EAST AFRICA REINSURANCE COMPANY

2019 ANNUAL REPORT AND FINANCIAL STATEMENTS

SECURED SOLID PARTNERSHIP

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

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

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

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General Information

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
SECRETARY	**K.M. Ontiti** Certified Public Secretary (Kenya) P.O. Box 30345-00100 GPO Nairobi, Kenya
AUDITORS	**PricewaterhouseCoopers LLP** Certified Public Accountants (Kenya) PwC Tower Waiyaki Way/Chiromo Road, Westlands P.O. Box 43963 - 00100 GPO Nairobi, Kenya
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 D.G.M. Hutchison L.W. Muriuki J.K. Kimeu A.G. Vaidyan ceased to be director on 31July 2019 S.N. Adamali S.O. Oluoch Alt: P.K Mugambi
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
ACTUARIES	**Zamara Actuaries, Administrators and Consultants 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 Upper Hill, Upper hill Road P.O. Box 10472 - 00100 GPO Nairobi Kenya
BANKERS	**NCBA Bank Limited** NCBA House Branch Masaba Road P.O. Box 30090 - 00100 GPO Nairobi Kenya

Board of Directors

J.P.M. NDEGWA

CHAIRMAN

M.P. CHANDARIA (Dr)

VICE - CHAIRMAN

D.G.M. HUTCHISON

DIRECTOR

P.K. MAINA

DIRECTOR

L.W. MURIUKI

DIRECTOR

S.N. ADAMALI

DIRECTOR

S.O. OLUOCH

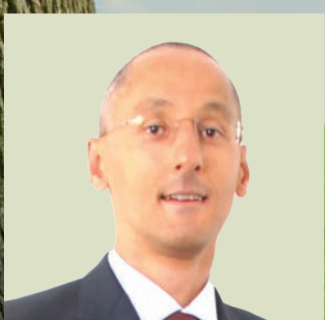
DIRECTOR

MR J. K. KIMEU

DIRECTOR

A.G. VAIDYAN

DIRECTOR



A.S.M. NDEGWA

ALTERNATE DIRECTOR

P.K. MUGAMBI

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),
P. Mumbe (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) **C. Ogaye** (Head of Non-Life business)

Financial Highlights and Ratios

Short-Term and Long Term Combined Business

	2015 Shs'Million	2016 Shs'Million	2017 Shs'Million	2018 Shs'Million	2019 Shs'Million
Gross Written Premiums	3,705	3,328	4,203	4,006	4,665
Net Premiums	3,447	3,031	3,908	3,677	4,254
Net Earned Premiums	3,420	3,204	3,646	3,496	4,038
Technical Profit	289	285	384	436	477
Underwriting Profit	136	122	201	229	235
Investment Income	530	607	659	677	633
Profit Before Tax	626	668	817	823	835
Profit After Tax	432	466	602	616	589
Dividends	60	60	100	100	100
Shareholders' Funds	3,016	3,422	4,085	4,587	5,076
Share Capital	1,300	1,500	1,500	1,500	1,500
Total Assets	7,774	7,769	8,981	9,676	10,481

Short-Term and Long Term Combined Business

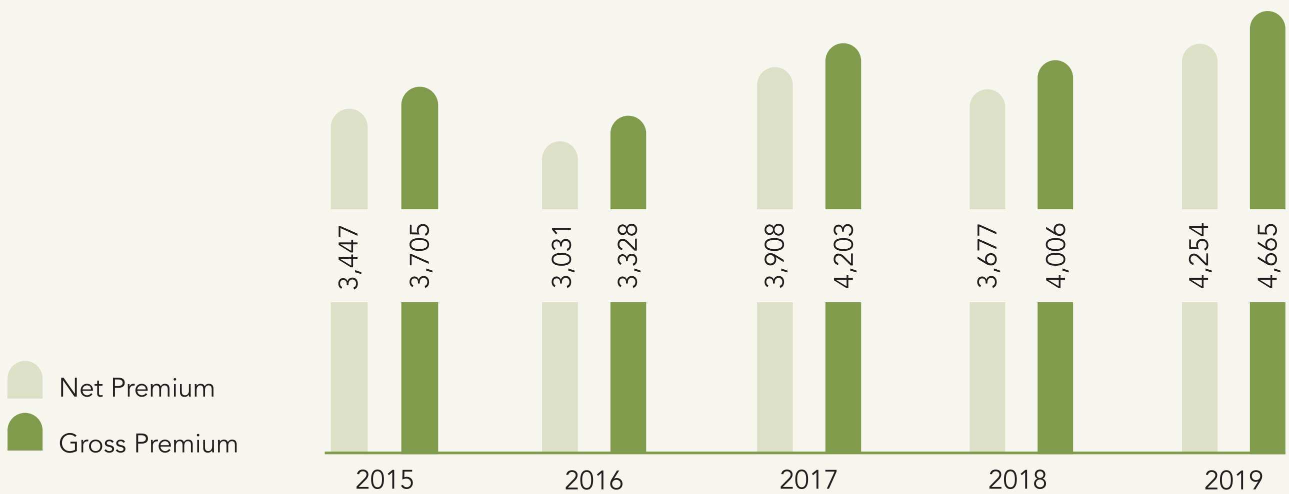
	2015 102.2 USD'000	2016 102.56 USD'000	2017 103.23 USD'000	2018 101.83 USD'000	2019 101.42 USD'000
Gross Written Premiums	36,248	32,449	40,710	39,340	45,997
Net Premiums	33,732	29,553	37,854	36,105	41,941
Net Earned Premiums	33,463	31,240	35,316	34,370	39,813
Technical Profit	2,832	2,779	3,719	4,280	4,702
Underwriting Profit	1,326	1,190	1,945	2,245	2,324
Investment Income	5,182	5,918	6,381	6,644	6,245
Profit Before Tax	6,128	6,513	7,918	8,080	8,235
Profit After Tax	4,224	4,544	5,827	6,045	5,811
Dividends	587	585	969	982	986
Shareholders' Funds	29,515	33,366	39,572	45,045	50,052
Share Capital	12,720	14,626	14,531	14,730	14,790
Total Assets	76,068	75,751	87,002	95,020	103,339

Ratios

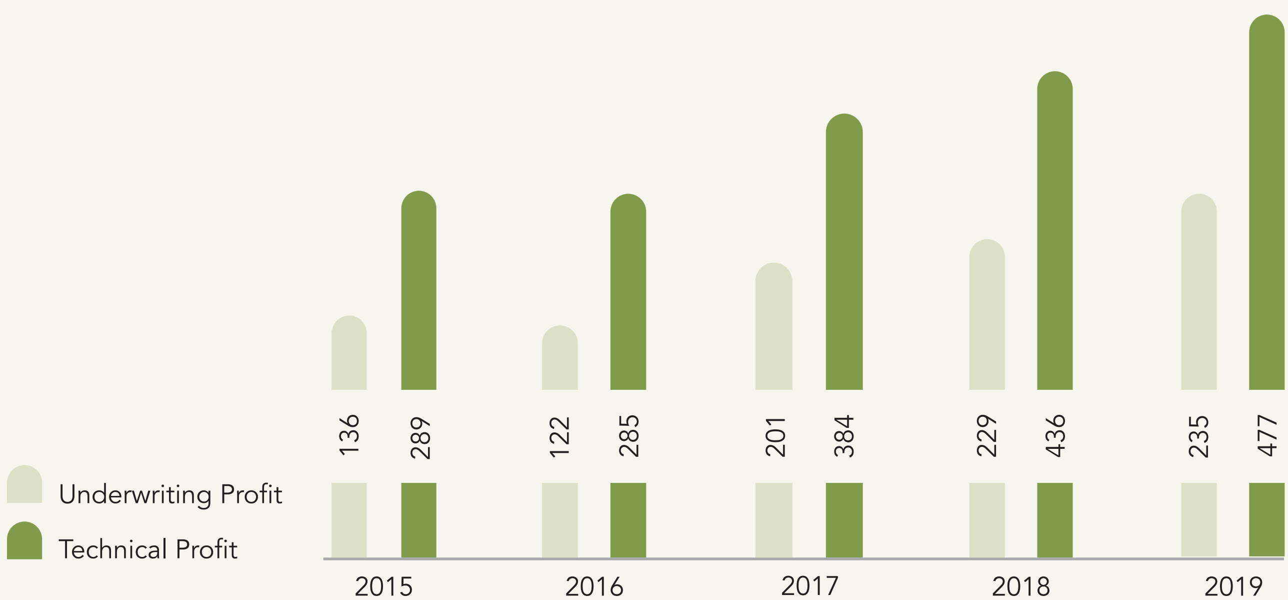
Net Technical Profit/ Net Premiums	8%	9%	10%	12%	11%
Loss Ratio	60%	61%	56%	56%	56%
Earnings Per Share (Shs)	332	310	401	410	392
Dividend Cover	7	8	6	6	6
Return on Equity Before Tax	22%	21%	22%	19%	16%
Return on Equity After Tax	15%	14%	16%	14%	12%

Financial Highlights - 5 Years (Combined Business)

Gross and Net Premiums (Kshs Millions)

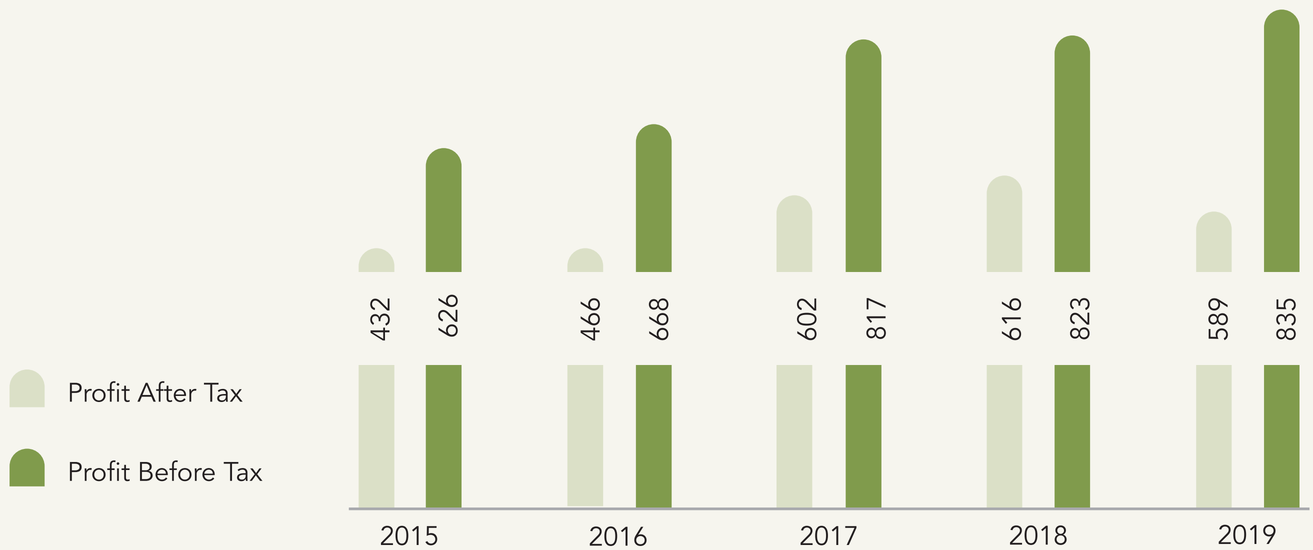


Technical Profit and Underwriting Profit (Kshs Millions)

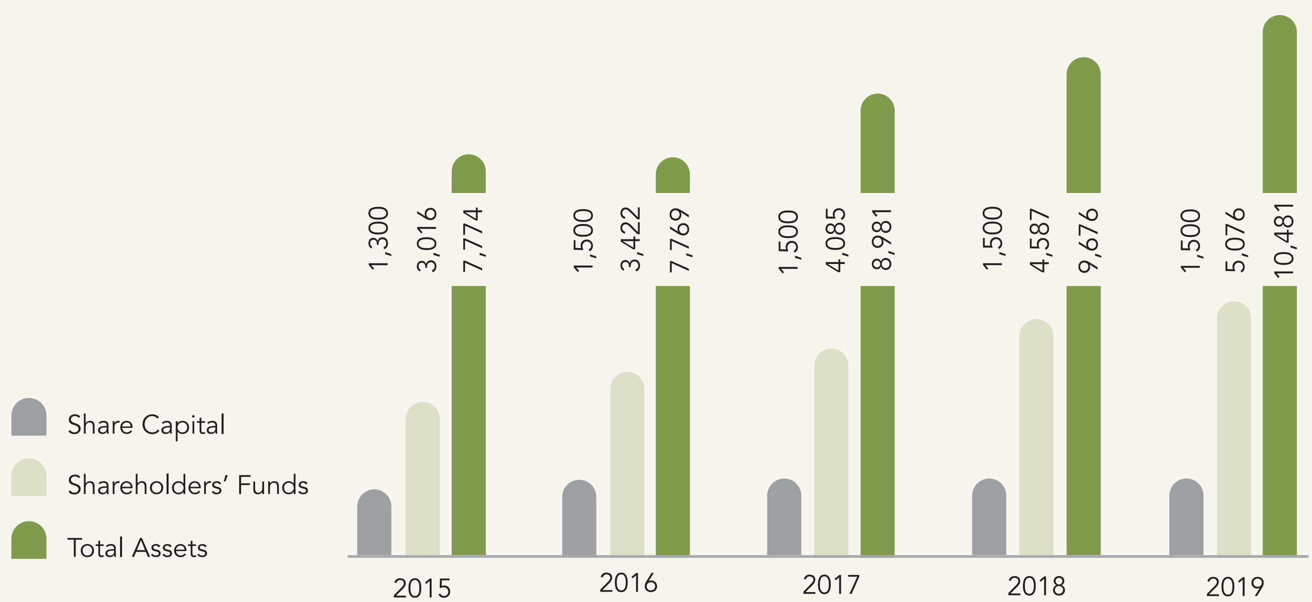


Financial Highlights - 5 Years (Combined Business)

Profit Before and After Tax (Kshs Millions)



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



Notice of the Twenty - Seventh Annual General Meeting

Notice is hereby given that the Twenty-Seventh Annual General Meeting of East Africa Reinsurance Company Limited will be held on Thursday, 21 May 2020, 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 23 May 2019.

4. To receive, consider and, if appropriate, adopt the financial statements for the year ended 31 December 2019 and the Chairman's, Directors', Actuary's and Auditor's reports thereon.

5. To approve the payment of a final dividend of Kshs. 100 million for the year ended 31 December 2019.

6. To re-elect Directors.

7. To approve the remuneration of the Directors.

8. To reappoint PricewaterhouseCoopers LLP 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
27 February 2020

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.

"EARe's Performance: The Gross Premium increased by 16% to Kshs 4,665 million (2018: Kshs 4,006 million). The profit before tax was Kshs 835 million (2018: Kshs 823 million) while the profit after tax was Kshs 589 million (2018: Kshs 616 million)".

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 2019.

During the year, the Company recorded growth in its pre-tax profits despite challenging market conditions including low interest rates, tightening regulatory reforms in some of our markets and increasing competition.

The Global Economy in 2019 and outlook for 2020.

The International Monetary Fund (IMF) projected the global economy to grow by 2.9% in 2019. The IMF projects the global economy to grow by 3.3% and 3.4% in 2020 and 2021 respectively. This growth will mainly be supported by improved performance in the emerging market economies.

The effects of supportive financial conditions such as monetary easing in both advanced and emerging market economies in 2019 are expected to push the global economy in 2020. The projected global recovery will be accompanied by improved growth in trade, reflected in particular by a recovery in domestic demand and investments.

Kenyan Economy in 2019 and outlook for 2020.

The World Bank projects that the Kenyan economy will have grown by 5.7% in 2019. This has been supported by positive investor confidence, resilient services sector and stable macro-economic environment. It is expected to further increase to 5.9% and 6.0% in 2020 and 2021 respectively. The growth will also be driven by ongoing major investments by the Government to support implementation of the Big 4 development agenda.

Interest rates are expected to increase slightly following the repeal of the interest rates cap in November 2019. Further, the inflation rate is expected to remain within the Government's target range of 2.5% to 7.5% while the shilling is expected to remain relatively stable against the US dollar as a result of expected lower imports.

The performance of the Kenyan Insurance Industry

For the period ended 30 September 2019, the insurance industry recorded a growth of 6.5% in gross premium to Kshs 175 Billion (2018: 164 Billion). Life (long-term) and Non-life (short-term) businesses grew by 11% and 3.7% respectively with the short-term business constituting about 60.2% of the gross premium.

During the same period, the industry recorded an underwriting loss of Kshs 2.6 Billion while the profit before tax (PBT) and profit after tax (PAT) were Kshs 9.30 Billion and Kshs 6.10 Billion, respectively. The return on equity improved to 4.7% from 3.92% recorded in 2018.

From the above nine months performance, the insurance industry is expected to record improved annual performance in 2019 as compared to 2018.

For the insurance sector to grow, the industry needs to leverage on partnerships in areas such as, investments, human resources and consumer relationship management.

Further, the industry needs to embrace the use of evolving technology to cut on expenses and increase operational efficiency.

"For the period ended 30 September 2019, the insurance industry recorded a growth of 6.5% in gross premium to Kshs 175 Billion (2018: 164 Billion). Life (long-term) and Non-life (short-term) businesses grew by 11% and 3.7% respectively".

EARe's Performance

The Gross Premium increased by 16% to Kshs 4,665 million (2018: Kshs 4,006 million). The profit before tax was Kshs 835 million (2018: Kshs 823 million) while the profit after tax was Kshs 589 million (2018: Kshs 616 million).

The growth in the Company's Gross Premium Income is attributable to aggressive and sustained marketing efforts during the year that resulted to growth in existing accounts and acquisition of new business for both Non-Life and Life businesses.

Net claims incurred in 2019 increased by 15% to Kshs 2,285 million up from Kshs 1,993 million in 2018 as a result of unfavourable claims experience and also in line with the increases business volume.

The net acquisition cost ratio in 2019 increased marginally to 27.1% as compared to 26.4% in 2018 while the management expenses ratio was 5.2% which was at par with the 2018 comparative. The combined ratio for 2019 deteriorated marginally to 94.2% compared to 93.5% recorded in the previous year.

The combined business underwriting profit improved by 3% to Kshs 235.76 million in 2019 up from Kshs 228.60 million recorded in 2018.

The Investment Income declined by 5% to Kshs 693.60 million in 2019 from Kshs 728.36 million in 2018. This decline was attributed to fair value loss on investment property, maturity of a large proportion of 2 corporate bonds running at higher rates compared to the reinvestment rates with commercial banks and low rate on government securities and bank deposits. Investment funds at the close of the year were Kshs 7.15 billion (2018: Kshs 6.58 billion). The annual return on the portfolio was 10.12 %.(2018: 11.58%)

As at 31st December 2019, the Company's total assets was Kshs 10,480 million up from Kshs 9,675 million as at 31st December 2018. Similarly, the Shareholders' Funds grew to Kshs 5,076 million from Kshs 4,577 million in 2018.

Dividend

Based on the Company's performance the Board recommends the payment of a total dividend of Kshs 100 million (2018: Kshs 100 million) equivalent to 16.97% (2018: 16.26%) of the profit after tax to the Shareholders who were on the Register of Members as at 31st December 2019, subject to Shareholder approval at the forthcoming Annual General Meeting.

Risk Based Capital

The Company achieved a Capital Adequacy Ratio (CAR) of 294% and 175% for the Short-term and Long-term businesses, respectively.

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 assigned the Company's domestic security rating at AA- and the international scale claims paying ability rating at B-.

Corporate Social Responsibility

The Company continued to support the community in line with its Corporate Social Responsibility (CSR) pillars of Education, Health, Environment and Social welfare.

The Company admitted additional students to its Education Sponsorship Program during the year. All the students under the program were taken through a mentorship session in August 2019. Further, the Company made donations to Ghetto Classics, Faraja Cancer Support and Challenge gift bags towards health, social and child welfare.

A comprehensive update on the Corporate Social Activities undertaken during the year 2019 is contained in this Annual Report.

The Board

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

Acknowledgments

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

To our Clients, being Cedants and Intermediaries, thank you for the business relationship we have had in the past and going forward. The growth in profitability is as a result of the support you have given to us during the year. As a Company we assure you that we will strive to meet your expectations.

I wish to also recognise and appreciate my fellow members of the Board for the stewardship they continue to give the Company.

In conclusion, I wish to thank the EARe Staff for their great effort, dedication and commitment to delivering outstanding service to our Clients.

Thank you,

J.P.M. Ndegwa
Chairman
27 February 2020

Navigating COVID-19, a message from the Chairman

Subsequent to the finalization, approval and signing of the 2019 Financial Report, the novel coronavirus (COVID-19) that had initially been reported in Wuhan, China expanded rapidly into a global pandemic leading to significant infections and fatalities across the world. In Kenya, the first case of COVID-19 was reported on 13th March 2020, and as of today there are 246 reported cases with 11 fatalities.

Given the grave threat and danger that the COVID-19 pandemic poses to the society, governments worldwide have taken drastic measures to curb spread of the virus. These measures include; total or partial lockdown of countries/cities, suspension of international flights/travel, banning of public gatherings/events, and mandatory social distancing, among others. These measures have unfortunately led to unprecedented disruption in social and economic activities. Businesses around the world are facing catastrophic losses leading them to scale back their operations or shut down entirely. This disruption is expected to have significant impact on the global economy leading to poor business performance across all sectors, volatility in the stock, commodity and forex markets as well as constraints in international trade. This may ultimately lead to a global recession.

Locally, the Kenyan Government has instituted a raft of measures and guidelines aimed at curbing the spread of the disease. Key to this is mandatory "Social distancing" that has essentially made it necessary for most businesses to operate virtually with only a limited number of staff stationed at the businesses' premises. As a company, we have taken the necessary measures to ensure full compliance with the government directives. The Company successfully activated its Business Continuity Plan and we are pleased to confirm that our operations have not been impacted. We have provided staff with the necessary IT equipment and connectivity to enable them work uninterrupted from the safety of their homes. We have been in touch with our stakeholders and assured them of our continued service in this unprecedented times.

The measures implemented by the Government, while absolutely necessary and essential in combating the spread of the virus, will lead to significant hardship especially for the less fortunate members of the community whose main sources of livelihood have been severely disrupted. As a responsible corporate citizen and in line with our corporate values, the Board approved the Company's request to contribute to the COVID-19 Emergency Fund set up by the Government of Kenya to mitigate the effects of the pandemic and also cushion the more vulnerable members of the society. The Company contributed Shs 5 million in a joint initiative with its shareholders ICEA LION Group & First Chartered Securities, and a further Shs 1 million through an initiative led by Association of Kenya Insurers (AKI) and the Insurance Regulatory Authority (IRA).

The crisis will undoubtedly negatively impact the business environment for the foreseeable future. While it is still early to fully comprehend the impact, we can expect the Company to be impacted in multiple ways, ranging from lower premium income, adverse claims experience, reduced investment returns and cash-flow challenges. However, we believe the Company is in a sound position to cope with this unprecedentedly challenging business environment.

The Board of Directors and Management are continuously monitoring the developments and have put the necessary measures to safeguard the Company's interests. We remain highly confident about the business' future and will apply the lessons learnt from dealing with the COVID-19 pandemic in pursuing our long term strategic objectives.

J. P. M. Ndegwa
Chairman
18th April 2020

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of East Africa Reinsurance Company Limited.

1. 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.

2. 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.

3. Results

The net profit for the year of Shs 589,337,000 (2018: Shs 615,547,000) has been added to retained earnings (Non Life) and general reserve (Life) businesses.

	2019 Shs'000	2018 Shs'000
Profit before income tax	835,169	822,779
Income tax expense	(245,832)	(207,232)
Profit for the year	**589,337**	**615,547**

4. Dividends

The directors recommend the payment of a first and final dividend of Shs 100,000,000 (2018: Shs 100,000,000) representing a dividend of Shs 66.67 (2018: Shs 66.67) per share and a dividend payout ratio of 16.97% (2018: 16.26%).

5. Business review

The Company reported a profit before tax of Shs 835,169,000 (2018: Shs 822,779,000). The improved performance was largely attributed to improved underwriting results for both Non life and life business. The Company's financial highlights including ratios are summarized on page 5.

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 Note 2.

6. Disclosure to the Auditor

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

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

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

7. Terms of appointment of the auditors

PricewaterhouseCoopers LLP 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.

The financial statements set out on pages 32 to 76, which have been prepared on the going concern basis, were approved by the board of directors on 27 February 2020, and were signed on its behalf by:

By order of the Board

K. M. Ontiti
Secretary
27 February 2019

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.

1. 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:

- Overall strategic direction of the Company.
- Setting policy guidelines for management and ensuring competent management of the business including the selection, supervision and remuneration of staff.
- 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.

Board Composition and Appointment

As at 31 December 2019, 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.

2. 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 29 (e) to the financial statements for the year ended 31 December 2019.

3. 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:
- The Finance, Investment and IT (FII) Committee.
- The Audit, Risk and Compliance (ARC) Committee.
- 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 at the committee meetings.

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

b) Audit, Risk and Compliance Committee

The ARC Committee is responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the Company.

The Audit, Risk and Compliance (ARC) Committee is chaired by an Independent non-executive Director. The other members are nonexecutive appointees of the Board. The Chief Executive Officer, Chief Finance Officer and the Risk and Compliance Manager are normally in attendance at the committee meetings.

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.

c) Ethics, Nominations and Remuneration Committee

The Ethics, Nominations and Remuneration (ENR) Committee is chaired by a non-executive Director. The other members are non-executive Directors and the Chief Executive Officer. The Chief Finance Officer is normally in attendance at the committee meetings, 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.

4. 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 (ARC) Committee. The Board has also set up a Risk and Compliance Department headed by the Function Manager who directly reports to the ARC Committee as required by the Insurance Regulatory Authority.

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. An effective Risk Management Framework ensures the alignment of EARe's vision, strategic plan, operational strategies, processes, people, technology and resources. It also facilitates the evaluation and management of threats and opportunities in a structured and disciplined manner.

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 includes detailed risk management procedures that defines the governance structure, roles and responsibilities of risk management within the Company and establishes the risk management strategy. The Framework also includes various risk management tools including 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 an annual basis through the ARC Committee and any changes are proposed are presented to the Board for approval.

The Risk and Compliance Department is responsible for monitoring the Company's day-to-day risk-taking activities, assessing the effectiveness of internal controls, and ensuring compliance with applicable, contractual, legislative and regulatory requirements.

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.

5. 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 create a sense of oneness with the team members making the working environment favourable.

6. 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.

7. 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 29 to the financial statements for the year ended 31 December 2019.

8. 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.

9. 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	Position	20 February	29 April	23 May	01 August	04 December
J. P. M. Ndegwa	Chairman	Yes	Yes	Yes	Yes	Yes
Dr. M. P. Chandaria OBE EBS	Vice-Chairman	Yes	Yes	Yes	Yes	Yes
P. K. Maina	CEO	Yes	Yes	Yes	Yes	Yes
D. G. M. Hutchison	Member	No	Yes	Yes	Yes	Yes
L. W. Muriuki	Member	Yes	Yes	Yes	No	Yes
S. O. Oluoch	Member	Yes	Yes	No	Yes	Yes
A.G. Vaidyan	Member	Represented	Represented	Represented	Represented	Represented
S. N. Adamali	Member	Yes	Yes	Yes	Yes	Yes
J.K. Kimeu	Member	Yes	Yes	Yes	Yes	Yes
K. Ontiti	Company Secretary	Yes	Yes	Yes	Yes	Yes
R. W. Gitonga	CFO	Yes	Yes	Yes	Yes	Yes

b) FII	Position	12 February	07 May	25 July	13 September	06 November
P. K. Mugambi	Chairman	Yes	Yes	Yes	Yes	Yes
P. K. Maina	CEO	Yes	Yes	Yes	Yes	Yes
J. K. Kimeu	Member	Yes	Yes	Yes	Yes	Yes
V.R. Kumar	Member	Yes	Yes	Yes	Yes	No
K. Ontiti	Company Secretary	Yes	Yes	Yes	Yes	Yes
R. W. Gitonga	CFO	Yes	Yes	Yes	Yes	Yes

c) ARC	Position	12 February	07 May	25 July	06 November
D. G. M Hutchison	Chairman	Yes	Yes	Yes	Yes
J. K. Kimeu	Member	Yes	Yes	Yes	Yes
P. K. Mugambi	Member	Yes	Yes	Yes	Yes
V.R. Kumar	Member	Yes	Yes	Yes	No
K. Ontiti	Company Secretary	Yes	Yes	Yes	Yes
P. K. Maina	CEO	Yes	Yes	Yes	Yes
R. W. Gitonga	CFO	Yes	Yes	Yes	Yes
D. Kaniaru	Risk Consultant	Yes	Yes	Yes	Yes

d) ENR	Position	18 February	07 November
J. P. M. Ndegwa	Chairman	Yes	Yes
P. K. Maina	CEO	Yes	Yes
P. K. Mugambi	Member	Yes	Yes
L. W. Muriuki	Member	Yes	Yes
V.R. Kumar	Member	Yes	No
K. Ontiti	Company Secretary	Yes	Yes
R. W. Gitonga	CFO	Yes	Yes
V. K. Maithya	HR & Adminstration Manager	Yes	Yes

10. 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.

11. 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).

12. SHAREHOLDERS

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

	2019 Holding Number of Shares	%	2018 Holding Number of Shares	%
ICEA LION Life Assurance Company Limited	463,627	30.91 %	463,627	30.91 %
First Chartered Securities Limited	397,829	26.52 %	397,829	26.52 %
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 %
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 %
	1,500,000	**100.00 %**	**1,500,000**	**100.00 %**

J.P.M. Ndegwa
Chairman
27 February 2020

D.G.M. Hutchison
Director
27 February 2020

P.K. Maina
Principal Officer
27 February 2020

Social and Environmental Responsibilities Statement

East Africa Reinsurance, through its Corporate Social Responsibility (CSR) program, impacts the community through sponsorships and donations towards Education, Health, Environment, Social and Child Welfare. In 2019, we undertook various activities in line with our vision to bring in positive impact by strengthening the ties with the community and our corporate social responsibility partners. The highlights of these activities are as follows:

Education

Our education program aims to support bright, orphaned, needy and destitute children. Under this program, we pay for school fees and in some cases pay towards upkeep of the most deserving cases. The number of students in our education program continues to grow year on year. Currently, the program has 25 students who are sponsored directly by the company and 9 students who are sponsored through partnerships with other institutions, among them Palmhouse Foundation and Street Children Association Network of Nakuru (SCANN).

Staff Members Visiting the Children at SCANN in Nakuru

The students we sponsor, not only need financial support, but also emotional support. We constantly engage them at individual level to understand their challenges and support where possible. In August 2019, the Company organized a mentorship session for students in form three, form four and those in institutions of higher learning. The aim of the mentorship session was to encourage them to study hard and make informed career choices.

In addition, the Company put in place a CSR Student Holiday Internship Program, which offers internship opportunities to students in higher learning institutions. This program targets former beneficiaries of education program and aims at providing them with a practical work experience in a corporate setup. The first beneficiary into this program was Diana Achieng a 2nd year student at Kenyatta University pursuing a Bachelor of Science in Industrial Chemistry.

Staff members, Dr. David Wachira and Students pose for a photo after the mentorship session

Health

Each year, the Company partners with Faraja Cancer Support Trust (Faraja) towards cancer treatment. In 2019, through Faraja's Crafts for Cure program, our staff visited children at the cancer ward at Kenyatta National Hospital (KNH). During the visit, Staff members interacted with the children through art and other fun activities. They also made a donation towards their medical treatment, craft materials and other stationery items.

Staff members and Volunteers from Faraja Cancer Support during a Crafts for Cure event at KNH

Environment

The Company sponsored a team to participate towards a fund raising event themed The Forest Challenge at Kereita forest. The proceeds of this initiative went towards rehabilitation and restoration of key water catchment forests in Kenya and is facilitated by East African Wild Life Society (EAWLS) in partnership with Kijabe Environment Volunteers (KENVO) and Kenya Forest Service (KFS). This initiative presented an opportunity for our staff to learn, experience and interact with nature deep in the forest in order to emerge as forest conservation ambassadors.


Our staff at Kereita Forest during the Forest Challenge

Social and Child Welfare

The Company partners with Ghetto Classics which is a flagship programme of the Art of Music Foundation to support children in the program. The support by the Company is through education sponsorships to children from the Ghetto Classics community and donations towards musical instruments and stationaries.

Ghetto Classic receiving donations

The Company also made a donation towards purchase of production materials for The Challenge Gift bags Organization, a small community development enterprise that rehabilitates street children. They offer food, clothing, shelter and education to them. The organization's source of income is by producing bags and cards from recycled materials which they sell to various organizations. The Company has been supporting them over the years by purchasing corporate gift bags for marketing initiatives.

Bringing Christmas cheer to the Community is one of the Company's annual tradition. In December 2019, our staff members visited Mji wa Huruma to deliver Christmas gifts to the elderly men and women living in the home. During the visit we donated food, toiletries and clothing as we mingled and interacted with them over a meal.

Staff members donating Christmas gifts to the elderly at Mji wa Huruma

Staff Driven Social Responsibility Initiatives

The Company donated towards Alliance High School Endowment Fund through a staff member who is an alumnus of Alliance High School. The staff member participated in a marathon organized by Alliance Classic Run, an initiative to raise money towards the Endowment Fund that raises school fees for bright and needy students in the school.

Our Staff member, Denis Miano, participating in the Alliance High School Endowment Fund Marathon

The Company also contributed towards the Miles for Shillings campaign, a fund raising initiative by a staff member in partnership with Faraja to raise funds towards cancer treatment.

Our Staff members continue to make personal donations in terms of clothes, shoes, books and stationaries to institutions such as Ghetto Classics, Mji wa Huruma, Wamo Non Formal Educational Center among others.

Rachael Gitonga presenting a cheque to Faraja Cancer Support after completing her Miles for Shillings campaign

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 the International Financial Reporting Standards and in the manner required by the Companies Act of 2015. They also accept responsibility for:

- Designing, implementing and maintaining such internal controls as they determine necessary to enable the presentation of financial statements that are free of material misstatement, whether due to fraud or error;
- Selecting suitable accounting policies and applying them consistently; and
- 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 of their responsibility.

Approved by the board of directors on 27 February 2020 and signed on its behalf by:

J.P.M. Ndegwa
Chairman
27 February 2020

D.G.M. Hutchison
Director
27 February 2020

P.K. Maina
Principal Officer
27 February 2020

Report of Consulting Actuary

I have conducted an insurance liability valuation of the short-term and an acturial valuation of the long-term businesses of East Africa Reinsurance Company Limited as at 31 December 2019.

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 2019.
- 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 31st December 2019.

J. I. Olubayi
Zamara Actuaries, Adminstrators and Consultants Limited
Nairobi

27 February 2020

Report on the financial statements

Opinion

We have audited the accompanying financial statements of East Africa Reinsurance Company Limited (the Company), set out on pages 32 to 76, which comprise the statement of financial position at 31 December 2019 and the statements of profit or loss and other 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 2019, 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 (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with 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.

With effect from 11 December 2019, PricewaterhouseCoopers, a partnership carrying on business under registration number BN.287839 was converted to PricewaterhouseCoopers LLP (LLP-2Y1AB7), a limited liability partnership under the Limited Liability Partnerships Act, 2011.

PricewaterhouseCoopers LLP. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 – 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Norbert's B Okundi K Saiti

Key audit matter	How our audit addressed the key audit matter
Revenue recognition In the ordinary course of business, the Company recognises accrued fourth quarter estimated 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. The pipeline premiums included under Note 3 amounted to Shs 1.2 billion. This is equivalent to 25% of the total gross written premiums. The determination of these balances is based in part on analysis of recent historical experience and management’s estimate of expected premiums. The estimates involve significant judgments on the assumptions used in estimating expected pipeline premiums based on historical trends as well as confirmations from the direct cedants on premiums yet to be submitted.	For the testing of revenue, we performed the following procedures: • 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
Determination of reinsurance/ reassurance contract liabilities The valuation of reinsurance contract liabilities included in Note 23 of the financial statements is an area of significant audit basis because the calculation of the reinsurance/reassurance contract liabilities involves significant management judgements and estimates of uncertain future events, claims behaviour and future economic conditions. As disclosed in Note 23, numerous assumptions are applied in determining the value of the reinsurance contract liabilities. Historical claims development factors are key judgement areas in the valuation of short term reinsurance contract liabilities that are high in magnitude	For the testing of the reinsurance/reassurance 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.

Other information

The other information comprises the General Information, Five Year Financial Summary, Notice of the Twenty Seventh Annual General Meeting, Chairman's Statement, Report of the Directors, Statement of Corporate Governance, 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 and will 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.

When we read the rest of the other information in the Annual Report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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.

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.

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 13 is consistent with the financial statements.

PricewaterhouseCoopers LLP

Certified Public Accountants
Nairobi

25 March
-------------------------------------- **2020**

CPA Bernice Kimacia, Practising certificate No. 1457.
Signing partner responsible for the independent audit

2019
FINANCIAL STATEMENTS

Statement of Profit or Loss and other Comprehensive income For the year ended 31 December 2019

	Notes	Long term business 2019 Shs'000	Short term business 2019 Shs'000	Total 2019 Shs'000	Long term business 2018 Shs'000	Short term business 2018 Shs'000	Total 2018 Shs'000
Gross written premiums	3	1,282,676	3,382,290	4,664,966	1,121,268	2,884,737	4,006,005
Gross earned premiums	3	1,244,391	3,140,345	4,384,736	747,330	3,056,632	3,803,962
Less: Retrocession premiums	3	(171,585)	(175,304)	(346,889)	(159,419)	(148,534)	(307,953)
Net earned premiums		**1,072,806**	**2,965,041**	**4,037,847**	**587,911**	**2,908,098**	**3,496,009**
Investment income	4	169,439	463,884	633,323	171,485	505,062	676,547
Acquisition costs recoverable from retrocessionaires		33,234	7,298	40,532	27,493	14,874	42,367
Other income		-	120	120	-	701	701
Total income		1,275,479	3,436,343	4,711,822	786,889	3,428,735	4,215,624
Gross claims incurred	5	(701,659)	(1,585,586)	(2,287,245)	(371,100)	(1,727,158)	(2,098,258)
Amounts recoverable from Retrocessionaires		120,215	(118,055)	2,160	77,890	26,393	104,283
Net claims incurred		(581,444)	(1,703,641)	(2,285,085)	(293,210)	(1,700,765)	(1,993,975)
Acquisition costs		(310,855)	(825,029)	(1,135,884)	(147,843)	(815,960)	(963,803)
Operating and other expenses	6	(98,628)	(357,056)	(455,684)	(71,734)	(363,333)	(435,067)
Total expenses		**(990,927)**	**(2,885,726)**	**(3,876,653)**	**(512,787)**	**(2,880,058)**	**(3,392,845)**
Profit before income tax		284,552	550,617	835,169	274,102	548,677	822,779
Income tax expense	7	(81,615)	(164,217)	(245,832)	(77,843)	(129,389)	(207,232)
Profit for the year		202,937	386,400	589,337	196,259	419,288	615,547
Other comprehensive income for the year		-	-	-	-	-	-
Total comprehensive income for the year		**202,937**	**386,400**	**589,337**	**196,259**	**419,288**	**615,547**
Earnings per share (Basic and Diluted)	9			392.89			410.36

Statement of Financial Position

As at 31 December 2019

	Notes	Long term business 2019 Shs'000	Short term business 2019 Shs'000	Total 2019 Shs'000	Long term business 2018 Shs'000	Short term business 2018 Shs'000	Total 2018 Shs'000
Assets							
Property and equipment	11	-	489,584	489,584	-	520,723	520,723
Investment properties	13	-	800,000	800,000	-	825,000	825,000
Intangible assets	12	-	6,098	6,098	-	-	-
Mortgage loans-staff	15	-	75,819	75,819	-	59,885	59,885
Government securities	19	989,962	2,245,671	3,235,633	1,183,778	2,257,377	3,441,155
Receivables arising out of retrocession arrangements		4,153	20,502	24,655	2,806	59,276	62,082
Receivables arising out of reinsurance arrangements		303,638	1,228,920	1,532,558	344,154	947,798	1,291,952
Deferred acquisition costs	16	140,966	401,054	542,020	124,158	320,937	445,095
Equity investments at fair value through profit or loss	14	22,475	45,335	67,810	14,049	29,860	43,909
Corporate bonds	18	45,826	192,805	238,631	85,897	521,353	607,250
Retrocessionares' share of reinsurance liabilities	16	111,949	266,802	378,751	70,255	412,163	482,418
Other receivables	17	2,869	346,548	349,417	19,928	231,562	251,490
Current tax recoverable		-	-	-	-	3,421	3,421
Deposits with financial institutions	20	607,626	1,863,533	2,471,159	250,836	1,178,029	1,428,865
Cash and cash equivalents	26	25,037	243,512	268,549	30,744	181,943	212,687
Total Assets		**2,254,501**	**8,226,183**	**10,480,684**	**2,126,605**	**7,549,327**	**9,675,932**
Equity and Liabilities							
Equity							
Share capital	21	500,000	1,000,000	1,500,000	500,000	1,000,000	1,500,000
General reserve	10	496,345	-	496,345	530,346	-	530,346
Revaluation reserve	10	-	281,068	281,068	-	299,956	299,956
Fair value reserve	10	-	3,950	3,950	-	5,011	5,011
Retained earnings	10	-	2,794,949	2,794,949	-	2,251,662	2,251,662
Total Equity		**996,345**	**4,079,967**	**5,076,312**	**1,030,346**	**3,556,629**	**4,586,975**

Statement of Financial Position

As at 31 December 2019

	Notes	Long term business 2019 Shs'000	Short term business 2019 Shs'000	Total 2019 Shs'000	Long term business 2018 Shs'000	Short term business 2018 Shs'000	Total 2018 Shs'000
Liabilities							
Current income tax		19,409	153	19,562	24,339	-	24,339
Provision for unearned premiums	22	593,440	1,338,943	1,932,383	555,156	1,096,998	1,652,154
Other payables	24	253,244	467,936	721,180	140,026	371,714	511,740
Payables arising from retrocession arrangements		18,846	47,644	66,490	14,667	57,065	71,732
Reinsurance/reassurance contract liabilities	23	101,420	1,612,145	1,713,565	95,053	1,777,222	1,872,275
Deferred acqusition cost arising from retrocession arrangements		19,796	7,495	27,291	14,085	-	14,085
Payables arising from reinsurance arrangements		37,665	547,226	584,891	24,025	570,216	594,241
Deferred Income Tax	25	214,336	124,674	339,010	228,908	119,483	348,391
Total Liabilities		**1,258,156**	**4,146,216**	**5,404,372**	**1,096,259**	**3,992,698**	**5,088,957**
Total Equity and Liabilities		**2,254,501**	**8,226,183**	**10,480,684**	**2,126,605**	**7,549,327**	**9,675,932**

The financial statements and the notes on pages 32 to 76, were approved and authorized for issue by the board of directors on the 27 February 2020 and were signed on its behalf by:

J.P.M. Ndegwa
Chairman
27 February 2020

D.G.M. Hutchison
Director
27 February 2020

P.K. Maina
Principal Officer
27 February 2020

Statements of Changes in Equity

For the year ended 31 December 2019

	Share capital Shs'000	Revaluation reserve Shs'000	Fair value reserve Shs'000	General reserve Shs'000	Total reserves Shs'000	Retained earnings Shs'000	Total equity Shs'000
Balance at 1 January 2018	**1,500,000**	**312,344**	**6,624**	**511,577**	**830,545**	**1,740,883**	**4,071,428**
Profit for the year	-	-	-	196,259	196,259	419,288	615,547
Actuarial surplus transfer	-	-	-	(177,490)	(177,490)	177,490	-
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	18,769	18,769	596,778	615,547
Fair value reserve	-	-	(1,613)	-	(1,613)	1,613	-
Transfer of excess depreciation	-	(17,697)	-	-	(17,697)	17,697	-
Deferred tax on excess depreciation	-	5,309	-	-	5,309	(5,309)	-
Dividends paid 2017	-	-	-	-	-	(100,000)	(100,000)
Balance at 31 December 2018 and 1 January 2019	**1,500,000**	**299,956**	**5,011**	**530,346**	**835,313**	**2,251,662**	**4,586,975**
Profit for the year	-	-	-	202,937	202,937	386,400	589,337
Actuarial surplus transfer	-	-	-	(236,938)	(236,938)	236,938	-
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(34,001)	(34,001)	623,338	589,337
Fair value reserve	-	-	(1,061)	-	(1,061)	1,061	-
Transfer of excess depreciation	-	(26,982)	-	-	(26,982)	26,982	-
Deferred tax on excess depreciation	-	8,094	-	-	8,094	(8,094)	-
Dividends paid 2018	-	-	-	-	-	(100,000)	(100,000)
Balance at 31 December 2019	**1,500,000**	**281,068**	**3,950**	**496,345**	**781,363**	**2,794,949**	**5,076,312**
Notes	21	10	10	10		10	

Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Cash generated from/(used in) operations	27	210,731	(81,488)
Income tax paid	8	(256,569)	(152,738)
Net cash from operating activities		**(45,838)**	**(234,226)**
Cash flows from investing activities			
Purchase of property and equipment	11	(3,071)	(6,928)
Proceeds of disposal of motor vehicle and equipment		120	700
Additions to investment properties	13	(183)	(2,477)
Purchase of intangible assets (computer software)	12	(7,507)	-
Redemption/(purchase) of government securities		255,153	(331,989)
Investment income received		708,883	692,170
Redemption of corporate bonds		372,443	10,044
Investment in deposits with financial institutions maturing over 3 months		(820,296)	(39,302)
Purchase of quoted shares	14	(13,998)	(29,740)
Proceeds of disposal of quoted shares		-	131,465
Mortgage loans advanced	15	(22,275)	(24,300)
Mortgage loans repaid	15	6,341	4,055
Net cash from investing activities		**475,610**	**403,698**
Cash flows from financing activities			
Dividends paid		(100,000)	(100,000)
Net Increase in Cash and Cash Equivalents		**329,772**	**69,472**
Cash and Cash Equivalents at 1 January		573,501	504,029
Cash and Cash Equivalents at 31 December	**26**	**903,273**	**573,501**

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 and other comprehensive income.

1. 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.

1.1 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 land and buildings, 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 1.17.

1.2 Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

(a) 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 thataffects 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.

(b) Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation 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.

1.2 Changes in accounting policy and disclosures (continued)

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

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

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.

(c) 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.

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

(a) IFRS 17 Insurance Contracts – Effective 1 January 2022

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model

- 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.

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.

1.3 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.

1.3 Reinsurance contracts (continued)

(a) Classification (continued)

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 60% 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.

(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.

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.

1.3 Reinsurance contracts (continued)

(b) Recognition and measurement (continued)

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) Acquistion costs

A proportion of total acquisition costs is deferred and amortized over the period in which the related premium is earned. Acquisition costs recoverable are recognized as income in the period in which they are earned.

iv) Deferred acquisition costs

Deferred acquisition costs represent a proportion of the acquisition costs 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 risk premium rebates. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off RPR and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

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

vi) Retrocession contracts held

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

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

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

1.3 Reinsurance contracts (continued)

(b) Recognition and measurement (continued)

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.

1.4 Revenue recognition

i) Reinsurance premium revenue

The revenue recognition policy relating to reinsurance contracts is set out under note 1.3 (b) (i) above.

ii) Interest income

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

iii) Dividend income

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

iv) 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.

1.5 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.Other categories of property and 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	28 years
• Motor vehicles	4 years
• Computer equipment and software	3 years
• Furniture, fittings and office equipment	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.

1.5 Property and equipment (continued)

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.

1.6 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.

1.7 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.

1.8 Financial assets

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.

1.8 Financial assets (continued)

(ii) Measurement (continued)

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.

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 themeasurement 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.

1.8 Financial assets (continued)

(iv) Impairment

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.

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;

  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:
- Significant financial difficulty of the issuer or the borrower;
- A breach of contract - e.g. a default or past-due event;
- 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;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- 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 to receivables arising out of reinsurance arrangements.

1.8 Financial assets (continued)

(iv) Impairment (continued)

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.

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.

1.9 Impairment of other non-financial asset

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.

1.10 Financial liabilities

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

1.11 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.

1.12 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.

1.13 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.

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.

1.14 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.

1.15 Share capital

Ordinary shares are classified as equity.

1.16 Current and deffered 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.

1.17 Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and 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 23.

b) Reinsurance income and expense transactions

Estimates are made for; premium revenue earned but not reported by the Company cedants, claims, insurance benefits inccured and other related expenses.

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 23.

c) Impairment losses on financial assets

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

- Determining the criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings for a forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing groups of similar assets for the purposes of measuring ECL.
- The Company uses historical data to project the possibility of default.

The Company uses the possibility of default tables supplied by S&P based on the default history of a particular company with the same credit rating. This also applies to unrated investments which are mapped to the equivalent external credit ratings.Any change in the counterparty leads to a change in the estimated possibility of default.

Note 2 sets out information about the impairment of financial assets and the Company's exposure to credit risk.

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.

2. INSURANCE/FINANCIAL RISK/CAPITAL MANAGEMENT

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 2019		TOTAL EXPOSURE			
Class of business		0 – 20 million Shs'000	20 – 250 million Shs'000	250 – 1000 million Shs'000	Total Shs'000
Long term & Short-term business					
Ordinary life	Gross	7,925,473	623,247	-	8,548,720
	Net	5,851,750	460,172	-	6,311,922
Group life	Gross	247,502,171	37,073,536	-	284,575,707
	Net	175,658,380	34,180,743	-	209,839,123
Fire	Gross	2,452,318	19,070,124	8,381,120	29,903,562
	Net	2,452,318	19,070,124	8,381,120	29,903,562
Miscellaneous	Gross	1,709,095	5,039,213	2,793,816	9,542,124
	Net	1,709,095	5,039,213	2,793,816	9,542,124
Motor	Gross	1,138,447	1,475,254	-	2,613,701
	Net	1,138,447	1,475,254	-	2,613,701
Others	Gross	1,851,307	8,701,222	2,339,745	12,892,274
	Net	1,851,307	8,701,222	2,339,745	12,892,274
Total	**Gross**	**262,578,811**	**71,982,596**	**13,514,681**	**348,076,088**
Total	**Net**	**188,661,297**	**68,926,728**	**13,514,681**	**271,102,706**

The Company's earthquake exposure for the Nairobi zone is estimated at Shs 46,137,924,298 (2018: Shs 68,733,334,641).

2. INSURANCE/FINANCIAL RISK/CAPITAL MANAGEMENT (continued)

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

Class	Limit (Shs)
Property	3,500 million in excess of 50 million Facultative Facility Limit: 600 million
Marine	750 million in excess of 15 million
Miscellaneous Accident	70 million in excess of 30 million
Terrorism and Political Risks	Quota Share Limit: 808 million

Life reassurance business

Life business	Warranted minimum number of victims:
	Company's Catastrophe (CAT) retention: 6 million
	Reimbursable portion: 100%
	Reinsurer's max liability: 2 million per life,
	100 million per CAT and 200 millionper 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 2018		TOTAL EXPOSURE			
Class of business		0 – 20 million Shs'000	20 – 250 million Shs'000	250 – 1000 million Shs'000	Total Shs'000
Long term & Short-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
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
Total	**Gross**	**267,677,630**	**70,473,447**	**9,829,444**	**347,980,521**
Total	**Net**	**192,272,969**	**67,742,279**	**9,829,444**	**269,844,692**

2. INSURANCE/FINANCIAL RISK/CAPITAL MANAGEMENT (continued)

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.

Liquidity risk

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

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

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

As at 31 December 2019	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
Liabilities						
Reinsurance contract liabilities	1,713,565	-	-	-	-	1,713,565
Payables arising out of retrocession arrangements	66,490	-	-	-	-	66,490
Payables arising out of reinsurance arrangements	584,891	-	-	-	-	584,891
Other payables	721,180	-	-	-	-	721,180
Total financial liabilities (contractual maturity dates)	**3,086,126**	**-**	**-**	**-**	**-**	**3,086,126**

As at 31 December 2018	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
Liabilities						
Reinsurance contract liabilities	1,872,275	-	-	-	-	1,872,275
Payables arising out of retrocession arrangements	71,732	-	-	-	-	71,732
Payables arising out of reinsurance arrangements	594,241	-	-	-	-	594,241
Other payables	511,740	-	-	-	-	511,740
Total financial liabilities (contractual maturity dates)	**3,049,988**	**-**	**-**	**-**	**-**	**3,049,988**

2. INSURANCE/FINANCIAL RISK/CAPITAL MANAGEMENT (continued)

FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

(i) Financial instruments not measured at fair value

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

(ii) Fair value hierarchy

As at 31 December 2019	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Quoted equities	67,810	-	-	67,810

As at 31 December 2018	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Quoted equities	43,909	-	-	43,909

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

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.
Specific valuation techniques used to value financial instruments include
- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

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

There was no movement in level 3 during the year.

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, Tanzania Shilling and Indian Rupee. 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).

2. INSURANCE/FINANCIAL RISK/CAPITAL MANAGEMENT (continued)

Market risk (continued)

(i) Foreign exchange risk (continued)

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 2019, 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 33,387,299 (2018: Shs 14,164,469) 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 0.66% (2018: 0.51%) of the Company's net assets.

At 31 December 2019, if the Kenya Shilling had weakened/strengthened by 10% against the Indian Rupee with all other variables held constant, the net assets for the year would have been Shs 9,442,782 (2018: Shs 603,323) higher/ lower, mainly as a result of translation differences on Indian rupee denominated trade receivables and trade payables. This is insignificant as the portion of Indian Rupee denominated net assets constitute only 0.19% (2018: 0.01%) 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 2019 investments in equities constituted only 0.65% (2018: 0.45%) of the total assets.

At 31 December 2019, if the share prices at the NSE had increased/decreased by 10% (2018: 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 6,780,840 (2018: Shs 4,390,683) higher/lower, and equity would have been Shs 6,780,840 (2018: Shs 4,390,683) higher/lower.

(iii) Interest rate risk

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

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

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

	Effect on equity 2019 Shs'000	Effect on profit 2019 Shs'000	Effect on profit 2018 Shs'000	Effect on equity 2018 Shs'000
+5 percentage point movement	12,910	12,910	6,225	6,225
-5 percentage point movement	(12,910)	(12,910)	(6,225)	(6,225)

2. INSURANCE/FINANCIAL RISK/CAPITAL MANAGEMENT (continued)

Credit risk

Credit risk arises from cash and short term investments as well as trade and other receivables. The credit controller assesses the credit quality of each client, taking into account its financial position, past experience and other factors. For banks and financial institutions, only reputable well established financial institutions are accepted. For reinsurance receivables, the credit controller assesses the credit quality of each cedant, taking into account its financial position, past experience and other factors.

The company has the following types of financial assets that are subject to the expected credit loss model; i.e. receivables arising out of reinsurance arrangements, investments at amortized cost and cash and cash equivalents.

(i) Receivables arising out of reinsurance arrangements

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables arising from reinsurance arrangements.

The expected loss rates are based on the provision matrix for the receivables balances over a period of 2-5 years and the corresponding development of the balances within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the cedants to settle the receivables. The company has assessed the impact of macroeconomic factors and the impact has been incorporated in the model.

Receivables arising out of reinsurance arrangements are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a cedant to engage in a repayment plan with the company and where the cedant has been declared insolvent.

Debts that are considered to be non-performing are impaired at 100%.

(ii) Related party receivables

Related party receivable balances are assessed for impairment based on the counterparty's ability to settle on demand.

(iii) Cash and cash equivalents

For cash at bank, management assesses the expected credit loss based on probability of default attached to the various banks by external rating agencies.

(iv) Government securities

Management assesses the expected credit loss on government securities based on probability of default attached to the Government of Kenya by external rating agencies.

(v) Corporate bonds

Management assesses the expected credit loss on corporate bonds based on probability of default attached to the corporate entities by external rating agencies. For instances where the external agencies ratings do not reflect the country prevailing financial conditions, ratings per the internal counterparty model developed are applied.

(vi) Deposits with financial institutions

For term and call deposits, management assesses the expected credit loss based on probability of default attached to the various banks by external rating agencies.

2. INSURANCE/FINANCIAL RISK/CAPITAL MANAGEMENT (continued)

FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The table below details the maximum exposure to credit risk:

As at 31 December 2019	Gross Amounts Shs'000	Expected Credit Loss (ECL) Shs'000	Net Amounts Shs'000
Receivables arising out of reinsurance arrangements	1,715,521	(182,963)	1,532,558
Government securities	3,238,869	(3,236)	3,235,633
Corporate Bonds	238,726	(95)	238,631
Deposits with financial institutions	2,482,107	(10,948)	2,471,159
Bank balances	270,263	(1,714)	268,549
Staff receivables	75,819	-	75,819
Other receivables (excluding prepayments)	339,189	-	339,189
Receivables arising out of retrocession arrangements	24,655	-	24,655
Retrocession share of reinsurance liabilities	378,751	-	378,751
	8,763,900	**(198,956)**	**8,564,944**

As at 31 December 2018	Gross Amounts Shs'000	Expected Credit Loss (ECL) Shs'000	Net Amounts Shs'000
Receivables arising out of reinsurance arrangements	1,509,438	(217,486)	1,291,952
Government securities	3,444,600	(3,445)	3,441,155
Corporate bonds	611,170	(3,920)	607,250
Deposits with financial institutions	1,437,587	(8,722)	1,428,865
Bank balances	214,137	(1,450)	212,687
Staff receivables	59,885	-	59,885
Other receivables (excluding prepayments)	249,415	-	249,415
Receivables arising out of retrocession arrangements	62,082	-	62,082
Retrocession share of reinsurance liabilities	482,418	-	482,418
	8,070,732	**(235,023)**	**7,835,709**

2. INSURANCE/FINANCIAL RISK/CAPITAL MANAGEMENT (continued)

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 2019.

The Company is subject to risk based capital requirements.

The Company's Capital Adequacy Ratio (CAR) stood at 294% and 175% 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.

3. GROSS WRITTEN, GROSS EARNED AND RETROCESSION PREMIUMS

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

	GWP 2019 Shs'000	GEP 2019 Shs'000	Retro 2019 Shs'000	GWP 2018 Shs'000	GEP 2018 Shs'000	Retro 2018 Shs'000
Long-term business						
Ordinary life	38,644	36,728	5,453	48,553	29,855	14,757
Group life	1,244,032	1,207,663	166,132	1,072,715	717,475	144,662
	1,282,676	**1,244,391**	**171,585**	**1,121,268**	**747,330**	**159,419**
Short-term business						
Aviation	2,265	1,752	-	1,939	2,032	-
Engineering	293,964	252,236	254	202,428	220,645	303
Fire	1,485,294	1,367,745	131,002	1,181,308	1,261,153	72,060
Liability	17,244	14,819	-	9,050	9,205	-
Marine	171,934	171,449	4,363	173,470	187,759	13,300
Motor	314,367	299,085	11	281,287	283,899	1,319
Personal accident	22,106	22,580	-	25,728	27,439	3
Medical	583,441	577,933	-	640,407	663,585	14,056
Miscellaneous	491,675	432,746	39,674	369,120	400,915	47,493
	3,382,290	**3,140,345**	**175,304**	**2,884,737**	**3,056,632**	**148,534**
Total	**4,664,966**	**4,384,736**	**346,889**	**4,006,005**	**3,803,962**	**307,953**

4. INVESTMENT INCOME

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000	Long term business 2018 Shs'000	Short term business 2018 Shs'000	Total 2018 Shs'000
Investments held to maturity						
Interest income-Government Securities	126,701	267,887	394,588	136,168	273,132	409,300
Interest income-Corporate Bonds	9,296	53,546	62,842	11,162	67,309	78,471
Interest income-Bank deposits	37,759	139,254	177,013	29,158	104,679	133,837
	173,756	**460,687**	**634,443**	**176,488**	**445,120**	**621,608**
Investments at fair value through profit or loss						
Unrealized fair value loss on equity investments at fair value through profit and loss	4,227	5,676	9,903	(1,254)	(2,088)	(3,342)
Dividend income	1,421	2,907	4,328	210	361	571
Realised gain on sale of equity investments fair value through profit or loss	-	-	-	5,262	11,743	17,005
	5,648	**8,583**	**14,231**	**4,218**	**10,016**	**14,234**
Loans and receivables						
Interest income -Loans	-	4,128	4,128	-	2,877	2,877
	-	**4,128**	**4,128**	**-**	**2,877**	**2,877**
Investment properties						
Fair value gain on investment property	-	(25,183)	(25,183)	-	22,523	22,523
Rental income	-	65,555	65,555	-	66,189	66,189
	-	**40,372**	**40,372**	**-**	**88,712**	**88,712**
Other Income & Investment Expenses						
Other income	-	429	429	-	924	924
Investment expenses	(9,965)	(50,315)	(60,280)	(9,221)	(42,587)	(51,808)
Investment and other income (net)	**169,439**	**463,884**	**633,323**	**171,485**	**505,062**	**676,547**

5. GROSS CLAIMS INCURRED

	2019 Shs'000	2018 Shs'000
Long-term business actuarial liabilities		
Reinsurance contracts relating to fixed and guaranteed terms:		
Death benefits		
Ordinary Life	1,966	5,829
Group Life	693,327	432,050
Increase in reassurance contract liabilities:		
Ordinary Life	-	-
Group Life	6,366	(66,779)
	701,659	**371,100**
Short term business		
Claims payable by principal class of business:		
Aviation	(7,282)	11,438
Engineering	273,591	88,398
Fire	(173,817)	678,759
Liability	281,313	174
Marine	47,956	124,777
Motor	461,882	267,662
Personal accident	13,847	11,846
Medical	356,495	396,213
Miscellaneous accident	331,601	147,891
	1,585,586	**1,727,158**
Long term	701,659	371,100
Short term	1,585,586	1,727,158
	2,287,245	**2,098,258**

6. OPERATING AND OTHER EXPENSES

The following are included in operating and other expenses:

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
Employee benefit expense	37,315	166,411	203,726
Auditors' remuneration	500	3,669	4,169
Directors' fees	614	5,306	5,920
Depreciation (Note 11)	-	34,210	34,210
Impairment of other financial assets excluding reinsurance receivables	(193)	(1,353)	(1,546)
Net foreign exchange losses/(gains)	848	(12,439)	(11,591)
Medical costs	1,301	9,542	10,843
Impairment charge for doubtful reinsurance premium receivables	(703)	(3,130)	(3,833)
Amortisation of intangible assets (Note 12)	-	1,410	1,410

6. OPERATING AND OTHER EXPENSES (continued)

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
Employee benefit expense	33,721	137,638	171,359
Auditors' remuneration	461	3,332	3,793
Directors' fees	919	6,741	7,660
Depreciation (Note 11)	-	32,889	32,889
Impairment of other financial assets excluding reinsurance receivables	1,028	2,877	3,905
Net foreign exchange losses/(gains)	531	(557)	(26)
Medical costs	1,422	4,919	6,341
Impairment charge for doubtful reinsurance premium receivables	1,785	42,267	44,052
Amortisation of intangible assets (Note 12)	-	-	-

Employee benefit expense comprise the following:

The number of persons employed by the Company at year end was 23 (2018: 25):

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
Salaries and wages	34,881	156,875	191,756
Retirement benefit cost	2,419	9,494	11,913
National social security benefit costs	15	42	57
	37,315	**166,411**	**203,726**

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
Salaries and wages	31,487	129,256	160,743
Retirement benefit cost	2,218	8,339	10,557
National social security benefit costs	16	43	59
	33,721	**137,638**	**171,359**

7. INCOME TAX EXPENSE

The Company's current tax charge is computed in accordance with income tax rules applicable to composite Kenyan insurance companies

a) Tax expense

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
Current income tax	96,187	159,026	255,213
Deferred income tax	(14,572)	5,191	(9,381)
Income tax expense	**81,615**	**164,217**	**245,832**

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
Current income tax	69,799	144,400	214,199
Deferred income tax	8,044	(15,011)	(6,967)
Income tax expense	**77,843**	**129,389**	**207,232**

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

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
Profit before income tax	284,552	550,617	835,169
Tax at the applicable tax rate of 30% (2018: 30%)	96,187	165,185	261,372
Tax effect of adjustments on taxable income			
Tax effect of income not subject to tax	-	(21,752)	(21,752)
Underwriting provisions for deferred tax relating to prior year	-	-	-
Tax effect of expenses not deductible for tax purposes	-	20,784	20,784
Deferred tax on life surplus	(14,572)	-	(14,572)
Income tax expense	**81,615**	**164,217**	**245,832**

7. INCOME TAX EXPENSE (continued)

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
Profit before income tax	274,102	548,677	822,779
Tax at the applicable tax rate of 30% (2018: 30%)	69,799	164,603	234,402
Tax effect of adjustments on taxable income			
Tax effect of income not subject to tax	-	(37,027)	(37,027)
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
Deferred tax on life surplus	8,044	-	8,044
Income tax expense	**77,843**	**129,389**	**207,232**

8. CORPORATE TAX PAYABLE

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
At 1st January	(24,339)	3,421	(20,918)
Current income tax	(96,187)	(159,026)	(255,213)
At 31 December	19,409	153	19,562
Income tax paid in the year	**(101,117)**	**(155,452)**	**(256,569)**

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
At 1st January	(4,073)	44,616	40,543
Current income tax	(69,799)	(144,400)	(214,199)
At 31 December	24,339	(3,421)	20,918
Income tax paid in the year	**(49,533)**	**(103,205)**	**(152,738)**

9. 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:

As at 31 December	2019	2018
Profit attributable to shareholders (Shs'000)	589,337	615,547
Weighted average number of shares (Shs'000')	1,500	1,500
	392.89	**410.36**

There were no potentially dilutive shares outstanding as at 31 December 2019 and 31 December 2018. Diluted earnings per share is therefore the same as basic earnings per share.

10. RESERVES

a) FAIR VALUE RESERVE

The fair value reserve represents the cumulative surplus or deficit arising from revaluation of available-for-sale investments 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.

11. PROPERTY AND EQUIPMENT

	2019			2018		
	Cost or revaluation Shs'000	Accumulated-carrying value depreciation Shs'000	carrying value Shs'000	Cost or revaluation Shs'000	Accumulated-carrying value depreciation Shs'000	carrying value Shs'000
Land	498,000	(55,209)	442,791	498,000	(27,534)	470,466
Buildings	42,000	(4,385)	37,615	42,000	(1,576)	40,424
Furniture and fixtures	16,704	(11,715)	4,989	15,934	(11,449)	4,485
Motor vehicles	6,078	(3,140)	2,938	6,085	(1,679)	4,406
Computers	10,674	(9,423)	1,251	9,320	(8,378)	942
Total	**573,456**	**(83,872)**	**489,584**	**571,339**	**(50,616)**	**520,723**

Reconciliation of property and equipment- 2019

	Opening balance Shs'000	Additions Shs'000	Depreciation Shs'000	Total Shs'000
Land	470,466	-	(27,675)	442,791
Buildings	40,424	-	(2,809)	37,615
Furniture and fixtures	4,486	1,717	(1,214)	4,989
Motor vehicles	4,405	-	(1,467)	2,938
Computer Equipment	942	1,354	(1,045)	1,251
	520,723	**3,071**	**(34,210)**	**489,584**

11. PROPERTY AND EQUIPMENT (continued)

Reconciliation of property and equipment - 2018

	Opening balance Shs'000	Additions Shs'000	Depreciation Shs'000	Total Shs'000
Land	498,000	-	(27,534)	470,466
Buildings	42,000	-	(1,576)	40,424
Furniture and fixtures	5,467	76	(1,057)	4,486
Motor vehicles	62	5,863	(1,519)	4,405
Computer Equipment	1,155	990	(1,203)	942
	546,684	**6,929**	**(32,889)**	**520,723**

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.

12. INTANGIBLE ASSETS

	2019			2018		
	Cost or revaluation Shs'000	Accumulated-carrying value depreciation Shs'000	carrying value Shs'000	Cost or revaluation Shs'000	Accumulated-carrying value depreciation Shs'000	carrying value Shs'000
Computer software	26,715	(20,617)	6,098	19,206	(19,206)	-

Reconciliation of intangible assets - 2019

Opening balance Shs'000	Additions Shs'000	Amortisation Shs'000	Total Shs'000
-	7,507	(1,409)	6,098

13. INVESTMENT PROPERTIES

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
At 1 January	-	825,000	825,000
Additions during the year	-	183	183
Fair value loss	-	(25,183)	(25,183)
At 31 December	**-**	**800,000**	**800,000**

13. INVESTMENT PROPERTIES (continued)

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
At 1st January	-	800,000	800,000
Additions during the year	-	2,477	2,477
Fair value gain	-	22,523	22,523
At 31 December	**-**	**825,000**	**825,000**

Investment properties are carried at fair value and were last revalued on 13 January 2020, by Lloyd Masika, independent valuers, on investment basis. 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
As at 31 December 2019	-	800,000	-	800,000
As at 31 December 2018	-	825,000	-	825,000

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.

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

Quoted investments - at fair value through profit or loss

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
At 1 January	14,049	29,860	43,909
Additions	4,199	9,799	13,998
Fair value gains	4,227	5,676	9,903
At 31 December	**22,475**	**45,335**	**67,810**

14. EQUITY INVESTMENTS - AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
At 1 January	38,511	93,461	131,972
Additions	9,914	19,826	29,740
Disposals	(33,122)	(81,339)	(114,461)
Fair value losses	(1,254)	(2,088)	(3,342)
At 31 December	**14,049**	**29,860**	**43,909**

15. MORTGAGE LOANS – STAFF

(a) Mortgage loans

	2019 Shs'000	2018 Shs'000
At 1 January	59,885	39,640
Loans advanced	22,275	24,300
Loans repayments	(6,341)	(4,055)
	75,819	**59,885**

	2019 Shs'000	2018 Shs'000
Maturity profile of mortgage loans: Loans maturing:		
Within 1 year	23,260	-
Over 5 years	52,559	59,885
	75,819	**59,885**

This represents mortgage loans extended to members of staff. There were no impairment losses recorded against mortgage loans for the years ended 31 December 2018 and 31 December 2019.

Lending commitments:

There were no mortgage loans approved but not advanced at 31 December 2019 (2018: Nil).

16. RETROCESSIONAIRES' SHARE OF REINSURANCE LIABILITIES

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
Retrocessionaires' share of:			
Unearned premiums	94,800	26,392	121,192
Outstanding claims	17,149	240,410	257,559
	111,949	**266,802**	**378,751**

16. RETROCESSIONAIRES' SHARE OF REINSURANCE LIABILITIES (continued)

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
Retrocessionaires' share of:			
Unearned premiums	56,775	-	56,775
Outstanding claims	13,480	412,163	425,643
	70,255	**412,163**	**482,418**

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.

DEFERRED ACQUISITION COSTS ARISING FROM RETROCESSION ARRANGEMENTS

	Gross 2019 Shs'000	Retro 2019 Shs'000	Net 2019 Shs'000	Gross 2018 Shs'000	Retro 2018 Shs'000	Net 2018 Shs'000
At 1 January	401,054	7,495	393,559	320,937	-	320,937
increase in the year	140,966	19,796	121,170	124,158	14,085	110,073
At 31 December	**542,020**	**27,291**	**514,729**	**445,095**	**14,085**	**431,010**

17. OTHER RECEIVABLES

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
Due from long-term to short-term (Note 24)	-	250,403	250,403
Due from related companies (Note 29)	2,427	67,706	70,133
Prepayments and other receivables	442	21,223	21,665
Car Loans -staff*	-	7,216	7,216
	2,869	**346,548**	**349,417**

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
Due from long-term to short-term (Note 24)	-	137,567	137,567
Due from related companies (Note 29)	19,486	75,114	94,600
Prepayments and other receivables	442	12,026	12,468
Car Loans -staff*	-	6,855	6,855
	19,928	**231,562**	**251,490**

*These are car loans extended to members of staff. There were no impairment losses recorded against car loans in 2019 (2018: Nil). The car and staff benefits acts as collateral for loan extended.

18. CORPORATE BONDS

At amortized cost
Corporate bonds maturing:

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
- 1 to 5 years	45,844	192,882	238,726
- Impairment IFRS 9	(18)	(77)	(95)
	45,826	**192,805**	**238,631**

At amortized cost
Corporate bonds maturing:

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
- 1 to 5 years	86,393	524,777	611,170
- Impairment IFRS 9	(496)	(3,424)	(3,920)
	85,897	**521,353**	**607,250**

19. GOVERNMENT SECURITIES

Treasury bills

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
- within 90 days	-	186,502	186,502
-In 91 days - 1 year	195,764	275,170	470,934
	195,764	**461,672**	**657,436**

Treasury bonds maturing:

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
- In 91days -1 year	-	20,020	20,020
- In 1 to 5 years	435,205	1,033,489	1,468,694
-Over 5 years	359,983	732,736	1,092,719
	795,188	1,786,245	2,581,433
Impairment IFRS 9	(990)	(2,246)	(3,236)
Total	**989,962**	**2,245,671**	**3,235,633**

19. GOVERNMENT SECURITIES (continued)

Treasury bills

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
- within 90 days	39,165	97,914	137,079
-In 91 days - 1 year	353,711	368,619	722,330
	392,876	**466,533**	**859,409**

Treasury bonds maturing:

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
- In 91days -1 year	40,698	163,857	204,555
- In 1 to 5 years	330,365	782,096	1,112,461
-Over 5 years	421,024	847,151	1,268,175
	792,087	1,793,104	2,585,191
Impairment IFRS 9	(1,185)	(2,260)	(3,445)
Total	**1,183,778**	**2,257,377**	**3,441,155**

Treasury bonds include Shs 605,000,000 (2018: Shs 605,000,000) 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.

20. DEPOSITS WITH FINANCIAL INSTITUTIONS

At amortized cost
Deposits maturing

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
Within 90 days	70,884	375,624	446,508
In 91 days to - 1 year	540,183	1,495,416	2,035,599
Impairment IFRS 9	(3,441)	(7,507)	(10,948)
	607,626	**1,863,533**	**2,471,159**

20. DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

At amortized cost
Deposits maturing

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
Within 90 days	59,575	162,710	222,285
In 91 days to - 1 year	194,185	1,021,117	1,215,302
Impairment IFRS 9	(2,924)	(5,798)	(8,722)
	250,836	1,178,029	1,428,865

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:

	2019 Shs'000	2018 Shs'000
Government Securities	12.24 %	12.02 %
Corporate Bonds	14.02 %	13.16 %
Deposits with financial institutions (Kshs)	9.55 %	10.62 %
Deposits with financial institutions (USD)	3.6 %	- %
Mortgage loans(on reducing balance)	5.00 %	5.00 %

21. SHARE CAPITAL

	Number of ordinary shares	Long term business Shs'000	Short term business Shs'000	Total Shs'000
Balance at 1 January 2018, 1 January 2019 and 31 December 2019	1,500,000	500,000	1,000,000	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.

22. 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:

Long term

	Gross 2019 Shs'000	Retro 2019 Shs'000	Net 2019 Shs'000	Gross 2018 Shs'000	Retro 2018 Shs'000	Net 2018 Shs'000
At 1 January	555,156	56,775	498,381	181,218	21,168	160,050
Increase in year	38,284	38,024	260	373,938	35,607	338,331
At 31 December	**593,440**	**94,799**	**498,641**	**555,156**	**56,775**	**498,381**

Short term

	Gross 2019 Shs'000	Retro 2019 Shs'000	Net 2019 Shs'000	Gross 2018 Shs'000	Retro 2018 Shs'000	Net 2018 Shs'000
At 1 January	1,096,998	-	1,096,998	1,268,893	14,116	1,254,777
(Decrease) /increase in the year	241,945	26,393	215,552	(171,895)	(14,116)	(157,779)
At 31 December	**1,338,943**	**26,393**	**1,312,550**	**1,096,998**	**-**	**1,096,998**

23. REINSURANCE/REASSURANCE CONTRACT LIABILITIES

	2019 Shs'000	2018 Shs'000
(a) Long term reassurance contracts		
Claims (gross) reported and claims handling expenses	101,420	95,053
Total - long term	**101,420**	**95,053**
b) Short-term reinsurance contracts		
Claims (gross) reported and claims handling expenses including incurred but not reported claims	1,612,145	1,777,222
Total – short term	**1,612,145**	**1,777,222**
	1,713,565	**1,872,275**

23. REINSURANCE/REASSURANCE CONTRACT LIABILITIES (continued)

The table below illustrates how the company's estimate of total reinsurance contract liabilities for each underwriting year has changed at successive year ends.

Short term

	2014 Shs'000	2015 Shs'000	2016 Shs'000	2017 Shs'000	2018 Shs'000	2019 Shs'000	Total Shs'000
Accident Year	796,534	664,012	652,617	635,701	689,776	735,419	4,174,059
One year later	829,728	610,239	589,696	572,982	631,644	-	3,234,289
Two years later	195,219	213,083	219,056	218,270	-	-	845,628
Three years later	78,126	63,473	97,490	-	-	-	239,089
Four years later	72,126	75,747	-	-	-	-	147,873
Five years later	38,849	-	-	-	-	-	38,849
Current Estimate of cumulative claims	**2,010,582**	**1,626,554**	**1,558,859**	**1,426,953**	**1,321,420**	**735,419**	**8,679,787**
Cumulative payments to date	(2,009,191)	(1,622,603)	(1,558,859)	(1,426,953)	(1,321,420)	(735,419)	(8,674,445)
Reserve in respect of prior years	-	-	-	-	-	-	275,067
IBNR reserve	-	-	-	-	-	-	1,331,736
	1,391	**3,951**	**-**	**-**	**-**	**-**	**1,612,145**

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 cedant companies is resolved within the year that claims are reported by the cedant 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.

23. REINSURANCE/REASSURANCE CONTRACT LIABILITIES (continued)

a) Valuation assumptions – Long term reassurance contracts

The latest actuarial valuation of the Company's life fund was undertaken as at 31 December 2019 by the consulting actuaries, Zamara Actuaries, Administrators and Consultants 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 Gross Premium Valuation (GPV) 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 2019 are summarised below. The same assumptions were used in 2018.

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 2019 does not use an explicit technical rate of return.

The weighted average rate of return earned on the assets backing the life fund in 2019 was 16.2% p.a.(2018: 18.3%)

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 reassurance contracts that consists mainly of group life business.Group life business is typically short term contracts with a duration of 1 year. For liabilities under these contracts key assumptions are unchanged for the duration of the contract.

24. OTHER PAYABLES

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
Due to related parties (Note 29)	1,686	66,112	67,798
Accrued expenses and other liabilities	1,155	401,824	402,979
Due to short-term business from long-term (Note 17)	250,403	-	250,403
	253,244	**467,936**	**721,180**

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
Due to related parties (Note 29)	25	53,948	53,973
Accrued expenses and other liabilities	2,434	317,766	320,200
Due to short-term business from long-term (Note 17)	137,567	-	137,567
	140,026	**371,714**	**511,740**

25. DEFERRED TAX

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2018: 30%). The movement on the deferred income tax account is as follows:

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
At 1 January	(228,908)	(119,483)	(348,391)
Charge/(credit) to profit or loss	14,572	(5,191)	9,381
	(214,336)	**(124,674)**	**(339,010)**

25. DEFERRED TAX (continued)

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
Deferred income tax liability			
Revaluation surplus on leasehold land and building	-	127,318	127,318
Unrealised exchange gains	-	3,703	3,703
Unrealised exchange gains on fair value assets	-	7,554	7,554
Life surplus	214,336	-	214,336
	214,336	**138,575**	**352,911**
Deferred income tax asset			
Unrealised exchange loss	-	-	-
Provisions	-	(12,693)	(12,693)
Excess depreciation over capital allowance	-	(1,208)	(1,208)
	-	(13,901)	(13,901)
Net deferred tax liability	**214,336**	**124,674**	**339,010**

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
At 1 January	(220,864)	(134,494)	(355,358)
(Credit) charge to profit or loss	(8,044)	15,011	6,967
	(228,908)	**(119,483)**	**(348,391)**

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
Deferred income tax Liability			
Revaluation surplus on leasehold land and building	-	135,412	135,412
Unrealised exchange gains	-	997	997
Life surplus	228,908	-	228,908
	228,908	136,409	365,317
Deferred income tax asset			
Unrealised exchange loss	-	(6,757)	(6,757)
Provisions	-	(9,211)	(9,211)
Excess depreciation over capital allowance	-	(958)	(958)
	-	(16,926)	(16,926)
Net deferred tax liability	**228,908**	**119,483**	**348,391**

26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	Long term business Shs'000	Short term business Shs'000	Total 2019 Shs'000
Cash and cash equivalents	25,037	243,512	268,549
Less: provision for impairment	(159)	(1,555)	(1,714)
Total	**25,196**	**245,067**	**270,263**
Treasury bills and bonds maturing within 90 days	-	186,502	186,502
Deposits with financial institutions maturing within 90 days	70,884	375,624	446,508
	96,080	**807,193**	**903,273**

	Long term business Shs'000	Short term business Shs'000	Total 2018 Shs'000
Cash and cash equivalents	30,744	181,943	212,687
Less: provision for impairment	(194)	(1,256)	(1,450)
Total	**30,938**	**183,199**	**214,137**
Treasury bills and bonds maturing within 90 days	39,165	97,914	137,079
Deposits with financial institutions maturing within 90 days	59,575	162,710	222,285
	129,678	**443,823**	**573,501**

27. NOTES TO THE STATEMENT OF CASH FLOWS

	2019 Shs'000	2018 Shs'000
Profit before income tax	835,169	822,779
Adjustments for:		
Depreciation (Note 11)	34,210	32,889
Gain on disposal of equipment	(120)	(701)
Change in fair value of quoted shares (Note 14)	(9,903)	3,342
Changes in fair value of investment property (Note 13)	25,183	(22,522)
Change in reinsurance and reassurance contract liabilities	(158,710)	(59,272)
Change in unearned premium reserves and deferred acquisition revenue	293,435	216,126
Change in trade and other payables	82,010	(69,649)
Change in trade and other receivables	(181,523)	(295,307)
Investment income	(708,883)	(709,176)
Amortisation of intangible assets (Note 12)	1,409	-
Gain on impairment of financial assets (excluding trade receivables)	(1,546)	-
	210,731	**(81,488)**

28. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

	2019 Shs'000	2018 Shs'000
• Authorized and contracted for	-	-
• Authorized but not contracted for	14,414	16,500
	14,414	**16,500**

This committed expenditure relates to property and will be financed by available bank facilities, retained profits, existing cash resources and funds internally generated, etc.

29. RELATED PARTIES

The company is controlled by First Chartered Securities Limited, a company incorporated and domiciled in Kenya, which is the immediate parent company. The ultimate holding company is Asset Managers Limited. There are several other companies, which are related to East Africa Reinsurance Company Limited through common shareholdings or common directorships. In the normal course of business,reinsurance policies are sold to related parties. Transactions with related parties during the year and related outstanding balances are disclosed below:

	2019 Shs'000	2018 Shs'000
a) Transactions with related parties during the year		
Net earned premium	1,089,725	959,520
Net claims incurred	689,797	314,279
Interest earned on corporate bonds	24,333	35,384
Interest earned on bank deposits	28,009	28,022
b) Outstanding balances with related parties		
(i) Reinsurance balances		
Premiums receivable from related parties	70,106	94,573
Loss reserves in respect of related parties	27	27
Due from related parties (Note 17)	**70,133**	**94,600**
(ii) Premiums payable to related parties (Note 24)	67,798	53,973
(iii) Mortgage loans receivables from related parties (Note 15)	75,819	59,885

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

29. RELATED PARTIES (continued)

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

c) Outstanding balances with related parties

iv) Corporate bonds, fixed deposits and bank balances

	2019 Shs'000	2018 Shs'000
Corporate bonds	-	293,933
Fixed deposits	448,606	121,429
Bank balances	269,785	214,138
	718,391	629,500

d) Loans to directors of the Company

The Company did not advance loans to its directors in 2019 (2018: Nil).

e) Directors' fees

	2019 Shs'000	2018 Shs'000
Directors' fees	5,920	7,660

f) Key management personnel remuneration

	2019 Shs'000	2018 Shs'000
Salaries	99,893	99,034
National social security benefit cost	19	24
Retirement benefit costs	6,600	6,249
Medical costs	1,853	1,869
	108,365	**107,176**

30. 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.

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LONG TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2019

	Ordinary Life business Shs'000	Group Life business Shs'000	Total 2019 Shs'000
Gross written premiums	38,643	1,244,033	1,282,676
Change in gross UPR	(1,915)	(36,370)	(38,285)
Gross earned premiums	**36,728**	**1,207,663**	**1,244,391**
Retrocession premiums	(7,354)	(202,256)	(209,610)
Change in retro UPR	1,901	36,124	38,025
Net earned premiums	**31,275**	**1,041,531**	**1,072,806**
Investment income	8,471	160,968	169,439
Acquisition costs recoverable from retrocessionnaires	1,731	31,503	33,234
Net Income	**41,477**	**1,234,002**	**1,275,479**
Gross claims	1,965	693,327	695,292
Recoveries	-	(116,546)	(116,546)
Change in long-term liabilities	39	2,659	2,698
Net claims payable and treaty benefits payable	**2,004**	**579,440**	**581,444**
Operating and other expenses	4,931	93,697	98,628
Acquisition costs	6,813	304,042	310,855
Total Expenses	**13,748**	**977,179**	**990,927**
Profit before taxation	**27,729**	**256,823**	**284,552**
Income tax expense	(4,081)	(77,534)	(81,615)
Long-term business profit after taxation	**23,648**	**179,289**	**202,937**

J.P.M. Ndegwa
Chairman
27 February 2020

D.G.M. Hutchison
Director
27 February 2020

P.K. Maina
Principal Officer
27 February 2020

LONG TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018

	Ordinary Life business Shs'000	Group Life business Shs'000	Total 2018 Shs'000
Gross written premium	48,552	1,072,716	1,121,268
Change in gross UPR	(18,697)	(355,241)	(373,938)
Gross earned premiums	**29,855**	**717,475**	**747,330**
Retrocession premiums	(16,537)	(178,489)	(195,026)
Change in retro UPR	1,780	33,827	35,607
Net earned premiums	**15,098**	**572,813**	**587,911**
Investment income	7,564	163,921	171,485
Acquisition costs recoverable from retrocessionnaires	1,375	26,118	27,493
Net Income	**24,037**	**762,852**	**786,889**
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
Acquisition costs	7,392	140,450	147,842
Total expenses	**19,773**	**493,014**	**512,787**
Profit before taxation	**4,264**	**269,838**	**274,102**
Income tax expense	(2,665)	(75,178)	(77,843)
Long-term business profit after taxation	**1,599**	**194,660**	**196,259**

J.P.M. Ndegwa
Chairman
27 February 2020

D.G.M. Hutchison
Director
27 February 2020

P.K. Maina
Principal Officer
27 February 2020

Supplementary Information

SHORT-TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2019

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	2019 Total Shs'000
Gross written premium	2,265	292,255	1,422,235	17,241	169,897	314,367	19,146	-	-	583,441	497,379	3,318,226
Change in porfolio premiums	-	1,709	63,059	3	2,037	-	2,960	-	-	-	(5,704)	64,064
Gross Premiums	2,265	293,964	1,485,294	17,244	171,934	314,367	22,106	-	-	583,441	491,675	3,382,290
Change in gross UPR	513	41,728	117,549	2,425	484	15,282	(473)	-	-	5,508	58,929	241,945
Gross earned premiums	1,752	252,236	1,367,745	14,819	171,450	299,085	22,579	-	-	577,933	432,746	3,140,345
Retrocession premiums	-	511	134,240	-	4,364	23	-	-	-	-	62,560	201,698
Change in retro UPR	-	257	3,238	-	1	12	-	-	-	-	22,886	26,394
Net earned premiums	**1,752**	**251,982**	**1,236,743**	**14,819**	**167,087**	**299,074**	**22,579**	**-**	**-**	**577,933**	**393,072**	**2,965,041**
Gross claims paid	(6,968)	176,810	704,124	965	52,347	236,324	11,878	-	-	326,283	248,900	1,750,663
Changes in gross O/s claims	(313)	96,781	(877,941)	280,348	(4,391)	225,559	1,969	-	-	30,211	82,700	(165,077)
Retrocession claims	-	168	24,184	-	8,544	3,092	45	-	-	-	17,665	53,698
Change in Retro O/s claims	-	-	(171,753)	-	-	-	-	-	-	-	-	(171,753)
Net claims inccured	**(7,281)**	**273,423**	**(26,248)**	**281,313**	**39,412**	**458,791**	**13,802**	**-**	**-**	**356,494**	**313,935**	**1,703,641**
Acquisition costs recoverable from retrocessionnaires	-	(51)	2,367	-	(5)	(2)	-	-	-	-	4,989	7,298
Acquisition costs	363	81,994	364,606	4,146	47,519	49,735	8,391	-	(373)	130,255	138,393	825,029
Taxes and other charges	106	19,001	44,920	563	11,345	4,040	496	-	-	11,737	29,501	121,709
Technical profit/(Loss)	8,564	(122,487)	855,832	(271,203)	68,806	(213,494)	(110)	-	373	79,447	(83,768)	321,960
Expenses of management	**137**	**17,726**	**86,265**	**1,046**	**10,305**	**19,067**	**1,161**	**-**	**-**	**35,389**	**30,169**	**201,265**
Total expenses & Acquisition costs	606	118,772	493,424	5,755	69,174	72,844	10,048	-	(373)	177,381	193,074	1,140,705
Underwriting profit / (loss)	**8,427**	**(140,213)**	**769,567**	**(272,249)**	**58,501**	**(232,561)**	**(1,271)**	**-**	**373**	**44,058**	**(113,937)**	**120,695**
Net loss ratio	(415.6)%	108.5 %	(2.1)%	1,898.3 %	23.6 %	153.4 %	61.1 % %	%		61.7 %	79.9 %	57.5 %
Net risk acquisition ratio	16.0 %	27.9 %	24.7 %	24.0 %	27.6 %	15.8 %	38.0 %	%	%	22.3 %	29.2 %	24.6 %
Total expense ratio	26.8 %	40.4 %	33.2 %	33.4 %	40.2 %	23.2 %	45.5 %	%	%	30.4 %	39.3 %	33.7 %

The short - term business revenue account was approved by the board of directors on 27 March 2020 and was signed on its behalf by:

J. P. M. Ndegwa
Chairman
27 February 2020

D. G. M. Hutchison
Director
27 February 2020

P. K. Maina
Principal Officer
27 February 2020

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 premium written	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	(93)	(18,217)	(79,843)	(155)	(14,289)	(2,612)	(1,711)	-	-	(23,178)	(31,797)	(171,895)
Gross earned premiums	2,032	220,645	1,261,152	9,205	187,759	283,899	27,439	-	-	663,584	400,917	3,056,632
Retrocession premiums	-	256	72,058	-	13,300	1,320	3	-	-	-	47,481	134,418
Change in retro UPR	-	(47)	(2)	-	-	-	-	-	-	(14,056)	(11)	(14,116)
Net earned premiums	**2,032**	**220,342**	**1,189,092**	**9,205**	**174,459**	**282,579**	**27,436**	**-**	**-**	**649,528**	**353,425**	**2,908,098**
Gross claims paid	11,437	87,928	673,818	166	124,431	266,178	11,844	-	-	396,049	147,801	1,719,652
Changes in gross O/s 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 O/s claims	-	-	(33,686)	-	(8,981)	-	-	-	-	-	-	(42,667)
Net claims incured	**11,438**	**88,333**	**648,822**	**174**	**133,739**	**264,480**	**11,821**	**-**	**-**	**396,213**	**145,745**	**1,700,765**
Acquisition costs recoverable from retrocessionnaires	-	490	291	-	3	268	-	-	-	-	13,822	14,874
Acquisition costs	478	76,118	382,567	2,130	56,245	34,945	9,277	-	124	131,234	122,842	815,960
Taxes and other charges	279	17,674	51,388	400	11,343	(11,811)	1,949	-	-	13,495	28,546	113,263
Technical profit/(Loss)	(10,163)	38,707	106,606	6,501	(26,865)	(4,767)	4,389	-	(124)	108,586	70,114	292,984
Expenses of management	**111**	**12,612**	**72,523**	**488**	**10,440**	**15,268**	**1,461**	**-**	**-**	**34,310**	**23,131**	**170,344**
Total expenses & Acquisition costs	868	105,914	506,187	3,018	78,025	38,134	12,687	-	124	179,039	160,697	1,084,693
Underwriting profit / (loss)	**(10,274)**	**26,095**	**34,083**	**6,013**	**(37,305)**	**(20,035)**	**2,928**	**-**	**(124)**	**74,276**	**46,983**	**122,640**
Net loss ratio	562.9 %	40.1 %	54.6 %	1.9 %	76.7 %	93.6 %	43.1 %	- %	- %	61.0 %	41.2 %	58.5 %
Net risk acquisition ratio	24.7 %	37.8 %	32.4 %	23.5 %	32.4 %	12.5 %	36.1 %	- %	- %	20.5 %	37.0 %	28.8 %
Total expense ratio	44.8 %	52.3 %	42.8 %	33.3 %	45.0 %	13.6 %	49.3 %	- %	- %	28.0 %	43.5 %	37.6 %

The short - term business revenue account was approved by the board of directors on 27 March 2020 and was signed on its behalf by:

J. P. M. Ndegwa
Chairman
27 February 2020

D. G. M. Hutchison
Director
27 February 2020

P. K. Maina
Principal Officer
27 February 2020

Notes

Notes

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 Seventh Annual General Meeting of the Company to be held on Thursday, 21 May 2020 at twelve noon and at any adjournment thereof.

Signed this ________________ day of ________________ 2020

Signature(s) ____________________________

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

	Ordinary Business	For	Against
1	To adopt the financial statements for the year ended 31 December 2019 and the Chairman's, Directors', Actuary's and Auditors' reports thereon.	☐	☐
2	To approve the payment of a dividend.	☐	☐
3	To elect Directors.	☐	☐
4	To approve the remuneration of the Directors.	☐	☐
5	To note that PricewaterhouseCoopers continue as the company's auditors.	☐	☐
6	To authorize the Directors to fix their remuneration.	☐	☐

IMPORTANT NOTES

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

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

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

4. To be valid, proxy forms should be completed and returned to the Company Secretary, East Africa Reinsurance Company Limited, P. O. Box 20196, 00200 City Square, Nairobi to reach him not later

OUR PEOPLE

1st row from Left: M. Kimondo, N. Muchunu, A. Miyogo, N. Kabera, J. Kimondo, N. Mjomba, D. Miano, M. Wairegi, B. Chirchir, L. Njunge, S. Shao, P. Mumbe

2nd row from Left: A. Moseti, R. Kogo, S. Lelei, Z. Jebet, B. Maina, V. Maithya, D. Kaniaru, E. Kigen, B. Cheruiyot, P. Maina, D. Kirui, C. Ogaye

East Africa Reinsurance Company Limited

EARe House, 98 Riverside Drive,
P. O. Box 20196 - 00200 Nairobi, Kenya
Tel: +254 20 4084000
Mobile: +254 728111041; +254 733623737
Email: info@eastafricare.com
www.eastafricare.com