EAST AFRICA REINSURANCE COMPANY LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS 2017

Corporate Information and Advisers

VISION STATEMENT
To be the risk partner of choice in our markets.

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

CORE VALUES
Integrity, commitment, partnership, excellence, professionalism, innovation.

REGISTERED OFFICE

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

COMPANY SECRETARY

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

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

ACTUARIES

Zamara Actuaries, Administrators and Consultants Ltd.
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

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

Contents

Board Of Directors


J.P.M. Ndegwa
Chairman


M.P. Chandaria (Dr)
Vice - Chairman


L.W. Muriuki
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

Board Of Directors (Continued)


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.O. Mitoko - Manager (Non-Life), D.K. Kirui - Head of Life Business, P. K. Maina - Chief Executive Officer, R.K. Kogo - Chief Accountant, B.K. Chirchir - IT Manager
Seated from left: V.K. Maithya - Human Resource & Administration Manager, C.A. Omasete - Risk & Compliance Manager, R.W. Gitonga - Chief Finance Officer

Financial Highlights and Ratios

Combined Business (Short-Term and Long Term) in Kshs.

Year	2017 Shs' Million	2016 Shs'Million	2015 Shs'Million	2014 Shs'Million	2013 Shs'Million
Investment income (net)	658	607	530	406	393
Gross Premiums	4,203	3,328	3,705	3,478	2,817
Net Premiums	3,908	3,031	3,447	3,304	2,713
Net Earned Premiums	3,646	3,204	3,420	3,157	2,645
Technical Profit	384	285	289	334	283
Underwriting Profit/(Loss)	201	122	136	209	149
Profit Before Tax	817	668	626	539	519
Profit After Tax	602	466	432	373	366
Dividend	100	60	60	60	60
Share holders' Funds	4,085	3,422	3,016	2,645	2,190
Share Capital	1,500	1,500	1,300	1,000	1,000
Total Assets	8,981	7,769	7,774	6,270	5,409

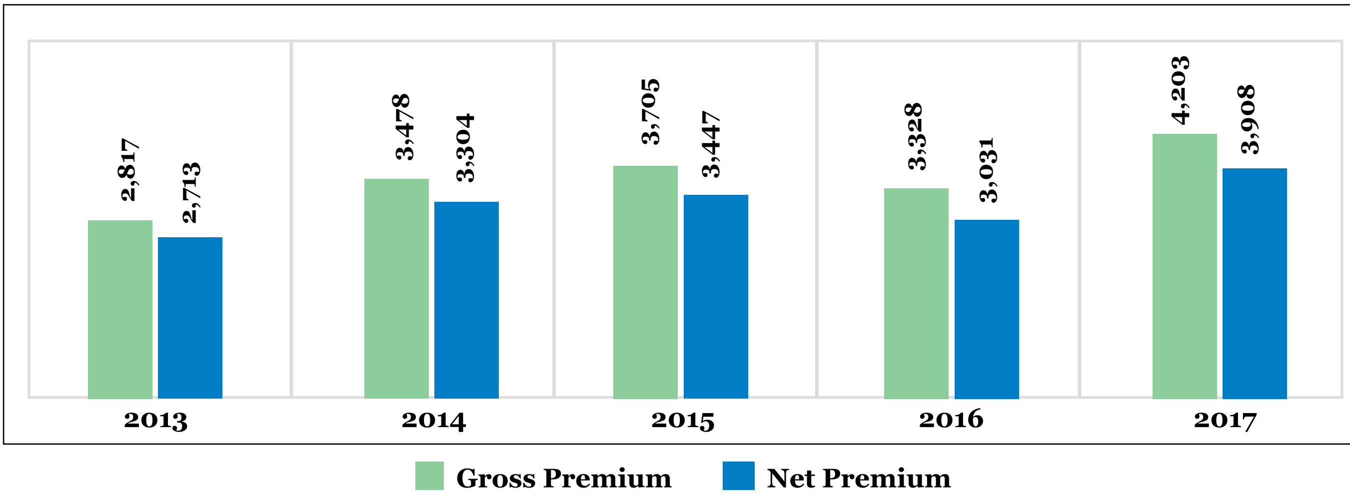
Combined Business (Short-Term and Long Term) in USD.

Year	**2017**	**2016**	**2015**	**2014**	**2013**
Exchange rate	103.23	102.56	102.2	90.6	86.3
	USD'000'	**USD'000'**	**USD'000'**	**USD'000'**	**USD'000'**
Investment income (net)	6,381	5,918	5,182	4,481	4,549
Gross Premiums	40,710	32,449	36,248	38,389	32,643
Net Premiums	37,854	29,553	33,732	36,469	31,438
Net Earned Premiums	35,316	31,240	33,463	34,846	30,643
Technical Profit	3,719	2,779	2,832	3,685	3,274
Underwriting Profit/(Loss)	1,945	1,190	1,326	2,307	1,726
Profit Before Tax	7,918	6,513	6,128	5,949	6,018
Profit After Tax	5,827	4,544	4,224	4,117	4,235
Dividend	969	585	587	662	695
Shareholders' Funds	39,572	33,366	29,515	29,193	25,373
Share Capital	14,531	14,626	12,720	11,038	11,586
Total Assets	87,002	75,751	76,068	69,207	62,669

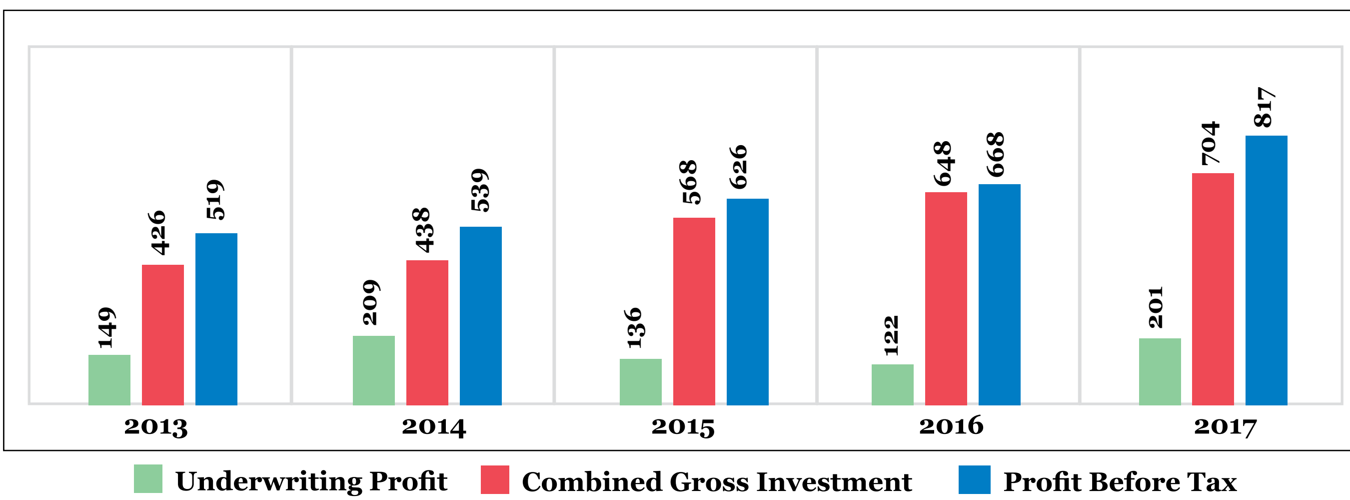
Ratios					
Net Technical Profit/ Net Premiums	10%	9%	8%	10%	10%
Loss Ratio	56%	61%	60%	58%	55%
Earnings Per Share (Shs)	401	310	332	373	366
Dividend Cover	6	8	7	6	6
Return on Equity Before Tax	20%	21%	22%	22%	26%
Return on Equity After Tax	15%	14%	15%	15%	18%

Financial Highlights and Ratios (Continued)

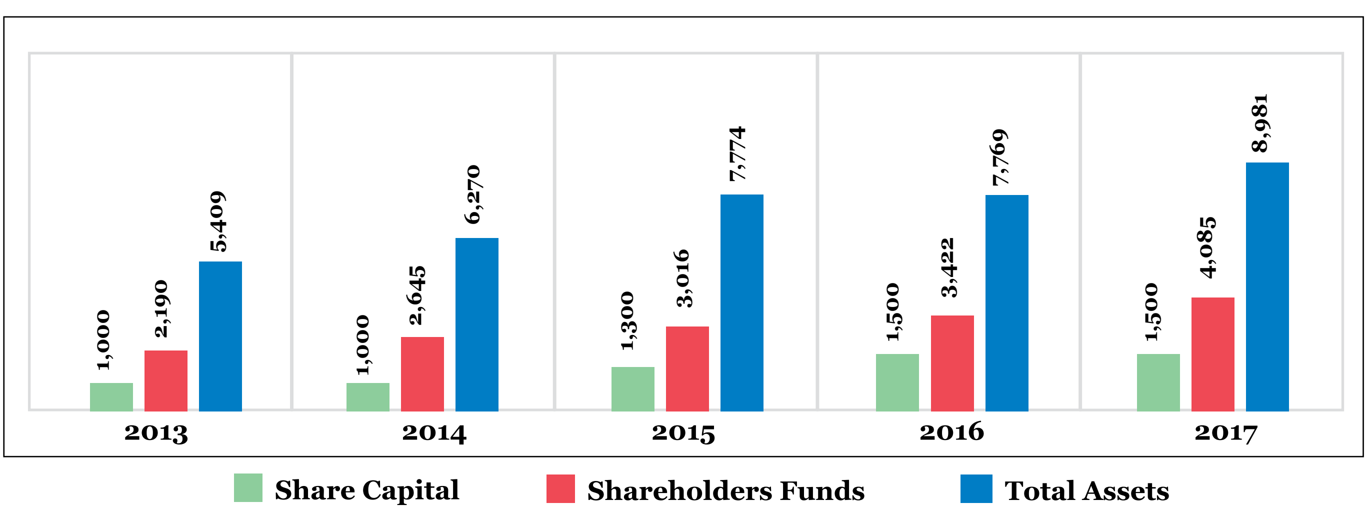
Gross Premium and Net Premium in Kshs (Millions)



Underwriting Profit, Combined Gross Investment and Profit Before Tax in Kshs (Millions)



Share Capital, Shareholders Funds and Total Assets in Kshs (Millions)



Notice of the Twenty-Fifth Annual General Meeting

Notice is hereby given that the Twenty-Fifth Annual General Meeting of East Africa Reinsurance Company Limited will be held on Thursday, **17th May 2018,** in the Company's Training Room, EARe House, 98 Riverside Drive, Nairobi, at twelve noon to transact the following business:

Ordinary Business

1. To read the Notice convening the meeting.

2. Confirmation of Quorum.

3. To confirm the minutes of the Annual General Meeting held on 18th May 2017.

4. To receive, consider and, if appropriate, adopt the financial statements for the year ended 31st December 2017 and the Chairman's, Directors', Actuary's and Auditors' reports thereon.

5. To approve the payment of a final dividend of Kshs. 100 million for the year ended 31st December 2017.

6. To re-elect Directors:

   (a) Mr S O Oluoch retires by rotation in accordance with Article 80(A) of the Company's Articles of Association and, being eligible, offers himself for re-election.

   (b) Dr D G M Hutchison retires by rotation in accordance with Article 80(A) of the Company's Articles of Association and, being eligible, offers himself for re-election.

7. To approve the remuneration of the Directors.

8. To reappoint PricewaterhouseCoopers as the Company's auditors under Section 717 of the Companies Act, 2015 subject to approval by the Commissioner of Insurance as required under section 56(4) of the Insurance Act (Cap. 487) and to authorize the Directors to fix the remuneration of the Auditors for the period to the close of the next Annual General Meeting.

9. Any Other Business.

By Order of the Board

K. M. Ontiti
Secretary
20 April 2018

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.

Chairman's Statement

Dear Shareholders,

It is with great pleasure that I, on behalf of the Board of Directors, present to you the Annual Report and Financial Statements for the year ended 31 December 2017.

During the year the Company demonstrated its continued ability to deliver consistent profitable growth as we endeavour to be partners of growth for all our stakeholders as well as being the risk partner of choice. The growth in profitability in 2017 was realised from both underwriting business and investment of funds. The underwriting results improved significantly, largely driven by better claims experience and increased business volume. It is also pleasing to note that despite the protracted low interest rate environment an improved investment income was booked.

Macroeconomic Overview

The Kenyan economy remained resilient in 2017 despite recording lower growth compared to the previous year. The Kenya's GDP for the year 2017 is estimated to be in the range of 5.4% to 5.7% (2016: 5.8%). The slowdown was majorly attributed to the slow growth in the agricultural sector due to the effects of the severe 2016/17 drought, the decline in access to credit following the capping of interest rates and the heightened political uncertainty due to the prolonged election season experienced in the year 2017.

The Kenya Shilling remained resilient against the US Dollar in 2017 depreciating by only 0.7% to close at Kshs 103.23 from Kshs 102.56 at the beginning of the year. This position was supported by weakening of the USD in the global markets and the Central Bank of Kenya (CBK)'s intervention activities as they had sufficient foreign exchange reserves. However, the Kenya Shilling considerably depreciated against the GBP and Euro. The Kenya Shilling closed at Kshs 138.75 and Kshs 123.28 against the GBP and Euro respectively compared to Kshs 126.52 and Kshs 108.17 respectively at the beginning of the year.

The inflation rate in the first half of the year 2017 was high mainly due to high food prices occasioned by the drought, causing inflation to hit a high of 11.7% in May. Towards the end of the year, the rate declined touching a low of 4.5% in December following the decline in food prices, despite pressure from rising fuel prices. The average inflation for the year came in at 8.0% which was above the Government's annual target range of 2.5% - 7.5%.

In 2017 the yields on Government securities remained relatively stable, mainly due to Central Bank of Kenya's efforts to keep rates low. The yields on the 91-day T-bill declined to 8.0% from 8.6% at the beginning of the year while yields on the 182 and 364 day papers increased by 10 bps and 20 bps to 10.6% and 11.2% from 10.5% and 11.0% at the end of 2016 respectively.

The equity market at the Nairobi Securities Exchange (NSE) recorded gains in share prices with the NSE 20 Share Index closing at 3712 points from 3186 points in 2016 which represents a 16% improvement.

Kenyan underwriters had hoped to benefit from marine business estimated to be worth Kshs 20 billion following a directive by the Kenyan Government compelling local importers to insure cargo with local underwriters. However, the uptake of marine insurance has been compromised by price wars among underwriters and failure to enforce the law by developing proper structures and systems to ensure that cargo importers complied with the new law.

Chairman's Statement (Continued)

The reinsurance industry in Kenya remains very competitive. Mandatory cessions currently stand at 35% (20% to Kenya Re, 10% to PTA Re and 5% to Africa Re) which continues to significantly affect private players who have to compete for the remaining optional shares.

Positively, following the amendment of the Insurance Act under the 2017 Finance Act insurers and reinsurers will from the year 2018 be issued with perpetual licenses saving them the cost and time of annual renewals.

Insurance penetration in Kenya remains fairly modest at 2.83% which is below the Sub-Saharan Africa average of 3.8%. South Africa presently leads at 16.99% followed by Namibia at 6.69%, Mauritius at 4.18% and Morocco at 3.2%. Nigeria, despite being the largest economy in Africa, has a penetration rate of less than 0.3%.

EARe's Performance Overview

In the year ended 31 December 2017, the Company achieved a 26% growth in Gross premium to stand at Kshs 4.20 billion up from Kshs 3.33 billion in 2016.

The profit before tax stood at Kshs 817 million while the profit after tax and other comprehensive income was Kshs 723 million compared to Kshs 668 million and Kshs 465 million respectively in 2016.

Underwriting Results

The significant growth in the Company's gross premium to Kshs 4.2 billion is attributed to aggressive marketing efforts which resulted in increased business volume. The split per type of business reveals that proportional treaties form the major portion of business at 81% (2016: 82%), non-proportional treaties were second with 17% of total gross premium (2016: 17%) while facultative business recorded 2% of total gross premium (2016: 1%).

The net earned premium at Kshs 3.65 billion represents a growth of 14% from the previous year's comparative of Kshs 3.20 billion. The retrocession premium at Kshs 294.87 million reflects a marginal decrease of 1% on 2016's comparative of Kshs 296.88 million and is attributed to more retained business with lower exposures in the year under review.

Net claims incurred stood at Kshs 2.04 billion representing an adverse variance of 5% on the previous year's comparative of Kshs 1.95 billion. This higher figure is in line with increased business volume.

The net acquisition cost ratio stood at 28.4% compared with 26.3% in 2016 while the management expenses ratio to net premium income at 4.7% compared favourably with 5.4% in 2016. The combined ratio at 94.5% also compares favourably with the previous year's ratio of 96.4%.

The 2017 consolidated underwriting profit at Kshs 200.80 million is higher than 2016's comparative of Kshs 121.69 million by 65% mainly due to the improved top line and better loss experience compared to previous years.

The top five Non-Life classes of business in terms of gross premium for 2017 were; Fire constituting Kshs 1,508 million, Miscellaneous Accident Kshs 553 million, Medical Kshs 399 million, Motor & Liability classes Kshs 321 million and Engineering Kshs 255 million. Collectively, these five classes account for 92.68% of gross premium (2016: 92.24%). Similarly, Group Life achieved a gross premium of Kshs 886 million while Ordinary Life stood at Kshs 47 million in 2017 and constituted 95% and 5% respective of the Company's Life business being similar proportions as in the previous year.

The Kenyan market contributed significantly to the overall Company's business at 60.1% of the consolidated gross premium income for the year, compared with 61.7% in 2016. The Kenyan market accounted for 49.9% of the short-term business compared with 51% in 2016 and was also the main source of long-term business at 95.6% (2016: 95.0%). Of the foreign markets, India and Tanzania were the Company's main sources of business with contributions of 16.1% (2016: 14.4%) and 6.6% (2016: 7%) of the gross premium income of the short term business respectively.

Investment Performance

The Company's total gross investment income recorded for 2017 at Kshs 704.48 million compares favourably with Kshs 648.37 million in 2016. This performance was achieved on account of increased investible funds arising from improved cash collection and higher returns on equities. The total investible funds stood at Kshs 6.22 billion at 31 December 2017 representing a 9% growth during the year (2016: 5.70 billion).

Assets and Shareholders’ Funds

The Company’s total assets as at 31 December 2017 amounted to Kshs 8.98 billion compared to Kshs 7.77 billion as at 31 December 2016. The consolidated Shareholders’ funds as at 31 December 2017 of Kshs 4.09 billion reflects a 20% growth over the year from the Kshs 3.42 billion as at 31 December 2016.

The authorized and paid up share capital remained at Kshs 1.5 billion (short-term business: Kshs 1.00 billion; long-term business: Kshs 500 million) as required by the Finance Act 2015. 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. The Company is therefore fully compliant with this requirement well before the due date.

The Shareholders’ funds of Kshs 3.07 billion for short-term business comprises of share capital of Kshs 1 billion, retained earnings of Kshs 1.65 billion, revaluation reserve of Kshs 312.34 million, fair value reserve of Kshs 6.62 million and a proposed dividend of Kshs 100 million. The Shareholders’ funds of Kshs 1.02 billion for long-term business comprises of share capital of Kshs 500 million and general reserve of Kshs 515.35 million.

Risk Based Capital

The Company’s Capital Adequacy Ratio (CAR) stood at 260% and 203% for Short term and Long term businesses respectively which is above the Prescribed Capital Requirement of 200%. The Insurance Regulatory Authority requires all insurance companies to have a CAR of at least 200% by 30 June 2020. The Company’s level of CAR underscores the strength and resilience of its capital position.

Annual Dividend

The Board recommends to the shareholders the payment of a total dividend of Kshs 100 million (2016: Kshs 60 million) equivalent to 16.62% (2016: 12.89%) of profit after tax to the shareholders who were in the register of members as at 31 December 2017 subject to members’ approval at the forthcoming Annual General Meeting.

Awards

The Company was awarded the Second Runners Up for 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 the Kenya Accountants and Secretaries National Examinations Board (KASNEB).

Security Ratings

During the year, A.M. Best affirmed the Company’s 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+ and the international scale claims paying ability rating assigned B+.

Corporate Governance

The Directors who held office in 2017 are listed on page 6 and 7 of this Annual Report.

The Company is committed to the highest principles of Corporate Governance. The Company endeavours to incorporate into its business activities the best mutual interests of all its stakeholders i.e. the regulators, shareholders, employees and customers. The Company complies with all relevant laws, regulations and puts into practice the best practice in terms of Corporate Governance. Internal governance structures and roles are also reviewed at board and management levels on a continuous basis.

A report on the corporate governance practices in the Company is contained in the Corporate Governance Statement forming part of the 2017 Annual Report.

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

Corporate Social Responsibility

In the spirit of being a responsible and caring corporate citizen EARe undertakes various corporate social responsibility programmes and in particular is actively involved in supporting the needy and deserving children undertake education.

A comprehensive update on the corporate social activities undertaken during the year 2017 is contained in this Annual Report.

Looking Forward

2018 will be the closing year in the Company's current strategic plan (2014 to 2018) and therefore work has begun in developing the next comprehensive plan which will run from 2019 to 2023. In keeping up with the changes in the internal and external environment, the Company in formulating the strategy will take cognizance of current dynamics and future business trends.

Kenya's economy in the year 2018 is expected to record better performance With the World Bank projecting that Kenya's GDP will grow by 5.5% in 2018. The recovery of agricultural sector, a rebound in tourism, the recovery of the construction sector and increased infrastructure spending are set to propel the growth of GDP in the next year.

The insurance industry is expected to continue its reorganisation amidst the entry of new players, mergers and new capital requirements.

Acknowledgements

In closing I would like first to appreciate our shareholders for their continued support and confidence since the incorporation of the Company over 21 years ago. I can assure them that we are committed to protecting and enhancing shareholder value in the years ahead.

I am also immensely grateful to our cedants and intermediaries for their confidence in the Company. The Company's excellent performance in 2017 would not have been possible without their support and I assure them of our commitment to provide quality risk solutions and excellent service.

I wish to also take this opportunity to express my gratitude to all my colleagues on the Board for their invaluable contribution and guidance both at board and committee meetings.

I must also thank the regulator Insurance Regulatory Authority for their invaluable guidance on regulatory matters and all our other business partners for their contribution to the Company's successes in 2017.

Finally, I congratulate and appreciate the Company's management and staff for the exceptional results achieved in 2017. I also commend them for upholding EARe's values of integrity, commitment, partnership, excellence, professionalism and innovation that has propelled the Company to this success and look forward to working closely with them to achieve continued and even better results in the years ahead.

Thank you.

J. P. M. Ndegwa
Chairman

22 February 2018

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2017.

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

BUSINESS REVIEW

The principal activity of the company is underwriting all classes of reinsurance and reassurance businesses as defined by the Insurance Act Cap 487, Laws of Kenya.

The company reported a profit before tax of Kshs 817,398,000 (2016: 668,354,000). The improved performance was largely attributed to improved underwriting results for non- life business. The Company's financial highlights including ratios are summarized on page 6 and 7.

The company is exposed to various risks including retrocession risk, underwriting risk, accumulation risk, concentration risk, strategic risk and credit risk. The details of the risks and how the company manages them are discussed on Notes 4 and 5.

COMPANY RESULTS

	2017 Shs '000'	2016 Shs '000'
Profit before income tax	817,398	668,354
Income tax expense	(215,831)	(202,796)
Profit for the year	**601,567**	**465,558**

DIVIDEND

The directors recommend the payment of a first and final dividend of Shs 100,000,000 (2016: Shs 60,000,000) representing a dividend of Shs 66.67 (2016: Shs 40.0) per share and a dividend payout ratio of 16.62% (2016: 12.89%).

DIRECTORS

The directors who held office during the year and to the date of this report are listed on page 4.

DISCLOSURE TO AUDITORS

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the company's auditor is unaware; and

(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

TERMS OF APPOINTMENT OF AUDITORS

PricewaterhouseCoopers continue in office in accordance with the company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the Board

K. M. Ontiti
Secretary

22 February 2018

Corporate Governance Statement

East Africa Reinsurance Company Limited ensures that good corporate governance is entrenched in all its business activities and decisions. The Board and Management believe that good corporate governance is an essential foundation for sustainable corporate success that will enhance the confidence placed in the Company by its shareholders, business partners and employees.

The Company also has in place a Code of Business Conduct and Ethics that binds the management and staff to ensure that the Company's business is carried out in an ethical, fair and transparent manner.

BOARD OF DIRECTORS

The Board of Directors oversees the Company's Corporate Governance framework by ensuring that the best practices in corporate governance are adhered to. This is achieved through the various Board committees which ensure that proper internal controls, risk management processes, compliance with relevant laws and regulations, and the delivery on commitments to all stakeholders that are set up are adhered to. The Board of Directors is accountable to the shareholders and is responsible for providing overall management and leadership to the Company.

The roles of the Board include the following:

1. Overall strategic direction of the Company.
2. Monitoring the Company's performance and reporting this to shareholders especially at the Annual General Meeting.
3. Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of staff.
4. Ensuring that the business of the Company is conducted in compliance with relevant laws and regulations.

Board Composition and Appointment

During the year 2017 eight directors served on the Board of whom seven were non-executive directors and one executive director. Out of the seven non-executive directors, four are independent.

The Board is composed of directors with a diverse mix of experience in various industries and competencies in various fields such as Insurance, Banking, Law, Accounting, Auditing etc. The unique experiences provide the Board with a mix of skills in discharging its responsibilities and providing a strategic vision and direction for the Company by bringing in the element of independent judgment and risk assessment in the decision making process. All the directors meet the threshold of Suitability of Key Persons as set out by the regulator, Insurance Regulatory Authority.

The Board also maintains a transparent procedure for appointment and induction of new Board members. All directors have a fixed tenure of office and are required to retire at least every three years with a provision for re-election subject to a favourable performance evaluation by the Board.

Board meetings

The Board meetings are held once after every four months. The dates of the meetings are set well in advance by the Board. The notice of Board meetings is circulated in accordance with the Company's Articles of Association and is distributed together with the agenda and Board papers to all the Directors beforehand through a system called Board Vantage.
This ensures that the directors have sufficient time to review the Board papers ahead of the meeting and thereby have meaningful deliberations during the meetings. The Board of directors also have full and unlimited access to the Company's records.

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.

Board Evaluation

The Company has an established and effective process of evaluating the performance of the individual Directors on an annual basis. The performance evaluation process is reviewed periodically to ensure that any amendments issued by the regulator, Insurance Regulatory Authority are incorporated.

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. This is after considering industry benchmarks and the international practices. 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 35(e) to the financial statements for the year ended 31 December 2017.

COMMITTEES OF THE BOARD

To enable the Board carry out its mandate effectively it has delegated some of its powers to the committees although the Board retains the ultimate responsibility for performance and corporate governance of the Company.

The committees of the Board are as follows:

1. The Finance, Investment and IT (FII) Committee.
2. The Audit, Risk and Compliance (ARC) Committee.
3. The Ethics, Nominations and Remuneration (ENR) Committee.

All the committees have detailed terms of reference as set out by Board while incorporating the amendments by the regulator, Insurance Regulating Authority. The Committees 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 ARC Committee is responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the Company.

The 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 and reviews findings of appointed actuaries, regulator, internal & external auditors, and rating agencies and also monitors implementation of internal and external audits recommendations, on behalf of the Board.

c) Ethics, Nominations and Remuneration Committee

The Ethics, Nominations and Remuneration (ENR) Committee is chaired by a non-executive Director. The other members are non-executive Directors and the Chief Executive Officer. The 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, retrocessionaires, 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 Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management and internal control framework through the Audit Risk and Compliance Committee. The Board has also set up a Compliance Department headed by the Risk and Compliance Manager as required by the Insurance Regulatory Authority who directly reports to the ARC Committee. The Compliance Department is responsible for monitoring the Company's day to day risk management, establishing internal controls, evaluating the Company's compliance framework to the relevant legislation applicable to the Company and ensuring adherence to legislative and regulatory requirements.

The Risk & Compliance department carries out an ongoing process of identifying, evaluating and managing significant risks inherent in the business. Positive steps have been taken towards the implementation of the Enterprise Risk Management Framework which provides an integrated way of assessing and evaluating the risk profile of the company.

The Risk Management Framework features various aspects such as the Company's risk strategy, risk appetite & tolerance, governance, risk & capital management, company's risk profile, scenario analysis, solvency assessment, and the various tools used in managing risks. The Framework is also reviewed by the Board of Directors, Rating Agencies, Internal & External Auditors, Appointed Actuaries and the Regulator. The Board & Management review the Risk Appetite on a Quarterly basis through the ARC Committee and any changes are proposed to the Board for approval.

The Company is currently in the process of streamlining all its processes and manuals and embedding the ERM Framework to the business processes. The recently implemented Governance, Risk & Compliance (GRC) System will aid in objectively managing risks and ensuring that adequate mitigation measures are adopted within the Company.

The Company has put in place adequate internal controls which are reviewed by the Internal Audit function on a bi-annual basis. All internal control improvements resulting from the audit are discussed and approved by the Audit Risk & Compliance Committee.

EMPLOYEE GROWTH AND DEVELOPMENT

EARe respects employee individuality within the practices of our corporate culture. 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 individuals 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 deal at arms-length in any matter that relates to the Company and to disclose any conflict of interest in relation to matters that are brought before them for deliberation. A director must refrain from discussion or voting on matters of potential conflict of interest. The Board members are also required to declare their interest before participating in Board meetings and are excluded from deliberations in the case of any potential conflicts of interest.

A process of declaration of interest has been implemented and all staff are required to declare their interest on an annual basis through filling the relevant forms. In addition to signing the annual declaration forms, Board members are also 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 35 to the financial statements for the year ended 31 December 2017.

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 has 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.

Corporate Governance Statement (Continued)

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	23 February 2017	18 May 2017	16 August 2017	23 November 2017
J. P. M. Ndegwa	Chairman	✓	✓	✓	✓
M. P. Chandaria (Dr.) OBE EBS	Vice-Chairman	✓	✓	✓	✓
P. K. Maina	CEO	✓	✓	✓	✓
D. G. M. Hutchison	Member	✓	✓	✓	✓
L. W. Muriuki (Ms.)	Member	✓	✓	✓	✓
S. O. Oluoch	Member	✓	✓	✓	✓
A. V. Vaiydan	Member	✓	✓	✓	X
S.N. Adamali	Member	✓	✓	✓	✓
K. Ontiti	Company Secretary	✓	✓	✓	✓
In Attendance					
R. W. Gitonga (Ms)	CFO	✓	✓	✓	✓

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

Name	Position	15 February 2017	04 May 2017	31 July 2017	15 November 2017
P. K. Mugambi	Chairman	✓	✓	✓	✓
P. K. Maina	CEO	✓	✓	✓	✓
J. K. Kimeu	Member	✓	✓	✓	✓
S.V.Deskulkarni	Member	✓	✓	✓	✓
K. Ontiti	Company Secretary	✓	✓	✓	✓
In Attendance					
R. W. Gitonga (Ms)	CFO	✓	✓	✓	✓

Corporate Governance Statement (Continued)

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

Name	Position	15 February 2017	04 May 2017	31 July 2017	15 November 2017
D. G. M Hutchison	Chairman	✓	✓	✓	✓
J. K. Kimeu	Member	✓	✓	✓	✓
P. K. Mugambi	Member	✓	✓	✓	✓
S.V.Deskulkarni	Member	✓	✓	✓	✓
K. Ontiti	Company Secretary	✓	✓	✓	✓
In Attendance					
P. K. Maina	CEO	✓	✓	✓	✓
R. W. Gitonga	CFO	✓	✓	✓	✓
C.A Omasete	Risk & Compliance Manager	✓	✓	✓	✓

d) Ethics, Nominations and Remuneration (ENR) Committee

Name	Position	20 February 2017	03 November 2017
J. P. M. Ndegwa	Chairman	✓	✓
P. K. Maina	CEO	✓	✓
P. K. Mugambi	Member	✓	✓
L. W. Muriuki (Ms.)	Member	✓	✓
S. V. Deshkulkarni	Member	✓	✓
K. Ontiti	Company Secretary	✓	✓
In Attendance			
R. W. Gitonga	CFO	✓	✓
V. K. Maithya	HR and Administration Manager	✓	✓

✓ Attended (or represented by Alternate director in the Board meetings).
X Absent with apology and valid reason for non-attendance.

Corporate Governance Statement (Continued)

COMPANY SECRETARY

The Company Secretary is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with, 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.

The Company Secretary is appointed by the directors for a term and remuneration that they deem fit.

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:

	2017 Holding		2016 Holding	
	Number of Shares	%	Number of Shares	%
First Chartered Securities Limited	375,000	25.00	375,000	25.00
ICEA LION Life Assurance Company Limited	375,000	25.00	375,000	25.00
Kenindia Assurance Company Limited	239,898	15.99	239,898	15.99
General Insurance Corporation of India	221,281	14.75	221,281	14.75
GA Insurance Limited	102,870	6.86	102,870	6.86
Cannon Assurance Limited	65,797	4.39	65,797	4.39
Gateway Insurance Company Limited	45,659	3.04	45,659	3.04
Pioneer Holdings (Africa) Limited	45,000	3.00	45,000	3.00
Apollo Investments Limited	20,211	1.35	20,211	1.35
United Insurance Company Limited	9,284	0.62	9,284	0.62
TOTAL	**1,500,000**	**100.00**	**1,500,000**	**100.00**

J. P. M. Ndegwa
Chairman

D. G. M. Hutchison
Director

P. K. Maina
Principal Officer

Social & Environmental Responsibilities Statement

East Africa Reinsurance has a long standing commitment to Corporate Social Responsibility (CSR) initiatives. Our annual report reflects our efforts to address critical challenges faced by the society around us. These efforts are driven by our four CSR key pillars; Education, Health, Environment, Social and Child welfare.

Education

We believe in the power of transformation through education, the most affected in our society are bright and needy students with limited support and resources to pursue education. Our efforts to inspire and make education available to these needy students is through sponsorship and mentorship program. Under this program, the Company supports students who come from different communities throughout Kenya. The number of students in our education program continues to grow year on year. Currently are have 21 students in the program with 2 having successful transitioned to University and are now on the Higher Education Loans Board support. In 2017, we visited the schools where the students are admitted and organized meetings with the students and their teachers. The aim of the school visits was to get to understand the student's learning environment from the teacher's perspective, their performance progress and any challenges that they face.

Staff handing over school fee cheque to Shamsher Gilani of Street Children's Assistance Network of Nakuru.

Staff hand out goodies to the boys at SCANN.

Staff visit a scholar at Jamhuri High School.

Ghetto Classics's students receive motivational books from staff.

Social & Environmental Responsibilities Statement (Continued)

Health

In the recent past the prevalence of Cancer and Cancer related deaths has increased. In 2017, the Company supported Faraja Cancer Support Trust by offering a cash donation, enrolling staff to participate in fund raising activity and white water rafting competition organized by Faraja. Funds raised during the fun filled competition are used to support treatment and care of Cancer patients. Members of staff also had an opportunity to make personal contribution. One of the Company staff teams emerged as the winning team on day one of the three day water rafting competition, it was also the team that raised the highest amount of funds for the charity on that day

Staff participate in a rafting competition against cancer.

Staff show off their medals after emerging first overall.

SOCIAL WELFARE

The company continues to maintain a healthy and safe work environment and improving staff motivation and productivity which are critical issues for every workplace. These are aimed at improving staff welfare which is the corner stone of our responsibility and sustainability initiatives. In addition to Staff welfare, the Company undertook various initiatives towards social welfare in 2017.

Linda Maisha Campaign Road safety

Through the Christian Blind Mission (CBM), the Company participated in the Linda Maisha Campaign Road safety Campaign. The aim of the campaign was to raise awareness about the plight of road accidents survivors who have sustained injuries that have resulted in permanent physical disabilities by providing assistive devices.

CEO. (Second from left) handing over a cheque to CBM MD Mr. Amos Mutinga towards the Linda Maisha campain.

Ghetto Classics

Ghetto Classics group brings together children from slum dwellings in Nairobi using classical music as a means of providing meaningful engagement and pastime. Children that participate in the program are further supported to pursue formal education and some instances on other upkeep costs. The company supports Ghetto classics with two full scholarship for needy students.

The Company invited them to perform at its 2017 Annual General Meeting luncheon to entertain guests and also provide them with an opportunity for exposure to other corporate entities as the event is normally attended by Chief Executive Officers and senior managers of clients, shareholders and other business partners. As a token of appreciation the company gave a cash donation and motivational books to the students.

Dr. Manu Chandaria hands a cheque to Ms. Elizabeth Njoroge (Ghetto Classics) as the Company Chairman (left), CEO (right) and band member (center) look on.

Staff Pose for Photo with Ghetto Classic team during the company's AGM luncheon.

Social & Environmental Responsibilities Statement (Continued)

Wamo

The Company continues to support Wamo Children Center, a children's home cum learning center in Kawangware slums. The Company made two separate donations of food items and learning materials. The second donation was in December and went a long way in bringing Christmas cheer and joy to the children.

A talk from the CFO when staff visited Wamo to donate food and goodies for Christmas.

Environment

The Company remained committed to conserving the environment and continued to nurture the trees and vegetation in our office premises. Further, the Company in its efforts to conserve energy, has invested in energy saving initiatives.

Statement of Directors' Responsibilities

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. The directors are responsible for ensuring that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; disclose with reasonable accuracy at any time the financial position of the company; and that enables them to prepare financial statements of the company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors 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 2017 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 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 22 February 2018 and signed on its behalf by:

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

Report of the Consulting Actuary

LONG- TERM BUSINESS

I have conducted an actuarial valuation of the long-term business of East Africa Reinsurance Company Limited as at 31 December 2017.

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 2017.

J. I. Olubayi
Zamara Actuaries Limited
Nairobi

22 February 2018

SHORT- TERM BUSINESS

I have conducted an insurance liability valuation of the short- term business of East Africa Reinsurance Company Limited as at 31 December 2017.

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 2017 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
Zamara Actuaries Limited
Nairobi

22 February 2018

Independent Auditors' Report

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 32 to 81 which comprise the statement of financial position at 31 December 2017 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of East Africa Reinsurance Company Limited at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 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.

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Independent auditor's report to the shareholders of East Africa Reinsurance Company Limited (continued)

Key audit matter	***How our audit addressed the key audit matter***
Determination of reinsurance contract liabilities The valuation of reinsurance contract liabilities included in note 30 of the financial statements was considered a matter of most significance to the current year audit for the following reasons: • There are complex and subjective judgments involved in forecasting uncertain future events, claims behaviour and economic conditions. • Numerous assumptions, as disclosed in Note 30, are applied in determining the value of the reinsurance contract liabilities. Historical claims development factors and the selection of estimated development factors based on historical patterns in particular are key in the valuation of short term reinsurance contract liabilities that are high in magnitude. • The reinsurance contract liabilities included in note 30 of the financial statements constitute 43% of the Company's total liabilities and are made up of reported claims and incurred but not reported ("IBNR") claims.	For the testing of the reinsurance contract liabilities we performed, amongst others, the following procedures with the assistance of our actuarial expertise: • Evaluating and testing controls around the claim handling and settling, how the claims are valued and managements' review process over this valuation. • Comparing for a sample of claims that amounts as recorded in the claims systems agree to the source documents such as the quarterly statements from brokers. • Reviewing the reconciliation between the claims data and that used to calculate the reserves. • Considering the methodology and assumptions used by the Appointed Actuary and management in the estimation of reserves and assessing this against generally accepted actuarial methodologies and approaches, in relation to the business written and expected risks. • Assessing 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 versus expected analysis on prior year's reserves to assess for any surpluses or shortfalls. • 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.

pwc

Independent auditor's report to the shareholders of East Africa Reinsurance Company Limited (continued)

Key audit matter	***How our audit addressed the key audit matter***
Revenue recognition Pipeline revenue and Unearned premiums are aspects of revenue recognition that were considered as being a matter of significance to the current year audit for the following reasons: • Pipeline premiums are quarter four premiums estimates that require a significant level of judgement given they are estimated based on previous historical premium and the data recorded in the first nine months of the year. Any significant changes in data patterns could result in a significant change in the year. Because of the sensitivity and judgement involved in ensuring the accuracy of pipeline premiums, management uses actuarial expertise to arrive at the best estimate. • 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.	For the testing of the reinsurance contract liabilities we performed, amongst others, the following procedures with the assistance of our actuarial expertise • Evaluating and testing controls over the underwriting process which includes how contracts are initiated and recorded in the underwriting system. • Comparing for a sample of premium income that the recorded premium income in the underwriting system agrees to source documents such as the quarterly statements from brokers or cedants. • Recomputing the estimated pipeline premiums and comparing this to management's estimate and analysing the trends in historical data and assessing how those are expected to continue to impact the pipeline premium estimate. • Recomputation of premium reserve (UPR) using the 8ths method and comparing against recorded UPR. • Reviewing the actuarial valuation reports to confirm that the UPR balances reported in the financial statements were consistent with the results of the independent actuarial 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.

Independent auditor's report to the shareholders of East Africa Reinsurance Company Limited (continued)

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.

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.

Independent auditor's report to the shareholders of East Africa Reinsurance Company Limited (continued)

- 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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 matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of directors' report on page 10 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Kang'e Saiti – Practising Certificate No. 1652.

Certified Public Accountants
Nairobi

28th March **2018**

Statement of Profit or Loss and Other Comprehensive Income

	Notes	Short-term Business Shs'000'	Long-term Business Shs'000'	Total 2017 Shs'000'	Short-term Business Shs'000'	Long-term business Shs'000'	Total 2016 Shs'000'
Gross written premiums	7	3,268,661	933,847	**4,202,508**	2,516,439	811,635	**3,328,074**
Retrocession premiums		(135,988)	(158,878)	**(294,866)**	(116,530)	(180,350)	**(296,880)**
Net written premiums		**3,132,673**	**774,969**	**3,907,642**	**2,399,909**	**631,285**	**3,031,194**
Movement in unearned premiums reserve	8	(228,505)	(33,497)	**(262,002)**	216,207	(43,277)	**172,930**
Net earned premiums		**2,904,168**	**741,472**	**3,645,640**	**2,616,116**	**588,008**	**3,204,124**
Investment income	9	485,561	173,083	**658,644**	454,904	152,230	**607,134**
Other income		70	-	**70**	237	-	**237**
Risk premium rebates earned		9,624	27,736	**37,360**	(10)	37,884	**37,874**
Total income		**3,399,423**	**942,291**	**4,341,714**	**3,071,247**	**778,122**	**3,849,369**
Gross claims incurred	10	1,678,032	451,317	**2,129,349**	1,760,551	346,216	**2,106,767**
Amounts recoverable from Retrocessionnaires		(11,239)	(73,784)	**(85,023)**	(112,163)	(43,549)	**(155,712)**
Net claims incurred		1,666,793	377,533	**2,044,326**	1,648,388	302,667	**1,951,055**
Operating and other expenses	11	331,343	76,402	**407,745**	272,111	76,904	**349,015**
Risk premium rebates incurred		835,101	237,144	**1,072,245**	674,557	206,388	**880,945**
Total expenses		**2,833,237**	**691,079**	**3,524,316**	**2,595,056**	**585,959**	**3,181,015**
Profit before income tax		**566,186**	**251,212**	**817,398**	**476,191**	**192,163**	**668,354**
Income tax expense	13	(137,261)	(78,570)	**(215,831)**	(142,397)	(60,399)	**(202,796)**
Profit for the year		**428,925**	**172,642**	**601,567**	**333,794**	**131,764**	**465,558**
Gain on revaluation of property and equipment		173,497		173,497			
Deferred tax on revaluation of property and equipment		(52,049)		(52,049)			
Total Other comprehensive income		**121,448**	-	**121,448**	-	-	-
Total comprehensive income for the year		**550,373**	**172,642**	**723,015**	**333,794**	**131,674**	**465,558**
Earnings per share (basic and diluted)	14			**401.04**			**310.37**

Statement of Financial Position as at 31st December 2017

	Notes	Short-term Business Shs '000'	Long-term Business Shs '000'	Total 2017 Shs '000'
CAPITAL EMPLOYED				
Share capital	15	1,000,000	500,000	1,500,000
Fair value reserve	16(a)	6,624	-	6,624
Revaluation reserve	16(b)	312,344	-	312,344
General reserve	16(c)	-	515,349	515,349
Retained earnings	16(d)	1,750,744	-	1,750,744
Shareholders' funds		**3,069,712**	**1,015,349**	**4,085,061**
REPRESENTED BY:				
Assets				
Property and equipment	17	546,684	-	546,684
Investment properties	19	800,000	-	800,000
Equity investments at fair value through profit or loss	20	93,461	38,511	131,972
Mortgage loans- staff	21	39,640	-	39,640
Corporate bonds	22	533,574	87,640	621,214
Government securities	23	2,186,445	1,057,736	3,244,181
Receivables arising out of retrocession arrangements		32,074	-	32,074
Receivables arising out of reinsurance arrangements		772,156	122,179	894,335
Retrocessionaires' share of reinsurance liabilities	24(a)	468,947	50,002	518,949
Deferred risk premium rebates	24(b)	386,830	-	386,830
Corporate Tax recoverable	13(c)	44,617		44,617
Other receivables	25	276,377	32,897	309,274
Deposits with financial institutions	26	1,022,861	305,367	1,328,228
Cash and bank balances	27	65,191	17,960	83,151
Total assets		**7,268,857**	**1,712,292**	**8,981,149**
Liabilities				
Deferred acquisition cost arising from retrocession arrangements		3,907	-	3,907
Reinsurance/reassurance contract liabilities	29	1,769,716	161,832	1,931,548
Deferred income tax	30	134,494	220,864	355,358
Provision for unearned premiums	31	1,268,893	181,218	1,450,111
Payables arising from retrocession arrangements		16,816	48,136	64,952
Payables arising from reinsurance arrangements		672,829	26,367	699,196
Other payables	32	332,490	54,453	386,943
Current income tax	13(c)	-	4,073	4,073
Total liabilities		**4,199,145**	**696,943**	**4,896,088**
Net assets		**3,069,712**	**1,015,349**	**4,085,061**

The financial statements on pages 32 to 81 were approved and authorized for issue by the board of directors on 22 February 2018 and were signed on its behalf by:

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

Statement of Financial Position as at 31st 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		60,000	-	60,000
Shareholders' funds		**2,493,754**	**928,292**	**3,422,046**
REPRESENTED BY:				
Assets				
Property and equipment	17	393,445	-	393,445
Investment properties	19	780,000	-	780,000
Equity investments at fair value through profit or loss	20	75,508	29,387	104,895
Mortgage loans- staff	21	43,929	-	43,929
Corporate bonds	22	358,846	52,247	411,093
Government securities	23	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	24(a)	486,189	66,835	553,024
Deferred risk premium rebates	24(b)	298,569	-	298,569
Other receivables	25	119,193	23,377	142,570
Deposits with financial institutions	26	1,468,657	447,759	1,916,416
Cash and bank balances	27	74,739	18,054	92,793
Total assets		**6,184,171**	**1,584,683**	**7,768,854**
Liabilities				
Reinsurance/reassurance contract liabilities	29	1,594,847	166,201	1,761,048
Deferred income tax	30	79,599	183,554	263,153
Provision for unearned premiums	31	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	32	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 32 to 81 were approved and authorized for issue by the board of directors on 22 February 2018 and were signed on its behalf by:

J. P. M. Ndegwa
Chairman

D. G. M. Hutchison
Director

P. K. Maina
Principal Officer

Statement of Changes in Equity

	Share capital Shs'000'	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 2016							
At 1 January 2016	1,300,000	10,300	212,620	366,086	1,067,482	60,000	3,016,488
Bonus Issue	200,000				(200,000)		
Profit for the year	-	-	-	131,764	333,794	-	465,558
Actuarial surplus transfer							
Other comprehensive income	-	-	-	(69,558)	69,558	-	-
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)	-	-
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	8,459	201,758	428,292	1,223,537	60,000	3,422,046
Year ended 31 December 2017							
As at 1 January 2017	1,500,000	8,459	201,758	428,292	1,223,537	60,000	3,422,046
Profit for the year	-	-	-	172,643	428,924	-	601,567
Actuarial surplus transfer	-	-	-	(85,586)	85,586	-	-
Other comprehensive income	-	-	121,448	-	-	-	121,448
Total comprehensive income	-	-	121,448	87,057	514,510	-	723,015
Fair value reserve	-	(1,835)	-	-	1,835	-	-
Transfer of excess depreciation	-	-	(15,517)	-	15,517	-	-
Deferred tax on excess depreciation	-	-	4,655	-	(4,655)	-	-
Transactions with owners							
Dividend paid 2016	-	-	-	-	-	(60,000)	(60,000)
Balance as at 31 December 2017	1,500,000	6,624	312,344	515,349	1,750,744	-	4,085,061

Statement of Cash flows

	Notes	2017 Shs '000'	2016 Shs '000'
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated / (used in) from operations	34	160,699	(64,262)
Income tax paid	13(c)	(257,411)	(138,388)
Net cash generated from operating activities		**(96,712)**	**(202,650)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received		658,096	668,314
Purchase of Government securities (net)		(642,215)	(954,330)
Purchase of corporate bonds (net)		(210,122)	10,023
Investment in deposits with financial institutions maturing over 3 months		(134,401)	571,012
Purchase of property and equipment	17	(2,653)	(12,509)
Purchase of investment property	19	(4,288)	(852)
Purchase of quoted shares	20	-	(19,636)
Mortgage loans advanced	21	-	(18,700)
Mortgage loans repaid	21	4,289	4,030
Proceeds of disposal of motor vehicles and equipment		70	242
Proceeds of disposal of quoted shares		3,525	29,674
Net cash generated from investing activities		**(327,699)**	**277,268**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(60,000)	(60,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(484,411)	**14,618**
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**988,440**	973,823
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	27	**504,029**	**988,441**

Notes to the Financial Statements

1 GENERAL INFORMATION

East Africa Reinsurance Company Limited is incorporated in Kenya under the Companies Act as a private limited liability company and is domiciled in Kenya. The address of its registered office is set out on page 2.

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 amendments that were effective for the first time for the financial year beginning 1 January 2017 did not have a material impact on the Company's results or disclosures:

- *Amendment to IAS 7 – Cash flow statements*

In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

- *Amendment to IAS 12 – Income taxes*

Recognition of deferred tax assets for unrealised losses.

The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.

Notes to the Financial Statement (continued)

2. ACCOUNTING POLICIES (Continued)

b) Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations not yet adopted

The following standard has been issued which while not effective for this reporting period was effective on the date of issuance of the Company's financials:

IFRS 9 – Financial Instruments

IFRS 9 – *Financial Instruments* came into effect from 1st January 2018 replaces IAS 39 – Financial Instrument: Recognition and Measurement. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Company has reviewed its assets and liabilities and is expecting the following impact from the adoption of the new standard:

i. Classification of financial assets

IFRS 9 includes three principal classification categories of for financial assets; measured at amortised costs, Fair value through Statement of Other Comprehensive income (FVOCI) and Fair Value through profit and loss (FVPL) on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The company has made an assessment of the objective of the business model in which a financial asset is held at a portfolio level as this best reflects the way the business is managed.

The standard will affect the classification and measurement of financial assets held as 1 January 2018 as follows:

- Equities - the Company holds equities for trading purposes thus they are recognized through FVPL and will also be measured at FVPL under IFRS 9.
- Debt instruments - Government Securities, Corporate Bonds and Staff Loans - the Company holds government securities, corporate bonds and staff loans within a business model intended to "hold" with an objective to receive contractual cash flows being sole payments of principal and interest. Classification of the instruments was held to maturity and will in general also be measured at amortised cost under IFRS 9.
- Receivables arising out of reinsurance and retrocession arrangements that are designated at FVPL will in general continue to be measured and classified at FVTPL under IFRS 9.

ii. Classification of financial liabilities

There will be no impact on the Company's accounting for financial liabilities.

2. ACCOUNTING POLICIES (Continued)

IFRS 9 – Financial Instruments (continued)

b) Changes in accounting policy and disclosures (continued)

ii) New standards and interpretations not yet adopted

iii.) Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39.

The new impairment model would apply to the company for the following financial assets not measured at FVPL:

- Debt instruments - Government Securities, Corporate Bonds and Staff Loans
- Deposits with Financial institutions and Bank Balances
- Receivables arising out of reinsurance and retrocession arrangements (trade receivables)

Initial assessment of the Company's debt instruments and deposits with financial institutions as of 1 January 2018 indicates they are all performing and a loss allowance will be recognised using a 12 months ECL.

The Company will also adopt a simplified approach on trade receivables as they all have maturities of less than 12 months (below 365 days) with receivables aging over 365 days being provided in full, that is full time expected credit losses are recognised for balances over 365 days with exception of related parties, the Company's trade receivables do not contain a significant financing component and market dynamics keep changing and the client's history of payments do change with time.

iv. Disclosures

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments in the year of the adoption of the new standard.

The Company will apply the new rules retrospectively from 1 January 2018. Comparatives for 2017 will not be restated, the impact of the implementation will be adjusted in the opening retained earnings.

2 ACCOUNTING POLICIES (Continued)

The following standard has been issued which is not effective that may significantly impact the Company's results or disclosures. The company is currently assessing the impact of application of this standard when it becomes effective:

Number	Effective date	Summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2021 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17. (published May 2017)	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

Other amendments to standards have been issued that are not effective but are not expected to significantly impact the Company's results or disclosures.

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.

2. ACCOUNTING POLICIES (Continued)

c) Reinsurance contracts (continued)

b) Recognition and measurement (continued)

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.

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.

2 ACCOUNTING POLICIES (Continued)

d) Revenue recognition

i) Reinsurance premium revenue

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

ii) Commissions

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

iii) Interest income

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

iv) Dividend income

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

v) Rental income

Rental income is recognized as income in the period in which it is earned.
All investment income is stated net of investment expenses.

Investment income is stated net of investment expenses. Interest income is recognized on a time proportion basis that takes into account the effective yield on the asset.

e) Property and equipment

All property and equipment are initially recorded at cost. 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

2. ACCOUNTING POLICIES (Continued)

e) Property and equipment (continued)

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

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

f) Intangible assets – Computer software

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

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year are recognized as intangible assets. Direct costs include software development, employee costs and appropriate portion of relevant overheads.

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

g) Investment property

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

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

h) Financial assets

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

I. Classification

i. Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

2. ACCOUNTING POLICIES (Continued)

h) Financial assets (continued)

I. Classification (continued)

ii. Loans and receivables

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

iii. Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity, other than:
- those that the Company upon initial recognition designates as at fair value through profit or loss;
- those that the Company designates as available for sale; and
- those that meet the definition of loans and receivables

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

II. Recognition and measurement

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

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

III. Determination of fair value

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

2. ACCOUNTING POLICIES (Continued)

h) Financial assets (continued)

III. Determination of fair value (continued)

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

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

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

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

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

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

IV. Reclassification of financial assets

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

2. ACCOUNTING POLICIES (Continued)

h) Financial assets (continued)

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.

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

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.

2. ACCOUNTING POLICIES (Continued)

m) Leases (Continued)

The company as lessee

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

n) Employee benefits

i) Employee entitlements

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

ii) Retirement benefit obligations

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

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

o) Share capital

Ordinary shares are classified as equity.

p) Current and deferred income tax

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(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 30.

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 29.

c) Impairment

At the end of each reporting period, the company reviews the carrying amounts of its assets to determine whether there is any objective evidence that those assets have suffered an impairment loss. If any such evidence exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

d) Valuation of investment property

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

4. INSURANCE RISK MANAGEMENT

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

For a portfolio of reinsurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its reinsurance contracts is that the actual claims and benefit payments may exceed the carrying amount of the reinsurance liabilities and the pricing is inadequate to meet its obligations. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar reinsurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has developed its reinsurance underwriting strategy to diversify the type of risks accepted and within each of these categories to achieve a sufficiently large population 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 2017

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	2,149,042	18,497,646	6,700,996	27,347,684
	Net	2,149,042	18,497,646	6,700,996	27,347,684
Miscellaneous	Gross	1,706,819	5,115,921	-	6,822,740
	Net	1,706,819	5,115,921	-	6,822,740
Motor	Gross	1,161,349	1,269,264	-	2,430,613
	Net	1,161,349	1,269,264	-	2,430,613
Others	Gross	1,748,026	9,601,798	2,102,379	13,452,203
	Net	1,748,026	9,601,798	2,102,379	13,452,203
Long-term business					
Ordinary life	Gross	4,262,039	617,077	-	4,879,116
	Net	3,146,865	73,967	-	3,220,832
Group life	Gross	254,941,900	37,448,017	-	292,389,917
	Net	227,865,729	34,878,310	-	262,744,039
Total	Gross	265,969,175	72,549,723	8,803,375	347,322,273
	Net	237,777,830	69,436,906	8,803,375	316,018,111

The company's earthquake exposure for the Nairobi zone is estimated at at Shs 57,779,430,001 (2016: Shs 80,367,652,439)

4. INSURANCE RISK MANAGEMENT (Continued)

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

Class	**Limit (Shs)**
Property	3,510 million in excess of 40 million Auto Facultative Facility Limit: 1,033 million
Marine	740 million in excess of 10 million
Miscellaneous Accident	70 million in excess of 30 million
Terrorism and Political Risks	Quota Share Limit: 826 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 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
	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

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 2017, 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 20,971,190 (2016: Shs 3,224,537) 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 0.51% (2016: 0.94%) 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 2017 investments in equities constituted only 1.47% (2016: 1.35%) of the total assets.

At 31 December 2017, if the share prices at the NSE had increased/decreased by 10% (2016: 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 12,121,653 (2016: Shs 10,892,576) higher/lower, and equity would have been Shs 12,121,653 (2016: Shs 10,892,576) 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.

	2017 Sh'000		2016 Sh'000	
	Effect on profit	**Effect on equity**	**Effect on profit**	**Effect on equity**
+ 5 percentage point movement	7,251	7,251	10,042	10,042
- 5 percentage point movement	(7,251)	(7,251)	(10,042)	(10,042)

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;

	2017 Shs'000'	2016 Shs'000'
Other receivables (excluding prepayments) Note 25)	295,298	131,148
Receivables arising out of reinsurance arrangements	894,335	612,189
Receivables arising out of retrocession arrangements	32,074	65,185
Government securities held to maturity (Note 23)	3,244,181	2,354,747
Loans receivable (mortgage loans) (Note 21)	39,640	43,929
Deposits with financial institutions (Note 26)	1,328,228	1,916,416
Bank balances (Note 27)	83,151	92,784
Corporate bonds (Note 22)	621,214	411,093
	6,538,122	**5,627,491**

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:

	2017 Shs'000'	2016 Shs'000'
Neither past due nor impaired		
- up to 90 days	709,595	430,684
- 91 to 181 days	119,238	98,012
- 182 to 273 days	137,058	47,042
Past due but not impaired	167,897	129,809
Impaired	185,378	158,357
	1,319,166	863,904
Less provision for impairment	(185,378)	(158,357)
Total	1,133,788	705,547
Receivables arising out of reinsurance arrangements are made up of:		
Receivables arising out of reinsurance arrangements (third parties)	894,335	612,189
Other receivables – related parties (Note 25)	239,453	93,358
Total	**1,133,788**	**705,547**

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'	2017 Shs'000'	2016 Shs'000'
-brokers	150,373	24,416	174,789	150,373
-insurance companies	7,984	2,605	10,589	7,984
	158,357	27,021	185,378	158,357

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 2017:						
Reinsurance contract liabilities	1,931,548	-	-	-	-	1,931,548
Provision for unearned premiums	1,450,111	-	-	-	-	1,450,111
Payables arising out of retrocession arrangements	64,952	-	-	-	-	64,952
Payables arising out of reinsurance arrangements	699,196	-	-	-	-	699,196
Other payables	386,946	-	-	-	-	386,946
Total financial liabilities (contractual maturity dates)	4,532,753	-	-	-	-	4,532,753

5. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (continued)

	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:						
Deferred risk premium rebates Reinsurance contract liabilities	1,761,048	-	-	-	-	1,761,048
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

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 2017 and 31 December 2016

5. FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities (continued)

(ii) Fair value hierarchy (continued)

31 December 2017	**Level 1 Shs'000**	**Level 2 Shs'000**	**Level 3 Shs'000**	**Total Shs'000**
Quoted equities	131,972	-	-	131,972
Total	131,972	-	-	131,972
31 December 2016				
Quoted equities	104,895	-	-	104,895
Total	104,895	-	-	104,895

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

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

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

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

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

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

There was no movement in level 3 during the year.

6. CAPITAL 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.

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 2017.

The Company is subject to risk based capital requirement.

The Company's Capital Adequacy Ratio (CAR) stood at 260% and 203% for Short term and Long term businesses respectively which is above the Prescribed Capital Requirement of 200%. The Insurance Regulatory Authority requires all insurance companies to have a CAR of at least 200% by 30 June 2020. The Company's level of CAR underscores the strength and resilience of its capital position.

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.

		2017			2016	
Short-term business	**GWP Shs'000'**	**GEP Shs'000'**	**Retro Shs'000'**	**GWP Shs'000'**	**GEP Shs'000'**	**Retro Shs'000'**
Aviation	(541)	(206)	-	306	825	-
Engineering	254,949	232,256	1,784	231,719	237,449	261
Fire	1,508,207	1,422,382	92,861	1,205,481	1,312,761	99,793
Liability	6,774	8,385	-	11,713	13,962	-
Marine	205,138	171,270	12,724	164,954	192,319	12,878
Motor	314,161	310,994	(110)	296,850	295,058	747
Personal accident	27,856	23,316	-	9,091	8,942	-
Theft	-	-	-	(20)	(20)	-
Workmen's compensation	-	-	-	(13)	(13)	-
Medical	399,352	376,215	-	262,158	318,152	-
Miscellaneous	552,765	485,336	28,729	334,200	353,604	2,851
	3,268,661	3,029,948	135,988	2,516,439	2,733,039	116,530
Long-term business						
Ordinary life	31,866	30,289	9,001	35,799	34,028	7,537
Group life	901,981	870,062	149,877	775,835	744,076	172,813
	933,847	900,351	158,878	811,635	778,104	180,350
Total	**4,202,508**	**3,930,299**	**294,866**	**3,328,074**	**3,511,143**	**296,880**

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

		2017			2016	
	Gross Shs'000'	Retro-cession Shs'000'	Net Shs'000'	Gross Shs'000'	Retro-cession Shs'000'	Net
As presented in the Statement of profit or loss						
Short term	238,714	10,209	228,505	(216,599)	(392)	(216,207)
Long term	36,624	3,127	33,497	33,530	(9,747)	43,277
Total	275,338	13,336	262,002	(183,069)	(10,139)	(172,930)
Represented by:						
(Decrease) /increase in provision for unearned premiums (Note 31)						
Short term	326,975	14,116	312,859	(293,098)	(488)	(292,610)
Long term	36,624	3,127	33,497	33,530	(9,747)	43,277
	363,599	17,243	346,356	(259,568)	(10,235)	(249,333)
Less: (Decrease) /increase in deferred risk premium rebates and revenue (Note 24(b))						
Short term	88,261	3,907	84,354	(76,499)	(96)	(76,403)
Long term	-	-	-	-	-	-
	88,261	3,907	84,353	(76,499)	(96)	(76,403)
At end of year						
Short term	238,714	10,209	228,505	(216,599)	(392)	(216,207)
Long term	36,624	3,127	33,497	33,530	(9,747)	43,277
Total	275,338	13,336	262,002	(183,069)	(10,139)	(172,930)

9. INVESTMENT INCOME

	Short-term Business Shs'000'	Long-term Business Shs'000'	Total Shs'000'
For year ended 31 December 2017			
Interest income- Government securities	245,862	129,190	375,052
Interest income- Bank deposits	102,078	30,853	132,931
Interest income- Loans	2,620	-	2,620
Interest income- Corporate bonds	61,934	10,064	71,998
Dividend income	5,445	2,102	7,546
Realised Loss on sale of equity investments at fair value through profit or loss	(1,499)	-	(1,499)
Unrealised fair value gain on equity investments at fair value through profit or loss (Note 20)	22,977	9,124	32,101
Fair value gain on investment property	15,712	-	15,712
Rental income	66,434	-	66,434
Other	1,515	-	1,515
	523,078	181,333	704,411
Investment expenses	(37,518)	(8,249)	(45,767)
Investment and other income (net) for 2017	485,561	173,083	658,644
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 20)	(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

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 2017			
Loans and receivables (including cash and bank balances)	172,647	30,853	203,500
Financial assets held to maturity	344,986	148,379	493,365
Dividend income	5,445	2,101	7,546
Total	523,078	181,333	704,411
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

10. GROSS CLAIMS INCURRED

	2017 Shs'000'	2016 Shs'000'
Short-term business		
Claims payable by principal class of business:		
Aviation	(338)	(296)
Engineering	124,345	117,467
Fire	771,897	910,342
Liability	223	2,001
Marine	89,278	90,478
Motor	227,164	364,868
Personal accident	10,628	(1,857)
Theft	-	-
Workmen's compensation	-	26
Medical	231,214	211,861
	223,621	65,661
	1,678,032	1,760,551
Long-term business actuarial liabilities		
Reinsurance contracts relating to fixed and guaranteed terms:		
Death benefits		
- Ordinary life	1,244	5,880
- Group life	454,440	410,585
Increase in reassurance contract liabilities:		
- Ordinary life	(149)	(3,518)
- Group life	(4,218)	(66,731)
	451,317	346,216
Total short-term and long-term business	2,129,349	2,106,767

		2017 Shs'000'	2016 Shs'000'
11.	OPERATING AND OTHER EXPENSES		
	The following are included in operating and other expenses:		
	Directors' fees	4,800	3,000
	Employee benefits expense (Note 12)	151,238	132,988
	Medical costs	5,968	4,854
	Auditors' remuneration	4,337	3,791
	Depreciation (Note 17)	23,510	22,338
	Amortisation of intangible assets (Note 18)	-	2,558
	Net foreign exchange (gains) / losses	(8,419)	18,544
	Impairment charge for doubtful receivables	-	-
	-reinsurance premiums receivables	27,021	17,270
12.	EMPLOYEE BENEFIT EXPENSES		
	Salaries and wages	141,781	124,261
	Retirement benefit costs	9,400	8,671
	National social security benefit costs	57	56
		151,238	132,988

The number of persons employed by the Company at the year end was 24 (2016: 24).

13. INCOME TAX EXPENSE

a) Tax expense

	Short-term business Shs'000'	Long-term business Shs'000'	2017 Total Shs'000'	2016 Total Shs'000'
Current income tax	134,415	41,260	175,675	196,516
Deferred income tax:				
Charge for the year (Note 30)	2,846	37,310	40,156	6,280
	137,261	78,570	215,831	202,796

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 (Continued)

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

	Short-term business Shs'000'	**Long-term business Shs'000'**	**2017 Total Shs'000'**	**2016 Total Shs'000'**
Profit before income tax	566,186	251,212	817,398	668,354
Tax calculated at a tax rate of 30%	169,856	41,260	211,116	176,596
Tax effect of income not subject to tax	(38,471)	-	(38,471)	723
Tax effect of expenses not deductible for tax purposes	5,876	-	5,876	(1,183)
Deferred tax on the life surplus	-	37,310	37,310	26,660
Income tax expense	137,261	78,570	215,831	202,796

c) Corporate tax payable

At 1 January	33,926	7,265	41,192	(16,936)
Current income tax	134,415	41,260	175,675	196,516
Income tax paid in the year	(212,958)	(44,452)	(257,411)	(138,388)
At 31 December	(44,617)	4,073	(40,544)	41,192

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:

	2017	**2016**
Profit attributable to shareholders (Shs'000')	601,567	465,557
Weighted average number of shares	No.	No.
As at 1 December	1,500,000	1,500,000
Earnings per share (Shs) – basic and diluted	401.04	310.37

There were no potentially dilutive shares outstanding as at 31 December 2017 and 31 December 2016. Diluted earnings per share is therefore the same as basic earnings per share.

15. SHARE CAPITAL

	No. of Ordinary Shares	Short term business Shs'000'	Long- term business Shs'000'	Total Shs'000'
Balance at 1 January 2016 and 31 December 2016	1,500,000	1,000,000	500,000	1,500,000
Increase in issues and paid up share capital	-	-	-	-
Balance as at 31 December 2017	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. 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 2016	350,000	69,046	2,840	12,384	7,538	441,808
Additions	-	7,273	-	3,437	1,800	12,510
Disposals	-	-	-	(970)	(1,696)	(2,666)
At 31 December 2016	350,000	76,319	2,840	14,851	7,642	451,652
At 1 January 2017	350,000	76,319	2,840	14,851	7,642	451,652
Additions	-	-	-	1,965	688	2,653
Disposals	-	-	-	(957)	-	(957)
Revaluation Surplus	148,000	(34,319)	-	-	-	113,681
At 31 December 2017	498,000	42,000	2,840	15,859	8,330	567,029
ACCUMULATED DEPRECIATION						
At 1 January 2016	16,667	3,194	2,677	9,648	6,349	38,528
Charge for the year	16,667	2,719	53	1,590	1,308	22,378
Eliminated on disposals	-	-	-	(964)	(1,695)	(2,659)
At 31 December 2016	33,334	5,913	2,730	10,274	5,962	58,207
At 1 January 2017	33,334	5,913	2,730	10,274	5,962	58,207
Charge for the year	16,666	4,502	54	1,075	1,213	23,510
Eliminated on disposals	-	-	-	(957)	-	(957)
Eliminated on Revaluation	(50,000)	(10,415)	-	-	-	(60,415)
At 31 December 2017	-	-	2,784	10,392	7,175	20,345
NET BOOK VALUE						
As at 31 December 2017	498,000	42,000	56	5,467	1,155	546,684
As at 31 December 2016	316,666	70,406	110	4,322	1,941	393,445
NET BOOK VALUE (Cost basis)						
As at 31 December 2017	33,763	53,432	56	5,467	1,155	93,873
As at 31 December 2016	30,536	61,711	110	4,322	1,941	98,620

17. PROPERTY AND EQUIPMENT (Continued)

The leasehold land and buildings were last revalued as at 22nd December 2017 by Hass Consult 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 87,194,366 (2016: Shs 92,247,000)

18 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 2016	11,804	7,402	19,206
AMORTISATION			
At 1 January 2016 and 1 January 2017	11,804	7,402	19,206
Charge for the year	-	-	-
At 31 December 2017	11,804	7,402	19,206
NET BOOK VALUE			
As at 31 December 2017	-	-	-
As at 31 December 2016	-	-	-

19. INVESTMENT PROPERTIES

	2017 Shs '000'	2016 Shs'000'
At 1 January	780,000	765,000
Additions during the year	4,288	852
Fair value gains	15,712	14,148
At 31 December	800,000	780,000

Investment properties are carried at fair value and were last revalued on 22 December 2017, 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 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 2017				
Investment property	-	800,000	-	800,000
At 31 December 2017				
Investment property	-	800,000	-	800,000

	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

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.

20. EQUITY INVESTMENTS - AT FAIR VALUE THROUGH PROFIT OR LOSS

	Short-term business Shs'000'	Long-term business Shs'000'	Total Shs'000'
Year ended 31 December 2017			
Quoted investments:			
At 1 January 2017	75,508	29,387	
104,895			
Additions	-	-	-
Disposals	(5,024)	-	(5,024)
Fair value Gain (Note 9)	22,977	9,124	32,101
At 31 December 2017	93,461	38,511	131,972
Year ended 31 December 2016			
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

21 MORTGAGE LOANS – STAFF

	2017 Shs'000'	2016 Shs'000'
At 1 January	43,929	29,259
Loans advanced	-	18,700
Loan repayments	(4,289)	(4,030)
At 31 December	39,640	43,929

This represents mortgage loans extended to members of staff. There were no impairment losses recorded against mortgage loans for the years ended 31 December 2016 and 31 December 2017.

Maturity profile of mortgage loans

	2017 Shs'000'	2016 Shs'000'
Loans maturing:		
Within 1 year	-	715
In 1-5 years	2,955	4,166
In over 5 years	36,685	39,048
	39,640	43,929

Lending commitments:

There were no mortgage loans approved but not advanced at 31 December 2017 (2016: Nil).

22. CORPORATE BONDS - HELD TO MATURITY

(At amortized cost)	Short term Business Shs'000'	Long term business Shs'000'	Total Shs'000'
At 31 December 2017			
Corporate bonds maturing:			
In 1 year- 5 years	533,574	87,640	621,214
At 31 December 2016			
Corporate bonds maturing:			
In 1 year- 5 years	358,846	52,247	411,093

23 GOVERNMENT SECURITIES - HELD TO MATURITY

Treasury bills	Short term business Shs '000'	Long term business Shs '000'	Total Shs '000'
At 31 December 2017			
Within 90 days	176,911	91,739	268,650
In 91 days – 1 year	75,300	94,416	169,716
	252,211	186,155	438,366
	252,211	186,155	438,366
Treasury bonds maturing:			
Within 90 days	-	-	-
In 91 days – 1 year	141,166	80,644	221,810
In 1 year – 5 years	944,261	371,045	1,315,306
In over 5 years	848,807	419,892	1,268,699
	1,934,234	871,581	2,805,815
	2,186,445	1,057,736	3,244,181

23. GOVERNMENT SECURITIES - HELD TO MATURITY (Continued)

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:			
In 91 days – 1 year	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

Treasury bonds include Shs 525,000,000 (2016: Shs 520,000,000) 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.

24. a) RETROCESSIONAIRES' SHARE OF REINSURANCE LIABILITIES

At 31 December 2017	**Short term business Shs'000'**	**Long term business Shs'000'**	**Total Shs'000'**
Retrocessionaires' share of:			
Unearned premiums (Note 31)	14,116	-	14,116
Outstanding claims	454,831	50,002	504,833
	468,947	50,002	518,949
At 31 December 2016			
Retrocessionaires' share of:			
Unearned premiums (Note 31)	-	-	-
Outstanding claims	486,189	66,835	553,024
	486,189	67,328	553,517

24. a) RETROCESSIONAIRES' SHARE OF REINSURANCE LIABILITIES (Continued)

Amounts due from retrocessionaires in respect of claims already paid by the company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position. Movements in the above retrocession assets are shown in Notes 29 and 31.

b) DEFERRED RISK PREMIUM REBATES ARISING FROM RETROCESSION ARRANGEMENTS

	2017			2016		
	Gross	**Retrocession**	**Net**	**Gross**	**Retrocession**	**Net**
	Shs'000'	**Shs'000'**	**Shs'000'**	**Shs'000'**	**Shs'000'**	**Shs'000'**
At 1 January	298,569	-	298,569	375,068	(96)	374,972
(Decrease) /increase in the period (Note 8)	88,261	3,907	84,354	(76,499)	96	(76,403)
At 31 December	386,830	3,907	382,923	298,569	-	298,569

25 OTHER RECEIVABLES

	Short-term Shs'000	**Long-term Shs'000**	**2017 Shs'000'**	**2016 Shs'000'**
Due from related companies (Note 35(b)(i))	206,950	32,503	239,453	93,358
Due from short-term to long- term business (Note 32)	40,846	-	40,846	16,832
Car loans – staff*	4,471	-	4,471	6,512
Prepayments and other receivables	24,110	394	24,504	25,868
	276,377	32,897	309,274	142,570

*These are car loans extended to members of staff. There were no impairment losses recorded against car loans in 2017 (2016: Nil).

26. 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 2017			
Deposits maturing:			
Within 90 days	111,220	41,008	152,228
In 91 days – 1 year	911,641	264,359	1,176,000
	1,022,861	305,367	1,328,228
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

27. CASH AND CASH EQUIVALENTS

	Short-term Shs'000'	Long-term Shs'000'	2017 Shs'000	2016 Shs'000
Cash and bank balances	65,191	17,960	83,151	92,793
Treasury bills and bonds maturing within 90 days (Note 23)	176,911	91,739	268,650	20,832
Deposits with financial institutions maturing within 90 days (Note 26)	111,220	41,008	152,228	874,816
	353,322	150,707	504,029	988,441

28. 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:

	2017 %	2016 %
Government securities	12.02	13.05
Corporate bonds	13.16	12.60
Deposits with financial institutions	10.62	12.74
Mortgage loans (on reducing balance)	5.00	5.00

29. REINSURANCE/REASSURANCE CONTRACT LIABILITIES

	2017 Shs'000'	2016 Restated Shs'000'
Total short-term reinsurance contracts:		
Claims (gross) reported and claims handling expenses including incurred but not reported claims	**1,769,716**	1,594,847
Long-term reassurance contracts		
Claims (gross) reported and claims handling expenses	**161,832**	166,201
Total gross contract liabilities	**1,931,548**	1,761,048

A) Short-term reinsurance contract

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

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

B) Long-term reassurance contracts

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

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

a) Valuation assumptions – Long term reassurance contracts

The latest actuarial valuation of the company's life fund was undertaken as at 31 December 2017 by the consulting actuaries, Zamara Actuaries 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.

29. REINSURANCE/REASSURANCE CONTRACT LIABILITIES (Continued)

B) Long-term reassurance contracts (Continued)

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

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 2017 are summarised below. The same assumptions were used in 2016.

i) Mortality

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

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

ii) Investments returns

The actuarial valuation as at 31 December 2017 does not use an explicit technical rate of return.

The weighted average rate of return earned on the assets backing the life fund in 2017 was 41.0 % p.a. (2016: 41.0% 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.

30. 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% (2016: 30%). The movement on the deferred income tax account is as follows:

	Short term business Shs '000'	Long term business Shs '000'	2017 Shs'000'	2016 Shs'000'
At 1 January	(79,599)	(183,554)	(263,153)	(256,873)
Profit /(loss) credit (Note 13(a))	(2,846)	(37,310)	(40,156)	(6,280)
Charge to other comprehensive income	(52,049)	-	(52,049)	-
At 31 December	(134,494)	(220,864)	(355,358)	(263,153)
The deferred tax liability is attributable to the following items:				
Deferred tax liability:				
Revaluation surplus on leasehold land and building	135,842	-	135,842	88,448
Unrealised exchange gains	2,770	-	2,770	(4,836)
Unrealised gain on fair value assets	4,714	-	4,714	4,244
Life surplus	-	220,864	220,864	183,554
	143,326	220,864	364,190	271,410
Deferred tax asset:				
Unrealised exchange loss	-	-	-	-
Provisions	(7,150)	-	(7,150)	(6,534)
Excess depreciation over capital allowance	(1,682)	-	(1,682)	(1,724)
	(8,832)	-	(8,832)	(8,258)
Net deferred tax liability	134,494	220,864	355,358	263,153

31. 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	2017 Gross Shs'000'	2017 Retro-cession Shs'000'	2017 Net Shs'000'	2016 Gross Shs'000'	2016 Retro-cession Shs'000'	2016 Net Shs'000'
At 1 January	941,919	-	941,919	1,235,017	(488)	1,234,529
Increase/(decrease) in the period (Note 8)	326,975	14,116	312,859	(293,098)	488	(292,610)
At 31 December	1,268,893	14,116	1,254,778	941,919	-	941,919
		(Note 24)			(Note 24)	

Long Term	2017 Gross Shs'000'	2017 Retro-cession Shs'000'	2017 Net Shs'000'	2016 Gross Shs'000'	2016 Retro-cession Shs'000'	2016 Net Shs'000'
At 1 January	144,594	(18,041)	126,553	111,064	(27,788)	83,276
Increase/(decrease) in the period (Note 8)	36,624	(3,127)	33,497	33,530	(9,747)	23,783
At 31 December	181,218	(21,168)	160,050	144,594	(18,041)	126,553
		(Note 24)			(Note 24)	

32. OTHER PAYABLES

	Short-term Shs'000	Long-term Shs'000	2017 Shs'000'	2016 Shs'000'
Due to related parties (Note 35(b))	57,702	12,170	69,872	151,389
Due to short-term business from long-term (Note 25)	-	40,846	40,846	16,832
Accrued expenses and other liabilities	274,788	1,437	276,225	233,840
	332,490	54,453	386,943	402,061

33. COMMITMENTS AND CONTINGENT LIABILITIES

a) Capital commitments

	2017 Shs'000'	2016 Shs'000'
Authorised and contracted for	-	3,000
Authorised but not contracted for	24,000	-
	24,000	3,000

b) Contingent liabilities

Reinsurance Premium Finance – As at 31 December 2017, the Company had not guaranteed Reinsurance Premium Finance facility to insurance companies (2016: Nil). The company is only required to meet the obligations under the facility in the event of default by the insurance companies.

34. NOTE TO THE STATEMENT OF CASH FLOWS

	2017 Shs'000'	2016 Shs'000'
Reconciliation of profit before taxation to net cash generated from operations		
Profit before income tax	817,399	668,353
Adjusted for:		
Investment income	(656,597)	(672,036)
Depreciation (Note 17)	23,510	22,338
Amortisation – intangible assets (Note 18)	-	2,558
Gain on disposal of equipment	(70)	(237)
Change in fair value of quoted shares (Note 9)	(32,101)	38,051
Change in fair value of investment property (Note 9)	(15,712)	(14,148)
Changes in:		
- Reinsurance and reassurance contract liabilities	170,500	(240,959)
- Unearned premium reserves and deferred acquisition revenue	367,504	(148,600)
- Trade and other payables	(67,823)	(47,661)
- Trade and other receivables	(445,911)	328,078
Net cash (used in) /generated from operations	160,699	(64,262)

35. 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:

	2017 Shs'000'	2016 Shs'000'
Net earned premium	861,439	1,025,156
Net claims incurred	406,150	575,780
Interest earned on corporate bonds	23,848	24,042
Interest earned on bank deposits	13,185	8,574

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

	2017 Shs'000'	2016 Shs'000'
i) Reinsurance balances		
Premiums receivable from related parties	239,426	93,331
Loss reserves in respect of related parties	27	27
Due from related parties (Note 25)	239,453	93,358
ii) Premiums payable to related parties (Note 32)	69,872	151,389
iii) Mortgage loans		
Mortgage receivable from related parties(Note 21)	39,640	43,929

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

35. RELATED PARTIES (Continued)

c) Outstanding balances with related parties

iv) Corporate bonds, term deposits and bank balances

	2017 Shs'000'	2016 Shs'000'
Corporate Bonds	293,836	293,739
Fixed deposits	319,604	-
Cash balance	82,561	92,153
	696,001	385,892

d) Loans to directors of the company

The Company did not advance loans to its directors in 2017 (2016: Nil).

e) Directors' fees

	2017 Shs'000'	2016 Shs'000'
Directors' fees	4,800	3,000

f) Key management personnel remuneration

Salaries	84,917	81,202
National social security benefit costs	24	29
Retirement benefit costs	5,734	5,400
Medical costs	1,888	1,730
	92,563	88,361

36. 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.

Short-Term Business Revenue Accounts for the Year Ended 31 December 2017

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	Miscella-neous Shs'000	2017 Total Shs'000
Gross written premiums	(541)	254,949	1,493,026	6,773	210,636	314,134	21,750	-	-	399,352	541,166	3,241,244
Change in portfolio premiums	-	-	15,181	1	(5,499)	27	6,106	-	-	-	11,601	27,417
Gross premiums	**(541)**	**254,949**	**1,508,207**	**6,774**	**205,138**	**314,161**	**27,856**	**-**	**-**	**399,352**	**552,766**	**3,268,661**
Change in gross UPR	(336)	22,693	85,824	(1,611)	33,868	3,167	4,540	-	-	23,138	67,431	238,714
Gross earned premiums	(206)	232,256	1,422,382	8,385	171,270	310,994	23,316	-	-	376,215	485,336	3,029,948
Retrocession premiums	-	1,784	92,861	-	12,724	(110)	-	-	-	-	28,729	135,988
Change in retro UPR	-	32	1	-	-	-	-	-	-	10,166	10	10,209
Net earned premiums	**(209)**	**230,504**	**1,329,523**	**8,385**	**158,546**	**311,104**	**23,316**	**-**	**-**	**386,381**	**456,617**	**2,904,169**
Gross claims paid	(369)	113,388	656,808	45	81,210	192,594	10,580	-	-	227,415	221,492	1,503,163
Change in Gross outstanding claims	31	10,956	115,090	177	8,069	34,570	48	-	-	3,799	2,129	174,869
Retrocession claims	-	491	38,014	-	(91)	2,436	154	-	-	-	1,592	42,597
Change in Retro outstanding claims	-	-	(31,359)	-	-	-	-	-	-	-	-	(31,359)
Net claims incurred	**(338)**	**123,853**	**765,242**	**223**	**89,369**	**224,728**	**10,474**	**-**	**-**	**231,214**	**222,028**	**1,666,793**
Risk premium rebates earned	-	814	359	-	14	33	-	-	-	-	8,404	9,624
Risk premium rebates	82	82,476	417,491	1,872	60,527	31,042	6,656	-	36	82,828	152,091	835,101
Taxes and other charges	23	20,038	39,349	876	13,296	35,257	496	-	-	5,307	24,590	139,232
Technical profit/(loss)	**27**	**4,950**	**107,800**	**5,414**	**(4,631)**	**20,110**	**5,689**	**-**	**(36)**	**67,032**	**66,311**	**272,666**
Expenses of management	8	12,280	68,035	354	9,597	15,529	891	-	-	19,640	23,735	150,071
Total expenses and risk premium rebates	**113**	**113,980**	**524,516**	**3,102**	**83,406**	**81,796**	**8,043**	**-**	**36**	**107,775**	**192,013**	**1,114,781**
Underwriting profit/(loss)	**19**	**(7,330)**	**39,764**	**5,060**	**(14,229)**	**4,580**	**4,798**	**-**	**(36)**	**47,391**	**42,575**	**122,595**
Key ratios:												
Net loss ratio (net claims incurred/ net earned premiums)	164.3%	53.7%	57.65%	2.7%	56.4%	72.2%	44.9%	0.0%	0.0%	59.8%	48.6%	57.4%
Net risk premium rebates ratio (net risk premium rebates/net written premiums)	(15)%	32%	30%	28%	31%	10%	31%	0.0%	0.0%	21%	28%	26.6%
Total expense ratio (total net expenses and risk premium rebates/net written premium)	(21)%	45%	35%	46%	40%	26%	37%	0.0%	0.0%	27%	35%	34.4%

The short - term business revenue account was approved by the board of directors on 22 February 2018 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 2016

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	Miscella-neous 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 & 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)	(35.8)%	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 22 February 2018 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 2017

	Ordinary life business Shs'000'	Group life business Shs'000'	2017 Total Shs'000'
Gross earned premiums	31,866	901,980	933,847
Retrocession premiums	(9,001)	(149,877)	(158,878)
Net written premiums	22,865	752,103	774,968
Movement in unearned premiums reserve	(4,631)	(28,865)	(33,496)
Net earned premiums	18,234	723,238	741,472
Investment income	7,634	165,449	173,083
Risk premium rebates earned	1,048	26,686	27,735
Net income	26,916	915,373	942,290
Gross claims	1,244	454,440	455,685
Recoveries	-	(93,744)	(93,744)
Change in long-term liabilities	303	15,288	15,591
Net claims and treaty benefits payable	1,547	375,984	377,532
Operating and other expenses	7,889	68,513	76,402
Risk premium rebates	6,942	230,201	237,143
Total expenses	16,378	674,698	691,077
Profit before taxation	10,538	240,675	251,214
Taxation charge	(2,681)	(75,889)	(78,570)
Long-term business profit after taxation	**7,857**	**164,786**	**172,644**

The long - term revenue account was approved by the board of directors on 22 February 2018 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 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 22 February 2018 and were signed on its behalf by:

J. P. M. Ndegwa	**D. G. M. Hutchison**	**P. K. Maina**
Chairman	Director	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 Fifth Annual General Meeting of the Company to be held on Thursday, 17 May 2018 at twelve noon and at any adjournment thereof.

Signed this..................day of 2018

Signature(s)..

Seal

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 2017 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.*

STAFF

1st row from left: B. Chirchir, R. Akayezu, D. Miano, M. Wanjiru, A. Miyogo, S. Shao
2nd row from left: C. Omasete, S. Lelei, E. Kigen, J. Kimondo, A. Nasio.
3rd row from left: B. Cheruiyot, M. Wairegi, R. Gitonga (far end)
4th row from left: K. Machua, V. Kioko, M. Kimondo, V. Maithya, R. Muganda,
Standing from back left: R. Kogo, P. Maina, D. Mitoko, D. Kirui, A. Moseti

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