiums

The gross written, earned and retrocession premiums of the Company can be analysed between the main classes of business as shown below.

a) Gross Written Premiums	2012 Shs '000	2011 Shs '000
Short-term business		
Aviation	73	77
Engineering	161,442	145,481
Fire	817,438	742,792
Liability	7,936	3,316
Marine	174,026	168,755
Motor	254,997	285,436
Personal accident	(7,015)	48,751
Theft	61	2,024
Workmen's compensation	(2,440)	2,949
Medical	365,034	176,252
Miscellaneous	315,248	251,750
	2,086,800	**1,827,583**
Long-term business		
Ordinary life	18,735	10,666
Group life	355,165	313,972
	373,900	324,638
Gross written premiums	**2,460,700**	**2,152,221**

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

7. Gross Written, Gross Earned and Retrocession Premiums *(continued)*

b) Gross Earned Premiums

	2012 Shs '000	2011 Shs '000
Short-term business		
Aviation	81	63
Engineering	155,922	133,203
Fire	779,474	687,488
Liability	6,243	3,425
Marine	173,671	154,028
Motor	237,463	261,636
Personal accident	5,079	43,082
Theft	562	2,338
Workmen's compensation	(2,440)	2,949
Medical	293,863	157,660
Miscellaneous	293,673	230,873
	1,943,591	**1,676,745**
Long-term business		
Ordinary life	18,735	10,666
Group life	355,165	313,972
	373,900	324,638
Gross earned premiums	**2,317,491**	**2,001,383**

c) Retrocession Premiums

	2012 Shs '000	2011 Shs '000
Short-term business		
Aviation	-	1
Engineering	789	8,118
Fire	58,278	145,138
Liability	3	20
Marine	12,069	16,372
Motor	(3,286)	33,589
Personal accident	(521)	2,983
Theft	(6)	(74)
Workmen's compensation	-	-
Medical	328	5,941
Miscellaneous	(3,789)	14,632
	63,865	**226,720**
Long-term business		
Ordinary life	4,905	3,771
Group life	66,054	36,974
	70,959	40,745
Total retrocession premiums	**134,824**	**267,465**

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

8. Reconciliation of the Movement in Gross Provision for Unearned Premium and Deferred Risk Premium Rebates

			2012			2011
	Gross Shs '000	Retro-cession Shs '000	Net Shs '000	Gross Shs '000	Retro-cession Shs '000	Net Shs '000
As presented in the statement of comprehensive income	143,209	(20,379)	163,588	150,838	(29,522)	180,360
Represented by:						
Increase/(decrease) in provision for unearned premiums (note 32)	152,476	(33,152)	185,628	236,446	(64,539)	300,985
Less: Increase /(decrease) in deferred risk premium rebates and revenue (note 25(b))	9,267	(12,773)	22,040	85,608	(35,017)	120,625
At end of year	**143,209**	**(20,379)**	**163,588**	**150,838**	**(29,522)**	**180,360**

9. Segment Information – Geographical Segments

Under IFRS 8, *Operating segments*,the Company's reportable segments are long term business and short term business. The short term business segment comprises aviation, engineering, fire, liability, marine, motor, personal accident, theft, workmen's compensation, medical and other miscellaneous classes. The long term business segment includes individual and group life. These segments are the basis on which the Board of Directors allocates resources and assesses performance. Investment and cash management for the Company's own accounts are also reported as part of the above segments. Transactions between segments are conducted at estimated market rates on an arm's length basis.

The Board of Directors also analyses performance based on the geographical coverage. The Company's main geographical segments of business are:

(i) Kenya
(ii) Common Market for Eastern and Southern Africa (COMESA), other than Kenya
(iii) Non-COMESA.

A major non-COMESA country outside Africa is India. One customer (2011: none) exceeds 10% of the total revenue. The segment information provided to the Board of Directors for the reported segments is as below:

a) The following shows the analysis of net earned premium, net claims incurred and retrocession premium by region:

	Net earned premium		Net claims incurred		Retrocessions	
	2012 Shs '000	2011 Shs '000	2012 Shs '000	2011 Shs '000	2012 Shs '000	2011 Shs '000
Short-term business						
Kenya	943,403	767,071	566,982	476,807	20,437	120,162
COMESA	287,142	213,075	258,737	93,916	-	24,939
Non - COMESA	623,802	440,357	226,404	151,711	43,428	81,619
	1,859,347	**1,420,503**	**1,052,123**	**722,434**	**63,865**	**226,720**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

9. Segment Information – Geographical Segments (continued)

	Net earned premium		Net claims incurred		Retrocessions	
	2012 Shs '000	2011 Shs '000	2012 Shs '000	2011 Shs '000	2012 Shs '000	2011 Shs '000
Long-term business						
Kenya	298,890	283,325	184,824	108,507	23,416	40,745
COMESA	4,051	568	538	34,507	47,543	-
	302,941	**283,893**	**185,362**	**143,014**	**70,959**	**40,745**

b) Total carrying amount of assets by geographical location:

	2012 Assets Shs'000'	Percentage	2011 Assets Shs'000'	Percentage
Kenya	4,309,652	92%	3,464,279	91%
COMESA	67,740	1%	108,251	3%
Non-COMESA	320,606	7%	230,426	6%
	4,697,998	**100%**	**3,802,956**	**100%**

c) Total cost incurred in year 2012 to acquire motor vehicles, equipment, property and computer software:

	2012 Shs'000'	Percentage	2011 Shs'000'	Percentage
Kenya	1,647	100%	20,158	100%

10. Investment Income

2012	**Short-term Business Shs '000**	**Long-term Business Shs '000**	**Total Shs '000**
Interest from Government securities	46,978	19,587	66,565
Bank deposit interest	306,085	69,578	375,663
Loan interest receivable	1,327	-	1,327
Dividends receivable from equity investments	45	-	45
Loss on sale of equity investments at fair value through profit or loss	(1,244)	(274)	(1,518)
Unrealised fair value gains on equity investments at fair value through profit or loss (note 23)	1,257	279	1,536
Corporate bond interest	8,695	1,187	9,882
Other	1,913	-	1,913
	365,056	90,357	455,413
Investment expenses	(26,246)	(4,438)	(30,684)
Investment and other income (net) for 2012	**338,810**	**85,919**	**424,729**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

10. Investment Income (continued)

2011	Short-term business	Long-term business Shs '000	Total Shs '000
Interest from Government securities	32,990	16,393	49,383
Bank deposit interest	114,892	26,824	141,716
Loan interest receivable	1,253	-	1,253
Dividends receivable from equity investments	5,367	1,333	6,700
Loss on sale of equity investments at fair value through profit or loss	(17,278)	(4,818)	(22,096)
Unrealised fair value losses on equity investments at fair value through profit or loss (note 23)	(19,815)	(5,262)	(25,077)
Corporate bond interest	8,860	1,253	10,113
Other	(4,979)	-	(4,979)
	121,290	35,723	157,013
Investment expenses	(19,386)	(3,387)	(22,773)
Investment and other income (net) for 2011	**101,904**	**32,336**	**134,240**

Gross investment revenue earned on financial assets, analysed by category of financial statement is as follows:

2012	Short-term business Shs '000	Long-term business Shs '000	Total Shs '000
Loans and receivables (including cash and bank balances)	309,325	69,578	378,903
Financial assets held to maturity	55,731	20,779	76,510
Total	**365,056**	**90,357**	**455,413**
2011			
Loans and receivables (including cash and bank balances)	111,166	26,824	137,990
Financial assets held to maturity	10,124	8,899	19,023
Total	**121,290**	**35,723**	**157,013**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

11. Gross Claims Incurred

	2012	2011
Claims payable by principal class of business:	**Shs '000**	**Shs '000**
Short-term business		
Claims payable by principal class of business:		
Aviation	13	(6)
Engineering	52,599	41,263
Fire	362,079	440,271
Liability	(344)	(2,805)
Marine	(48,771)	263,341
Motor	225,739	172,923
Personal accident	6,159	(92,210)
Theft	(9,410)	2,359
Workmen's compensation	(1,098)	1,988
Medical	289,733	130,044
Miscellaneous accident	156,753	163,045
	1,033,452	**1,120,213**
Long-term business actuarial liabilities		
Reinsurance contracts relating to fixed and guaranteed terms:		
Death benefits		
-Ordinary life	1,347	(1,060)
-Group life	107,324	112,209
Increase in reassurance contract liabilities:		
-Ordinary life	4,591	1,426
-Group life	98,001	54,060
	211,263	166,635
Total short-term and long-term business	**1,244,715**	**1,286,848**

12. Operating and other Expenses

	2012	2011
The following are included in operating and other expenses:		
Directors' emoluments; - executive	43,274	28,877
- non executive	2,410	1,565
Employee emoluments	68,504	48,692
Auditors' remuneration	2,285	1,682
Depreciation (note 19)	9,707	10,370
Amortisation of intangible assets (note 20)	2,778	2,778
Net exchange losses/(gains)	9,861	(12,335)
Impairment loss on intangible assets	2,779	-
Impairment charge for doubtful receivables		
-reinsurance premiums receivables	10,637	1,998

13. Employee Benefit Expenses

	2012	2011
Salaries and wages	104,337	70,134
Retirement benefit costs	7,386	5,186
Medical costs	3,585	2,199
National social security benefit costs	55	51
	115,363	77,570
	115,363	**77,570**

The number of persons employed by the Company at the year end was 18 (2011: 20).

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

14. Taxation

a) Taxation charge

	Short-term business Shs '000	Long-term business Shs '000	2012 Total Shs '000	2011 Total Shs '000
Current taxation	102,323	20,427	122,750	66,349
Deferred taxation:				
Credit for the year	(996)		(996)	(5,292)
Prior year deferred tax under provision	-	-	-	(6)
Total deferred taxation credit (note 22)	**(996)**		**(996)**	**(5,298)**
Income tax expense	**101,327**	**20,427**	**121,754**	**61,051**

The Company's current tax charge is computed in accordance with income tax rules applicable to composite Kenyan insurance companies. A reconciliation of the tax charge is shown below:

b) Reconciliation of taxation charge to expected tax based on accounting profit

	Short-term business Shs '000	Long-term business Shs '000	2012 Total Shs '000	2011 Total Shs '000
Profit before taxation	333,220	71,091	404,311	163,537
Tax calculated at a tax rate of 30%	99,966	21,328	121,294	49,061
Tax effect of income not subject to tax	(2,669)	(901)	(3,570)	(4,383)
Tax effect of expenses not deductible for tax purposes	4,030	-	4,030	16,379
Prior year under provision	-	-		(6)
Taxation charge	**101,327**	**20,427**	**121,754**	**61,051**

c) Taxation payable

	Short-term business Shs '000	Long-term business Shs '000	2012 Total Shs '000	2011 Total Shs '000
At 1 January	(1,523)	13,412	11,889	(9,114)
Taxation charge for the year	102,323	20,427	122,750	66,349
Paid in the year	(56,708)	(28,165)	(84,873)	(45,346)
At 31 December	**44,092**	**5,674**	**49,766**	**11,889**

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

15. Earnings Per Share

Earnings per ordinary share of Shs 1,000 each are calculated by dividing the profit for the year attributable to Shareholders by the weighted average number of ordinary shares issued as follows:

	2012 Shs '000	2011 Shs '000
Profit attributable to Shareholders (Shs '000')	282,557	102,486
Weighted average number of shares	No.	No.
As at 1 January	800,000	750,000
Effect of bonus issue	-	-
As at 31 December	**800,000**	**750,000**
Earnings per share (Shs) – basic and diluted	**353.20**	**136.65**

During the year the Company effected a 1 for 15 bonus share issue. This was approved by a special Shareholders resolution dated 17 May 2012.

Because the bonus issue was without consideration, it is treated as if it had occurred before the beginning of 2012, the earliest period presented.

There were no potentially dilutive shares outstanding as at 31 December 2012 and 31 December 2011. Diluted earnings per share is therefore the same as basic earnings per share.

16. Dividends

In respect of the current year, the Directors propose that a first and final dividend of Shs 50 (2011: Shs 20) per share amounting Shs 40,000,000 (2011: Shs 15,000,000) be paid out to Shareholders. This is subject to approval by the Shareholders at the Annual General Meeting to be held on 16 May 2013 and has therefore not been included as a liability in these financial statements.

Payment of dividends is subject to withholding tax, where applicable, at the rate of either 5% or 10%, depending on residence of the individual Shareholders.

17. Share Capital

	2012 Shs '000	2011 Shs '000
Authorised share capital		
800,000 (2011:750,000) ordinary shares of Shs 1,000	800,000	750,000

The movement in authorised share capital is as below:

	Number	Par value	Share capital Sh'000
At 1 January 2011	650,000	1,000	650,000
Increase in authorised share capital	100,000	1,000	100,000
At 31 December 2011	750,000	1,000	750,000
At 1 January 2012	750,000	1,000	750,000
Increase in authorised share capital	50,000	1,000	50,000
At 31 December 2012	**800,000**	**1,000**	**800,000**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

17. Share Capital (continued)

	2012 Shs '000	2011 Shs '000
Issued and fully paid share capital		
800,000 (2011: 750,000) ordinary shares of Shs 1,000	800,000	750,000

The movement in issued and fully paid share capital is as below:	Short- term Shs '000	Long -term Shs '000	Total Shs '000
Balance as at 1 January 2011	500,000	150,000	650,000
Bonus issue*	100,000	-	100,000
Balance as at 31 December 2011	600,000	150,000	750,000
Balance as at 1 January 2012	600,000	150,000	750,000
Bonus issue**	50,000	-	50,000
Balance as at 31 December 2012	**650,000**	**150,000**	**800,000**

* During the year ended 31 December 2011, the Company effected a 2 for 13 bonus issue. This was approved by special resolution dated 19 May 2011.

** During the year ended 31 December 2012, the Company made a 1 for 15 bonus issue. This was approved by special resolution dated 17 May 2012.

18. Retained Earnings

The retained earnings balance represents the amount available for dividend distribution to the Shareholders of the Company.

19. Property and Equipment

	Land Shs '000'	Building Shs '000'	Motor vehicles Shs '000'	Furniture, fittings and equipment Shs '000'	Computer equipment Shs '000'	Total Shs '000'
Cost						
At 1 January 2011						
as previously reported	-	52,970	13,769	9,655	7,816	84,210
Reclassification from prepaid leases						
(note 21)	45,000	-	-	-	-	45,000
At 1 January 2011 - as restated	45,000	52,970	13,769	9,655	7,816	129,210
Additions	-	289	10,870	227	437	11,823
Disposals	-	-	(5,500)	(39)	(1,612)	(7,151)
At 31 December 2011	**45,000**	**53,259**	**19,139**	**9,843**	**6,641**	**133,882**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

19. Property and Equipment (continued)

	Land Shs '000'	Building Shs '000'	Motor vehicles Shs '000'	Furniture, fittings and equipment Shs '000'	Computer equipment Shs '000'	Total Shs '000'
At 1 January 2012 - as previously reported	-	53,259	19,139	9,843	6,641	88,882
Reclassification from prepaid leases (note 21)	45,000	-	-	-	-	45,000
At 1 January 2012 - as restated	45,000	53,259	19,139	9,843	6,641	133,882
Additions	-	-	-	1,126	521	1,647
Disposals	-	-	(8,246)	-	(611)	(8,857)
Revaluation surplus	126,000	765	-	-	-	126,765
At 31 December 2012	171,000	54,024	10,893	10,969	6,551	253,437
Accumulated Depreciation						
At 1 January 2011 - as previously reported	-	5,189	7,634	3,461	6,818	23,102
Reclassification of accumulated depreciation	4,821	-	-	-	-	4,821
At 1 January 2011 - as restated	4,821	5,189	7,634	3,461	6,818	27,923
Charge for the year	1,607	1,911	4,785	1,116	951	10,370
Eliminated on disposals	-	-	(5,500)	(38)	(1,611)	(7,149)
At 31 December 2011	6,428	7,100	6,919	4,539	6,158	31,144
At 1 January 2012 - as previously reported	-	7,100	6,919	4,539	6,158	24,716
Reclassification of accumulated depreciation	6,428	-	-	-	-	6,428
At 1 January 2012 - as restated	6,428	7,100	6,919	4,539	6,158	31,144
Charge for the year	1,607	1,924	4,429	1,257	490	9,707
Eliminated on disposals	-	-	(3,779)	-	(610)	(4,389)
Eliminated on revaluation	(8,035)	-	-	-	-	(8,035)
At 31 December 2012	-	9,024	7,569	5,796	6,038	28,427
Net Book Value						
As at 31 December 2012	**171,000**	**45,000**	**3,324**	**5,173**	**513**	**225,010**
As at 31 December 2011	38,572	46,159	12,220	5,304	483	102,738

The leasehold land and building was revalued at 31 December 2012 by Kenya Valuers and Estate Agents Limited, independent valuers on the basis of open market value for existing use.

Included above are assets with a total cost of Shs 18,574,199 (2011: Shs 18,421,714) which were fully depreciated as at 31 December 2012. The normal depreciation charge on these assets would have been Shs 5,967,097 (2011: Shs 5,944,107).

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

20. Intangible Assets (Computer Software)

	Short-term business Shs '000	Long-term business Shs '000	Total Shs '000
Cost			
At 1 January 2011	11,804	-	11,804
Additions	-	8,335	8,335
At 31 December 2011	11,804	8,335	20,139
At 1 January 2012	11,804	8,335	20,139
Impairment	-	(8,335)	(8,335)
At 31 December 2012	11,804	-	11,804
Amortization			
At 1 January 2011	11,804	-	11,804
Charge for the year	-	2,778	2,778
At 31 December 2011	11,804	2,778	14,582
At 1 January 2012	11,804	2,778	14,582
Charge for the year	-	2,778	2,778
Eliminated on impairment	-	(5,556)	(5,556)
At 31 December 2012	11,804	-	11,804
Net Book Value			
As at 31 December 2012	**-**	**-**	**-**
As at 31 December 2011	-	5,557	5,557

21. Impact of Adopting April 2009 Amendments to IAS 17

The Company reassessed the classification of the land element of its investment in a property, East Africa Re House as at 31 December 2012, this the date of adoption of amendments to IAS 17 arising from April 2009 improvements to IFRSs, on the basis of information existing at the inception of the lease element of the property.

The Company has recognised a lease newly classified as finance lease retrospectively based on facts and circumstances existing as at 31 December 2012.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

21. Impact of Adopting April 2009 Amendments to IAS 17 (continued)

The impact of the adoption of the IAS 17 amendments is summarised below;	2012 Shs '000	2011 Shs '000
Impact on prepaid operating leases		
Reclassification to property plant and equipment (note 19)	(45,000)	(45,000)
Reclassification of accumulated depreciation (note 19)	8,035	6,428
	(36,965)	**(38,572)**
Impact on property, plant and equipment		
Revaluation surplus on land newly classified as finance lease		
- reversal of accumulated depreciation (note 19)	8,035	-
- restatement of cost (note 19)	126,000	-
Operating leases	36,965	38,572
	171,000	38,572
Impact on deferred taxation		
Deferred taxation on revaluation surplus	(40,211)	-
Net increase on net assets	**93,824**	**-**

22. Deferred Taxation

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2011: 30%). The movement on the deferred income tax account is as follows:

	2012 Shs '000	2011 Shs '000
At 1 January	7,005	1,707
Profit or loss credit (note 14(a))	996	5,298
Charged to other comprehensive income	(40,440)	-
At 31 December	**(32,439)**	**7,005**
The deferred tax liability / (asset) is attributable to the following items:		
Deferred tax liability:		
Revaluation surplus on leasehold land and building	40,440	-
Accelerated capital allowances	186	522
	40,626	522
Deferred tax asset:		
Unrealised exchange loss	(1,671)	(3,316)
Provisions	(6,516)	(4,211)
	(8,187)	(7,527)
Net deferred tax liability / (asset)	**32,439**	**(7,005)**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

23. Equity Investments - At Fair Value through Profit or Loss

At 31 December 2012	**Short-term business Shs '000**	**Long-term business Shs '000**	**Total Shs '000**
Quoted investments:			
At 1 January 2012	1,200	262	1,462
Disposals	(2,457)	(541)	(2,998)
Fair value gains (note 10)	1,257	279	1,536
At 31 December 2012	-	-	-
At 31 December 2011			
At 1 January 2011	125,698	30,919	156,617
Additions	15,072	5,113	20,185
Disposals	(119,755)	(30,508)	(150,263)
Fair value losses (note 10)	(19,815)	(5,262)	(25,077)
At 31 December 2011	**1,200**	**262**	**1,462**

24. Mortgage Loans – Staff

	2012 Shs '000	**2011 Shs '000**
At 1 January	19,366	21,342
Loans advanced	4,500	2,915
Loan repayments	(5,717)	(4,891)
At 31 December	**18,149**	**19,366**

These are mortgage loans extended to members of staff. There were no impairment losses recorded against mortgage loans for the years ended 31 December 2011 and 31 December 2012.

Maturity profile of mortgage loans

	2012 Shs '000	**2011 Shs '000**
Loans maturing:		
Within 1 year	1,961	2,105
In 1-5 years	6,351	8,846
In over 5 years	9,837	8,415
	18,149	**19,366**

Lending commitments:

There were no mortgage loans approved but not advanced at 31 December 2012 (2011: Nil).

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

25 a) Retrocessionaires' Share of Reinsurance Liabilities

At 31 December 2012	Short-term business Shs '000	Long-term business Shs '000	Total Shs '000
Retrocessionaires' share of:			
Unearned premiums (note 32)	1,973	-	1,973
Outstanding claims	215,337	18,933	234,270
	217,310	**18,933**	**236,243**
At 31 December 2011			
Retrocessionaires' share of:			
Unearned premiums (note 32)	35,125	-	35,125
Outstanding claims	311,303	8,166	319,469
	346,428	**8,166**	**354,594**

Amounts due from retrocessionaires in respect of claims already paid by the Company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position. Movements in the above retrocession assets are shown in Notes 31 and 32.

b) Deferred Risk Premium Rebates Paid and Earned

			2012			2011
	Gross Shs '000	Retro-cession Shs '000	Net Shs '000	Gross Shs '000	Retro-cession Shs '000	Net Shs '000
At 1 January	245,674	13,207	232,467	160,066	48,224	111,842
Increase/(decrease) in the period (note 8)	9,267	(12,773)	22,040	85,608	(35,017)	120,625
At 31 December	**254,941**	**434**	**254,507**	**245,674**	**13,207**	**232,467**

26. Other Receivables

	2012 Shs '000	2011 Shs '000
Due from related companies (note 37(b))	91,955	41,103
Due from long-term to short term business (note 33)	52,576	34,545
Car loans - staff*	2,701	2,624
Prepayments and other receivables	7,860	8,318
	155,092	**86,590**

*These are car loans extended to members of staff. There were no impairment losses recorded against car loans in 2012 (2011: Nil).

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

27. Corporate Bonds - Held to Maturity (At amortised cost)

At 31 December 2012	Short-term business Shs '000	Long-term business Shs '000	Total Shs '000
Corporate bonds maturing: In over 5 years	77,313	8,935	86,248
At 31 December 2011			
Corporate bonds maturing: In over 5 years	71,817	10,209	82,026

28. (a) Government securities held to maturity (At amortised cost)

	Short-term business Shs '000	Long-term business Shs '000	Total Shs '000
At 31 December 2012			
Treasury bills maturing:			
Within 90 days	-	-	-
Less unearned discount	-	-	-
	-	-	-
In 91 days – 1 year	10,000	5,000	15,000
Less unearned discount	(741)	(371)	(1,112)
	9,259	4,629	13,888
	9,259	**4,629**	**13,888**
Treasury bonds maturing:			
Within 90 days	31,741	-	31,741
In 91 days – 1 year	88,616	67,016	155,632
In 1 year – 5 years	81,952	10,271	92,223
In over 5 years	122,122	85,876	207,998
	324,431	163,163	487,594
	333,690	**167,792**	**501,482**
At 31 December 2011			
Treasury bills maturing:			
Within 90 days	40,000	10,000	50,000
Less unearned discount	(15)	(4)	(19)
	39,985	9,996	49,981
In 91 days – 1 year	46,000	5,000	51,000
Less unearned discount	(2,007)	(214)	(2,221)
	43,993	4,786	48,779
	83,978	**14,782**	**98,760**
Treasury bonds maturing:			
Within 90 days	21,087	-	21,087
In 91 days – 1 year	118,584	9,369	127,953
In 1 year – 5 years	108,527	65,521	174,048
In over 5 years	122,349	84,725	207,074
	370,547	**159,615**	**530,162**
	454,525	**174,397**	**628,922**

Notes to the Financial Statements (continued)

For the Year Ended 31 December 2012

28. (a) Government securities held to maturity (At amortised cost) *(continued)*

Treasury bonds include Shs 227,000,000 (2011: Shs 191,000,000) relating to securities held under lien by the Central Bank of Kenya in compliance with the requirements of section 32 of the Insurance Act (CAP 487). These securities cannot be transferred or sold by the Company without the approval of Commissioner of Insurance.

(b) Government securities held as available for sale

At 31 December 2011	Short-term business Shs '000	Long-term business Shs '000	Total Shs '000
At 1 January 2011	216,652	6,973	223,625
Reclassification to held to maturity	(216,652)	(6,973)	(223,625)
At 31 December 2011	**-**	**-**	**-**

29. Deposits With Financial Institutions

Held to maturity - At amortised cost
At 31 December 2012

Deposits maturing:			
Within 90 days	690,646	126,992	817,638
In 91 days – 1 year	1,466,373	322,636	1,789,009
	2,157,019	**449,628**	**2,606,647**
At 31 December 2011			
Deposits maturing:			
Within 90 days	89,595	6,272	95,867
In 91 days – 1 year	1,335,199	327,340	1,662,539
	1,424,794	**333,612**	**1,758,406**

30. Weighted Average Effective Interest Rates

The following table summarises the weighted average effective interest rates at the year end on the principal interest-bearing investments:

	2012 %	2011 %
Government securities	11	12
Corporate bonds	13	13
Deposits with financial institutions	18	18
Mortgage loans (on reducing balance)	5	5

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

31. Reinsurance/Reassurance Contract Liabilities	2012 Shs '000	2011 Shs '000
Total short-term reinsurance contracts:		
Claims (gross) reported and claims handling expenses including incurred but not reported claims	1,019,908	889,015
Long-term reassurance contracts		
Claims (gross) reported and claims handling expenses	132,708	91,314
Actuarial value of long-term liabilities	268,920	207,720
Total long-term contract liabilities	401,628	299,034
Total gross contract liabilities	**1,421,536**	**1,188,049**

A) Short-term reinsurance contract

The claims development history for the short-term business is not presented in these financial statements as the amount and the timing of claims payments to cedent companies is resolved within the year that claims are reported by the cedent companies.

The Company's actuaries use chain-ladder techniques to estimate the ultimate cost of claims including the IBNR provision. Chain ladder techniques are used as they are an appropriate technique for mature classes of business that have a relatively stable development pattern. This involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.

B) Long-term reassurance contracts

The Company underwrites three types of long-term reassurance contracts, namely ordinary life, supplementary benefits under ordinary life and group life business. Ordinary life business is written on a 'risk premium' basis. This type of business can thus be viewed as a series of one year renewable term assurances reinsured on guaranteed risk premium rates on a specific cohort of business and hence valued as such. Supplementary benefits under ordinary life business are written on a similar basis as ordinary life business. Group life business is also written on a 'risk premium' basis but with less guarantees as the risk premium rates used at each policy anniversary date can change.

This type of business lends itself to an actuarial method where liabilities are determined as a percentage of the annual office premiums written. The method makes implicit assumptions regarding expected experience in respect of lapses, expenses and a margin for uncertainty on these assumptions. The liabilities are determined by the Company on the advice of its consulting actuaries, and actuarial valuations are carried out on an annual basis.

a) Valuation assumptions - Long-term reassurance contracts

The latest actuarial valuation of the Company's life fund was undertaken as at 31 December 2012 by the consulting actuaries, Alexander Forbes Financial Services (EA) Limited. The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenya Insurance Act, 1987 (CAP 487). The method used is akin to a Net Premium Valuation (NPV) method, but where the actuarial liabilities are expressed as a percentage of the annual office premiums written.

This method and principles used were considered to be appropriate because they arrive at prudent and conservative actuarial liabilities at the valuation date. The actuarial principles used require prudent provision for future outgo under the contracts written, generally based upon the assumptions that current conditions will continue. Explicit provision is therefore not made for all possible contingencies. In addition, the actuarial reserves arrived at using this method and assumptions will be no less than those arrived at using the minimum valuation basis set out in the Insurance, Act 1987 (CAP 487).

The significant valuation assumptions for the actuarial valuation as at 31 December 2012 are summarised below. The same assumptions were used in 2011.

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

31. Reinsurance/Reassurance Contract Liabilities (continued)

B) Long-term reassurance contracts *(continued)*

a) Valuation assumptions – Long term reassurance contracts (continued)

i) Mortality

The Company uses the A1949/52 ultimate mortality table as a base table of standard mortality rates. Statistical methods are used to adjust the mortality rates reflected on the base table based on the Company's experience of improvement or worsening of mortality.

There are no explicit reserves established to take account of the possible deterioration of mortality experience in respect of HIV/AIDS related deaths. For group life contracts, there is the safety valve of changing the premium rates on a yearly basis as the contracts are written on an annual basis with no mortality guarantees.

i) Investments returns

The actuarial valuation as at 31 December 2012 does not use an explicit technical rate of return.

The weighted average rate of return earned on the assets backing the life fund in 2012 was 37.8% p.a. (2011: 18% p.a.) and the average over the last two years was 27.9% p.a.

ii) Expenses and expense inflation

The current level of management expenses is taken to be an appropriate expense base. The actuarial method used does not make explicit assumptions on the level of expenses and expense inflation.

b) Sensitivity analysis

The actuarial method used is not very sensitive to changes in the key assumptions used in determining the actuarial liabilities. The key actuarial assumptions will need to change very significantly for the actuarial liabilities to change by a relatively small percentage.

The Company underwrites long-term insurance contracts with fixed and guaranteed terms only as set out in its various reinsurance programmes with its cedents. For liabilities under these contracts key assumptions are unchanged for the duration of the contract.

32. Provision for Unearned Premiums

This provision represents the liability for short-term business contracts where the Company's obligations are not expired at the year end. The Company uses the eighths (8ths) method to compute UPR. Movement in the reserve is shown below:

			2012			2011
	Gross Shs '000	Retro-cession Shs '000	Net Shs '000	Gross Shs '000	Retro-cession Shs '000	Net Shs '000
At 1 January	720,397	35,125	685,272	483,951	99,664	384,287
Increase/(decrease) in the period (note 8)	152,476	(33,152)	185,628	236,446	(64,539)	300,985
At 31 December	**872,873**	**1,973**	**870,900**	**720,397**	**35,125**	**685,272**
		(note 25)			(note 25)	

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

33. Other Payables

	2012 Shs '000	2011 Shs '000
Due to related parties (note 37(b))	98,692	121,870
Due to short-term business from long-term (note 26)	52,576	34,545
Accrued expenses and other liabilities	99,862	82,626
	251,130	**239,041**

34. Commitments And Contingent Liabilities

a) Capital commitments

	2012 Shs '000	2011 Shs '000
Authorised and contracted for	200	200
Authorised but not contracted for	-	483,000
	200	483,200

b) Contingent liabilities

Reinsurance Premium Finance – As at 31 December 2012, the Company had guaranteed Reinsurance Premium Finance facility granted to insurance companies amounting to Shs 4,223,044 (2011: Shs 4,971,993). The Company is only required to meet the obligations under the facility in the event of default by the insurance companies.

35. Cash and Cash Equivalents

	2012 Shs '000	2011 Shs '000
Cash and bank balances	58,057	27,826
Treasury bills maturing within 90 days (note 28)	-	49,981
Treasury bonds maturing within 90 days (note 28)	31,741	21,087
Deposits with financial institutions maturing within 90 days (note 29)	817,638	95,867
	907,436	**194,761**

36. Note to the Statement of Cash Flows

Reconciliation of profit before taxation to net cash generated from operations

	2012 Shs '000	2011 Shs '000
Profit before taxation	404,311	163,537
Adjusted for:		
Investment income	(455,395)	(204,186)
Depreciation (note 19)	9,707	10,370
Amortisation – intangible assets (note 20)	2,778	2,778
Loss on impairment of intangible assets	2,779	-
Gain on disposal of equipment	(2,448)	(604)
Realised loss on disposal of quoted shares (note 10)	1,518	22,096
Change in fair value of quoted shares (note 10)	(1,536)	25,077
Changes in:		
- Reinsurance and reassurance contract liabilities	233,487	235,000
- Unearned premium reserves and deferred acquisition revenue	139,703	201,429
- Trade and other payables	73,111	113,961
- Trade and other receivables	(16,249)	(292,223)
Net cash generated from operations	**391,766**	**277,235**

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

37. Related Parties

The Company has various related parties, most of whom are related by virtue of being Shareholders, and partly due to common Directorships. The other related parties include staff of the Company.

a) Transaction with related parties during the year

The following transactions were carried out with related parties during the year:	2012 Shs '000	2011 Shs '000
Net earned premium	417,004	603,985
Net claims incurred	247,993	404,388
Interest earned on bank deposits	22,907	18,204

Transactions with related parties are in the ordinary course of business and on terms and conditions similar to those offered to other clients.

b) Outstanding balances with related parties

	2012 Shs '000	2011 Shs '000
i) Reinsurance balances		
Premiums receivable from related parties	91,926	41,074
Loss reserves in respect of related parties	29	29
Due from related parties (note 26)	91,955	41,103
ii) Premiums payable to related parties (note 33)	98,692	121,870
iii) Mortgage loans		
Mortgage receivable from related parties (note 24)	18,149	19,366

Mortgage loan balances and movements thereon are in respect of loans extended to the Company's officers at terms prescribed in the Company policy.

iv) Term deposits and bank balances	2012 Shs '000	2011 Shs '000
Fixed deposits	1,666	314,211
Cash balance	57,079	26,342
	58,744	340,553

c) Loans to Directors of the Company

The Company did not advance loans to its Directors in 2012 (2011: Nil).

d) Directors' remuneration

	2012 Shs '000	2011 Shs '000
Directors' remuneration	43,274	28,877
	2,410	1,565
	45,684	30,442

e) Key management personnel remuneration

	2012 Shs '000	2011 Shs '000
Salaries	72,334	46,418
National social security benefit costs	9	10
Retirement benefit costs	4,447	3,487
Medical costs	1,939	1,279
	78,730	51,194

Notes to the Financial Statements *(continued)*

For the Year Ended 31 December 2012

38. Foreign Exchange Risk

The Company operates within and outside Kenya. The various currencies to which the Company was exposed at 31 December 2012 are summarised in the table below (all amounts expressed in Kenya Shillings):

	KShs '000	Tshs '000	Ushs '000	US$ '000	Other '000	Total '000
Assets						
Mortgage loans	18,149	-	-	-	-	18,149
Receivables arising out of retrocession arrangements	92,170	-	-	-	-	92,170
Receivables arising out of reinsurance arrangements	176,818	42,940	11,954	7,086	225,161	463,959
Other receivables	154,240	852	-	-	-	155,092
Government securities held to maturity	501,482	-	-	-	-	501,482
Deposits with financial institutions	2,602,081	-	-	-	4,566	2,606,647
Corporate bonds	86,248	-	-	-	-	86,248
Bank balances	39,155	-	-	17,725	1,117	57,997
Total assets	**3,670,343**	**43,792**	**11,954**	**24,811**	**230,844**	**3,981,744**
Liabilities						
Payables arising out of retrocession arrangements	85,027	-	-	-	-	85,027
Payables arising from reinsurance arrangements	149,500	40,101	57,730	7,376	53,900	308,607
Other payables	258,821	5,943	-	-	1,767	266,531
Total liabilities	493,348	46,044	57,730	7,376	55,667	660,165
Net position						
At 31 December 2012	3,176,995	(2,252)	(45,776)	17,435	175,177	3,321,579
At 31 December 2011	2,451,041	(12,815)	(50,967)	(31,860)	114,484	2,533,603

In the opinion of the Directors, the Company's foreign currency exposure has been adequately managed to minimise potential adverse effects.

Short-Term Business Revenue Account - *For the Year Ended 31 December 2012*

Class of Reinsurance Business	Aviation	Engineering	Fire	Liability	Marine	Motor	Personal Accident	Theft	Workmen's Comp	Medical	Miscellaneous Accident	2012 Total
	Shs '000	Shs '000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Gross written premiums	73	160,553	829,289	7,871	173,899	254,997	522	61	(2,440)	365,034	296,404	2,086,263
Change in portfolio premiums	-	889	(11,851)	65	127	0	(7,537)	0	0	0	18,844	537
Gross premiums	**73**	**161,442**	**817,438**	**7,936**	**174,026**	**254,997**	**(7,015)**	**61**	**(2,440)**	**365,034**	**315,248**	**2,086,800**
Change in gross UPR	(8)	5,520	37,964	1,693	355	17,534	(12,094)	(501)	0	71,171	21,575	143,209
Gross earned premiums	**81**	**155,922**	**779,474**	**6,243**	**173,671**	**237,463**	**5,079**	**562**	**(2,440)**	**293,863**	**293,673**	**1,943,591**
Retrocession premiums	-	789	58,278	3	12,069	(3,286)	(521)	(6)	0	328	(3,789)	63,865
Change in retro UPR	-	(1,100)	(6,966)	0	(1,754)	(5,392)	(746)	(5)	0	(108)	(4,308)	(20,379)
Net earned premiums	**81**	**154,033**	**714,230**	**6,240**	**159,848**	**235,357**	**4,854**	**563**	**(2,440)**	**293,427**	**293,154**	**1,859,347**
Gross claims paid	11	37,842	364,204	(397)	(282)	145,862	8,052	(263)	(1,407)	264,764	84,174	902,560
Change in Gross outstanding claims	2	14,757	(2,125)	53	(48,489)	79,877	(1,893)	(9,147)	309	24,969	72,579	130,892
Retrocession claims	-	(1,057)	69,468	(133)	(2,856)	1,981	(341)	(35)	0	2,268	8,001	77,296
Change in Retro outstanding claims	-	(2,683)	(29,206)	0	(18,372)	(24,497)	(1,422)	(1,229)	31	(1,809)	(16,780)	(95,967)
Net claims incurred	**13**	**56,339**	**321,817**	**(211)**	**(27,543)**	**248,255**	**7,922**	**(8,146)**	**(1,129)**	**289,274**	**165,532**	**1,052,123**
Risk premium rebates earned	-	5,443	(1,927)	1	(372)	(1,129)	(116)	0	0	150	(1,085)	965
Risk premium rebates	20	51,974	281,807	2,179	50,011	44,201	(1,669)	(58)	(784)	90,577	96,016	614,274
Taxes and other charges	15	7,938	21,825	112	5,949	4,499	1,850	1	6	5,230	12,765	60,190
Technical profit/(loss)	**33**	**43,225**	**86,854**	**4,161**	**131,059**	**(62,727)**	**(3,365)**	**8,766**	**(533)**	**(91,504)**	**17,756**	**133,725**
Expenses of management	4	8,078	41,724	396	8,749	12,830	26	3	(123)	18,366	14,913	104,966
Total expenses and risk premium rebates	**39**	**62,547**	**347,283**	**2,686**	**65,081**	**62,659**	**323**	**(54)**	**(901)**	**114,023**	**124,779**	**778,465**
Underwriting profit/(loss)	**29**	**35,147**	**45,130**	**3,765**	**122,310**	**(75,557)**	**(3,391)**	**8,763**	**(410)**	**(109,870)**	**2,843**	**28,759**
Key ratios:												
Net loss ratio (net claims incurred/ net earned premiums)	16%	37%	45%	(3%)	(17%)	105%	163%	(1447%)	46%	99%	56%	57%
Net risk premium rebates ratio (net risk premium rebates/net written premiums)	27%	29%	37%	27%	31%	18%	24%	(87%)	32%	25%	30%	30%
Total expense ratio (total net expenses and risk premium rebates/net written premium)	53%	39%	46%	34%	40%	24%	(5%)	(81%)	37%	31%	39%	38%

The short - term business revenue account was approved by the board of Directors on 28 February 2013 and was signed on its behalf by:

J. P. M. Ndegwa
Chairman

28 February 2013

D. G. M. Hutchison
Director

28 February 2013

P. K. Maina
Principal Officer

28 February 2013

Short-Term Business Revenue Account – *For the Year Ended 31 December 2011*

Class of Reinsurance Business	Aviation	Engineering	Fire	Liability	Marine	Motor	Personal Accident	Theft	Workmen's Comp	Medical	Miscellaneous Accident	Total
	Shs '000	Shs '000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Gross written premiums	77	145,481	741,586	3,170	168,755	288,949	46,725	2,024	2,949	176,252	272,317	1,848,285
Change in portfolio premiums	-	-	1,206	146	-	(3,513)	2,026	-	-	-	(20,567)	(20,702)
Gross premiums	**77**	**145,481**	**742,792**	**3,316**	**168,755**	**285,436**	**48,751**	**2,024**	**2,949**	**176,252**	**251,750**	**1,827,583**
Change in gross UPR	(14)	(12,278)	(55,304)	109	(14,727)	(23,800)	(5,669)	314	-	(18,592)	(20,877)	(150,838)
Gross earned premiums	**63**	**133,203**	**687,488**	**3,425**	**154,028**	**261,636**	**43,082**	**2,338**	**2,949**	**157,660**	**230,873**	**1,676,745**
Retrocession premiums	1	8,119	145,138	20	16,372	33,589	2,983	(74)	-	5,941	14,631	226,720
Change in retro UPR	1	4,110	16,787	123	5,249	(3,174)	398	132	-	2,185	3,711	29,522
Net earned premiums	**61**	**120,974**	**525,563**	**3,282**	**132,407**	**231,221**	**39,701**	**2,280**	**2,949**	**149,534**	**212,531**	**1,420,503**
Gross claims paid	-	41,014	260,526	1,390	212,349	161,320	20,196	1,039	1,198	112,983	124,747	936,762
Change in Gross outstanding claims	(6)	249	179,744	(4,194)	(101,833)	72,657	2,105	9,146	789	(13,504)	38,300	183,453
Retrocession claims	-	9,014	63,346	147	91,876	38,247	3,448	(2,340)	(42)	15,702	46,045	265,443
Change in Retro outstanding claims	-	688	133,829	(1,262)	(20,960)	17,533	62	1,229	-	(7,275)	8,494	132,338
Net claims incurred	**(6)**	**31,561**	**243,095**	**(1,689)**	**39,600**	**178,197**	**18,791**	**11,296**	**2,029**	**91,052**	**108,508**	**722,434**
Risk premium rebates earned	-	6,458	36,054	5	3,770	5,615	1,160	(34)	-	2,039	5,209	60,276
Risk premium rebates	22	46,954	249,493	802	48,383	51,241	14,047	415	835	43,448	83,810	539,450
Taxes and other charges	9	11,047	38,724	144	13,382	4,386	3,383	3	5	8,338	21,234	100,655
Technical profit/(loss)	**36**	**37,870**	**30,305**	**4,030**	**34,812**	**3,012**	**4,640**	**(9,468)**	**80**	**8,735**	**4,188**	**118,240**
Expenses of management	3	6,104	31,113	133	7,080	12,123	1,960	85	124	7,395	11,425	77,545
Total expenses and risk premium rebates	**34**	**57,647**	**283,276**	**1,074**	**65,075**	**62,135**	**18,230**	**537**	**964**	**57,142**	**111,260**	**657,374**
Underwriting profit/(loss)	**33**	**31,766**	**(808)**	**3,897**	**27,732**	**(9,111)**	**2,680**	**(9,553)**	**(44)**	**1,340**	**(7,237)**	**40,695**
Key ratios:												
Net loss ratio (net claims incurred/net earned premiums)	(10%)	26%	46%	(51%)	30%	77%	47%	495%	69%	61%	51%	51%
Net risk premium rebates ratio (net risk premium rebates/net written premiums)	29%	29%	36%	24%	29%	18%	28%	21%	28%	24%	33%	30%
Total expense ratio (total net expenses and net risk premium rebates/net written premium)	45%	42%	47%	33%	43%	25%	40%	26%	33%	34%	47%	41%

Supplementary Information

Long-Term Business Revenue Account

For the Year Ended 31 December 2012

	Ordinary life business Shs '000	Group life business Shs '000	2012 Total Shs '000
Gross earned premiums	**18,735**	**355,165**	**373,900**
Retrocession premiums	(4,905)	(66,054)	(70,959)
Net earned premiums	**13,830**	**289,111**	**302,941**
Investment income	4,296	81,623	85,919
Risk premium rebates earned	1,265	19,948	21,213
Net income	**19,391**	**390,682**	**410,073**
Gross claims	1,347	107,324	108,671
Recoveries	-	(15,134)	(15,134)
Change in long-term liabilities	7,343	84,482	91,825
Net claims and treaty benefits payable	**8,690**	**176,672**	**185,362**
Operating and other expenses	3,377	64,789	68,166
Risk premium rebates	3,769	81,685	85,454
Total expenses	**15,836**	**323,146**	**338,982**
Profit before taxation	**3,555**	**67,536**	**71,091**
Taxation charge	(1,021)	(19,406)	(20,427)
Other comprehensive income	30	556	586
Profit after taxation	**2,564**	**48,686**	**51,250**
Transfer to general business	(2,564)	(48,686)	(51,250)
Long-term business profit after taxation	**-**	**-**	**-**

The long - term revenue account was approved by the board of Directors on 28 February 2013 and were signed on its behalf by:

J. P. M. Ndegwa	***D. G. M. Hutchison***	***P. K. Maina***
Chairman	Director	Principal Officer
28 February 2013	28 February 2013	28 February 2013

Supplementary Information

Long-Term Business Revenue Account

For the Year Ended 31 December 2011

	Ordinary life business Shs '000	Group life business Shs '000	2011 Total Shs '000
Gross earned premiums	**10,665**	**313,973**	**324,638**
Retrocession premiums	(3,770)	(36,975)	(40,745)
Net earned premiums	**6,895**	**276,998**	**283,893**
Investment income	1,062	31,274	32,336
Risk premium rebates earned	1,151	10,128	11,279
Net income	**9,108**	**318,400**	**327,508**
Gross claims	(1,060)	112,209	111,149
Recoveries	-	(23,622)	(23,622)
Change in long-term liabilities	1,330	54,157	55,487
Net claims and treaty benefits payable	**270**	**142,744**	**143,014**
Operating and other expenses	2,252	67,302	69,554
Risk premium rebates	3,577	66,404	69,981
Total expenses	**6,099**	**276,450**	**282,549**
Profit before taxation	**3,009**	**41,952**	**44,961**
Taxation charge	(743)	(12,669)	(13,412)
Profit after taxation	**2,266**	**29,283**	**31,549**
Transfer to general business	(2,266)	(29,283)	(31,549)
Long-term business profit after taxation	**-**	**-**	**-**

Proxy Form

We (name in full) ....

of (address) ....

being members of East Africa Reinsurance Company Limited, hereby appoint ....

....

of (address) ....

and failing him/her ....

of (address) ....

as our proxy to vote for us on our behalf at the Twentieth Annual General Meeting of the Company to be held on Thursday, 16 May 2013, at twelve noon and at any adjournment thereof.

Signed this .... day of 2013

Signature(s) ....

If a member however wishes to indicate their vote prior to the Annual General Meeting, please tick in the appropriate box:

	For	Against
Ordinary Business		
1. To adopt the financial statements for the year ended 31 December 2012 and the Chairman's, Directors', Actuary's and Auditors' reports thereon.	☐	☐
2. To approve the payment of a dividend.	☐	☐
3. To approve the remuneration of the Directors.	☐	☐
4. To note that Deloitte & Touche continue as the Company's auditors and to authorize the Directors to fix their remuneration.	☐	☐
Special Business		
1. Increase of Authorized Share Capital To resolve that the Company's authorized share capital be increased from Shs 800,000,000 to Shs 1,000,000,000.	☐	☐
2. Capitalization of Revenue Reserves To resolve that bonus shares be issued in the proportion of one new shares for every four existing shares held.	☐	☐
3. Directors' Retirement by Rotation. To resolve that all Directors except executive Directors shall have a fixed tenure of office and shall retire from the Board at regular intervals of at least once every three years, with a provision that they could offer themselves for re-election based on a pre-determined policy and criteria.	☐	☐

IMPORTANT NOTES

1. This proxy form must be under seal or under the hand of an Officer or Attorney duly authorised in writing in that behalf, as each of the members of the Company is a corporate member.

2. A person appointed to act as proxy need not be a member of the Company.

3. This proxy shall be deemed to confer authority to demand a poll.

4. To be valid, proxy forms should be completed and returned to the Company Secretary, East Africa Reinsurance Company Limited, P. O. Box 20196, 00200 City Square, Nairobi to reach him not later than twenty-four hours before the time appointed for holding the Meeting or adjourned Meeting and in default, the instrument of the proxy shall not be treated as valid, and no proxy form shall be valid twelve months from the date of its execution.

Staff Members

Standing from Left to Right

Ben Chirchir, Shivani Shah, Purity Njeru, Florence Muchoki, Rhoda Mulera, Linda Onyango, Manita Bahra, Boniface Wambua, Yolanda Vumilia, Lydia Murerwa, Chrispin Onyancha, Richard Kogo, Angela Miyogo, Herman Kamau, Elizabeth Koton, Gladys Njihia.

Seated from Left to Right

David Kirui, David Muraguri, Ezra Rahedi, Peter Maina, David Mitoko, Lazarus Kimang'a.

Not in the Picture

Julie Kimonye, Miriam Kimondo and Robert Muganda.

Champions of Governance (COG) Award

EARe CEO, Peter Maina *(2nd right)*, receives the 2012 Insurance Sector Winner's Award sponsored by ICPSK.

Corporate Responsibility

EARe donating sanitary towels at St. Martins Girls High School, Nairobi

EARe supports Street Children's Assitance Network of Nakuru (SCANN), Nakuru

EARe House, 98 Riverside Drive,
P. O. Box 20196 - 00200 Nairobi, Kenya
Tel: +254 20 4443588
Fax: +254 20 4455391
Mobile: +254 728111041; +254 733623737
Email: info@eastafricare.com

www.**eastafricare**.com