EAST AFRICA REINSURANCE COMPANY LIMITED

Secured Solid Partnership

2018

Annual Report and Financial Statements

Company 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.

BOARD OF DIRECTORS

J.P.M. Ndegwa - Chairman
Alt. A.S.M. Ndegwa
M.P. Chandaria (Dr.) OBE EBS - Vice-Chairman
Alt. V.R. Kumar
P.K. Maina - Chief Executive Officer
D.G.M. Hutchison
L.W. Muriuki
J.K. Kimeu
A.G. Vaidyan
Alt: I. Singh
S.N. Adamali
S.O. Oluoch
Alt:P.K Mugambi

COMPANY SECRETARY

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

REGISTERED OFFICE

East Africa Reinsurance Company Limited
EARe House
98 Riverside Drive
P.O. Box 20196 – 00200
City Square
Nairobi, Kenya
Tel: (254 20) 4084000
Mobile: +254 728111041; +254 733623737
E-mail: info@eastafricare.com
Website: www.eastafricare.com

MANAGEMENT

P.K. Maina - Chief Executive Officer
R.W. Gitonga - Chief Finance Officer
C.W. Ogaye - Head of Non-Life Business
D.K. Kirui - Head of Life Business
B.K. Chirchir - Information Technology Manager
R.K. Kogo - Chief Accountant
V.K. Maithya - Human Resource & Administration Manager

ACTUARIES

Zamara Actuaries Limited
Argwings Kodhek Road, Landmark Plaza
P.O. Box 52439 - 00200 City Square
Nairobi, Kenya

Actuarial Services (EA) Limited
26th Flr, UAP Old Mutual Towers
UpperHill, Upperhill Road
P.O. Box 10472 - 00100 GPO
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

LEGAL ADVISORS

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

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

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BOARD OF DIRECTORS

J.P.M. NDEGWA
CHAIRMAN

Dr. M.P. CHANDARIA
VICE - CHAIRMAN

D.G.M. HUTCHISON
DIRECTOR

P.K. MAINA
CHIEF EXECUTIVE OFFICER

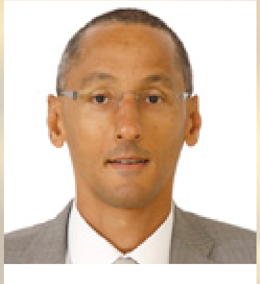
L.W. MURIUKI
DIRECTOR

S.N. ADAMALI
DIRECTOR

S.O. OLUOCH
DIRECTOR

A.G. VAIDYAN
DIRECTOR

J.K. KIMEU
DIRECTOR



A.S.M. NDEGWA
ALTERNATE DIRECTOR

P.K. MUGAMBI
ALTERNATE DIRECTOR

I. SINGH
ALTERNATE DIRECTOR

V.R. KUMAR
ALTERNATE DIRECTOR

K.M. ONTITI
COMPANY SECRETARY

MANAGEMENT

1st row seated from left: V. Maithya (HR & Admin Manager), B. Chirchir (I.T Manager), R. Gitonga (Chief Finance Officer), D. Kaniaru (Risk Consultant)

Standing from Left Back row: R. Kogo (Chief Accountant), P. Maina (Chief Executive Officer), D. Kirui (Head of Life Business) and C. Ogaye (Head of Non-Life Business)

FINANCIAL HIGHLIGHTS - 5 YEARS (COMBINED BUSINESS)

Short-Term and Long Term Combined Business

	2018 Shs'Million	2017 Shs'Million	2016 Shs'Million	2015 Shs'Million	2014 Shs'Million
Investment income (net)	677	659	607	530	406
Gross Premiums	4,006	4,203	3,328	3,705	3,478
Net Premiums	3,677	3,908	3,031	3,447	3,304
Net Earned Premiums	3,544	3,646	3,204	3,420	3,157
Technical Profit	436	384	285	289	334
Underwriting Profit/(Loss)	229	201	122	136	209
Profit Before Tax	823	817	668	626	539
Profit After Tax	616	602	466	432	373
Dividend	100	100	60	60	60
Shareholders' Funds	4,587	4,085	3,422	3,016	2,645
Share Capital	1,500	1,500	1,500	1,300	1,000
Total Assets	9,676	8,981	7,769	7,774	6,270

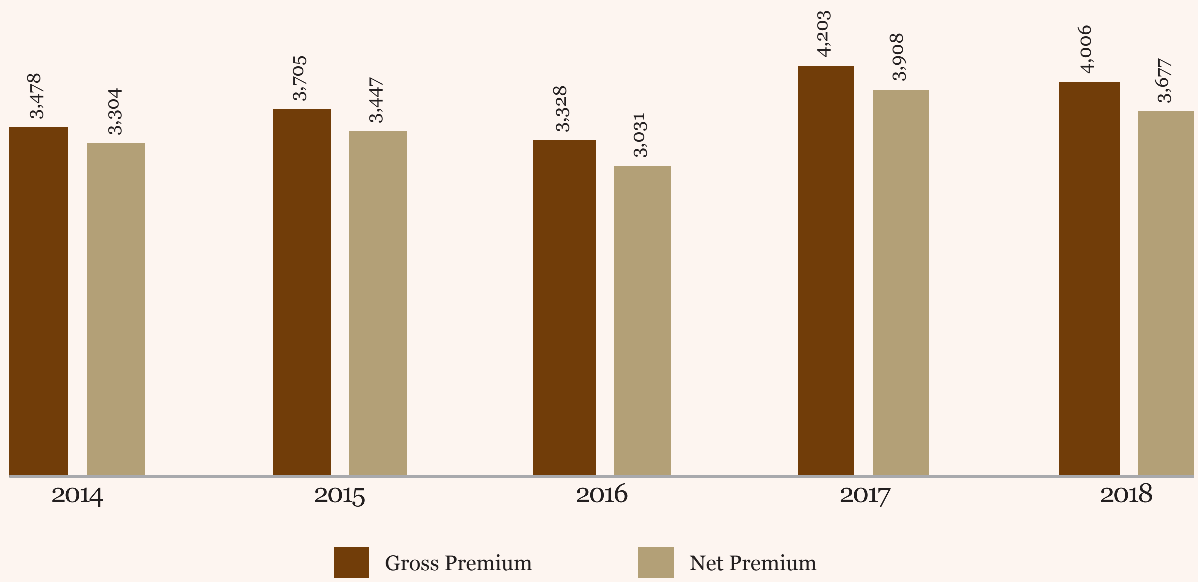
Short-Term and Long Term Combined Business

	2018 101.83 USD'000'	2017 103.23 USD'000'	2016 102.56 USD'000'	2015 102.2 USD'000'	2014 90.6 USD'000'
Investment Income (net)	6,644	6,381	5,918	5,182	4,481
Gross Premiums	39,340	40,710	32,449	36,248	38,389
Net Premiums	36,105	37,854	29,553	33,732	36,469
Net Earned Premiums	34,804	35,316	31,240	33,463	34,846
Technical Profit	4,280	3,719	2,779	2,832	3,685
Underwriting Profit/(Loss)	2,245	1,945	1,190	1,326	2,307
Profit Before Tax	8,080	7,918	6,513	6,128	5,949
Profit After Tax	6,045	5,827	4,544	4,224	4,117
Dividend	982	969	585	587	662
Shareholders Funds	45,045	39,572	33,366	29,515	29,193
Share Capital	14,730	14,531	14,626	12,720	11,038
Total Assets	95,020	87,002	75,751	76,068	69,207

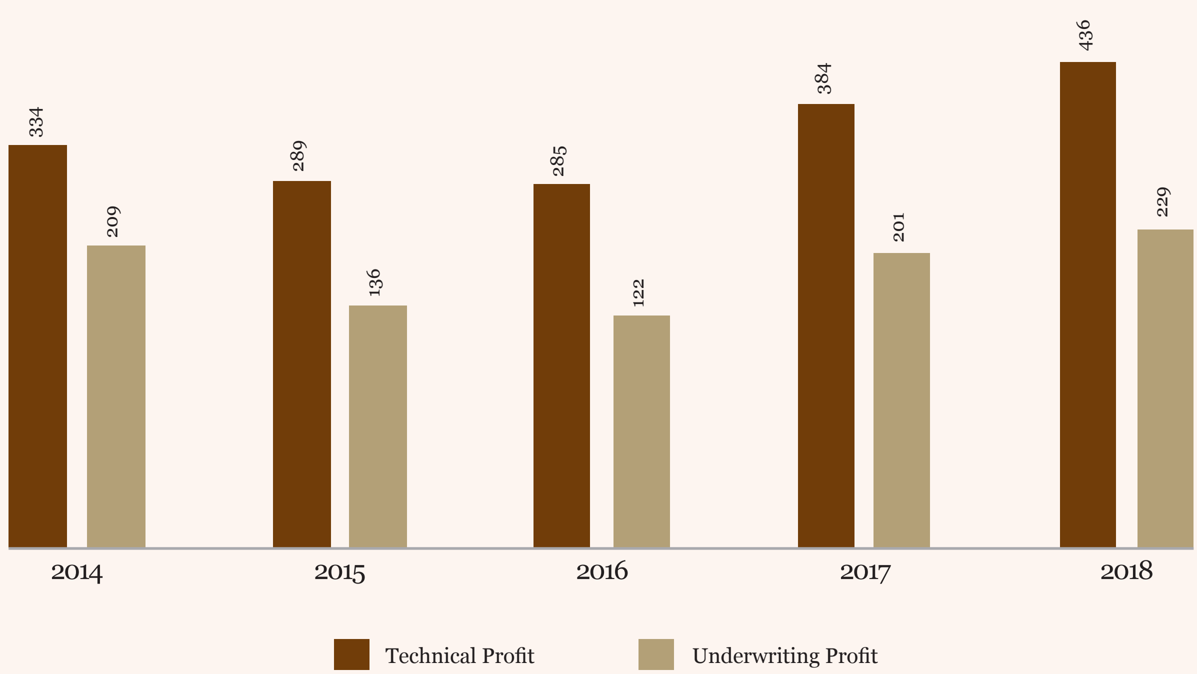
Ratios

	2018	2017	2016	2015	2014
Net Technical Profit/ Net Premiums	12%	10%	9%	8%	10%
Loss Ratio	56%	56%	61%	60%	58%
Earnings Per Share (Shs)	410	401	310	332	373
Dividend Cover	8	6	8	7	6
Return on Equity Before Tax	19%	22%	21%	22%	22%
Return on Equity After Tax	14%	16%	14%	15%	15%

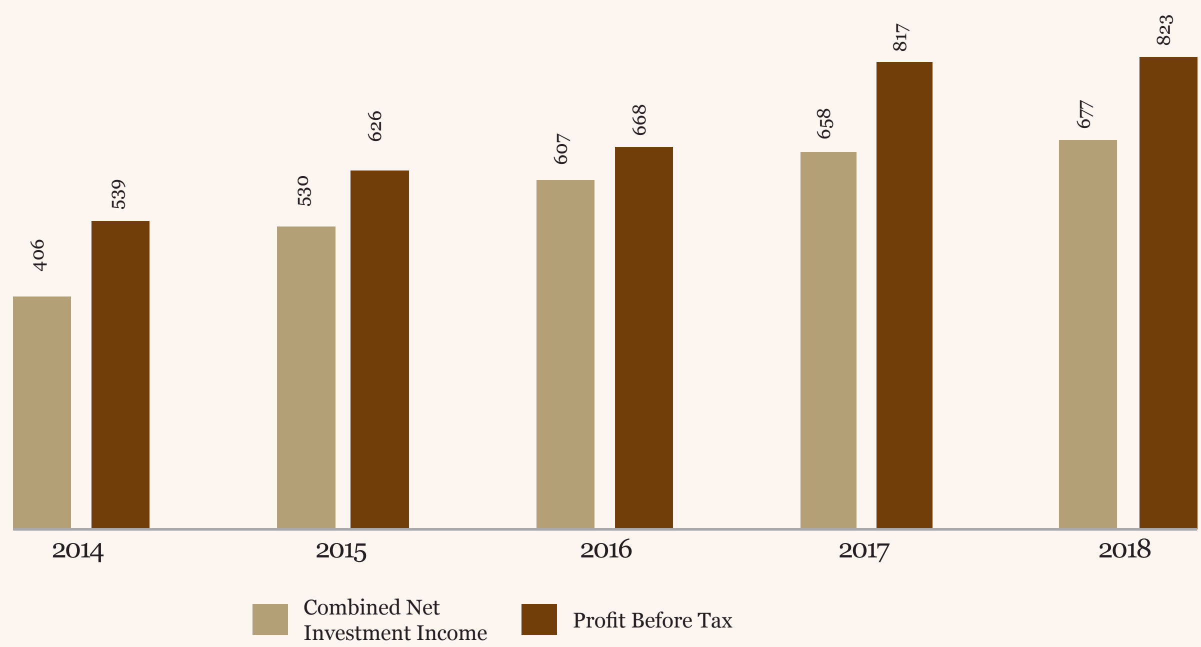
Gross and Net Premiums in Shs (Millions)



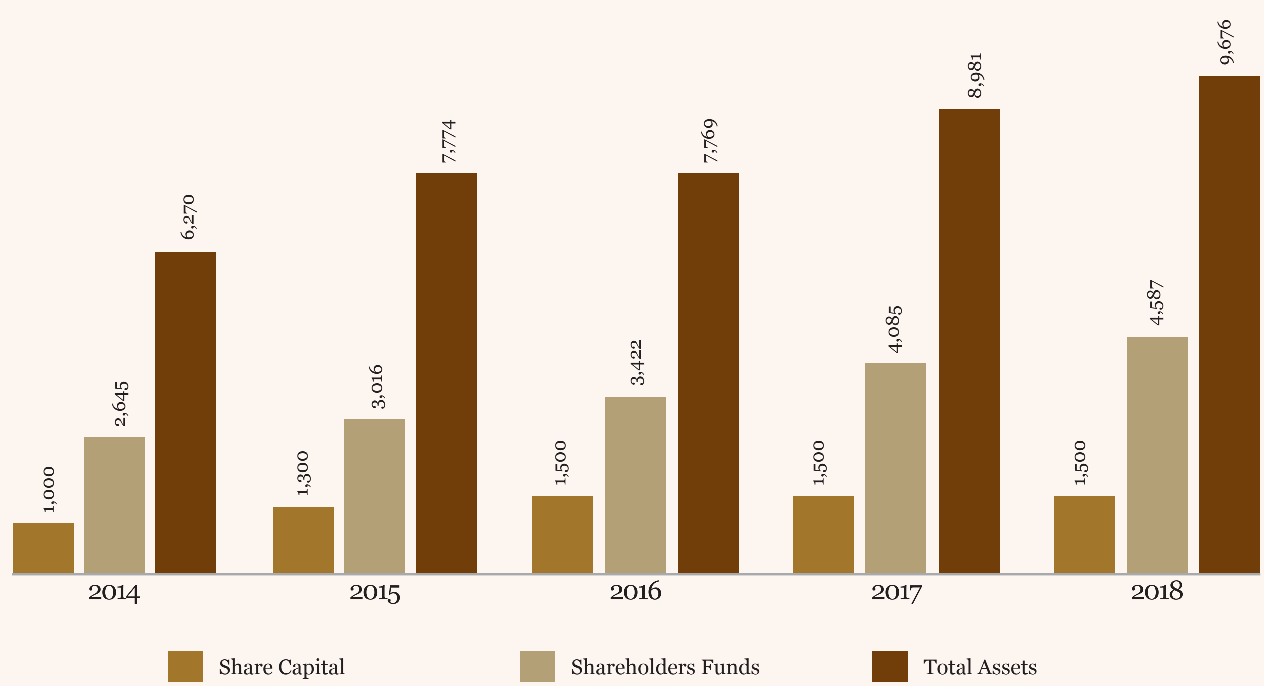
Technical Profit and Underwriting Profit in Shs (Millions)



Combined Net Investment Income and Profit Before Tax in Shs (Millions)



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



NOTICE OF THE TWENTY - SIXTH ANNUAL GENERAL MEETING

Notice is hereby given that the Twenty-Sixth Annual General Meeting of East Africa Reinsurance Company Limited will be held on Thursday, 23 May 2019, in the Company's Training Room, EARe House, 98 Riverside Drive, Nairobi, at twelve noon to transact the following business:

Agenda

1. To read the Notice convening the meeting.

2. Confirmation of Quorum.

3. To confirm the minutes of the Annual General Meeting held on 17 May 2018.

4. To receive, consider and, if appropriate, adopt the financial statements for the year ended 31 December 2018 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 31 December 2018.

6. To re-elect Directors:

    (a) Ms. L. W. Muriuki retires by rotation in accordance with Article 80(A) of the Company's Articles of Association and, being eligible, offers herself for re-election.

    (b) Mrs. S. N. Adamali retires by rotation in accordance with Article 80(A) of the Company's Articles of Association and, being eligible, offers herself for re-election.

7. To 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 February 2019

NOTE:

1) Every shareholder of the Company is a corporate member and is thus entitled to appoint a proxy to attend and vote for it on its behalf.

2) To be valid, proxy forms must be deposited at the Company's registered office not less than 24 hours before the appointed time of the meeting.

ON BEHALF OF THE BOARD OF DIRECTORS, IT GIVES ME GREAT PLEASURE TO PRESENT TO YOU OUR ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018.

During the year the Company recorded a growth in profitability realized from both the Underwriting Business and Investments, in the face of competition, regulatory reforms in some markets and a low interest rate environment.

Global Overview

Global economic growth in 2018 was projected at 3.9% by the International Monetary Fund (IMF). The forecast reflects the expectation that favourable financial conditions and positive market sentiments will help maintain an acceleration in demand with a noticeable impact on growth in economies with large exports.

According to the Nairobi Securities Exchange and the IMF the aggregate growth forecast for the emerging markets and developing economies especially on the African continent will remain unchanged at 3.5% in 2019 due to political uncertainties in some of the African countries. Other factors include external conditions such as high interest rates, dollar appreciation, capital outflows and volatile oil prices.

Overview of the Kenyan Economy

According to the IMF Kenya's economy is expected to have expanded in 2018 and achieve a Gross Domestic Product (GDP) growth rate of 5.5% up from 4.9% in 2017.

The Kenya Shilling remained stable against the US dollar during the year to close at Kshs 102.29 as compared to Kshs 103.23 as at close of 2017.

The Equities market performed poorly, with the NSE 20 share index declining from 3712 points at the start of the year to 2801 points at the end of the year mainly as a result of foreign investors exiting blue chip counters and the introduction of a Robin Hood Tax on bank transfers.

The average overall inflation rate decreased from 8.01% in 2017 to 4.70% as at 31st December 2018. Inflation was relatively stable for most of the year, however, from the month of October 2018 it was on an upward trend touching a high of 5.71% in December 2018. According to the Kenya National Bureau of Statistics the increase from October to December was mainly as a result of increases in prices for food items, transport as well as miscellaneous goods and services.

2018 OVERALL PERFORMANCE

PROFIT BEFORE TAX
KSHS 823
million

Interest rates for the 91-day, 182-day and 364-day Treasury bills decreased during the year from 8.1%, 10.6% and 11.2% respectively in January 2018 to 7.3%, 9.0% and 10.0% respectively in December 2018. Over the same period the Central Bank Rate (CBR) decreased from 10% to 9%.

Overview of the Kenyan Insurance Industry

The Industry is expected to have recorded growth in gross premiums at the end of the year as compared to the previous year. However, Insurance penetration in the country remains low at 3% due to a reluctance in uptake of insurance products by the income sensitive population pressed by the hard economic times. The capping of interest rates also continues to slow down lending by commercial banks thereby affecting investments in insurable projects and assets.

On the financial side the Industry is expected to record underwriting losses going by the quarterly trends achieved up to the third quarter of 2018. This is as a result of high claims and acquisition costs. Profitability is further expected to be reduced due to the implementation of a new financial standard, IFRS 9, which requires a different and more stringent approach to the provisioning of financial assets.

The Reinsurance Industry continues to be very competitive. The mandatory cessions remain in place currently at 20% for Kenya Re, 10% for PTA Re and 5% for Africa Re. This leaves only a 65% balance of treaties available for competition. It is worth noting that despite this challenge the Company was able to acquire considerable shares in the treaty programs of various clients and to grow its shares on existing treaties. The local market constitutes about 50% of the Company's gross premium book.

The Industry continues to face challenges mainly relating to premium undercutting especially at the primary underwriters level which has had a negative impact on the volume of business ceded to Reinsurers.

EARe's Performance

In the year ended 31st December 2018, the Company recorded a 5% decline in Gross Premium to stand at Kshs 4.01 billion down from Kshs 4.20 billion in 2017.

The profit before tax stood at Kshs 823 million (2017: Kshs 817 million) while the profit after tax was Kshs 616 million (2017: Kshs 602 million).

The decline in the Company's Gross Premium Income is attributable to a reduction in the Non-Life business. This was due to the primary markets not growing as earlier anticipated, deliberate scaling down in some markets and the fluctuation in value of respective markets' local currencies. On the other hand, the Life business recorded a growth of 20% both from the acquisition of new business and growth in existing accounts.

Net claims incurred in 2018 declined by 2% to stand at Kshs 1.99 billion down from Kshs 2.04 billion in 2017 as a result of improved claims experience and also in line with the reduced business volume.

The net acquisition cost ratio in 2018 reduced marginally to 27.4% as compared to 28.4% in 2017 while the management expenses ratio at 5.2% compared adversely with 4.4% in 2017. The combined ratio for 2018 at 93.5% compared favourably with 94.5% recorded in the previous year.

2018's combined underwriting profit improved by 14% to Kshs 228.60 million up from Kshs 200.80 million recorded in 2017.

Investment Income in 2018 recorded a growth of 3% to stand at Kshs 728.35 million from Kshs 704.41 million in 2017. This was achieved despite a back drop of prevailing low interest rates. Investment funds at the close of the year stood at Kshs 6.58 billion (2017: Kshs 6.22 billion).

The Company's total assets grew to Kshs 9.68 billion as at 31st December 2018 from Kshs 8.98 billion as at 31st December 2017. The Shareholders' Funds similarly grew to Kshs 4.59 billion from Kshs 4.09 billion over the same period.

We remain confident about the Company's future prospects across all business lines.

Dividend

Based on the Company's performance the Board recommends the payment of a total dividend of Kshs 100 million (2017: Kshs 100 million) equivalent to 16.26% (2017: 16.62%) of profit after tax to the Shareholders who were on the Register of Members as at 31st December 2018 subject to Shareholder approval at the forthcoming Annual General Meeting.

Risk Based Capital

The Company achieved a Capital Adequacy Ratio (CAR) of 239% and 206% for the Short-term and Long-term businesses respectively, well above the prescribed capital requirement of 200%.

Security Rating

During the year, A.M. Best affirmed the Company's Financial Strength Rating of B (Fair) and 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+.

Accolades

The Company was awarded the Second Runners Up for the 2018 Champions of Governance (COG) award under the Insurance Sector. 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).

Corporate Social Responsibility

The Company's Corporate Social Responsibility (CSR) is guided by four pillars i.e. Education, Social and child welfare, Health and Environment. In line with these Pillars, the Company continued to support the communities that we serve.

During the year, additional students were admitted to our Education Sponsorship Program. The Company supports all its students through mentorship aimed at supporting them during their academic studies and preparing for life beyond school. Further, the Company has setup a CSR Student Holiday Program to give on-the job experience. This ensures that the students gain academic and practical learning.

A comprehensive update on the Corporate Social Activities undertaken during the year 2018 is contained in this Annual Report.

The Board of Directors

The Board of Directors remain committed to the service of the Shareholders and all the other stakeholders of the Company.

I take this opportunity to congratulate Mr. John Kimeu upon his appointment to the Board as a Non-Executive Director. He also serves as a member of the Finance, Investment & IT (FII) and Audit, Risk & Compliance (ARC) Committees of the Board.

I thank Mr Subhash Deshkulkarni who resigned as an Alternate Director during the year. We are grateful for his contributions to the Company during his tenure. I also welcome Mr Valiveti Ratna Kumar as the new Alternate Director to Dr. M. P. Chandaria who has taken up the role previously held by Mr. Deshkulkarni on the various Board Committees.

Strategy 2019 - 2023

The Company grew impressively both in terms of revenue and profitability in the last strategic plan period. The new strategy that runs through to 2023 is designed to maintain that momentum with 2019 being the first year of the plan period. The new plan seeks to identify, create and pursue available opportunities for the growth of the business in an environment characterized by new and increased regulatory requirements by governments as well as increased competition from other industry players in the markets in which the Company operates.

It will be the relentless focus on meeting clients' needs that will help the Company achieve its goals for long term success and the benefit of all Stakeholders.

Closing Note

In expressing my appreciation I would like to first thank our Shareholders for their continued support and confidence over the years.

I would also like to appreciate our Clients, being Cedants and Intermediaries, for their confidence and support to the Company. The steady growth in profitability would not have been possible without their support. I assure them that we shall strive to continue meeting and exceeding their expectations of efficient service and quality security.

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.

Finally, I would like to thank EARe Staff for their great effort, dedication and commitment to delivering outstanding service to our Clients. The Company's success since its foundation has been on account of the strong support of all its stakeholders. This support is never taken for granted and I look forward to continue working with you all so as to achieve continued growth and improved results in the years to follow.

Thank you,

J. P. M. Ndegwa
Chairman
20 February 2019

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of East Africa Reinsurance Company Limited.

Incorporation

The Company is domiciled in Kenya where it is incorporated under the Kenyan Companies Act as a private company. The address of its registered office is set out as part of the Company Information.

Directors

The directors who held office during the year and to the date of this report are set out on page 2 and 3.

Principal activities

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.

Results

The net profit for the year of Shs 615,547,000 (2017: Shs 601,567,000) has been added to retained earnings.

	2018 Shs '000'	2017 Shs '000'
Profit before income tax	822,779	817,398
Income tax expense	(207,232)	(215,831)
Profit for the year	**615,547**	**601,567**

Dividend

The directors recommend the payment of a first and final dividend of Shs 100,000,000 (2017: Shs 100,000,000) representing a dividend of Shs 66.67 (2017: Shs 66.67) per share and a dividend payout ratio of 16.26% (2017: 16.62%).

Business review

The Company reported a profit before tax of Shs 822,779,000 (2017: Shs 817,398,000). The improved performance was largely attributed to improved underwriting results for life business. The Company's financial highlights including ratios are summarized on page 4.

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.

Disclosure to the Auditor

The directors confirm 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.

Auditor's terms of appointment

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
20 February 2019

STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors and Management of East Africa Reinsurance Company Limited continue to remain committed to high standards of Corporate Governance by recognizing that good corporate governance is essential for the long term performance and sustainability of the Company's business performance. This 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. The Board is guided by a board charter which documents the constitution and responsibilities of the Board and the committees.

BOARD OF DIRECTORS

The Board of Directors is responsible for providing strategic direction to the Company by ensuring that business objectives are aimed at promoting and protecting Shareholder value. This is achieved by setting appropriate business strategies and plans and monitoring the performance against the set strategies and plan. The board has in place 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 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.

In carrying out the above responsibilities, the Board delegates its authority to the Chief Executive Officer to oversee the day to day business operations of the Company.

Board Composition and Appointment

As at 31st December 2018, the Board comprised of eight directors of whom seven were non-executive directors and one executive director, the Chief Executive Officer. 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 and Auditing. This unique experiences provides 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 are in compliance with the Guidelines of Suitability of 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. Appointments to the Board are done by the Board of Directors after receiving recommendations from the Ethics, Nominations and Remuneration Committee.

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 dates of the board meetings to be held each year is prepared in advance and provided to all directors. The Board meetings are held once after every four months however, special meetings may be convened on a need basis. The board meets to deliberate and agree on the Company's objectives and strategies, review and monitor the performance of the Company against agreed targets, approve the annual financial statements and ensure that controls are in place to ensure compliance and operational matters are adhered to.

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

Each year the Board ensures that an evaluation of its performance, the committee and directors is carried out. The purpose of the evaluation process is to help improve the Board performance while ensuring that any amendments issued by the regulator, Insurance Regulatory Authority are incorporated.

In the year under review the Board evaluation was carried out by an independent consultant, and the results communicated to the Board.

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 2018.

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 Regulatory 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.

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 audit recommendations, on behalf of the Board.

b) 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 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 Risk and Compliance Department headed by the Function Manager as required by the Insurance Regulatory Authority who directly reports to the ARC Committee. The Risk and Compliance Department is responsible for monitoring the Company's day-to-day risk management activities, monitoring the effectiveness of internal controls, and evaluating and ensuring compliance and adherence to legislative and regulatory requirements applicable to the Company.

The Board of Directors is responsible for establishing an effective Enterprise Risk Management Framework for systematically identifying, assessing, managing, monitoring and reporting all material risks inherent in the business as it pursues its strategic objectives.

The Risk Management Policy establishes the Risk Management Framework to support the achievement of the Company's goals and strategic objectives. The Risk Management Framework defines the governance structure, roles and responsibilities of risk management within the Company and establishes the risk management strategy. The Framework includes risk management tools such as the risk appetite & tolerance framework, the Company's risk profile, the risks registers and the risk reporting mechanism and is aligned with the requirements of the Insurance Regulatory Authority. The Framework is regularly also reviewed by the Board of Directors, Rating Agencies, Internal & External Auditors, Appointed Actuaries and the Regulator. The Board and Management reviews the risk appetite on a quarterly basis through the ARC Committee and any changes are proposed are presented to the Board for approval.

During the year, the Company engaged a risk consultant to carry out a maturity assessment of the Company's Enterprise Risk Management Framework and to gauge the extent to which the risk management process has been embedded in the Company's processes. The outcome of this assessment will inform the specific initiatives to be undertaken to address the risk management gaps identified.

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 ARC Committee.

EMPLOYEE GROWTH AND DEVELOPMENT

EARe respects employee individuality within the practices of our corporate culture. The performance based culture is guided by the Balanced 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 creates a sense of oneness with the team members making the working environment favourable.

CONFLICT OF INTEREST

The directors of the Company have an obligation 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 2018.

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. Effective compliance with relevant laws and regulations has also be made possible by use of a the Governance Risk & Compliance (GRC) system. The Audit, Risk & Compliance Committee is responsible for monitoring compliance and ensuring that significant breaches are adequately resolved. To the knowledge of the Board, no director or employee of the Company acted or committed any indictable offence in conducting the affairs of the Company nor been involved or been used as a conduit for money laundering or any other activity in contravention with the relevant laws.

DIRECTORS' ATTENDANCE OF MEETINGS

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

a) Board Meetings

Name	Position	22 February 2018	30 April 2018	17 May 2018	25 June 2018	23 August 2018	29 November 2018
J. P. M. Ndegwa	Chairman	√	√	√	√	√	√
Dr. M. P. Chandaria OBE EBS	Vice- Chairman	√	√	√	√	√	√
P. K. Maina	CEO	√	√	√	√	√	√
D. G. M. Hutchison	Member	√	√	√	X	√	√
L. W. Muriuki	Member	√	X	√	√	√	√
S. O. Oluoch	Member	√	√	√	√	√	√
A. V. Vaiydan	Member	√	√	√	X	√	√
S. N. Adamali	Member	√	√	√	√	√	√
IN ATTENDANCE							
K. Ontiti	Company Secretary	√	√	√	√	√	√
R. W. Gitonga	CFO	√	X	√	X	√	√

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

Name	Position	15 February 2018	27 April 2018	2 August 2018	27 November 2018
P. K. Mugambi	Chairman	√	√	√	√
P. K. Maina	CEO	√	√	√	√
J. K. Kimeu	Member	√	√	√	√
S.V. Deshkulkarni	Member	√	X	X	X
IN ATTENDANCE					
K. Ontiti	Company Secretary	√	√	√	√
R. W. Gitonga	CFO	√	√	√	√

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

Name	Position	15 February 2018	27 April 2018	2 August 2018	27 November 2018
D. G. M Hutchison	Chairman	√	√	√	√
J. K. Kimeu	Member	√	√	√	√
P. K. Mugambi	Member	√	√	√	√
S.V. Deshkulkarni	Member	√	X	X	X
IN ATTENDANCE					
K. Ontiti	Company Secretary	√	√	√	√
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 2018	03 December 2018
J. P. M. Ndegwa	Chairman	√	√
P. K. Maina	CEO	√	√
P. K. Mugambi	Member	√	√
L. W. Muriuki	Member	√	√
S. V. Deshkulkarni	Member	X	X
IN ATTENDANCE			
K. Ontiti	Company Secretary	√	√
R. W. Gitonga	CFO	√	√
V. K. Maithya	HR and Administration Manager	√	√

√ Attended (or represented by Alternate in the case of Board meetings).
X Absent with apology and valid reason for non-attendance.
\- Retired

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:

	2018 Holding		2017 Holding	
	Number of Shares	%	Number of Shares	%
ICEA LION Life Assurance Company Limited	463,627	30.91	375,000	25.00
First Chartered Securities Limited	397,829	26.52	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
Metropolitan Cannon General Insurance Limited	-	-	65,797	4.39
Sanlam General Insurance Limited	-	-	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

20 February 2019

D. G. M. Hutchison
Director

20 February 2019

P. K. Maina
Principal Officer

20 February 2019

SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES STATEMENT

East Africa Reinsurance through its Corporate Social Responsibility (CSR) program, supports the community guided by the CSR Charter in place. The Charter focuses on four main areas, Education, Social & Child Welfare, Health and Environment.

EDUCATION

Supporting bright and needy children pursue academic education to their highest level continues to be one of our core focus area. The program is now five years old with more sponsorships each year. In an effort to nurture an all rounded growth in the students we sponsor, the Company organizes mentorship sessions each year. In April 2018, form four candidates across the country had the opportunity to attend an extensive mentorship session. Former students who are alumni to the education sponsorship program were equally in attendance. The Company understands the importance of supporting the alumni students, and towards this a CSR Student Holiday Program was set up. The aim of the program is to give the alumni students who are currently undertaking undergraduate programs across various universities, a practical exposure of a corporate environment.

The mentorship session provided a platform for discussing the welfare of the students and encouraging them to keep on giving their best for a successful future. In 2018, the Company had a high number of candidates who sat their final Kenya Certificate of Secondary Examinations. They achieved good scores, majority of them are eligible for university admission. The Company supports them through guidance in degree selection through the Kenya Universities and Colleges Central Placement Service (KUCCPS) during the application process.

Staff pose for a photo with the form four candidates during April Mentorship session

Staff handing over School fees cheque to SCANN founder Mr. Shamsher Gilani

HEALTH

In 2018, the Company supported Faraja Cancer Support Trust by participating in the Water Rafting Challenge at Savage Wilderness Camp in Sagana, this annual event is a fun way for team building, networking as well as raising funds for children and adults with cancer in Kenya. The Company invited its clients to participate with the staff in the rafting challenge drawn from various Insurance companies such as CIC Life, First Reinsurance Brokers, ICEA Lion Life, Jubilee Insurance - Kenya, Liberty Insurance, Pacis Insurance, Tausi Assurance, UAP Old Mutual and Kenya Orient Life Assurance. This saw an increase in donation towards Faraja Cancer Support Trust.

EARe "Wakanda team" rafting in support of Cancer

EARe winning team receiving a trophy courtesy of Faraja cancer support Trust

SOCIAL AND CHILD WELFARE

Through this focus area, the Company supports children and the community through donations. Some of the institutions that benefited in 2018 include;

a) Ghetto Classics

In its Annual General Meeting luncheon, the Company invited Ghetto Classics to perform during the luncheon. While the Company made a donation to the children, this opportunity provided a platform for the group to exhibit their talents to an executive group of delegates.

EARe CEO handing over a cheque to Ms. Elizabeth Njoroge of Ghetto Classics

Ghetto Classics performing during the AGM Luncheon

b) Wamo Non-formal Educational Center/ Children's Home

The Company continues to support Wamo Non-formal Educational Center/ Children's Home in different capacities. In 2018, the Company donated towards the construction of a girls' dormitory. The dormitory was officially opened on 4th December 2018 where the Company donated Christmas goodies and food items to the home which went a long way in bringing Christmas cheer and joy to the children.

EARe CEO handing over cheque towards construction of a dormitory

Christmas donations by EARe Staff

e) Friends of the Homeless Organization

The Company also donated towards Christmas shopping to the Friends of the Homeless organization. They support the vulnerable children living in the streets of Nairobi by rehabilitating and re-integrating them.

EARe Staff handing over a Cheque to the Friends of the Homeless

c) Tunyai Children's Home

A donation towards food and basic needs was given to Tunyai Children's Center located in Tharaka South Sub County in Meru. The center provides care, support and protection to orphans and vulnerable children.

d) Tamani Kenya

A donation towards food and clothing was given to Tamani-Kenya Organization. The center shelters Orphaned and vulnerable children from ages 20 years to 2 months old and handles rescue cases.

EARe CEO hands over a cheque to the Founder of Tunyai Children's Centre, Rev. Julius Mungania

EARe CFO, handing over a cheque to Tamani Kenya

ENVIRONMENT

The Company under its Environment pillar, donated environment friendly garbage bins to Wamo Non-formal Educational Center/ Children's Home and planted drought resistant trees within the institution.

EARe Staff planting a tree

EARe Staff donating Enviroment friendly bins

STATEMENTS 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 their 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 accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

i) Designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
ii) Selecting suitable accounting policies and applying them consistently; and
iii) Making accounting estimates and judgements that are reasonable in the circumstances.

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of the going concern basis of preparation of the financial statements. 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.

The directors acknowledge that the independent audit of the financial statements does not relieve them off their responsibility.

Approved by the Board of directors on 20 February 2019 and signed on its behalf by:

J. P. M. Ndegwa **Chairman**	**D. G. M. Hutchison** **Director**	**P. K. Maina** **Principal Officer**
20 February 2019	20 February 2019	20 February 2019

REPORT OF CONSULTING ACTUARY

I have conducted an actuarial valuation of the long-term business of East Africa Reinsurance Company Limited as at 31 December 2018.

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 2018.

J. I. Olubayi
Zamara Actuaries Limited
Nairobi

20 February 2019

REPORT OF CONSULTING ACTUARY

I have conducted an insurance liability valuation of the short-term business of East Africa Reinsurance Company Limited as at 31 December 2018.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Insurance Act. These principles require that 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 financial statements of the Company.

In my opinion, the non-life insurance business of the Company was financially sound and insurance liabilities reserves of the Company were adequate as at 31 December 2018.

J. I. Olubayi
Zamara Actuaries Limited
Nairobi

20 February 2019

Opinion

We have audited the accompanying financial statements of East Africa Reinsurance Company Limited (the "Company"), set out on pages 29 to 78, which comprise the statement of financial position at 31 December 2018 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 accompanying financial statements give a true and fair view of the financial position of East Africa Reinsurance Company Limited as at 31 December 2018, 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.

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 29 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 29, 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 29 of the financial statements constitute 37% 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>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.</td><td>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.</td></tr>
</table>

Other information

The other information comprises the Corporate Information and advisers, Financial Highlights and Ratios, Report of the Directors, Corporate Governance Statement, Social and Environmental Responsibilities Statement, Statement of Directors' Responsibilities, Report of the consulting Actuary and Supplementary Information which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements that give a true and fair view 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 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.
- 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' on page 12 is consistent with the financial statements.

Certified Public Accountants
Nairobi

27 March 2019

CPA Kang'e Saiti, Practising certificate No. 1652.
Signing partner responsible for the independent audit

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	Short-term Business Shs'000'	Long-term Business Shs'000'	Total 2018 Shs'000'	Short-term Business Shs'000'	Long-term business Shs'000'	Total 2017 Shs'000'
Gross written premiums	7	2,884,737	1,121,268	4,006,005	3,268,661	933,847	4,202,508
Retrocession premiums		(134,418)	(195,027)	(329,445)	(135,988)	(158,878)	(294,866)
Net written premiums		**2,750,319**	**926,241**	**3,676,560**	**3,132,673**	**774,969**	**3,907,642**
Movement in unearned premiums reserve	8	95,793	(228,257)	(132,464)	(228,505)	(33,497)	(262,002)
Net earned premiums		**2,846,112**	**697,984**	**3,544,096**	**2,904,168**	**741,472**	**3,645,640**
Investment income	9	505,062	171,485	676,547	485,561	173,083	658,644
Other income		701	-	701	70	-	70
Risk premium rebates earned		10,967	41,578	52,545	9,624	27,736	37,360
Total income		**3,362,842**	**911,047**	**4,273,889**	**3,399,423**	**942,291**	**4,341,714**
Gross claims incurred	10	1,727,158	371,100	2,098,258	1,678,032	451,317	2,129,349
Amounts recoverable from Retrocessionnaires		(26,393)	(77,890)	(104,283)	(11,239)	(73,784)	(85,023)
Net claims incurred		**1,700,765**	**293,210**	**1,993,975**	**1,666,793**	**377,533**	**2,044,326**
Operating and other expenses	11	363,333	71,734	435,067	331,344	76,401	407,745
Risk premium rebates incurred		750,067	272,001	1,022,068	835,101	237,144	1,072,245
Total expenses		**2,814,165**	**636,945**	**3,451,110**	**2,833,238**	**691,078**	**3,524,316**
Profit before income tax		**548,677**	**274,102**	**822,779**	**566,185**	**251,213**	**817,398**
Income tax expense	13	(129,389)	(77,843)	(207,232)	(137,261)	(78,570)	(215,831)
Profit for the year		**419,288**	**196,259**	**615,547**	**428,924**	**172,643**	**601,567**
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		**419,288**	**196,259**	**615,547**	**550,372**	**172,643**	**723,015**
Earnings per share (basic and diluted)	14			**410.36**			**401.04**

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

CAPITAL EMPLOYED	Notes	Short-term Business Shs '000'	Long-term Business Shs '000'	Total 2018 Shs '000'
Share capital	15	1,000,000	500,000	1,500,000
Fair value reserve	16(a)	5,011	-	5,011
Revaluation reserve	16(b)	299,956	-	299,956
General reserve	16(c)	-	530,346	530,346
Retained earnings	16(d)	2,251,662	-	2,251,662
Shareholders' funds		**3,556,629**	**1,030,346**	**4,586,975**
REPRESENTED BY:				
Assets				
Property and equipment	17	520,723	-	520,723
Investment properties	19	825,000	-	825,000
Equity investments at fair value through profit or loss	20	29,860	14,049	43,909
Mortgage loans- staff	21	59,885	-	59,885
Corporate bonds	22	521,353	85,897	607,250
Government securities	23	2,257,377	1,183,778	3,441,155
Receivables arising out of retrocession arrangements		59,276	2,806	62,082
Receivables arising out of reinsurance arrangements		947,798	344,154	1,291,952
Retrocessionaires' share of reinsurance liabilities	24(a)	412,163	70,255	482,418
Deferred risk premium rebates	24(b)	320,937	124,158	445,095
Corporate tax recoverable	13(c)	3,421	-	3,421
Other receivables	25	231,562	19,928	251,490
Deposits with financial institutions	26	1,178,029	250,836	1,428,865
Cash and bank balances	27	181,943	30,744	212,687
Total assets		**7,549,327**	**2,126,605**	**9,675,932**
Liabilities				
Deferred acquisition cost arising from retrocession arrangements		-	14,085	14,085
Reinsurance/reassurance contract liabilities	29	1,777,222	95,053	1,872,275
Deferred income tax	30	119,483	228,908	348,391
Provision for unearned premiums	31	1,096,998	555,156	1,652,154
Payables arising from retrocession arrangements		57,065	14,667	71,732
Payables arising from reinsurance arrangements		570,216	24,025	594,241
Other payables	32	371,714	140,026	511,740
Current income tax	13(c)	-	24,339	24,339
Total liabilities		**3,992,698**	**1,096,259**	**5,088,957**
Net assets		**3,556,629**	**1,030,346**	**4,586,975**

The financial statements on pages 29 to 78 were approved and authorized for issue by the board of directors on 20 February 2019 and were signed on its behalf by:

J. P. M. Ndegwa
Chairman

D. G. M. Hutchison
Director

P. K. Maina
Principal Officer

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

CAPITAL EMPLOYED	Notes	Short-term Business Shs '000'	Long-term Business Shs '000'	Total 2017 Shs '000'
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 29 to 78 were approved and authorized for issue by the board of directors on

20 February 2019 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 2017							
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)	-	-
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**
Year ended 31 December 2018							
As at 1 January 2018 as previously reported	1,500,000	6,624	312,344	515,349	1,750,744	-	4,085,061
Changes on initial application of IFRS9				(3,772)	(9,861)		(13,633)
Restated balance as at 1 January 2018	**1,500,000**	**6,624**	**312,344**	**511,577**	**1,740,883**	**-**	**4,071,428**
Profit for the year	-	-	-	196,259	419,288	-	615,547
Actuarial surplus transfer	-	-	-	(177,490)	177,490	-	-
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**18,769**	**596,778**	**-**	**615,547**
Fair value reserve	-	(1,613)	-	-	1,613	-	-
Transfer of excess depreciation	-	-	(17,697)	-	17,697	-	-
Deferred tax on excess depreciation	-	-	5,309	-	(5,309)	-	-
Transactions with owners							
Dividend paid 2017	-	-	-	-	(100,000)	-	(100,000)
Balance as at 31 December 2018	**1,500,000**	**5,011**	**299,956**	**530,346**	**2,251,662**	**-**	**4,586,975**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 Shs '000'	2017 Shs '000'
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated /(used in) from operations	34	(81,488)	160,699
Income tax paid	13(c)	(152,738)	(257,411)
Net cash generated from operating activities		**(234,226)**	**(96,712)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received		692,170	658,096
Purchase of Government securities (net)		(331,989)	(642,215)
Purchase of corporate bonds (net)		10,044	(210,122)
Investment in deposits with financial institutions maturing over 3 months		(39,302)	(134,401)
Purchase of investment property	19	(6,928)	(2,653)
Purchase of property and equipment	17	(2,477)	(4,288)
Purchase of quoted shares	20	(29,740)	-
Mortgage loans advanced	21	(24,300)	-
Mortgage loans repaid	21	4,055	4,289
Proceeds of disposal of motor vehicles and equipment		700	70
Proceeds of disposal of quoted shares		131,465	3,525
Net cash generated from investing activities		**403,698**	**(327,699)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(100,000)**	**(60,000)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		69,472	(484,411)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**504,029**	**988,440**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	27	**573,501**	**504,029**

1 GENERAL INFORMATION

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

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 Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018.

IFRS 9 - Financial Instruments

The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Company did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company.

2 ACCOUNTING POLICIES (Continued)

b) Changes in accounting policy and disclosures (continued)

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

(a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and the new measurement categories under IFRS 9 are compared as follows:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 Shs'000	New carrying amount under IFRS 9 Shs'000
Financial assets				
Equity investments – quoted	Fair value through profit or loss	Fair value through profit or loss	131,972	131,972
Loans receivable (Staff Mortgages)	Loans and receivables	Amortised cost	39,640	39,640
Receivables arising out of reinsurance arrangements	Loans and receivables	Amortised cost	894,335	894,335
Other receivables	Loans and receivables	Amortised cost	309,274	309,274
Government securities	Held to maturity	Amortised cost	3,244,181	3,240,937
Corporate bonds and commercial paper	Held to maturity	Amortised cost	621,214	617,231
Deposits with financial institutions	Loans and receivables	Amortised cost	1,328,228	1,322,360
Cash and bank balances	Loans and receivables	Amortised cost	83,151	82,613
Total financial assets			**6,651,995**	**6,638,362**

2 ACCOUNTING POLICIES (Continued)

b) Changes in accounting policy and disclosures (continued)

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

(b) Reconciliation of statement of financial position balances from the earlier version of IFRS 9 to the final version of IFRS 9:

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amount of financial assets, from their previous measurement categories in accordance with IAS 39 as at 31 December 2017 to the new measurement categories under IFRS 9 on 1 January 2018:

	IAS 39 carrying amount 31 December 2017 Shs'000	Reclassifi cations Shs'000	Remeasure ments Shs'000	IFRS 9 carrying amount 1 January 2018 Shs'000
Financial assets at amortised cost				
Cash and balances	83,151	-	(538)	82,613
Deposits with financial institutions	1,328,228	-	(5,868)	1,322,360
Government securities	3,244,181	-	(3,244)	3,240,937
Receivables arising out of reinsurance arrangements	894,335	-	-	894,335
Corporate bonds and commercial papers	621,214	-	(3,983)	617,231
Loans receivable (Staff Mortgages)	39,640	-	-	39,640
Other receivables	309,274	-	-	309,274
Total financial assets measured at amortised cost	**6,520,023**	**-**	**(13,633)**	**6,506,390**
Financial assets at fair value through profit or loss (FVTPL):				
Equity investments	131,972	-	-	131,972
Total financial assets at FVTPL	**6,651,995**	**-**	**(13,633)**	**6,638,362**

Designation of equity investments at fair value through other comprehensive income (FVTOCI):
The Company has elected not to irrevocably designate certain investments in a small portfolio of non-trading equity investments at FVTOCI as permitted under IFRS 9.

2 ACCOUNTING POLICIES (Continued)

b) Changes in accounting policy and disclosures (continued)

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

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Financial asset	Impairment under IAS 39 Shs'000	Reclassifi cations Shs'000	Remeasure ments Shs'000	Expected Credit Loss under IFRS 9 Shs'000
Cash and bank balances	-	-	538	(538)
Deposits with financial institutions	-	-	5,868	(5,868)
Receivables arising from reinsurance arrangements	185,378	-	185,378	-
Loans receivable (staff mortgages)	-	-	-	-
Other rceivables	-	-	-	-
Government securities at amortised cost	-	-	3,244	(3,244)
Corporate bonds and commercial paper	-	-	3,983	(3,983)
Total	**185,378**	**-**	**199,011**	**(13,633)**

The impact on the Company's retained earnings as at 1 January 2018 was Shs 13,633, 000.

(ii) New standards and interpretations not yet adopted by the Company

(a) IFRS 17 Insurance Contracts – Effective 1 January 2021

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows an explicit risk adjustment, and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. 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. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

2 ACCOUNTING POLICIES (Continued)

b) Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations not yet adopted by the Company (continued)

(b) Interpretation 23 Uncertainty over Income Tax Treatments - 1 January 2019

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:
how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

(c) Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation and modification of financial liabilities. - 1 January 2019

The narrow-scope amendment covers two issues:

The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is metinstead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities.

How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

(d) Annual Improvements to IFRS Standards 2015-2017 Cycle - 1 January 2019

The following improvements were finalised in December 2017:

IAS 12 - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

The Directors do not plan to apply the above standards, until they become effective. Based on their assessment of the potential impact of application of the above, only IFRS 17 is expected to have a significant impact on the Company's financial statements.

There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions.

2 ACCOUNTING POLICIES (Continued)

c) Reinsurance contracts

(a) Classification

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

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

i) Short-term reinsurance business

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

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

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

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

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

ii) Long-term reassurance business

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

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

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

2 ACCOUNTING POLICIES (Continued)

c) Reinsurance contracts (continued)

(b) Recognition and measurement

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

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

i) Premium income

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

ii) Claims incurred

Claims incurred comprise actual claims paid as at third quarter and accrued paid fourth quarter estimated pipeline claims (being claims paid by cedants but not reported to the Company at the end of each reporting period) and changes in the provision for reinsurance contract liabilities. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Reinsurance contract liabilities represent the ultimate cost of settling all claims arising from incidents occurring prior to the end of each reporting period, but not settled at that date. They are determined annually by the Company's consulting actuaries on the basis of the best information available at the time the records for the year are closed, and include any provisions for claims incurred but not reported (IBNR).

iii) Risk premium rebates paid and earned

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

iv) Deferred risk premium rebates payable (RPR)

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

v) Liability adequacy test

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

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

2 ACCOUNTING POLICIES (Continued)

c) Reinsurance contracts (continued)

(b) Recognition and measurement (continued)

vi) Retrocession contracts held

Contracts entered into by the Company with retrocessionnaires under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for reinsurance contracts are classified as retrocession contracts held.

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

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

vii) Receivables and payables related to reinsurance contracts

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

d) Revenue recognition

i) Reinsurance premium revenue

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

ii) Commissions

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

iii) Interest income

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

iv) Dividend income

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

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.

2 ACCOUNTING POLICIES (Continued)

e) Property and equipment

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

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

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

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

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

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

f) Intangible assets – Computer software

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

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

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

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.

2 ACCOUNTING POLICIES (Continued)

h) Financial assets

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value through profit or loss, and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

(i) Recognition and derecognition

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. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

(ii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss.

2 ACCOUNTING POLICIES (Continued)

h) Financial assets (continued)

Equity instruments

The Company subsequently measures all equity investments at fair value.
Changes in the fair value of financial assets at FVTPL are recognised in other gains/ (losses) in the statement of profit or loss as applicable.

(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 exchanges (NSE). The quoted market price used for financial assets held by the Company is the current bid price.

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

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

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

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

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

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

(iv) Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Prior to 1 January 2018, the Company would assess at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or 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 have 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. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;

2 ACCOUNTING POLICIES (Continued)

h) Financial assets (continued)

(iv) Impairment (continued)

- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
    - An adverse changes in the payment status of issuers or debtors in the Company; or
    - National or local economic conditions that correlate with defaults on the assets in the Company.

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model applies to the following financial instruments that are not measured at FVTPL or FVTOCI:

- Government securities measured at amortised cost
- Receivables arising from reinsurance arrangements
- Other receivables which comprise mainly of related party receivables arising from reinsurance arrangements.
- Staff loan receivable (mainly staff mortgages)
- Corporate bonds and commercial paper;
- Deposits with financial institutions; and
- Cash and bank balances.

No impairment loss is recognised on equity investments and financial assets measured at FVPL.

The Company recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Company will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- Debt instruments that are determined to have low credit risk at the reporting date. The Company will consider a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in Government securities; and
- Other financial instruments (other than trade receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for receivables arising from reinsurance arrangements and other receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- Assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- Incorporating forward-looking information into the measurement of ECLs.

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive;
- Financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

2 ACCOUNTING POLICIES (Continued)

h) Financial assets (continued)

(iv) Impairment (continued)

Measurement of expected credit losses (continued)

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. The following are examples of such events:

i. Significant financial difficulty of the issuer or the borrower;
ii. A breach of contract - e.g. a default or past-due event;
iii. A lender having granted a concession to the borrower - for economic or contractual reasons relating to the borrower's financial difficulty - that the lender would not otherwise consider;
iv. It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
v. The disappearance of an active market for that financial asset because of financial difficulties; or
vi. The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).
ECL = PD x LGD x EAD

In applying the IFRS 9 impairment requirements, the Company follows the simplified approach method.

The Company will apply the approaches below to each of its assets subject to impairment under IFRS 9:

Financial Asset	Impairment approach
Staff loan Mortages	General Approach
Receivables arising out of reinsurance arrangements	Simplified Approach
Other receivables (Related party balances)	Simplified Approach
Government securities at amortised cost	Simplified Approach
Corporate bonds and commercial paper	Simplified Approach
Deposits with financial institutions	Simplified Approach
Cash and bank balances	Simplified Approach

Definition of default

The Company will consider a financial asset to be in default when:

- The counterparty or borrower is unlikely to pay their credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The counterparty or borrower is more than 90 days past due on any material credit obligation to the Company and 2 years for receivables arising form reinsurance arrangements. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Company; or
- In assessing whether the counterparty or borrower is in default, the Company considers indicators that are:
- Qualitative: e.g. Breach of covenant and other indicators of financial distress;
- Quantitative: e.g. Overdue status and non-payment of another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

2 ACCOUNTING POLICIES (Continued)

h) Financial assets (continued)

(iv) Impairment (continued)

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of the following variables:
- Probability of Default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

To determine lifetime and 12-month PDs, the Company uses the PD tables supplied by S&P based on the default history of obligors with the same credit rating. The Company adopts the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings. The PDs are recalibrated based on current bond yields and CDS prices, and adjusted to reflect forward-looking information. Changes in the rating for a counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by mortgage property, loan-to-value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount.

I. Classification

Until 31 December 2017, the Company classified its financial assets in the following categories:
- Loans and receivables,
- Held-to-maturity investments, and
- Fair value through profit or loss financial assets.

The classification depended on the purpose for which the investments were acquired.

Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

II. Reclassification

The Company could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Company could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading category if the Company had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

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

2 ACCOUNTING POLICIES (Continued)

h) Financial assets (continued)

III. Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

Financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised in profit or loss within other gains/(losses)

IV. Impairment

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

i) 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.

j) 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.

k) Financial Liabilities

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

l) 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.

m) 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.

2 ACCOUNTING POLICIES (Continued)

n) Leases

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

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

The Company as lessor

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

The Company as lessee

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

o) 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.

p) Share capital

Ordinary shares are classified as equity.

q) Current and deferred income tax

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

a) Future benefit payments

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

b) Reinsurance income and expense transactions

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

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

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

Outstanding claims have been projected using chain ladder techniques. Further details of this are presented in note 30.

c) Impairment

A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

(i) Determining the criteria for significant increase in credit risk;
(ii) Choosing appropriate models and assumptions for the measurement of ECL;
(iii) Establishing the number and relative weightings for a forward-looking scenarios for each type of product/market and associated ECL; and
(iv) Establishing groups of similar assets for the purposes of measuring ECL.

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 2018

		TOTAL EXPOSURE			
Class of business		**0 – 20 million Shs'000'**	**20 – 250 million Shs'000'**	**250 – 1000 million Shs'000'**	**Total Shs'000'**
Short-term business					
Fire	Gross	2,263,355	17,242,347	7,214,958	26,720,660
	Net	2,263,355	17,242,347	7,214,958	26,720,660
Miscellaneous	Gross	1,846,295	5,257,685	358,786	7,462,766
	Net	1,846,295	5,257,685	358,786	7,462,766
Motor	Gross	1,183,556	1,701,502	-	2,885,058
	Net	1,183,556	1,701,502	-	2,885,058
Others	Gross	1,825,659	8,206,819	2,255,700	12,288,178
	Net	1,825,659	8,206,819	2,255,700	12,288,178
Long-term business					
Ordinary life	Gross	8,005,529	617,077	-	8,622,606
	Net	5,910,859	455,616	-	6,366,475
Group life	Gross	252,553,236	37,448,017	-	290,001,253
	Net	179,243,245	34,878,310	-	214,121,555
Total	Gross	267,677,630	70,473,447	9,829,444	347,980,521
	Net	**192,272,969**	**67,742,279**	**9,829,444**	**269,844,692**

The Company's earthquake exposure for the Nairobi zone is estimated at Shs 68,733,334,641 (2017: Shs 57,779,430,001).

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 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 Catastrophe (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 2017

TOTAL EXPOSURE

Class of business		0 – 20 million Shs'000'	20 – 250 million Shs'000'	250 – 1000 million Shs'000'	Total Shs'000'
Short-term business					
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
	Gross	265,969,175	72,549,723	8,803,375	347,322,273
Total	**Net**	**237,777,830**	**69,436,906**	**8,803,375**	**316,018,111**

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 2018, 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 14,164,469 (2017: Shs 20,971,190) 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% (2017: 0.51%) 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 2018 investments in equities constituted only 0.67% (2017: 1.47%) of the total assets.

At 31 December 2018, 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 4,390,683 (2017: Shs 12,121,653) higher/lower, and equity would have been Shs 4,390,683 (2017: Shs 12,121,653) 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.

	2018 Sh'000		2017 Sh'000	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
+ 5 percentage point movement	6,225	6,225	7,251	7,251
- 5 percentage point movement	(6,225)	(6,225)	(7,251)	(7,251)

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;

	2018 Shs'000'	2017 Shs'000'
Other receivables (excluding prepayments) Note 25)	249,415	295,298
Receivables arising out of reinsurance arrangements	1,291,952	894,335
Receivables arising out of retrocession arrangements	62,082	32,074
Government securities held to maturity (Note 23)	3,441,155	3,244,181
Loans receivable (mortgage loans) (Note 21)	59,885	39,640
Deposits with financial institutions (Note 26)	1,428,865	1,328,228
Cash & bank balances (Note 27)	212,687	83,151
Corporate bonds (Note 22)	607,250	621,214
	7,353,291	6,538,121

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:

	2018 Shs'000'	2017 Shs'000'
Neither past due nor impaired		
- up to 90 days	992,450	709,595
- 91 to 181 days	64,983	119,238
- 182 to 273 days	51,661	137,058
Past due but not impaired	326,392	167,897
Impaired	217,486	185,378
	1,652,972	1,319,166
Less provision for impairment	(217,486)	(185,378)
Total	**1,435,486**	**1,133,788**

5 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (continued)

Receivables arising out of reinsurance arrangements are made up of:

	2018 Shs'000'	2017 Shs'000'
Receivables arising out of reinsurance arrangements (third parties)	1,291,952	894,335
Other receivables – related parties (Note 25)	94,600	239,453
Total	**1,386,552**	**1,133,788**

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'	Write off Shs'000	Movement Shs'000	2018 Shs'000'	2017 Shs'000'
- Brokers	174,789	(14,122)	40,036	200,703	174,789
- Insurance companies	10,589	-	6,194	16,783	10,589
	185,378	(14,122)	46,230	217,486	185,378

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.

5 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (continued)

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 2018:						
Reinsurance contract liabilities	1,872,275	-	-	-	-	1,872,275
Provision for unearned premiums	1,652,154	-	-	-	-	1,652,154
Payables arising out of retrocession arrangements	71,733	-	-	-	-	71,733
Payables arising out of reinsurance arrangements	594,242	-	-	-	-	594,242
Other payables	404,176	-	-	-	-	404,176
Total financial liabilities (contractual maturity dates)	**4,594,580**	-	-	-	-	**4,594,580**

	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	386,943	-	-	-	-	386,943
Total financial liabilities (contractual maturity dates)	**4,532,750**	-	-	-	-	**4,532,750**

5 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (continued)

Fair value of financial assets and liabilities

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.

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 2018 and 31 December 2017

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2018				
Quoted equities	43,909	-	-	43,909
Total	**43,909**	**-**	**-**	**43,909**
31 December 2017				
Quoted equities	131,972	-	-	131,972
Total	**131,972**	**-**	**-**	**131,972**

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.

5 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (continued)

Fair value hierarchy (continued)

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 2018.

The Company is subject to risk based capital requirement.

The Company's Capital Adequacy Ratio (CAR) stood at 239% and 206% 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.

	2018 GWP Shs'000'	2018 GEP Shs'000'	2018 Retro Shs'000'	2017 GWP Shs'000'	2017 GEP Shs'000'	2017 Retro Shs'000'
Short-term business						
Aviation	1,939	2,485	-	(541)	(206)	-
Engineering	202,428	233,131	256	254,949	232,256	1,784
Fire	1,181,308	1,243,494	72,058	1,508,207	1,422,382	92,861
Liability	9,050	7,062	-	6,774	8,385	-
Marine	173,470	198,860	13,300	205,138	171,270	12,724
Motor	281,287	281,520	1,319	314,161	310,994	(110)
Personal accident	25,728	26,274	3	27,856	23,316	-
Theft	-	-	-	-	-	-
Workmen's compensation	-	-	-	-	-	-
Medical	640,407	565,008	-	399,352	376,215	-
Miscellaneous	369,120	422,696	47,482	552,765	485,336	28,729
	2,884,737	2,980,530	134,418	3,268,661	3,029,948	135,988
Long-term business						
Ordinary life	48,553	39,021	16,538	31,866	30,289	9,001
Group life	1,072,715	853,988	178,489	901,981	870,062	149,877
	1,121,268	893,009	195,027	933,847	900,351	158,878
Total	**4,006,005**	**3,873,539**	**329,445**	**4,202,508**	**3,930,299**	**294,866**

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

	2018 Gross Shs'000'	2018 Retrocession Shs'000'	2018 Net Shs'000'	2017 Gross Shs'000'	2017 Retro-cession Shs'000'	2017 Net
As presented in the Statement of profit or loss						
Short term	(106,002)	(10,209)	(95,793)	238,714	10,209	228,505
Long term	249,781	21,524	228,257	36,624	3,127	33,497
Total	**143,779**	**11,315**	**132,464**	**275,338**	**13,336**	**262,002**
Represented by:						
(Decrease) /increase in provision for unearned premiums (Note 31)						
Short term	(171,895)	(14,116)	(157,779)	326,975	14,116	312,859
Long term	373,938	35,607	338,331	36,624	3,127	33,497
	202,043	21,491	180,552	363,599	17,243	346,356
Less: (Decrease) /increase in deferred risk premium rebates and revenue (Note 24(b))						
Short term	(65,893)	(3,907)	(61,986)	88,261	3,907	84,354
Long term	124,158	14,085	110,073	-	-	-
	58,265	10,178	48,087	88,261	3,907	84,354
At end of year						
Short term	(106,002)	(10,209)	(95,793)	238,714	10,209	228,505
Long term	249,781	21,524	228,257	36,624	3,127	33,497
Total	**143,779**	**11,315**	**132,464**	**275,338**	**13,336**	**262,002**

9 INVESTMENT INCOME

	Short-term Business Shs'000'	Long-term Business Shs'000'	Total Shs'000'
For year ended 31 December 2018			
Interest income- Government securities	273,132	136,168	409,300
Interest income- Bank deposits	104,679	29,158	133,837
Interest income- Loans	2,877	-	2,877
Interest income- Corporate bonds	67,309	11,162	78,471
Dividend income	361	210	571
Realised Gain on sale of equity investments at fair value through profit or loss	11,743	5,262	17,005
Unrealised fair value loss on equity investments at fair value through profit or loss	(2,088)	(1,254)	(3,342)
Fair value gain on investment property	22,523	-	22,523
Rental income	66,189	-	66,189
Other	924	-	924
	547,649	180,706	728,355
Investment expenses	(42,587)	(9,221)	(51,808)
Investment and other income (net) for 2018	**505,062**	**171,485**	**676,547**
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	2,101	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	22,977	9,124	32,101
Fair value gain on investment property	15,712	-	15,712
Rental income	66,434	-	66,434
Other	1,516	-	1,516
	523,079	181,332	704,411
Investment expenses	(37,518)	(8,249)	(45,767)
Investment and other income (net) for 2017	**485,561**	**173,083**	**658,644**

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 2018			
Loans and receivables (including cash and bank balances)	174,669	29,158	203,827
Financial assets held to maturity	372,615	151,339	523,954
Dividend income	361	210	571
Total	**547,645**	**180,707**	**728,352**
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**

10 GROSS CLAIMS INCURRED

	2018 Shs'000'	2017 Shs'000'
Short-term business		
Claims payable by principal class of business:		
Aviation	11,438	(338)
Engineering	88,398	124,345
Fire	678,759	771,897
Liability	174	223
Marine	124,777	89,278
Motor	267,662	227,164
Personal accident	11,846	10,628
Theft	-	-
Workmen's compensation	-	-
Medical	396,213	231,214
Miscellaneous accident	147,891	223,621
	1,727,158	1,678,032
Long-term business actuarial liabilities		
Reinsurance contracts relating to fixed and guaranteed terms:		
Death benefits		
- Ordinary life	5,829	1,244
- Group life	432,050	454,440
Increase in reassurance contract liabilities:		
- Ordinary life	-	(149)
- Group life	(66,779)	(4,218)
	371,100	451,317
Total short-term and long-term business	**2,098,258**	**2,129,349**

11 OPERATING AND OTHER EXPENSES

The following are included in operating and other expenses:

	2018 Shs'000'	2017 Shs'000'
Directors' fees	7,660	4,800
Employee benefits expense (Note 12)	171,359	151,238
Medical costs	6,341	5,968
Auditors' remuneration	3,793	3,308
Depreciation (Note 17)	32,889	23,510
Amortisation of intangible assets (Note 18)	-	-
Net foreign exchange gains	(26)	(8,419)
Impairment charge for doubtful receivables		
- Other financial assets excluding reinsurance receivables	3,905	-
- Reinsurance premiums receivables	44,052	27,021

12 EMPLOYEE BENEFIT EXPENSES

	2018 Shs'000'	2017 Shs'000'
Salaries and wages	160,743	141,781
Retirement benefit costs	10,557	9,400
National social security benefit costs	59	57
	171,359	**151,238**

The number of persons employed by the Company at the year end was 25 (2017: 24).

13 INCOME TAX EXPENSE

a) Tax expense

	Short-term business Shs'000'	Long-term business Shs'000'	2018 Total Shs'000'	2017 Total Shs'000'
Current income tax	144,400	69,799	214,199	175,675
Deferred income tax:	-	-	-	-
Charge for the year (Note 30)	(15,011)	8,044	(6,967)	40,156
	129,389	77,843	207,232	215,831

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'	2018 Total Shs'000'	2017 Total Shs'000'
Profit before income tax	548,677	274,102	822,779	817,398
Tax calculated at a tax rate of 30%	164,603	69,799	234,402	211,116
Tax effect of income not subject to tax	(37,027)	-	(37,027)	(38,471)
Underwriting provisions for deferred tax relating to prior year	(4,880)	-	(4,880)	-
Tax effect of expenses not deductible for tax purposes	6,693	-	6,693	5,876
Deferred tax on the life surplus	-	8,044	8,044	37,310
Income tax expense	**129,389**	**77,843**	**207,232**	**215,831**

c) Corporate tax payable

At 1 January	(44,616)	4,073	(40,543)	41,192
Current income tax	144,400	69,799	214,199	175,675
Income tax paid in the year	(103,205)	(49,533)	(152,738)	(257,411)
At 31 December	**(3,421)**	**24,339**	**20,918**	**(40,544)**

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:

	2018	2017
Profit attributable to shareholders (Shs'000')	615,547	601,567
Weighted average number of shares	No.	No.
As at 1 December	1,500,000	1,500,000
Earnings per share (Shs) – basic and diluted	410.36	401.04

There were no potentially dilutive shares outstanding as at 31 December 2018 and 31 December 2017. 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 2017, 1 January 2018 and 31 December 2018	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 2017	350,000	76,319	2,846	14,851	7,642	451,658
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	2,846	15,859	8,330	567,035
At 1 January 2018	498,000	42,000	2,846	15,859	8,330	567,035
Additions	-	-	5,863	75	990	6,928
Disposals	-	-	(2,624)	-	-	(2,624)
At 31 December 2018	**498,000**	**42,000**	**6,085**	**15,934**	**9,320**	**571,339**
ACCUMULATED DEPRECIATION						
At 1 January 2017	33,334	5,913	2,730	10,274	5,962	58,213
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	20,351
At 1 January 2018	-	-	2,784	10,392	7,175	20,351
Charge for the year	27,534	1,576	1,519	1,057	1,203	32,889
Eliminated on disposals	-	-	(2,624)	-	-	(2,624)
At 31 December 2018	**27,534**	**1,576**	**1,679**	**11,449**	**8,378**	**50,616**
NET BOOK VALUE						
As at 31 December 2018	470,466	40,424	4,405	4,486	942	520,723
As at 31 December 2017	498,000	42,000	62	5,467	1,155	546,684
NET BOOK VALUE (Cost basis)						
As at 31 December 2018	33,763	53,432	56	5,467	1,155	93,873
As at 31 December 2017	**33,763**	**53,432**	**56**	**5,467**	**1,155**	**93,873**

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 (2017: Shs 87,194,366)

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 2017	11,804	7,402	19,206
AMORTISATION			
At 1 January 2016 and 1 January 2018	11,804	7,402	19,206
Charge for the year	-	-	-
At 31 December 2018	11,804	7,402	19,206
NET BOOK VALUE			
As at 31 December 2018	-	-	-
As at 31 December 2017	-	-	-

19 INVESTMENT PROPERTIES

	2018 Shs '000'	2017 Shs'000'
At 1 January	800,000	780,000
Additions during the year	2,477	4,288
Fair value gains	22,523	15,712
At 31 December	825,000	800,000

Investment properties are carried at fair value and were last revalued on 21 December 2018, by Hass Consult, independent valuers, on the basis of the market value for existing use. The resultant change in fair value has been dealt with in profit and loss.

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

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

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
At 31 December 2018 Investment property	-	825,000	-	825,000
At 31 December 2018 Investment property	-	825,000	-	825,000

19 INVESTMENT PROPERTIES (continued}

	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

Valuation technique used to derive level 2 fair values

Level 2 fair value of investment property 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 2018			
Quoted investments:			
At 1 January 2018	93,461	38,511	131,972
Additions	19,826	9,914	29,740
Disposals	(81,339)	(33,122)	(114,461)
Fair value loss (Note 9)	(2,088)	(1,254)	(3,342)
At 31 December 2018	29,860	14,049	43,909
Year ended 31 December 2017			
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**

21 MORTGAGE LOANS – STAFF

	2018 Shs'000'	2017 Shs'000'
At 1 January	39,640	43,929
Loans advanced	24,300	-
Loan repayments	(4,055)	(4,289)
At 31 December 2018	59,885	39,640

This represents mortgage loans extended to members of staff. There were no impairment losses recorded against mortgage loans for the years ended 31 December 2017 and 31 December 2018.

21 MORTGAGE LOANS – STAFF (continued)

This represents mortgage loans extended to members of staff. There were no impairment losses recorded against mortgage loans for the years ended 31 December 2017 and 31 December 2018.

	2018 Shs'000'	2017 Shs'000'
Loans maturing:		
Within 1 year	-	-
In 1-5 years	-	2,955
In over 5 years	59,885	36,685
	59,885	39,640

Lending commitments:

There were no mortgage loans approved but not advanced at 31 December 2018 (2017: Nil).

22 CORPORATE BONDS

	Short term Business Shs'000'	Long term business Shs'000'	Total Shs'000'
(At amortized cost)			
At 31 December 2018			
Corporate bonds maturing:			
In 1 year- 5 years	524,777	86,393	611,170
Impairment IFRS 9	(3,424)	(496)	(3,920)
Total	521,353	85,897	607,250
At 31 December 2017			
Corporate bonds maturing:			
In 1 year- 5 years	533,574	87,640	621,214

23 GOVERNMENT SECURITIES

	Short term business Shs '000'	Long term business Shs '000'	Total Shs '000'
Treasury bills			
At 31 December 2018			
Within 90 days	97,914	39,165	137,079
In 91 days – 1 year	368,619	353,711	722,330
	466,533	392,876	859,409
Treasury bonds maturing:			
Within 90 days	-	-	-
In 91 days – 1 year	163,857	40,698	204,555
In 1 year – 5 years	782,096	330,365	1,112,461
In over 5 years	847,151	421,024	1,268,175
	1,793,104	792,087	2,585,191
Impairment IFRS 9	(2,260)	(1,185)	(3,445)
	2,257,377	1,183,778	3,441,155
Treasury bills			
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
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

Treasury bonds include Shs 605,000,000 (2017: Shs 525,000,000) 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

	Short term business Shs'000'	Long term business Shs'000'	Total Shs'000'
At 31 December 2018			
Retrocessionaires' share of:			
Unearned premiums (Note 31)	-	56,775	56,775
Outstanding claims	412,163	13,480	425,643
	412,163	70,255	482,418
At 31 December 2017			
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

Amounts due from retrocessionaires in respect of claims already paid by the Company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position. Movements in the above retrocession assets are shown in Notes 30 and 32.

24 b) DEFERRED RISK PREMIUM REBATES ARISING FROM RETROCESSION ARRANGEMENTS

	2018			2017		
	Gross Shs'000'	Retrocession Shs'000'	Net Shs'000'	Gross Shs'000'	Retrocession Shs'000'	Net Shs'000'
At 1 January	320,937	-	320,937	298,569	-	298,569
(Decrease) /increase in the year (Note 8)	124,158	14,085	110,073	88,261	3,907	84,354
At 31 December	445,095	14,085	431,010	386,830	3,907	382,923

25 OTHER RECEIVABLES

	Short-term Shs'000	Long-term Shs'000	2018 Shs'000'	2017 Shs'000'
Due from related companies (Note 35(b)(i))	75,114	19,486	94,600	239,453
Due from long-term to short- term business (Note 32)	137,567	-	137,567	40,846
Car loans – staff*	6,855	-	6,855	4,471
Prepayments and other receivables	12,026	442	12,468	24,504
	231,562	19,928	251,490	309,274

*These are car loans extended to members of staff. There were no impairment losses recorded against car loans in 2018 (2017: Nil). The car and staff benefits acts as collateral for loan extended.

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 2018			
Deposits maturing:			
Within 90 days	162,710	59,575	222,285
In 91 days – 1 year	1,021,117	194,185	1,215,302
Impairment IFRS9	(5,798)	(2,924)	(8,722)
	1,178,029	250,836	1,428,865
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

27 CASH AND CASH EQUIVALENTS

	Short-term Shs'000	Long-term Shs'000	2018 Shs'000'	2017 Shs'000'
Cash and bank balances	181,943	30,744	212,687	83,151
Impairment IFRS 9	1,256	194	1,450	-
Total	183,199	30,938	214,137	83,151
Treasury bills and bonds maturing within 90 days (Note 23)	97,914	39,165	137,079	268,650
Deposits with financial institutions maturing within 90 days (Note 26)	162,710	59,575	222,285	152,228
	443,823	129,678	573,501	504,029

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:

	2018 %	2017 %
Government securities	12.48	12.02
Corporate bonds	13.16	13.16
Deposits with financial institutions	9.84	10.62
Mortgage loans (on reducing balance)	5.00	5.00

29 REINSURANCE/REASSURANCE CONTRACT LIABILITIES

	2018 Shs'000'	2017 Shs'000'
Total short-term reinsurance contracts:		
Claims (gross) reported and claims handling expenses including incurred but not reported claims	1,777,222	1,769,716
Long-term reassurance contracts		
Claims (gross) reported and claims handling expenses	95,053	161,832
Total gross contract liabilities	1,872,275	1,931,548

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.

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 2018 are summarised below. The same assumptions were used in 2017.

29 REINSURANCE/REASSURANCE CONTRACT LIABILITIES (continued)

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

i) Mortality

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

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

ii) Investments returns

The actuarial valuation as at 31 December 2018 does not use an explicit technical rate of return.

The weighted average rate of return earned on the assets backing the life fund in 2018 was 30.6% p.a. (2017: 37.8% p.a.) and the average over the last two years was 34.2% 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'	2018 Shs'000'	2017 Shs'000'
At 1 January	(134,494)	(220,864)	(355,358)	(263,153)
Profit /(loss) credit (Note 13(a))	15,011	(8,044)	6,967	(40,156)
Charge to other comprehensive income	-	-	-	(52,049)
At 31 December	**(119,483)**	**(228,908)**	**(348,391)**	**(355,358)**

The deferred tax liability is attributable to the following items:

	Short term business Shs '000'	Long term business Shs '000'	2018 Shs'000'	2017 Shs'000'
Deferred tax liability:				
Revaluation surplus on leasehold land and building	135,412	-	135,412	135,842
Unrealised exchange gains	997	-	997	2,770
Unrealised gain on fair value assets	-	-	-	4,714
Life surplus	-	228,908	228,908	220,864
	136,409	228,908	365,317	364,190
Deferred tax asset:				
Unrealised exchange loss	-	-	-	-
Unrealised exchange loss	(6,757)		(6,757)	
Provisions	(9,211)	-	(9,211)	(7,150)
Excess depreciation over capital allowance	(958)	-	(958)	(1,682)
	(16,926)	-	(16,926)	(8,832)
Net deferred tax liability	**(119,483)**	**(228,908)**	**(348,391)**	**(355,358)**

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

	2018			2017		
	Gross Shs'000'	Retro-cession Shs'000'	Net Shs'000'	Gross Shs'000'	Retro-cession Shs'000'	Net Shs'000'
At 1 January	1,268,893	14,116	1,254,777	941,919	-	941,919
Increase/(decrease) in the period (Note 8)	(171,895)	(14,116)	(157,779)	326,975	14,116	312,859
At 31 December	**1,096,998**	**-**	**1,096,998**	**1,268,894**	**14,116**	**1,254,778**
					(Note24 a)	

31 PROVISION FOR UNEARNED PREMIUMS(continued)

Short Term

	2018			2017		
	Gross Shs'000'	Retro-cession Shs'000'	Net Shs'000'	Gross Shs'000'	Retro-cession Shs'000'	Net Shs'000'
At 1 January	181,218	21,168	160,050	144,594	18,041	126,553
Increase/(decrease) in the period (Note 8)	373,938	35,607	338,331	36,624	3,127	33,497
At 31 December	**555,156**	**56,775**	**498,381**	**181,218**	**21,168**	**160,050**
		(Note 24 (a)			(Note24 a)	

32 OTHER PAYABLES

	Short-term Shs'000	Long-term Shs'000	2018 Shs'000'	2017 Shs'000'
Due to related parties (Note 35(b))	53,948	25	53,973	69,872
Due to short-term business from long-term (Note 25)	-	137,567	137,567	40,846
Accrued expenses and other liabilities	317,766	2,434	320,200	276,225
	371,714	140,026	511,740	386,943

33. COMMITMENTS AND CONTINGENT LIABILITIES

a) Capital commitments

	2018 Shs'000'	2017 Shs'000'
Authorised and contracted for	-	-
Authorised but not contracted for	16,500	24,000
	16,500	24,000

b) Contingent liabilities

Reinsurance Premium Finance – As at 31 December 2018, the Company had not guaranteed Reinsurance Premium Finance facility to insurance companies (2017: 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

	2018 Shs'000'	2017 Shs'000'
Reconciliation of profit before taxation to net cash generated from operations		
Profit before income tax	822,779	817,398
Adjusted for:		
Investment income	(709,176)	(656,597)
Depreciation (Note 17)	32,889	23,510
Gain on disposal of equipment	(701)	(70)
Change in fair value of quoted shares (Note 9)	3,342	(32,101)
Change in fair value of investment property (Note 9)	(22,522)	(15,712)
Changes in:		
- Reinsurance and reassurance contract liabilities	(59,272)	170,500
- Unearned premium reserves and deferred acquisition revenue	216,129	367,504
- Trade and other payables	(69,649)	(67,823)
- Trade and other receivables	(295,307)	(445,911)
Net cash (used in) /generated from operations	**(81,488)**	**160,698**

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:

	2018 Shs'000'	2017 Shs'000'
Net earned premium	959,520	861,439
Net claims incurred	314,279	406,150
Interest earned on corporate bonds	35,384	23,848
Interest earned on bank deposits	28,022	13,185

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

	2018 Shs'000'	2017 Shs'000'
i) Reinsurance balances		
Premiums receivable from related parties	94,573	239,426
Loss reserves in respect of related parties	27	27
Due from related parties (Note 25)	94,600	239,453
ii) Premiums payable to related parties (note 32)	53,973	69,872
iii) Mortgage loans receivables from related parties (Note 21)	59,885	39,640

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, fixed deposits and bank balances

	2018 Shs'000'	2017 Shs'000'
Corporate Bonds	293,933	293,836
Fixed deposits	121,429	319,604
Bank balance	214,138	82,561
	629,500	696,001

d) Loans to directors of the Company

The Company did not advance loans to its directors in 2018 (2017: Nil).

e) Directors' fees

	2018 Shs'000'	2017 Shs'000'
Directors' fees	7,660	4,800

f) Key management personnel remuneration

	2018 Shs'000'	2017 Shs'000'
Salaries	99,034	84,917
National social security benefit costs	24	24
Retirement benefit costs	6,249	5,734
Medical costs	1,869	1,888
	107,176	92,563

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.

SUPPLEMENTARY INFORMATION

SHORT-TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018

Class of Reinsurance Business	Aviation Shs '000	Engineering Shs '000	Fire Shs'000	Liability Shs'000	Marine Shs'000	Motor Shs'000	Personal Accident Shs'000	Theft Shs'000	Workmen's Comp Shs'000	Medical Shs'000	Miscellaneous Accident Shs'000	2018 Total Shs'000
Gross written premiums	1,939	202,080	1,145,922	9,028	169,340	281,299	26,118	-	-	640,406	382,792	2,858,924
Change in portfolio premiums	-	348	35,387	22	4,130	(12)	(390)	-	-	-	(13,672)	25,813
Gross premiums	1,939	202,428	1,181,309	9,050	173,470	281,287	25,728	-	-	640,406	369,120	2,884,737
Change in gross UPR	(545)	(30,704)	(62,186)	1,988	(25,391)	(233)	(546)	-	-	75,399	(53,575)	(95,793)
Gross earned premiums	2,484	233,132	1,243,495	7,062	198,861	281,520	26,274	-	-	565,007	422,695	2,980,530
Retrocession premiums	-	256	72,058	-	13,300	1,320	3	-	-	-	47,481	134,418
Change in retro UPR	-	-	-	-	-	-	-	-	-	-	-	-
Net earned premiums	2,484	232,876	1,171,437	7,062	185,561	280,200	26,271	-	-	565,007	375,214	2,846,112
Gross claims paid	11,437	87,928	673,818	166	124,431	266,178	11,844	-	-	396,049	147,801	1,719,652
Change in Gross outstanding claims	1	470	4,940	8	346	1,484	2	-	-	164	91	7,506
Retrocession claims	-	65	63,622	-	19	3,182	25	-	-	-	2,147	69,060
Change in Retro outstanding claims	-	-	(33,686)	-	(8,981)	-	-	-	-	-	-	(42,667)
Net claims incurred	11,438	88,333	648,822	174	133,739	264,480	11,821	-	-	396,213	145,745	1,700,765
Risk premium rebates earned	-	159	145	-	(3)	255	-	-	-	-	10,411	10,967
Risk premium rebates	419	68,324	346,563	1,909	51,468	32,131	9,219	-	6	125,205	114,822	750,066
Taxes and other charges	279	17,674	51,389	400	11,343	(11,811)	1,949	-	-	13,494	28,546	113,263
Technical profit/(loss)	(9,652)	58,704	124,808	4,579	(10,992)	(4,345)	3,282	-	(6)	30,095	96,512	292,985
Expenses of management	111	12,612	72,523	488	10,442	15,268	1,461	-	-	34,309	23,131	170,345
Total expenses and risk premium rebates	809	98,452	470,330	2,798	73,257	35,333	12,629	-	6	173,007	156,088	1,022,709
Underwriting profit/(loss)	(9,763)	46,092	52,285	4,091	(21,434)	(19,613)	1,821	-	(6)	(4,214)	73,381	122,640
Key ratios:												
Net loss ratio (net claims incurred/ net earned premiums)	460.4%	37.9%	55.4%	2.5%	72.1%	94.4%	45.0%	0.0%	0.0%	70.1%	38.8%	59.8%
Net risk premium rebates ratio (net risk premium rebates/net written premiums)	22%	34%	32%	21%	33%	11%	35%	0.0%	0.0%	20%	31%	27.1%
Total expense ratio (total net expenses and risk premium rebates/net written premium)	42%	49%	41%	31%	43%	13%	48%	0.0%	0.0%	27%	41%	35.8%

The short - term business revenue account was approved by the board of directors on 20 February 2019 and was signed on its behalf by:

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

SHORT-TERM BUSINESS REVENUE ACCOUNT 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	Miscellaneous Accident Shs'000	2017 Total Shs'000
Gross written premiums	(541)	254,949	1,493,026	6,773	210,637	314,134	21,750	-	-	399,352	541,166	3,241,246
Change in portfolio premiums	-	-	15,181	1	(5,499)	27	6,106	-	-	-	11,599	27,415
Gross premiums	(541)	254,949	1,508,207	6,774	205,138	314,161	27,856	-	-	399,352	552,765	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	(205)	232,256	1,422,383	8,385	171,270	310,994	23,316	-	-	376,214	485,334	3,029,947
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	(205)	230,504	1,329,523	8,385	158,546	311,104	23,316	-	-	386,380	456,615	2,904,168
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	42,596
Change in Retro outstanding claims	-	-	(31,359)	-	-	-	-	-	-	-	-	(31,359)
Net claims incurred	(338)	124,835	778,553	222	89,188	229,600	10,782	-	-	231,214	225,213	1,689,269
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%	56.3%	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 20 February 2019 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 2018

	Ordinary life business Shs'000'	Group life business Shs'000'	2018 Total Shs'000
Gross earned premiums	**48,552**	**1,072,715**	**1,121,267**
Retrocession premiums	(16,537)	(178,489)	(195,026)
Net written premiums	**32,015**	**894,226**	**926,241**
Movement in unearned premiums reserve	(9,530)	(218,727)	(228,257)
Net earned premiums	22,485	675,499	697,984
Investment income	7,564	163,921	171,485
Risk premium rebates earned	3,919	37,659	41,578
Net income	**33,968**	**877,079**	**911,047**
Gross claims	5,829	432,050	437,879
Recoveries	-	(93,245)	(93,245)
Change in long-term liabilities	(749)	(50,674)	(51,423)
Net claims and treaty benefits payable	**5,080**	**288,131**	**293,211**
Operating and other expenses	7,301	64,433	71,734
Risk premium rebates	8,844	263,156	272,000
Total expenses	**21,225**	**615,720**	**636,945**
Profit before taxation	12,743	261,359	274,102
Taxation charge	(2,665)	(75,178)	(77,843)
Long-term business profit after taxation	**10,078**	**186,181**	**196,259**

The long - term revenue account was approved by the board of directors on 20 February 2019 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 2017

	Ordinary life business Shs'000'	Group life business Shs'000'	2017 Total Shs'000
Gross earned premiums	31,866	901,980	933,846
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	27,734
Net income	26,916	915,373	942,289
Gross claims	1,244	454,440	455,684
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**	**377,531**
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**	**691,076**
Profit before taxation	**10,538**	**240,675**	**251,213**
Taxation charge	(2,681)	(75,889)	(78,570)
Long-term business profit after taxation	**7,857**	**164,786**	**172,643**

The long - term revenue account was approved by the board of directors on 20 February 2019 and were signed on its behalf by:

J. P. M. Ndegwa
Chairman

D. G. M. Hutchison
Director

P. K. Maina
Principal Officer

PROXY FORM

EAST AFRICA REINSURANCE COMPANY LIMITED

We (name in full) ____

of (address) ____

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

____

of (address) ____

and failing him/her ____

of (address) ____

as our proxy to vote for us on our behalf at the Twenty Sixth Annual General Meeting of the Company to be held on Thursday, 23 May 2019, at twelve noon and at any adjournment thereof.

Signed this ______________ day of ______________ 2019

Signature(s) ______________________________

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

Ordinary Business	For	Against
1. To confirm the minutes of the Annual General Meeting held on 17 May 2018.	☐	☐
2. To receive, consider and, if appropriate, adopt the financial statements for the year ended 31st December 2018 and the Chairman's, Directors', Actuary's and Auditors' reports thereon.	☐	☐
3. To receive, consider and, if appropriate, adopt the financial statements for the year ended 31st December 2018 and the Chairman's, Directors', Actuary's and Auditors' reports thereon.	☐	☐
4. To approve the payment of a final dividend of Kshs. 100 million for the year ended 31 December 2018.	☐	☐
5. To re-elect Directors:	☐	☐
(a) Ms. L. W. Muriuki retires by rotation in accordance with Article 80(A) of the Company's Articles of Association and, being eligible, offers herself for re-election.	☐	☐
(b) Mrs. S. N. Adamali retires by rotation in accordance with Article 80(A) of the Company's Articles of Association and, being eligible, offers herself for re-election.	☐	☐
6. To approve the remuneration of the Directors.	☐	☐
7. 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.	☐	☐

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.

NOTES

East Africa Reinsurance Company Limited

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