



## VISION STATEMENT

To be the risk partner of choice in our markets.



## MISSION STATEMENT

To provide quality risk solutions, excellent service and enhanced value to all the stakeholders.



## CORE VALUES

Integrity,  
Commitment,  
Partnership,  
Excellence,  
Professionalism,  
innovation.

### 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@eastaficare.com ,  
Website: www.eastafricare.com

### COMPANY SECRETARY

K. M. Ontiti  
Certified Public Secretary (Kenya)  
P. O. Box 30345 - 00100 GPO  
Nairobi, Kenya

### AUDITORS

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

### PRin CiPAI B An KERS

ni C Bank Limited  
ni C House Branch, Masaba Road  
P. O. Box 30090 - 00100 GPO,  
Nairobi, Kenya

### ACTUARIES

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

Deloitte & Touche, Deloitte Place  
Waiyaki Way, Muthangari  
P. O. Box 40092 - 00100 GPO  
Nairobi, Kenya

### LEGAL ADVISORS

Kaplan & Stratton  
Williamson House, 4th n gong Avenue  
P. O. Box 40111 - 00100 GPO,  
Nairobi, Kenya

LJA Associates  
Cavendish Block, 14 Riverside Drive  
P. O. Box 49594 - 00100  
Nairobi, Kenya



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## 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  
Director



L. W. Muriuki (Ms.)  
Director



S. O. Oluoch  
Director



A. Vaidyan  
Director



K. M. Ontiti  
Company Secretary



V. Bharatan



P. K. Mugambi



A. S. M. Ndegwa



S. V. Deshkulkarni

MANAGEMENT



Standing from your left: D. Kirui - Manager - Life , D. Mitoko - Manager - Non Life , M. Kamau Actuarial Officer , B. K. Chirchir - IT Manager , R. W. Gitonga - Chief Finance Officer, R. K. Kogo - Chief Accountant

Seated from left: C. Omasete - Risk & Compliance Manager, P. K. Maina - Chief Executive Officer V. Maithya - Human Resource & Administration Manager

## FINANCIAL HIGHLIGHTS- 5 YEARS (COMBINED BUSINESS)

### Short-Term and Long-Term Business Combined

|                         | 2015<br>Shs 'million | 2014<br>Shs 'million | 2013<br>Shs 'million | 2012<br>Shs 'million | 2011<br>Shs 'million |
|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Investment income (net) | 530                  | 406                  | 393                  | 425                  | 134                  |
| Gross Premiums          | 3,705                | 3,478                | 2,817                | 2,461                | 2,152                |
| Net Premiums            | 3,447                | 3,304                | 2,713                | 2,326                | 1,885                |
| Net Earned Premiums     | 3,420                | 3,157                | 2,645                | 2,162                | 1,704                |
| Technical Profit        | 289                  | 334                  | 283                  | 202                  | 212                  |
| Underwriting Profit     | 136                  | 209                  | 149                  | 79                   | 121                  |
| Profit Before Tax       | 626                  | 539                  | 519                  | 404                  | 164                  |
| Profit After Tax        | 432                  | 373                  | 366                  | 283                  | 102                  |
| Dividend                | 60                   | 60                   | 60                   | 40                   | 15                   |
| Shareholders' funds     | 3,016                | 2,645                | 2,190                | 1,864                | 1,314                |
| Share Capital           | 1,300                | 1,000                | 1,000                | 800                  | 750                  |
| Total Assets            | 7,774                | 6,270                | 5,409                | 4,698                | 3,803                |

### Short-Term and Long-Term Business Combined

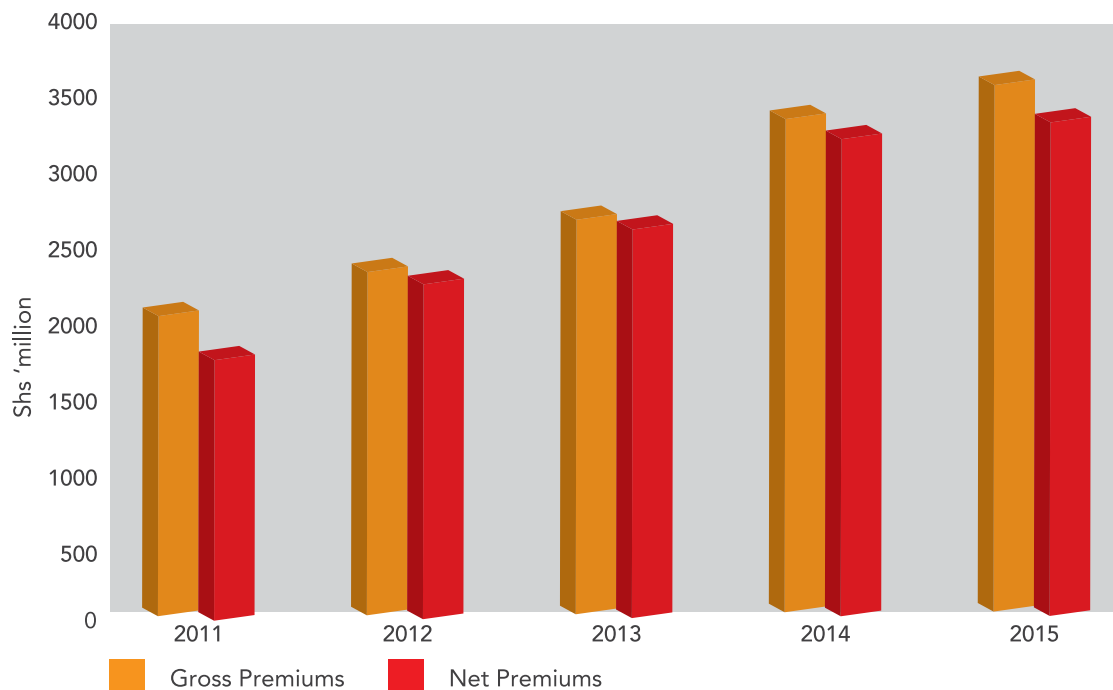
|                         | 2015<br>102.2*<br>USD '000' | 2014<br>90.6*<br>USD '000' | 2013<br>86.3*<br>USD '000' | 2012<br>86.0*<br>USD '000' | 2011<br>85.1*<br>USD '000' |
|-------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Investment income (net) | 5,186                       | 4,481                      | 4,549                      | 4,939                      | 1,577                      |
| Gross Premiums          | 36,252                      | 38,389                     | 32,643                     | 28,613                     | 25,290                     |
| Net Premiums            | 33,728                      | 36,469                     | 31,438                     | 27,045                     | 22,148                     |
| Net Earned Premiums     | 33,464                      | 34,846                     | 30,643                     | 25,143                     | 20,028                     |
| Technical Profit        | 2,828                       | 3,685                      | 3,274                      | 2,350                      | 2,496                      |
| Underwriting Profit     | 1,331                       | 2,307                      | 1,726                      | 923                        | 1,426                      |
| Profit Before Tax       | 6,125                       | 5,949                      | 6,018                      | 4,701                      | 1,927                      |
| Profit After Tax        | 4,227                       | 4,117                      | 4,235                      | 3,286                      | 1,204                      |
| Dividend                | 587                         | 662                        | 695                        | 465                        | 176                        |
| Shareholders' funds     | 29,511                      | 29,193                     | 25,373                     | 21,679                     | 15,444                     |
| Share Capital           | 12,720                      | 11,038                     | 11,586                     | 9,302                      | 8,813                      |
| Total Assets            | 76,067                      | 69,207                     | 62,669                     | 54,627                     | 44,688                     |

\*Exchange Rate

|                                   | 2015 | 2014 | 2013 | 2012 | 2011 |
|-----------------------------------|------|------|------|------|------|
| Net Technical Profit/Net Premiums | 8%   | 10%  | 10%  | 9%   | 11%  |
| Loss Ratio                        | 60%  | 58%  | 55%  | 54%  | 47%  |
| Earnings Per Share (Shs)          | 332  | 373  | 366  | 353  | 137  |
| Dividend Cover                    | 7    | 6    | 6    | 7    | 7    |
| Return on Equity Before Tax       | 22%  | 22%  | 26%  | 25%  | 12%  |
| Return on Equity After Tax        | 15%  | 15%  | 18%  | 18%  | 8%   |

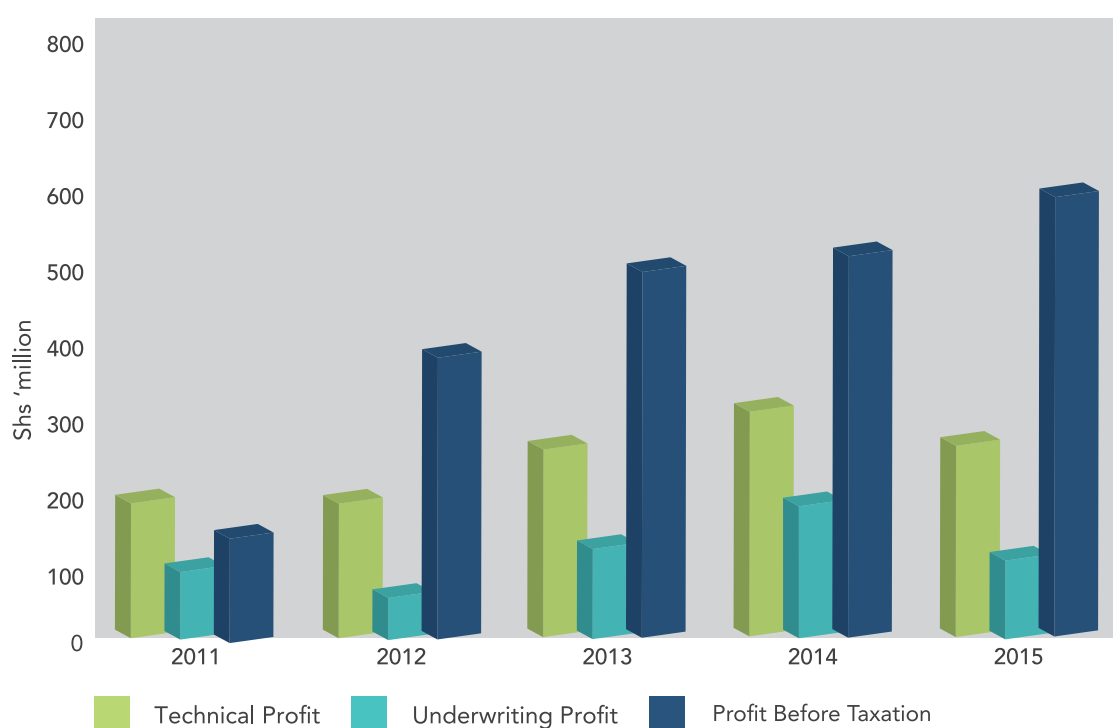
|                | 2011  | 2012  | 2013  | 2014  | 2015  |
|----------------|-------|-------|-------|-------|-------|
| Gross Premiums | 2,152 | 2,461 | 2,817 | 3,478 | 3,705 |
| Net Premiums   | 1,885 | 2,326 | 2,713 | 3,304 | 3,447 |

Gross Premiums and Net Premiums - Combined Business



|                        | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------|------|------|------|------|------|
| Technical profit       | 212  | 202  | 283  | 334  | 289  |
| Underwriting profit    | 121  | 79   | 149  | 209  | 136  |
| Profit Before Taxation | 164  | 404  | 519  | 539  | 626  |

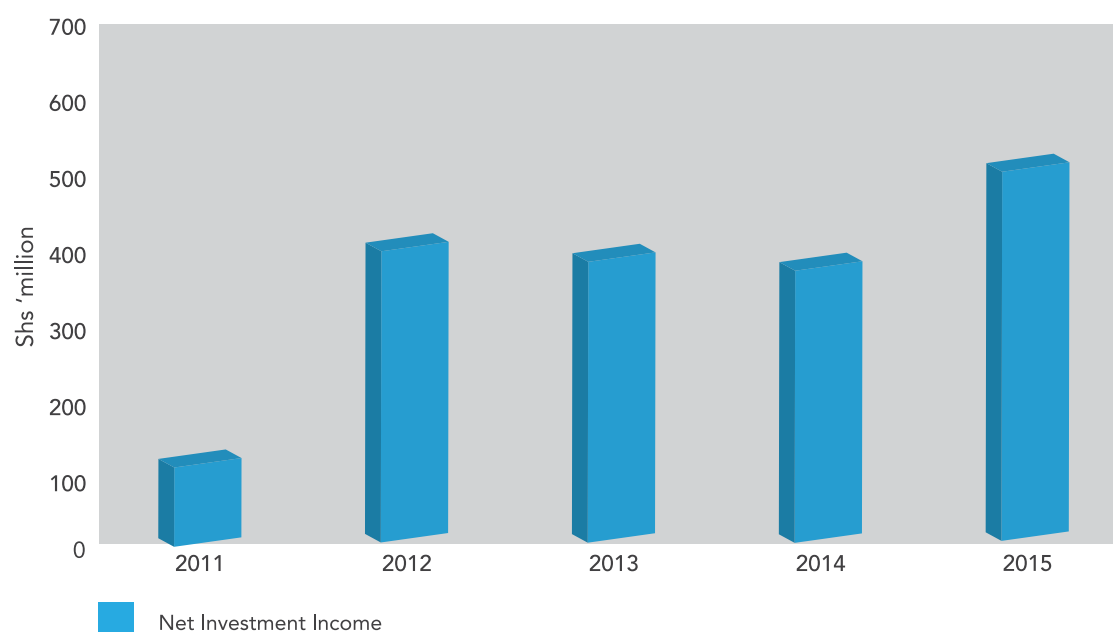
Technical Profit, Underwriting Profit and Profit Before Taxation - Combined Business



# FINANCIAL HIGHLIGHTS- 5 YEARS (COMBINED BUSINESS)

|                       | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------|------|------|------|------|------|
| Net Investment Income | 134  | 425  | 393  | 406  | 530  |

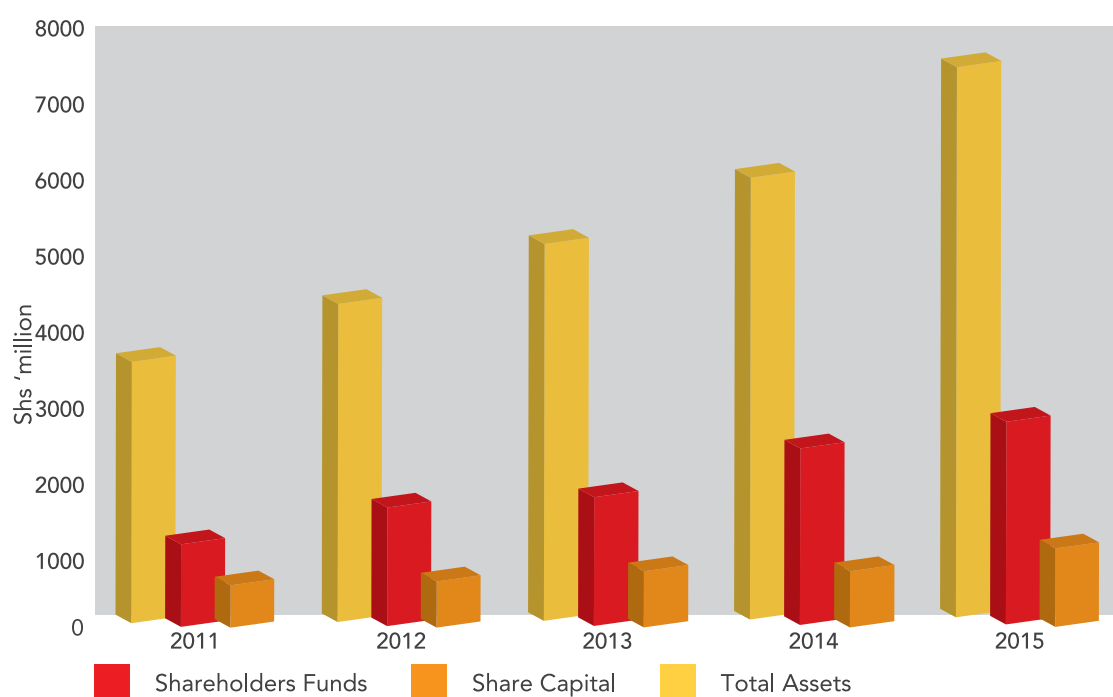
Combined Net Investment Income - Combined Business



6

|                    | 2011  | 2012  | 2013  | 2014  | 2015  |
|--------------------|-------|-------|-------|-------|-------|
| Shareholders Funds | 1,314 | 1,864 | 2,190 | 2,645 | 3,016 |
| Share Capital      | 750   | 800   | 1,000 | 1,000 | 1,300 |
| Total Assets       | 3,803 | 4,698 | 5,409 | 6,270 | 7,774 |

Shareholders' Funds, Share Capital, Total Assets (Shs' million) - Combined Business





Notice is hereby given that the Twenty-Third Annual General Meeting of East Africa Reinsurance Company Limited will be held on Thursday, **19 May 2016**, in the Company's Training Room, EARe House, 98 Riverside Drive, Nairobi, at twelve noon to transact the following business:

#### ORDINARY BUSINESS

1. To read the Notice convening the meeting.
2. Confirmation of Quorum.
3. To confirm the minutes of the Annual General Meeting held on 21 May 2015.
4. To receive, consider and, if appropriate, adopt the financial statements for the year ended 31 December 2015 and the Chairman's, Directors', Actuary's and Auditors' reports thereon.
5. To approve the payment of a final dividend of Shs 60 million (Shs 46.15 per share) for the year ended 31 December 2015.
6. To re-elect a Director:  
(a) Ms. L W Muriuki retires by rotation in accordance with Article 80(A) of the Company's Articles of Association and, being eligible, offers herself for re-election.
7. To ratify the appointment of Ms. A G Vaidyan as a Director with effect from 21 April 2016.
8. To approve the remuneration of the Directors.
9. To reappoint PricewaterhouseCoopers as the Company's auditors under Section 159(2) of the Companies Act (Cap. 486) subject to approval by the Commissioner of Insurance as required under section 56(4) of the Insurance Act (Cap. 487) and to authorize the Directors to fix the remuneration of the Auditors for the period to the close of the next Annual General Meeting.
10. 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

"That pursuant to Article 48 of the company's Articles of Association, the authorized share capital of the Company be increased from Kes. 1,300,000,000 to Kes. 1,500,000,000 by the creation of a further 200,000 ordinary shares of Kes. 1,000 each, such new shares to rank pari passu in all respects with the existing shares, and the Directors be and are hereby authorized to give effect to this resolution in accordance with the Articles of Association of the Company."

##### 2. Capitalization of retained earnings

"That pursuant to Article 120 of the company's Articles of Association, the sum of Kes. 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 Kes. 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 2015 in the proportion of two of such new share for every thirteen 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 authorized to give effect to this resolution in accordance with the Articles of Association of the company."

By Order of the Board

**K. M. ONTITI**

Secretary

25 February 2016

#### NOTE:

- 1) 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.
- 2) 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.



On behalf of the Board of Directors, I am pleased to present the Company's Annual Report and Financial Statements for the year ended 31 December 2015.

## HIGHLIGHTS

I begin by reflecting on the key aspects that shaped our 2015 financial performance.

## ECONOMY & BUSINESS ENVIRONMENT OVERVIEW

Kenya's economic growth for 2015 is estimated at 5.5% (2014: 5.3%). This growth was achieved amidst the negative impacts of a global economic slowdown, travel advisories that particularly impacted the key tourism sector, vagaries of weather, terrorism threats and increased pressure on Government expenditure. The growth was mainly supported by lower energy costs due to lower international oil prices, the agriculture sector and strong public infrastructure spending.

The better part of the year saw the Kenya Shilling depreciate against major currencies. Among the factors that contributed to the fall of the Kenya Shilling were the strengthening of the US dollar globally, high imports in significant part associated with the infrastructure spending, poor tourism inflows due to the travel advisories and foreign investors exiting the Nairobi Security Exchange (NSE). That said, it is important to note that the Kenya Shilling remained comparatively strong against other currencies in the region and market in which the Company operates.

The equity market recorded a decrease in share prices during the year with NSE 20 share index closing at 4041 points as at 31 December 2015, down from 5112 points as at 31 December 2014. The poor performance of equities was partly due to the reintroduction of capital gains tax on equity trades, the sharp reduction in participation of foreign investors and the prevailing higher interest rates on the fixed income market.

The insurance sector in Kenya has recently experienced several mergers and acquisitions in addition to attracting global brands. This activity in the sector not only increases competition but is an indicator of market growth that is being driven by emerging insurance opportunities in oil and gas, and infrastructure projects.

On the competitive front, the mandatory treaty sessions to Kenya Re were not only extended for a further 5 years with effect from 1 January 2016 but were also increased from 18% to 20%. This development was most disappointing coming at time and age when greater liberalization of our home market was anticipated. It will obviously have a negative impact on the Company as there will be less optional treaty business available to compete for. This is further compounded by the continuing trend in a number of foreign markets that the Company operates in where legislation is being enacted to protect local reinsurance institutions at the expense of foreign reinsurers.

On the regulatory front, the Insurance Regulatory Authority (IRA) is in the process of implementing a Risk Based Supervision (RBS) framework. This framework places strong emphasis on ensuring the adequacy of insurers and reinsurers risk management systems, with their minimum capital levels being based on their specific risk profile.

The contentious 10% excise duty on commissions and other charges was eventually resolved and as such premium based and other related commissions were excluded from being subjected to this tax with effect from 1 December 2015.

## OVERALL PERFORMANCE

The Company recorded a 7% growth in consolidated gross premium income to stand at Kshs 3.7 billion, up from Kshs 3.5 billion in 2014. The Company further achieved a 16% growth in consolidated profit before taxation of Kshs 626.2 million from Kshs 539.5 million in 2014. The profit after tax for the year stood at Kshs 431.7 million, reflecting a 16% improvement over 2014 resulting mainly from improved investment income and represents a new record high for the Company.

In 2015 the Company achieved greater diversification in the business in line with its growth strategy with the contribution from life business standing at 19% of the total gross premium income up from 12% in 2014.

## UNDERWRITING PERFORMANCE

The 7% growth in total gross premium income in 2015 is mainly attributed to the growth in life reinsurance business during the year.

Net premium income of Kshs 3.4 billion represents a 4% growth on the 2014 comparative of Kshs 3.3 billion. During the year, there was a marginal increase in retrocession premium mainly attributed to increase in exposure as a result of the growth in life business and reinstatement premiums relating to the Nepal earthquake.

Net claims incurred stood at Kshs 2 billion representing an adverse variance of 12% on the previous year's comparative of Kshs 1.8 billion, mainly due to higher claims recorded from India and Nepal markets which experienced flooding and earthquake respectively. This resulted in a consolidated loss ratio of 59.5% (2014: 57.6%).

The net acquisition cost ratio was high at 28% compared with 27.7% in 2014, and the management expenses ratio to net premium income increased to 4.5% from 3.8% in 2014. The combined ratio rose to 96% from 93.4% in 2014 mainly due to higher loss ratio.

The 2015 consolidated underwriting profit at Kshs 135.5 million is lower than last year's comparative by 35% mainly due to the shortfall in gross premium written arising from a decline in economic growth across the region and the higher claims recorded in the Non-Life business.

The largest classes of business were Fire, Life, Medical and Miscellaneous Accident respectively with a combined contribution of 79.9% (2014: 81.3%) of the consolidated premium income.

Kenya contributed significantly to the Company's business at 58.6% of the consolidated gross premium income for the year, compared with 56.4% in 2014. The Kenyan market accounted for 49.8% of the short-term business compared with 50% in 2014 and was also the main source of long-term business at 95.6% (2014: 97.4%).

Of the foreign markets, India and Tanzania were the Company's main sources of business with contributions of 12.8% (2014: 17%) and 8.3% (2014: 9%) of the gross premium income of the short term business respectively.

The regional reinsurance market continues to experience intense competition and softening of terms as a result of overcapacity.

#### INVESTMENT PERFORMANCE

The total gross investment income grew by 30% to stand at Kshs 568.1 million, up from Kshs 437.8 million in 2014. The increase is attributed to high yields secured on the fixed income securities, and growth in the investment portfolio during the year.

The total investable funds stood at Kshs 5.33 billion at 31st December 2015, representing a 15% growth over the previous year's Kshs 4.64 billion.

#### ASSETS AND SHAREHOLDERS' FUNDS

The Company's total assets amounted to Kshs 7.77 billion as at 31 December 2015 compared with Kshs 6.27 billion as at 31 December 2014.

The consolidated Shareholders' funds as at 31 December 2015 of Kshs 3.02 billion reflects a 14% growth over the year from the Kshs 2.64 billion as at 31 December 2014.

The Shareholders' funds of Kshs 2.35 billion for short-term business comprises of share capital of Kshs 1 billion, retained earnings of Kshs 1.07 billion, revaluation reserve of Kshs 212.6 million, fair value reserve of Kshs 10.3 million and a proposed dividend of Kshs 60 million. The Shareholders' funds of Kshs 666.1 million for long-term business comprises of share capital of Kshs 300 million and general reserve of Kshs 366.1 million. The consolidated total paid up share capital stood at Kshs 1.3 billion as at 31 December 2015 (2014: Kshs 1 billion).

#### DIVIDEND

The Board, after considering the Company's strategic plans and current year's performance, recommends to the Shareholders payment of a total dividend of Kshs 60 million, a similar amount as in the previous year.

#### SHARE CAPITAL AND BONUS ISSUE

The Finance Act 2015 stipulates that the minimum capital for reinsurers be increased to Kshs 1.5 billion (Short term business: Kshs 1 billion and Long term business: Kshs 500 million). Existing reinsurance companies will have to comply with this by 30 June 2018.

To meet the minimum capital requirement set by the Regulator in respect of life business, the Board recommends a bonus issue amounting to Kshs 200 million to the Shareholders registered as at close of business on 31 December 2015 in the proportion of two new shares for every thirteen existing shares held. This will have the effect of increasing the paid up share capital of the Company from Kshs 1.3 billion to Kshs 1.5 billion, of which Kshs 1 billion will be for the short-term business while Kshs 500 million will be for the long-term business.

The Company's capital adequacy ratio at 163% as at 31 December 2015 was strong with 200% for short-term business and 100% for long-term business.

## SOLVENCY MARGINS

The Company's solvency margins for short-term business and long-term business were strong and exceeded the requirements of Section 41 of the Insurance Act (Cap 487) at 319% and 1884% respectively.

## BRAND AND SECURITY RATINGS

The Company was awarded the 2nd runners up position in the 2015 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 the Insurance Regulatory Authority (IRA) and KASNEB.

During the year, A. M. Best affirmed 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 affirmed the Company's domestic security rating of A+.

## BOARD AND GOVERNANCE

The Directors who held office in 2015 are listed on page 2 of this report.

As we continue to expand our horizons, the Board continues to reflect on the Company's outlook, while drawing from the Company's vision, mission and values that continue to steer the Company towards achieving its strategic goals.

During the period, Ashok K Roy who served as Director since 2012 resigned on 31st July 2015 and was briefly replaced by K Sanath Kumar who was appointed on 26th November 2015. Mr K Sanath Kumar has subsequently been replaced by Mrs Alice G. Vaidyan with effect from 26th February 2016.

Lazarus Kimang'a who was General Manager (Finance & Administration) and also served as Company Secretary for a distinguished 18 years retired on 4th December 2015 and was replaced by Ms Rachael Gitonga as the Chief Finance Officer with effect from 23rd November 2015 while Kennedy Ontiti was appointed as the Company Secretary.

On behalf of the Board, I thank the three gentlemen for the valuable services they rendered during the period they were with the Company and to also extend our best wishes to them in their future endeavours. I also take this opportunity to welcome Mrs Vaidyan, Ms Gitonga and Mr Ontiti, and look forward to working with them.

During the period under review, the Board remained committed to the principles of corporate governance and best practice and also to complying with the requirements of the Insurance Act and other applicable legislation and regulations.

A report on the corporate governance practices in the Company is contained in the Corporate Governance Statement forming part of the 2015 Annual Report.

The Company has in place evaluation systems for both the Board and its committees. These evaluations are carried out annually by the Ethics, Nominations and Remuneration Committee is responsible for the evaluation which then reports on the same to the full Board.

During the period under review, the Board remained committed to the principles of corporate governance and best practice and also to complying with the requirements of the Insurance Act and other applicable legislation and regulations.

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The Company has in place evaluation systems for both the Board and its committees. These evaluations are carried out annually and the Ethics, Nominations and Remuneration Committee is responsible for the evaluation and then reports on the same to the full Board.

## CORPORATE SOCIAL RESPONSIBILITY

The Company continues with its commitment to being a responsible corporate citizen and is currently actively involved in education and social welfare; supporting needy and deserving children undertake secondary education by paying their school fees.

## 2016 OUTLOOK

The World Bank projects that Kenya will grow at a robust pace in 2016, supported by large-scale infrastructure projects, which should help boost domestic trade. It cites the ongoing construction of the Standard Gauge Railway and the expected development of the Lamu Port as projects that will boost the country's real gross domestic product growth in 2016 to 5.7% from 5.5% in 2015. Other factors fuelling the growth include the still-low oil prices, an expanding services sector and regional integration. Security risks tied to terrorist threats and pressure on the shilling however remain valid concerns for Kenya.

However the rate of growth of Kenya's economy, which is the largest economy in the East African region, still lags behind Rwanda, Tanzania and Ethiopia, which are expected to grow at 7.6%, 7.2% and 10.2% respectively this year. The World Bank expects Uganda to grow at 4.9% in 2016.

The rate of inflation is projected to fall to 6% to 7% in 2016 following successful efforts by the Central Bank to control the same and stabilise the shilling.

A number of factors are expected to drive growth in Kenya's insurance sector including:

- The Kenyan insurance sector remains promising with non-life insurance expected to record robust annual growth due to wider economic growth that is driving demand for a number of products, including property, health and motor insurance. At the same time, improving awareness of the benefits of various life products, as well as an expansion in the number of products available in the market, is contributing to growth of the life sector.
- With the uptake of micro insurance the insurance players are expected to progress towards tapping into this segment. The Kenyan informal sector offers a rich platform, with increasing disposable income. Industry players are expected to innovate on products that will be affordable and relevant to this segment.
- Partnerships between insurers and the traditional banking sector in offering insurance covers under the bancassurance model is another frontier of growth.

With the proposed risk based supervision framework, it is expected that some consolidation of insurance companies will start taking place as industry players prepare to meet the required enhanced statutory minimum requirements.

Regarding the investment market for the insurance industry, the continued poor performance at Nairobi Securities Exchange (NSE) and the projected decline in interest rates will likely lead to pressure in sustaining investment returns.

#### APPRECIATION

In 2015, the Company completed 20 years of operations. From a humble beginning, the Company has achieved significant growth in all aspects and is today playing a significant role in the local and regional reinsurance markets. To mark this significant milestone, the Company hosted a celebration on 23rd May 2015 with our shareholders, clients, industry players, regulators, business partners and staff.

The successful event served to highlight the Company's achievements to date, potential and position it for future growth.

The Company's solid performance over the years has laid a firm foundation for future growth. The Board is confident that the Company is in a position to take up greater opportunity to not only realize further growth, but to also achieve our mission of providing quality risk solutions, excellent service and enhanced value to all the stakeholders.

Since inception, the Company has enjoyed tremendous support and goodwill from all its cedants, intermediaries, retrocessionnaires, regulators and all other business partners. This support is greatly appreciated and not taken for granted.

I would also like to thank the Shareholders for continuing to support and believe in EARe, our strategy and our future.

Equally, I would like to thank my fellow Directors for the vital roles they continued to play, both on the Board and on the various committees of the Board.

Last but not least, I wish to recognise and appreciate the entire management team and indeed each member of staff for their dedication and hard work that contributed to these results.

Thank you.

**J. P. M. NDEGWA**  
Chairman

25 February 2016

The directors present their report together with the audited financial statements of East Africa Reinsurance Company Limited (the "Company") for the year ended 31 December 2015 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 reinsurance businesses as defined by the Kenyan Insurance Act.

### RESULTS AND DIVIDEND

The total comprehensive income for the year amounted to Shs 431,701,000 (2014: Shs 514,831,000). The profit for the year of Shs 431,701,000 (2014: Shs 372,883,000) has been added to retained earnings.

The directors recommend the payment of a first and final dividend of Shs 60,000,000 (2014: Shs 60,000,000) representing a dividend of Shs 46.15 (2014: Shs 60) per share and a dividend payout ratio of 13% (2014: 16%).

### COMPANY SECRETARY

The Board appointed Mr. Kennedy Ontiti as the Company Secretary with effect from 4 December 2015 following the retirement of Mr. Lazarus Kimang'a.

### DIRECTORS

The directors who held office during the year and to the date of this report are listed on page 2.

### AUDITOR

PricewaterhouseCoopers were appointed as auditors during the year and have expressed their willingness to 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

**K. M. ONTITI**  
Secretary

25 February 2016



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.

## 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.

## BOARD COMPOSITION AND APPOINTMENT

The board of directors consists of six non-executive directors and one executive director. The board of directors maintains an appropriate balance of skills, experience, independence and knowledge of the Company and its' business to enable them discharge their respective duties and responsibilities effectively as well as be diverse on nationality, age and race. The board also maintains a transparent procedure for appointment of new board members.

The Board maintains effective control over strategic, financial operational and policy issues.

## BOARD MEETINGS

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.

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.

## REMUNERATION OF DIRECTORS

The Board is remunerated fairly and responsibly based on a compensation structure aligned with the strategy of the company. The Shareholders at every Annual General Meeting approve the directors' remuneration.

The aggregate amount of emoluments paid to directors for services rendered during the financial year is disclosed in Note 36(d) to the financial statements for the year ended 31 December 2015.

## COMMITTEES OF THE BOARD

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 on a regular basis per the schedule agreed at the beginning of each year. 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.

### 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 Chief Finance Officer is in attendance.

The Committee meets on a quarterly basis and is mainly responsible for financial, investment, information and communication technology on behalf of the Board. They oversee the formulation and implementation of the Company's financial policies and plans, ensure adequate systems to monitor and manage risks, ensure implementation of the requirements of International Financial Reporting Standards, review and monitor compliance with investment strategy, policy and statutory requirements. It also oversees formulation, implementation and compliance with the Company's IT policies and plans. 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. The Chief Executive Officer, Chief Finance Officer and the Risk and Compliance Manager are in attendance.

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.

### 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 Chief Finance Officer is in attendance while the Human Resource & Administration Manager attends meetings of the ENR by invitation.

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The Committee meets biannually 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 cedants, 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.

## 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 & Compliance department. The Company has taken positive steps towards development of its Enterprise Risk Management Framework which provides an integrated way of assessing and evaluating the risk profile of the company. The Risk Management Framework features various aspects such as the Company's risk strategy, risk appetite & tolerance, governance, risk & capital management, company's risk profile, scenario analysis, solvency assessment, and the various tools used in managing risks. The Framework is also reviewed by the Board, A.M Best, Internal & External Auditors, Appointed Actuaries and IRA.

The Company has in place a chain of internal 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.

## EMPLOYEE GROWTH AND DEVELOPMENT

EARE believes that the growth of the business is directly linked to the growth of its employees.



The performance based culture is guided by Balance Score Card (BSC) a performance management system which focuses on both qualitative and quantitative performance of the team. The BSC aligns the performance of the individual and the corporate objectives. Whereas attainment of quantitative goals can be measured by increase in shareholder value, attainment of qualitative goals is measured by personal growth of the individuals in the various units of the company. We strive to support individuals to achieve their aspirations through training and personal development plans and initiatives. The team building initiatives organized by the Company create a sense of oneness with the team members making the working environment favourable.

In addition, the Company assists its staff to undertake continuous professional and development training programmes to fulfil their potential. The Company also recognizes the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for all its staff.

#### CONFLICT OF INTEREST

The directors of the Company are under a fiduciary duty to act honestly and in the best interests of the Company. Any business transacted with the Company must be at arm's length and, fully disclosed to the board, which must consider and approve it. A director must refrain from discussion or voting on matters of potential conflict of interest. There was no conflict of interest during the year reported.

#### 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 36 to the financial statements for the year ended 31 December 2015.

#### COMPLIANCE WITH LAWS

The Board is satisfied that the Company has, to the best of their knowledge, put in place mechanisms to ensure compliance with all the applicable laws. To the knowledge of the Board, no director or employee of the Company acted or committed any indictable offence in conducting the affairs of the Company nor been involved or been used as a conduit for money laundering or any other activity in contravention with the relevant laws.

#### DIRECTORS ATTENDANCE OF MEETINGS

The following are the attendance records of the directors at the Board and its' Committee meetings. A record of attendance is kept by the Company Secretary and noted in the minutes of the meetings.

##### a) Board Meetings

| Name                          | Position             | 26 February 2015 | 21 May 2015 | 4 September 2015 | 2 December 2015 |
|-------------------------------|----------------------|------------------|-------------|------------------|-----------------|
| J. P. M. Ndegwa               | Chairman             | √                | √           | √                | √               |
| M. P. Chandaria (Dr.) OBE EBS | Vice - Chairman      | √                | x           | √                | √               |
| P. K. Maina                   | CEO                  | √                | √           | √                | √               |
| D. G. M. Hutchison            | Member               | √                | √           | √                | √               |
| L. W. Muriuki (Ms.)           | Member               | √                | √           | √                | √               |
| S. O. Oluoch                  | Member               | √                | √           | √                | √               |
| A. K. Roy                     | Member               | x*               | x           | *                | *               |
| S.K. Kumar                    | Member               | -                | -           | -                | x               |
| <b>In Attendance</b>          |                      |                  |             |                  |                 |
| L. A. Kimang'a                | Secretary & GM (F&A) | √                | √           | √                | √               |
| K. Ontiti                     | Secretary            | -                | -           | -                | √               |
| R. W. Gitonga (Ms)            | CFO                  | -                | -           | -                | √               |

## STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

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

| Name                 | Position             | 19 February 2015 | 6 May 2015 | 5 August 2015 | 13 November 2015 |
|----------------------|----------------------|------------------|------------|---------------|------------------|
| P. K. Mugambi        | Chairman             | √                | √          | √             | √                |
| P. K. Maina          | CEO                  | √                | √          | √             | √                |
| J. K. Kimeu          | Member               | √                | √          | √             | √                |
| S.V. Deshkulkarni    | Member               | -                | -          | √             | x                |
| <b>In Attendance</b> |                      |                  |            |               |                  |
| L. A. Kimang'a       | Secretary & GM (F&A) | √                | √          | √             | √                |

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

| Name                 | Position                  | 19 February 2015 | 6 May 2015 | 16 July 2015 | 2 October 2015 | 13 November 2015 |
|----------------------|---------------------------|------------------|------------|--------------|----------------|------------------|
| D. G. M. Hutchison   | Chairman                  | √                | √          | √            | √              | √                |
| J. K. Kimeu          | Member                    | √                | √          | √            | √              | √                |
| P. K. Mugambi        | Member                    | √                | √          | √            | √              | √                |
| S.V. Deshkulkarni    | Member                    | -                | -          | -            | -              | x                |
| <b>In Attendance</b> |                           |                  |            |              |                |                  |
| P. K. Maina          | CEO                       | √                | √          | √            | √              | √                |
| L. A. Kimang'a       | Secretary & GM (F&A)      | √                | √          | √            | √              | √                |
| C. A. Omasete        | Risk & Compliance Manager | -                | -          | √            | √              | √                |

### d) Ethics, Nominations and Remuneration Committee

| Name                 | Position             | 15 May 2015 | 24 November 2015 |
|----------------------|----------------------|-------------|------------------|
| J. P. M. Ndegwa      | Chairman             | √           | √                |
| P. K. Maina          | CEO                  | √           | √                |
| P. K. Mugambi        | Member               | √           | √                |
| L. W. Muriuki (Ms.)  | Member               | √           | √                |
| S.V. Deshkulkarni    | Member               | -           | √                |
| <b>In Attendance</b> |                      |             |                  |
| L. A. Kimang'a       | Secretary & GM (F&A) | √           | √                |

#### KEY

- √ Attended.
- x Absent with apology.
- x\* Absent but represented by the alternate director.
- \* Resigned from the Board with effect from 31st July 2015.
- Was not yet appointed a member.

### COMPANY SECRETARY

The Company Secretary co-ordinates the Board activities and ensures, in conjunction with the Chairman and the Chief Executive Officer, that the board and committee meetings are held procedurally. The Company Secretary links flow of information between the Management and the Board and ensures the Board receives adequate and timely information and that Management receives feedback in a similar manner.

All directors have access to the Company Secretary who is also responsible for implementing and monitoring good corporate governance practices at the Board. The Secretary ensures that the business of the board meets all statutory requirements, keeps all legal and regulatory requirements under review and briefs the Board accordingly about these developments.

### ACTUARIAL FUNCTION

The Company has set up an in-house actuarial function. This function evaluates and provides advice to the Company regarding, at a minimum, technical provisions and compliance with related statutory and regulatory requirements. The Company has further contracted the "Appointed Actuary" who is a Fellow of The Actuarial Society of Kenya in compliance with the Actuarial Function guidelines released by the Authority. During the year, the appointed actuary together with the in-house actuarial function generated the technical liabilities that the company used in its audited financial statements. In addition, the team produced the company's Financial Condition Report (FCR).

### SHAREHOLDERS

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

|                                          | 2015 Holding     |               | 2014 Holding     |               |
|------------------------------------------|------------------|---------------|------------------|---------------|
|                                          | Number of Shares | %             | Number of Shares | %             |
| First Chartered Securities Limited       | 325,000          | 25.00         | 250,000          | 25.00         |
| ICEA LION Life Assurance Company Limited | 325,000          | 25.00         | 250,000          | 25.00         |
| Kenindia Assurance Company Limited       | 207,912          | 15.99         | 159,932          | 15.99         |
| General Insurance Corporation of India   | 191,777          | 14.75         | 147,521          | 14.75         |
| GA Insurance Limited                     | 89,154           | 6.86          | 68,580           | 6.86          |
| Cannon Assurance Limited                 | 57,024           | 4.39          | 43,865           | 4.39          |
| Gateway Insurance Company Limited        | 39,571           | 3.04          | 30,439           | 3.04          |
| Pioneer Holdings (Africa) Limited        | 39,000           | 3.00          | 30,000           | 3.00          |
| Apollo Investments Limited               | 17,516           | 1.35          | 13,474           | 1.35          |
| United Insurance Company Limited         | 8,046            | 0.62          | 6,189            | 0.62          |
| <b>Total</b>                             | <b>1,300,000</b> | <b>100.00</b> | <b>1,000,000</b> | <b>100.00</b> |

**J. P. M. NDEGWA**

Chairman

25 February 2016

**D. G. M. HUTCHISON**

Director

25 February 2016

**P. K. MAINA**

Principal Officer

25 February 2016

## OUR APPROACH

At EARE our business philosophy is anchored on being a responsible and supportive corporate citizen. EARE recognizes that social and environmental responsiveness should be an integral part of our business activities. We strive to earn the trust of all with our stakeholders; our employees, our clients, our shareholders, the communities where we work, the government, and any other persons that we interact with.

## OUR AREAS OF FOCUS

The Company strives to support deserving cases in the following sectors:-

- **Education** - Our education programs and partnerships support access to quality education for students who come from needy and deserving backgrounds. We also provide mentorship support to the sponsored students. In promoting education, we also focus on setting up computer labs in deserving schools to empower students' learning through information technology.
- **Social and child welfare** - We engage in provision of basic necessities to needy institutions supporting destitute children and the elderly.
- **Health** - The Company supports institutions that provide medical care to patients with critical illnesses as well as initiatives aimed at alleviating common health conditions.
- **Environment** - We support initiatives aimed at the preservation of the environment.

## 2015 CSR HIGHLIGHTS

### Education

Education is our core focus as it has a significant impact on the society wellbeing. The number of beneficiaries has been growing over the years, to date we are supporting more than 30 needy students by paying school fees and taking them through mentorship program. We dedicate resources to sponsor needy bright students from the under privileged communities neighbouring our offices namely Kawangware, Gatina and Kangemi. Sponsorship is also open to needy students from other parts of the country. Some of the students are currently attending leading schools including Alliance High School, State House Girls High School, Kenya High School, Kenyatta High School, Precious Blood High School among others. We have also partnered with Palmhouse Foundation and SCANN (Street Children Association Network of Nakuru) to support deserving students and neglected children from needy backgrounds.

### Mentorship Programme

The mentorship programme complements our education program. This is informed by the realisation that in addition to financial support, the students also require social and emotional support. During the 2015 mentorship program, the students were taken through a workshop on communication skills, life skills and importance of a positive attitude and outlook to life. In such events we invite leading experts to address specific issues affecting the students. In 2015 we were privileged to have the participation of the principals of Muthangari Primary school and Kenya High School.



EARE staff with students during the mentorship day.



### Technology

At EARe we are committed to supporting education through technology, we set up computers labs at Muthangari and Kileshwa primary schools. We monitor usage and maintain the equipment to ensure they're in good working condition.



Some of the accessories donated to Muthangari primary schools.

### Support to the Community

In 2015, we had an opportunity to visit Bosco Boys centre in Karen. The centre was started in 1990 by the Don Bosco community in conjunction with Undugu Society of Kenya to provide shelter and education for homeless street boys. During the visit, we donated foodstuff and interacted with the boys motivating them to remain positive in their quest to a better life through education and spiritual well-being.



EARe staff with Bosco students and teachers

### Social Welfare

We have been supporting provision of sanitary towels to institutions in under-privileged communities to ensure that no girl skips classes due to lack of basic necessity.



Sanitary towels donation at Lavington Mixed Secondary School.



# SOCIAL AND ENVIRONMENTAL RESPONSIBILITY STATEMENT

## Child Welfare

In our empathy for abandoned children, we visited House of Charity where we donated food items and toiletries. House of Charity provides accommodation, attention and care to abandoned children by ensuring that they are well fed, assist them to grow with sound health and guarantee that the adoptive families will give them love and care.



EARE staff at House of Charity

## Staff Welfare

Our employees are one of our key assets. We have built a strong team of dynamic, highly qualified and well-motivated professionals. We pride ourselves as an equal opportunity employer that provides a conducive working environment for our employees to achieve both professional and personal growth.



EARE House. Inset: Staff Gym

## Environment

We are committed to maintaining and conserving a natural landscape and environment. To this end, we have natured indigenous trees and maintained natural landscape where we work.



EARE staff planting trees at EARE house

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 the Company's profit or loss for the year. It also requires the directors to ensure that the Company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. The directors are also responsible for safeguarding the assets of the Company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

- (i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
- (ii) Selecting and applying appropriate accounting policies;
- (iii) Making accounting estimates and judgments that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company at 31 December 2015 and of the Company's 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.

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

Approved by the board of directors on 25 February 2016 and signed on its behalf by:

**J. P. M. NDEGWA**  
Chairman

25 February 2016

**D. G. M. HUTCHISON**  
Director

25 February 2016

**P. K. MAINA**  
Principal Officer

25 February 2016

## LONG TERM BUSINESS

I have conducted an insurance liability valuation of the long - term business of East Africa Reinsurance Company Limited as at 31 December 2015.

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 2015.

## SHORT TERM BUSINESS

I have conducted an insurance liability valuation of the short - term business of East Africa Reinsurance Company Limited as at 31 December 2015.

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 the insurance liabilities.

I verify that the calculation of the short term insurance liabilities as at 31 December 2015 is appropriate. I am satisfied that the insurance liabilities as per the valuation are sufficiently prudent and appropriate given the nature of the business and existing liabilities.

**J. I. OLUBAYI**

Alexander Forbes Financial Services (E.A.) Limited  
Nairobi

25 February 2016



#### REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of East Africa Reinsurance Company Limited (the "Company"), set out on pages 24 to 59, which comprise the statement of financial position as at 31 December 2015 and the statement of profit or loss and other 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 and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

#### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on the 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 our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 opinion.

#### OPINION

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2015 and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and 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 and statement of profit or loss are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is **CPA Kang'e Saiti -P/No 1652**

Certified Public Accountants  
Nairobi  
29 March 2016

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

|                                                                    | Notes | Short-term<br>business<br>Shs'000 | Long-term<br>business<br>Shs'000 | Total<br>2015<br>Shs'000 | Short-term<br>business<br>Shs'000 | Long-term<br>business<br>Shs'000 | Total<br>2014<br>Shs'000 |
|--------------------------------------------------------------------|-------|-----------------------------------|----------------------------------|--------------------------|-----------------------------------|----------------------------------|--------------------------|
| Gross written premiums                                             | 7     | 2,994,995                         | 709,516                          | 3,704,511                | 3,046,645                         | 431,706                          | 3,478,351                |
| Retrocession premiums                                              |       | (114,040)                         | (143,059)                        | (257,099)                | (83,729)                          | (90,501)                         | (174,230)                |
| <b>Net written premiums</b>                                        |       | <b>2,880,955</b>                  | <b>566,457</b>                   | <b>3,447,412</b>         | <b>2,962,916</b>                  | <b>341,205</b>                   | <b>3,304,121</b>         |
| Movement in unearned premiums reserve                              | 8     | (27,539)                          | -                                | (27,539)                 | (147,010)                         | -                                | (147,010)                |
| <b>Net earned premiums</b>                                         |       | <b>2,853,416</b>                  | <b>566,457</b>                   | <b>3,419,873</b>         | <b>2,815,906</b>                  | <b>341,205</b>                   | <b>3,157,111</b>         |
| Investment income                                                  | 9     | 421,234                           | 108,399                          | 529,633                  | 322,940                           | 83,549                           | 406,489                  |
| Other income                                                       |       | 23                                | -                                | 23                       | -                                 | -                                | -                        |
| Risk premium rebates earned                                        |       | 231                               | 41,116                           | 41,347                   | 6,065                             | 26,166                           | 32,231                   |
| <b>Total income</b>                                                |       | <b>3,274,904</b>                  | <b>715,972</b>                   | <b>3,990,876</b>         | <b>3,144,911</b>                  | <b>450,920</b>                   | <b>3,595,831</b>         |
| Gross claims incurred                                              | 10    | 2,307,651                         | 383,471                          | 2,691,122                | 1,629,873                         | 212,824                          | 1,842,697                |
| Amounts recoverable from retrocessionnaires                        |       | (534,391)                         | (121,776)                        | (656,167)                | 41,837                            | (65,703)                         | (23,866)                 |
| <b>Net claims incurred</b>                                         |       | <b>1,773,260</b>                  | <b>261,695</b>                   | <b>2,034,955</b>         | <b>1,671,710</b>                  | <b>147,121</b>                   | <b>1,818,831</b>         |
| Operating and other expenses                                       | 11    | 278,746                           | 51,761                           | 330,507                  | 267,034                           | 64,786                           | 331,820                  |
| Risk premium rebates incurred                                      |       | 821,647                           | 177,521                          | 999,168                  | 801,158                           | 104,555                          | 905,713                  |
| <b>Total expenses</b>                                              |       | <b>2,873,653</b>                  | <b>490,977</b>                   | <b>3,364,630</b>         | <b>2,739,902</b>                  | <b>316,462</b>                   | <b>3,056,364</b>         |
| <b>Profit before taxation</b>                                      |       | <b>401,251</b>                    | <b>224,995</b>                   | <b>626,246</b>           | <b>405,009</b>                    | <b>134,458</b>                   | <b>539,467</b>           |
| Income tax expense                                                 | 13    | (124,854)                         | (69,691)                         | (194,545)                | (125,724)                         | (40,860)                         | (166,584)                |
| <b>Profit for the year</b>                                         |       | <b>276,397</b>                    | <b>155,304</b>                   | <b>431,701</b>           | <b>279,285</b>                    | <b>93,598</b>                    | <b>372,883</b>           |
| <b>Other comprehensive income</b>                                  |       |                                   |                                  |                          |                                   |                                  |                          |
| Items that will not be reclassified subsequently to profit or loss |       |                                   |                                  |                          |                                   |                                  |                          |
| Gain on revaluation of property and equipment                      |       | -                                 | -                                | -                        | 202,783                           | -                                | 202,783                  |
| Deferred tax on revaluation of property and equipment.             | 31    | -                                 | -                                | -                        | (60,835)                          | -                                | (60,835)                 |
| <b>Total other comprehensive income for the year</b>               |       | <b>-</b>                          | <b>-</b>                         | <b>-</b>                 | <b>141,948</b>                    | <b>-</b>                         | <b>141,948</b>           |
| <b>Total comprehensive income for the year</b>                     |       | <b>276,397</b>                    | <b>155,304</b>                   | <b>431,701</b>           | <b>460,923</b>                    | <b>93,598</b>                    | <b>514,831</b>           |
| Earnings per share (basic and diluted)                             | 14    |                                   |                                  | 332.08                   |                                   |                                  | 372.88                   |

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2015



|                                                                      | Notes | Short-term<br>business<br>Shs '000 | Long-term<br>business<br>Shs '000 | Total<br>2015<br>Shs '000 |
|----------------------------------------------------------------------|-------|------------------------------------|-----------------------------------|---------------------------|
| <b>Capital Employed</b>                                              |       |                                    |                                   |                           |
| Share capital                                                        | 15    | 1,000,000                          | 300,000                           | 1,300,000                 |
| Fair value reserve                                                   | 16(a) | 10,301                             | -                                 | 10,301                    |
| Revaluation reserve                                                  | 16(b) | 212,619                            | -                                 | 212,619                   |
| General reserve                                                      | 16(c) | -                                  | 366,086                           | 366,086                   |
| Retained earnings                                                    | 16(d) | 1,067,481                          | -                                 | 1,067,481                 |
| Proposed dividend                                                    | 17    | 60,000                             | -                                 | 60,000                    |
| <b>Shareholders' funds</b>                                           |       | <b>2,350,401</b>                   | <b>666,086</b>                    | <b>3,016,487</b>          |
| <b>Represented By</b>                                                |       |                                    |                                   |                           |
| <b>Assets</b>                                                        |       |                                    |                                   |                           |
| Property and equipment                                               | 18    | 403,280                            | -                                 | 403,280                   |
| Intangible assets                                                    | 19    | -                                  | 2,559                             | 2,559                     |
| Investment properties                                                | 20    | 765,000                            | -                                 | 765,000                   |
| Equity investments at fair value through profit or loss              | 21    | 111,599                            | 37,659                            | 149,258                   |
| Mortgage loans- staff                                                | 22    | 29,259                             | -                                 | 29,259                    |
| Corporate bonds                                                      | 23    | 367,622                            | 53,493                            | 421,115                   |
| Government securities                                                | 24    | 928,006                            | 491,249                           | 1,419,255                 |
| Receivables arising out of retrocession arrangements                 |       | 103,436                            | -                                 | 103,436                   |
| Receivables arising out of reinsurance arrangements                  |       | 782,739                            | 23,533                            | 806,272                   |
| Retrocessionaires' share of reinsurance liabilities                  | 25(a) | 459,843                            | 75,474                            | 535,317                   |
| Deferred risk premium rebates                                        | 25(b) | 375,068                            | -                                 | 375,068                   |
| Current income tax                                                   | 13(c) | 21,471                             | -                                 | 21,471                    |
| Other receivables                                                    | 26    | 178,417                            | 17,636                            | 196,053                   |
| Deposits with financial institutions                                 | 27    | 1,872,750                          | 587,727                           | 2,460,477                 |
| Cash and bank balances                                               | 28    | 68,234                             | 18,056                            | 86,290                    |
| <b>Total assets</b>                                                  |       | <b>6,466,724</b>                   | <b>1,307,386</b>                  | <b>7,774,110</b>          |
| <b>Liabilities</b>                                                   |       |                                    |                                   |                           |
| Deferred risk premium rebates arising from retrocession arrangements | 25(b) | 96                                 | -                                 | 96                        |
| Reinsurance/reassurance contract liabilities                         | 30    | 1,654,493                          | 347,514                           | 2,002,007                 |
| Deferred income tax                                                  | 31    | 99,979                             | 156,894                           | 256,873                   |
| Provision for unearned premiums                                      | 32    | 1,235,017                          | -                                 | 1,235,017                 |
| Payables arising from retrocession arrangements                      |       | 37,055                             | 21,833                            | 58,888                    |
| Payables arising from reinsurance arrangements                       |       | 764,751                            | 30,735                            | 795,486                   |
| Other payables                                                       | 33    | 324,932                            | 79,789                            | 404,721                   |
| Current income tax                                                   | 13(c) | -                                  | 4,535                             | 4,535                     |
| <b>Total liabilities</b>                                             |       | <b>4,116,323</b>                   | <b>641,300</b>                    | <b>4,757,623</b>          |
| <b>Net assets</b>                                                    |       | <b>2,350,401</b>                   | <b>666,086</b>                    | <b>3,016,487</b>          |

The financial statements on pages 24 to 59 were approved and authorized for issue by the board of directors on 25 February 2016 and were signed on its behalf by:

**J. P. M. NDEGWA**  
Chairman

**D. G. M. HUTCHISON**  
Director

**P. K. MAINA**  
Principal Officer

25 February 2016

25 February 2016

25 February 2016

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

|                                                                      | Notes | Short-term<br>business<br>Shs '000 | Long-term<br>business<br>Shs '000 | Total<br>2014<br>Shs '000 |
|----------------------------------------------------------------------|-------|------------------------------------|-----------------------------------|---------------------------|
| <b>Capital Employed</b>                                              |       |                                    |                                   |                           |
| Share capital                                                        | 15    | 700,000                            | 300,000                           | 1,000,000                 |
| Fair value reserve                                                   | 16(a) | 12,136                             | -                                 | 12,136                    |
| Revaluation reserve                                                  | 16(b) | 227,078                            | -                                 | 227,078                   |
| General reserve                                                      | 16(c) | -                                  | 259,631                           | 259,631                   |
| Retained earnings                                                    | 16(d) | 1,085,941                          | -                                 | 1,085,941                 |
| Proposed dividend                                                    | 17    | 60,000                             | -                                 | 60,000                    |
| <b>Shareholders' funds</b>                                           |       | <b>2,085,155</b>                   | <b>559,631</b>                    | <b>2,644,786</b>          |
| <b>Represented By</b>                                                |       |                                    |                                   |                           |
| <b>Assets</b>                                                        |       |                                    |                                   |                           |
| Property and equipment                                               | 18    | 403,660                            | -                                 | 403,660                   |
| Intangible assets                                                    | 19    | -                                  | 4,571                             | 4,571                     |
| Investment properties                                                | 20    | 735,809                            | -                                 | 735,809                   |
| Equity investments at fair value through profit or loss              | 21    | 109,077                            | 9,479                             | 118,556                   |
| Mortgage loans- staff                                                | 22    | 34,395                             | -                                 | 34,395                    |
| Corporate bonds                                                      | 23    | 376,482                            | 54,753                            | 431,235                   |
| Government securities                                                | 24    | 461,170                            | 210,156                           | 671,326                   |
| Receivables arising out of retrocession arrangements                 |       | 52,579                             | -                                 | 52,579                    |
| Receivables arising out of reinsurance arrangements                  |       | 550,700                            | 13,351                            | 564,051                   |
| Retrocessionaires' share of reinsurance liabilities                  | 25(a) | 23,440                             | 9,969                             | 33,409                    |
| Deferred risk premium rebates                                        | 25(b) | 362,034                            | -                                 | 362,034                   |
| Current income tax                                                   | 13(c) | 8,068                              | 8,970                             | 17,038                    |
| Other receivables                                                    | 26    | 151,106                            | 40,549                            | 191,655                   |
| Deposits with financial institutions                                 | 27    | 2,082,941                          | 530,670                           | 2,613,611                 |
| Cash and bank balances                                               | 28    | 28,574                             | 7,762                             | 36,336                    |
| <b>Total assets</b>                                                  |       | <b>5,380,035</b>                   | <b>890,230</b>                    | <b>6,270,265</b>          |
| <b>Liabilities</b>                                                   |       |                                    |                                   |                           |
| Deferred risk premium rebates arising from retrocession arrangements | 25(b) | 461                                | -                                 | 461                       |
| Reinsurance/reassurance contract liabilities                         | 30    | 1,251,079                          | 172,310                           | 1,423,389                 |
| Deferred income tax                                                  | 31    | 90,476                             | 111,270                           | 201,746                   |
| Provision for unearned premiums                                      | 32    | 1,194,580                          | -                                 | 1,194,580                 |
| Payables arising from retrocession arrangements                      |       | 44,767                             | 11,641                            | 56,408                    |
| Payables arising from reinsurance arrangements                       |       | 384,451                            | 14,514                            | 398,965                   |
| Other payables                                                       | 33    | 329,066                            | 20,864                            | 349,930                   |
| <b>Total liabilities</b>                                             |       | <b>3,294,880</b>                   | <b>330,599</b>                    | <b>3,625,479</b>          |
| <b>Net assets</b>                                                    |       | <b>2,085,155</b>                   | <b>559,631</b>                    | <b>2,644,786</b>          |

The financial statements on pages 24 to 59 were approved and authorized for issue by the board of directors on 25 February 2016 and were signed on its behalf by:

**J. P. M. NDEGWA**  
Chairman

**D. G. M. HUTCHISON**  
Director

**P. K. MAINA**  
Principal Officer

25 February 2016

25 February 2016

25 February 2016

# STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2015



|                                         | Share capital<br>Shs'000' | Fair Value reserve<br>Shs'000' | Revaluation reserve<br>Shs'000' | General reserve<br>Shs'000' | Retained earnings<br>Shs'000' | Proposed dividend<br>Shs'000' | Total<br>Shs'000' |
|-----------------------------------------|---------------------------|--------------------------------|---------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------|
| <b>Year ended 31 December 2014</b>      |                           |                                |                                 |                             |                               |                               |                   |
| At 1 January 2014                       | 1,000,000                 | 13,971                         | 89,745                          | 205,722                     | 820,516                       | 60,000                        | 2,189,954         |
| Profit for the year                     | -                         | -                              | -                               | 93,598                      | 279,285                       | -                             | 372,883           |
| Actuarial surplus transfer              | -                         | -                              | -                               | (39,690)                    | 39,690                        | -                             | -                 |
| Other comprehensive income              | -                         | -                              | 141,948                         | -                           | -                             | -                             | 141,948           |
| <b>Total other comprehensive income</b> | -                         | -                              | 141,948                         | 53,909                      | 318,975                       | -                             | 514,831           |
| Fair value reserve                      | -                         | (1,835)                        | -                               | -                           | 1,835                         | -                             | -                 |
| Transfer of excess depreciation         | -                         | -                              | (6,593)                         | -                           | 6,593                         | -                             | -                 |
| Deferred tax on excess depreciation     | -                         | -                              | 1,978                           | -                           | (1,978)                       | -                             | -                 |
| <b>Transactions with owners</b>         |                           |                                |                                 |                             |                               |                               |                   |
| Dividend paid 2013                      | -                         | -                              | -                               | -                           | -                             | (60,000)                      | (60,000)          |
| Proposed dividend 2014 (Note 17)        | -                         | -                              | -                               | -                           | (60,000)                      | 60,000                        | -                 |
| <b>Balance as at 31 December 2014</b>   | <b>1,000,000</b>          | <b>12,136</b>                  | <b>227,078</b>                  | <b>259,631</b>              | <b>1,085,941</b>              | <b>60,000</b>                 | <b>2,644,786</b>  |
| <b>Year ended 31 December 2015</b>      |                           |                                |                                 |                             |                               |                               |                   |
| As at 1 January 2015                    | 1,000,000                 | 12,136                         | 227,078                         | 259,631                     | 1,085,941                     | 60,000                        | 2,644,786         |
| Profit for the year                     | -                         | -                              | -                               | 155,304                     | 276,397                       | -                             | 431,701           |
| Actuarial surplus transfer              | -                         | -                              | -                               | (48,849)                    | 48,849                        | -                             | -                 |
| <b>Total other comprehensive income</b> | -                         | -                              | -                               | 106,455                     | 325,246                       | -                             | 431,701           |
| Fair value reserve                      | -                         | (1,835)                        | -                               | -                           | 1,835                         | -                             | -                 |
| Transfer of excess depreciation         | -                         | -                              | (20,655)                        | -                           | 20,655                        | -                             | -                 |
| Deferred tax on excess depreciation     | -                         | -                              | 6,196                           | -                           | (6,196)                       | -                             | -                 |
| <b>Transactions with owners</b>         |                           |                                |                                 |                             |                               |                               |                   |
| Bonus issue                             | 300,000                   | -                              | -                               | -                           | (300,000)                     | -                             | -                 |
| Dividend paid 2014                      | -                         | -                              | -                               | -                           | -                             | (60,000)                      | (60,000)          |
| Proposed dividend 2015 (Note 17)        | -                         | -                              | -                               | -                           | (60,000)                      | 60,000                        | -                 |
| <b>Balance as at 31 December 2015</b>   | <b>1,300,000</b>          | <b>10,301</b>                  | <b>212,619</b>                  | <b>366,086</b>              | <b>1,067,481</b>              | <b>60,000</b>                 | <b>3,016,487</b>  |

# STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

|                                                                           | Notes | 2015<br>Shs '000 | 2014<br>Shs '000 |
|---------------------------------------------------------------------------|-------|------------------|------------------|
| <b>Cash flows from operating activities</b>                               |       |                  |                  |
| Cash generated from operations                                            | 35    | 342,911          | 525,866          |
| Income tax paid                                                           | 13(c) | (139,316)        | (174,702)        |
| <b>Net cash generated from operating activities</b>                       |       | <b>203,595</b>   | <b>351,164</b>   |
| <b>Cash flows from investing activities</b>                               |       |                  |                  |
| Investment income received                                                |       | 554,871          | 426,987          |
| (Purchase) /maturity of Government securities                             |       | (760,534)        | 207,042          |
| (Redemption)/purchase of corporate bonds                                  |       | 10,119           | (355,264)        |
| Investment in deposits with financial institutions maturing over 3 months |       | 516,588          | 263,765          |
| Purchase of property and equipment                                        | 18    | (21,898)         | (696)            |
| Purchase of investment property                                           | 20    | (499)            | (735,809)        |
| Purchase of intangible asset (software)                                   | 19    | (546)            | (6,856)          |
| Purchase of quoted shares                                                 | 21    | (89,230)         | (133,257)        |
| Mortgage loans advanced                                                   | 22    | -                | (7,200)          |
| Mortgage loans repaid                                                     | 22    | 5,136            | 7,174            |
| Proceeds of disposal of motor vehicles and equipment                      |       | 136              | -                |
| Proceeds of disposal of quoted shares                                     |       | 43,065           | 76,335           |
| <b>Net cash used in investing activities</b>                              |       | <b>257,208</b>   | <b>(257,779)</b> |
| <b>Cash flows from financing activities</b>                               |       |                  |                  |
| Dividends paid                                                            |       | (60,000)         | (60,000)         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>               |       | <b>400,803</b>   | <b>33,385</b>    |
| Cash and cash equivalents at 1 January                                    |       | 573,022          | 539,637          |
| <b>Cash and cash equivalents at 31 December</b>                           |       | <b>973,825</b>   | <b>573,022</b>   |

## 1 GENERAL INFORMATION

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 set out on page 1.

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.

For Kenyan Companies Act purposes, the balance sheet is presented by the statement of financial position and the profit and loss account by the statement of profit or loss.

## 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.

### a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except for investment properties and equity investments which have been measured at fair value

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

### b) Changes in accounting policy and disclosures

#### (i) New and amended standards adopted by the Company

The following standards and amendments have been applied by the Company for the first time for the financial year beginning 1 January 2015:

Annual Improvements to IFRSs 2010-2012 and 2011-2013 cycles. The following amendments are effective 1 July 2014:-

- IFRS 3 - clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.
- IFRS 8 - requires disclosure of the judgements made by management in aggregating operating segments and clarifies that a reconciliation of segment assets must only be disclosed if segment assets are reported.
- IFRS 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.
- IFRS 13 - clarifies that the portfolio exception in IFRS 13 (measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of IAS 39 or IFRS 9
- IAS 16 and IAS 38 - clarifies how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amounts
- IAS 24 - where an entity receives management personnel services from a third party (a management entity), the fees paid for those services must be disclosed by the reporting entity, but not the compensation paid by the management entity to its employees or directors.
- IAS 40 - clarifies that IAS 40 and IFRS 3 are not mutually exclusive when distinguishing between investment property and owner-occupied property and determining whether the acquisition of an investment property is a business combination.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

## 2 ACCOUNTING POLICIES (continued)

### b) Changes in accounting policy and disclosures (continued)

#### (i) New and amended standards adopted by the Company (continued)

Amendments to IAS 19, 'Defined Benefit Plans: Employee Contributions'. Effective 1 July 2014. The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. Under the previous version of IAS 19, most entities deducted the contributions from the cost of the benefits earned in the year the contributions were paid. However, the treatment under the 2011 revised standard was not so clear. It could be quite complex to apply, as it requires an estimation of the future contributions receivable and an allocation over future service periods. To provide relief, changes were made to IAS 19. These allow contributions that are linked to service, but that do not vary with the length of employee service (eg a fixed % of salary), to be deducted from the cost of benefits earned in the period that the service is provided. Therefore many entities will be able to (but not be required) continue accounting for employee contributions using their existing accounting policy.

The adoption of the improvements made in the 2012-2012 cycle has required additional disclosures in the segment note. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

#### (ii) New standards and interpretations early adopted

The company has elected to adopt the following two amendments early

Annual Improvements to IFRSs 2012-2014 Cycle. The latest annual improvements, effective 1 January 2016, clarify:

- IFRS 5 - when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.
- IFRS 7 - specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for de recognition.
- IFRS 7 - that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.

- IAS 19 - that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise.

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues, including:

- Materiality - an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals - line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes - confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method - the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.
- According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

As these amendments merely clarify the existing requirements, they do not affect the company's accounting policies or any of the disclosures.

#### (iii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014.



It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The company is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The company is assessing the impact of IFRS 15.

IAS 1, 'Presentation of financial statements' These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. Effective for annual periods beginning on or after 1 January 2016.

Annual improvements 2014. These set of amendments, effective 1 January 2016, impacts 4 standards:

- IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, 'Employee benefits' regarding discount rates.
- IAS 34, 'Interim financial reporting' regarding disclosure of information

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

## c) Foreign currency translation

### i) Functional and presentation currencies

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the entity operates (the "Functional currency"). The Company's functional and presentation currency is the Kenya Shilling, rounded to the nearest thousand (Shs) which is the Company's presentation currency.

### ii) Transactions and balances

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.

## c) Reinsurance contracts

### a) 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 2015

## 2 ACCOUNTING POLICIES (continued)

### c) Reinsurance contracts (continued)

#### a) Classification (continued)

##### i) Short-term reinsurance business

This represents reinsurance business of any class or classes not being long term reinsurance 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.

##### ii) Long-term reinsurance business

This includes reinsurance business of all or any of the following classes, namely, ordinary life reinsurance business, group life reinsurance business and business incidental to any such class of business.

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

##### b) 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:

##### i) 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.

##### ii) 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. 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).

### iii) Risk premium rebates paid and earned

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

### iv) 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.

### v) 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 reinsurance 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.

### vi) 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.

The benefits to which the company is entitled under its reinsurance contracts held are recognized 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 recognized 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 recognizes 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 amortized cost. The impairment loss is also calculated following the same method used for these financial assets.

### vii) Receivables and payables related to reinsurance contracts

Receivables and payables are recognized when due. These include amounts due to and from cedants and brokers. If there is objective evidence that the reinsurance receivable is impaired, the company reduces the carrying amount of the reinsurance receivable accordingly and recognizes 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.

### d) Revenue recognition

#### i) Reinsurance premium revenue

The revenue recognition policy relating to reinsurance contracts is set out under note 2 (d) iii) a) above.

#### ii) Commissions

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

#### iii) Interest income

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

#### iv) Dividend income

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

#### v) Rental income

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

#### e) Property and equipment

All property and equipment are initially recorded at cost.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

## 2 ACCOUNTING POLICIES (continued)

### e) Property and equipment (continued)

Land and 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 property 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 property and equipment on the straight line basis to write down the cost of each asset, or the revalued amount, to its residual value over its estimated useful life as follows:

|                                                |          |
|------------------------------------------------|----------|
| Building (3.57%)                               | 28 years |
| Motor vehicles (25.0%)                         | 4 years  |
| Computer equipment & software (33.33%)         | 3 years  |
| Furniture, fittings & 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.

### f) 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 recognized 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 recognized as intangible assets. Direct costs include software development, employee costs and appropriate portion of relevant overheads.

Amortisation is recognized 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.

### g) Investment property

Investment property, which is property held to earn rentals, is stated at its fair value, at the reporting date as determined through its revaluation by external valuers on the basis of the highest and best use. Gains or losses arising from changes in fair value of the investment property are included in profit or loss in the period in which they arise.

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

### h) Financial assets

The company classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables and held to maturity. The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

#### I. Classification

##### i. Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified 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 unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

##### ii. Loans and receivables

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

### iii. Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, other than:

- those that the Company upon initial recognition designates as at fair value through profit or loss;
- those that the Company designates as available for sale; and
- those that meet the definition of loans and receivables

Interest on held-to-maturity investments are included in the statement of profit or loss and are reported as 'Interest and similar income'. In the case of an impairment, it is been reported as a deduction from the carrying value of the investment and recognised in the statement of profit or loss as 'Net gains/(losses) on investment securities'. Held-to-maturity investments are government and corporate bonds

## II. Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss' category are presented in the statement of profit or loss within other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss as part of other income when the company's right to receive payments is established.

### III. Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be

received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchange (NSE). The quoted market price used for financial assets held by the company is the current bid price.

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

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

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

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

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

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

### IV. Reclassification of financial assets

Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

near-term.

## 2 ACCOUNTING POLICIES (continued)

### h) Financial assets (continued)

#### IV. Reclassification of financial assets (continued)

In addition, the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading category if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

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

#### V. Impairment of assets

##### (a) Financial assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or 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 the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, 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 asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss.

If a loan or held-to-maturity investment 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 group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

#### VI. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

##### i) Impairment of other non-financial assets

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

##### j) Financial Liabilities

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

##### k) 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.

## l) Dividends

Dividends on ordinary shares are charged to retained earnings in the year in which they are paid. Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the year in which the dividends are approved by the shareholders.

Proposed dividends are shown as a separate component of equity.

## m) 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 recognized 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.

## n) Employee benefits

### i) Employee entitlements

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

### ii) 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 to profit or loss in the year to which they relate.

### o) Share capital

Ordinary shares are classified as equity.

### p) Current and deferred income tax

Income tax expense represents the sum of the current tax payable and the deferred taxation. Tax is recognized as an expense/(income) and included in the profit or loss except to the extent that the tax arises from a transaction which is recognized 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 recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized, while deferred tax liabilities are recognized for all taxable temporary differences.

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS 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 judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

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

#### a) Future benefit payments

The estimation of future benefit payments in relation to long-term reassurance and short-term reinsurance 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 30.

#### c) 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.

#### d) Valuation of investment property

Estimates are made in determining valuations of investment properties. The company management uses experts in determination of the values to adopt.

## 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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015



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:

Year ended 31 December 2015

| Class of Business          |              | Total Exposure             |                              |                                 |                    |
|----------------------------|--------------|----------------------------|------------------------------|---------------------------------|--------------------|
|                            |              | 0 - 20 million<br>Shs '000 | 20 - 250 million<br>Shs '000 | 250 - 1,000 million<br>Shs '000 | Total<br>Shs '000  |
| <b>Short-term business</b> |              |                            |                              |                                 |                    |
| Fire                       | Gross        | 2,089,692                  | 14,523,079                   | 3,620,926                       | 20,233,697         |
|                            | Net          | 2,089,692                  | 14,523,079                   | 3,620,926                       | 20,233,697         |
| Miscellaneous              | Gross        | 1,529,392                  | 3,063,008                    | -                               | 4,592,400          |
|                            | Net          | 1,529,392                  | 3,063,008                    | -                               | 4,592,400          |
| Motor                      | Gross        | 1,000,700                  | 848,670                      | -                               | 1,849,370          |
|                            | Net          | 1,000,700                  | 848,670                      | -                               | 1,849,370          |
| Others                     | Gross        | 1,687,932                  | 6,889,879                    | 308,617                         | 8,886,428          |
|                            | Net          | 1,687,932                  | 6,889,879                    | 308,617                         | 8,886,428          |
| <b>Long-term business</b>  |              |                            |                              |                                 |                    |
| Ordinary life              | Gross        | 74,884                     | 1,016,217                    | 6,166,135                       | 7,257,236          |
|                            | Net          | 64,333                     | 791,120                      | 5,358,128                       | 6,213,581          |
| Group life                 | Gross        | 14,925                     | 1,778,593                    | 357,313,929                     | 359,107,447        |
|                            | Net          | 3,374                      | 1,549,345                    | 327,242,092                     | 328,794,811        |
| <b>Total</b>               | <b>Gross</b> | <b>6,397,525</b>           | <b>28,119,446</b>            | <b>367,409,607</b>              | <b>401,926,578</b> |
|                            | <b>Net</b>   | <b>6,375,423</b>           | <b>27,665,101</b>            | <b>336,529,763</b>              | <b>370,570,287</b> |

The company's earthquake exposure for the Nairobi zone is estimated at Shs 75,802,600,343 (2014: Shs 69,907,263,158).

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

| Class                               | Limit (Shs)                                                                                                                                                                                                                |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>General reinsurance business</b> |                                                                                                                                                                                                                            |
| Property                            | 1,610 million in excess of 40 million                                                                                                                                                                                      |
| Marine                              | 165 million in excess of 10 million                                                                                                                                                                                        |
| Miscellaneous Accident              | 70 million in excess of 30 million                                                                                                                                                                                         |
| <b>Life reinsurance business</b>    |                                                                                                                                                                                                                            |
| Life business                       | Warranted minimum number of victims: 4<br>Company's CAT retention: 8 million<br>Reimbursable portion: 100%<br>Reinsurer's max liability: 2 million per life,<br>Q/S & Surplus – Q/S limit: 1.2 million (Kenindia Business) |

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 2015

## 4 INSURANCE RISK MANAGEMENT (continued)

Year ended 31 December 2014

| Class of Business          |       | Total Exposure             |                              |                                 |                   |
|----------------------------|-------|----------------------------|------------------------------|---------------------------------|-------------------|
|                            |       | 0 - 20 million<br>Shs '000 | 20 - 250 million<br>Shs '000 | 250 - 1,000 million<br>Shs '000 | Total<br>Shs '000 |
| <b>Short-term business</b> |       |                            |                              |                                 |                   |
| Fire                       | Gross | 1,836,739                  | 14,707,227                   | 5,889,226                       | 22,433,192        |
|                            | Net   | 1,836,739                  | 14,707,227                   | 5,889,226                       | 22,433,192        |
| Miscellaneous              | Gross | 1,950,111                  | 2,688,647                    | -                               | 4,638,758         |
|                            | Net   | 1,950,111                  | 2,688,647                    | -                               | 4,638,758         |
| Motor                      | Gross | 852,062                    | 539,191                      | -                               | 1,391,253         |
|                            | Net   | 852,062                    | 539,191                      | -                               | 1,391,253         |
| Others                     | Gross | 1,392,656                  | 5,001,908                    | 1,909,362                       | 8,303,926         |
|                            | Net   | 1,392,656                  | 5,001,908                    | 1,909,362                       | 8,303,926         |
| <b>Long-term business</b>  |       |                            |                              |                                 |                   |
| Ordinary life              | Gross | 2,245,653                  | 238,860                      | -                               | 2,484,513         |
|                            | Net   | 1,463,754                  | 38,121                       | -                               | 1,501,875         |
| Group life                 | Gross | 63,214,149                 | 6,400,041                    | -                               | 69,614,190        |
|                            | Net   | 47,094,554                 | 1,989,832                    | -                               | 49,084,386        |
| Total                      | Gross | 71,491,370                 | 29,575,874                   | 7,798,588                       | 108,865,832       |
|                            | Net   | 54,589,876                 | 24,964,926                   | 7,798,588                       | 87,353,390        |

## 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, recognized assets and liabilities in foreign Operations. The currency profile of the company's assets and liabilities is presented below. The company's net assets are mainly dominated in the base currency (Kenya Shillings).

The company operates within and outside Kenya. In the opinion of the directors, the company's foreign currency exposure has been adequately managed to minimise potential adverse effects.

At 31 December 2015, 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 5,968,558 (2014: Shs 418,978) 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 0.001% (2014: 0.1%) of the company's net assets.

## (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 board 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 done in house with consultations with various approved stock brokers and is diversified across industries. The company has a conservative investment policy with regard to equities. As at 31 December 2015 investments in equities constituted only 2% (2014: 2%) of the total assets.

At 31 December 2015, if the share prices at the NSE had increased/decreased by 10% (2014: 10%) 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 14,926,000 (2014: Shs 10,959,000) higher/lower, and equity would have been Shs 14,926,000 (2014: Shs 10,959,000) higher/lower.

## (iii) Interest rate risk

The principal risk to which financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The board of directors is the monitoring body for compliance with these limits and is assisted by risk management in its day-to-day monitoring activities.

The interest earning financial assets that the company holds include investments in government securities, mortgage loans and short-term deposits.

The sensitivity analysis presented below shows how profit and equity would change if the interest rates had increased/(decreased) on the reporting date with all other variables held constant.

|                               | 2015<br>Sh'000   |                  | 2014<br>Sh'000   |                  |
|-------------------------------|------------------|------------------|------------------|------------------|
|                               | Effect on profit | Effect on equity | Effect on profit | Effect on equity |
| + 5 percentage point movement | 53,504           | 53,504           | 165,327          | 165,327          |
| - 5 percentage point movement | (53,504)         | (53,504)         | (165,327)        | (165,327)        |

## 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

## 5 FINANCIAL RISK MANAGEMENT (continued)

### Credit risk (continued)

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.

Maximum exposure to credit risk before collateral held is as below;

|                                                      | 2015<br>Shs '000 | 2014<br>Shs '000 |
|------------------------------------------------------|------------------|------------------|
| Other receivables (excluding prepayments) Note 26)   | 184,870          | 190,991          |
| Receivables arising out of reinsurance arrangements  | 806,272          | 564,051          |
| Receivables arising out of retrocession arrangements | 103,436          | 52,579           |
| Government securities held to maturity (Note 24)     | 1,419,255        | 671,326          |
| Loans receivable (mortgage loans) (Note 22)          | 29,259           | 34,395           |
| Deposits with financial institutions (Note 27)       | 2,460,477        | 2,613,611        |
| Bank balances (Note 28)                              | 86,280           | 36,296           |
| Corporate bonds (Note 23)                            | 421,115          | 431,235          |
|                                                      | <b>5,510,964</b> | <b>4,594,484</b> |

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.

Receivables arising out of reinsurance arrangements are summarised below:

|                                                                           | 2015<br>Shs '000 | 2014<br>Shs '000 |
|---------------------------------------------------------------------------|------------------|------------------|
| Receivables arising out of reinsurance arrangements are summarised below: |                  |                  |
| Neither past due nor impaired                                             |                  |                  |
| - up to 90 days                                                           | 607,878          | 435,293          |
| - 91 to 181 days                                                          | 119,335          | 73,010           |
| - 182 to 273 days                                                         | 10,649           | 46,342           |
| Past due but not impaired                                                 | 206,620          | 174,296          |
| Impaired                                                                  | 141,088          | 106,224          |
|                                                                           | 1,085,570        | 835,165          |
| Less provision for impairment                                             | (141,088)        | (106,224)        |
| <b>Total</b>                                                              | <b>944,482</b>   | <b>728,941</b>   |
| Receivables arising out of reinsurance arrangements are made up of:       |                  |                  |
| Receivables arising out of reinsurance arrangements (third parties)       | 806,272          | 564,051          |
| Other receivables – related parties (Note 26)                             | 138,210          | 164,890          |
| <b>Total</b>                                                              | <b>944,482</b>   | <b>728,941</b>   |

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:

|                       | Opening<br>Shs '000 | Movement<br>Shs '000 | 2015<br>Shs '000 | 2014<br>Shs '000 |
|-----------------------|---------------------|----------------------|------------------|------------------|
| - brokers             | 96,681              | 30,425               | 127,106          | 96,681           |
| - insurance companies | 9,543               | 4,439                | 13,982           | 9,543            |
|                       | <b>106,224</b>      | <b>34,864</b>        | <b>141,088</b>   | <b>106,224</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015



## 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<br>month<br>Shs '000 | 1-3<br>months<br>Shs '000 | 3-12<br>months<br>Shs '000 | 1-5<br>years<br>Shs '000 | Over 5<br>years<br>Shs '000 | Total<br>Shs '000 |
|---------------------------------------------------------------------|------------------------------|---------------------------|----------------------------|--------------------------|-----------------------------|-------------------|
| <b>At 31 December 2015</b>                                          |                              |                           |                            |                          |                             |                   |
| Deferred risk premium rebates                                       | 96                           | -                         | -                          | -                        | -                           | 96                |
| Reinsurance contract liabilities                                    | 2,002,007                    | -                         | -                          | -                        | -                           | 2,002,007         |
| Provision for unearned premiums                                     | 1,235,017                    | -                         | -                          | -                        | -                           | 1,235,017         |
| Payables arising out of<br>retrocession arrangements                | 58,888                       | -                         | -                          | -                        | -                           | 58,888            |
| Payables arising out of<br>reinsurance arrangements                 | 795,486                      | -                         | -                          | -                        | -                           | 795,486           |
| Other payables                                                      | 404,721                      | -                         | -                          | -                        | -                           | 404,721           |
| <b>Total financial liabilities<br/>(contractual maturity dates)</b> | <b>4,496,215</b>             | <b>-</b>                  | <b>-</b>                   | <b>-</b>                 | <b>-</b>                    | <b>4,496,215</b>  |
| <b>At 31 December 2014</b>                                          |                              |                           |                            |                          |                             |                   |
| Deferred risk premiums rebates                                      | 461                          | -                         | -                          | -                        | -                           | 461               |
| Reinsurance contract liabilities                                    | 1,423,389                    | -                         | -                          | -                        | -                           | 1,423,389         |
| Provision for unearned premiums                                     | 1,194,580                    | -                         | -                          | -                        | -                           | 1,194,580         |
| Payables arising out of<br>retrocession arrangements                | 56,408                       | -                         | -                          | -                        | -                           | 56,408            |
| Payables arising out of<br>reinsurance arrangements                 | 398,965                      | -                         | -                          | -                        | -                           | 398,965           |
| Other payables                                                      | 319,569                      | -                         | -                          | -                        | -                           | 319,569           |
| <b>Total financial liabilities<br/>(contractual maturity dates)</b> | <b>3,393,372</b>             | <b>-</b>                  | <b>-</b>                   | <b>-</b>                 | <b>-</b>                    | <b>3,393,372</b>  |

## Fair value of financial assets and liabilities

### (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 table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

## 5 FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

### (ii) Fair value hierarchy (continued)

The following table presents the group's and company's financial assets and liabilities measured at fair value at 31 December 2015 and 31 December 2014.

|                   | Level 1<br>Shs '000 | Level 2<br>Shs '000 | Level 3<br>Shs '000 | Total<br>Shs '000 |
|-------------------|---------------------|---------------------|---------------------|-------------------|
| 31 December 2015  |                     |                     |                     |                   |
| - Quoted equities | 149,258             | -                   | -                   | 149,258           |
| <b>Total</b>      | <b>149,258</b>      | <b>-</b>            | <b>-</b>            | <b>149,258</b>    |
| 31 December 2014  |                     |                     |                     |                   |
| - Quoted equities | 118,556             | -                   | -                   | 118,556           |
| <b>Total</b>      | <b>118,556</b>      | <b>-</b>            | <b>-</b>            | <b>118,556</b>    |

There was no transfer between levels 1 and 2 during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Nairobi Securities Exchange ("NSE") equity investments and government bonds classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments. There was no movement in level 3 during the year.

## 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;
- to safeguard the company's capital by arranging adequate cover with credible securities; and
- to have an adequate level of risk based capital.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015



The Insurance Act requires each reinsurance company to hold the minimum level of paid up capital of Shs 800 million. At Shs 1.3 billion (short-term business: Shs 1 billion; long-term business: Shs 300 million), the company's share capital was in excess of the minimum capital requirement as at 31 December 2015.

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 2015, the Company's solvency margins for both short-term and long-term business were strong at 319 % (2014: 381%) and 1884 % (2014: 1,215%) respectively.

## 7 GROSS WRITTEN, GROSS EARNED AND RETROCESSION PREMIUMS

The gross written premium (GWP), gross earned premium (GEP) and gross retrocession premium (Retro) of the company can be analysed between the main classes of business as shown below.

|                            | GWP<br>Shs'000'  | 2015<br>GEP<br>Shs'000' | Retro<br>Shs'000' | GWP<br>Shs'000'  | 2014<br>GEP<br>Shs'000' | Retro<br>Shs'000' |
|----------------------------|------------------|-------------------------|-------------------|------------------|-------------------------|-------------------|
| <b>Short-term business</b> |                  |                         |                   |                  |                         |                   |
| Aviation                   | 2,892            | 1,372                   | -                 | 4,297            | 4,217                   | -                 |
| Engineering                | 226,859          | 213,251                 | 713               | 204,037          | 196,304                 | 533               |
| Fire                       | 1,329,866        | 1,298,013               | 99,121            | 1,319,942        | 1,273,487               | 72,569            |
| Liability                  | 13,366           | 11,989                  | -                 | 10,146           | 11,047                  | 3                 |
| Marine                     | 210,489          | 197,734                 | 9,807             | 201,516          | 210,654                 | 2,625             |
| Motor                      | 279,751          | 280,231                 | 602               | 225,915          | 249,245                 | 133               |
| Personal accident          | 9,980            | 8,683                   | -                 | 4,485            | 6,791                   | (52)              |
| Theft                      | 98               | 113                     | -                 | 209              | 194                     | -                 |
| Workmen's compensation     | 170              | 170                     | -                 | 762              | 10,233                  | -                 |
| Medical                    | 549,543          | 606,221                 | -                 | 756,310          | 617,835                 | -                 |
| Miscellaneous              | 371,981          | 349,816                 | 3,797             | 319,026          | 319,421                 | 7,918             |
|                            | <b>2,994,995</b> | <b>2,967,593</b>        | <b>114,040</b>    | <b>3,046,645</b> | <b>2,899,428</b>        | <b>83,729</b>     |
| <b>Long-term business</b>  |                  |                         |                   |                  |                         |                   |
| Ordinary life              | 29,272           | 29,272                  | 13,091            | 25,369           | 25,369                  | 7,664             |
| Group life                 | 680,244          | 680,244                 | 129,968           | 406,337          | 406,337                 | 82,837            |
|                            | <b>709,516</b>   | <b>709,516</b>          | <b>143,059</b>    | <b>431,706</b>   | <b>431,706</b>          | <b>90,501</b>     |
| <b>Total</b>               | <b>3,704,511</b> | <b>3,677,109</b>        | <b>257,099</b>    | <b>3,478,351</b> | <b>3,331,134</b>        | <b>174,230</b>    |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

## 8 RECONCILIATION OF THE MOVEMENT IN GROSS PROVISION FOR UNEARNED PREMIUMS & DEFERRED RISK PREMIUM REBATES

|                                                                                      | Gross<br>Shs'000' | 2015<br>Retro-<br>cession<br>Shs'000' | Net<br>Shs'000' | Gross<br>Shs'000' | 2014<br>Retro-<br>cession<br>Shs'000' | Net<br>Shs'000' |
|--------------------------------------------------------------------------------------|-------------------|---------------------------------------|-----------------|-------------------|---------------------------------------|-----------------|
| As presented in the statement of profit or loss                                      | 27,403            | (136)                                 | 27,539          | 147,217           | 207                                   | 147,010         |
| <b>Represented by:</b>                                                               |                   |                                       |                 |                   |                                       |                 |
| Increase /(decrease) in provision for unearned premiums (Note 32)                    | 40,437            | (500)                                 | 40,937          | 223,342           | 583                                   | 222,759         |
| Less: Increase /(decrease) in deferred risk premium rebates and revenue (Note 25(b)) | 13,034            | (364)                                 | 13,398          | 76,125            | 376                                   | 75,749          |
| <b>At end of year</b>                                                                | <b>27,403</b>     | <b>(136)</b>                          | <b>27,539</b>   | <b>147,217</b>    | <b>207</b>                            | <b>147,010</b>  |

|                                                                                                 | Short-term<br>Business<br>Shs '000 | Long-term<br>Business<br>Shs '000 | Total<br>Shs '000 |
|-------------------------------------------------------------------------------------------------|------------------------------------|-----------------------------------|-------------------|
| <b>9 INVESTMENT INCOME</b>                                                                      |                                    |                                   |                   |
| <b>For year ended 31 December 2015</b>                                                          |                                    |                                   |                   |
| Interest income - Government securities                                                         | 70,032                             | 34,327                            | 104,359           |
| Interest income - Bank deposits                                                                 | 259,716                            | 75,296                            | 335,012           |
| Interest income - Loans                                                                         | 2,026                              | -                                 | 2,026             |
| Interest income - Corporate bonds                                                               | 45,264                             | 6,605                             | 51,869            |
| Dividend income                                                                                 | 2,495                              | 551                               | 3,046             |
| Realised gain on sale of equity investments at fair value through profit or loss                | 7,287                              | -                                 | 7,287             |
| Unrealised fair value loss on equity investments at fair value through profit or loss (Note 21) | (19,335)                           | (3,415)                           | (22,750)          |
| Fair value gain on investment property                                                          | 28,692                             | -                                 | 28,692            |
| Rental income                                                                                   | 58,542                             | -                                 | 58,542            |
| Other                                                                                           | 15                                 | -                                 | 15                |
|                                                                                                 | <b>454,735</b>                     | <b>113,364</b>                    | <b>568,099</b>    |
| Investment expenses                                                                             | (33,501)                           | (4,965)                           | (38,466)          |
| <b>Investment and other income (net) for 2015</b>                                               | <b>421,234</b>                     | <b>108,399</b>                    | <b>529,633</b>    |
| <b>For year ended 31 December 2014</b>                                                          |                                    |                                   |                   |
| Interest income - Government securities                                                         | 56,182                             | 27,942                            | 84,124            |
| Interest income - Bank deposits                                                                 | 227,107                            | 55,356                            | 282,463           |
| Interest income - Loans                                                                         | 2,215                              | -                                 | 2,215             |
| Interest income - Corporate bonds                                                               | 20,307                             | 2,739                             | 23,046            |
| Dividend income                                                                                 | 2,098                              | 164                               | 2,262             |
| Realised gain on sale of equity investments at fair value through profit or loss                | 10,741                             | 3,127                             | 13,868            |
| Unrealised fair value loss on equity investments at fair value through profit or loss (Note 21) | (1,440)                            | (1,634)                           | (3,074)           |
| Rental income                                                                                   | 31,725                             | -                                 | 31,725            |
| Other                                                                                           | 1,152                              | -                                 | 1,152             |
|                                                                                                 | <b>350,087</b>                     | <b>87,694</b>                     | <b>437,781</b>    |
| Investment expenses                                                                             | (27,147)                           | (4,145)                           | (31,292)          |
| <b>Investment and other income (net) for 2014</b>                                               | <b>322,940</b>                     | <b>83,549</b>                     | <b>406,489</b>    |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015



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

|                                                          | Short-term<br>Business<br>Shs '000 | Long-term<br>Business<br>Shs '000 | Total<br>Shs '000 |
|----------------------------------------------------------|------------------------------------|-----------------------------------|-------------------|
| <b>For year ended 31 December 2015</b>                   |                                    |                                   |                   |
| Loans and receivables (including cash and bank balances) | 320,301                            | 75,295                            | 395,596           |
| Financial assets held to maturity                        | 134,435                            | 38,069                            | 172,504           |
| Dividend income                                          | 2,495                              | 551                               | 3,046             |
| <b>Total</b>                                             | <b>457,231</b>                     | <b>113,915</b>                    | <b>571,146</b>    |
| <b>For year ended 31 December 2014</b>                   |                                    |                                   |                   |
| Loans and receivables (including cash and bank balances) | 262,199                            | 55,356                            | 317,555           |
| Financial assets held to maturity                        | 87,888                             | 32,339                            | 120,227           |
| Dividend income                                          | 2,098                              | 164                               | 2,262             |
| <b>Total</b>                                             | <b>352,185</b>                     | <b>87,859</b>                     | <b>440,044</b>    |

## 10 GROSS CLAIMS INCURRED

|                                                               | 2015<br>Shs '000 | 2014<br>Shs '000 |
|---------------------------------------------------------------|------------------|------------------|
| <b>Short-term business</b>                                    |                  |                  |
| Claims payable by principal class of business:                |                  |                  |
| Aviation                                                      | 2,103            | 105              |
| Engineering                                                   | (38,082)         | 217,271          |
| Fire                                                          | 1,757,332        | 591,866          |
| Liability                                                     | 414              | 2,752            |
| Marine                                                        | 99,738           | 9,732            |
| Motor                                                         | 196,132          | 12,982           |
| Personal accident                                             | 2,624            | (2,226)          |
| Theft                                                         | (31)             | 34               |
| Workmen's compensation                                        | 10               | (3,885)          |
| Medical                                                       | 254,515          | 670,156          |
| Miscellaneous accident                                        | 32,896           | 131,086          |
|                                                               | <b>2,307,651</b> | <b>1,629,873</b> |
| <b>Long-term business actuarial liabilities</b>               |                  |                  |
| Reinsurance contracts relating to fixed and guaranteed terms: |                  |                  |
| Death benefits                                                |                  |                  |
| - Ordinary life                                               | 1,162            | 1,478            |
| - Group life                                                  | 207,105          | 144,294          |
| Increase in reinsurance contract liabilities:                 |                  |                  |
| - Group life                                                  | 175,204          | 67,052           |
|                                                               | <b>383,471</b>   | <b>212,824</b>   |
| <b>Total short-term and long-term business</b>                | <b>2,691,122</b> | <b>1,842,697</b> |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

| 11 OPERATING AND OTHER EXPENSES                             | 2015<br>Shs '000 | 2014<br>Shs '000 |
|-------------------------------------------------------------|------------------|------------------|
| <b>Short-term business</b>                                  |                  |                  |
| The following are included in operating and other expenses: |                  |                  |
| Directors' fees                                             | 2,350            | 2,650            |
| Employee benefits expense (Note 12)                         | 124,867          | 134,416          |
| Medical costs                                               | 5,060            | 4,021            |
| Auditors' remuneration                                      | 3,559            | 3,063            |
| Depreciation (Note 18)                                      | 22,165           | 11,985           |
| Amortisation of intangible assets (Note 19)                 | 2,558            | -                |
| Net foreign exchange (gains)/losses                         | (20,664)         | 6,296            |
| Impairment charge for doubtful receivables                  | -                | -                |
| -reinsurance premiums receivables                           | 34,887           | 30,408           |
| <hr/>                                                       |                  |                  |
| 12 EMPLOYEE BENEFIT EXPENSES                                |                  |                  |
| Salaries and wages                                          | 117,435          | 126,337          |
| Retirement benefit costs                                    | 7,380            | 8,022            |
| National social security benefit costs                      | 52               | 57               |
|                                                             | 124,867          | 134,416          |

The number of persons employed by the Company at the year end was 23 (2014: 18).

| 13 INCOME TAX EXPENSE         | Short-term<br>business<br>Shs '000 | Long-term<br>business<br>Shs '000 | 2015<br>Total<br>Shs '000 | 2014<br>Total<br>Shs '000 |
|-------------------------------|------------------------------------|-----------------------------------|---------------------------|---------------------------|
| <b>a) Tax expense</b>         |                                    |                                   |                           |                           |
| Current income tax            | 115,351                            | 24,067                            | 139,418                   | 145,093                   |
| Deferred income tax:          |                                    |                                   |                           |                           |
| Charge for the year (Note 31) | 9,503                              | 45,624                            | 55,127                    | 21,491                    |
|                               | 124,854                            | 69,691                            | 194,545                   | 166,584                   |

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 tax expense to expected tax based on accounting profit**

|                                                                      | Short-term<br>business<br>Shs '000 | Long-term<br>business<br>Shs '000 | 2015<br>Total<br>Shs '000 | 2014<br>Total<br>Shs '000 |
|----------------------------------------------------------------------|------------------------------------|-----------------------------------|---------------------------|---------------------------|
| Profit before income tax                                             | 401,251                            | 224,995                           | 626,246                   | 539,467                   |
| Tax calculated at a tax rate of<br>30% (Long term 30% of 80,223,015) | 120,375                            | 24,067                            | 144,442                   | 139,260                   |
| Tax effect of income not<br>subject to tax                           | (7,458)                            | -                                 | (7,458)                   | (2,422)                   |
| Tax effect of expenses not<br>deductible for tax purposes            | 11,939                             | -                                 | 11,939                    | 6,643                     |
| Under provision for deferred tax<br>relating to prior year           | (2)                                | -                                 | (2)                       | -                         |
| Deferred tax on the life surplus                                     | -                                  | 45,624                            | 45,624                    | 23,103                    |
| <b>Income tax expense</b>                                            | <b>124,854</b>                     | <b>69,691</b>                     | <b>194,545</b>            | <b>166,584</b>            |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015



| c) Corporate tax payable    | Short-term<br>business<br>Shs '000 | Long-term<br>business<br>Shs '000 | 2015<br>Total<br>Shs '000 | 2014<br>Total<br>Shs '000 |
|-----------------------------|------------------------------------|-----------------------------------|---------------------------|---------------------------|
| At 1 January                | (8,068)                            | (8,970)                           | (17,038)                  | 12,571                    |
| Current income tax          | 115,351                            | 24,067                            | 139,418                   | 145,093                   |
| Income tax paid in the year | (128,754)                          | (10,562)                          | (139,316)                 | (174,702)                 |
| <b>At 31 December</b>       | <b>(21,471)</b>                    | <b>4,535</b>                      | <b>(16,936)</b>           | <b>(17,038)</b>           |

## 14 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:

|                                                     | 2015<br>Shs '000 | 2014<br>Shs '000 |
|-----------------------------------------------------|------------------|------------------|
| Profit attributable to shareholders (Shs'000')      | 431,701          | 372,883          |
| Weighted average number of shares                   | No.              | No.              |
| As at 1 December                                    | 1,300,000        | 1,000,000        |
| <b>Earnings per share (Shs) – basic and diluted</b> | <b>332.08</b>    | <b>372.88</b>    |

There were no potentially dilutive shares outstanding as at 31 December 2015 and 31 December 2014. Diluted earnings per share is therefore the same as basic earnings per share.

## 15 SHARE CAPITAL

|                                                   | No. of Ordinary<br>Shares | Short-term<br>business<br>Shs '000 | Long-term<br>business<br>Shs '000 | Total<br>Shs '000 |
|---------------------------------------------------|---------------------------|------------------------------------|-----------------------------------|-------------------|
| Balance at 1 January 2014 and<br>31 December 2014 | 1,000,000                 | 700,000                            | 300,000                           | 1,000,000         |
| Increase in issues and paid up<br>share capital   | 300,000                   | 300,000                            | -                                 | 300,000           |
| <b>Balance as at 31 December 2015</b>             | <b>1,300,000</b>          | <b>1,000,000</b>                   | <b>300,000</b>                    | <b>1,300,000</b>  |

The total authorised number of ordinary shares is 1,300,000 with a par value of Shs 1,000. All issued shares are fully paid.

## 16 RESERVES

### a) Fair value reserve

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 investments at the end of the reporting period. This reserve is not distributable.

### b) Revaluation reserve

The revaluation surplus is not distributable and represents the surplus arising from the revaluation of property and equipment, net of related deferred taxation.

### c) General reserve

The general reserve represent accumulated profit for life business after transfer to shareholders and provision of deferred tax. Distribution of the fund is restricted by the Insurance Act.

### d) Retained earnings

Retained earnings represent accumulated profit retained by the company after payment of dividends to the shareholders. The amount is available for distribution to shareholders.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

## 17 DIVIDENDS

In respect of the current year, the directors propose that a first and final dividend of Shs 46.15 (2014: Shs 60) per share amounting Shs 60,000,000 (2014: Shs 60,000,000) be paid out to shareholders. This is subject to approval by the shareholders at the Annual General Meeting to be held on 19 May 2016.

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

## 18 PROPERTY AND EQUIPMENT

|                                    | Land<br>Shs '000' | Building<br>Shs '000' | Motor<br>vehicles<br>Shs '000' | Furniture,<br>fittings and<br>equipment<br>Shs '000' | Computer<br>equipment<br>Shs '000' | Total<br>Shs '000' |
|------------------------------------|-------------------|-----------------------|--------------------------------|------------------------------------------------------|------------------------------------|--------------------|
| <b>COST</b>                        |                   |                       |                                |                                                      |                                    |                    |
| At 1 January 2014                  | 171,000           | 54,024                | 2,893                          | 11,299                                               | 7,299                              | 246,515            |
| Additions                          | -                 | -                     | -                              | -                                                    | 696                                | 696                |
| Disposals                          | -                 | -                     | -                              | -                                                    | (640)                              | (640)              |
| Revaluation Surplus                | 179,000           | (4,024)               | -                              | -                                                    | -                                  | 174,976            |
| <b>At 31 December 2014</b>         | <b>350,000</b>    | <b>50,000</b>         | <b>2,893</b>                   | <b>11,299</b>                                        | <b>7,355</b>                       | <b>421,547</b>     |
| At 1 January 2015                  | 350,000           | 50,000                | 2,893                          | 11,299                                               | 7,355                              | 421,547            |
| Additions                          | -                 | 19,046                | 216                            | 1,085                                                | 1,551                              | 21,898             |
| Disposals                          | -                 | -                     | (269)                          | -                                                    | (1,368)                            | (1,637)            |
| Revaluation Surplus                | -                 | -                     | -                              | -                                                    | -                                  | -                  |
| <b>At 31 December 2015</b>         | <b>350,000</b>    | <b>69,046</b>         | <b>2,840</b>                   | <b>12,384</b>                                        | <b>7,538</b>                       | <b>441,808</b>     |
| <b>ACCUMULATED DEPRECIATION</b>    |                   |                       |                                |                                                      |                                    |                    |
| At 1 January 2014                  | 7,435             | 10,981                | 2,225                          | 7,086                                                | 6,621                              | 34,348             |
| Charge for the year                | 7,435             | 1,956                 | 668                            | 1,279                                                | 647                                | 11,985             |
| Eliminated on disposals            | -                 | -                     | -                              | -                                                    | (639)                              | (639)              |
| Eliminated on revaluation          | (14,870)          | (12,937)              | -                              | -                                                    | -                                  | (27,807)           |
| <b>At 31 December 2014</b>         | <b>-</b>          | <b>-</b>              | <b>2,893</b>                   | <b>8,365</b>                                         | <b>6,629</b>                       | <b>17,887</b>      |
| At 1 January 2015                  | -                 | -                     | 2,893                          | 8,365                                                | 6,629                              | 17,887             |
| Charge for the year                | 16,667            | 3,194                 | 53                             | 1,283                                                | 968                                | 22,165             |
| Eliminated on disposals            | -                 | -                     | (269)                          | -                                                    | (1,255)                            | (1,524)            |
| Eliminated on revaluation          | -                 | -                     | -                              | -                                                    | -                                  | -                  |
| <b>At 31 December 2015</b>         | <b>16,667</b>     | <b>3,194</b>          | <b>2,677</b>                   | <b>9,648</b>                                         | <b>6,342</b>                       | <b>38,528</b>      |
| <b>NET BOOK VALUE</b>              |                   |                       |                                |                                                      |                                    |                    |
| As at 31 December 2015             | 333,333           | 65,852                | 163                            | 2,736                                                | 1,196                              | 403,280            |
| As at 31 December 2014             | 350,000           | 50,000                | -                              | 2,935                                                | 726                                | 403,660            |
| <b>NET BOOK VALUE (Cost basis)</b> |                   |                       |                                |                                                      |                                    |                    |
| As at 31 December 2015             | 32,143            | 56,699                | 163                            | 2,736                                                | 1,196                              | 92,937             |
| As at 31 December 2014             | 35,215            | 40,387                | -                              | 2,935                                                | 726                                | 79,263             |

The leasehold land and buildings were last revalued as at 31 December 2014 by Lloyd Masika Limited, independent valuers on the basis of open market value for existing use. The valuation which conforms to International Valuation Standards was determined by reference to open market values. The company revalues its land and buildings every 3 years. The land meets the definition of a finance lease.

The net book value on cost basis for the land and building was Shs 88,842,000 (2014: Shs 75,602,000)



## 19 INTANGIBLE ASSETS (COMPUTER SOFTWARE)

|                                      | Short-term<br>Business<br>Shs '000 | Long-term<br>Business<br>Shs '000 | Total<br>Shs '000 |
|--------------------------------------|------------------------------------|-----------------------------------|-------------------|
| <b>COST</b>                          |                                    |                                   |                   |
| At 1 January                         | 11,804                             | 6,856                             | 18,660            |
| Acquisitions                         | -                                  | 546                               | 546               |
| At 31 December 2015                  | 11,804                             | 7,402                             | 19,206            |
| <b>AMORTISATION</b>                  |                                    |                                   |                   |
| At 1 January 2014 and 1 January 2015 | 11,804                             | 2,285                             | 14,089            |
| Charge for the year                  | -                                  | 2,558                             | 2,558             |
| At 31 December 2015                  | 11,804                             | 4,843                             | 16,647            |
| <b>NET BOOK VALUE</b>                |                                    |                                   |                   |
| As at 31 December 2015               | -                                  | 2,559                             | 2,559             |
| As at 31 December 2014               | -                                  | 4,571                             | 4,571             |

## 20 INVESTMENT PROPERTIES

|                           | 2015<br>Shs '000 | 2014<br>Shs '000 |
|---------------------------|------------------|------------------|
| At 1 January              | 735,809          | -                |
| Additions during the year | 499              | 735,809          |
| Fair value gains          | 28,692           | -                |
| At 31 December            | 765,000          | 735,809          |

Investment property are carried at fair value and were last revalued on 16 December 2015, by Lloyd Masika, independent valuers, on the basis of the market value for existing use. The resultant change in fair value has been dealt with in profit and loss.

The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

|                                         | Level 1<br>Shs '000 | Level 2<br>Shs '000 | Level 3<br>Shs '000 | Total<br>Shs '000 |
|-----------------------------------------|---------------------|---------------------|---------------------|-------------------|
| At 31 December 2015 Investment property | -                   | 765,000             | -                   | 765,000           |
| At 31 December 2014 Investment property | -                   | 735,809             | -                   | 735,809           |

### Valuation technique used to derive level 2 fair values

Level 2 fair value of land and building has been derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

## 21 EQUITY INVESTMENTS - AT FAIR VALUE THROUGH PROFIT OR LOSS

|                                    | Short-term<br>Business<br>Shs '000 | Long-term<br>Business<br>Shs '000 | Total<br>Shs '000 |
|------------------------------------|------------------------------------|-----------------------------------|-------------------|
| <b>Year ended 31 December 2015</b> |                                    |                                   |                   |
| Quoted investments:                |                                    |                                   |                   |
| At 1 January 2015                  | 109,077                            | 9,479                             | 118,556           |
| Additions                          | 57,635                             | 31,595                            | 89,230            |
| Disposals                          | (35,778)                           | -                                 | (35,778)          |
| Fair value losses (Note 9)         | (19,335)                           | (3,415)                           | (22,750)          |
| <b>At 31 December 2015</b>         | <b>111,599</b>                     | <b>37,659</b>                     | <b>149,258</b>    |
| <b>Year ended 31 December 2014</b> |                                    |                                   |                   |
| Quoted investments:                |                                    |                                   |                   |
| At 1 January 2014                  | 42,366                             | 8,474                             | 50,840            |
| Additions                          | 115,136                            | 18,121                            | 133,257           |
| Disposals                          | (46,985)                           | (15,482)                          | (62,467)          |
| Fair value losses (Note 9)         | (1,440)                            | (1,634)                           | (3,074)           |
| <b>At 31 December 2014</b>         | <b>109,077</b>                     | <b>9,479</b>                      | <b>118,556</b>    |

## 22 MORTGAGE LOANS - STAFF

|                                                                                                                                                                                            | 2015<br>Shs '000 | 2014<br>Shs '000 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| At 1 January                                                                                                                                                                               | 34,395           | 34,369           |
| Loans advanced                                                                                                                                                                             | -                | 7,200            |
| Loan repayments                                                                                                                                                                            | (5,136)          | (7,174)          |
| <b>At 31 December</b>                                                                                                                                                                      | <b>29,259</b>    | <b>34,395</b>    |
| This represents mortgage loans extended to members of staff.<br>There were no impairment losses recorded against mortgage loans for the years ended 31 December 2014 and 31 December 2015. |                  |                  |
| <b>Maturity profile of mortgage loans</b>                                                                                                                                                  |                  |                  |
| Loans maturing:                                                                                                                                                                            |                  |                  |
| Within 1 year                                                                                                                                                                              | -                | 4,646            |
| In 1-5 years                                                                                                                                                                               | 6,888            | 13,923           |
| In over 5 years                                                                                                                                                                            | 22,371           | 15,826           |
|                                                                                                                                                                                            | <b>29,259</b>    | <b>34,395</b>    |

### Lending commitments

There were no mortgage loans approved but not advanced at 31 December 2015 (2014: Nil).

## 23 CORPORATE BONDS - HELD TO MATURITY

|                                              | Short-term<br>Business<br>Shs '000 | Long-term<br>Business<br>Shs '000 | Total<br>Shs '000 |
|----------------------------------------------|------------------------------------|-----------------------------------|-------------------|
| <b>(At amortized cost)</b>                   |                                    |                                   |                   |
| <b>At 31 December 2015</b>                   |                                    |                                   |                   |
| Corporate bonds maturing: In 1 year- 5 years | 367,622                            | 53,493                            | 421,115           |
| <b>At 31 December 2014</b>                   |                                    |                                   |                   |
| Corporate bonds maturing: In over 5 years    | 376,482                            | 54,753                            | 431,235           |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015



## 24 GOVERNMENT SECURITIES - HELD TO MATURITY

|                                 | Short-term<br>Business<br>Shs '000 | Long-term<br>Business<br>Shs '000 | Total<br>Shs '000 |
|---------------------------------|------------------------------------|-----------------------------------|-------------------|
| <b>Treasury bills</b>           |                                    |                                   |                   |
| <b>At 31 December 2015</b>      |                                    |                                   |                   |
| Within 90 days                  | 39,670                             | -                                 | 39,670            |
| In 91 days – 1 year             | 208,626                            | 186,708                           | 395,334           |
|                                 | 248,296                            | 186,708                           | 435,004           |
|                                 | 248,296                            | 186,708                           | 435,004           |
| <b>Treasury bonds maturing:</b> |                                    |                                   |                   |
| In 91 days – 1 year             | 157,082                            | 95,647                            | 252,729           |
| In 1 year – 5 years             | 241,232                            | 43,935                            | 285,167           |
| In over 5 years                 | 281,396                            | 164,959                           | 446,355           |
|                                 | 679,710                            | 304,541                           | 984,251           |
|                                 | 928,006                            | 491,249                           | 1,419,255         |
| <b>At 31 December 2014</b>      |                                    |                                   |                   |
| In 91 days to 1 year            | 25,000                             | -                                 | 25,000            |
| Less unearned discount          | (1,807)                            | -                                 | (1,807)           |
|                                 | 23,193                             | -                                 | 23,193            |
| <b>Treasury bonds maturing:</b> |                                    |                                   |                   |
| Within 90 days                  | 52,275                             | -                                 | 52,275            |
| In 91 days – 1 year             | 67,963                             | 31,379                            | 99,342            |
| In 1 year – 5 years             | 188,231                            | 75,538                            | 263,769           |
| In over 5 years                 | 129,508                            | 103,239                           | 232,747           |
|                                 | 437,977                            | 210,156                           | 648,133           |
|                                 | 461,170                            | 210,156                           | 671,326           |

Treasury bonds include Shs 330,000,000 (2014: Shs 290,000,000) 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.

## 25 a) RETROCESSIONAIRES' SHARE OF REINSURANCE LIABILITIES

|                                     | Short-term<br>Business<br>Shs '000 | Long-term<br>Business<br>Shs '000 | Total<br>Shs '000 |
|-------------------------------------|------------------------------------|-----------------------------------|-------------------|
| <b>At 31 December 2015</b>          |                                    |                                   |                   |
| <b>Retrocessionaires' share of:</b> |                                    |                                   |                   |
| Unearned premiums (Note 32)         | 488                                | -                                 | 488               |
| Outstanding claims                  | 459,355                            | 75,474                            | 534,829           |
|                                     | 459,843                            | 75,474                            | 535,317           |
| <b>At 31 December 2014</b>          |                                    |                                   |                   |
| <b>Retrocessionaires' share of:</b> |                                    |                                   |                   |
| Unearned premiums (Note 32)         | 988                                | -                                 | 988               |
| Outstanding claims                  | 22,452                             | 9,969                             | 32,421            |
|                                     | 23,440                             | 9,969                             | 33,409            |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

## 25 a) RETROCESSIONAIRES' SHARE OF REINSURANCE LIABILITIES (CONTINUED)

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 30 and 32.

## b) DEFERRED RISK PREMIUM REBATES ARISING FROM RETROCESSION ARRANGEMENTS

|                                               | Gross<br>Shs'000' | 2015<br>Retro-<br>cession<br>Shs'000' | Net<br>Shs'000' | Gross<br>Shs'000' | 2014<br>Retro-<br>cession<br>Shs'000' | Net<br>Shs'000' |
|-----------------------------------------------|-------------------|---------------------------------------|-----------------|-------------------|---------------------------------------|-----------------|
| At 1 January                                  | 362,034           | 461                                   | 361,573         | 285,909           | 85                                    | 285,824         |
| Increase/(decrease) in<br>the period (Note 8) | 13,034            | (364)                                 | 13,398          | 76,125            | 376                                   | 75,749          |
| At 31 December                                | 375,068           | 97                                    | 374,971         | 362,034           | 461                                   | 361,573         |

## 26 OTHER RECEIVABLES

|                                                         | Short-term<br>business<br>Shs '000 | Long-term<br>business<br>Shs '000 | 2015<br>Total<br>Shs '000 | 2014<br>Total<br>Shs '000 |
|---------------------------------------------------------|------------------------------------|-----------------------------------|---------------------------|---------------------------|
| Due from related companies (Note 36(b)(i))              | 120,576                            | 17,634                            | 138,210                   | 164,890                   |
| Due from short-term to long- term<br>business (Note 33) | 35,737                             | -                                 | 35,737                    | 15,853                    |
| Car loans - staff*                                      | 2,502                              | -                                 | 2,502                     | 3,751                     |
| Prepayments and other receivables                       | 19,602                             | 2                                 | 19,604                    | 7,161                     |
|                                                         | 178,417                            | 17,636                            | 196,053                   | 191,655                   |

\*These are car loans extended to members of staff. There were no impairment losses recorded against car loans in 2015 (2014: Nil).

## 27 DEPOSITS WITH FINANCIAL INSTITUTIONS

|                                      | Short-term<br>Business<br>Shs '000 | Long-term<br>Business<br>Shs '000 | Total<br>Shs '000 |
|--------------------------------------|------------------------------------|-----------------------------------|-------------------|
| Held to maturity - At amortized cost |                                    |                                   |                   |
| At 31 December 2015                  |                                    |                                   |                   |
| Deposits maturing:                   |                                    |                                   |                   |
| Within 90 days                       | 599,735                            | 248,130                           | 847,865           |
| In 91 days – 1 year                  | 1,273,015                          | 339,597                           | 1,612,612         |
|                                      | 1,872,750                          | 587,727                           | 2,460,477         |
| At 31 December 2014                  |                                    |                                   |                   |
| Deposits maturing:                   |                                    |                                   |                   |
| Within 90 days                       | 445,901                            | 38,510                            | 484,411           |
| In 91 days – 1 year                  | 1,637,040                          | 492,160                           | 2,129,200         |
|                                      | 2,082,941                          | 530,670                           | 2,613,611         |

## 28 CASH AND CASH EQUIVALENTS

|                                                                           | Short-term<br>business<br>Shs '000 | Long-term<br>business<br>Shs '000 | 2015<br>Total<br>Shs '000 | 2014<br>Total<br>Shs '000 |
|---------------------------------------------------------------------------|------------------------------------|-----------------------------------|---------------------------|---------------------------|
| Cash and bank balances                                                    | 68,234                             | 18,056                            | 86,290                    | 36,336                    |
| Treasury bills and bonds maturing<br>within 90 days (Note 24)             | 39,670                             | -                                 | 39,670                    | 52,275                    |
| Deposits with financial institutions maturing<br>within 90 days (Note 27) | 599,735                            | 248,130                           | 847,865                   | 484,411                   |
|                                                                           | <b>707,639</b>                     | <b>266,186</b>                    | <b>973,825</b>            | <b>573,022</b>            |

## 29 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:

|                                      | 2015<br>% | 2014<br>% |
|--------------------------------------|-----------|-----------|
| Government securities                | 15        | 12        |
| Corporate bonds                      | 13        | 13        |
| Deposits with financial institutions | 15        | 12        |
| Mortgage loans (on reducing balance) | 5         | 5         |

## 30 REINSURANCE/REASSURANCE CONTRACT LIABILITIES

|                                                                                                    | 2015<br>Shs'000' | 2014<br>Restated<br>Shs'000' |
|----------------------------------------------------------------------------------------------------|------------------|------------------------------|
| <b>Total short-term reinsurance contracts:</b>                                                     |                  |                              |
| Claims (gross) reported and claims handling expenses<br>including incurred but not reported claims | 1,654,493        | 1,251,079                    |
| <b>Long-term reinsurance contracts</b>                                                             |                  |                              |
| Claims (gross) reported and claims handling expenses                                               | 347,514          | 172,310                      |
| <b>Total gross contract liabilities</b>                                                            | <b>2,002,007</b> | <b>1,423,389</b>             |

### 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 reinsurance contracts

The company underwrites three types of long-term reinsurance 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

## 30 REINSURANCE/REASSURANCE CONTRACT LIABILITIES (CONTINUED)

### B) Long-term reinsurance contracts (continued)

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 reinsurance contracts

The latest actuarial valuation of the company's life fund was undertaken as at 31 December 2015 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).

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The significant valuation assumptions for the actuarial valuation as at 31 December 2015 are summarised below. The same assumptions were used in 2014.

#### 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.

#### ii) Investments returns

The actuarial valuation as at 31 December 2015 does not use an explicit technical rate of return.

The weighted average rate of return earned on the assets backing the life fund in 2015 was 34.4 % p.a. (2014: 36.6% p.a.) and the average over the last two years was 34.1% p.a.

#### iii) 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.



### 31 DEFERRED INCOME TAX

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2014: 30%). The movement on the deferred income tax account is as follows:

|                                                                    | Short-term<br>business<br>Shs '000 | Long-term<br>business<br>Shs '000 | 2015<br>Total<br>Shs '000 | 2014<br>Total<br>Shs '000 |
|--------------------------------------------------------------------|------------------------------------|-----------------------------------|---------------------------|---------------------------|
| At 1 January                                                       | (90,476)                           | (111,270)                         | (201,746)                 | (119,420)                 |
| Profit/(loss) credit (Note 13(a))                                  | (9,503)                            | (45,624)                          | (55,127)                  | (21,491)                  |
| Charge to other comprehensive income                               |                                    |                                   |                           | (60,835)                  |
| <b>At 31 December</b>                                              | <b>(99,979)</b>                    | <b>(156,894)</b>                  | <b>(256,873)</b>          | <b>(201,746)</b>          |
| The deferred tax liability is attributable to the following items: |                                    |                                   |                           |                           |
| Deferred tax liability:                                            |                                    |                                   |                           |                           |
| Revaluation surplus on leasehold land and building                 | 93,103                             | -                                 | 93,103                    | 99,299                    |
| Unrealised exchange gains                                          | 5,526                              | -                                 | 5,526                     | -                         |
| Unrealised gain on fair value assets                               | 8,608                              | -                                 | 8,608                     | -                         |
| Life surplus                                                       | -                                  | 156,894                           | 169,894                   | 111,270                   |
|                                                                    | <b>107,236</b>                     | <b>156,894</b>                    | <b>264,130</b>            | <b>210,569</b>            |
| Deferred tax asset:                                                |                                    |                                   |                           |                           |
| Unrealised exchange loss                                           | -                                  | -                                 | -                         | (1,355)                   |
| Provisions                                                         | (6,725)                            | -                                 | (6,725)                   | (6,606)                   |
| Excess depreciation over capital allowance                         | (533)                              | -                                 | (533)                     | (862)                     |
|                                                                    | <b>(7,258)</b>                     | <b>-</b>                          | <b>(7,258)</b>            | <b>(8,823)</b>            |
| <b>Net deferred tax liability</b>                                  | <b>99,979</b>                      | <b>156,894</b>                    | <b>256,873</b>            | <b>201,746</b>            |

### 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:

#### b) DEFERRED RISK PREMIUM REBATES ARISING FROM RETROCESSION ARRANGEMENTS

|                                               | Gross<br>Shs'000' | 2015<br>Retro-<br>cession<br>Shs'000' | Net<br>Shs'000'  | Gross<br>Shs'000' | 2014<br>Retro-<br>cession<br>Shs'000' | Net<br>Shs'000'  |
|-----------------------------------------------|-------------------|---------------------------------------|------------------|-------------------|---------------------------------------|------------------|
| At 1 January                                  | 1,194,580         | (988)                                 | 1,193,592        | 971,238           | (405)                                 | 970,833          |
| Increase/(decrease) in<br>the period (Note 8) | 40,437            | 500                                   | 40,937           | 223,342           | (583)                                 | 222,759          |
| <b>At 31 December</b>                         | <b>1,235,017</b>  | <b>(488)</b>                          | <b>1,234,529</b> | <b>1,194,580</b>  | <b>(988)</b>                          | <b>1,193,592</b> |
|                                               |                   | (Note 25)                             |                  |                   | (Note 25)                             |                  |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

## 33 OTHER PAYABLES

|                                                         | Short-term<br>business<br>Shs '000 | Long-term<br>business<br>Shs '000 | 2015<br>Total<br>Shs '000 | 2014<br>Total<br>Shs '000 |
|---------------------------------------------------------|------------------------------------|-----------------------------------|---------------------------|---------------------------|
| Due to related parties (Note 36(b))                     | 114,855                            | 34,396                            | 149,251                   | 145,926                   |
| Due to long-term business from s<br>hort-term (Note 26) | -                                  | 35,737                            | 35,737                    | 15,853                    |
| Accrued expenses and other liabilities                  | 210,077                            | 9,656                             | 219,733                   | 188,151                   |
|                                                         | 324,932                            | 79,789                            | 404,721                   | 349,930                   |

## 34 COMMITMENTS AND CONTINGENT LIABILITIES

|                                   | 2015<br>Shs '000 | 2014<br>Shs '000 |
|-----------------------------------|------------------|------------------|
| <b>a) Capital commitments</b>     |                  |                  |
| Authorised and contracted for     | -                | 15,000           |
| Authorised but not contracted for | -                | -                |
|                                   | -                | 15,000           |

### b) Contingent liabilities

Reinsurance Premium Finance – As at 31 December 2015, the Company had not guaranteed Reinsurance Premium Finance facility to insurance companies (2014: Nil). The company is only required to meet the obligations under the facility in the event of default by the insurance companies.

## 35 NOTE TO THE STATEMENT OF CASH FLOWS

|                                                                                | 2015<br>Shs '000 | 2014<br>Shs '000 |
|--------------------------------------------------------------------------------|------------------|------------------|
| Reconciliation of profit before taxation to net cash generated from operations |                  |                  |
| Profit before income tax                                                       | 626,246          | 539,467          |
| <b>Adjusted for:</b>                                                           |                  |                  |
| Investment income                                                              | (562,156)        | (440,855)        |
| Depreciation (Note 18)                                                         | 22,165           | 11,985           |
| Amortisation – intangible assets (Note 19)                                     | 2,558            | 2,285            |
| (Gain) /loss on disposal of equipment                                          | (23)             | 1                |
| Change in fair value of quoted shares (Note 9)                                 | 22,749           | 3,074            |
| Change in fair value of investment property (Note 9)                           | (28,692)         | -                |
| Changes in:                                                                    |                  |                  |
| - Reinsurance and reinsurance contract liabilities                             | 578,618          | 154,682          |
| - Unearned premium reserves and deferred acquisition revenue                   | 40,073           | 223,803          |
| - Trade and other payables                                                     | 436,283          | 15,398           |
| - Trade and other receivables                                                  | (794,910)        | 16,026           |
| <b>Net cash generated from operations</b>                                      | <b>342,911</b>   | <b>525,866</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015



## 36 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) Transactions with related parties during the year

The following transactions were carried out with related parties during the year:

|                                    | 2015<br>Shs '000 | 2014<br>Shs '000 |
|------------------------------------|------------------|------------------|
| Net earned premium                 | 825,971          | 715,712          |
| Net claims incurred                | 457,740          | 453,230          |
| Interest earned on corporate bonds | 35,318           | 11,118           |
| Interest earned on bank deposits   | 22,023           | 40,105           |

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

|                                                                                                                                                    | 2015<br>Shs '000 | 2014<br>Shs '000 |
|----------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>b) Outstanding balances with related parties</b>                                                                                                |                  |                  |
| <b>i) Reinsurance balances</b>                                                                                                                     |                  |                  |
| Premiums receivable from related parties                                                                                                           | 138,181          | 164,861          |
| Loss reserves in respect of related parties                                                                                                        | 29               | 29               |
| Due from related parties (Note 26)                                                                                                                 | 138,210          | 164,890          |
| <b>ii) Premiums payable to related parties (Note 33)</b>                                                                                           |                  |                  |
|                                                                                                                                                    | 149,251          | 145,926          |
| <b>iii) Mortgage loans</b>                                                                                                                         |                  |                  |
| Mortgage receivable from related parties (Note 22)                                                                                                 | 29,259           | 34,395           |
| Mortgage loan balances and movements thereon are in respect of loans extended to the Company's officers at terms prescribed in the company policy. |                  |                  |
| <b>iv) Corporate bonds, term deposits and bank balances</b>                                                                                        |                  |                  |
| Corporate Bonds                                                                                                                                    | 293,545          | 293,418          |
| Fixed deposits                                                                                                                                     | 179,931          | 136,468          |
| Cash balance                                                                                                                                       | 84,945           | 32,957           |
|                                                                                                                                                    | 558,421          | 462,843          |
| <b>c) Loans to directors of the company</b>                                                                                                        |                  |                  |
| The Company did not advance loans to its directors in 2015 (2014: Nil).                                                                            |                  |                  |
| <b>d) Directors' fees</b>                                                                                                                          |                  |                  |
| Directors' fees                                                                                                                                    | 2,350            | 2,650            |
| <b>e) Key management personnel remuneration</b>                                                                                                    |                  |                  |
| Salaries                                                                                                                                           | 91,817           | 89,548           |
| National social security benefit costs                                                                                                             | 21               | 21               |
| Retirement benefit costs                                                                                                                           | 5,440            | 4,414            |
| Medical costs                                                                                                                                      | 2,118            | 1,980            |
|                                                                                                                                                    | 99,396           | 95,963           |

## 37 EVENTS SUBSEQUENT TO YEAR END

There were no material subsequent events after the reporting date requiring disclosure in these financial statements as at the date of the financial statements approval.

## SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2015

Short-term business revenue account for the year ended 31 DECEMBER 2015

| Class of Reinsurance Business                                                         | Aviation       | Engineering      | Fire             | Liability     | Marine         | Motor          | Personal Accident | Theft       | Workmen's Comp | Medical        | Miscellaneous Accident | 2015 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                                                                | 2,892          | 2,271,165        | 1,341,557        | 13,592        | 210,489        | 279,751        | 9,365             | 98          | 170            | 549,543        | 374,271                | 3,008,893        |
| Change in portfolio premiums                                                          | -              | (306)            | (11,691)         | (225)         | -              | -              | 615               | -           | -              | -              | (2,290)                | (13,897)         |
| <b>Gross premiums</b>                                                                 | <b>2,892</b>   | <b>2,268,859</b> | <b>1,329,866</b> | <b>13,367</b> | <b>210,489</b> | <b>279,751</b> | <b>9,980</b>      | <b>98</b>   | <b>170</b>     | <b>549,543</b> | <b>371,981</b>         | <b>2,994,996</b> |
| Change in gross UPR                                                                   | 1,520          | 13,608           | 31,853           | 1,378         | 12,755         | (480)          | 1,297             | (15)        | -              | (56,678)       | 22,165                 | 27,403           |
| <b>Gross earned premiums</b>                                                          | <b>1,372</b>   | <b>2,13,251</b>  | <b>1,298,013</b> | <b>11,989</b> | <b>197,734</b> | <b>280,231</b> | <b>8,683</b>      | <b>113</b>  | <b>170</b>     | <b>606,221</b> | <b>349,816</b>         | <b>2,967,593</b> |
| Retrosession premiums                                                                 | -              | 713              | 99,121           | -             | 9,807          | 602            | -                 | -           | -              | -              | 3,797                  | 114,040          |
| Change in retro UPR                                                                   | -              | (65)             | 53               | -             | (108)          | 2              | -                 | -           | -              | -              | (18)                   | (136)            |
| <b>Net earned premiums</b>                                                            | <b>1,372</b>   | <b>212,473</b>   | <b>1,198,945</b> | <b>11,989</b> | <b>187,819</b> | <b>279,631</b> | <b>8,683</b>      | <b>113</b>  | <b>170</b>     | <b>606,221</b> | <b>346,001</b>         | <b>2,853,417</b> |
| Gross claims paid                                                                     | 1,850          | 37,861           | 1,111,432        | 184           | 74,373         | 175,656        | 1,938             | -           | 22             | 442,726        | 58,195                 | 1,904,237        |
| Change in Gross outstanding claims                                                    | 253            | (75,943)         | 645,900          | 231           | 25,365         | 20,476         | 686               | (31)        | (12)           | (188,211)      | (25,299)               | 403,415          |
| Retrosession claims                                                                   | (0)            | (193)            | 98,247           | (0)           | 1,271          | (3)            | (1)               | -           | -              | (110)          | (1,722)                | 97,489           |
| Change in Retro outstanding claims                                                    | -              | (3,936)          | 433,401          | 20            | 8,906          | 439            | 10                | (8)         | -              | (1,313)        | (616)                  | 436,903          |
| <b>Net claims incurred</b>                                                            | <b>2,103</b>   | <b>(33,953)</b>  | <b>1,225,684</b> | <b>395</b>    | <b>89,561</b>  | <b>195,696</b> | <b>2,615</b>      | <b>(23)</b> | <b>10</b>      | <b>255,938</b> | <b>35,234</b>          | <b>1,773,260</b> |
| Risk premium rebates earned                                                           | -              | 301              | (324)            | 1             | (49)           | 112            | 1                 | 4           | 1              | -              | 184                    | 231              |
| Risk premium rebates                                                                  | 558            | 72,940           | 397,471          | 3,408         | 61,102         | 36,473         | 1,919             | 17          | 16             | 128,887        | 118,856                | 821,647          |
| Taxes and other charges                                                               | 2              | 10,009           | 33,940           | 422           | 8,270          | 7,858          | 573               | 0           | 3              | 19,423         | 24,169                 | 104,668          |
| <b>Technical profit/(loss)</b>                                                        | <b>(1,291)</b> | <b>163,778</b>   | <b>(458,474)</b> | <b>7,665</b>  | <b>28,837</b>  | <b>39,716</b>  | <b>3,577</b>      | <b>123</b>  | <b>142</b>     | <b>201,973</b> | <b>167,924</b>         | <b>154,073</b>   |
| Expenses of management                                                                | 129            | 10,150           | 59,503           | 598           | 9,418          | 12,517         | 447               | 4           | 8              | 24,588         | 16,644                 | 134,006          |
| <b>Total expenses and risk premium rebates</b>                                        | <b>689</b>     | <b>92,798</b>    | <b>491,238</b>   | <b>4,427</b>  | <b>78,839</b>  | <b>56,736</b>  | <b>2,938</b>      | <b>17</b>   | <b>26</b>      | <b>172,898</b> | <b>159,485</b>         | <b>1,060,090</b> |
| <b>Underwriting profit/(loss)</b>                                                     | <b>(1,420)</b> | <b>153,628</b>   | <b>(517,977)</b> | <b>7,167</b>  | <b>19,419</b>  | <b>27,199</b>  | <b>3,130</b>      | <b>119</b>  | <b>134</b>     | <b>177,385</b> | <b>151,281</b>         | <b>20,067</b>    |
| <b>Key ratios:</b>                                                                    |                |                  |                  |               |                |                |                   |             |                |                |                        |                  |
| Net loss ratio (net claims incurred/ net earned premiums)                             | 153.3%         | (16.0)%          | 102.2%           | 3.3%          | 47.7%          | 70.0%          | 30.1%             | (20.3)%     | 6.05           | 42.25          | 10.2%                  | 62.1%            |
| Net risk premium rebates ratio (net risk premium rebates/net written premiums)        | 19%            | 32%              | 32%              | 25%           | 30%            | 13%            | 20%               | 0%          | 9%             | 23%            | 32%                    | 28.4%            |
| Total expense ratio (total net expenses and risk premium rebates/net written premium) | 203.6%         | 27.7%            | 143.2%           | 40.2%         | 89.7%          | 90.3%          | 63.9%             | (4.9)%      | 20.9%          | 70.7%          | 56.3%                  | 99.3%            |

The short - term business revenue account was approved by the board of directors on 25 February 2016 and was signed on its behalf by:

**J. P. M. NDEGWA**  
Chairman  
25 February 2016

**D. G. M. HUTCHISON**  
Director  
25 February 2016

**P. K. MAINA**  
Principal Officer  
25 February 2016

# SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2015

Short-term business revenue account for the year ended 31 DECEMBER 2014

| Class of Reinsurance Business                                                             | Aviation     | Engineering     | Fire             | Liability     | Marine         | Motor          | Personal Accident | Theft       | Workmen's Comp | Medical          | Miscellaneous Accident | 2013 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                                                                    | 4,297        | 204,509         | 1,315,233        | 10,126        | 201,342        | 222,857        | 4,334             | 209         | 762            | 756,310          | 320,493                | 3,040,472        |
| Change in portfolio premiums                                                              | -            | (472)           | 4,709            | 20            | 174            | 3,058          | 151               | -           | -              | -                | (1,467)                | 6,173            |
| <b>Gross premiums</b>                                                                     | <b>4,297</b> | <b>204,037</b>  | <b>1,319,942</b> | <b>10,146</b> | <b>201,516</b> | <b>225,915</b> | <b>4,485</b>      | <b>209</b>  | <b>762</b>     | <b>756,310</b>   | <b>319,026</b>         | <b>3,046,645</b> |
| Change in gross UPR                                                                       | 80           | 7,733           | 46,455           | (901)         | (9,138)        | (23,330)       | (2,306)           | 15          | (9,471)        | 138,475          | (395)                  | 147,217          |
| <b>Gross earned premiums</b>                                                              | <b>4,217</b> | <b>196,304</b>  | <b>1,273,487</b> | <b>11,047</b> | <b>210,654</b> | <b>249,245</b> | <b>6,791</b>      | <b>194</b>  | <b>10,233</b>  | <b>617,835</b>   | <b>319,421</b>         | <b>2,899,428</b> |
| Retrocession premiums                                                                     | -            | 533             | 72,569           | 3             | 2,625          | 133            | (52)              | -           | -              | -                | 7,918                  | 83,729           |
| Change in retro UPR                                                                       | -            | 62              | -                | -             | 68             | 65             | (2)               | -           | -              | -                | 14                     | 207              |
| <b>Net earned premiums</b>                                                                | <b>4,217</b> | <b>195,833</b>  | <b>1,200,918</b> | <b>11,044</b> | <b>208,097</b> | <b>249,177</b> | <b>6,841</b>      | <b>194</b>  | <b>10,233</b>  | <b>617,835</b>   | <b>311,517</b>         | <b>2,815,906</b> |
| Gross claims paid                                                                         | 177          | 106,215         | 668,368          | 2,441         | 60,450         | 89,399         | 989               | 55          | -              | 429,067          | 185,179                | 1,542,340        |
| Change in Gross outstanding claims                                                        | (72)         | 111,056         | (76,502)         | 311           | (50,718)       | (76,417)       | (3,215)           | (21)        | (3,885)        | 241,089          | (54,093)               | 87,533           |
| Retrocession claims                                                                       | -            | 2,039           | 60,718           | (129)         | (96)           | 804            | 42                | 56          | -              | 108              | 693                    | 64,235           |
| Change in Retro outstanding claims                                                        | -            | 5,333           | (110,256)        | (26)          | (490)          | (3,846)        | 10                | 1           | -              | 1,643            | 1,559                  | (106,072)        |
| <b>Net claims incurred</b>                                                                | <b>105</b>   | <b>209,899</b>  | <b>641,404</b>   | <b>2,907</b>  | <b>10,318</b>  | <b>16,024</b>  | <b>(2,278)</b>    | <b>(23)</b> | <b>(3,885)</b> | <b>668,405</b>   | <b>128,834</b>         | <b>1,671,710</b> |
| Risk premium rebates earned                                                               | -            | 378             | 5,513            | 1             | 23             | 19             | (18)              | -           | -              | -                | 149                    | 6,065            |
| Risk premium rebates                                                                      | 1,132        | 64,746          | 376,991          | 2,380         | 53,242         | 23,047         | 969               | 52          | 86             | 184,508          | 94,005                 | 801,158          |
| Taxes and other charges                                                                   | 104          | 9,963           | 33,989           | 252           | 6,188          | 3,029          | 7                 | 2           | 4              | 15,188           | 20,162                 | 88,888           |
| <b>Technical profit/(loss)</b>                                                            | <b>2,876</b> | <b>(88,397)</b> | <b>154,047</b>   | <b>5,506</b>  | <b>138,372</b> | <b>207,096</b> | <b>8,125</b>      | <b>163</b>  | <b>14,028</b>  | <b>-250,266</b>  | <b>68,665</b>          | <b>260,215</b>   |
| Expenses of management                                                                    | 153          | 7,304           | 46,972           | 362           | 7,191          | 7,959          | 155               | 7           | 27             | 27,011           | 11,446                 | 108,587          |
| <b>Total expenses and risk premium rebates</b>                                            | <b>1,389</b> | <b>81,635</b>   | <b>452,439</b>   | <b>2,993</b>  | <b>66,598</b>  | <b>34,016</b>  | <b>1,149</b>      | <b>61</b>   | <b>117</b>     | <b>226,707</b>   | <b>125,464</b>         | <b>992,568</b>   |
| <b>Underwriting profit/(loss)</b>                                                         | <b>2,723</b> | <b>(95,701)</b> | <b>107,075</b>   | <b>5,144</b>  | <b>131,181</b> | <b>199,137</b> | <b>7,970</b>      | <b>156</b>  | <b>14,001</b>  | <b>(277,277)</b> | <b>57,219</b>          | <b>151,628</b>   |
| <b>Key ratios:</b>                                                                        |              |                 |                  |               |                |                |                   |             |                |                  |                        |                  |
| Net loss ratio (net claims incurred/net earned premiums)                                  | 2.5%         | 107.2%          | 53.4%            | 26.3%         | 5.0%           | 6.4%           | -33.3%            | -11.9%      | -38.0%         | 108.2%           | 41.4%                  | 59.4%            |
| Net risk premium rebates ratio (net risk premium rebates/net written premiums)            | 2.6%         | 32%             | 28%              | 23%           | 2.6%           | 10%            | 22%               | 25%         | 11%            | 24%              | 29%                    | 2.6%             |
| Total expense ratio (total net expenses and net risk premium rebates/net written premium) | 32%          | 40%             | 34%              | 30%           | 33%            | 15%            | 27%               | 29%         | 15%            | 30%              | 39%                    | 33%              |

The short - term business revenue account was approved by the board of directors on 25 February 2016 and was signed on its behalf by:

**J. P. M. NDEGWA**  
Chairman  
25 February 2016

**D. G. M. HUTCHISON**  
Director  
25 February 2016

**P. K. MAINA**  
Principal Officer  
25 February 2016



## SUPPLEMENTARY INFORMATION

Long-term business revenue account for the year ended 31 december 2015

|                                                 | Ordinary Life<br>Business<br>Shs '000 | Group Life<br>Business<br>Shs '000 | 2015<br>Total<br>Shs '000 |
|-------------------------------------------------|---------------------------------------|------------------------------------|---------------------------|
| Gross earned premiums                           | 29,272                                | 680,244                            | 709,516                   |
| Retrocession premiums                           | (13,091)                              | (129,968)                          | (143,059)                 |
| <b>Net earned premiums</b>                      | <b>16,181</b>                         | <b>550,276</b>                     | <b>566,457</b>            |
| Investment income                               | 3,097                                 | 105,302                            | 108,399                   |
| Risk premium rebates earned                     | 5,498                                 | 35,618                             | 41,116                    |
| <b>Net income</b>                               | <b>24,776</b>                         | <b>691,196</b>                     | <b>715,972</b>            |
| Gross claims                                    | 1,162                                 | 207,105                            | 208,267                   |
| Recoveries                                      | -                                     | (56,270)                           | (56,270)                  |
| Change in long-term liabilities                 | 612                                   | 109,086                            | 109,698                   |
| <b>Net claims and treaty benefits payable</b>   | <b>1,774</b>                          | <b>259,921</b>                     | <b>261,695</b>            |
| Operating and other expenses                    | 2,921                                 | 48,840                             | 51,761                    |
| Risk premium rebates                            | 5,795                                 | 171,726                            | 177,521                   |
| <b>Total expenses</b>                           | <b>10,490</b>                         | <b>480,487</b>                     | <b>490,977</b>            |
| <b>Profit before taxation</b>                   | <b>14,286</b>                         | <b>210,709</b>                     | <b>224,995</b>            |
| Taxation charge                                 | (4,425)                               | (65,266)                           | (69,691)                  |
| <b>Long-term business profit after taxation</b> | <b>9,861</b>                          | <b>145,443</b>                     | <b>155,304</b>            |

The long - term revenue account was approved by the board of directors on 25 February 2016 and were signed on its behalf by:

**J. P. M. NDEGWA**  
Chairman

**D. G. M. HUTCHISON**  
Director

**P. K. MAINA**  
Principal Officer

25 February 2016

25 February 2016

25 February 2016

|                                                 | Ordinary Life<br>Business<br>Shs '000 | Group Life<br>Business<br>Shs '000 | 2015<br>Total<br>Shs '000 |
|-------------------------------------------------|---------------------------------------|------------------------------------|---------------------------|
| Gross earned premiums                           | 25,369                                | 406,337                            | 431,706                   |
| Retrocession premiums                           | (7,664)                               | (82,837)                           | (90,501)                  |
| <b>Net earned premiums</b>                      | <b>17,705</b>                         | <b>323,500</b>                     | <b>341,205</b>            |
| Investment income                               | 4,910                                 | 78,639                             | 83,549                    |
| Risk premium rebates earned                     | 1,325                                 | 24,841                             | 26,166                    |
| <b>Net income</b>                               | <b>23,940</b>                         | <b>426,980</b>                     | <b>450,921</b>            |
| Gross claims                                    | 1,478                                 | 144,294                            | 145,772                   |
| Recoveries                                      | -                                     | (65,076)                           | (65,076)                  |
| Change in long-term liabilities                 | 3,677                                 | 62,748                             | 66,425                    |
| <b>Net claims and treaty benefits payable</b>   | <b>5,155</b>                          | <b>141,966</b>                     | <b>147,071</b>            |
| Operating and other expenses                    | 6,264                                 | 58,522                             | 64,786                    |
| Risk premium rebates                            | 5,192                                 | 99,363                             | 104,555                   |
| <b>Total expenses</b>                           | <b>16,611</b>                         | <b>299,851</b>                     | <b>316,462</b>            |
| <b>Profit before taxation</b>                   | <b>7,329</b>                          | <b>127,129</b>                     | <b>134,458</b>            |
| Taxation charge                                 | (2,401)                               | (38,459)                           | (40,860)                  |
| <b>Long-term business profit after taxation</b> | <b>4,928</b>                          | <b>88,670</b>                      | <b>93,598</b>             |

The long - term revenue account was approved by the board of directors on 25 February 2016 and were signed on its behalf by:

**J. P. M. NDEGWA**  
Chairman

**D. G. M. HUTCHISON**  
Director

**P. K. MAINA**  
Principal Officer

25 February 2016

25 February 2016

25 February 2016



# PROXY FORM

East Africa Reinsurance Company Limited

We (name in full) .....

of (address) .....

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

of (address) .....

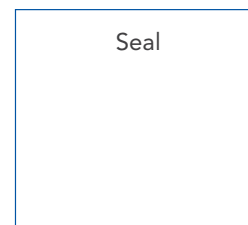
and failing him/her .....

of (address) .....

as our proxy to vote for us on our behalf at the Twenty Third Annual General Meeting of the Company to be held on Thursday, 19 May 2016, at twelve noon and at any adjournment thereof.

Signed this ..... day of ..... 2016

Signature(s)  
.....



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

| Ordinary Business                                                                                                                                 | For                      | Against                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 1. To adopt the financial statements for the year ended 31 December 2015 and the Chairman's, Directors', Actuary's and Auditors' reports thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To approve the payment of a dividend.                                                                                                          | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To elect Directors.                                                                                                                            | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To approve the remuneration of the Directors.                                                                                                  | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To note that PricewaterhouseCoopers continue as the company's auditors.                                                                        | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To authorize the Directors to fix their remuneration.                                                                                          | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. To increase the authorised share capital from Kes. 1.3 Billion to Kes. 1.5 Billion.                                                            | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. To capitalise Kes. 200 Million of unappropriated profit towards the increased authorised share capital.                                        | <input type="checkbox"/> | <input type="checkbox"/> |

### IMPORTANT NOTES

1. This proxy form must be under seal or under the hand of an Officer or Attorney duly authorized 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.



Front row from left to right: R. W. Gitonga, F. Muchoki, D. Miano, A. Miyogo, E. Kigen, P. Mburu, S. Shah, J. Kimondo, R. Akayezu, B.K. Chirchir, C. Omasete  
 Back row from left to right: H. Shah, P. K. Maina, R. Kogo, R. Muganda, D. Mitoko, K. n joroge, M. Kamau, V. Maithya, M. Kimondo, A. Mosei, H. Kamau, I . Murerwa, D. Kirui

## 20TH ANNIVERSARY CELEBRATIONS



EARE 20th Anniversary cake cutting ceremony by Hon. Adan Mohammed EBS (Cabinet Secretary, Ministry of industrialization and Enterprise), assisted by Mr. Sammy Makove (Commissioner of insurance/ CEO, iRA) Mr. James n degwa (Chairman, EARE) and Mr. Peter Maina (CEO, EARE) in celebration of 20 years of Secured Solid Partnership on 21 May 2015.



Former and Current Directors with staff during 20th Anniversary Staff Luncheon



East Africa Reinsurance Company Limited  
EARe House, 98 Riverside Drive,  
P. O. Box 20196 - 00200 Nairobi, Kenya  
Tel: +254 20 4443588  
Fax: +254 2 4455391  
Mobile: +254 728111041; +254 733623737  
Email: [info@eastaficare.com](mailto:info@eastaficare.com)

[www.eastafricare.com](http://www.eastafricare.com)