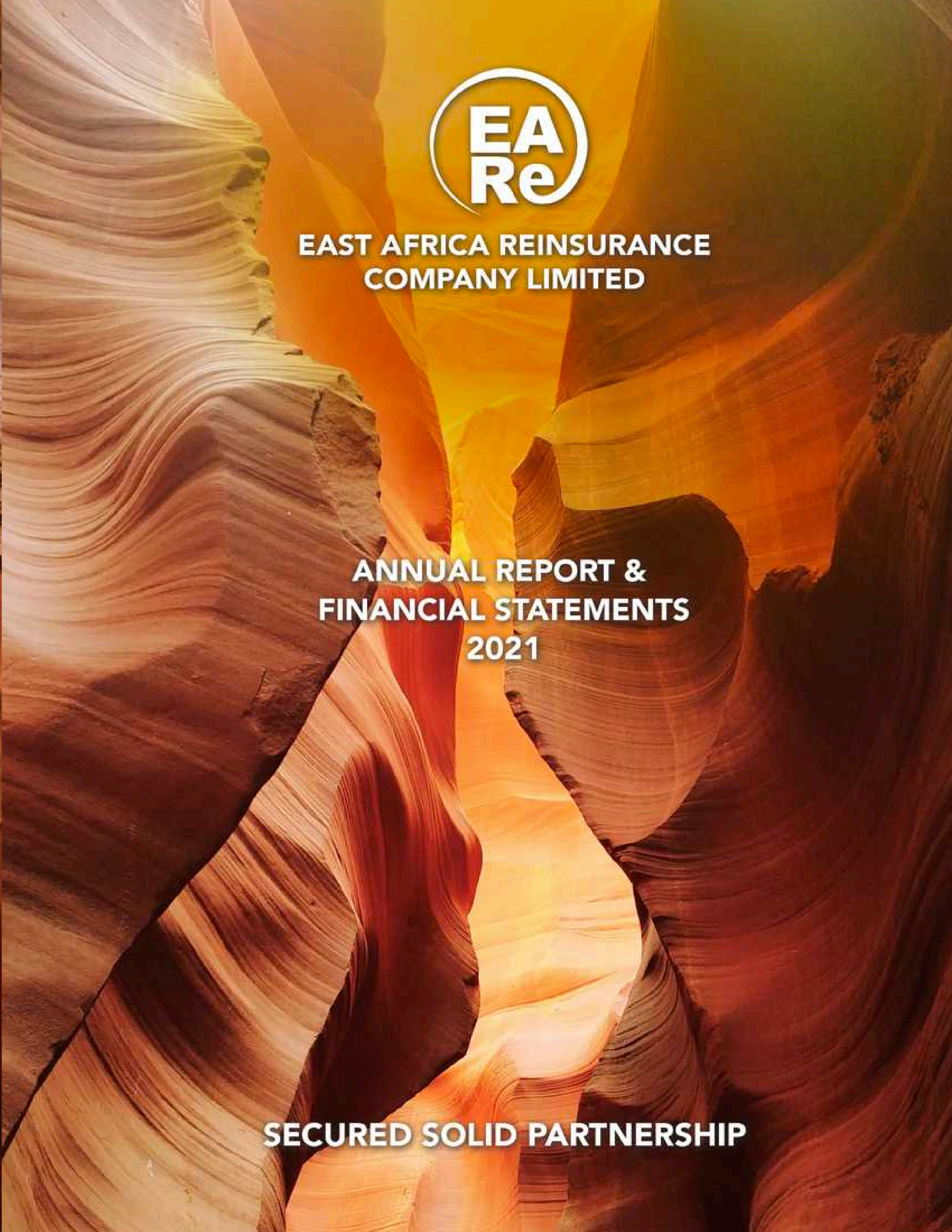


EAST AFRICA REINSURANCE COMPANY LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS 2021

SECURED SOLID PARTNERSHIP

MISSION STATEMENT

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

VISION STATEMENT

To be the risk partner of choice in our markets

CORE VALUES

Integrity, Commitment, Partnership, Excellence, Professionalism, Innovation.

TABLE OF CONTENTS

CORPORATE 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

AUDITOR

KPMG Kenya
Certified Public Accountants (Kenya)
8th Floor ABC Towers, Waiyaki Way, Westlands
P.O. Box 40612 - 00100
GPO Nairobi, Kenya

DIRECTORS

J.P.M. Ndegwa
Alt. A.S.M. Ndegwa
M.P. Chandaria (Dr.)* OBE, EBS
Alt. M. Jha**
P.K. Maina
D.G.M. Hutchison*
L.W. Muriuki
J.K. Kimeu
S.N. Adamali
S.O. Oluoch
Alt. P.K. Mugambi
D. Srivastava** (Appointed 1 December 2021)
* British
** Indian

LEGAL ADVISORS

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

LJA Associates LLP
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 Floor, UAP Old Mutual Tower
Upperhill Road
P.O. Box 10472 - 00100 GPO
Nairobi Kenya

PRINCIPAL BANKER

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

J. K. KIMEU

DIRECTOR

D. SRIVASTAVA

DIRECTOR

A.S.M. NDEGWA

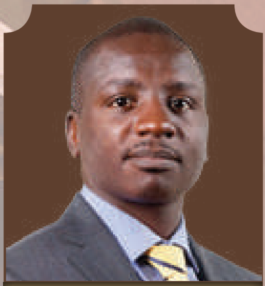
ALTERNATE DIRECTOR

P.K. MUGAMBI

ALTERNATE DIRECTOR

M. JHA

ALTERNATE DIRECTOR



K.M. ONTITI

COMPANY SECRETARY

MANAGEMENT

P. MAINA

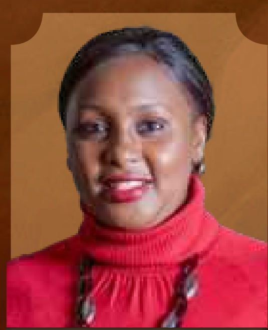
CHIEF EXECUTIVE OFFICER

C. OGAYE

HEAD OF TECHNICAL BUSINESS

P. MUMBE

CHIEF FINANCE OFFICER



V. MAITHYA

HR & ADMIN MANAGER

D. KANIARU

RISK CONSULTANT

B. CHIRCHIR

I.T MANAGER

THE 5 YEARS FINANCIAL HIGHLIGHTS
(COMBINED BUSINESS)

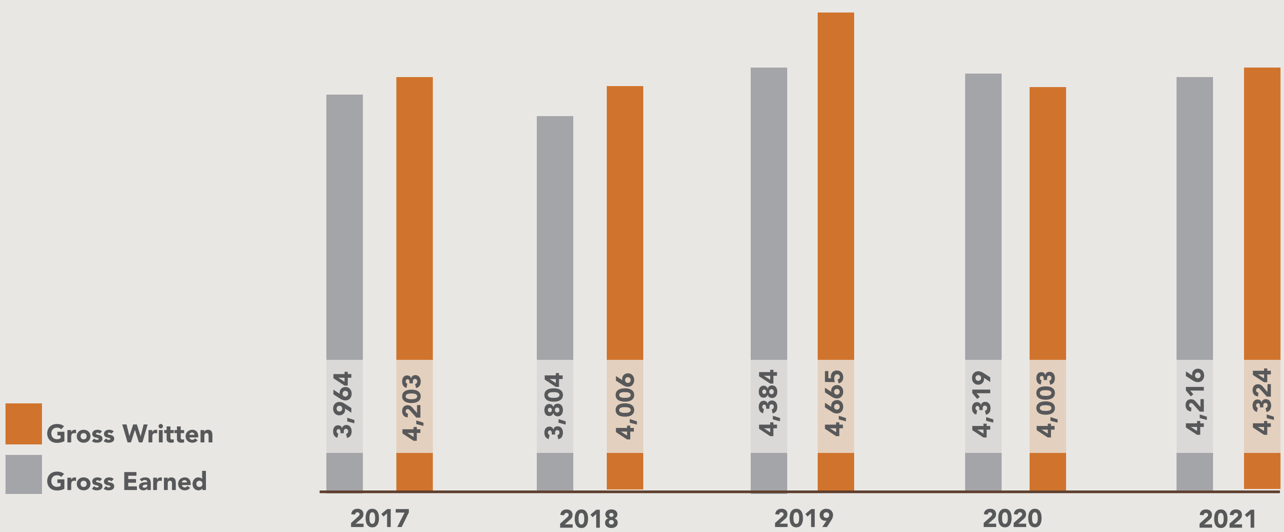
Short-Term and Long Term Combined Business

	2017 Kshs Million	2018 Kshs Million	2019 Kshs Million	2020 Kshs Million	2021 Kshs Million
Gross Written Premiums	4,203	4,006	4,665	4,003	4,324
Gross Earned Premiums	3,964	3,804	4,384	4,319	4,216
Net Earned Premiums	3,646	3,496	4,038	3,891	3,741
Technical Profit/(Loss)	384	436	477	299	(367)
Underwriting Profit/(Loss)	201	229	235	86	(563)
Investment Income	704	728	694	683	746
Profit Before Tax	817	823	835	606	102
Profit After Tax	602	616	589	410	137
Dividends	100	100	100	100	100
Shareholders' Funds	4,085	4,587	5,076	5,370	5,408
Share Capital	1,500	1,500	1,500	1,500	1,500
Total Assets	8,981	9,676	10,481	10,261	11,271

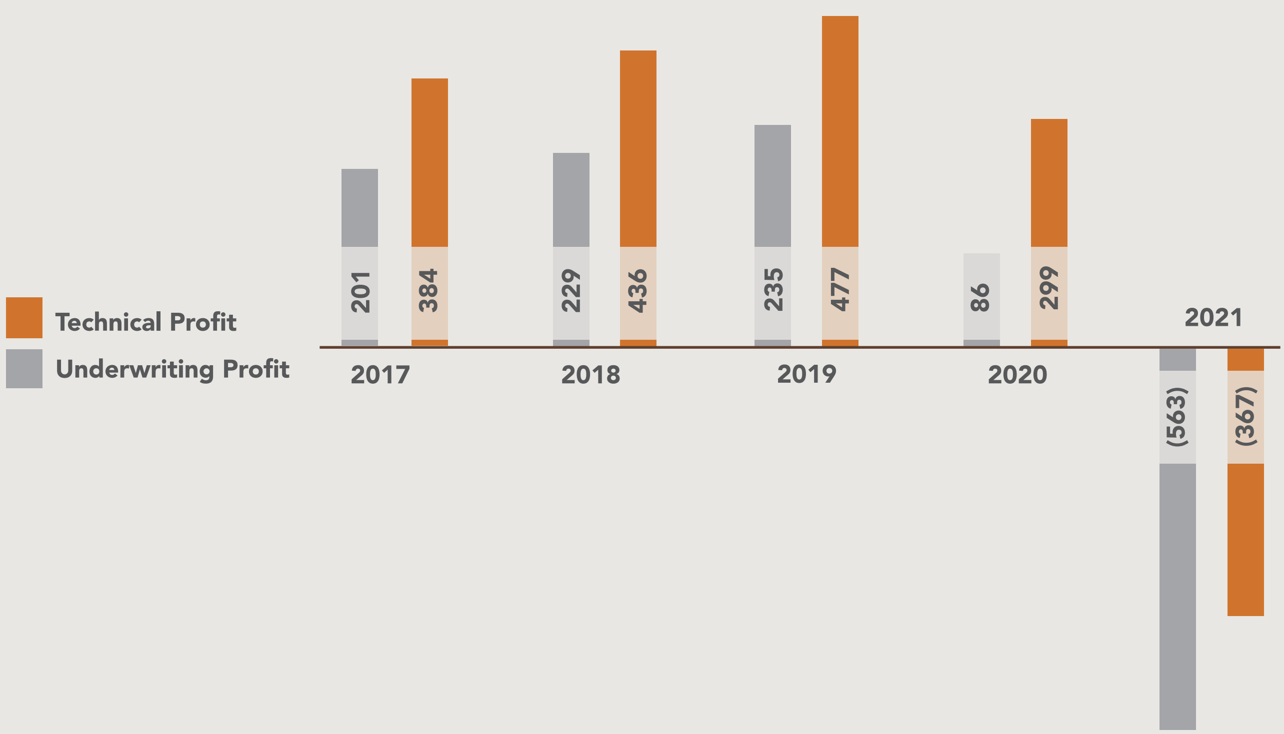
Short-Term and Long Term Combined Business

	Rate 103.23 USD 000	Rate 101.83 USD 000	Rate 101.42 USD 000	Rate 109.05 USD 000	Rate 113.25 USD 000
Gross Written Premiums	40,710	39,340	45,997	36,711	38,185
Gross Earned Premiums	38,397	37,356	43,233	39,607	37,234
Net Earned Premiums	35,316	34,370	39,813	35,678	33,035
Technical Profit/(Loss)	3,719	4,280	4,702	2,743	(3,242)
Underwriting Profit/(Loss)	1,945	2,245	2,324	793	(4,971)
Investment Income	6,824	7,153	6,888	6,269	6,589
Profit Before Tax	7,918	8,080	8,235	5,558	905
Profit After Tax	5,827	6,045	5,811	3,754	1,213
Dividends	969	982	986	917	883
Shareholders' Funds	39,572	45,045	50,052	49,245	47,758
Share Capital	14,531	14,730	14,790	13,755	13,245
Total Assets	87,002	95,020	103,339	94,099	99,521
Ratios					
Loss Ratio (%)	56	56	56	60	78
Earnings Per Share (Kshs)	401	410	392	273	91
Dividend Cover	6	6	6	4	1
Return on Equity Before Tax (%)	22	19	16	11	2
Return on Equity After Tax (%)	16	14	12	8	3

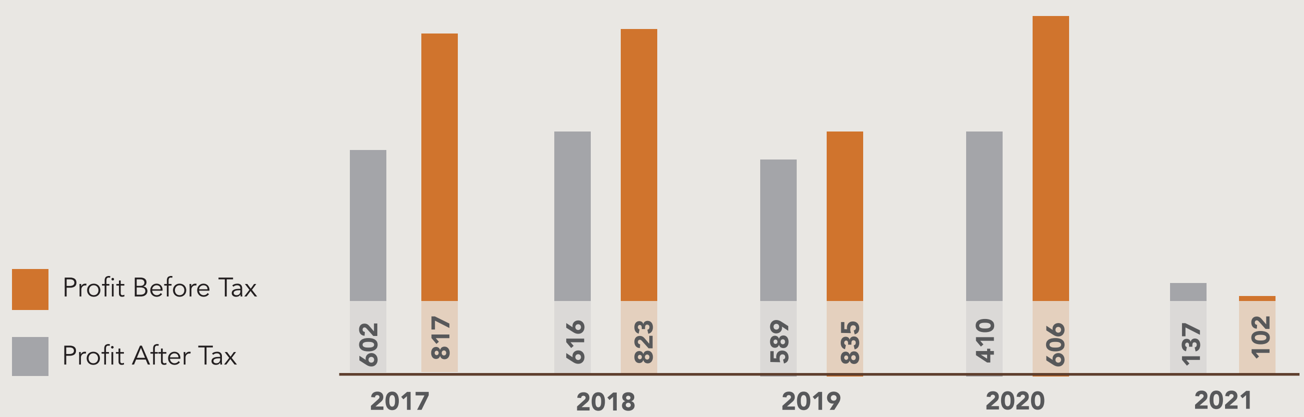
Gross Written and Gross Earned Premiums (Kshs Millions)



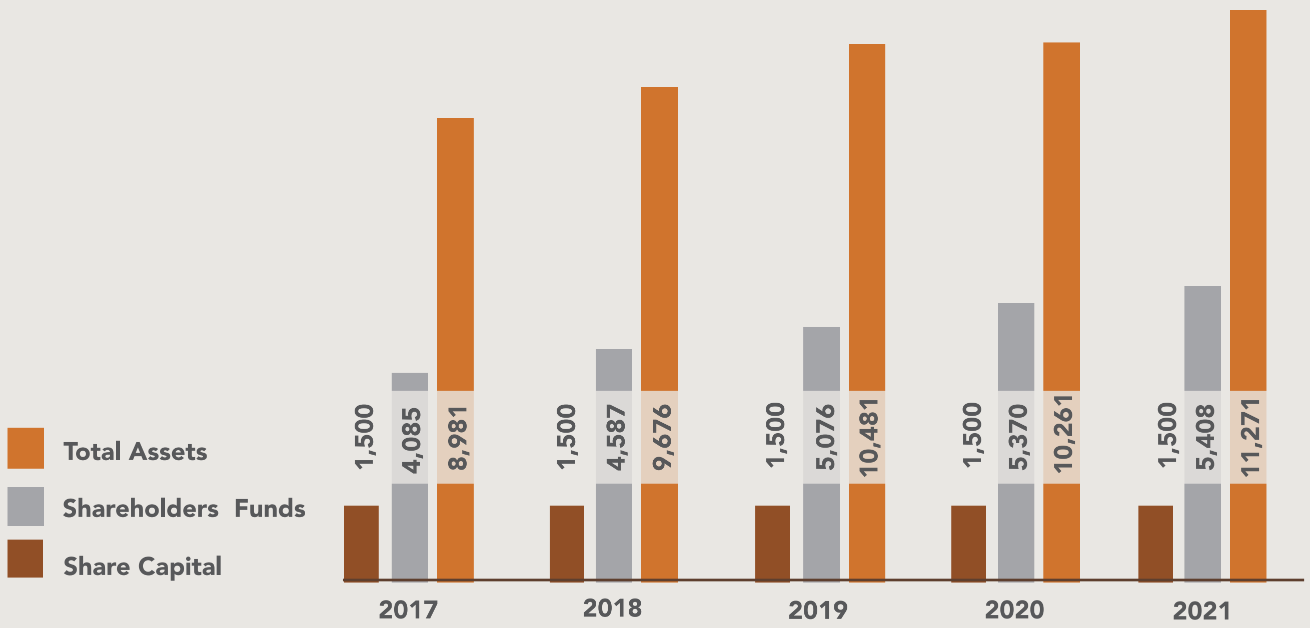
Technical Profit and Underwriting Profit (Kshs Millions)



Profit Before and After Tax (Kshs Millions)



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



NOTICE OF THE TWENTY-NINTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE TWENTY-NINTH ANNUAL GENERAL MEETING OF EAST AFRICA REINSURANCE COMPANY LIMITED WILL BE HELD VIA VIDEOCONFERENCE ON THURSDAY, 19 MAY 2022, 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 20 May 2021.

4. To receive, consider and, if appropriate, adopt the financial statements for the year ended 31 December 2021 and the Chairman's, Directors', Actuary's and Auditor reports thereon.

5. To approve the payment of a final dividend of Kshs 100 million for the year ended 31 December 2021.

6. To re-elect Directors.

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

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

7. To ratify the appointment of Devesh Srivastava as a director of the Company effective from 1st December 2021.

8. To approve the remuneration of the Directors.

9. To ratify the appointment of KPMG as the Company's auditors and reappoint them 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.

10. Any Other Business.

By Order of the Board

K.M. Ontiti

Company Secretary
23 February 2022

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 48 hours before the appointed time of the meeting.*
3) *The person appointed as proxy must be well acquainted and trained on the use of zoom video conferencing platform. Details of the meeting ID and Password will be shared with the proxies at least 24 hours before the appointed time of the meeting.*

On behalf of the Board of Directors of East Africa Reinsurance Company Limited, I am pleased to present to you the Company's Annual Report and Financial Statements for the year ended 31 December 2021.

The coronavirus (COVID-19) pandemic's prolonged impact prevailed across most sectors in 2021, leading to slow economic recovery. The Company's performance was inevitably negatively impacted by the prolonged pandemic. Despite the challenging operating landscape, the Company demonstrated continued resilience, evidenced by the sustained profitability.

During the year, the Company undertook a mid-term review of its 2019-2023 strategic plan. This review was necessitated by the need to realign the Company's strategic objectives with the current operating environment and to reposition the Company for success.

As a Board, we are optimistic that the Company will emerge from the prevailing business environment more agile, resilient and stronger. We remain committed to delivering sustainable and enhanced value to all stakeholders.

BUSINESS ENVIRONMENT

The global economy has witnessed subdued recovery amidst the resurging pandemic. According to the October 2021 World Economic Outlook Report by the International Monetary Fund (IMF), the global economy is projected to grow by 5.9% in 2021 from a contraction of 4.4% in 2020. This subdued growth is attributed to the uncertainty of the resurgence of the COVID-19 variants on growth projections, supply-chain disruptions and rising inflationary rates.

The Kenyan economy demonstrated considerable resilience to the effects of the pandemic, with the country's Gross Domestic Product (GDP) projected to grow at an average of 5.0% in 2021 compared to -0.3% contraction in 2020. The 2021 projection is supported by rebounds in most industries, especially the services sector.

In addition, the Kenyan investment market was characterised by stable and gradual increases in interest rates. On the other hand, the Kenyan Shilling depreciated against the US Dollar and the Sterling Pound and appreciated against the Euro, while inflation remained within the Government's target at an average of 6.1% in the year.

J.P.M. NDEGWA

CHAIRMAN

Overall, the Kenyan economy is expected to remain on the recovery path in 2022 based on improving the business environment. However, this optimism is dependent on the Government's responses to emerging variants of coronavirus, supportive fiscal and monetary policies and proper management of the upcoming national elections.

THE KENYAN INSURANCE AND REINSURANCE INDUSTRY

In 2021, the Kenyan insurance sector was relatively resilient, reporting premium and investment income growth. However, increased claims in some classes of insurance led to reduced underwriting performance in the general insurance sector.

According to the Quarter 3, 2021 Insurance Regulatory Authority (IRA) Industry Report, the industry reported a growth of 19% in gross premiums to Kshs 213.5 billion from Kshs 179.4 billion in 2020. However, an adverse claims experience saw total claims increase from Kshs 87.4 billion to Kshs 112.7 billion, stifling underwriting results. Consequently, the general insurance sector reported an underwriting loss of Kshs 4.13 billion, a significant increase from the loss of Kshs 879.3 million reported in the comparative period in 2020.

In the reinsurance industry, the implementation of minimum rates in our core markets is expected to improve underwriting performance. On the other hand, the retrocession market has continued to harden, leading to increased costs.

"As a Board, we are optimistic that the Company will emerge from the prevailing business environment more agile, resilient and stronger. We remain committed to delivering sustainable and enhanced value to all stakeholders."

EARe S PERFORMANCE

In 2021, the Company reported a profit before tax of Kshs 102 million, down from Kshs 606 million in 2020. The Company's profitability was negatively impacted by an adverse claims experience in the Life Business.We took deliberate steps to exit and strengthen reserves in some business lines that were not performing as expected. We are confident that the measures taken were necessary and will cushion the Company from further losses in the future.

Gross premiums written increased by 8% in 2021 to Kshs 4.32 billion (2020: Kshs 4.00 billion) mainly due to the implementation of minimum rates in key markets and growth in facultative business in line with the Company's strategic plan.

Net claims incurred in 2021 increased by 25% to Kshs 2.92 billion, up from Kshs 2.33 billion in 2020 due to higher claim reserves in the Life Business. This increased the loss and combined ratios from 59.9% and 97.8% in 2020 to 78.0% and 114.8% in 2021, respectively.

Net acquisition costs increased marginally in 2021 to 28.9% from 28.6% in 2020, while management expenses reduced to 4.5% from 5.3% on prudent cost management. The combined business underwriting loss amounted to Kshs 563 million in 2021, down from an underwriting profit of Kshs 86 million recorded in 2020.

Investment income increased by 9% to Kshs 746 million from Kshs 683 million in 2020. The growth in investment income is attributed to improved returns from interest-bearing assets and equity investments, offset by a fair value loss on the investment property. Investment funds increased by 4% from Kshs 7.56 billion in 2020 to Kshs 7.89 billion in 2021.

The Company's total assets grew by 9.8% from Kshs 10.26 billion in 2020 to Kshs 11.27 billion in 2021, mainly due to growth in investment funds and increased receivables arising from reinsurance arrangements.

Shareholders' funds increased to Kshs 5.41 billion from the Kshs 5.37 billion reported in 2020. This was mainly due to profits after tax,offset by dividends paid in the year.

OUR STRATEGY

We continue to execute the Company's 2019-2023 strategic plan to maximise shareholder value and offer sustainable value to all stakeholders. The Company's business environment is dynamic, calling for the continued alignment of the strategic plans to the key emerging risks facing the Company and the industry, such as climate change, terrorism, cyber-crime and money laundering. Consequently, during the year, the Company reviewed its strategic plan to ensure it navigates the pandemic's impact successfully, reposition and respond to the changing operating landscape, and preserve shareholder value.

Despite some of the challenges impacting the reinsurance industry in Africa, there are significant growth opportunities, including low insurance penetration levels, infrastructure investments, growing population and emerging middle class, amongst others. The Company shall continue to seize these opportunities while leveraging our existing partnerships, strong statement of financial position, operational efficiency and technological capabilities to weather the challenges. In addition, the Company continues to invest in its human capital, in line with its strategic plan.

It is becoming increasingly clear that transformative technologies that drive operational efficiency are fundamental for sustainable underwriting profitability. In light of this and in line with the Company's transformation journey, the Company acquired and implemented a robust and leading global reinsurance software, SICS, effective January 2022.

As a Company, we are confident about the strategic initiatives in place to maximise shareholder value. Specifically, we have instituted measures to turn around the Company's underwriting results.

DIVIDENDS

The Board of Directors recommends paying a total dividend of Kshs 100 million (2020: Kshs 100 million) to the Shareholders in the Register of Members at 31 December 2021, subject to Shareholders approval at the upcoming Annual General Meeting (AGM).

RISK BASED CAPITAL

The Company achieved a Capital Adequacy Ratio (CAR) of 369% and 150% for Short-term and Long-term businesses, respectively. These are above the regulator's minimum capital requirement of 100%. There are business initiatives to improve the Life Business' CAR above the regulator's prescribed requirement of 200%.

SECURITY RATING

During the year, A.M. Best affirmed the Company's Financial Strength Rating of B (Fair) and Long-Term Issuer Credit Rating of "bb+". On the other hand, 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 with a positive outlook.

CORPORATE SOCIAL RESPONSIBILITY

The Company's Corporate Social Responsibility (CSR) is part of our commitment to good corporate governance and sustained operations. The Company is committed to supporting the community through its CSR program in the following four pillars: education, health, environment and social welfare.The wider community remains at the heart of the Company, and we support activities to improve the quality of life. The economic and social changes caused by the pandemic have profound negative impacts on our community, and the Company made deliberate efforts to bring in a positive impact.

We recognise the growing focus on the societal impact of businesses, including the consideration of Environmental, Social and Governance (ESG) factors. We are making strides to ensure the integration of ESG considerations into the Company's strategy.

During the year, the Company admitted new students to its education sponsorship program. It made contributions and donations to Ghetto Classics, Faraja Cancer Support, Street Children Association Network of Nakuru (SCANN), The Forest Challenge and Alliance High School Endowment Fund Trust towards education, health, environment and social welfare.

A comprehensive update on the corporate social initiatives undertaken during the year 2021 is contained in this Annual Report.

BOARD AND GOVERNANCE

The Board of Directors is committed to achieving and maintaining the highest standards of corporate governance, encompassing accountability, integrity, fairness, responsibility and transparency.

During the year, Mr. Devesh Srivastava was appointed as a Director of the Board effective 1 December 2021. I would like to welcome Mr. Srivastava to the EARe's Board and look forward to his contribution.

FUTURE OUTLOOK

The global economy is projected to grow by 4.9% in 2022 and average 3.3% beyond 2022. Additionally, according to the World Bank, Kenya's GDP growth is expected to average 4.9% p.a, similar to the pre-pandemic annual average growth rate of 5% noted between 2010 and 2019. However, the pandemic uncertainties, drought, higher energy prices, 2022 national elections and tighter external financing conditions may curtail this projected growth in the country.

The current operating environment encourages insurers to continuously rethink their business and operating models, be agile, embrace innovation, and be customer-centric. As a Company, we shall continue to review our operations to provide quality risk solutions, excellent service to our customers and ultimately enhanced and sustainable value to all stakeholders.

ACKNOWLEDGMENTS

The Board remains confident that the Company is poised to seize the opportunities in its operating environment and realise business growth.

To our Shareholders, thank you for the unwavering support and confidence in the Board of Directors, Management, our strategy and our future.

To our clients, business partners and other stakeholders, we appreciate your continued cooperation and support and look forward to secured solid partnerships in the years ahead.

To the EARe staff, we are grateful for the dedication, commitment and efforts to deliver outstanding service to our clients.

To my fellow Directors, I appreciate and recognise your wise counsel, continued commitment, stewardship and service to EARe.

Thank you,

J.P.M. Ndegwa
Chairman
23 February 2022

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2021, which disclose the state of affairs of East Africa Reinsurance Company Limited (" the Company").

1. Incorporation

The Company is domiciled in Kenya where it is incorporated under the Kenyan Companies Act, 2015, as a private company. The address of its registered office is set out as part of the Corporate 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 Kshs 137,388,000 (2020: Kshs 410,369,000) has been added to retained earnings for the Non Life business and to general reserve for the Life business.

	2021 Kshs 000	2020 Kshs 000
Profit before income tax	102,455	606,081
Income tax credit/(expense)	34,933	(195,712)
	137,388	**410,369**

4. Dividends

The directors recommend the payment of a first and final dividend of Kshs 100,000,000 (2020: Kshs 100,000,000) representing a dividend of Kshs 66.67 (2020: Kshs 66.67) per share and a dividend payout ratio of 73% (2020: 24.37%).

5. Business review

The Company reported a profit before tax of Kshs 102,455,000 (2020: Kshs 606,081,000). The economic disruptions caused by the COVID-19 pandemic impacted the performance, leading to adverse claims experience in the Life business, resulting in a significant reduction in underwriting profits. However, this was partly offset by increased investment income resulting from improved interest rates and equities portfolio's performance. The Company's financial highlights, including key performance ratios, are summarised on page 5.

The Company has strong capital adequacy ratios (CAR) at 369% and 150% for Short-term and Long-term businesses, respectively. These are above the regulator's minimum capital requirement of 100%. There are business initiatives to improve the Life Business' CAR above the regulator's prescribed requirement of 200%. The Company is well-positioned to pursue its strategic plan supported by its strong capital position.

The Company is exposed to various risks, including retrocession, underwriting, accumulation, concentration, strategic, and credit risks. Details of these risks and the relevant risk management strategies in place are included under Note 2.

Details of the Company's strategy are contained in the Chairman's statement.

6. Directors

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

7. 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 to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

8. Terms of appointment of the auditor

KPMG Kenya who were appointed in the office during the year, 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.

9. Approval of the financial statements

The annual report and financial statements set out on pages 30 to 85, which have been prepared on the going concern basis, were approved and authorised for issue by the Board of Directors on 23 February 2022.

10. Approval of the Report of the Directors

The Report of the Directors was approved by the Board of Directors on 23 February 2022 and signed on its behalf by the Company Secretary.

By order of the Board

Ontiti

K. M. Ontiti
Secretary
23 February 2022

STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors and Management of East Africa Reinsurance Company Limited are committed to upholding the highest standards of Corporate Governance and ensuring compliance with applicable legislations, regulations and best practices in the insurance industry. The Company continues to fulfil its corporate governance obligations and responsibilities in the best interests of the Company and all its stakeholders. We recognise that good corporate governance enhances the Company's performance, ensures business sustainability and fosters the confidence placed on the Company by its shareholders, customers, business partners, employees and other stakeholders.

The Company has a Code of Business Conduct and Ethics that binds 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 its Committees.

The Board of Directors is cognizant that the principles of corporate governance are continuously evolving. Consequently, the Board continues to anticipate and respond to the corporate governance developments and has put formal structures to support corporate governance.

1. BOARD OF DIRECTORS

East Africa Reinsurance Company Limited is governed by a Board of Directors, which is responsible for providing strategic direction to the Company in line with best practices while promoting and protecting shareholder value. This is achieved by setting appropriate business strategies and plans and monitoring the performance against the set strategy and plan.

The Board of Directors is accountable to the shareholders and is therefore responsible for providing overall management and leadership to the Company.

The roles of the Board include the following:
- Providing overall strategic direction to the Company.
- Monitoring the Company's performance and reporting to the shareholders.
- Setting policy guidelines that ensure appropriate management of the business. This includes the selection,supervision and remuneration of staff.
- Ensuring that the Company conducts its business in compliance with applicable laws and regulations.

The Board has three board committees in place: the Audit, Risk and Compliance Committee; the Finance, Investments and IT Committee; and the Ethics, Nominations and Remuneration Committee. These Committees ensure that the Company has adequate internal controls, robust risk management processes, complies with relevant laws and regulations and delivers on commitments to all stakeholders.

In carrying out the above responsibilities, the Board delegates its authority to the Chief Executive Officer to oversee the Company's day-to-day management. However, the Board retains the overall responsibility for the Company's financial performance, compliance with laws and regulations, monitoring of business operations and ensuring competent Management of the business.

Board Composition and Appointments

During the financial year 2021, nine directors served on the Board, of whom eight were non-executive directors and one executive director, the Chief Executive Officer. Out of the eight non-executive directors, four are independent and meet the compliance requirements set out in the Corporate Governance Guidelines issued by the Insurance Regulatory Authority (IRA).

Board Composition and Appointments (Continued)

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

The Board also maintains a transparent procedure for the appointment and induction of new Board members. Appointments to the Board are approved 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 attaining a favourable performance evaluation by the Board.

Board Meetings

The Board meets at least four times in a year to deal with all significant matters, including strategic direction for the Company; ensuring competent Management of the business; internal control; compliance with laws and regulations and reporting performance to Shareholders.

The Board meetings' calendar is prepared in advance and provided to all directors each year. 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 Boardvantage. 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 has full and unlimited access to the Company's records.

All reports from external consultants and regulatory authorities such as the Insurance Regulatory Authority, Kenya Revenue Authority, Auditors, Actuaries and Rating agencies are reviewed at Board meetings, and appropriate actions are taken.

Similar to the prior year, the impact of the COVID-19 pandemic made the holding of physical board meetings untenable. Consequently, Board meetings and the Annual General Meeting were successfully held virtually during this period.

Board Evaluation

Each year the Board undertakes a review of its performance, the Board Committees and individual directors. The evaluation process aims to help improve the Board performance while ensuring that any amendments issued by the Regulator, Insurance Regulatory Authority are incorporated.

2. REMUNERATION OF DIRECTORS

The Board is remunerated fairly and responsibly based on a compensation structure aligned with the strategy of the Company. The remuneration is reflective of the role and responsibilities expected of them. This is after considering industry benchmarks and international practices. The Shareholders approve the directors' remuneration at every Annual General Meeting.

The aggregate amount of emoluments paid to directors for services rendered during the financial year is disclosed in Note 30 (e) to the financial statements for the year ended 31 December 2021.

3. COMMITTEES OF THE BOARD

To enable the Board to execute its mandate effectively, the Board has delegated some of its powers to various board committees but still retains the ultimate responsibility for the performance and corporate governance of the Company.

The committees of the Board are as follows:

- The Finance, Investments and IT (FII) Committee.
- The Audit, Risk and Compliance (ARC) Committee.
- The Ethics, Nominations and Remuneration (ENR) Committee.

Each of the three committees has detailed terms of reference set out by the Board while incorporating any amendments necessitated by best practice, which may be directed by the Insurance Regulatory Authority. The Committees hold meetings regularly as per the schedule defined 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 of the established committees or appoint any other committee, including ad hoc task forces, as it may deem necessary.

a) Finance, Investments and IT Committee

The Finance, Investments and IT (FII) 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 and Heads of Business are regular invitees to the meetings.

The Committee meets every quarter and is mainly responsible for financial, investment, information and communication technology aspects of the Company on behalf of the Board. The Committee oversees the formulation and implementation of the Company's financial and investment strategies; reviews and monitors the Company's compliance with investment strategy, policy and statutory requirements; approves or recommends to the Board for approval of investment projects in accordance with the Company's investment policy, and reviews the performance of the investment portfolio and monitors special projects. It also oversees the formulation, implementation and compliance with the Company's IT policies and plans.

b) Audit, Risk and Compliance Committee

The Audit, Risk and Compliance (ARC) Committee is chaired by an independent non-executive Director. The other members are non-executive appointees of the Board. The Chief Executive Officer, Chief Finance Officer, Heads of Business and Risk and Compliance Manager are regular invitees to the Committee meetings.

The ARC Committee meets on a quarterly basis and is responsible for ensuring that internal systems, controls, procedures and policies of the Company, including risk management processes, are properly established, monitored and reported on. The Committee receives reports and reviews findings of the appointed actuaries, regulators, internal and external auditors, risk and compliance department and rating agencies and also monitors the implementation of recommendations by the various assessors on behalf of the Board.

In addition, the ARC Committee is responsible for monitoring and providing effective supervision of the Management's financial reporting process to achieve accurate and timely financial reporting and entrenchment of good corporate governance practices in the Company.

c) Ethics, Nominations and Remuneration Committee

The Ethics, Nominations and Remuneration (ENR) Committee is chaired by a non-executive Director. The other members are non-executive Directors and the Chief Executive Officer. The Chief Finance Officer and Human Resource & Administration Manager are regular invitees to the Committee meetings.

c) Ethics, Nominations and Remuneration Committee (Continued)

The Committee meets biannually and is responsible for making recommendations to the Board on recruitment, remuneration and incentive policies, retention and termination policies for senior Management, remuneration framework for directors, amongst others. The ENR Committee is also responsible for developing a process to evaluate the performance of the Board, its Committees, Directors and succession planning.

4. RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors is responsible for establishing and overseeing 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 Enterprise Risk Management Framework ensures the alignment of the Company'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 that supports the achievement of the Company's goals and strategic objectives. The Risk Management Framework includes detailed risk management procedures that define the Company's governance structure, roles, and responsibilities of risk management and establish 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 reviewed by the Board of Directors, Rating Agencies, Internal & External Auditors, Appointed Actuaries and the Regulator. The Board and Management review the risk appetite on an annual basis through the ARC Committee, and any changes 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 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

The Company respects employee individuality within the practices of our corporate culture. The Company continues to cultivate a performance-driven culture as guided by the Balanced Score Card (BSC), a strategic performance management system that focuses on employees' qualitative and quantitative performance. The BSC aligns the individual performance to the corporate objectives. It measures past performance data and provides direction that informs forward- looking decisions. Whereas an increase in shareholder value can readily measure the attainment of quantitative goals, the attainment of qualitative goals is measured by the personal growth of our employees. The Company has in place strategic learning and growth objectives that enable staff to achieve their career aspirations. The Company also assists its staff to undertake continuous professional development (CPD) training programmes to elevate their professional competencies and be at par with the various professional bodies' CPD requirements.

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

6. CONFLICT OF INTEREST

The Directors are required to act in the Company's best interest at all times. The directors of the Company have an obligation to disclose any conflict of interest at the beginning of every Board meeting concerning matters 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.

Further, a process of declaration of interest has been implemented, and all staff are required to declare their interests on an annual basis by filling out the relevant forms. The Company's Code of Business Conduct & Ethics stipulates measures that all employees should take to ensure no conflict of interest whatsoever.

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 30 to the financial statements for the year ended 31 December 2021.

8. COMPLIANCE WITH LAWS AND REGULATIONS

The Board is satisfied that the Company has, to the best of its knowledge, put in place mechanisms to ensure compliance with all the applicable laws and regulations. The Compliance function is charged with the responsibility of tracking the Company's compliance with the various laws and regulations. Effective compliance with relevant laws and regulations is enhanced by using the Governance Risk & Compliance (GRC) system.

The Audit, Risk & Compliance Committee monitors compliance and ensures that any breaches are adequately resolved.To the Board's knowledge,no director or employee of the Company acted or committed any indictable offence in conducting the Company's affairs nor been involved or used as a conduit for money laundering or any other activity in contravention with the relevant laws and regulations.

9. DIRECTORS ATTENDANCE OF MEETINGS

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

a) Board	Position	25 February	27 May	05 August	01 December
J. P. M. Ndegwa	Chairman	Yes	Yes	Yes	Yes
Dr. M. P. Chandaria OBE EBS	Vice-Chairman	Yes	Yes	Yes	Yes
P. K. Maina	CEO	Yes	Yes	Yes	Yes
D. G. M. Hutchison	Member	Yes	Yes	Yes	Yes
L. W. Muriuki	Member	Yes	Yes	Yes	Yes
S. O. Oluoch	Member	Yes	Yes	Yes	Yes
S. N. Adamali	Member	Yes	Yes	Yes	Yes
J. K. Kimeu	Member	Yes	Yes	Yes	Yes
D. Srivastava*	Member	N/A	N/A	N/A	N/A
K. Ontiti	Company Secretary	Yes	Yes	Yes	Yes

9. DIRECTORS ATTENDANCE OF MEETINGS (Continued)

b) FII	Position	15 February	06 May	22 July	03 November
P. K. Mugambi	Chairman	Yes	Yes	Yes	Yes
P. K. Maina	CEO	Yes	Yes	Yes	Yes
J. K. Kimeu	Member	Yes	Yes	Yes	Yes
M. Jha	Member	Yes	Yes	Yes	Yes
K. Ontiti	Company Secretary	Yes	Yes	Yes	Yes

c) ARC	Position	15 February	06 May	22 July	03 November
J. K. Kimeu	Chairman	Yes	Yes	Yes	Yes
D. G. M Hutchison**	Member	Yes	Yes	Yes	Yes
P. K. Mugambi	Member	Yes	Yes	Yes	Yes
P. K. Maina	CEO	Yes	Yes	Yes	Yes
M. Jha	Member	Yes	Yes	NA	Yes
K. Ontiti	Company Secretary	Yes	Yes	Yes	Yes

d) ENR	Position	22 February	11 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
M. Jha	Member	Yes	Yes
K. Ontiti	Company Secretary	Yes	Yes

*Appointed 1 December 2021
**Chair of the ARC until 15 February 2021

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 the flow of information between the Management and the Board and ensures that the Board receives adequate and timely information and that Management similarly receives feedback. 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 Independent 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 has appointed another Independent Actuary who comments on the Company's Financial Condition and signs the Financial Condition Report (FCR).

12. SHAREHOLDERS

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

	2021 Number of Shares	%	2020 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
23 February 2022

J.K. Kimeu
Director
23 February 2022

P.K. Maina
Principal Officer
23 February 2022

The Company recognises the fundamental importance of Corporate Social Responsibility (CSR) initiatives to its stakeholders. The Company's CSR program is part of our commitment to good corporate governance and sustainability. Over the years, we have witnessed the positive impact in the four main pillars - Education, Health, Environment, Social, and Child welfare of the Company's CSR program.

In 2021, the economic and social changes caused by the pandemic continued to have long-lasting profound economic, social, political, and cultural impacts in our community. The Company undertook various activities in line with its vision of bringing positive impact by strengthening the ties with the community and its CSR partners.

The highlights of these activities are as follows:

EDUCATION

The Company's education sponsorship program has been the core focus of our CSR initiatives over the years. The program provides academically talented children from vulnerable backgrounds an equal opportunity to access secondary school education to transform their lives and communities. The Company offers school fees scholarships, counselling and mentorship support to the students in its education program.

Staff members and students pose for a photo after the students mentorship session

Over and above academic performance, the program encourages students to be disciplined and engage in extra-curricular activities. In 2021, the Company sponsored 31 students, 24 directly and seven (7) through partnerships with institutions such as Palmhouse Foundation and the Street Children Association Network of Nakuru (SCANN). We measure the success of our education program by the number of students who secure admission to universities. Over the last five years, more than 70% of the students who cleared secondary school through the Company's education program progressed to various universities.

Students following discussions during the mentorship session

Additionally, the Company sponsored staff to participate in the Alliance Virtual Classic Run event as part of its education program initiatives.The event raises funds for the Alliance High School Endowment Fund Trust that sponsors bright and needy students at Alliance High School.

In 2021, the Company organised two mentorship sessions for the candidate (Form Four) students in the education program. The theme of the mentorship session was ***Developing Resilience while overcoming and growing from Setbacks***.

The Company also offers internship opportunities through its Student Holiday Internship Program.This program offers work experience opportunities to previous beneficiaries of our education program in tertiary learning institutions. The Company offered an internship opportunity to one of the students who had completed her program at Kenyatta University.

HEALTH

The Company promotes healthy living standards and the well-being of its staff and members of society. On an annual basis, the Company partners with Faraja Cancer Support Trust (Faraja) in providing support to patients battling cancer. In 2021, the Company joined

Staff members participating in the white water rafting challenge at Sagana other corporates in Faraja's White Water Rafting challenge. The Company's teams emerged as the winner and first runners-up in this challenge, where the Company made donations towards supporting cancer treatment.

EARe s winning teams showcase their trophies at Faraja white water rafting challenge

We value our employees' well-being. In addition, we remain alive to the socio-economic pressure occasioned by the pandemic and its potential impact on staff mental, physical and emotional well-being. The Company ensures adherence to laid-down occupational health and safety protocols. In partnership with Inuka Africa, we launched a staff well-being program to provide wellness coaching. We continue to empower our staff by organising health talks on psychological resilience.

ENVIRONMENT

The Company is committed to environmental sustainability. In 2021, we sponsored a forest conservation fundraising initiative of the East African Wildlife Society themed *The Forest Challenge at Kereita forest.*

Staff members participating in The Forest Challenge Forest Rehabilitation Programme at Kereita Forest

The proceeds of this initiative are channelled towards tree-planting efforts to restore lost forest cover in key water catchments areas in Kenya. We demonstrated a commitment to achieving environmental sustainability and forest stewardship by participating in this challenge.

SOCIAL AND CHILD WELFARE

The Company's Social and Child welfare initiatives provide necessities to disadvantaged children.

In 2021,the Company partnered with Ghetto Classics, a community-based program to donate water to Kongo Primary School in Kiambu County. We recognise that sanitation, including access to clean water, is core to preventing the spread of COVID-19. This donation minimises the risk of COVID-19 infections among the pupils, which ultimately impacts their health and learning outcomes positively.

EARe staff members at Kongo primary school

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of East Africa Reinsurance Company Limited (the "Company") set out on pagess 30 to 85, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include determining that the basis of accounting described in Note 2 as an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by 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 misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial period which give a true and fair view of the financial position of the Company as at the end of the financial period and of the profit or loss of the Company for that period. It also requires the Directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company and of its profit or loss.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 23 February 2022.

J.P.M. Ndegwa
Chairman
23 February 2022

J.K. Kimeu
Director
23 February 2022

P.K. Maina
Principal Officer
23 February 2022

REPORT OF CONSULTING ACTUARY

I have conducted an insurance liability valuation of the short-term and an actuarial valuation of the long-term businesses of East Africa Reinsurance Company Limited at 31 December 2021.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act. These principles require 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 short-term business of the Company was financially sound and insurance liabilities reserves of the Company were adequate at 31 December 2021.
- the long-term business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of long-term business did not exceed the amount of funds of the long-term business at 31 December 2021.

J. I. Olubayi
Zamara Actuaries, Adminstrators and Consultants Limited
Nairobi
23 February 2022

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612 00100 GPO
Nairobi, Kenya

Telephone +254-20-2806000
Fax +254-20-2215695
Email: info@kpmg.co.ke
Web: www.kpmg.com/eastafrica

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF EAST AFRICA REINSURANCE COMPANY LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of East Africa Reinsurance Company Limited (the "Company") as set out on pages 30 to 85, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

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 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by 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' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Company for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2021.

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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Long term and short term re-insurance/reassurance contract liabilities	
See note 1.3 and 23 to the financial statements.	
Key audit matter	**How our audit addressed the key audit matter**
Determination of reinsurance/reassurance contract liabilities The Company has long term and short-term re- insurance/ reassurance contract liabilities representing a significant portion of the Company's total liabilities. Valuation of these liabilities is highly judgmental and requires a number of assumptions to be made that have high estimation uncertainty.	Our audit procedures in this area included; • Obtaining an understanding of the processes, systems and applications used in determination of long term and short term re-insurance/ reassurance contract liabilities. This included assessing the design and operating effectiveness of key controls around the claims handling and reserve setting processes of the Company.

Key audit matters continued

Long term and short term re-insurance/reassurance contract liabilities (continued)	
See note 1.3 and 23 to the financial statements.	
Key audit matter (continued)	**How our audit addressed the key audit matter**
Determination of reinsurance/reassurance contract liabilities (continued) This is particularly the case for those liabilities that are recognised in respect of claims that have occurred but have not yet been reported to the Company (incurred but not reported (IBNR)). Small changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation of insurance liabilities. For long-term re-insurance/ reassurance contract liabilities, economic and operating assumptions, such as investment returns, expenses and expense inflation and loss ratio assumptions used to estimate the liabilities. These assumptions have a high estimation uncertainty and changes in the estimates may lead to material impact on the valuation of the liabilities. The valuation also depends on accurate historical data from the information systems. If the data used is not complete and accurate then material impacts on the valuation of these liabilities may also arise. We have determined the valuation of re-insurance/ re-assurance contract liabilities to be a key audit matter due to the significant judgements, assumptions and high estimation uncertainty applicable in their valuation.	• Using our internal actuarial specialists to assist us in assessing the appropriateness of the methodology and the reasonableness of the assumptions used by management in the estimation of reserves at 31 December 2021 by comparing economic assumptions to market observable data and non-economic assumptions against the Company's historical experience, current trends and our own industry knowledge. • Evaluating the reasonableness of management's liability adequacy testing by evaluating the actual vs expected analysis on prior years' reserves and analysis of surplus for any shortfalls or surpluses. • Re-performing reconciliations between the data recorded in the financial systems and the data used in the actuarial reserving calculations. • Evaluating the adequacy of disclosures in the financial statements including disclosures of key estimates and judgements on Long term and short-term re-insurance/reassurance contract liabilities in accordance with the requirements of IFRS 4.

Other information

The directors are responsible for the other information. The other information comprises the information included in the East Africa Reinsurance Company Limited Annual Report and Financial Statements for the year ended 31 December 2021 but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than that prescribed by the Kenyan Companies Act, 2015 as set out below.

In connection with our audit of the financial statements, our responsibility is to read the other information 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, 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.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Kenyan Companies Act, 2015 and for such internal control, as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 legal and regulatory requirements

As required by the Kenyan Companies Act, 2015, we report to you, based on our audit, that in our opinion, the information in the Report of the Directors on pages 12 and 13 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor s report is CPA Alexander Mbai P/2172.

For and on behalf of:

KPMG Kenya
Certified Public Accountants PO Box 40612 – 00100 GPO
Nairobi,
Date: 28 March 2022

2021 FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Long term business 2021 Kshs 000	Short term business 2021 Kshs 000	Total 2021 Kshs 000	Long term business 2020 Kshs 000	Short term business 2020 Kshs 000	Total 2020 Kshs 000
Gross written premiums	3	1,168,653	3,155,834	4,324,487	1,137,038	2,866,323	4,003,361
Gross earned premiums	3	1,166,359	3,050,379	4,216,738	1,286,493	3,032,649	4,319,142
Less: Retrocession premiums	3	(262,509)	(213,010)	(475,519)	(231,022)	(197,439)	(428,461)
Net earned premiums		**903,850**	**2,837,369**	**3,741,219**	**1,055,471**	**2,835,210**	**3,890,681**
Investment income	4	166,662	579,527	746,189	178,152	505,518	683,670
Acquisition costs recoverable from retrocessionaires		35,970	25,158	61,128	45,651	24,163	69,814
Other income		-	-	-	-	12	12
Total income		**1,106,482**	**3,442,054**	**4,548,536**	**1,279,274**	**3,364,903**	**4,644,177**
Gross claims incurred	5	(1,306,830)	(1,835,959)	(3,142,789)	(940,519)	(1,668,219)	(2,608,738)
Amounts recoverable from retrocessionaires		119,052	104,344	223,396	273,746	4,583	278,329
Net claims incurred		**(1,187,778)**	**(1,731,615)**	**(2,919,393)**	**(666,773)**	**(1,663,636)**	**(2,330,409)**
Acquisition costs		(282,703)	(860,571)	(1,143,274)	(327,671)	(855,871)	(1,183,542)
Operating and other expenses	6	(49,003)	(334,411)	(383,414)	(80,892)	(443,253)	(524,145)
Total expenses		**(1,519,484)**	**(2,926,597)**	**(4,446,081)**	**(1,075,336)**	**(2,962,760)**	**(4,038,096)**
Profit before income tax		**(413,002)**	**515,457**	**102,455**	**203,938**	**402,143**	**606,081**
Income tax expense	7	125,032	(90,099)	34,933	(73,009)	(122,703)	(195,712)
(Loss)/Profit for the year		**(287,970)**	**425,358**	**137,388**	**130,929**	**279,440**	**410,369**
Other comprehensive income:							
Items that will not be reclassified to profit or loss							
Fair value loss on revaluation of land and buildings	11	-	-	-	-	(22,121)	(22,121)
Deferred tax on revaluation of land and buildings		-	-	-	-	6,636	6,636
Total other comprehensive income		**-**	**-**	**-**	**-**	**(15,485)**	**(15,485)**
Total comprehensive income for the year		**(287,970)**	**425,358**	**137,388**	**130,929**	**263,955**	**394,884**
Earnings per share (Basic and Diluted) Kshs	9			91.59			273.58

STATEMENT OF FINANCIAL POSITION

	Notes	Long term business 2021 Kshs 000	Short term business 2021 Kshs 000	Total 2021 Kshs 000	Long term business 2020 Kshs 000	Short term business 2020 Kshs 000	Total 2020 Kshs 000
Assets							
Property and equipment	11	-	414,659	414,659	-	446,594	446,594
Investment properties	13	-	730,000	730,000	-	760,000	760,000
Intangible assets	12	-	61,064	61,064	-	3,049	3,049
Mortgage loans	15	-	36,822	36,822	-	41,853	41,853
Government securities at amortised cost	19	1,091,339	3,634,856	4,726,195	1,005,954	3,050,859	4,056,813
Receivables arising out of retrocession arrangements		592	7,574	8,166	35,978	3,187	39,165
Receivables arising out of reinsurance arrangements		458,330	988,583	1,446,913	209,815	996,525	1,206,340
Deferred acquisition costs	16	106,306	379,595	485,901	113,870	351,612	465,482
Equity investments at fair value through profit or loss	14	13,736	25,484	39,220	17,040	34,256	51,296
Corporate bonds at amortised cost	18	29,532	29,532	59,064	61,150	208,239	269,389
Real estate investments trusts (REITs)	14	-	102,470	102,470	-	-	-
Retrocessionaires' share of reinsurance liabilities	16	288,159	366,476	654,635	129,320	253,024	382,344
Other receivables	17	37,351	201,301	238,652	2,178	97,681	99,859
Current income tax receivable		52,468	-	52,468	52,468	-	52,468
Deposits with financial institutions	20	389,743	1,323,678	1,713,421	452,410	1,646,126	2,098,536
Cash and bank balances	26	141,974	359,129	501,103	46,437	241,847	288,284
Total assets		**2,609,530**	**8,661,223**	**11,270,753**	**2,126,620**	**8,134,852**	**10,261,472**
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	339,304	-	339,304	627,274	-	627,274
Revaluation reserve	10	-	225,106	225,106	-	243,434	243,434
Fair value reserve	10	-	-	-	-	1,577	1,577
Retained earnings	10	-	3,344,174	3,344,174	-	2,998,911	2,998,911
Total equity		**839,304**	**4,569,280**	**5,408,584**	**1,127,274**	**4,243,922**	**5,371,196**

STATEMENT OF FINANCIAL POSITION

	Notes	Long term business 2021 Kshs 000	Short term business 2021 Kshs 000	Total 2021 Kshs 000	Long term business 2020 Kshs 000	Short term business 2020 Kshs 000	Total 2020 Kshs 000
Liabilities							
Provision for unearned premiums	22	446,279	1,278,072	1,724,351	443,985	1,172,617	1,616,602
Reinsurance or reassurance contract liabilities	23	902,472	1,715,468	2,617,940	176,315	1,624,882	1,801,197
Payables arising from retrocession arrangements		139,797	60,655	200,452	44,499	63,731	108,230
Current income tax payable	8	-	16,356	16,356	-	13,492	13,492
Other payables	24	-	508,627	508,627	24,053	480,221	504,274
Deferred acquisition costs arising from retrocession arrangements	16	15,739	15,518	31,257	23,104	12,373	35,477
Payables arising from reinsurance arrangements		120,523	423,156	543,679	16,942	409,839	426,781
Deferred income tax	25	145,416	74,091	219,507	270,448	113,775	384,223
Total Liabilities		**1,770,226**	**4,091,943**	**5,862,169**	**999,346**	**3,890,930**	**4,890,276**
Total Equity and Liabil-ities		**2,609,530**	**8,661,223**	**11,270,753**	**2,126,620**	**8,134,852**	**10,261,472**

The accounting policies on pages 35 to 50 and the notes on pages 51 to 85 form an integral part of these financial statements.

The annual report and financial statements and the notes on pages 30 to 85, were approved and authorised for issue by the Board of Directors on 23 February 2022 and were signed on its behalf by:

J.P.M. Ndegwa
Chairman
23 February 2022

J.K. Kimeu
Director
23 February 2022

P.K. Maina
Principal Officer
23 February 2022

STATEMENTS OF CHANGES IN EQUITY

	Share capital Kshs 000	Revaluation reserve Kshs 000	Fair value reserve Kshs 000	General reserve Kshs 000	Total reserves Kshs 000	Retained earnings Kshs 000	Total equity Kshs 000
Balance at 1 January 2020	**1,500,000**	**281,068**	**3,950**	**496,345**	**781,363**	**2,794,949**	**5,076,312**
Profit for the year	-	-	-	130,929	130,929	279,440	410,369
Other comprehensive loss	-	(15,485)	-	-	(15,485)	-	(15,485)
Total comprehensive income for the year	**-**	**(15,485)**	**-**	**130,929**	**115,444**	**279,440**	**394,884**
Fair value reserve	-	-	(2,373)	-	(2,373)	2,373	-
Transfer of excess depreciation	-	(31,641)	-	-	(31,641)	31,641	-
Deferred tax on excess depreciation	-	9,492	-	-	9,492	(9,492)	-
Dividends paid 2019	-	-	-	-	-	(100,000)	(100,000)
Balance at 31 December 2020 and 1 January 2021	**1,500,000**	**243,434**	**1,577**	**627,274**	**872,285**	**2,998,911**	**5,371,196**
(Loss)/profit for the year	-	-	-	(287,970)	(287,970)	425,358	137,388
Other comprehensive loss	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**(287,970)**	**(287,970)**	**425,358**	**137,388**
Fair value reserve	-	-	(1,577)	-	(1,577)	1,577	-
Transfer of excess depreciation	-	(26,183)	-	-	(26,183)	26,183	-
Deferred tax on excess depreciation	-	7,855	-	-	7,855	(7,855)	-
Dividends paid 2020	-	-	-	-	-	(100,000)	(100,000)
Balance at 31 December 2021	**1,500,000**	**225,106**	**-**	**339,304**	**564,410**	**3,344,174**	**5,408,584**
Notes	21	10	10	10		10	

The accounting policies on pages 35 to 50 and the notes on pages 51 to 85 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	2021 Kshs 000	2020 Kshs 000
Cash flows from operating activities			
Cash (paid)/generated from operations	27	(83,924)	42,565
Income tax paid	8	(126,919)	(202,401)
Net cash used in operating activities		**(210,843)**	**(159,836)**
Cash flows from investing activities			
Purchase of property and equipment	11	(1,062)	(13,439)
Proceeds from disposal of property and equipment		-	12
Additions to investment properties	13	(954)	(4,583)
Purchase of intangible assets	12	(91,595)	-
Purchase of REITs	14	(100,000)	-
Purchase of Government securities		(498,277)	(935,265)
Investment income received		765,577	742,294
Redemptions/(purchase) of corporate bonds		210,408	(30,770)
Redemption of deposits with financial institutions (maturing over 3 months)		705,359	773,751
Proceeds of disposal of equity investments		21,173	2,472
Mortgage loans repaid	15	5,031	33,966
Net cash from investing activities		**1,015,660**	**568,438**
Cash flows from financing activities			
Dividends paid	9	(100,000)	(100,000)
Net increase in cash and cash equivalents		**704,817**	**308,602**
Cash and cash equivalents at 1 January		1,211,875	903,273
Cash and cash equivalents at 31 December	26	**1,916,692**	**1,211,875**

The accounting policies on pages 35 to 50 and the notes on pages 51 to 85 form an integral part of these financial statements.

GENERAL INFORMATION

East Africa Reinsurance Company Limited is incorporated in Kenya under the Kenyan Companies Act, 2015, as a private limited liability company and is domiciled in Kenya. The address of its registered office is set out on page 2.

The Company is organised into two main divisions, short-term (general) business and long-term (life) business. Long-term business relates to the underwriting of life risks relating to insured persons. Short-term business relates to all other categories of the insurance business accepted by the Company, analysed into several sub-classes of business based on the nature of the assumed risks.

For the Kenyan Companies Act reporting 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") and the Kenyan Companies Act, 2015. 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 1.20.

1.2 Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Company

The following standards and interpretations apply for the first time to the financial reporting period commencing 1 January 2021:

(a) Covid-19- Related Rent Concessions Amendments to IFRS 16

(b) Interest Rate Benchmark Reform Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments listed above did not have a material effect on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. This is attributed to the fact that the Company is not a lessee and has no contracts subject to Interest Rate Benchmark Reform changes.

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

A number of new standards are effective for annual periods beginning after 1 January 2021,and earlier adoption is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

(a) IFRS 17 Insurance Contracts effective 1 January 2023

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

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

1.2 Changes in accounting policy and disclosures (continued)

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

(a) IFRS 17 Insurance Contracts effective 1 January 2023 (continued)

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 measurement 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.

Data requirements, policy choice decisions, and financial impact assessments are in progress. However, the Directors expect that the adoption of IFRS 17 will have a material impact on the Company's financial statements once the standard is effective.

b) Property, Plant and Equipment: Proceeds before intended use (Amendments to IAS 16) effective 1 January 2022

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

c) Reference to the Conceptual Framework (Amendments to IFRS 3) effective 1 January 2022

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

d) Classification of Liabilities as Current or Non-current (Amendments to IAS 1) effective 1 January 2023

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

(e) Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) effective 1 January 2023

The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

1.2 Changes in accounting policy and disclosures (continued)

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

(f) Definition of Accounting Estimates (Amendments to IAS 8) effective 1 January 2023

The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates.The distinction is important because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

(g) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) effective 1 January 2023

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented.In addition,entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with right-of-use assets and lease liabilities, and decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

(h) Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) effective 1 January 2022

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

(i) Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the nonmonetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations).

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

(j) Annual improvements to IFRS Standards 2018 – 2020 effective 1 January 2022

The following improvements were deemed applicable to the Company:
- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

1.2 Changes in accounting policy and disclosures (continued)

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

The Directors do not plan to apply the above standards until they become effective. Based on their assessment of the potential impact of the application of the above, only *IFRS 17 Insurance contracts* 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 is at least 10% more than the benefits payable if the reinsured event did not occur.

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

i) Short-term reinsurance business

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

Classes of short-term 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.

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.

Medical reinsurance comprises the business of effecting and carrying out contracts of reinsurance against payment of expenses relating to both inpatient and outpatient treatment in respect of corporate and individual clients.

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.

Miscellaneous 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.

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.

1.3 Reinsurance contracts (continued)

(b) Recognition and measurement

The Company incorporates actual results reported by cedant companies each year. Reinsurance income and expenditure transactions for the any unreported period 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 recorded,including accrued 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 is attributable to the subsequent accounting period and are estimated, based on the internationally acceptable eighths (8ths) method for treaty business and 365th method for facultative and non propotional business, net of deductions.

ii) Claims incurred

Claims incurred comprise actual claims paid as at the end of the year and accrued 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 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) Acquisition 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 yearend.

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 risk premium rebates 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 retrocessionaires 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.

1.3 Reinsurance contracts (continued)

(b) Recognition and measurement (continued)

vi) Retrocession contracts held (continued)

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

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

vii) Receivables and payables related to reinsurance contracts

Receivables and payables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. These include amounts due to and from cedants and brokers. Subsequent to initial recognition, receivables related to reinsurance contracts are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment, with the impairment loss determined using the expected credit loss model, recorded in the statement of profit or loss.

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 revaluation value, based on periodic valuations by external independent valuers, less subsequent depreciation and any accumulated impairment losses. All other categories of property and equipment are stated at historical cost less depreciation and any accumulated impairment losses.

Increases in the carrying amount of land and buildings 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. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset.

1.5 Property and equipment (continued)

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.

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.

An item of property and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Gains and losses on derecognition of property and equipment are determined by reference to their carrying amounts. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

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 the 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 an appropriate portion of relevant overheads.

Amortisation is recognized in profit or loss on a 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 comprises land and buildings held to earn rentals and/or for capital appreciation. It is stated at its fair value, at the reporting date as determined through an annual revaluation by external valuers on the basis of the highest and best use. Gains or losses arising from changes in the fair value of the investment property are included in profit or loss in the period in which they arise.

The investment property is not subject to depreciation. Changes in the carrying amount between the ends of each reporting periods are recognised through profit or loss. 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.

An investment property is derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no further economic benefit is expected from its disposal. On the retirement or disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss for the year.

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.

1.8 Financial assets (continued)

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

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

(i) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

(ii) Measurement

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

Debt instruments

Debts instruments are those instruments that meet the definition of financial liability from the issuer's perspective such as loans, government and corporate bonds. Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset:

Based on these factors, the Company classifies its debt instruments to amortised cost.

- At 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 a separate line item in the statement of profit or loss.

- Business model: the business model reflected how the Company manages the assets in order to generate cash flows i.e. whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

- SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flow represent solely payments of principal and interest ('SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

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

1.8 Financial assets (continued)

Equity instruments

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

(iii) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchanges (Nairobi Securities Exchange).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 a significant increase in the bid-offer spread, or there are few recent transactions.

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

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

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

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

(iv) Impairment

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.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
  a) An adverse changes in the payment status of issuers or debtors in the Company; or
  b) National or local economic conditions that correlate with defaults on the assets in the Company.

1.8 Financial assets (continued)

The expected credit loss impairment model applies to the following financial instruments that are not measured at FVTPL:

- Government securities measured at amortised cost;
- Receivables arising from reinsurance arrangements;
- Other receivables;
- Corporate bonds;
- Deposits with financial institutions; and
- Cash and bank balances.

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

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

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

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

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

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

Measurement of expected credit losses (ECL)

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 purchase of a financial asset at a deep discount that reflects the incurred credit losses.

1.8 Financial assets (continued)

Expected credit losses

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.

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 one of the following approaches below:
- The general approach; and
- The simplified approach method.

The General Approach

Under the general approach, at each reporting date, the Company determines whether the financial asset is in one of three stages in order to determine both the amount of ECL to recognise as well as how interest income should be recognised.

- Stage 1 - where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Company will recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.

- Stage 2 - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Company will recognise lifetime ECL but interest income will continue to be recognised on a gross basis.

- Stage 3 - where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Company will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. As such, interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.

1.8 Financial assets (continued)

The Simplified approach

Under the simplified approach, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

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 from 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.

Significant increase in credit risk (SIICR)

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience, expert credit assessment and forward-looking information.

The Company primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a 'base case' view of the future direction of relevant economic variables and forecast scenarios based on consideration of a variety of external actual and forecast information. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates.

The base case represents a best estimate and is aligned with information used by the Company for other purposes, such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

1.8 Financial assets (continued)

(vii) Write off policy

The Company writes off financial assets, in whole or in part when it has exhausted all practical recovery effort and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity; and (ii) the Company is foreclosing on collateral and the value of the collateral is such as there is no reasonable expectation of recovering in full.

1.9 Impairment of other non-financial assets

Assets 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 bank balances

Cash and bank balances are carried in the statement of financial position at amortised 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 approved. 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 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. A defined contribution scheme is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the Company and employees.

The Company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.The Company and all its employees also contribute to the National Social Security Fund, which is a statutory defined contribution scheme.

1.14 Leases

The Company is a lessor, and its investment properties are leased to tenants under operating leases with rentals payable monthly. Lease payments for some contracts include periodic escalation rates, but there are no other variable lease payments that depend on an index or rate. Where considered necessary to reduce credit risk, the Company may obtain bank guarantees or security deposits for the term of the lease.

1.14 Leases (continued)

Although the Company is exposed to changes in the residual value at the end of the current leases, the Company typically enters into new operating leases and, therefore, will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties.

The Company determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'investment income'.

1.15 Share capital

Ordinary shares are recognized at par value and classified as 'share capital' in equity.

1.16 Current and deferred income tax

Income tax expense represents the sum of the current tax payable and the deferred income tax. 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.

(i) Current income tax

Current tax is computed in accordance with the Kenyan income tax laws applicable to insurance companies.The current income tax charge is calculated on the basis of the tax rates enacted or substantively enacted at the statement of financial position date.Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

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. However, deferred income tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting or taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets attributable to tax losses are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.17 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Kenya shillings, which is the Company's presentation currency. The financial statements are presented in Kenya Shillings (Kshs) rounded to the nearest thousand.

1.17 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss account within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income

1.18 Provisions

Provisions for liabilities are recognised when there is a present obligation (legal or constructive) resulting from a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation.

1.19 Comparatives

Where necessary, comparative figures have been adjusted to conform to changes of presentation in the current year.

1.20 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.

Key sources of estimation uncertainty

a) The ultimate liability arising from claims payable under reinsurance contracts

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. There are several sources of uncertainty that need to be considered in the estimation 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.

The main assumption applied in the estimation of the ultimate claims liability is the expectation that the Company's past claims experience can be used to project future claims development and hence ultimate claims costs. Actuarial methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by event years.Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation

Further details on this process are disclosed in Note 23.

1.20 Critical accounting estimates and judgements in applying accounting policies (continued)

b) Pipeline income and expense transactions

At each reporting period, estimates are made for; premium revenue earned but not reported by the Company's cedants, claims, insurance benefits incurred and other related expenses. Retrocession premiums payable, commissions receivable and acquisition costs are 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

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of cedants defaulting and the resulting losses). 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;
- Establishing groups of similar assets for the purposes of measuring ECL; and
- Determining the appropriate business models and assessing the "solely payments of principal and interest (SPPI)" requirements for financial assets.

The Company uses historical data to project the possibility of default. Further, 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, land and buildings

Estimates are made in determining valuations of investment properties, land and buildings. The Company management uses experts in determination of the values to adopt. The current use of the investment properties equates to the highest and best use.

e) Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded securities or other available fair value indicators.

Other areas of judgement

Management exercises critical judgment in determining the classification of debt and equity instruments and considers the substance of the contractual terms of the various instruments.

2. RISK MANAGEMENT

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

Short - term business	**Limit (Kshs)**
Property	3,450 million in excess of 50 million Facultative Facility Limit: 600 million
Marine	885 million in excess of 15 million
Miscellaneous Accident	70 million in excess of 30 million
Terrorism and Political Risks	Quota Share Limit: 808 million
Long - term business	Warranted minimum number of victims: 3
	Company's Catastrophe (CAT) retention: 6 million
	Reimbursable portion: 100%
	Reinsurer's max liability: 2 million per life,
	400 million per CAT and 800 million per period.
	Quota Share & Surplus – Quota Share limit: 1.2 million (Kenindia Business)
	Credit Life 30% Quota Share

The concentration for the short term business increased by 36% in 2021 to Kshs 76.32 billion (2020: Kshs 55.94 billion). This is mostly due to significant growth in facultative acceptances.The underwriting limits, however, are similar to prior years. Long term business exposures significantly reduced by 50% in 2021 to Kshs 134.11 billion (2020: Kshs 265.56 billion) due to a decrease in the volume of business.

2. RISK MANAGEMENT (continued)

REINSURANCE RISK MANAGEMENT (continued)

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 retrocession) arising from reinsurance contracts:

Year ended 31 December 2021 Class of business		TOTAL EXPOSURE 0 20 million Kshs 000	20 250 million Kshs 000	250 1000 million Kshs 000	Total Kshs 000
Long term & Short-term business					
Ordinary life	Gross	2,711,633	395,398	-	3,107,031
	Net	1,759,092	291,940	-	2,051,032
Group life	Gross	110,473,730	20,526,450	-	131,000,180
	Net	102,461,132	15,256,732	-	117,717,864
Fire	Gross	2,121,788	15,062,722	33,840,952	51,025,462
	Net	2,121,788	15,062,722	16,973,198	34,157,708
Miscellaneous	Gross	1,102,720	1,832,292	-	2,935,012
	Net	1,102,720	1,832,292	-	2,935,012
Motor	Gross	999,165	845,536	-	1,844,701
	Net	999,165	845,536	-	1,844,701
Others	Gross	1,969,003	11,000,601	7,545,922	20,515,526
	Net	1,750,816	8,947,875	2,901,726	13,600,417
Total	**Gross**	**119,378,039**	**49,662,999**	**41,386,874**	**210,427,912**
Total	**Net**	**110,194,713**	**42,237,097**	**19,874,924**	**172,306,734**

Year ended 31 December 2020 Class of business		TOTAL EXPOSURE 0 20 million Kshs 000	20 250 million Kshs 000	250 1000 million Kshs 000	Total Kshs 000
Long term & Short-term business					
Ordinary life	Gross	3,804,047	554,690	-	4,358,737
	Net	2,467,763	409,553	-	2,877,316
Group life	Gross	220,276,932	40,928,314	-	261,205,246
	Net	204,300,370	30,420,861	-	234,721,231
Fire	Gross	2,190,067	16,464,077	18,739,410	37,393,554
	Net	2,190,067	16,464,077	8,585,143	27,239,287
Miscellaneous	Gross	1,240,021	2,219,256	-	3,459,277
	Net	1,240,021	2,219,256	-	3,459,277
Motor	Gross	1,187,503	1,007,650	-	2,195,153
	Net	1,187,503	1,007,650	-	2,195,153
Others	Gross	1,851,307	8,701,222	2,339,745	12,892,274
	Net	1,825,991	8,622,133	2,277,479	12,725,603
Total	**Gross**	**230,549,877**	**69,875,209**	**21,079,155**	**321,504,241**
Total	**Net**	**213,211,715**	**59,143,530**	**10,862,622**	**283,217,867**

The Company's earthquake exposure for the Nairobi zone is estimated at Kshs 30,536,839,000 (2020: Kshs 41,421,447,000).

2. RISK 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.

At 31 December 2021	Up to 1 year Kshs 000	1-5 years Kshs 000	Over 5 years Kshs 000	Total Kshs 000
Liabilities				
Reinsurance contract liabilities	2,617,940	-	-	2,617,940
Payables arising out of retrocession arrangements	200,452	-	-	200,452
Payables arising out of reinsurance arrangements	543,676	-	-	543,676
Other payables	508,627	-	-	508,627
Total financial liabilities (contractual maturity dates)	**3,870,695**	**-**	**-**	**3,870,695**

At 31 December 2020	Up to 1 year Kshs 000	1-5 years Kshs 000	Over 5 years Kshs 000	Total Kshs 000
Liabilities				
Reinsurance contract liabilities	1,801,197	-	-	1,801,197
Payables arising out of retrocession arrangements	108,230	-	-	108,230
Payables arising out of reinsurance arrangements	426,781	-	-	426,781
Other payables	504,274	-	-	504,274
Total financial liabilities (contractual maturity dates)	**2,840,482**	**-**	**-**	**2,840,482**

2. RISK MANAGEMENT (continued)

FINANCIAL RISK MANAGEMENT (continued)

Fair Value Estimation

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

(i) Financial instruments not measured at fair value

The fair value of investment securities held at amortised cost (government securities and corporate bonds) at 31 December 2021 is estimated at Kshs 4,870,831,000 (2020: Kshs 4,465,467,000) compared to their carrying value of Kshs 4,785,260,000 (2020: Kshs 4,326,202,000).The fair values of the Company's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates.

(ii) Fair value hierarchy

The Company's financial assets measured at fair value are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, as follows:

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: 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 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the financial reporting 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 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 real estate investment trust (REITs) is based on the computed net asset value, which is based on applying market rates on the underlying investor's units held. Other techniques, such as discounted cash flow analysis and market comparables, are used to determine the fair value for the remaining financial instruments. Note that all of the resulting fair value estimates are included in level 2.
- Other techniques such as discounted cash flow analysis and market comparables are used to determine fair value for the remaining financial instruments.

2 RISK MANAGEMENT (continued)

Fair Value Estimation (continued)

(ii) Fair value hierarchy (continued)

The following table gives information about how the fair values of the financial assets are determined (in particular, the valuation technique(s) and inputs used) as well as the analysis by level of the fair value hierarchy.

Financial assets/ liabilities	Fair Value as at 31 December 2021 Kshs 000	Fair Value as at 31 December 2020 Kshs 00	Fair Value hierarchy	Valuation technique(s) and key inputs	Significant unobservable inputs
Equity investments (Note 14)	39,220	51,296	Level 1	Quoted bid prices in an active market	Not applicable
Real estate investments trusts (Note 14)	102,470	-	Level 1	Quoted bid prices in an active market	Not applicable
Investment property (Note 13)	730,000	760,000	Level 2	External professional valuation	Not applicable
Land and buildings (Note 11)	410,332	440,000	Level 3	External professional valuation	Not applicable
Total	**1,282,022**	**1,251,296**			

There were no transfers between levels during the year (2020: Nil).

MARKET RISK

(i) Foreign exchange risk

The Company deals with cedants in a number of countries, and therefore it writes business in various currencies. Consequently, it is exposed to foreign exchange risk arising from these currency exposures, primarily with respect to the US dollar, Uganda Shilling, Tanzania Shilling, and Indian Rupee.

Therefore, the Company's obligations to cedants and receivables from cedants are in these original currencies. The Company's net assets are mainly dominated in the base currency (Kenya Shillings).

The Company mitigates its currency risk by ensuring that the net exposure to this risk is maintained within acceptable levels by regularly reviewing the level of a mismatch for key currencies. In the opinion of the directors, the Company's foreign currency exposure has been adequately managed to minimise potential adverse effects.

At 31 December 2021, 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 Kshs 35,728,000 (2020:Kshs 36,547,000) 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 0.60% (2020: 0.68%) of the Company's net assets.

At 31 December 2021, 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 Kshs 3,582,000 (2020:Kshs 365) 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 0.07% (2020: 0.01%) of the Companys net assets.

2 RISK MANAGEMENT (continued)

(ii) Price risk

The Company is exposed to equity securities price risk because of investments in equities 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. At 31 December 2021 investments in equities constituted only 0.50% (2020: 0.68%) of the total assets.

At 31 December 2021, if the share prices at the NSE had increased/decreased by 10% (2020: 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 Kshs 3,922,000 (2020: Kshs 5,129,000) higher/lower, and equity would have been Kshs 3,922,000 (2020: Kshs 5,129,000) higher/lower.

At 31 December 2021, if the share prices for real estate investments trusts (REITS) had increased/decreased by 10% with all other variables held constant, post tax profit for the year would have been Kshs 10,247,000 higher/lower, and equity would have been Kshs 10,247,000 higher/lower.

(iii) Interest rate risk

The principal risk to which financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments 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, deposits with financial institutions and corporate bonds.

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 profit 2021 Kshs 000	Effect on equity 2021 Kshs 000	Effect on profit 2020 Kshs 000	Effect on equity 2020 Kshs 000
+5 percentage point movement	8,712	8,712	9,776	9,776
-5 percentage point movement	(8,712)	(8,712)	(9,776)	(9,776)

2. RISK MANAGEMENT (continued)

CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The key areas that the Company is exposed to credit risk are:

- Receivables arising out of reinsurance arrangements both inward and outward;
- Retrocessionaires' share of outstanding claims;
- Deposits and cash balances held with banks and other financial institutions; and
- Investments in government securities.

The Company manages its exposure in the following ways:

- placing its retrocession programme with rated securities – investment grade and above;
- dealing with only credit-worthy counterparties;
- placing limits on the Company's exposure to a single counterparty or group of counterparties while placing investments.

In respect of its exposure from receivables arising out of reinsurance arrangements the Company manages this through regular analysis of the ability of the existing and potential clients to meet premium obligations and by reviewing signed treaty shares where appropriate, having close relations with cedants and intermediaries to enhance timely settlement of premiums, offsetting of outstanding premiums against claims and avoiding renewal of treaties with cedants who have poor underwriting and credit history.

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.

(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 two to five 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.

2. RISK MANAGEMENT (continued)

(iv) Government securities

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

The table below details the maximum exposure to credit risk:

At 31 December 2021	Gross Amounts Kshs 000	Expected Credit Loss Kshs 000	Net Kshs 000
Receivables arising out of reinsurance arrangements	1,649,662	(202,749)	1,446,913
Government securities	4,730,922	(4,727)	4,726,195
Corporate bonds	59,088	(24)	59,064
Deposits with financial institutions	1,723,827	(10,406)	1,713,421
Bank balances	504,337	(3,234)	501,103
Mortgage loans	36,822	-	36,822
Other receivables (excluding prepayments)	186,415	-	186,415
Receivables arising out of retrocession arrangements	8,166	-	8,166
Retrocessionaires' share of reinsurance liabilities	654,635	-	654,635
	9,553,874	**(221,140)**	**9,332,734**

At 31 December 2020	Gross Amounts Kshs 000	Expected Credit Loss Kshs 000	Net Kshs 000
Receivables arising out of reinsurance arrangements	1,418,602	(212,262)	1,206,340
Government securities	4,060,871	(4,058)	4,056,813
Corporate bonds	269,496	(107)	269,389
Deposits with financial institutions	2,110,302	(11,766)	2,098,536
Bank balances	290,182	(1,898)	288,284
Mortgage loans	41,853	-	41,853
Other receivables (excluding prepayments)	88,982	-	88,982
Receivables arising out of retrocession arrangements	39,165	-	39,165
Retrocessionaires share of reinsurance liabilities	382,344	-	382,344
	8,701,797	**(230,091)**	**8,471,706**

2. RISK MANAGEMENT (continued

Movement of ECLs 2021	At 1 January Kshs 000	Credit/(Charge for the year) Kshs 000	At 31 December Kshs 000
Receivables arising out of reinsurance arrangements	(212,262)	9,513	(202,749)
Government securities	(4,058)	(669)	(4,727)
Corporate bonds	(107)	83	(24)
Deposits with financial institutions	(11,766)	1,360	(10,406)
Bank balances	(1,898)	(1,336)	(3,234)
	(230,091)	**8,951**	**(221,140)**

Movement of ECLs 2020	At 1 January Kshs 000	Credit/(Charge for the year) Kshs 000	At 31 December 2020 Kshs 000
Receivables arising out of reinsurance arrangements	(183,293)	(28,969)	(212,262)
Government securities	(3,236)	(822)	(4,058)
Corporate bonds	(95)	(12)	(107)
Deposits with financial institutions	(10,948)	(818)	(11,766)
Bank balances	(1,714)	(184)	(1,898)
	(199,286)	**(30,805)**	**(230,091)**

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 capital as follows:

- Short-term Kshs 1 billion (Long-term Kshs 500 million); or
- Risk based capital determined by the authority from time to time; or
- Short-term 20% (Long-term 5%) of net earned premiums of the preceeding financial year.

The Company's share capital meets the minimum capital requirements at 31 December 2021.

The Company's Capital Adequacy Ratio (CAR) stood at 369% and 150% for Short term and Long term businesses, respectively. The Insurance Regulatory Authority requires all insurance companies to hold a minimum and prescribed capital of 100% and 200% respectively. The Company, therefore, complies with the minimum capital requirements. 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 2021 Kshs 000	GEP 2021 Kshs 000	Retro 2021 Kshs 000	GWP 2020 Kshs 000	GEP 2020 Kshs 000	Retro 2020 Kshs 000
Long-term business						
Ordinary life	27,956	27,841	5,712	47,050	51,460	9,241
Group life	1,140,697	1,138,518	256,797	1,089,988	1,235,033	221,781
	1,168,653	**1,166,359**	**262,509**	**1,137,038**	**1,286,493**	**231,022**
Short-term business						
Aviation	(6,726)	5,807	(43)	28,136	12,079	347
Engineering	235,446	242,566	21,439	248,013	261,588	17,463
Fire	1,265,630	1,234,289	118,442	1,236,744	1,315,806	102,268
Liability	15,131	17,599	96	13,516	13,838	167
Marine	246,257	214,909	12,620	217,990	212,473	12,968
Motor	243,250	247,612	1,869	210,443	229,381	2,117
Personal accident	78,305	64,120	496	44,902	32,319	554
Medical	674,636	653,288	4,274	555,937	595,468	6,854
Miscellaneous	403,905	370,189	53,817	310,642	359,697	54,701
	3,155,834	**3,050,379**	**213,010**	**2,866,323**	**3,032,649**	**197,439**
Total	**4,324,487**	**4,216,738**	**475,519**	**4,003,361**	**4,319,142**	**428,461**

4. INVESTMENT INCOME

	Long term business 2021 Kshs 000	Short term business 2021 Kshs 000	Total 2021 Kshs 000	Long term business 2020 Kshs 000	Short term business 2020 Kshs 000	Total 2020 Kshs 000
Investments held at amortised cost						
Interest income on Government Securities	121,834	399,996	521,830	123,275	276,387	399,662
Interest income on Corporate Bonds	5,458	15,291	20,749	7,212	27,430	34,642
Interest income on Loans	-	2,508	2,508	-	3,037	3,037
Interest income on Bank deposits	35,734	114,697	150,431	51,254	183,810	235,064
	163,026	**532,492**	**695,518**	**181,741**	**490,664**	**672,405**
Investments at fair value through profit or loss						
Unrealized fair value gain/(loss) on equity investments	896	2,836	3,732	(2,867)	(7,705)	(10,572)
Dividend income from equity investments	646	1,455	2,101	779	1,872	2,651
Realised gain/(loss) on sale of equity investments	2,094	3,272	5,366	(1,501)	(1,970)	(3,471)
Unrealized fair value gain on REITs	-	2,470	2,470	-	-	-
Dividend income from REITs	-	1,330	1,330	-	-	-
	3,636	**11,363**	**14,999**	**(3,589)**	**(7,803)**	**(11,392)**
Investment properties (Note 13)						
Fair value loss on investment property	-	(30,954)	(30,954)	-	(44,583)	(44,583)
Rental income	-	66,302	66,302	-	66,746	66,746
	-	35,348	35,348	-	22,163	22,163
Other income						
Staff advances	-	324	324	-	494	494
Total	**166,662**	**579,527**	**746,189**	**178,152**	**505,518**	**683,670**

5. GROSS CLAIMS INCURRED

	2021 Kshs 000	2020 Kshs 000
Long-term business		
Gross claims paid		
Ordinary Life	10,694	280
Group Life	738,870	865,344
Increase in reassurance contract liabilities:		
Ordinary Life	176	2,134
Group Life	557,090	72,761
	1,306,830	**940,519**
Short term business		
Gross claims paid		
Aviation		
Engineering	(5,005)	14,511
Fire	82,103	83,864
Liability	745,322	697,201
Marine	8,109	2,763
Motor	96,048	111,044
Personal accident	172,799	214,151
Medical	19,427	14,558
Miscellaneous accident	563,900	411,076
	153,256	119,051
	1,835,959	**1,668,219**
Long term	1,306,830	940,519
Short term	1,835,959	1,668,219
	3,142,789	**2,608,738**

6. OPERATING AND OTHER EXPENSES

The following are included in operating and other expenses:

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
Employee benefits expense	29,307	115,413	144,720
Auditor's remuneration	482	4,173	4,655
Directors' fees	598	5,182	5,780
Depreciation of property and equipment (Note 11)	-	32,997	32,997
Provision for expected credit losses arising from investments	236	326	562
Net foreign exchange gains	(2,452)	(7,314)	(9,766)
Provision for expected credit losses arising from reinsurance receivables	1,118	(10,630)	(9,512)
Amortisation of intangible assets (Note 12)	-	33,580	33,580
Other expenses	19,714	160,684	180,398
Total	**49,003**	**334,411**	**383,414**

6. OPERATING AND OTHER EXPENSES (continued)

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Employee benefits expense	37,133	145,194	182,327
Auditor's remuneration	814	3,762	4,576
Directors' fees	642	4,378	5,020
Depreciation of property and equipment (Note 11)	-	34,308	34,308
Provision for expected credit losses arising from investments	(878)	2,714	1,836
Net foreign exchange (gains)/loss	(6,096)	6,819	723
Provision for expected credit losses arising from reinsurance receivables	(581)	29,550	28,969
Amortisation on intangible assets (Note 12)	-	3,049	3,049
Other expenses	49,858	213,479	263,337
Total	**80,892**	**443,253**	**524,145**

Employee benefit expense comprise the following:

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
Salaries and wages	26,915	105,649	132,564
Retirement benefit cost	2,381	9,717	12,098
National social security benefit costs	11	47	58
	29,307	**115,413**	**144,720**

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Salaries and wages	34,586	136,189	170,775
Retirement benefit cost	2,535	8,963	11,498
National social security benefit costs	12	42	54
	37,133	**145,194**	**182,327**

The average number of employees in 2021 and 2020 by category were:

	2021	2020
Management	7	7
Other Staff	17	18
	24	**25**

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 Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
Current income tax	-	129,783	129,783
Deferred income tax credit	(125,032)	(39,684)	(164,716)
Income tax expense	**(125,032)**	**90,099**	**(34,933)**

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Current income tax	16,897	126,966	143,863
Deferred income tax charge/(credit)	56,112	(4,263)	51,849
Income tax expense	**73,009**	**122,703**	**195,712**

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

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
(Loss)/profit before income tax	(413,002)	515,457	102,455
Tax at the applicable tax rate of 30%	(123,901)	154,637	30,736
Tax effect of adjustments on taxable income			
Tax effect of income not subject to tax	-	(27,340)	(27,340)
Tax effect of expenses not deductible for tax purposes	-	3,611	3,611
Ineligible depreciation	-	8,827	8,827
Prior year deferred tax over provision	(1,131)	(49,636)	(50,767)
Income tax expense	**(125,032)**	**90,099**	**(34,933)**

7. INCOME TAX EXPENSE (continued)

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Profit before income tax	203,938	402,143	606,081
Tax at the applicable tax rate of 25%	16,897	100,536	117,433
Tax effect of adjustments on taxable income			
Tax effect of income not subject to tax	-	(12,274)	(12,274)
Tax effect of expenses not deductible for tax purposes	-	34,441	34,441
Deferred tax on life surplus	56,112	-	56,112
Income tax expense	**73,009**	**122,703**	**195,712**

Key expenses not deductible for tax purposes include depreciation, provision for bad debts, bonus provision and donations while incomes not subject to tax include fair value loss on investment property, income from infrastructure bonds and fair value movement on equity investments.

8. CURRENT INCOME TAX

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
At 1 January	52,468	(13,492)	38,976
Tax expense for the year	-	(129,783)	(129,783)
At 31 December	(52,468)	16,356	(36,112)
Income tax paid	**-**	**(126,919)**	**(126,919)**

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
At 1 January	(19,409)	(153)	(19,562)
Tax expense for the year	(16,897)	(126,966)	(143,863)
At 31 December	(52,468)	13,492	(38,976)
Income tax paid	**(88,774)**	**(113,627)**	**(202,401)**

9. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share

Earnings per ordinary share of Kshs 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:

At 31 December	2021	2020
Profit attributable to shareholders (Kshs'000)	137,388	410,369
Weighted average number of shares ('000)	1,500	1,500
Kshs	**91.59**	**273.58**

There were no potentially dilutive shares outstanding as at 31 December 2021 and 31 December 2020. Diluted earnings per share is therefore the same as basic earnings per share.

9. EARNINGS PER SHARE AND DIVIDENDS (continued)

Dividends

Kshs 100,000,000 first and final dividend with respect to 2020 was paid in the year. The directors recommend the payment of a first and final dividend of Kshs 100,000,000 (2020: Kshs 100,000,000) representing a dividend of Kshs 66.67 (2020: Kshs 66.67) per share subject to approval at the annual general meeting.

10. RESERVES

a) FAIR VALUE RESERVE

The fair value reserve represents the cumulative surplus or deficit arising from revaluation of investment based on the market values of the investments at the end of the reporting period. This reserve is not distributable.

b) REVALUATION RESERVE

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

c) GENERAL RESERVE

The general reserve represents the accumulated profit for the 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

	2021			2020		
	Cost or revaluation Kshs 000	Accumulated depreciation Kshs 000	Carrying value Kshs 000	Cost or revaluation Kshs 000	Accumulated depreciation Kshs 000	Carrying value Kshs 000
Land	410,000	(27,333)	382,667	410,000	-	410,000
Buildings	29,755	(2,090)	27,665	30,000	-	30,000
Furniture and fixtures	17,258	(13,894)	3,364	17,532	(12,957)	4,575
Motor vehicles	6,078	(6,078)	-	6,078	(4,606)	1,472
Computer Equipment	12,342	(11,379)	963	10,761	(10,214)	547
Total	**475,433**	**(60,774)**	**414,659**	**474,371**	**(27,777)**	**446,594**

Reconciliation of Property and Equipment 2021

	Opening balance Kshs 000	Additions Kshs 000	Depreciation Kshs 000	Total Kshs 000
Land	410,000	-	(27,333)	382,667
Buildings	30,000	(245)	(2,090)	27,665
Furniture and fixtures	4,575	-	(1,211)	3,364
Motor vehicles	1,472	-	(1,472)	-
Computer Equipment	547	1,307	(891)	963
	446,594	**1,062**	**(32,997)**	**414,659**

Reconciliation of Property and Equipment 2020

	Opening balance Kshs 000	Additions Kshs 000	Revaluation Kshs 000	Depreciation Kshs 000	Total Kshs 000
Land	442,791	-	(5,117)	(27,674)	410,000
Buildings	37,615	12,523	(17,004)	(3,134)	30,000
Furniture and fixtures	4,989	829	-	(1,243)	4,575
Motor vehicles	2,938	-	-	(1,466)	1,472
Computer Equipment	1,251	87	-	(791)	547
	489,584	**13,439**	**(22,121)**	**(34,308)**	**446,594**

The leasehold land and buildings were last revalued as at 31 December 2020 by Lloyd Masika Limited, independent valuers on the basis of open market value for existing use. The valuation which conforms to International Valuation Standards was determined by reference to open market values. The Company revalues its land and buildings every 3 years.

11. PROPERTY AND EQUIPMENT (continued)

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 (land and buildings) 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 Kshs 000	Level 2 Kshs 000	Level 3 Kshs 000	Total Kshs 000
At 31 December 2021	-	410,332	-	410,332
At 31 December 2020	-	440,000	-	440,000

Using the cost model the carrying amount for Buildings at 31 December 2021 would be Kshs 43,765,000 (2020: Kshs 47,249,000).

Excess Depreciation

	2021 Kshs 000	2020 Kshs 000
Revaluation book value: At 1 January	392,751	424,392
Less: Revaluation book value: At 31 December	(366,568)	(392,751)
Excess depreciation	26,183	31,641
Tax on excess depreciation at 30%	(7,855)	(9,492)
	18,328	**22,149**

12. INTANGIBLE ASSETS

	2021			2020		
	Cost Kshs 000	Accumulated amortisation Kshs 000	Carrying value Kshs 000	Cost Kshs 000	Accumulated amortisation Kshs 000	Carrying value Kshs 000
Computer software	118,310	(57,246)	61,064	26,715	(23,666)	3,049
Total	**118,310**	**(57,246)**	**61,064**	**26,715**	**(23,666)**	**3,049**

Reconciliation of intangible assets - 2021

	Opening balance Kshs 000	Additions Kshs 000	Amortisation Kshs 000	Total Kshs 000
Computer software	3,049	91,595	(33,580)	61,064
	3,049	**91,595**	**(33,580)**	**61,064**

12. INTANGIBLE ASSETS

Reconciliation of intangible assets - 2020

	Opening balance Kshs 000	Amortisation Kshs 000	Total Kshs 000
Computer software	6,098	(3,049)	3,049
	6,098	**(3,049)**	**3,049**

13. INVESTMENT PROPERTIES

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
At 1 January	-	760,000	760,000
Additions during the year	-	954	954
Fair value loss	-	(30,954)	(30,954)
At 31 December	**-**	**730,000**	**730,000**

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
At 1 January	-	800,000	800,000
Additions during the year	-	4,583	4,583
Fair value loss	-	(44,583)	(44,583)
At 31 December	**-**	**760,000**	**760,000**

Investment properties are carried at fair value and were last revalued in December 2021, by Lloyd Masika, independent valuers, on investment basis. The resultant change in fair value has been accounted for in the statement of profit or loss and other comprehensive income.

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 (investment properties) 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 Kshs 000	Level 2 Kshs 000	Level 3 Kshs 000	Total Kshs 000
At 31 December 2021	-	730,000	-	730,000
At 31 December 2020	-	760,000	-	760,000

13. INVESTMENT PROPERTIES (continued)

Valuation technique used to derive level 2 fair values

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

Sensitivity analysis

The sensitivity analysis below is based on a change in assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and a change in some assumptions may be correlated.

Assumptions	% change	Fair Value Kshs 000	Change in Fair Value Kshs 000
Gross rental income	+5	767,000	37,000
Gross rental income	-5	693,000	(37,000)
Discount rate	+2	745,000	15,000
Discount rate	-2	715,000	(15,000)

(i) Amounts recognised in profit or loss for investment properties

	2021 Kshs 000	2020 Kshs 000
Rental income from operating leases	66,302	66,746
Fair value loss	(30,954)	(44,583)
	35,348	**22,163**

(ii) Leasing arrangements

Minimum lease payments receivable on leases of investment properties are as follows:

	2021 Kshs 000	2020 Kshs 000
Within one year	73,203	63,254
Between one (1) and five (5) years	120,046	163,309
More than five (5) years	2,098	-
	195,347	**226,563**

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

(a) Equity Investments

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
At 1 January	17,040	34,256	51,296
Disposals	(4,200)	(11,608)	(15,808)
Fair value gains	896	2,836	3,732
At 31 December	**13,736**	**25,484**	**39,220**

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
At 1 January	22,475	45,335	67,810
Disposals	(2,569)	(3,373)	(5,942)
Fair value losses	(2,866)	(7,706)	(10,572)
At 31 December	**17,040**	**34,256**	**51,296**

(b) Real estate investment trusts (REITs)

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
At 1 January	-	-	-
Additions	-	100,000	100,000
Fair value gains	-	2,470	2,470
At 31 December	**-**	**102,470**	**102,470**

15. MORTGAGE LOANS STAFF

(a) Mortgage loans

	2021 Kshs 000	2020 Kshs 000
At 1 January	41,853	75,819
Loans repayments	(5,031)	(33,966)
At 31 December	**36,822**	**41,853**

15. MORTGAGE LOANS STAFF (continued)

	2021 Kshs 000	2020 Kshs 000
Maturity profile of mortgage loans:		
Loans maturing:		
1 to 5 years	4,475	6,890
Over 5 years	32,347	34,963
	36,822	**41,853**

This represents mortgage loans extended to members of staff. The loans are fully secured and are charged interest at the rate 5% p.a. (2020: 5% p.a.). The Company pays fringe benefit tax since the rate is below the prescribed rate.There were no impairment losses recorded against mortgage loans for the years ended 31 December 2021 and 31 December 2020.

Lending commitments:

There were no mortgage loans approved but not advanced at 31 December 2021 (2020: Nil).

16. RETROCESSIONAIRES SHARE OF REINSURANCE LIABILITIES

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
Retrocessionaires share of:			
Unearned premiums	93,884	52,632	146,516
Reinsurance contract liabilities	194,275	313,844	508,119
	288,159	**366,476**	**654,635**

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Retrocessionaires share of:			
Unearned premiums	103,936	43,528	147,464
Reinsurance contract liabilities	25,384	209,496	234,880
	129,320	**253,024**	**382,344**

Amounts due from retrocessionaires in respect of claims already paid by the Company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position. Movements in the above retrocession assets are shown in Notes 22 and 23.

DEFERRED ACQUISITION COSTS

	Gross 2021 Kshs 000	Retro 2021 Kshs 000	Net 2021 Kshs 000	Gross 2020 Kshs 000	Retro 2020 Kshs 000	Net 2020 Kshs 000
Short term	379,595	15,518	364,077	351,612	12,373	339,239
Long term	106,306	15,739	90,567	113,870	23,104	90,766
At 31 December	**485,901**	**31,257**	**454,644**	**465,482**	**35,477**	**430,005**

17. OTHER RECEIVABLES

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
Due from related companies (Note 30)	911	165,710	166,621
Prepayments and other receivables	36,440	28,410	64,850
Car loans (staff)*	-	7,181	7,181
	37,351	**201,301**	**238,652**

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Due from long-term to short-term (Note 24)	-	5,870	5,870
Due from related companies (Note 30)	1,736	68,316	70,052
Prepayments and other receivables	442	19,450	19,892
Car loans (staff)*	-	4,045	4,045
	2,178	**97,681**	**99,859**

*These are car loans extended to members of staff. There were no impairment losses recorded against car loans in 2021 (2020: Nil). The car and staff benefits act as collateral for the loans extended.

18. CORPORATE BONDS AT AMORTISED COST

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
Corporate bonds maturing:			
1 to 5 years	29,544	29,544	59,088
Provision for expected credit losses	(12)	(12)	(24)
	29,532	**29,532**	**59,064**

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Corporate bonds maturing:			
1 to 5 years	61,174	208,322	269,496
Provision for expected credit losses	(24)	(83)	(107)
	61,150	**208,239**	**269,389**

18. CORPORATE BONDS AT AMORTISED COST (continued)

Movement during the year	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
At 1 January	61,174	208,322	269,496	45,844	192,882	238,726
Additions	15,000	15,000	30,000	15,000	15,000	30,000
Maturities	(45,400)	(187,300)	(232,700)	-	-	-
Movement in accrued interest	(1,230)	(6,478)	(7,708)	330	440	770
	29,544	29,544	59,088	61,174	208,322	269,496
Provision for expected credit losses	(12)	(12)	(24)	(24)	(83)	(107)
At 31 December	**29,532**	**29,532**	**59,064**	**61,150**	**208,239**	**269,389**

Movement for expected credit losses	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
At 1 January	(24)	(83)	(107)	(18)	(77)	(95)
Credit/(charge) for the year	12	71	83	(6)	(6)	(12)
At 31 December	**(12)**	**(12)**	**(24)**	**(24)**	**(83)**	**(107)**

19. GOVERNMENT SECURITIES AT AMORTISED COST

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Treasury bills maturing:						
Within 90 days	-	245,013	245,013	-	-	-
	-	**245,013**	**245,013**	**-**	**-**	**-**
In 91 days - 1 year	-	-	-	-	185,310	185,310
	-	**-**	**-**	**-**	**185,310**	**185,310**

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Treasury bonds maturing:						
Within 90 days	-	-	-	20,929	52,310	73,239
In 91 days to 1 year	40,644	223,940	264,584	198,985	276,173	475,158
In 1 to 5 years	524,201	888,480	1,412,681	430,257	959,086	1,389,343
Over 5 years	527,586	2,281,058	2,808,644	356,789	1,581,032	1,937,821
	1,092,431	**3,393,478**	**4,485,909**	**1,006,960**	**2,868,601**	**3,875,561**
Provision for expected credit losses	(1,092)	(3,635)	(4,727)	(1,006)	(3,052)	(4,058)
Total	**1,091,339**	**3,634,856**	**4,726,195**	**1,005,954**	**3,050,859**	**4,056,813**

19. GOVERNMENT SECURITIES AT AMORTISED COST (continued)

Included above are Treasury bonds amounting to Kshs 755,000,000 (2020: Kshs 725,000,000) 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 the Commissioner of Insurance.

Movement during the year	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
At 1 January	1,006,960	3,053,911	4,060,871	990,952	2,247,917	3,238,869
Additions (Treasury bills)	-	250,000	250,000	-	200,000	200,000
Additions (Treasury bonds)	430,000	1,150,000	1,580,000	230,000	1,150,000	1,380,000
Maturities (Treasury bills)	-	(200,000)	(200,000)	(205,000)	(480,000)	(685,000)
Maturities and disposals (Treasury bonds)	(342,250)	(632,800)	(975,050)	(24,150)	(64,850)	(89,000)
Movement in accrued interest	(1,527)	9,601	8,074	4,078	20,224	24,302
Movement in unearned interest (Treasury bills)	-	9,703	9,703	9,236	3,638	12,874
Movement in unearned (Treasury bonds)	(752)	(1,924)	(2,676)	1,844	(23,018)	(21,174)
	1,092,431	3,638,491	4,730,922	1,006,960	3,053,911	4,060,871
Provision for expected credit losses	(1,092)	(3,635)	(4,727)	(1,006)	(3,052)	(4,058)
At 31 December	**1,091,339**	**3,634,856**	**4,726,195**	**1,005,954**	**3,050,859**	**4,056,813**

Movement for expected credit losses	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
At 1 January	(1,006)	(3,052)	(4,058)	(990)	(2,246)	(3,236)
Charge for the year	(86)	(583)	(669)	(16)	(806)	(822)
At 31 December	**(1,092)**	**(3,635)**	**(4,727)**	**(1,006)**	**(3,052)**	**(4,058)**

20. DEPOSITS WITH FINANCIAL INSTITUTIONS AT AMORTISED COST

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
Deposits maturing:			
Within 90 days	289,504	877,838	1,167,342
In 91 days to - 1 year	102,201	454,284	556,485
Provision for expected credit losses	(1,962)	(8,444)	(10,406)
	389,743	**1,323,678**	**1,713,421**

20. DEPOSITS WITH FINANCIAL INSTITUTIONS AT AMORTISED COST (continued)

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Deposits maturing:			
Within 90 days	144,017	704,440	848,457
In 91 days to - 1 year	310,794	951,051	1,261,845
Provision for expected credit losses	(2,401)	(9,365)	(11,766)
	452,410	**1,646,126**	**2,098,536**

Movement during the year	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
At 1 January	454,811	1,655,491	2,110,302	611,067	1,871,040	2,482,107
Additions	596,200	1,963,971	2,560,171	638,042	1,968,617	2,606,659
Disposals	(654,031)	(2,254,986)	(2,909,017)	(792,141)	(2,193,975)	(2,986,116)
Movement in accrued interest	(5,275)	(32,354)	(37,629)	(2,157)	9,809	7,652
	391,705	1,332,122	1,723,827	454,811	1,655,491	2,110,302
Provision for expected credit losses	(1,962)	(8,444)	(10,406)	(2,401)	(9,365)	(11,766)
At 31 December	**389,743**	**1,323,678**	**1,713,421**	**452,410**	**1,646,126**	**2,098,536**

Movement for expected credit losses	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
At 1 January	(2,401)	(9,365)	(11,766)	(3,441)	(7,507)	(10,948)
Credit/(charge for the year)	439	921	1,360	1,040	(1,858)	(818)
At 31 December	**(1,962)**	**(8,444)**	**(10,406)**	**(2,401)**	**(9,365)**	**(11,766)**

The following table summarises the weighted average effective interest rates at the year end on the principal interest bearing investments:

	2021	2020
Investment types		
Government securities	11.51 %	11.62 %
Corporate bonds	12.25 %	13.82 %
Deposits with financial institutions (Kshs)	7.66 %	9.15 %
Deposits with financial institutions (USD)	2.37 %	3.60 %
Mortgage loans	5.00 %	5.00 %

21 SHARE CAPITAL

	Number of ordinary shares	Long term business Kshs 000	Short term business Kshs 000	Total Kshs 000
Balance at 1 January 2020, 1 January 2020 and 31 December 2021	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 Kshs 1,000. All issued shares are fully paid.

The rights of the shareholders' are as below:

- Right to vote at the Annual General Meeting (AGM);
- Right to attend or be represented by a proxy at the AGM;
- Right to receive dividends when declared and approved at the AGM;
- Right to receive information regarding the Company's performance and strategic direction.

22. PROVISION FOR UNEARNED PREMIUMS

The 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 8ths method to compute UPR in respect of the proportional business and 365ths method in respect of the facultative and non-proportional business. Movement in the reserves is shown below:

Long term	Gross 2021 Kshs 000	Retro 2021 Kshs 000	Net 2021 Kshs 000	Gross 2020 Kshs 000	Retro 2020 Kshs 000	Net 2020 Kshs 000
At 1 January	443,985	103,936	340,049	593,440	94,799	498,641
Increase/(decrease) in the year	2,294	(10,052)	12,346	(149,455)	9,137	(158,592)
At 31 December	**446,279**	**93,884**	**352,395**	**593,440**	**103,936**	**340,049**

Short term	Gross 2021 Kshs 000	Retro 2021 Kshs 000	Net 2021 Kshs 000	Gross 2020 Kshs 000	Retro 2020 Kshs 000	Net 2020 Kshs 000
At 1 January	1,172,617	43,528	1,129,089	1,338,943	26,393	1,312,550
Increase/(decrease) in the year	105,455	9,104	96,351	(166,326)	17,135	(183,461)
At 31 December	**1,278,072**	**52,632**	**1,225,440**	**1,172,617**	**43,528**	**1,129,089**

23. REINSURANCE OR REASSURANCE CONTRACT LIABILITIES

	2021 Kshs 000	2020 Kshs 000
Long term reassurance contracts		
Gross claims reported, claim handling expense provision and incurred but not reported claims (IBNR)	902,472	176,315
Total - long term	**902,472**	**176,315**
Short-term reinsurance contracts		
Gross claims reported, claim handling expense provision and incurred but not reported claims (IBNR)	1,715,468	1,624,882
Total short term	**1,715,468**	**1,624,882**
	2,617,940	**1,801,197**

The tables below illustrate how the Company's estimates of total reinsurance contract liabilities for each underwriting year has changed at successive year ends.

Long term	2020 Kshs 000	2021 Kshs 000	Total Kshs 000
Accident year	437,156	402,065	839,221
One year later	850,401	-	850,401
Current estimate of cumulative claims	**850,401**	**402,065**	**1,252,466**
Cumulative payments to date	(333,329)	(145,954)	(479,283)
IBNR reserve	517,072	256,111	773,183
Reserve in respect to prior years	-	-	129,289
Total gross liability	**-**	**-**	**902,472**
Retrocessionaires' share of reinsurance liabilities	-	-	(194,276)
Total net liability	**-**	**-**	**708,196**

23. REINSURANCE OR REASSURANCE CONTRACT LIABILITIES (continued)

Short term

	2017 Kshs 000	2018 Kshs 000	2019 Kshs 000	2020 Kshs 000	2021 Kshs 000	Total Kshs 000
Accident Year	971,273	873,579	1,055,731	887,874	916,112	4,704,569
One year later	1,661,865	1,741,409	1,753,600	1,497,072	-	6,653,946
Two years later	1,651,264	1,754,934	1,739,339	-	-	5,145,537
Three years later	1,632,223	1,813,759	-	-	-	3,445,982
Four years later	1,651,454	-	-	-	-	1,651,454
Current estimate of cumulative claims	**1,651,454**	**1,813,759**	**1,739,339**	**1,497,072**	**916,112**	**7,617,736**
Cumulative payments to date	(1,559,733)	(1,670,398)	(1,519,922)	(1,142,254)	(483,302)	(6,375,609)
IBNR reserve	91,720	143,360	219,416	354,818	432,810	1,242,124
Reserve in respect to prior years	-	-	-	-	-	473,344
Gross reinsurance liability	**-**	**-**	**-**	**-**	**-**	**1,715,468**
Retrocessionaires' share of reinsurance liabilities	-	-	-	-	-	(313,844)
Net reinsurance liability	**-**	**-**	**-**	**-**	**-**	**1,401,624**

A) Short-term reinsurance contracts

The outstanding claims reserve for the short-tern business consists of an Incurred but Not Reported (IBNR) reserve, a reserve for large losses and an unallocated loss adjustment expenses (ULAE) reserve.

The Company's external actuaries use a combination of chain-ladder, expected loss ratio and Bornhuetter Ferguson techniques to estimate the IBNR reserve for attritional claims. Chain ladder techniques are used for mature underwriting years that have a relatively stable development pattern while expected loss ratio and Bornhuetter Ferguson techniques are used for recent underwriting years. Development factors and loss ratios assumptions, based on historical claims development factors, are selected and applied to cumulative claims data for each underwriting year that is not fully developed to produce an estimated ultimate claims cost for each underwriting year. The IBNR reserve is the difference between the ultimate cost of claims and the cumulative claims paid to the reserving date.

The ULAE reserve is determined at a class of business level by applying class-wise expenses assumptions to determine the expenses that would be incurred to run off claims liabilities. The large losses reserve is an explicit reserve held in respect of outstanding claims that are expected to exceed the Company's retention.

B) Long-term reassurance contracts

a) Valuation methodology

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.

23. REINSURANCE OR REASSURANCE CONTRACT LIABILITIES (continued)

a) Valuation methodology (continued)

The Company's life business is predominantly short-term group life business and short-term valuation methodologies are used, in line with the Insurance Act. The Company's external actuaries use a combination of chain-ladder, expected loss ratio and Bornhuetter Ferguson techniques to estimate the IBNR reserve for attritional claims. Chain ladder techniques are used for mature underwriting years that have a relatively stable development pattern while expected loss ratio and Bornhuetter Ferguson techniques are used for recent underwriting years. Development factors and loss ratios assumptions, based on historical claims development factors, are selected and applied to cumulative claims data for each underwriting year that is not fully developed to produce an estimated ultimate claims cost for each underwriting year. The IBNR reserve is the difference between the ultimate cost of claims and the cumulative claims paid to the reserving date.

b) Valuation assumptions

The significant valuation assumptions for the actuarial valuation as at 31 December 2021 are summarized below. The same assumptions were used in 2020.

i) Loss ratio assumptions

The loss ratio assumption in respect of recent underwriting years is based on historical ultimate loss ratios. The group life business is renewable annually and premium rates are adjusted appropriately, with no mortality guarantees.

ii) Investments returns

The rate of return achieved over the year to the valuation date, calculated using the method set out in the Insurance Regulations of the Insurance Act is 18.9% per annum.

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.

c) Sensitivity analysis

Reinsurance contract liabilities are determined at best estimate. A sensitivity analysis was done to determine how the insurance contract liabilities balance would change when the ultimate loss ratio (ULR) per class of business was increased and reduced by 5%. The underwriting profit under each scenario is also shown. The effects of these changes are as follows:

Short-term	Reinsurance contract liabilities Kshs 000	Impact on profit before tax Kshs 000
Best estimate reinsurance contract liabilities (net)	1,401,625	-
Net reserve after 5% increase in ULR	1,454,729	(53,103)
Net reserve after 5% decrease in ULR	1,348,598	53,103

Long-term	Reassurance contract liabilities Kshs 000	Impact on profit before tax Kshs 000
Best estimate reassurance contract liabilities (net)	708,196	-
Net reserve after 5% increase in ULR	740,800	(32,604)
Net reserve after 5% decrease in ULR	675,593	32,604

Reinsurance contract liabilities (net) represent the gross reinsurance/reassurance contract liabilities as per Note 23 net of retrocessionaires' share of reinsurance liabilities as per Note 16.

24. OTHER PAYABLES

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
Due to related parties (Note 30)	-	71,538	71,538
Accrued expenses and other liabilities	-	437,089	437,089
	-	**508,627**	**508,627**

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Due to related parties (Note 30)	-	35,010	35,010
Accrued expenses and other liabilities	18,183	445,211	463,394
Due to short-term business from long-term (Note 17)	5,870	-	5,870
	24,053	**480,221**	**504,274**

25. DEFERRED INCOME TAX

Deferred income tax is calculated, in full, on all temporary differences under the liability method using a principal tax rate of 30% (2020: 30%). The movement on the deferred income tax account is as follows:

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
At 1 January	270,448	113,775	384,223
Prior year deferred tax over provision	(1,131)	(49,636)	(50,767)
(Credit)/charge to profit or loss	(123,901)	9,952	(113,949)
	145,416	**74,091**	**219,507**

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
Deferred income tax liability			
Unrealised exchange gains	-	1,201	1,201
Life surplus	146,547	-	146,547
*Prior year overprovision of deferred tax liability	-	135,690	135,690
Release of prior year overprovision of deferred tax liability	(1,131)	(49,636)	(50,767)
	145,416	**87,255**	**232,671**
Deferred income tax asset			
Provisions	-	(7,423)	(7,423)
Excess depreciation over capital allowance	-	(5,741)	(5,741)
	-	**(13,164)**	**(13,164)**
Net deferred tax liability	**145,416**	**74,091**	**219,507**

25. DEFERRED INCOME TAX (continued)

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
At 1 January	214,336	124,674	339,010
Credit/(charge) to profit or loss	56,112	(4,263)	51,849
Charge to other comprehensive income	-	(6,636)	(6,636)
	270,448	**113,775**	**384,223**

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Deferred income tax liability			
Revaluation surplus on leasehold land and building	-	117,825	117,825
Unrealised exchange gains	-	13,375	13,375
Life surplus	270,448	-	270,448
	270,448	**131,200**	**401,648**
Deferred income tax asset			
Unrealised exchange loss	-	(3,719)	(3,719)
Provisions	-	(11,722)	(11,722)
Excess depreciation over capital allowance	-	(1,984)	(1,984)
	-	**(17,425)**	**(17,425)**
Net deferred tax liability	**270,448**	**113,775**	**384,223**

*Relates mainly to the effect of computation of deferred tax on capital appreciation of land and buildings at the corporate income tax rate of 30% instead of the applicable capital gains tax rate of 5%. The amount released of Kshs 49,636,000 relates to temporary differences other than the valuation of land and buildings.

26. CASH AND BANK BALANCES

	Long term business Kshs 000	Short term business Kshs 000	Total 2021 Kshs 000
Cash and bank balances consist of:			
Cash and Bank Balances	142,874	361,463	504,337
Less: Provision for expected credit losses	(900)	(2,334)	(3,234)
	141,974	**359,129**	**501,103**
Cash and Cash equivalents consist of:	-	-	-
Cash and Bank Balances	142,874	361,463	504,337
Treasury bills and bonds maturing within 90 days (Note 19)	-	245,013	245,013
Deposits with financial institutions maturing within 90 days (Note 20)	289,504	877,838	1,167,342
	432,378	**1,484,314**	**1,916,692**

26. CASH AND BANK BALANCES (continued)

	Long term business Kshs 000	Short term business Kshs 000	Total 2020 Kshs 000
Cash and bank balances consist of:			
Cash and Bank balances	46,735	243,444	290,179
Less: Provision for expected credit losses	(298)	(1,597)	(1,895)
	46,437	**241,847**	**288,284**
Cash and Cash equivalents consist of:			
Cash and Bank balances	46,735	243,444	290,179
Treasury bills and bonds maturing within 90 days (Note 19)	20,929	52,310	73,239
Deposits with financial institutions maturing within 90 days (Note 20)	144,017	704,440	848,457
	211,681	**1,000,194**	**1,211,875**

27. CASH GENERATED FROM OPERATIONS

	2021 Kshs 000	2020 Kshs 000
Profit before income tax	102,455	606,081
Adjustments for:		
Depreciation on property and equipment (Note 11)	32,997	34,308
Gain on disposal of equipment	-	(12)
Change in fair value of equity investments (Note 14)	(3,732)	10,572
Changes in fair value of investment property (Note 13)	30,954	44,583
Change in reinsurance and reassurance contract liabilities	816,743	87,632
Change in unearned premium reserves and deferred acquisition costs	103,529	(307,595)
Change in reinsurance and other payables	258,201	(88,742)
Change in reinsurance and other receivables	(685,803)	389,676
Investment income	(770,941)	(738,823)
Amortisation of intangible assets (Note 12)	33,580	3,049
Gain on impairment of financial assets (excluding trade receivables)	563	1,836
Change in fair value of REITs (Note 14)	(2,470)	-
	(83,924)	**42,565**

28. CAPITAL COMMITMENTS

	2021 Kshs 000	2020 Kshs 000
Approved capital expenditure	34,800	83,532

The above relates to capital expenditure authorised but not contracted for at the end of the year. It has not been recognised in the financial statements.

29. CONTINGENT LIABILITIES

Over the past two years, the Kenya Revenue Authority (KRA) audited the Company's records with respect to corporate income tax and issued an assessment. The Company has objected to the assessment, and this is pending hearing at the Tax Appeals Tribunal at a future date to be determined. The Company, in conjunction with its tax advisors, continue to engage KRA on the resolution of these matters.

Having sought the advice of the Company's tax advisors, the directors are of the opinion that the possibility of an outflow of resources on the above-mentioned contingency is remote and will not have a material effect on the financial position or performance of the Company.

The Company is also subject to insurance solvency regulations and has complied with the solvency regulations. There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

30. 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:

	2021 Kshs 000	2020 Kshs 000
a) Transactions with related parties during the year		
Net earned premiums	1,385,333	944,540
Net claims incurred	1,080,175	561,033
Interest earned on bank deposits	50,847	51,477
	2,516,355	**1,557,050**
b) Reinsurance balances with related parties		
(i) Receivable balances (Note 17)		
ICEA Lion Holdings Limited and subsidiaries	84,704	42,624
GA Insurance Limited and subsidiaries	51,002	14,083
Kenindia Assurance Limited	16,344	5,109
Apollo Investments Limited and subsidiaries	14,571	8,236
	166,621	**70,052**

30. RELATED PARTIES (continued)

	2021 Kshs 000	2020 Kshs 000
(ii) Payable balances (Note 24)		
ICEA Lion Holdings Limited and subsidiaries	4,026	12,861
Kenindia Assurance Limited	34,472	624
GA Insurance Limited and subsidiaries	21,050	12,207
Apollo Investments Limited and subsidiaries	11,990	9,318
Total	**71,538**	**35,010**
c) Investments balances with related parties		
Mortgages, fixed deposits and bank balances		
Fixed deposits (NCBA Bank)	499,241	588,086
Bank balance (NCBA Bank)	502,646	284,534
Mortgages (staff)	36,822	41,853
	1,038,709	**914,473**

Mortgage loan balances and movements thereon are in respect of loans extended to the Company's officers at terms prescribed in the Company policy. Additional details on the terms of the mortgage loans are disclosed under Note 15.

d) Loans to directors of the Company

The Company did not advance loans to its directors in 2021 (2020: Nil).

e) Directors fees	2021 Kshs 000	2020 Kshs 000
Directors' emoluments	5,780	5,020
f) Key management personnel remuneration		
Salaries	86,289	82,472
National social security benefit cost	9	9
Retirement benefit costs	6,642	6,133
Other benefits	1,930	1,757
	94,870	**90,371**

31. 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.

LONG-TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2021

	Ordinary Life business Kshs 000	Group Life business Kshs 000	Total 2021 Kshs 000
Gross written premiums	27,956	1,140,697	1,168,653
Change in gross UPR	(115)	(2,179)	(2,294)
Gross earned premiums	**27,841**	**1,138,518**	**1,166,359**
Retrocession premiums	(4,869)	(247,588)	(252,457)
Change in retro UPR	(844)	(9,208)	(10,052)
Net earned premiums	**22,128**	**881,722**	**903,850**
Investment income	7,350	159,312	166,662
Acquisition costs recoverable from retrocessionaires	1,873	34,097	35,970
Net Income	**31,351**	**1,075,131**	**1,106,482**
Gross Claims	10,695	738,869	749,564
Recoveries	(5,856)	(113,196)	(119,052)
Change in long-term liabilities	176	557,090	557,266
Net claims payable and treaty benefits payable	**5,015**	**1,182,763**	**1,187,778**
Operating and other expenses	7,162	41,841	49,003
Acquisition costs	6,187	276,516	282,703
Total Expenses	**18,364**	**1,501,120**	**1,519,484**
Profit before taxation	**12,987**	**(425,989)**	**(413,002)**
Income tax expense	2,964	122,068	125,032
Long-term business profit after taxation	**15,951**	**(303,921)**	**(287,970)**

The supplementary information presented does not form part of the financial statements and is unaudited.

LONG TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2020

	Ordinary Life business Kshs 000	Group Life business Kshs 000	Total 2020 Kshs 000
Gross written premium	47,050	1,089,987	1,137,037
Change in gross UPR	5,978	143,478	149,456
Gross earned premiums	**53,028**	**1,233,465**	**1,286,493**
Retrocession premiums	(11,657)	(228,500)	(240,157)
Change in retro UPR	767	8,368	9,135
Net earned premiums	**42,138**	**1,013,333**	**1,055,471**
Investment income	80,168	97,984	178,152
Acquisition costs recoverable from retrocessionnaires	1,826	43,825	45,651
Net Income	**124,132**	**1,155,142**	**1,279,274**
Gross claims	280	865,344	865,624
Recoveries	-	(273,746)	(273,746)
Change in long-term liabilities	2,134	72,761	74,895
Net claims and treaty benefits payable	**2,414**	**664,359**	**666,773**
Operating and other expenses	27,493	53,399	80,892
Acquisition costs	13,107	314,564	327,671
Total expenses	**43,014**	**1,032,322**	**1,075,336**
Profit before taxation	**81,118**	**122,820**	**203,938**
Income tax expense	(32,854)	(40,155)	(73,009)
Long-term business profit after taxation	**48,264**	**82,665**	**130,929**

The supplementary information presented does not form part of the financial statements and is unaudited.

SUPPLEMENTARY INFORMATION

SHORT-TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2021

Class of Reinsurance Business	Aviation Kshs'000	Engineering Kshs'000	Fire Kshs'000	Liability Kshs'000	Marine Kshs'000	Motor Kshs'000	Personal Accident Kshs'000	Medical Kshs'000	Miscellaneous Accident Kshs'000	2021 Total Kshs'000
Gross written premium	**(6,726)**	**235,446**	**1,265,630**	**15,131**	**246,257**	**243,250**	**78,305**	**674,636**	**403,905**	**3,155,834**
Gross Premiums	**(6,726)**	**235,446**	**1,265,630**	**15,131**	**246,257**	**243,250**	**78,305**	**674,636**	**403,905**	**3,155,834**
Change in gross UPR	(12,533)	(7,120)	31,341	(2,468)	31,348	(4,362)	14,185	21,345	33,719	105,455
Gross earned premiums	**5,807**	**242,566**	**1,234,289**	**17,599**	**214,909**	**247,612**	**64,120**	**653,291**	**370,186**	**3,050,379**
Retrocession premiums	(43)	19,040	126,104	96	12,620	1,869	496	4,274	57,656	222,112
Change in retro UPR	-	(2,398)	7,661	-	-	-	-	-	3,839	9,102
Net earned premiums	**5,850**	**221,128**	**1,115,846**	**17,503**	**202,289**	**245,743**	**63,624**	**649,017**	**316,369**	**2,837,369**
Gross claims paid	2,408	105,508	705,072	8,793	99,891	200,215	16,405	475,022	132,058	1,745,372
Changes in gross outstanding claims	(7,413)	(23,021)	40,914	(681)	11,726	(29,913)	3,030	68,166	27,779	90,587
Retrocession claims	-	-	(3)	-	-	-	-	-	(1)	(4)
Change in retro outstanding claims	-	-	104,348	-	-	-	-	-	-	104,348
Net claims incurred	**(5,005)**	**82,487**	**641,641**	**8,112**	**111,617**	**170,302**	**19,435**	**543,188**	**159,838**	**1,731,615**
Acquisition costs recoverable from retrocessionaires	-	867	9,168	-	-	26	-	-	15,096	25,157
Acquisition costs	1,618	73,256	407,813	3,189	62,146	24,033	27,152	141,493	119,871	860,571
Technical profit/(loss)	**9,237**	**66,252**	**75,560**	**6,202**	**28,526**	**51,434**	**17,037**	**(35,664)**	**51,756**	**270,340**
Total expenses	8,390	57,451	66,401	5,505	23,102	47,724	19,683	(35,168)	51,408	244,496
Total expenses & acquisition costs	**10,008**	**129,840**	**465,046**	**8,694**	**85,248**	**71,731**	**46,835**	**106,325**	**156,183**	**1,079,910**
Underwriting profit/(loss)	**847**	**8,801**	**9,159**	**697**	**5,424**	**3,710**	**(2,646)**	**(496)**	**348**	**25,844**
Net loss ratio	(85.6)%	37.3 %	57.5 %	46.3 %	55.2 %	69.3 %	30.5 %	83.7 %	50.5 %	61.0 %
Net risk acquisition ratio	(24.1)%	31.5 %	32.9 %	21.1 %	25.2 %	9.9 %	34.7 %	21.0 %	33.4 %	28.1 %
Total expense ratio	(148.8)%	55.1 %	36.7 %	57.5 %	34.6 %	29.5 %	59.8 %	15.8 %	38.7 %	34.2 %

The supplementary information presented does not form part of the financial statements and is unaudited.

SUPPLEMENTARY INFORMATION

SHORT-TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2020

Class of Reinsurance Business	Aviation Kshs'000	Engineering Kshs'000	Fire Kshs'000	Liability Kshs'000	Marine Kshs'000	Motor Kshs'000	Personal Accident Kshs'000	Medical Kshs'000	Miscellaneous Accident Kshs'000	2020 Total Kshs'000
Gross written premium	**28,136**	**248,013**	**1,236,742**	**13,516**	**217,991**	**210,443**	**44,903**	**555,936**	**310,643**	**2,866,323**
Gross Premiums	**28,136**	**248,013**	**1,236,742**	**13,516**	**217,991**	**210,443**	**44,903**	**555,936**	**310,643**	**2,866,323**
Change in gross UPR	16,057	(13,575)	(79,064)	(322)	5,517	(18,938)	12,583	(39,531)	(49,053)	(166,326)
Gross earned premiums	**12,079**	**261,588**	**1,315,806**	**13,838**	**212,474**	**229,381**	**32,320**	**595,467**	**359,696**	**3,032,649**
Retrocession premiums	347	19,862	115,369	166	12,967	2,116	554	6,854	56,338	214,573
Change in retro UPR	-	2,398	13,100	-	-	-	-	-	1,636	17,134
Net earned premiums	**11,732**	**244,124**	**1,213,537**	**13,672**	**199,507**	**227,265**	**31,766**	**588,613**	**304,994**	**2,835,210**
Gross claims paid	7,035	112,167	701,383	2,748	103,891	200,859	16,102	384,841	126,457	1,655,483
Changes in gross outstanding claims	7,477	(28,302)	(4,182)	15	7,154	13,291	(1,544)	26,235	(7,407)	12,737
Retrocession claims	-	12	22,948	-	24	1,974	-	-	10,540	35,498
Change in retro outstanding claims	-	-	(30,914)	-	-	-	-	-	-	(30,914)
Net claims incurred	**14,512**	**83,853**	**705,167**	**2,763**	**111,021**	**212,176**	**14,558**	**411,076**	**108,510**	**1,663,636**
Acquisition costs recoverable from retrocessionaires	-	632	3,961	-	-	(59)	-	-	19,628	24,162
Acquisition costs	3,079	85,157	413,951	3,561	63,393	26,013	11,718	132,380	116,619	855,871
Technical profit/(loss)	**(5,859)**	**75,746**	**98,380**	**7,348**	**25,093**	**(10,983)**	**5,490**	**45,157**	**99,493**	**339,865**
Total expenses	(5,123)	66,249	86,043	6,427	21,946	(9,606)	4,800	39,495	87,015	297,246
Total expenses & acquisition costs	**(2,044)**	**150,774**	**496,033**	**9,988**	**85,339**	**16,466**	**16,518**	**171,875**	**184,006**	**1,128,955**
Underwriting profit/(loss)	**(736)**	**9,497**	**12,337**	**921**	**3,147**	**(1,377)**	**690**	**5,662**	**12,478**	**42,619**
Net loss ratio	123.7 %	34.3 %	58.1 %	20.2 %	55.6 %	93.4 %	45.8 %	69.8 %	35.6 %	58.7 %
Net risk acquisition ratio	10.9 %	34.6 %	33.8 %	26.3 %	29.1 %	12.3 %	26.1 %	23.8 %	43.9 %	30.7 %
Total expense ratio	(7.3)%	60.8 %	40.1 %	73.9 %	39.1 %	7.8 %	36.8 %	30.9 %	59.2 %	39.4 %

The supplementary information presented does not form part of the financial statements and is unaudited.

SICS LAUNCH

EARe is committed to innovation and business transformation, specifically underwriting transformation. In January 2022, the Company celebrated a key milestone on this transformation journey with the launch of a new reinsurance management system, SICS.

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 e-mail address____

and failing him/her ____

of (address) ____

as our proxy to vote for us on our behalf at the Twenty Ninth Annual General Meeting of the Company to be held on Thursday, 19 May 2022, at twelve noon and at any adjournment thereof.

Signed this ____________________ day of ____________________ 2022

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 2021 and the Chairman's, Directors', Actuary's and Auditors' reports thereon.	☐	☐
2	To approve the payment of a dividend.	☐	☐
3	To re-elect Directors.	☐	☐
4	To approve the remuneration of the Directors.	☐	☐
5	To ratify the appointment of KPMG and reappoint them as the company's auditors.	☐	☐
6	To authorize the Directors to fix their remuneration.	☐	☐

IMPORTANT NOTES

1. This proxy form must be under the hand of a director or Attorney duly authorized in writing in that behalf and properly attested or witnessed, as each of the members of the company is a corporate member.

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

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

4. To be valid, proxy forms should be completed and returned to the Company Secretary, East Africa Reinsurance Company Limited, P.O. Box 20196, 00200 City Square, Nairobi to reach him not later than forty-eight hours before the time appointed for holding the Meeting or adjourned Meeting and in default, the instrument of the proxy shall not be treated as valid, and no proxy form shall be valid twelve months from the date of its execution. An advance copy of the proxy should be e-mailed to the Company Secretary (kennedy.ontiti@fcs.co.ke)

OUR PEOPLE


A. MIYOGO


C. OGAYE

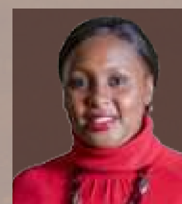

B. CHIRCHIR


M. KHAINDI


S. SHAO

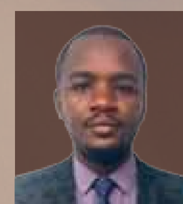

P. MUMBE


R. MUSEMBI


V. MAITHYA


E. KIGEN

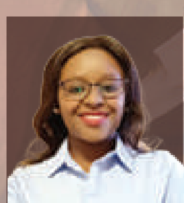

D. KANIARU


A. MOSETI

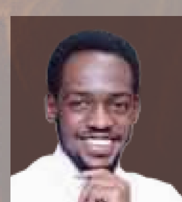

P. MAINA


B. MAINA

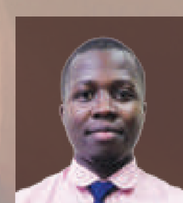

E. GAKAHU


N. KABERA

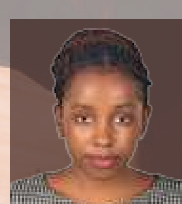

M.OKIYAH


E. AUMA


J. KIMONDO


N. MJOMBA


L. NJUNGE


A. KINYAJUI


D. MIANO

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