EAST AFRICA REINSURANCE COMPANY

2016 ANNUAL REPORT AND FINANCIAL STATEMENTS

Secured Solid Partnership

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
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98 Riverside Drive
P. O. Box 20196 - 00200
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Tel: (254 20) 4084000
Fax: (254 20) 4455391
E-mail: info@eastafricare.com
Website: www.eastafricare.com

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

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

Ranadey Professional Services
1- A, Krishna Nagar
Kondhwa Khurd
Pune - 411048, India

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

PRINCIPAL BANKERS
NIC Bank Limited
NIC House Branch
Masaba Road
P. O. Box 30090 - 00100 GPO
Nairobi, Kenya

LEGAL ADVISORS
Kaplan & Stratton
Williamson House
4th Ngong Avenue
P. O. Box 40111 - 00100
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)
Vice - Chairman

L.W. Muriuki (Ms.)
Director

D.G.M. Hutchison
Director

A.G. Vaidyan
Director

P.K. Maina
Chief Executive Officer

S.N. Adamali
Director

S.O. Oluoch
Director

K.M. Ontiti
Company Secretary

S.V. Deshkulkarni
Alternate Director

P.K. Mugambi
Alternate Director

I. Singh
Alternate Director

A.S.M. Ndegwa
Alternate Director

Management

Standing from your left: D.K. Kirui - Manager (Life), D.O. Mitoko - Manager (Non-Life), P. K. Maina - Chief Executive Officer, B.K. Chirchir - IT Manager, R.K. Kogo - Chief Accountant

Seated from left: V.K. Maithya - Human Resource & Administration Manager, R.W. Gitonga - Chief Finance Officer, C.A. Omasete - Risk & Compliance Manager

Financial Highlights-5 Years (Combined Business)

Short-Term and Long Term Business Combined

	2016 Shs' Million	2015 Shs' Million	2014 Shs' Million	2013 Shs' Million	2012 Shs' Million
Investment income (net)	607	530	406	393	425
Gross Premiums	3,328	3,705	3,478	2,817	2,461
Net Premiums	3,031	3,447	3,304	2,713	2,326
Net Earned Premiums	3,204	3,420	3,157	2,645	2,162
Technical Profit	285	289	334	283	202
Underwriting Profit/(Loss)	122	136	209	149	79
Profit Before Tax	668	626	539	519	404
Profit After Tax	466	432	373	366	283
Dividend	60	60	60	60	40
Shareholders' funds	3,422	3,016	2,645	2,190	1,864
Share Capital	1,500	1,300	1,000	1,000	800
Total Assets	7,769	7,774	6,270	5,409	4,698

Short-Term and Long Term Business Combined

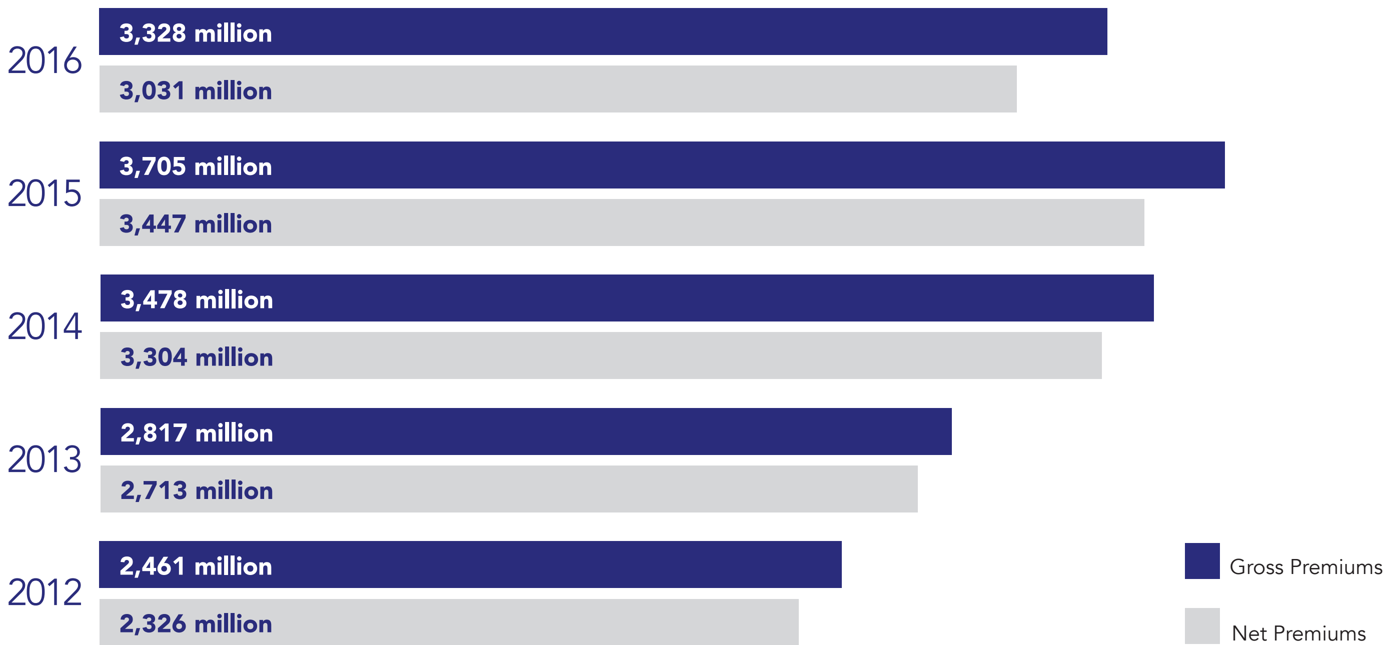
	2016 102.56* USD ' 000'	2015 102.2* USD ' 000'	2014 90.6* USD ' 000'	2013 86.3* USD ' 000'	2012 86.0* USD ' 000'
Investment income (net)	5,918	5,182	4,481	4,549	4,939
Gross Premiums	32,449	36,248	38,389	32,643	28,613
Net Premiums	29,553	33,732	36,469	31,438	27,045
Net Earned Premiums	31,240	33,463	34,846	30,643	25,143
Technical Profit	2,779	2,832	3,685	3,274	2,350
Underwriting Profit/(Loss)	1,190	1,326	2,307	1,726	923
Profit Before Tax	6,513	6,128	5,949	6,018	4,701
Profit After Tax	4,544	4,224	4,117	4,235	3,286
Dividend	585	587	662	695	465
Shareholders' funds	33,366	29,515	29,193	25,373	21,679
Share Capital	14,626	12,720	11,038	11,586	9,302
Total Assets	75,751	76,068	69,207	62,669	54,627

*Exchange Rate

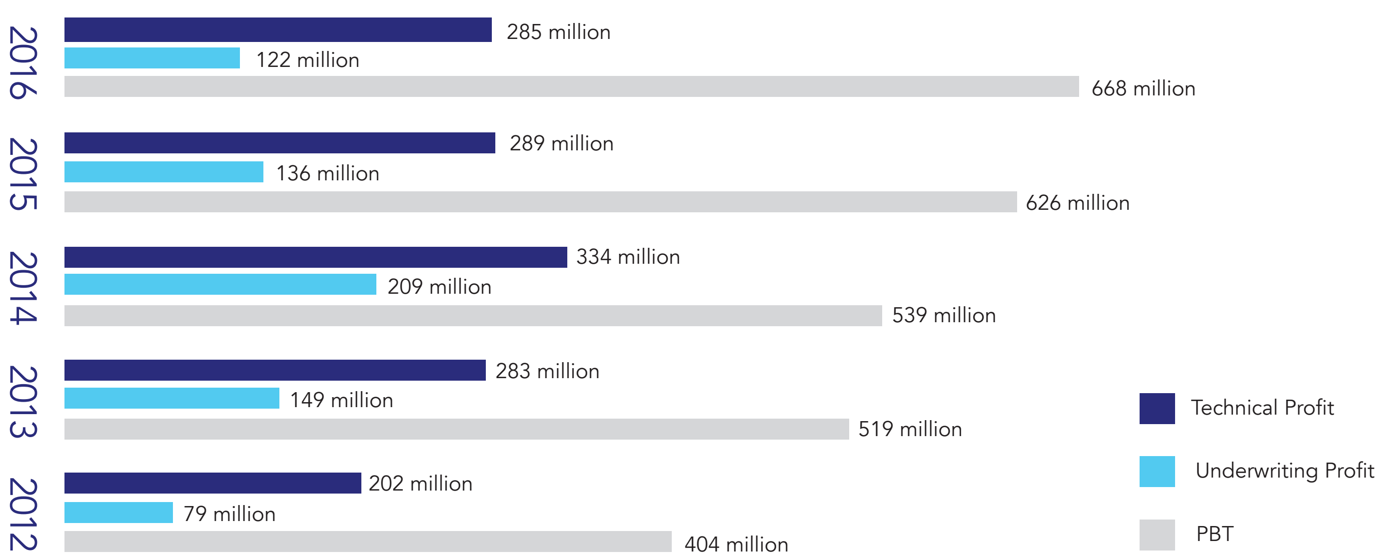
	2016	2015	2014	2013	2012
Net Technical Profit/Net Premiums	9%	8%	10%	10%	9%
Loss Ratio	61%	60%	58%	55%	54%
Earnings Per Share (Shs)	310	332	373	366	353
Dividend Cover	8	7	6	6	7
Return on Equity Before Tax	21%	22%	22%	26%	25%
Return on Equity After Tax	14%	15%	15%	18%	18%

Financial Highlights-5 Years (Combined Business)

Gross Premiums and Net Premiums - Combined Business

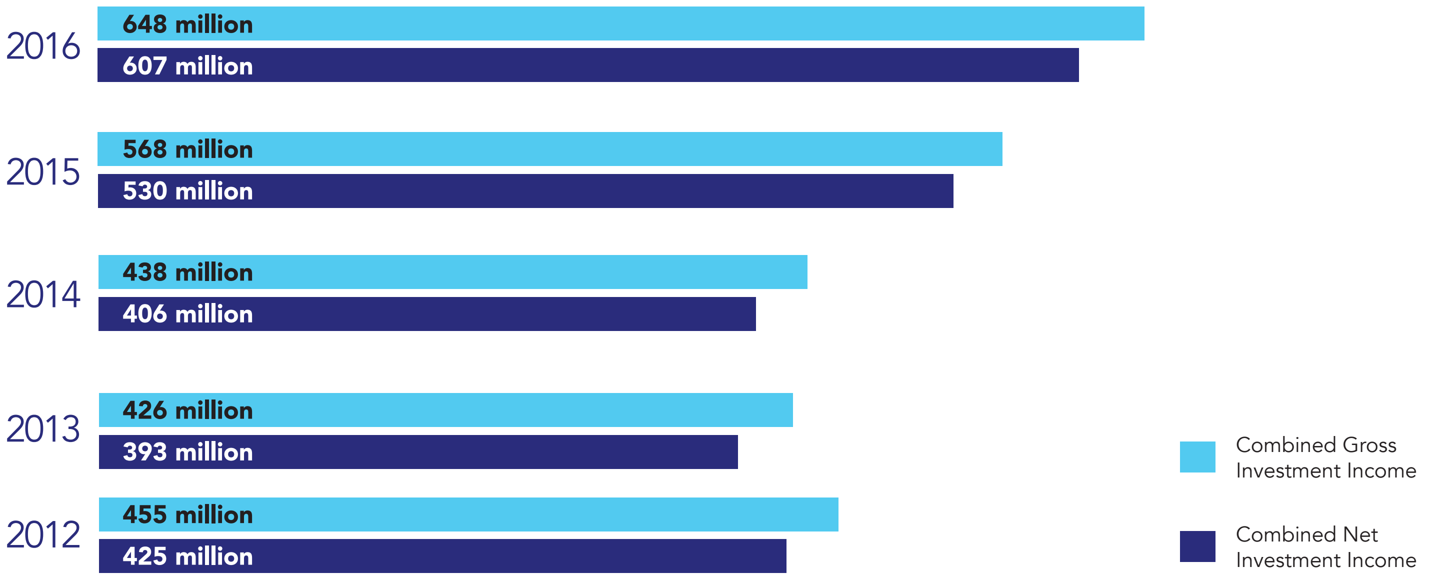


Technical Profit, Underwritting Profit and Profit Before Taxation - Combined Business

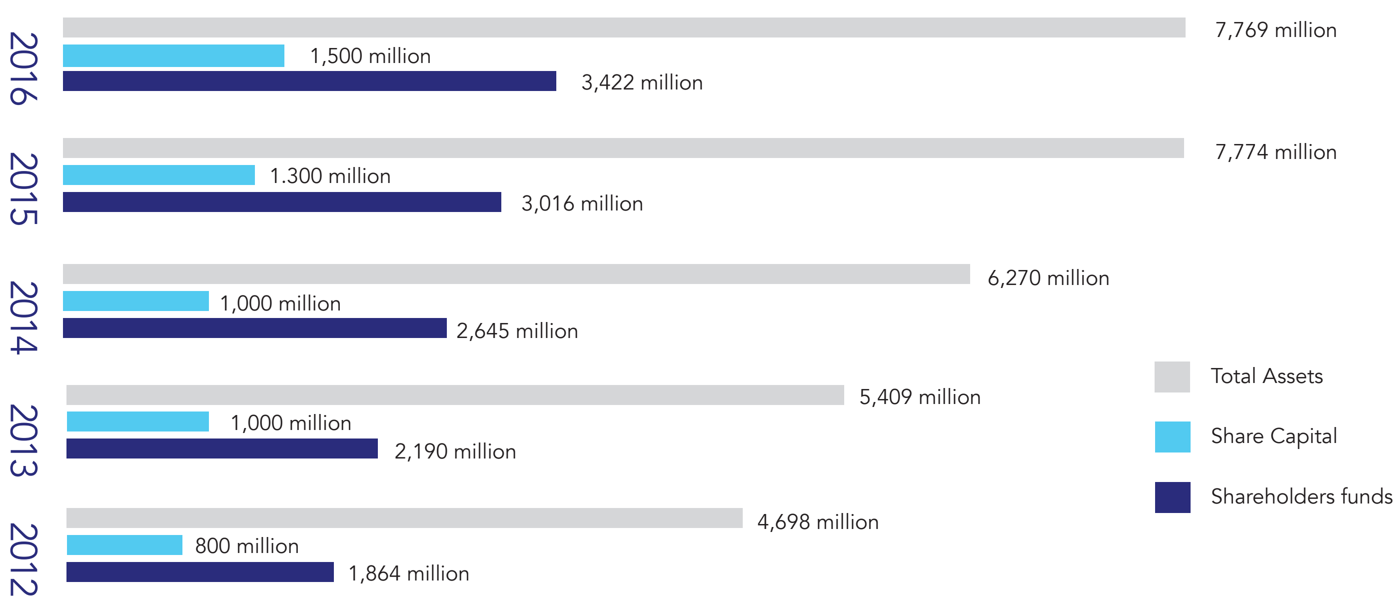


Financial Highlights-5 Years (Combined Business)

Combined Investment Income



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



Notice of the Twenty-Fourth Annual General Meeting

Notice is hereby given that the Twenty-Fourth Annual General Meeting of East Africa Reinsurance Company Limited will be held on Thursday, 18 May 2017, in the Company's Training Room, EARe House, 98 Riverside Drive, Nairobi, at twelve noon to transact the following business:

Ordinary Business

1 To confirm the minutes of the Annual General Meeting held on 19 May 2016.

2 To receive, consider and, if appropriate, adopt the financial statements for the year ended 31 December 2016 and the Chairman's, Directors', Actuary's and Auditors' reports thereon.

3 To approve the payment of a dividend.

4 To elect Directors.

5 To approve the remuneration of the Directors.

6 To note that PricewaterhouseCoopers continue as the Company's auditors under Section 717 of the Kenyan Companies Act subject to approval by the Commissioner of Insurance as required under section 56(4) of the Kenyan Insurance Act.

7 To authorize the Directors to fix the remuneration of the Auditors.

8 To transact any other business of an Annual General Meeting.

By Order of the Board

K. M. Ontiti
Secretary

23 February 2017

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, it gives me great pleasure to present to you our Annual Report and Financial Statements for the year ended 31 December 2016.

Kenya's Economic Overview

The Kenya's GDP for 2016 is estimated at 5.9%, a very slight growth over the 5.6% recorded in 2015.

The Kenya Shilling remained stable against major currencies during the year mainly attributed to the low oil prices, improved forex inflows from tea and horticulture and increased remittances by Kenyans in diaspora. Against the US dollar, there was minimal movement with the year end rate closing at 1 US Dollar to Kshs 102.10 compared to previous year closing at 1 US Dollar to Kshs 102.31. The Kenya Shilling considerably appreciated against the GBP and Euro with the Kenya Shilling closing at Kshs 127.62 and Kshs 107.62 against the GBP and Euro respectively compared to Kshs 153.25 and Kshs 111.08 against the GBP and Euro respectively as at 31st December 2015.

Annual average inflation touched a high of 7.78% in January 2016 and a low of 5.00% in May 2016 before closing at 6.35%. The decrease in the rate of inflation witnessed early in the year was mainly attributed to decline in the energy prices while the increase in the second half of the year was driven by an increase in food and fuel prices.

During the year interest rates were fairly stable until the Banking Amendment Act was assented to in August 2016. The amendment put a cap on lending rates at 4.0% above the Central Bank Rate (CBR) and a floor on the deposit rates at 70% of the CBR. The 91-day Treasury bill interest rate decreased from 11.35 % in January 2016 to 8.44% in December 2016 and the 182-day Treasury bill interest rates decreased from 13.38% in January 2016 to 10.5% in December 2016 while the 364-day Treasury bill interest rates decreased from 16.09% in January 2016 to 11.01% in December 2016.

The Equities Market was characterised by reduced trading and declining market prices. The NSE index closed at 3,186 points reflecting a 21% decline against the NSE 20 share index of 4041 as at 31st December 2015. The continued fall in the NSE index is partly attributable to the negative sentiment particularly amongst foreign investors in aftermath of the reintroduction of capital gains tax and currency instability in the previous year and then the anticipated downturn in the performance in the Banking stock, which forms a major component of the exchange, with the capping of interest rates.

The Insurance industry received a major boost in the Marine class after the Cabinet Secretary for National Treasury in the 8th June 2016 budget speech directed that Section 20 of the Insurance Act (domesticating marine insurance) be implemented. This was subsequently enforced with effect from 1st January 2017 and is projected to result in increased premiums for both Direct Insurers and Reinsurers.

The Reinsurance Industry remains very competitive. Mandatory cessions currently stand at 35% (20% to Kenya Re, 10% to PTA Re and 5% to Africa Re) and this continues to significantly affect private players who have to compete for the discretionary balance of reinsurance programmes. Further, the launch of national reinsurance companies who enjoy respective government protection in most regional markets has led to loss of shares and a corresponding loss of premium from some the Company's cedants. This increasingly competitive environment has led to a general softening of terms as a result of overcapacity pushing down reinsurance premiums.

On the regulatory front, the Insurance Regulatory Authority (IRA) continues to implement its Risk Based Supervision (RBS) framework, a move away from Compliance Based System, in line with global standards. The new regime commenced on 30th June 2016 and is being effected under a transitional arrangement proposed by the IRA which will be finalized in June 2018. The regime will see strengthened risk management systems and better capital management. Internationally, the regulatory changes in India affecting cross-border reinsurers may have adversely affected business written in that region. Business from India currently accounts for 14.4% of the Company's total gross premium booked.

Insurance penetration in Kenya remains fairly modest at 3% which is below the Sub-Saharan Africa average of 3.8%. South Africa presently leads at 14.0% followed by Namibia at 7.2%, Mauritius at 6.0% and Morocco at 3.2%. Nigeria, despite being the largest economy in Africa, has a penetration rate of less than 1%.

Overall Performance

In the year ended 31 December 2016, the Company achieved a 7% growth in consolidated profit before taxation of Kshs 668.35 million from Kshs 626.25 million in 2015. The profit after tax for the year stood at Kshs 465.6 million, reflecting an 8% improvement over 2015 resulting mainly from improved investment income. This further improved performance aside, 2016 was not an easy year and the uncertainties and challenges plaguing the industry including underpricing, unethical practices and slow payment of premium have only grown.

The Company recorded a 10% decrease in consolidated gross premium income to stand at Kshs 3.3 billion, down from Kshs 3.7 billion in 2015. As is explained below, in addition to the reduction in shares and premium from cedants arising from protection measures in other markets, this decline is significantly attributable to the Company insistence on sound technical underwriting standards.

Underwriting Performance

The Company's gross written premium for the year 2016 was Kshs 3.33 billion against the 2015 comparative of Kshs 3.70 billion representing a 10% decline in income. The decrease in total gross premium in 2016 is attributed to lower premiums written from some major cedants, devaluation of currencies in some key markets and the prevailing softening of the reinsurance market. The Company's decision to focus on profitable business has necessitated prudent underwriting with non-acceptance and cancellation of business that is loss making. The net earned premium at Kshs 3.2 billion is a 6% decline from the previous year's comparative of Kshs 3.41 billion. Retrocession premium increased from Kshs 257.10 million in 2015 to Kshs 296.88 due to the acquisition of an additional layer on the Company's General Business Catastrophe cover and higher risk exposures arising from growth in Life Reassurance Business.

Net claims incurred stood at Kshs 1.95 billion representing a favourable variance of 4% on the previous year's comparative of Kshs 2.03 billion. The decrease is attributed to an improved loss experience in the year under review. This resulted in a consolidated loss ratio of 60.9%, a marginal increase from 59.4% in 2015 due to the lower top line.

The net acquisition cost ratio stood at 26.3% compared with 28.1% in 2015 while the management expenses ratio to net premium income increased to 5.4% from 4.5% in 2015. The combined ratio rose to 96.4% from 95.8% in 2015, again mainly due to a lower top line.

The 2016 consolidated underwriting profit at Kshs 121.69 million is lower than last year's comparative of Kshs 135.54 million by 10% mainly due to the shortfall in gross premium written.

The largest classes by premium income from the short-term business were Fire, Miscellaneous Accident and Motor with a combined contribution of 73% of the total short-term premium income. The classes that recorded underwriting profits were Miscellaneous Accident, Medical and Marine while Motor, Fire, Workmen's Compensation and Theft classes recorded underwriting losses. Experience on the Medical class has significantly improved after intervention by reinsurers to contain run-away losses from proportional treaties.

With regards to the geographical sources of business, Kenya continues to be a significant contributor to the Company's combined business at 61.7% of the consolidated gross premium income for the year, compared with 58.6% in 2015. The Kenyan market accounted for 51% of the short-term business compared with 50% in 2015 and was also the main source of long-term business at 95.0% (2015: 95.6%). From the foreign markets, India and Tanzania were the Company's main sources of business with contributions of 14.4% (2015: 15.8%) and 6.5% (2015: 10.3%) of the gross premium income for the short term business respectively.

Investment Performance

The total gross investment income grew by 14% to stand at Kshs 648.37 million, up from Kshs 568.12 million in 2015. This was mainly attributed to an increase in interest income earned on Government securities and fixed deposits. The total investable funds stood at Kshs 5.70 billion at 31st December 2016, representing a 7% growth over the previous year's Kshs 5.32 billion.

Assets and Shareholders' Funds

The Company's total assets at Kshs. 7.77 billion remained within the same levels as previous year. (2015:Kshs 7.77 billion)

The consolidated Shareholders' funds as at 31 December 2016 of Kshs 3.42 billion reflects a 13.4% growth over the year from the Kshs 3.02 billion as at 31 December 2015.

The Shareholders' funds of Kshs 2.49 billion for short-term business comprises share capital of Kshs 1 billion, retained earnings of Kshs 1.22 billion, revaluation reserve of Kshs 201.76 million, fair value reserve of Kshs 8.46 million and a proposed dividend of Kshs 60 million. The Shareholders' funds of Kshs 928.29 million for long-term business comprises share capital of Kshs 500 million and general reserve of Kshs 428.29 million. The consolidated total paid up share capital stood at Kshs 1.5 billion as at 31 December 2016 (2015: Kshs 1.3 billion), an increase of Kshs. 200 million following the creation of 200,000 ordinary shares through the capitalisation of retained earnings.

Dividend

For the financial year 2016, the Board of Directors after taking into account the needs of the business and compliance with regulatory requirements recommends a total dividend of Kshs 60 million (2015: Kshs 60 million) to the shareholders, subject to members' approval at the Annual General Meeting.

Share Capital

The Company's share capital is Kshs 1.5 billion (short-term business: Kshs 1 billion; long-term business: Kshs 500 million). The Finance Act 2015 stipulates that the minimum capital for composite reinsurers be Kshs 1.5 billion (Short term business: Kshs 1 billion and Long term business: Kshs 500 million) by 30 June 2018 and the Company is therefore fully compliant well in advance of the required timeline.

Further, the Regulator has set the Prescribed Capital Requirement (PCR) at 200% which represents the level of Capital Adequacy Ratio (CAR) above which there is no regulatory intervention. Compliance with this ratio is also to be effective from 30 June 2018 and as at 31 December 2016, the Company's Capital Adequacy Ratio already stood at 243% and 232% for Short term and Long term businesses respectively and therefore the Company is well above the Prescribed Capital Requirement.

Brand and Security ratings

The Company was the winner in the 2016 Champions of Governance (COG) Award under 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 Financial Strength Rating of B (Fair) and the Long-Term Issuer Credit Rating of "bb+" 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 2016 are listed on page 1 of this Annual Report.

The Board remained committed to the principles of corporate governance and best practice during the year and also remained committed to complying with the requirements of the Insurance Act and any other applicable legislation and regulation.

A report on the corporate governance practices in the Company is contained in the Corporate Governance Statement forming part of the 2016 Annual Report.

During the period, Mrs. Shaira Najmudin Adamali joined the Board as an independent director with effect from 19th May 2016. She brings with her a wealth of experience and expertise having worked for PwC Kenya and Tanzania for over 30 years serving as Tax Partner for many years. She is the Founding Trustee at Faraja Cancer Support Trust. The Board is delighted to welcome Mrs Adamali and looks forward to her contribution.

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 overseeing the evaluation and reports the same to the Board of directors.

Corporate Social Responsibility

At the core of our Corporate Social Responsibility efforts, we believe that we have a role to play in transforming lives, building communities, and protecting the environment. During the year we contributed towards education, health, child welfare, technology and our staff welfare. More details on these initiatives is found in pages 20 to 23 of this report. We believe that by integrating Corporate Social Responsibility into our Company, we not only benefit the communities in which we work but we also benefit our business.

2017 Outlook

Kenya remains vulnerable to both external and domestic risks ranging from adverse weather that could curtail agricultural growth and impact directly on inflation coupled with uncertainties around the 2017 August elections. Inflation is expected to increase marginally in the first two quarters 2017 due to the increase in energy costs and food prices attributed to the prevailing drought that has been running from the end of 2016 and well into the first quarter of 2017. The overall economic performance has remained robust over the past eight years, and it is expected to slow down into the medium term at a rate of 5.5% in 2017.

The continued poor performance at Nairobi Securities Exchange (NSE) and the projected decline in interest rates with the capping of interest rates will likely lead to pressure in sustaining investment returns.

Despite the expected slowdown in the economy, Kenya's insurance sector is projected to grow in the coming years due to a number of drivers including:

- The recently passed legislation on domestication of Marine insurance which is estimated to push Marine insurance premiums in Kenya to over Kshs 20 billion. This factor will perhaps have the most direct impact on the industry and will not only lead to premium growth but also introduction of new and innovative products.

- Growth industries including: energy (oil and gas), telecommunication and information technology, infrastructure, financial services, real estate and retail. These will require products from the insurance industry and are likely to result in increased premium incomes.

- The market is increasingly opening up to Takaful insurance through Sharia compliance. This is likely to increase penetration by providing the Muslim community access to compliant insurance products.

- A growing middle-class that is sensitised to Life and Health insurance. With the increase in disposable incomes, the growing middle-class is expected to embrace the various Life and Health products in the market.

- Growing uptake in Micro-insurance and Bancassurance which have offered new distribution channels and given SME's access to insurance products.

- Increasing government participation in insurance purchase for civil servants working in various departments

Acknowledgement

I would like to thank the Company's esteemed clients, Intermediaries, Retrocessionaires and other business partners for their invaluable support through the years. Their support and confidence in the Company has seen it grow steadily over the past 21 years and the Company strives to remain worthy of the same and even greater support in the years to come.

I also take this opportunity to thank our shareholders for their interest and support for the Company throughout the years. We are committed to continually steadily and sustainably enhancing shareholders' value. In addition I must express my gratitude to all my colleagues on the Board for their invaluable contribution and guidance.

Last and certainly not least, I would like to thank the management and staff of the Company for their hard work, commitment and team spirit. These qualities continue to drive the Company forward in realising its strategic goals and overcome the challenging competitive environment the reinsurance industry is currently facing.

Thank you very much.

J. P. M. Ndegwa
Chairman

23 February 2017

Report of Directors

The annual report and financial statements have been prepared in accordance with part XXV of the companies Act, 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Company continues to be that of underwriting all classes of reinsurance and reassurance businesses as defined by the Kenyan Insurance Act.

RESULTS AND DIVIDEND

The total comprehensive income for the year amounted to Shs 465,558,000 (2015: Shs 431,702,000). The profit for the year of Shs 465,557,000 (2015: Shs 431,702,000) has been added to retained earnings.

The directors recommend the payment of a first and final dividend of Shs 60,000,000 (2015: Shs 60,000,000) representing a dividend of Shs 40 (2015: Shs 46.15) per share and a dividend payout ratio of 13% (2015: 16%).

DIRECTORS

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

AUDITOR

The Company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 717 of the Companies Act, 2015.

By order of the Board

K. M. Ontiti
Secretary

23 February 2017

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 seven 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 and induction 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 during the 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. The Ethics, Nomination and Remuneration Committee meets at least twice a year.

All reports from external reviewers such as The Insurance Regulatory Authority, Kenya Revenue Authority, Auditors, Actuaries and rating agencies 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 and at a level which is reflective of the role, responsibilities and the amount of work expected of them. 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 2016.

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, controls, procedures and policies of the Company as well as Risk Management initiatives are properly established, monitored and reported on. The Committee receives reports from reviewers such as appointed actuaries, regulator, internal & external auditors & rating agencies, 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.

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

The Company has a Risk & Compliance function that is headed by a Manager who reports to the ARC Committee functionally and to the Chief Executive Officer administratively as required by the regulation. This function is responsible for monitoring the Company's day to day risk management & internal controls. The Board provides overall oversight of Risk Management & Internal

Controls through the ARC Committee. This in turn ensures that potential adverse effects that could arise from lack of proper risk management are detected and corrected. The Board is also responsible for reviewing the effectiveness of the Company's system of internal control and ensuring that the Company's systems, procedures and processes are in line with industry standards as well as best practice.

The Company has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk & Compliance department. In the previous year, the Company took 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 Company is currently in the process of implementing the Framework and embedding it to the business processes.

The Board & Management held a successful workshop during the year where the Company's risk appetite was set. 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 of Directors, Rating Agencies, Internal & External Auditors, Appointed Actuaries and the Regulator. The Company is currently underway with the process of implementing a Governance Risk & Compliance (GRC) System that will aid in objectively managing the risks and ensuring that adequate mitigation measures are implemented within the Company.

The Company has in place adequate internal controls and a Balanced Scorecard Tool which include, but are not limited to, an annual resource 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 the 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's 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. The Company supports staff to achieve their aspirations through training and personal development plans and initiatives. The Company also assists its staff to undertake continuous professional development training programmes to fulfil their potential and be at par with the various professional bodies' Continuous Professional Development (CPD) requirements.

The Company recognizes the need for diversity, equal opportunity, gender sensitivity and provision of a safe and conducive work environment for all its staff. In addition, the team building initiatives organized by the Company create a sense of oneness with the team members making the working environment favourable.

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. The Company has implemented a process of declaration of interest and the Board members are required to declare interest at the beginning of every meeting. The Company's code of Business Conduct & Ethics stipulates measures that should be taken by all employees to ensure that there is no conflict of interest whatsoever. There was no conflict of interest reported during the year.

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 2016.

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. The Company's compliance is primarily done through the Compliance function which is charged with the mandate of tracking compliance with the various laws and regulations that the Company is exposed to. This will also be made possible by use of a Governance Risk & Compliance (GRC) system. The Audit, Risk & Compliance Committee is responsible for monitoring compliance and ensuring that significant breaches are adequately resolved. 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 is the attendance record of the directors at the Board and its' Committee meetings. The record of attendance is kept by the Company Secretary and noted in the minutes of the respective meetings.

a) Board Meetings

Name	Position	25 February 2016	19 May 2016	18 August 2016	29 November 2016
J. P. M. Ndegwa	Chairman	√	√	√	√
M. P. Chandaria (Dr.) OBE EBS	Vice- Chairman	√	√	√	√
P. K. Maina	CEO	√	√	√	√
D. G. M. Hutchison	Member	√	X	√	√
L. W. Muriuki	Member	√	√	X	√
S. O. Oluoch	Member	√	X	√	√
A. G. Vaidyan	Member	X	X	X	X
S.N. Adamali	Member	–	–	√	√
IN ATTENDANCE					
K. Ontiti	Company Secretary	√	√	√	√
R. W. Gitonga	CFO	√	√	√	√

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

Name	Position	18 February 2016	4 May 2016	3 August 2016	17 November 2016
P. K. Mugambi	Chairman	√	√	√	√
P. K. Maina	CEO	√	√	√	√
J. K. Kimeu	Member	√	√	√	√
S.V.Deskulkarni	Member	√	√	√	√
IN ATTENDANCE					
K. Ontiti	Company Secretary	√	√	√	√
R. W. Gitonga	CFO	√	√	√	√

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

Name	Position	18 February 2016	4 May 2016	3 August 2016	17 November 2016
D. G. M Hutchison	Chairman	√	√	√	√
J. K. Kimeu	Member	√	√	√	√
P. K. Mugambi	Member	√	√	√	√
S.V.Deskulkarni	Member	X	√	√	√
IN ATTENDANCE					
K. Ontiti	Company Secretary	√	√	√	√
P. K. Maina	CEO	√	√	√	√
R. W. Gitonga	CFO	√	√	√	√
C.A Omasete	Risk & Compliance Manager	√	√	√	√

c) Ethics, Nominations and Remuneration Committee

Name		19 February 2016	17 November 2016
J. P. M. Ndegwa	Chairman	√	√
P. K. Maina	CEO	√	√
P. K. Mugambi	Member	√	√
L. W. Muriuki	Member	√	X
S. V. Deshkulkarni	Member	√	√
IN ATTENDANCE			
K. Ontiti	Company Secretary	√	√
R. W. Gitonga	CFO	√	√
V. K. Maithya	HR and Administration Manager	X	√

√ Attended (or represented by Alternate in the case of Board meetings).
X Absent with apology and valid reason for non-attendance.
– Was not yet appointed a member.

COMPANY SECRETARY

The Company Secretary co-ordinates 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 that the Board receives adequate and timely information and that Management receives feedback in a similar manner. The Company Secretary ensures that the business of the board meets all statutory requirements, keeps all legal, governance and regulatory requirements under review and briefs the Board accordingly about these developments.

All directors have access to the Company Secretary who is also responsible for implementing and monitoring good corporate governance practices at the Board.

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 an "Appointed Actuary" who is a Fellow of The Actuarial Society of Kenya in compliance with the Actuarial Function guidelines released by the Regulator. During the year, the appointed actuary generated the technical liabilities that the company used in its audited financial statements. In addition, the Company appointed a separate Actuary that 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:

	2016 Holding Number of Shares	%	2015 Holding Number of Shares	%
First Chartered Securities Limited	375,000	25.00	325,000	25.00
ICEA LION Life Assurance Company Limited	375,000	25.00	325,000	25.00
Kenindia Assurance Company Limited	239,898	15.99	207,912	15.99
General Insurance Corporation of India	221,281	14.75	191,777	14.75
GA Insurance Limited	102,870	6.86	89,154	6.86
Cannon Assurance Limited	65,797	4.39	57,024	4.39
Gateway Insurance Company Limited	45,659	3.04	39,571	3.04
Pioneer Holdings (Africa) Limited	45,000	3.00	39,000	3.00
Apollo Investments Limited	20,211	1.35	17,516	1.35
United Insurance Company Limited	9,284	0.62	8,046	0.62
TOTAL	1,500,000	100.00	1,300,000	100.00

J. P. M. Ndegwa
Chairman
23 February 2017

D. G. M. Hutchison
Director
23 February 2017

P. K. Maina
Principal Officer
23 February 2017

Social and Environmental Responsibilities Statement

Sharing a common culture and valuing our people is the foundation of EARe's commitment to corporate responsibility. This commitment is central to why many of our employees come to work every day which also goes a long way to impact the way we engage at the workplace.

EARe recognizes the challenges our society faces and the role education and technology plays in eradicating these challenges. We value our partnership with non-profit organizations, academic institutions and employees. Together, we believe we can strengthen communities and influence greater outcomes.

We continue to support community programs and initiatives within Education, Health, Social and Child welfare sectors. Our efforts are anchored on the following four core pillars;

- Our Staff
- Our Community
- Environment, Health & Safety
- Corporate Governance

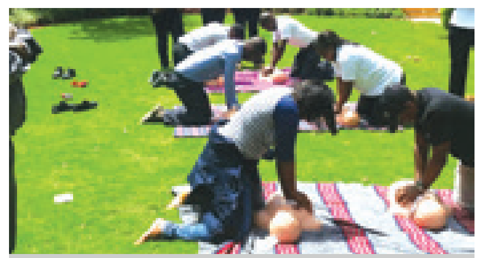
WHAT WE DID IN 2016.......

This report details our CSR efforts in 2016.

Staff welfare

Healthy employees are happy and productive employees! Our employees are the lifeblood of our business and their wellbeing is key to the Company success. The Company organised an emergency aid training for its staff to equip them with the necessary skills needed to respond to an emergency situation within their vicinity.

A positive and energetic work force collaborates better. EARe has invested in a modern well-equipped gym that has positively impacted on the health of our employees and the company's productivity.



Staff undergoing First Aid Training.

Staff during a workout session.

EARe staff gym.

Staff having lunch.

The company provides an in-house catering service whereby the staff have an opportunity to share meals together over lunch hour. This has offered an opportunity for staff to interact with each other outside the office setting and get to know each other better.

Education

EARe education scholarship program over the years has been our core focus on sustained empowerment to bright and needy students. The number of beneficiaries in our education program continues to grow. Our Sponsorship is in two categories:-

a) **Direct Sponsorship** - We identify and select needy students to benefit from our school fees program and whose performance and conduct we monitor closely.

b) **Sponsorships through Institutions** - EARe at the same time supports other institutions by sponsoring school fees towards needy students under the institutions program. Such institutions include Palm House Foundation and Street Children Association Network of Nakuru (SCANN).

EARe staff issuing School fees to boys and staff at SCANN.

Mentorship

Our staff have taken great effort to continue to mentor the students under our sponsorship whilst following up on their performance. Our vision is to continue giving these students the financial and emotional support they need to perform well and become responsible adults.

Health

EARe in partnership with IRA, supported Cerebral Palsy Society of Kenya which takes care of children/persons who are affected by cerebral palsy. Our Staff together with their families came out to participate in this initiative.

CEO of Cerebral Palsy issuing an appreciation certificate to EARe CEO, on the right is the CFO is looking on.

EARe staff participating in Cerebral Palsy walk.

Social and Child Welfare

In 2016, EARe donated generously towards support of the below institutions:

a) **Wamo Children's Centre** - The centre is situated in Kawangware slums and takes care of orphans from disadvantaged backgrounds. To support them during the learning period, we donated food to both day and boarding children. The children also received Christmas gifts in form of food, new clothing and shoes during the festive season from East Africa Re. Additionally, our staff made personal contributions to brighten up the Christmas spirit to these children.

Food items donated to children in first term 2016.

Christmas gifts donated to the children over the Christmas period.

b) **House Of Charity** – We extended the same Christmas spirit to the young children at House of Charity. The institution 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, generously donated Christmas perks in form of food and toiletries.

EARe staff during their visit to House of Charity.

Technology

We continue to maintain the various computer labs we have set up in needy schools. In 2016 East Africa Re re-branded the computer lab at Muthangari Primary School by upgrading, servicing and tagging the computers; and also repainted the lab.

Newly renovated Computer Lab at Muthangari Primary School.

Environment

At EARe, we are committed to maintaining and conserving a natural landscape and environment and our efforts are aimed at promoting its conservation. This is manifested through the natural environment in our offices where we continue to nature indigenous trees and maintain natural green landscape.

Our vision for 2017 and going forward.....

At EARe, we believe in addressing key challenges faced by society in the areas it operates, it is for this reason that we are in the process of identifying a sustainable flagship project. Our pillars will remain instrumental in driving our flagship project.

Statements of Directors' Responsibilities

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the Company's profit or loss. 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 presentation and preparation of financial statements of the Company in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2015. They also accept responsibility for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are also responsible in preparing the financial statements, for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The audit of the financial statements does not relieve the directors of this responsibility.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of Company at 31 December 2016 and of their 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 and its subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the board of directors on 23 February 2017 and signed on its behalf by:

J. P. M. Ndegwa
Chairman
23 February 2017

D. G. M. Hutchison
Director
23 February 2017

P. K. Maina
Principal Officer
23 February 2017

Report of Consulting Actuary

I have conducted an actuarial valuation of the long-term business of East Africa Reinsurance Company Limited as at 31 December 2016.

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 2016.

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

23 February 2017

Report of Consulting Actuary

I have conducted an insurance liability valuation of the short- term business of East Africa Reinsurance Company Limited as at 31 December 2016.

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 2016 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

23 February 2017

Independent Auditor's Report

To the Shareholders of East Africa Reinsurance Company Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of East Africa Reinsurance Company Limited (the "Company") set out on pages 31 to 78 which comprise the statement of financial position at 31 December 2016 and the statements of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of East Africa Reinsurance Company Limited at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Determination of reinsurance contract liabilities The reinsurance contract liabilities included in note 30 of the financial statements are made up of reported claims and incurred but not reported ("IBNR") claims. The estimation of reinsurance contract liabilities involves significant judgement given the size of the liability and the inherent uncertainty in estimating expected future outflows arising from claims incurred. They are determined annually by the company's Appointed Actuary on the basis of the best information available at the time the records for the year are closed. For reinsurance business, the claims information is limited and not most up-to-date due to delays in receiving data from the direct underwriters. 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. A margin is usually added to the actuarial best estimate to cater for any adverse developments on the claims. This margin is based on the discounted present value using a risk free rate of return in order to reflect the time value of money. Judgement is involved in estimating the period over which claims are expected to settle.	Our procedures included: • We evaluated and tested controls around the claim handling and settling, how the claims are valued and managements' review process over this valuation, • We checked a sample of claims by comparing the recorded amounts to the source documents such as the quarterly statements from brokers • We reviewed reconciliation statements between the claims data and that used to calculate the reserves • We have considered the methodology and assumptions used by the Appointed Actuary and management in the estimation of reserves. We have assessed the methodologies applied against generally accepted actuarial approaches, in relation to the business written and expected risks. • We assessed the validity of the assumptions used for the life business in relation to the experience of the Company and benchmarks from other reinsurers. • For the general business, in order to test the ongoing validity of the assumptions, we have performed an actual vs expected analysis on prior years reserves to assess for any surpluses or shortfalls. • We obtained and reviewed the actuarial valuation reports to confirm that the balances reported in the financial statements were consistent with the results of the Appointed Actuary.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition Gross earned premiums include an estimate of fourth quarter pipeline premiums being premiums earned but not reported to the company at the end of each reporting period. The 4th quarter pipeline premiums require a significant level of judgement given they are estimated based on previous historical premium and the data recorded in the first 9 months of the year. Any significant changes in data patterns could result in a significant change in the year. Unearned premiums for 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. This method assumes that premiums are received by the company on a quarterly basis, which is the case for most reinsurance arrangements. The method is also one of the IRA's prescribed methods for estimating the UPR for a reinsurer. Because of the sensitivity in ensuring the accuracy of pipeline premiums, management uses an Appointed Actuary to arrive at the best estimate.	Our procedures included: • We evaluated and tested controls over the underwriting process which includes how contracts are initiated and recorded in the underwriting system. • We checked a sample of premium income booked by comparing the recorded amounts to the source documents such as the quarterly statements from brokers or cedants. • We independently computed an estimate of the pipeline premiums by analysing the trends in historical data and assessing how those are expected to continue to impact the pipeline premium estimate. • We tested the computation of EARe's unearned premium reserve (UPR) using the 1/8ths method. • We obtained and reviewed the actuarial valuation reports to confirm that the balances reported in the financial statements were consistent with the results of the independent actuary valuation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.
- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal requirements

As required by the Kenyan Companies Act 2015 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;

iii) the company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

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

Certified Public Accountants
Nairobi

30 March 2017

Statement of Comprehensive Income
For the year ended 31 December 2016

	Notes	Short-term Business Shs'000'	Long-term Business Shs'000'	Total 2016 Shs'000'	Short-term Business Shs'000'	Long-term business Shs'000'	Total 2015 Shs'000'
Gross written premiums	7	2,516,439	811,635	3,328,074	2,994,995	709,516	3,704,511
Retrocession premiums		(116,530)	(180,350)	(296,880)	(114,040)	(143,059)	(257,099)
Net written premiums		**2,399,909**	**631,285**	**3,031,194**	**2,880,955**	**566,457**	**3,447,412**
Movement in unearned premiums reserve	8	216,207	(43,277)	172,930	(27,539)	-	(27,539)
Net earned premiums		2,616,116	588,008	3,204,124	2,853,416	566,457	3,419,873
Investment income	9	454,904	152,230	607,134	421,234	108,399	529,633
Other income		237	-	237	23	-	23
Risk premium rebates earned		(10)	37,884	37,874	231	41,117	41,349
Total income		**3,071,247**	**778,122**	**3,849,369**	**3,274,904**	**715,972**	**3,990,880**
Gross claims incurred	10	1,760,551	346,216	2,106,767	2,307,651	383,471	2,691,122
Amounts recoverable from Retrocessionnaires		(112,163)	(43,549)	(155,712)	(534,391)	(121,776)	(656,167)
Net claims incurred		1,648,388	302,667	1,951,055	1,773,260	261,696	2,034,955
Operating and other expenses	11	272,111	76,904	349,015	278,747	51,763	330,510
Risk premium rebates incurred		674,557	206,388	880,945	821,647	177,521	999,168
Total expenses		**2,595,056**	**585,959**	**3,181,015**	**2,873,654**	**490,979**	**3,364,633**
Profit before income tax		**476,191**	**192,163**	**668,354**	**401,252**	**224,995**	**626,246**
Income tax expense	13	(142,397)	(60,399)	(202,796)	(124,854)	(69,691)	(194,545)
Profit for the year		333,794	131,764	465,558	276,398	155,304	431,702
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		**333,794**	**131,674**	**465,558**	**276,398**	**155,304**	**431,702**
Earnings per share (basic and diluted)	14			310.37			287.80

Statement of Financial Position
For the year ended 31 December 2016

	Notes	Short-term Business Shs '000'	Long-term Business Shs '000'	Total 2016 Shs '000'
Capital Employed				
Share capital	15	1,000,000	500,000	1,500,000
Fair value reserve	16(a)	8,460	-	8,460
Revaluation reserve	16(b)	201,758	-	201,758
General reserve	16(c)	-	428,292	428,292
Retained earnings	16(d)	1,223,536	-	1,223,536
Proposed dividend	17	60,000	-	60,000
Shareholders' funds		**2,493,754**	**928,292**	**3,422,046**
Represented By:				
Assets				
Property and equipment	18	393,445	-	393,445
Investment properties	20	780,000	-	780,000
Equity investments at fair value through profit or loss	21	75,508	29,387	104,895
Mortgage loans- staff	22	43,929	-	43,929
Corporate bonds	23	358,846	52,247	411,093
Government securities	24	1,473,666	881,080	2,354,746
Receivables arising out of retrocession arrangements		65,185	-	65,185
Receivables arising out of reinsurance arrangements		546,245	65,944	612,189
Retrocessionaires' share of reinsurance liabilities	25(a)	486,189	66,835	553,024
Deferred risk premium rebates	25(b)	298,569	-	298,569
Other receivables	26	119,193	23,377	142,570
Deposits with financial institutions	27	1,468,657	447,759	1,916,416
Cash and bank balances	28	74,739	18,054	92,793
Total assets		**6,184,171**	**1,584,683**	**7,768,854**
Liabilities				
Reinsurance/reassurance contract liabilities	30	1,594,847	166,201	1,761,048
Deferred income tax	31	79,599	183,554	263,153
Provision for unearned premiums	32	941,919	144,594	1,086,513
Payables arising from retrocession arrangements		37,758	96,707	134,465
Payables arising from reinsurance arrangements		619,603	38,774	658,377
Other payables	33	382,765	19,296	402,061
Current income tax	13(c)	33,926	7,265	41,191
Total liabilities		**3,690,417**	**656,391**	**4,346,808**
Net assets		**2,493,754**	**928,292**	**3,422,046**

The financial statements on pages 31 to 78 were approved and authorized for issue by the board of directors on 23 February 2017 and were signed on its behalf by:

J. P. M. Ndegwa
Chairman

D. G. M. Hutchison
Director

P. K. Maina
Principal Officer

Statement of Financial Position

For the year ended 31 December 2016

	Notes	Short-term Business Shs '000'	Long-term Business Shs '000'	Total 2015 Shs '000'
Capital Employed				
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
Shareholders' funds		**2,350,401**	**666,086**	**3,016,487**
Represented By:				
Assets				
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
Total assets		**6,466,724**	**1,307,386**	**7,774,110**
Liabilities				
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
Total liabilities		**4,116,323**	**641,300**	**4,757,623**
Net assets		**2,350,401**	**666,086**	**3,016,487**

The financial statements on pages 31 to 78 were approved and authorized for issue by the board of directors on 23 February 2017 and were signed on its behalf by:

J. P. M. Ndegwa
Chairman

D. G. M. Hutchison
Director

P. K. Maina
Principal Officer

Statements of Changes in Equity

For the year ended 31 December 2016

	Share capital	Fair value reserve Shs'000'	Revaluation reserve Shs'000'	General reserve Shs'000'	Retained earnings Shs'000'	Proposed dividend Shs'000'	Total Shs'000'
Year ended 31 December 2015							
At 1 January 2015	1,000,000	12,136	227,078	259,631	1,085,940	60,000	2,644,785
Profit for the year	-	-	-	155,304	276,398	-	431,702
Actuarial surplus transfer	-	-	-	(48,849)	48,849	-	-
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	**1,000,000**	**12,136**	**227,078**	**366,086**	**1,411,187**	**60,000**	**3,076,487**
Fair value reserve	-	(1,835)	-	-	1,835		-
Transfer of excess depreciation	-	-	(20,655)	-	20,655	-	-
Deferred tax on excess depreciation	-	-	6,196	-	(6,196)	-	-
- Bonus issue (Note 15)	300,000	-	-	-	(300,000)	-	-
- Dividend paid 2014	-	-	-	-	-	(60,000)	(60,000)
- Proposed dividend 2015 (Note 17)	-	-	-	-	(60,000)	60,000	-
Balance as at 31 December 2015	**1,300,000**	**10,301**	**212,620**	**366,086**	**1,067,481**	**60,000**	**3,016,488**
Year ended 31 December 2016							
As at 1 January 2016	1,300,000	10,301	212,620	366,086	1,067,481	60,000	3,016,488
Profit for the year	-	-	-	131,764	333,794	-	465,558
Actuarial surplus transfer	-	-	-	(69,558)	69,558	-	-
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**62,206**	**403,352**	**-**	**465,558**
Fair value reserve	-	(1,841)	-	-	1,841		-
Transfer of excess depreciation	-	-	(15,517)	-	15,517	-	-
Deferred tax on excess depreciation	-	-	4,655	-	(4,655)	-	-
Transactions with owners							
- Bonus issue (Note 15)	200,000	-	-	-	(200,000)	-	-
- Dividend paid 2015	-	-	-	-	-	(60,000)	(60,000)
- Proposed dividend 2016 (Note 17)	-	-	-	-	(60,000)	60,000	-
Balance as at 31 December 2016	**1,500,000**	**8,460**	**201,758**	**428,292**	**1,223,536**	**60,000**	**3,422,046**

Statement of Cash Flows
For the year ended 31 December 2016

	Notes	2016 Shs '000'	2015 Shs '000'
Cash flows from operating activities			
Cash (used in) /generated from operations	35	(64,262)	342,912
Income tax paid	13(c)	(138,388)	(139,316)
Net cash generated from operating activities		**(202,650)**	**203,596**
Cash flows from investing activities			
Investment income received		668,314	554,870
Purchase of Government securities		(954,330)	(760,534)
Redemption of corporate bonds		10,023	10,119
Investment in deposits with financial institutions maturing over 3 months		571,012	516,587
Purchase of property and equipment	18	(12,509)	(21,898)
Purchase of investment property	20	(852)	(499)
Purchase of intangible asset (software)	19	-	(546)
Purchase of quoted shares	21	(19,636)	(89,230)
Mortgage loans advanced	22	(18,700)	-
Mortgage loans repaid	22	4,030	5,136
Proceeds of disposal of motor vehicles and equipment		242	135
Proceeds of disposal of quoted shares		29,674	43,065
Net cash generated from investing activities		**277,268**	**257,205**
Cash flows from financing activities			
Dividends paid		(60,000)	(60,000)
Net increase in cash and cash equivalents		**14,618**	**400,801**
Cash and cash equivalents at 1 january		973,823	573,022
Cash and cash equivalents at 31 december	28	**988,441**	**973,823**

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 the inside cover page.

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 2016:

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.

2 ACCOUNTING POLICIES (continued)

b) Changes in accounting policy and disclosures (continued)

(ii) 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 2016, 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.

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.

IFRS 16,'Leases' After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard.

The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment.

This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

2 ACCOUNTING POLICIES (continued)

b) Changes in accounting policy and disclosures (continued)

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

One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standards is effective for annual periods beginning 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

Recognition of Deferred Tax Asset for Unrealised Losses-Amendment to IAS 12;Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

The amendment to IAS 12 is effective 1 January 2017.

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.

2 ACCOUNTING POLICIES (continued)

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.

i) Short-term reinsurance business

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

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

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

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

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

ii) Long-term reassurance business

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

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

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

2 ACCOUNTING POLICIES (continued)

c) Reinsurance contracts (continued)

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

2 ACCOUNTING POLICIES (continued)

c) Reinsurance contracts (continued)

b. Recognition and measurement (continued)

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.

2 ACCOUNTING POLICIES (continued)

d) Revenue recognition (continued)

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. 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 and software (33.33%)	3 years
Furniture, fittings and office equipment (12.5%)	8 years

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

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

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.

2 ACCOUNTING POLICIES (continued)

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.

2 ACCOUNTING POLICIES (continued)

h) Financial assets (continued)

II. Recognition and measurement (Continued)

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.

2 ACCOUNTING POLICIES (continued)

h) Financial assets (continued)

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 near-term. 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.

2 ACCOUNTING POLICIES (continued)

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.

2 ACCOUNTING POLICIES (continued)

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.

(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.

4 INSURANCE RISK MANAGEMENT (continued)

Experience shows that the larger the portfolio of similar reinsurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has developed its reinsurance underwriting strategy to diversify the type of risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

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

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

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

Year ended 31 December 2016

Class of business			**Total exposure**		
Short-term business		**0 – 20 million Shs'000'**	**20 – 250 million Shs'000'**	**250 – 1000 million Shs'000'**	**Total Shs'000'**
Fire	Gross	2,213,351	14,097,415	4,198,238	20,509,004
	Net	2,213,351	14,097,415	4,198,238	20,509,004
Miscellaneous	Gross	1,729,266	3,820,407	-	5,549,673
	Net	1,729,266	3,820,407	-	5,549,673
Motor	Gross	1,078,194	936,043	-	2,014,237
	Net	1,078,194	936,043	-	2,014,237
Others	Gross	1,638,761	7,618,353	554,275	9,811,389
	Net	1,638,761	7,618,353	554,275	9,811,389
Long-term business					
Ordinary life	Gross	3,691,590	534,486	-	4,226,076
	Net	2,725,675	64,067	-	2,789,742
Group life	Gross	220,819,382	32,435,814	-	253,255,196
	Net	197,367,202	30,210,048	-	227,577,250
Total	**Gross**	**231,170,544**	**59,442,518**	**4,752,513**	**295,365,575**
Total	**Net**	**206,752,449**	**56,746,333**	**4,752,513**	**268,251,295**

The company's earthquake exposure for the Nairobi zone is estimated at Shs 80,367,652,439 (2015: Shs 75,802,600,343).

4 INSURANCE RISK MANAGEMENT (continued)

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

Class	**Limit (Shs)**
Property	3,060 million in excess of 40 million
Marine	190 million in excess of 10 million
Miscellaneous Accident	70 million in excess of 30 million

Life reassurance business

Life business	Warranted minimum number of victims: 3 Company's CAT retention: 6 million Reimbursable portion: 100% Reinsurer's max liability: 2 million per life, 100 million per CAT and 200 million per period. Q/S & Surplus – Q/S limit: 1.2 million (Kenindia Business) Credit Life 20% QS

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.

Year ended 31 December 2015

Class of business			**Total exposure**		
Short-term business		**0 – 20 million Shs'000'**	**20 – 250 million Shs'000'**	**250 – 1000 million Shs'000'**	**Total Shs'000'**
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
Long-term business					
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
	Gross	**6,397,525**	**28,119,446**	**367,409,607**	**401,926,578**
Total	**Net**	**6,375,423**	**27,665,101**	**336,529,763**	**370,570,287**

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 2016, 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 3,224,537 (2015: Shs 5,968,558) 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 0.94% (2015: 0.001%) 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 1.35% (2015: 2%) of the total assets.

At 31 December 2015, if the share prices at the NSE had increased/decreased by 10% (2015: 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 10,892,576 (2015: Shs 14,926,000) higher/lower, and equity would have been Shs 10,892,576 (2015: Shs 14,926,000) higher/lower.

5 FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

(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.

	2016 Sh'000		2015 Sh'000	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
+ 5 percentage point movement	10,042	10,042	53,504	53,504
- 5 percentage point movement	(10,042)	(10,042)	(53,504)	(53,504)

Credit risk

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

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

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

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

5 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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

	2016 Sh'000	2015 Sh'000
Other receivables (excluding prepayments) Note 26)	131148	184,870
Receivables arising out of reinsurance arrangements	612,189	806,272
Receivables arising out of retrocession arrangements	65,185	103,436
Government securities held to maturity (Note 24)	2,354747	1,419,255
Loans receivable (mortgage loans) (Note 22)	43,929	29,259
Deposits with financial institutions (Note 27)	1,916,416	2,460,477
Bank balances (Note 28)	92,784	86,280
Corporate bonds (Note 23)	411,093	421,115
	5,627,491	**5,510,964**

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:

	2016 Sh'000	2015 Sh'000
Neither past due nor impaired		
- up to 90 days	430,684	607,878
- 91 to 181 days	98,012	119,335
- 182 to 273 days	47,042	10,649
Past due but not impaired	129,809	206,620
Impaired	158,357	141,088
	863,904	1,085,570
Less provision for impairment	(158,357)	(141,088)
Total	**705,547**	**944,482**
Receivables arising out of reinsurance arrangements are made up of:		
Receivables arising out of reinsurance arrangements (third parties)	612,189	806,272
Other receivables – related parties (Note 26)	93,358	138,210
Total	**705,547**	**944,482**

5 FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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 Shs'000'	Movement Shs'000'	2016 Shs'000'	2015 Shs'000'
- brokers	127,106	23,267	150,373	127,106
- insurance companies	13,982	(5,998)	7,984	13,982
	141,088	**17,269**	**158,357**	**141,088**

Liquidity risk

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

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

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

Liabilities:

	Up to 1 Month Shs'000'	1-3 months Shs'000'	3-12 months Shs'000'	1-5 years Shs'000'	Over 5 years Shs'000'	Total Shs'000'
At 31 December 2016:						
Reinsurance contract liabilities	1,761,048	-	-	-	-	1,761,6048
Provision for unearned premiums	1,086,513	-	-	-	-	1,086,513
Payables arising out of retrocession arrangements	134,465	-	-	-	-	134,465
Payables arising out of reinsurance arrangements	658,377	-	-	-	-	658,377
Other payables	402,061	-	-	-	-	402,061
Total financial liabilities (contractual maturity dates)	**4,042,464**	**-**	**-**	**-**	**-**	**4,042,464**

5 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Liabilities:

	Up to 1 Month Shs'000'	1-3 months Shs'000'	3-12 months Shs'000'	1-5 years Shs'000'	Over 5 years Shs'000'	Total Shs'000'
At 31 December 2015:						
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 retrocession arrangements	58,888	-	-	-	-	58,888
Payables arising out of reinsurance arrangements	795,486	-	-	-	-	795,486
Other payables	404,721	-	-	-	-	404,721
Total financial liabilities (contractual maturity dates)	**4,496,215**	**-**	**-**	**-**	**-**	**4,496,215**

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).

The following table presents the Company's financial assets and liabilities measured at fair value at 31 December 2016 and 31 December 2015

31 December 2016	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Quoted equities	104,895	-	-	104,895
Total	**104,895**	**-**	**-**	**104,895**
31 December 2015				
Quoted equities	149,258	-	-	149,258
Total	**149,258**	**-**	**-**	**149,258**

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

5 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Fair value of financial assets and liabilities (continued)

(ii) Fair value hierarchy (continued)

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 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.

6 CAPITAL MANAGEMENT (continued)

The Insurance Act requires each reinsurance company to hold the minimum level of paid up capital of Shs 800 million. At Shs 1.5 billion (short-term business: Shs 1 billion; long-term business: Shs 500 million), the Company's share capital was in excess of the minimum capital requirement as at 31 December 2016.

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 2016, the Company's solvency margins for both short-term and long-term business were strong at 428 % (2015: 319%) and 2388 % (2015: 1884%) 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.

		2016			2015	
Short-term business	**GWP Shs'000'**	**GEP Shs'000'**	**Retro Shs'000'**	**GWP Shs'000'**	**GEP Shs'000'**	**Retro Shs'000'**
Aviation	306	825	-	2,892	1,372	-
Engineering	231,719	237,449	261	226,859	213,251	713
Fire	1,205,481	1,312,761	99,793	1,329,866	1,298,013	99,121
Liability	11,713	13,962	-	13,366	11,989	-
Marine	164,954	192,319	12,878	210,489	197,734	9,807
Motor	296,850	295,058	747	279,751	280,231	602
Personal accident	9,091	8,942	-	9,980	8,683	-
Theft	(20)	(20)	-	98	113	-
Workmen's compensation	(13)	(13)	-	170	170	-
Medical	262,158	318,152	-	549,543	606,221	-
Miscellaneous	334,200	353,604	2,852	371,981	349,816	3,797
	2,516,439	2,733,039	116,531	2,994,995	2,967,593	114,040
Long-term business						
Ordinary life	35,799	34,028	7,537	29,272	29,272	13,091
Group life	775,835	744,076	172,813	680,244	680,244	129,968
	811,635	778,104	180,350	709,516	709,516	143,059
Total	**3,328,074**	**3,511,143**	**296,880**	**3,704,511**	**3,677,109**	**257,099**

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

	2016 Gross Shs'000'	2016 Retro-cession Shs'000'	2016 Net Shs'000'	2015 Gross Shs'000'	2015 Retro-cession Shs'000'	2015 Net
As presented in the Statement of profit or loss						
Short term	(216,599)	(392)	(216,207)	27,403	(136)	27,539
Long term	33,530	(9,747)	43,277	-	-	-
Total	**(183,069)**	**(10,139)**	**(172,930)**	**27,403**	**(136)**	**27,539**
Represented by:						
(Decrease) /increase in provision for unearned premiums (Note 32)						
Short term	(293,098)	(488)	(292,610)	40,437	(500)	40,937
Long term	33,530	(9,747)	43,277	-	-	-
	(259,568)	**(10,235)**	**(249,333)**	**40,437**	**(500)**	**47,349**
Less: (Decrease) /increase in deferred risk premium rebates and revenue (Note 25(b))						
Short term	76,499	96	76,403	(13,034)	364	(13,398)
Long term	-	-	-	-	-	-
	76,499	96	76,403	(13,034)	364	(13,398)
At end of year						
Short term	(216,599)	(392)	(216,207)	27,403	(136)	27,539
Long term	33,530	(9,747)	43,277	-	-	-
Total	**(183,069)**	**(10,139)**	**(172,930)**	**27,403**	**(136)**	**27,539**

9 INVESTMENT INCOME

	Short-term Business Shs'000'	Long-term Business Shs'000'	Total Shs'000'
For year ended 31 December 2016			
Interest income- Government securities	139,890	81,568	221,458
Interest income- Bank deposits	245,734	79,588	325,322
Interest income- Loans	2,224	-	2,224
Interest income- Corporate bonds	44,341	6,474	50,815
Dividend income	4,360	1,613	5,973
Realised gain on sale of equity investments at fair value through profit or loss	2,585	1,137	3,721
Unrealised fair value loss on equity investments at fair value through profit or loss (Note 21)	(27,430)	(10,621)	(38,051)
Fair value gain on investment property	14,148	-	14,148
Rental income	62,201	-	62,201
Other	321	-	321
	488,374	159,759	648,133
Investment expenses	(33,470)	(7,529)	(40,999)
Investment and other income (net) for 2016	**454,904**	**152,230**	**607,134**
For year ended 31 December 2015			
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
	454,735	113,364	568,099
Investment expenses	(33,501)	(4,965)	(38,466)
Investment and other income (net) for 2015	**421,234**	**108,399**	**529,633**

9 INVESTMENT INCOME (continued)

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

	Short-term Business Shs'000'	Long-term Business Shs'000'	Total Shs'000'
For year ended 31 December 2016			
Loans and receivables (including cash and bank balances)	310,480	79,588	390,068
Financial assets held to maturity	173,534	78,558	252,092
Dividend income	4,360	1,613	5,973
Total	**488,374**	**159,759**	**648,133**
For year ended 31 December 2015			
Loans and receivables (including cash and bank balances)	320,301	75,295	395,596
Financial assets held to maturity	131,939	37,518	169,457
Dividend income	2,495	551	3,046
Total	**454,735**	**113,364**	**568,099**

10 GROSS CLAIMS INCURRED

	2016 Shs'000'	2015 Shs'000'
Short-term business		
Claims payable by principal class of business:		
Aviation	(296)	2,103
Engineering	117,467	(38,082)
Fire	910,342	1,757,332
Liability	2,001	414
Marine	90,478	99,738
Motor	364,868	196,132
Personal accident	(1,857)	2,624
Theft	0	(31)
Workmen's compensation	26	10
Medical	211,861	254,515
	65,661	32,896
	1,760,551	**2,307,651**
Long-term business actuarial liabilities		
Reinsurance contracts relating to fixed and guaranteed terms:		
Death benefits		
- Ordinary life	5,880	1,162
- Group life	410,585	207,105
Increase in reassurance contract liabilities:		
- Ordinary life	(3,518)	-
- Group life	(66,731)	175,204
	346,216	383,471
Total short-term and long-term business	**2,106,767**	**2,691,122**

11 OPERATING AND OTHER EXPENSES

	2016 Shs'000'	2015 Shs'000'
The following are included in operating and other expenses:		
Directors' fees	3,000	2,350
Employee benefits expense (Note 12)	132,988	124,867
Medical costs	4,854	5,060
Auditors' remuneration	3,791	3,559
Depreciation (Note 18)	22,338	22,165
Amortisation of intangible assets (Note 19)	2,558	2,558
Net foreign exchange losses/(gains)	18,544	(20,664)
Impairment charge for doubtful receivables	-	-
-reinsurance premiums receivables	17,270	34,887

12 EMPLOYEE BENEFIT EXPENSES

	2016 Shs'000'	2015 Shs'000'
Salaries and wages	124,261	117,435
Retirement benefit costs	8,671	7,380
National social security benefit costs	56	52
	132,988	**124,867**

The number of persons employed by the Company at the year end was 24 (2015: 23).

13 INCOME TAX EXPENSE

a) Tax expense

	Short-term business Shs'000'	Long-term business Shs'000'	2016 Total Shs'000'	2015 Total Shs'000'
Current income tax	162,777	33,739	196,516	139,418
Deferred income tax:				
- Charge for the year (Note 31)	(20,380)	26,660	6,280	55,127
	142,397	**60,399**	**202,796**	**194,545**

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:

13 INCOME TAX EXPENSE

b) Reconciliation of tax expense to expected tax based on accounting profit

	Short-term business Shs'000'	Long-term business Shs'000'	2016 Total Shs'000'	2015 Total Shs'000'
Profit before income tax	476,190	192,162	668,353	626,246
Tax calculated at a tax rate of 30%	142,857	33,739	176,596	144,442
Tax effect of income not subject to tax	723	-	723	(7,458)
Tax effect of expenses not deductible for tax purposes	(1,183)	-	(1,183)	11,939
Under provision for deferred tax relating to prior year	-	-	-	(2)
Deferred tax on the life surplus	-	26,660	26,660	45,624
Income tax expense	**142,397**	**60,399**	**202,796**	**194,545**

c) Corporate tax payable

	Short-term business Shs'000'	Long-term business Shs'000'	2016 Total Shs'000'	2015 Total Shs'000'
At 1 January	(21,471)	4,535	(16,936)	(17,038)
Current income tax	162,777	33,739	196,516	139,418
Income tax paid in the year	(107,380)	(31,008)	(138,388)	(139,316)
At 31 December	**33,926**	**7,265**	**41,192**	**(16,936)**

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:

	2016 Shs'000'	2015 Shs'000'
Profit attributable to shareholders (Shs'000')	465,557	431,701
Weighted average number of shares	No.	No.
As at 1 December	1,500,000	1,500,000
Earnings per share (Shs) – basic and diluted	**310.37**	**287.80**

There were no potentially dilutive shares outstanding as at 31 December 2016 and 31 December 2015. Diluted earnings per share is therefore the same as basic earnings per share.

15 SHARE CAPITAL

b) Reconciliation of tax expense to expected tax based on accounting profit

	No of Ordinary Shares	Short-term business Shs'000'	Long-term business Shs'000'	Total Shs'000'
Balance at 1 January 2015 and 31 December 2015	1,300,000	1,000,000	300,000	1,300,000
Increase in issues and paid up share capital	200,000	-	200,000	200,000
Balance as at 31 December 2016	**1,500,000**	**1,000,000**	**500,000**	**1,500,000**

The total authorised number of ordinary shares is 1,500,000 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.

17 DIVIDENDS

In respect of the current year, the directors propose that a first and final dividend of Shs 40 (2015: Shs 46.15) per share amounting Shs 60,000,000 (2015: 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 18 May 2017.

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 Shs'000'	Building Shs'000'	Motor vehicles Shs'000'	Furniture, fittings and equipment Shs'000'	Computer equipment Shs'000'	Total Shs'000'
Cost						
At 1 January 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)
At 31 December 2015	350,000	69,046	2,840	12,384	7,538	441,808
At 1 January 2016	350,000	69,046	2,840	12,384	7,538	441,808
Additions	-	7,273	-	3,147	2,090	12,510
Disposals	-	-	-	(970)	(1,696)	(2,666)
At 31 December 2016	350,000	76,319	2,840	14,561	7,932	451,652
Accumulated Depreciation						
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)
At 31 December 2015	16,667	3,194	2,677	9,648	6,342	38,528
At 1 January 2016	16,667	3,194	2,677	9,648	6,342	38,528
Charge for the year	16,667	2,719	53	1,555	1,344	22,338
Eliminated on disposals	-	-	-	(964)	(1,695)	(2,659)
At 31 December 2016	33,334	5,913	2,730	10,239	5,991	58,207
Net Book Value						
As at 31 December 2016	**316,666**	**70,406**	**110**	**4,322**	**1,941**	**393,445**
As at 31 December 2015	**333,333**	**65,852**	**163**	**2,736**	**1,196**	**403,280**
Net Book Value						
(Cost basis)						
As at 31 December 2016	**30,536**	**61,711**	**110**	**4,322**	**1,941**	**98,620**
As at 31 December 2015	**32,143**	**56,699**	**163**	**2,736**	**1,196**	**92,937**

18 PROPERTY AND EQUIPMENT (continued)

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 92,247,000 (2015: Shs 88,842,000)

19 INTANGIBLE ASSETS (COMPUTER SOFTWARE)

	Short term business Shs'000'	Long term business Shs'000'	Total Shs'000'
Cost			
At 1 January	11,804	7,402	19,206
Acquisitions	-	-	-
At 31 December 2015	11,804	7,402	19,206
Amortisation			
At 1 January 2015 and 1 January 2016	11,804	4,843	16,647
Charge for the year	-	2,559	2,559
At 31 December 2016	11,804	7,402	19,206
Net Book Value			
As at 31 December 2016	-	-	-
As at 31 December 2015	**-**	**2,559**	**2,559**

20 INVESTMENT PROPERTIES

	2016 Shs'000'	2015 Shs'000'
At 1 January	765,000	735,809
Additions during the year	852	499
Fair value gains	14,148	28,692
At 31 December	**780,000**	**765,000**

20 INVESTMENT PROPERTIES (continued)

Investment properties are carried at fair value and were last revalued on 22 December 2016, by Hass Consult, 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 Shs'000'	Level 2 Shs'000'	Level 3 Shs'000'	Total Shs'000'
At 31 December 2016				
Investment property	-	780,000	-	780,000
At 31 December 2016				
Investment property	-	780,000	-	780,000

	Level 1 Shs'000'	Level 2 Shs'000'	Level 3 Shs'000'	Total Shs'000'
At 31 December 2015				
Investment property	-	765,000	-	765,000
At 31 December 2015				
Investment property	-	765,000	-	765,000

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.

21 EQUITY INVESTMENTS - AT FAIR VALUE THROUGH PROFIT OR LOSS

	Short-term business Shs'000'	Long-term business Shs'000'	Total Shs'000'
At 31 December 2016			
Quoted investments:			
At 1 January 2016	111,599	37,659	149,258
Additions	9,120	10,517	19,637
Disposals	(17,781)	(8,168)	(25,949)
Fair value losses (Note 9)	(27,430)	(10,621)	(38,051)
At 31 December 2016	**75,508**	**29,387**	**104,895**
Year ended 31 December 2015			
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)
At 31 December 2015	**111,599**	**37,659**	**149,258**

22 MORTGAGE LOANS – STAFF

	2016 Shs'000'	2015 Shs'000'
At 1 January	29,259	34,395
Loans advanced	18,700	-
Loan repayments	(4,030)	(5,136)
At 31 December	**43,929**	**29,259**

This represents mortgage loans extended to members of staff. There were no impairment losses recorded against mortgage loans for the years ended 31 December 2015 and 31 December 2016.

Maturity profile of mortgage loans

	2016 Shs'000'	2015 Shs'000'
Loans maturing:		
Within 1 year	715	-
In 1-5 years	4,166	6,888
In over 5 years	39,048	22,371
At 31 December	**43,259**	**29,259**

Lending commitments:

There were no mortgage loans approved but not advanced at 31 December 2016 (2015: Nil).

23 CORPORATE BONDS - HELD TO MATURITY

(At amortized cost)	Short-term business Shs'000'	Long-term business Shs'000'	Total Shs'000'
At 31 December 2016			
Corporate bonds maturing:			
In 1 year- 5 years	**358,846**	**52,247**	**411,093**
At 31 December 2015			
Corporate bonds maturing:			
In 1 year- 5 years	**367,622**	**53,493**	**421,115**

24 GOVERNMENT SECURITIES - HELD TO MATURITY

Treasury bills	Short-term business Shs'000'	Long-term business Shs'000'	Total Shs'000'
At 31 December 2016			
Within 90 days	-	-	-
In 91 days – 1 year	32,628	89,892	122,520
	32,628	89,892	122,520
	32,628	89,892	122,520
Treasury bonds maturing:			
Within 90 days	20,832	-	20,832
In 91 days – 1 year	190,088	44,740	234,828
In 1 year – 5 years	436,324	280,791	717,115
In over 5 years	793,794	465,657	1,259,451
	1,441,038	**791,188**	**2,232,226**
	1,473,666	**881,080**	**2,354,746**

24 GOVERNMENT SECURITIES - HELD TO MATURITY (continued)

Treasury bills	Short-term business Shs'000'	Long-term business Shs'000'	Total Shs'000'
At 31 December 2015			
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**
Treasury bonds maturing:			
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**

Treasury bonds include Shs 520,000,000 (2015: Shs 330,000,000) 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 business Shs'000'	Long-term business Shs'000'	Total Shs'000'
At 31 December 2016			
Retrocessionaires' share of:			
Unearned premiums (Note 32)	-	-	-
Outstanding claims	486,189	66,835	553,024
	486,189	**67,328**	**553,517**
At 31 December 2015			
Retrocessionaires' share of:			
Unearned premiums (Note 32)	488	-	488
Outstanding claims	459,355	75,474	534,829
	459,843	**75,474**	**535,317**

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.

25 b) DEFERRED RISK PREMIUM REBATES ARISING FROM RETROCESSION ARRANGEMENTS

	2016			2015		
	Gross Shs'000'	Retrocession Shs'000'	Net Shs'000'	Gross Shs'000'	Retrocession Shs'000'	Net Shs'000'
At 1 January	375,068	(96)	374,971	362,034	(461)	361,573
(Decrease) /increase in the period (Note 8)	(76,499)	96	(76,403)	13,034	364	13,398
At 31 December	**298,569**	**-**	**298,569**	**375,068**	**(97)**	**374,971**

26 OTHER RECEIVABLES

	Short-term Shs'000'	Long-term Shs'000'	2016 Shs'000'	2015 Shs'000'
Due from related companies (Note 36(b)(i))	70,375	22,983	93,358	164,890
Due from short-term to long- term business (Note 33)	16,832	-	16,832	15,853
Car loans – staff*	6,512	-	6,512	3,751
Prepayments and other receivables	25,474	394	25,868	11,559
	119,193	**23,377**	**142,570**	**196,053**

*These are car loans extended to members of staff. There were no impairment losses recorded against car loans in 2016 (2015: Nil).

27 DEPOSITS WITH FINANCIAL INSTITUTIONS

	Short term business Shs'000'	Long term business Shs'000'	Total Shs'000'
Held to maturity - At amortized cost			
At 31 December 2016			
Deposits maturing:			
Within 90 days	632,024	242,792	874,816
In 91 days – 1 year	836,633	204,967	1,041,600
	1,468,657	447,759	1,916,416
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**

28 CASH AND CASH EQUIVALENTS

	Short-term Shs'000'	Long-term Shs'000'	2016 Shs'000'	2015 Shs'000'
Cash and bank balances	74,739	18,054	92,793	86,290
Treasury bills and bonds maturing within 90 days (Note 24)	20,832	-	20,832	39,670
Deposits with financial institutions maturing within 90 days (Note 27)	632,024	242,792	874,816	847,865
	727,595	**260,846**	**988,441**	**973,825**

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:

	2016 %	2015 %
Government securities	13	15
Corporate bonds	13	13
Deposits with financial institutions	13	15
Mortgage loans (on reducing balance)	5	5

30 REINSURANCE/REASSURANCE CONTRACT LIABILITIES

	2016 Shs'000'	2015 Shs'000'
Total short-term reinsurance contracts:		
Claims (gross) reported and claims handling expenses including incurred but not reported claims	1,594,847	1,654,493
Long-term reassurance contracts		
Claims (gross) reported and claims handling expenses	166,201	347,514
Total gross contract liabilities	**1,761,048**	**2,002,007**

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.

30 REINSURANCE/REASSURANCE CONTRACT LIABILITIES (continued)

A) Short-term reinsurance contract (continued)

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

B) Long-term reassurance contracts

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

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

a) Valuation assumptions – Long term reassurance contracts

The latest actuarial valuation of the company's life fund was undertaken as at 31 December 2016 by the consulting actuaries, Alexander Forbes Financial Services (EA) Limited. The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenya Insurance Act, 1987 (CAP 487). The method used is akin to a Net Premium Valuation (NPV) method, but where the actuarial liabilities are expressed as a percentage of the annual office premiums written.

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

The significant valuation assumptions for the actuarial valuation as at 31 December 2016 are summarised below. The same assumptions were used in 2015.

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.

30 REINSURANCE/REASSURANCE CONTRACT LIABILITIES (continued)

B) Long-term reassurance contracts (continued)

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

ii) Investments returns

The actuarial valuation as at 31 December 2016 does not use an explicit technical rate of return.

The weighted average rate of return earned on the assets backing the life fund in 2016 was 41.0 % p.a. (2015: 34.4% p.a.) and the average over the last two years was 35.75% 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% (2015: 30%). The movement on the deferred income tax account is as follows:

	Short-term business Shs'000'	Long-term business Shs'000'	2016 Shs'000'	2015 Shs'000'
At 1 January	(99,979)	(156,894)	(256,873)	(201,746)
Profit /(loss) credit (Note 13(a))	20,380	(26,660)	(6,280)	(55,127)
Charge to other comprehensive income	-	-	-	-
At 31 December	**(79,599)**	**(183,554)**	**(263,153)**	**(256,873)**

The deferred tax liability is attributable to the following items:

	Short-term business Shs'000'	Long-term business Shs'000'	2016 Shs'000'	2015 Shs'000'
Deferred tax liability:				
Revaluation surplus on leasehold land and building	88,448	-	88,448	93,103
Unrealised exchange gains	(4,836)	-	(4,836)	5,526
Unrealised gain on fair value assets	4,244	-	4,244	8,608
Life surplus	-	183,554	183,554	169,894
	87,856	183,554	271,410	264,130
Deferred tax asset:				
Unrealised exchange loss	-	-	-	-
Provisions	(6,534)	-	(6,534)	(6,725)
Excess depreciation over capital allowance	(1,724)	-	(1,724)	(533)
	(8,258)	-	(8,258)	(7,258)
Net deferred tax liability	**79,599**	**183,554**	**263,153**	**256,873**

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:

Short Term	2016 Gross Shs'000'	2016 Retrocession Shs'000'	2016 Net Shs'000'	2015 Gross Shs'000'	2015 Retrocession Shs'000'	2015 Net Shs'000'
At 1 January	1,235,017	(488)	1,234,529	1,194,580	(988)	1,193,592
Increase/(decrease) in the period (Note 8)	(293,098)	488	(292,610)	40,437	500	40,937
At 31 December	**941,919**	**-**	**941,919**	**1,235,017**	**(488)**	**1,234,529**
		(Note 25)			(Note 25)	

Long Term	2016 Gross Shs'000'	2016 Retrocession Shs'000'	2016 Net Shs'000'	2015 Gross Shs'000'	2015 Retrocession Shs'000'	2015 Net Shs'000'
At 1 January	111,064	27,788	138,852	-	-	-
Increase/(decrease) in the period (Note 8)	33,530	(9,747)	23,783	-	-	-
At 31 December	**144,594**	**18,041**	**162,635**	**-**	**-**	**-**

33 OTHER PAYABLES

	Short-term business Shs'000'	Long-term business Shs'000'	2016 Shs'000'	2015 Shs'000'
Due to related parties (Note 36(b))	150,710	679	151,389	149,251
Due to long-term business from short-term (Note 26)	-	16,832	16,832	35,737
Accrued expenses and other liabilities	232,055	1,785	233,840	219,733
	382,765	**19,296**	**402,061**	**404,721**

34 COMMITMENTS AND CONTINGENT LIABILITIES

a) Capital commitments

	2016 Shs'000'	2015 Shs'000'
Authorised and contracted for	3,000	-
Authorised but not contracted for	-	-
	3,000	**-**

34 COMMITMENTS AND CONTINGENT LIABILITIES

b) Contingent liabilities

Reinsurance Premium Finance - As at 31 December 2016, the Company had not guaranteed Reinsurance Premium Finance facility to insurance companies (2015: 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

a) Capital commitments

	2016 Shs'000'	2015 Shs'000'
Reconciliation of profit before taxation to net cash generated from operations		
Profit before income tax	668,353	626,246
Adjusted for:		
Investment income	(672,036)	(562,157)
Depreciation (Note 18)	22,338	22,166
Amortisation – intangible assets (Note 19)	2,558	2,559
Gain on disposal of equipment	(237)	(23)
Change in fair value of quoted shares (Note 9)	38,051	22,750
Change in fair value of investment property (Note 9)	(14,148)	(28,692)
Changes in:		
- Reinsurance and reassurance contract liabilities	(240,959)	578,617
- Unearned premium reserves and deferred acquisition revenue	(148,600)	40,073
- Trade and other payables	(47,661)	436,283
- Trade and other receivables	328,078	(794,910)
Net cash (used in) /generated from operations	(64,262)	342,912

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:

	2016 Shs'000'	2015 Shs'000'
Net earned premium	1,025,156	825,971
Net claims incurred	575,780	457,740
Interest earned on corporate bonds	24,042	35,318
Interest earned on bank deposits	8,574	22,023

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

b) Outstanding balances with related parties

	2016 Shs'000'	2015 Shs'000'
i) Reinsurance balances		
Premiums receivable from related parties	93,331	138,181
Loss reserves in respect of related parties	27	29
Due from related parties (Note 26)	93,358	138,210
ii) Premiums payable to related parties (Note 33)	151,389	149,251
iii) Mortgage loans		
Mortgage receivable from related parties (Note 22)	43,929	29,259

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

36 RELATED PARTIES (continued)

c) Outstanding balances with related parties

iv) Corporate bonds, term deposits and bank balances

	2016 Shs'000'	2015 Shs'000'
Corporate Bonds	293,739	293,545
Fixed deposits	-	179,931
Cash balance	92,153	84,945
	385,892	**558,421**

d) Loans to directors of the company

The Company did not advance loans to its directors in 2016 (2015: Nil).

e) Directors' fees

	2016 Shs'000'	2015 Shs'000'
Directors' fees	3,000	2,350

f) Key management personnel remuneration

Salaries	81,202	91,817
National social security benefit costs	29	21
Retirement benefit costs	5,400	5,440
Medical costs	1,730	2,118
	88,361	**99,396**

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

SHORT-TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2015

Class of Reinsurance Business	Aviation Shs '000	Engineering Shs '000	Fire Shs'000	Liability Shs'000	Marine Shs'000	Motor Shs'000	Personal Accident Shs'000	Theft Shs'000	Workmen's Comp Shs'000	Medical Shs'000	Miscellaneous Accident Shs'000	2016 Total Shs'000
Gross written premiums	306	231,163	1,162,138	11,699	162,986	293,865	7,076	(20)	(13)	262,158	336,329	2,467,687
Change in portfolio premiums	-	556	43,343	13	1,968	2,985	2,015	(0)	-	-	(2,129)	48,751
Gross premiums	**306**	**231,719**	**1,205,481**	**11,712**	**164,954**	**296,850**	**9,091**	**(20)**	**(13)**	**262,158**	**334,200**	**2,516,438**
Change in gross UPR	(519)	(5,730)	(107,280)	(2,250)	(27,365)	1,792	151	-	-	(55,994)	(19,404)	(216,599)
Gross earned premiums	**825**	**237,449**	**1,312,761**	**13,962**	**192,319**	**295,058**	**8,940**	**(20)**	**(13)**	**318,152**	**353,604**	**2,733,037**
Retrocession premiums	-	261	99,793	-	12,878	747	-	-	-	-	2,852	116,531
Change in retro UPR	-	(140)	(107)	-	(2)	(120)	-	-	-	-	(23)	(392)
Net earned premiums	**825**	**237,048**	**1,212,861**	**13,962**	**179,439**	**294,191**	**8,940**	**(20)**	**(13)**	**318,152**	**350,729**	**2,616,114**
Gross claims paid	(318)	97,599	1,000,347	1,481	83,818	260,728	82	0	49	260,397	116,015	1,820,198
Change in Gross outstanding claims	22	19,869	(90,006)	520	6,661	104,141	(1,939)	-	(24)	(48,536)	(50,354)	(59,646)
Retrocession claims	-	629	83,452	-	(224)	1,291	-	-	-	0	181	85,329
Change in Retro outstanding claims	-	(2,720)	36,768	(96)	(520)	(4,530)	(36)	-	-	(332)	(1,700)	26,834
Net claims incurred	**(296)**	**119,559**	**790,121**	**2,097**	**91,223**	**368,108**	**(1,821)**	**0**	**25**	**212,193**	**67,180**	**1,648,389**
Risk premium rebates earned	-	79	(278)	-	54	149	-	-	-	-	(13)	(9)
Risk premium rebates	(21)	77,359	372,093	2,562	53,195	22,011	1,714	(6)	319	40,038	105,290	674,554
Taxes and other charges	27	12,124	35,283	495	7,126	7,012	198	(0)	(1)	(673)	20,731	82,322
Technical profit/(loss)	**1,115**	**28,085**	**15,086**	**8,808**	**27,949**	**(102,791)**	**8,849**	**(14)**	**(356)**	**66,594**	**157,515**	**210,840**
Expenses of management	16	12,306	64,019	622	8,760	15,765	483	(1)	(1)	13,922	17,748	133,639
Total expenses and risk premium rebates	**22**	**101,710**	**471,673**	**3,679**	**69,027**	**44,639**	**2,395**	**(7)**	**317**	**53,287**	**143,782**	**890,524**
Underwriting profit/(loss)	**1,099**	**15,779**	**(48,933)**	**8,186**	**19,189**	**(118,556)**	**8,366**	**(13)**	**(355)**	**52,672**	**139,767**	**77,201**
Key ratios:												
Net loss ratio (net claims incurred/ net earned premiums)	(35.9)%	50.4%	65.1%	15.0%	50.8%	125.1%	(20.4)%	0.0%	(192.3)%	66.7%	19.2%	63.0%
Net risk premium rebates ratio (net risk premium rebates/net written premiums)	(7)%	33%	35%	22%	35%	7%	24%	30%	(2,454)%	15%	32%	29.0%
Total expense ratio (total net expenses and risk premium rebates/net written premium)	(33.1)%	93.3%	104.0%	41.4%	89.3%	140.3%	6.4%	33.8%	(2,569.2))%	83.4%	60.1%	97.0%

The short - term business revenue account was approved by the board of directors on 23 February 2017 and was signed on its behalf by:

J. P. M. Ndegwa
Chairman

D. G. M. Hutchison
Director

P. K. Maina
Principal Officer

SHORT-TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2015

Class of Reinsurance Business	Aviation Shs '000	Engineering Shs '000	Fire Shs'000	Liability Shs'000	Marine Shs'000	Motor Shs'000	Personal Accident Shs'000	Theft Shs'000	Workmen's Comp Shs'000	Medical Shs'000	Miscellaneous Accident Shs'000	2015 Total Shs'000
Gross written premiums	2,892	227,165	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)
Gross premiums	**2,892**	**226,859**	**1,329,866**	**13,367**	**210,489**	**279,751**	**9,980**	**98**	**170**	**549,543**	**371,981**	**2,994,996**
Change in gross UPR	1,520	13,608	31,853	1,378	12,755	(480)	1,297	(15)	-	(56,678)	22,165	27,403
Gross earned premiums	**1,372**	**213,251**	**1,298,013**	**11,989**	**197,734**	**280,231**	**8,683**	**113**	**170**	**606,221**	**349,816**	**2,967,593**
Retrocession premiums	-	713	99,121	-	9,807	602	-	-	-	-	3,797	114,040
Change in retro UPR	-	(65)	53	-	(108)	2	-	-	-	-	(18)	(136)
Net earned premiums	**1,372**	**212,473**	**1,198,945**	**11,989**	**187,819**	**279,631**	**8,683**	**113**	**170**	**606,221**	**346,001**	**2,853,417**
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
Retrocession 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
Net claims incurred	**2,103**	**(33,953)**	**1,225,684**	**395**	**89,561**	**195,696**	**2,615**	**(23)**	**10**	**255,938**	**35,234**	**1,773,260**
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
Technical profit/(loss)	**(1,291)**	**163,778**	**(458,474)**	**7,765**	**28,837**	**39,716**	**3,577**	**123**	**142**	**201,973**	**167,924**	**154,073**
Expenses of management	129	10,150	59,503	598	9,418	12,517	447	4	8	24,588	16,644	134,006
Total expenses and risk premium rebates	**689**	**92,798**	**491,238**	**4,427**	**78,839**	**56,736**	**2,938**	**17**	**26**	**172,898**	**159,485**	**1,060,090**
Underwriting profit/(loss)	**(1,420)**	**153,628**	**(517,977)**	**7,167**	**19,419**	**27,199**	**3,130**	**119**	**134**	**177,385**	**151,281**	**20,067**
Key ratios:												
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 23 February 2017 and was signed on its behalf by:

J. P. M. Ndegwa
Chairman

D. G. M. Hutchison
Director

P. K. Maina
Principal Officer

LONG-TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016

	Ordinary life business Shs'000'	Group life business Shs'000'	2016 Total Shs'000'
Gross earned premiums	**35,799**	**775,836**	**811,635**
Retrocession premiums	(7,537)	(172,813)	(180,350)
Net written premiums	**28,262**	**603,023**	**631,285**
Movement in unearned premiums reserve	(5,984)	(37,293)	(43,277)
Net earned premiums	22,278	565,729	588,007
Investment income	6,715	145,515	152,230
Risk premium rebates earned	520	37,365	37,885
Net income	**29,513**	**748,610**	**778,123**
Gross claims	5,880	410,585	416,465
Recoveries	-	(42,440)	(42,440)
Change in long-term liabilities	(1,387)	(69,970)	(71,357)
Net claims and treaty benefits payable	**4,493**	**298,175**	**302,668**
Operating and other expenses	7,944	68,961	76,905
Risk premium rebates	7,126	199,261	206,387
Total expenses	**19,563**	**566,397**	**585,960**
Profit before taxation	**9,950**	**182,213**	**192,163**
Taxation charge	(2,830)	(57,569)	(60,399)
Long-term business profit after taxation	**7,120**	**124,644**	**131,764**

The long - term revenue account was approved by the board of directors on 23 February 2017 and were signed on its behalf by:

J. P. M. Ndegwa
Chairman

D. G. M. Hutchison
Director

P. K. Maina
Principal Officer

LONG-TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2015

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

The long - term revenue account was approved by the board of directors on 23 February 2017 and were signed on its behalf by:

J. P. M. Ndegwa
Chairman

D. G. M. Hutchison
Director

P. K. Maina
Principal Officer

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 Fourth Annual General Meeting of the Company to be held on Thursday, 18 May 2017, at twelve noon and at any adjournment thereof.

Signed this ______________ day of ______________ 2017

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 2016 and the Chairman's, Directors', Actuary's and Auditors' reports thereon.	☐	☐
2. To approve the payment of a dividend.	☐	☐
3. To elect Directors.	☐	☐
4. To approve the remuneration of the Directors.	☐	☐
5. To note that PricewaterhouseCoopers continue as the company's auditors.	☐	☐
6. To authorize the Directors to fix their remuneration.	☐	☐

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.

Standing from left: D. Mitoko, M. Wairegi, V. Kioko, A. Nasio, B. Cheruiyot, B. Chirchir, A. Moseti, D. Miano, P. Maina, A. Miyogo, K. Njoroge, J. Kimondo, H. Kamau, R. Akayezu, R. Muganda, E. Kigen, H. Shah, V. Maithya

Seated from left: R. Kogo, R. Gitonga, C. Omasete, M. Kimondo, L. Murerwa, D. Kirui

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