

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA REINSURANCE CORPORATION  
LIMITED**

**FOR THE YEAR ENDED  
31 DECEMBER 2014**

**Deloitte.**

**KENYA REINSURANCE CORPORATION  
LIMITED**

**ANNUAL REPORT &  
FINANCIAL STATEMENTS**

**31 DECEMBER 2014**

KENYA REINSURANCE CORPORATION LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014

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# KENYA REINSURANCE CORPORATION LIMITED

## CORPORATE INFORMATION

DIRECTORS	Nelius Kariuki Jadiah Mwarania Henry Rotich Chiboli Shakaba David Kemei Everest Lenjo Gladys Mboya Felix Okatch Maina Mukoma Dr. Lumbi M’Nabea Priscilla Mwangi	-Chairman -Managing Director -Cabinet Secretary, National Treasury
SECRETARY	Charles Kariuki Registration No. R/CPS B/2305 Certified Public Secretary (Kenya) Reinsurance Plaza, Taifa Road P O Box 30271 – 00100 GPO Nairobi, Kenya	
REGISTERED OFFICE	Reinsurance Plaza Taifa Road P O Box 30271 – 00100 GPO Nairobi, Kenya	
AUDITORS	Auditor General Kenya National Audit Office P O Box 30084 – 00100 GPO Nairobi, Kenya	
CONSULTING ACTUARIES	Alexander Forbes Financial Services (East Africa) Limited 10 <sup>th</sup> Floor, Landmark Plaza ArgwingsKodhek Road P O Box 52439 - 00200 City Square Nairobi, Kenya  Actuarial Services (East Africa) Limited 10 <sup>th</sup> Floor Victoria Towers Kilimanjaro Avenue, Upper hill P O Box 10472 – 00100 GPO Nairobi, Kenya	
SHARE REGISTRARS	Image Registrars Limited Barclays Plaza, Loita Street, 5th Floor, P O Box 9287 – 00100 GPO Nairobi, Kenya	

KENYA REINSURANCE CORPORATION LIMITED

CORPORATE INFORMATION (Continued)

ADVOCATES

Mose, Mose Milimo & Company  
Advocates  
Comcraft House, 3rd Floor  
Haile Selassie Avenue  
P O Box 9403 – 00200  
Nairobi, Kenya

M.A. Otega & Company Advocates  
Anniversary Towers, South Tower  
Mezzanine 2, University Way  
P O Box 46630 – 00100 GPO  
Nairobi, Kenya

Kaplan & Stratton Advocates  
Williamson House  
4<sup>th</sup> Ngong Avenue  
P O Box 40111 – 00100  
Nairobi, Kenya

BANKERS

Kenya Commercial Bank Limited  
Moi Avenue  
P O Box 30081 – 00100 GPO  
Nairobi, Kenya

Citibank NA  
Citibank House, Upper Hill  
P.O Box 3071 - 00100  
Nairobi, Kenya

Bank of Africa  
Residence Verdier A13 1ER ET  
01 BP 7539 Abidjan 01  
Plateau, Cote d'Ivoire

# KENYA REINSURANCE CORPORATION LIMITED

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2014

The directors have the pleasure of presenting their report together with the audited financial statements of Kenya Reinsurance Corporation Limited (the "Corporation") for the year ended 31 December 2014 which show the Corporation's state of affairs.

### PRINCIPAL ACTIVITIES

The principal activities of the Corporation are underwriting of all classes of reinsurance business and investment activities.

### RESULTS

	2014 Sh '000
Profit before taxation	3,919,732
Taxation charge	(782,560)
	<hr/>
Profit for the year transferred to retained earnings	<u>3,137,172</u>

### DIVIDENDS

The directors recommend the payment of a first and final dividend of Sh 0.70 (2013 – Sh 0.60) per share totalling to 490 million for the year ended 31 December 2014 (2013 – Sh 420 million).

### DIRECTORS

The present membership of the Board is set out on page 2.

In accordance with Articles 110 of the Corporation's Articles of Association Mrs. Gladys Mboya, Mrs Nelius Kariuki, and Felix Okatch retire by rotation as directors and, being eligible, offer themselves for re- election at the Annual General Meeting to be held on 13 June 2015.

### SECRETARY

The Corporation's Secretary is Mr Charles Kariuki.

### AUDITORS

The Auditor General is responsible for the statutory audit of the Corporation's books of account in accordance with Sections 14 and 39(i) of the Public Audit Act, 2003, which empower the Auditor General to nominate other auditors to carry out the audit on his behalf.

Deloitte & Touche were appointed by the Auditor General to carry out the audit for the year ended 31 December 2014.

### BY ORDER OF THE BOARD

Secretary



Nairobi

26th March 2015



## KENYA REINSURANCE CORPORATION LIMITED

### STATEMENT ON CORPORATE GOVERNANCE (Continued)

#### Committees of the Board (Continued)

##### b) Risk & Compliance Committee

The membership of the Risk & Compliance Committee is comprised as follows:

Gladys Mboya - Chairman  
Felix Okatch  
Priscilla Mwangi  
Maina Mukoma  
Jadiah Mwarania  
Cabinet Secretary – National Treasury

The responsibilities of this Committee include:

- Provision of general oversight in risk and compliance matters in the Corporation.
- Ensuring quality, integrity, effectiveness and reliability of the Corporation's risk management framework.
- Setting out the nature, role, responsibility and authority of the risk management and the compliance function of the Corporation.
- Defining the scope of risk management work.
- Ensuring that there are adequate risk policies and strategies in place to effectively identify, measure, monitor and appropriately mitigate the various risks which the Corporation is exposed to from time to time.

The committee held four (4) regular meetings in the year under review.

##### c) Human Resources Committee

The membership of the Human Resources Committee is comprised as follows:

Dr.Lumbi M'Nabea - Chairman  
Maina Mukoma  
Everest Lenjo  
Chiboli Shakaba  
Jadiah Mwarania

The Committee reviews and provides recommendations on issues relating to all human resources matters including, career progression, performance management, training needs, job transfers, staff recruitment, staff placements, promotions, demotions, discipline and staff welfare.

The Committee held four (4) regular meetings and six (6) special meetings in the year under review.

##### d) Finance Investment and Tender Oversight Committee

The membership of the Finance Investment and Tender Oversight Committee is comprised as follows:

Felix Okatch - Chairman  
David Kemei  
Chiboli Shakaba  
Jadiah Mwarania  
Cabinet Secretary - National Treasury

The Committee assists the Board in fulfilling its oversight responsibilities relating to the Corporation's finance, information and technology, procurement, investment strategies, policies, projects and related activities.

# KENYA REINSURANCE CORPORATION LIMITED

## STATEMENT ON CORPORATE GOVERNANCE (Continued)

### Committees of the Board (Continued)

The Committee held four (4) regular meetings in the year under review.

### Risk Management and Internal Controls

The Corporation has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for all transactions and for ensuring compliance with the laws and regulations that have significant financial implications. In reviewing the effectiveness of the internal control system, the Board takes into account the results of work carried out to audit and review the activities of the Corporation. The Board also considers the management accounts for each quarter, reports from each Board Committee, annual budgetary proposals, major issues and strategic opportunities for the Corporation. As an integral strategy in achieving its corporate goals, the Board ensures that an optimal mix between risk and return is maintained. To achieve this goal, a risk management and governance framework has been put in place to assist the Board in understanding business risk issues and key performance indicators affecting the ability of the Corporation to achieve its objectives both in the short and long term.

### Creating Shareholders' Value

In order to assure the shareholders of the Corporation's commitment to activities that create and enhance shareholder value, the Board signs a performance contract with the Government as well as sets Corporate Performance strategies with Management and continues to perform an annual evaluation exercise to review and audit its role and success or otherwise to meet the challenges envisaged at the beginning of each year.

### Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors for services rendered during the financial year 2014 are disclosed in the notes to the financial statements under note 42. Non-executive directors are paid sitting allowances for every meeting attended. There were no arrangements for the directors to acquire benefits through the acquisition of the Corporation's shares. Loans and advances to directors as at the end of the year are also disclosed in the financial statements under note 42.

### Directors' interest and distribution of shareholding

Directors' interests in the shares of the Corporation and the distribution of the Corporation's shareholding and analysis of the ten largest shareholders as at 31 December 2014 were as follows:

Directors' interests as at 31 December 2014:

	Number of shares	% Shareholding
Cabinet Secretary to the National Treasury of Kenya	420,000,000	60
Jadiah Mwarania	100,000	-
Chiboli Shakaba	78,805	-
Nelius Kariuki	38,510	-
Felix Okatch	18,500	-
Gladys Mboya	18,400	-
	<hr/> <hr/> 420,254,215	<hr/> <hr/> 60

KENYA REINSURANCE CORPORATION LIMITED  
STATEMENT CORPORATE GOVERNANCE (Continued)


	Number of shares	% Shareholding
Major Shareholders		
Cabinet Secretary to the National Treasury of Kenya	420,000,000	60.00
CFC Stanbic Nominees Ltd A/C NR 1030624	11,491,100	1.64
National Social Security Fund	10,737,910	1.53
CFC Stanbic Nominees Ltd A/C NR 1030685	10,421,400	1.49
Cooperative Bank Custody A/C 4003A	9,231,072	1.32
Nic Custodial Services A/C 077	8,303,300	1.19
Standard Chartered (K) Nominees Ltd A/C 9389	7,748,400	1.11
Rakesh Prakash Gadani	7,621,800	1.09
Standard Chartered (K) Nominees Ltd A/C 9897	6,653,000	0.95
CFC Stanbic Nominees Ltd A/C R48701	6,361,231	0.91
	<u>498,569,213</u>	<u>71.23</u>

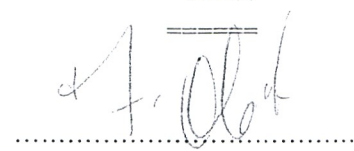
The distribution of the Corporation's shareholding is as shown below:

Shares Range	Shareholders	Number of Shares	% Shareholding
1 - 500	76,010	16,753,209	2.39
501 - 1,000	16,143	11,296,941	1.61
1,001 - 5,000	13,822	26,638,982	3.81
5,001 - 10,000	1,362	9,522,858	1.36
10,001 - 50,000	1,227	24,830,967	3.55
50,001 - 100,000	162	11,494,219	1.64
100,001 - 500,000	148	32,224,253	4.60
500,001 - 1,000,000	25	18,649,864	2.66
1,000,001 & above	27	548,537,775	78.37
	<u>108,926</u>	<u>699,949,068</u>	<u>100.00</u>

The distribution of the shareholders based on their nationalities is as follows:

Nationality	Shareholders	Shares held	% Shareholding
Local Individual Investors	101,741	109,754,301	15.68
Local Institutional Investors	6,627	534,381,495	76.35
Foreign Investors	558	55,813,272	7.97
	<u>108,926</u>	<u>699,949,068</u>	<u>100.00</u>

  
Director

  
Director

26th March 2015

KENYA REINSURANCE CORPORATION LIMITED


STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

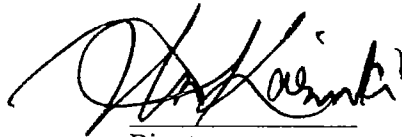
The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as the directors determine are necessary to enable the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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results. 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.

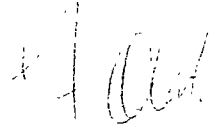
Nothing has come to the attention of the directors to indicate that the Corporation will not remain a going concern for at least the next twelve months from the date of this statement.



Principal Officer



Director



Director

26th March 2015

KENYA REINSURANCE CORPORATION LIMITED

REPORT OF THE CONSULTING ACTUARY

I have conducted an actuarial valuation of the long term business of Kenya Reinsurance Corporation Limited as at 31 December 2014.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act. Those principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the Corporation.

In my opinion, the long term business of the Corporation was financially sound and the actuarial value of the liabilities in respect of all classes of long term insurance business did not exceed the amount of funds of the long term business as at 31 December 2014.

Name of Actuary ..... JAMES ULUBATI

Qualification ..... FELLOW OF THE INSTITUTE OF ACTUARIES

Signed .....  
.....

2015

## INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KENYA REINSURANCE CORPORATION LIMITED

### Report on the Financial Statements

We have audited the accompanying financial statements of Kenya Reinsurance Corporation Limited, set out on pages 13 to 58, which comprise the statement of financial position as at 31 December 2014, 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 notes.

#### *Directors' Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the Corporation's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Kenya Reinsurance Corporation Limited as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

INDEPENDENT AUDITORS' REPORT  
TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF  
KENYA REINSURANCE CORPORATION LIMITED (Continued)

**Report on Other Legal Requirements**

As required by the Kenyan Companies Act we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
- ii) in our opinion, proper books of account have been kept by the Corporation, so far as appears from our examination of those books; and
- iii) the Corporation's statement of financial position (balance sheet) and statement of profit or loss and other comprehensive income (profit and loss account) are in agreement with the books of account.

*The engagement partner responsible for the audit resulting in this independent auditors' report is CPA F Aloo – P/No 1537.*



**Certified Public Accountants (Kenya)**

**Nairobi, Kenya**

*26 March 2015*

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON KENYA REINSURANCE CORPORATION LIMITED FOR THE YEAR ENDED 31 DECEMBER 2014

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#### REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Reinsurance Corporation Limited set out on pages 13 to 58, which comprise the statement of financial position as at 31 December 2014, 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 have been audited on my behalf by Deloitte & Touche, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) and (3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

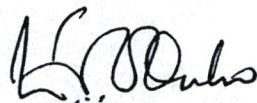
### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

### **REPORT ON LEGAL AND OTHER REGULATORY REQUIREMENTS**

As required by the Kenyan Companies Act, I report based on the audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- (ii) In my opinion, proper books of account have been kept by the Corporation, so far as appears from the examination of those books; and
- (iii) The Corporation's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.



**Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**27 March 2015**

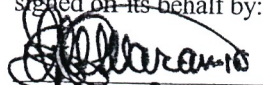
KENYA REINSURANCE CORPORATION LIMITED  
 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 31 DECEMBER 2014


	Notes	Long term business 2014 Sh'000	Short term business 2014 Sh'000	Total 2014 Sh'000	Total 2013 (restated) Sh'000
<b>INCOME</b>					
Gross premiums written		1,109,941	10,460,149	11,570,090	9,645,151
Less: change in unearned premiums		-	(728,192)	(728,192)	(620,442)
Less: retrocession premiums		(95,535)	(432,955)	(528,490)	(442,879)
<b>NET EARNED PREMIUMS</b>					
NET EARNED PREMIUMS	6	1,014,406	9,299,002	10,313,408	8,581,830
Investment income	7	455,760	2,136,175	2,591,935	2,277,749
Acquisition cost recoveries		25,501	475	25,976	26,966
Fair value gains on revaluation of investment properties	15	53,808	630,990	684,798	441,588
Other income	8	-	144,921	144,921	76,472
<b>NET INCOME</b>					
NET INCOME		1,549,475	12,211,563	13,761,038	11,404,605
<b>Gross claims incurred</b>					
Gross claims incurred		(440,084)	(5,954,130)	(6,394,214)	(5,246,003)
Amounts recoverable from retrocessionaires		27,622	409,052	436,674	522,833
<b>NET CLAIMS INCURRED</b>					
NET CLAIMS INCURRED	9	(412,462)	(5,545,078)	(5,957,540)	(4,723,170)
<b>Cedant acquisition costs</b>					
Cedant acquisition costs		(334,066)	(2,683,672)	(3,017,738)	(2,493,960)
Operating and other expenses	10	(180,548)	(912,107)	(1,092,655)	(1,014,768)
Provision for doubtful debts		-	(49,267)	(49,267)	(160,904)
<b>TOTAL EXPENSES</b>					
TOTAL EXPENSES		(514,614)	(3,645,046)	(4,159,660)	(3,669,632)
<b>SHARE OF PROFIT OF ASSOCIATE</b>					
SHARE OF PROFIT OF ASSOCIATE	18	-	275,894	275,894	257,000
<b>PROFIT BEFORE TAXATION</b>					
PROFIT BEFORE TAXATION		622,399	3,297,333	3,919,732	3,268,803
TAXATION CHARGE	12(a)	(212,750)	(569,810)	(782,560)	(476,337)
<b>PROFIT FOR THE YEAR</b>					
PROFIT FOR THE YEAR		409,649	2,727,523	3,137,172	2,792,466
<b>OTHER COMPREHENSIVE INCOME</b>					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Share of gain on property revaluation of associate	18	-	493	493	10
Defined benefit obligation remeasurement	38	-	31,188	31,188	(6,148)
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Fair value gain arising on revaluation of available-for-sale financial assets	29	-	364,123	364,123	732,270
Reclassification from equity of accumulated fair value gain on available-for-sale financial assets sold in the year	7	-	(250,555)	(250,555)	(307,681)
Share of movement in associate reserves:					
- currency translation	18	-	106,720	106,720	52,978
- fair value reserve	18	-	28,594	28,594	44,886
		-	280,563	280,563	516,315
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>					
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		409,649	3,008,086	3,417,735	3,308,781
<b>EARNINGS PER SHARE - basic and diluted</b>					
EARNINGS PER SHARE - basic and diluted	13			4.48	3.99

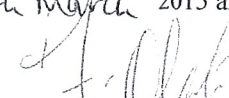
KENYA REINSURANCE CORPORATION LIMITED  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2014

	Notes	Long term business 2014 Sh '000	Short term business 2014 Sh '000	Total 2014 Sh '000	Total 2013 (restated) Sh '000	Total 2012 (restated) Sh '000
<b>ASSETS</b>						
Investment properties	15	1,200,000	5,995,000	7,195,000	6,459,000	5,935,000
Property and equipment	16	-	92,647	92,647	112,874	80,511
Intangible assets	17	-	93,606	93,606	64,584	2,604
Investment in associate	18	-	2,008,062	2,008,062	1,652,940	1,340,048
Deferred acquisition costs	20	-	1,148,252	1,148,252	960,819	761,158
Unquoted equity instruments	21	-	167,113	167,113	59,965	89,971
Inventory	22	-	28,794	28,794	28,794	28,794
Non current assets held for sale	23	-	28,098	28,098	28,098	40,032
Mortgage loans	24	-	714,956	714,956	734,456	521,539
Defined benefit asset	38	-	80,437	80,437	9,044	-
Receivables arising out of reinsurance arrangements	25	186,055	2,036,906	2,222,961	2,002,956	1,518,502
Premium and loss reserves	26	-	170,786	170,786	194,055	290,178
Other receivables	27	-	103,009	103,009	109,603	56,470
Corporate bonds	28	-	419,134	419,134	141,846	153,970
Quoted equity instruments	29	-	3,256,975	3,256,975	2,959,490	2,436,749
Government securities	30	1,559,241	6,153,160	7,712,401	7,693,954	5,459,118
Deposits with financial institutions	31	2,985,854	3,521,390	6,507,244	4,217,002	4,217,389
Cash and bank balances	41	92	224,684	224,776	198,831	241,215
<b>TOTAL ASSETS</b>		<b>5,931,242</b>	<b>26,243,009</b>	<b>32,174,251</b>	<b>27,628,311</b>	<b>23,173,248</b>
<b>EQUITY</b>						
Share capital	32	-	1,749,873	1,749,873	1,749,873	1,749,873
Revaluation reserve	33	-	6,965	6,965	10,973	15,994
Fair value reserve	33	-	1,910,902	1,910,902	1,768,740	1,299,255
Translation reserve	33	-	305,003	305,003	198,283	145,305
Statutory reserve	33	2,576,743	-	2,576,743	2,167,094	1,681,841
Retained earnings	33	-	13,441,918	13,441,918	11,098,665	9,072,559
<b>Shareholders' funds</b>		<b>2,576,743</b>	<b>17,414,661</b>	<b>19,991,404</b>	<b>16,993,628</b>	<b>13,964,827</b>
<b>LIABILITIES</b>						
Long term reinsurance contract liabilities	34	2,097,681	-	2,097,681	2,094,357	2,073,032
Short term reinsurance contracts liabilities	35	-	4,518,138	4,518,138	3,702,715	3,049,991
Unearned premiums	36	-	4,010,877	4,010,877	3,282,685	2,662,244
Payables arising out of reinsurance arrangements	37	152,500	299,191	451,691	701,912	709,445
Deferred taxation liability	19	1,104,318	(553,799)	550,519	334,478	106,080
Defined benefit liability	38	-	-	-	-	23,729
Other payables	39	-	405,901	405,901	477,404	419,239
Tax payable	12(c)	-	148,040	148,040	41,132	164,661
<b>TOTAL LIABILITIES</b>		<b>3,354,499</b>	<b>8,828,348</b>	<b>12,182,847</b>	<b>10,634,683</b>	<b>9,208,421</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,931,242</b>	<b>26,243,009</b>	<b>32,174,251</b>	<b>27,628,311</b>	<b>23,173,248</b>

The financial statements on pages 13 to 58 were approved by the board of directors on 26th March 2015 and were signed on its behalf by:

  
Principal Officer

  
Director

  
Director

**KENYA REINSURANCE CORPORATION LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	Share capital Sh '000	Revaluation reserve Sh '000	Fair value reserve Sh '000	Translation reserve Sh '000	Statutory reserve Sh '000	Retained earnings Sh '000	Total Sh '000
At 1 January 2013		1,749,873	15,994	1,299,255	145,305	2,402,630	9,072,559	14,685,616
Prior year adjustment (note 44)		-	-	-	-	(720,789)	-	(720,789)
As restated		1,749,873	15,994	1,299,255	145,305	1,681,841	9,072,559	13,964,827
Profit for the year		-	-	-	-	485,253	2,307,213	2,792,466
Other comprehensive income		-	-	469,485	52,978	-	(6,148)	516,315
Total comprehensive income		-	-	469,485	52,978	485,253	2,301,065	3,308,781
Dividends declared – 2012	14	-	-	-	-	-	(279,980)	(279,980)
Transfer of excess depreciation		-	(7,173)	-	-	-	7,173	-
Deferred taxation thereon		-	2,152	-	-	-	(2,152)	-
At 31 December 2013		1,749,873	10,973	1,768,740	198,283	2,167,094	11,098,665	16,993,628
At 1 January 2014		1,749,873	10,973	1,768,740	198,283	3,095,848	11,098,665	17,922,382
- As previously stated		-	-	-	-	(928,754)	-	(928,754)
- Prior year adjustment (note 44)		-	-	-	-	-	-	-
As restated		1,749,873	10,973	1,768,740	198,283	2,167,094	11,098,665	16,993,628
Profit for the year		-	-	-	-	409,649	2,727,523	3,137,172
Other comprehensive income		-	493	142,162	106,720	-	31,188	280,563
Total comprehensive income		-	493	142,162	106,720	409,649	2,758,711	3,417,735
Dividends declared – 2013	14	-	-	-	-	-	(419,959)	(419,959)
Transfer of excess depreciation		-	(6,430)	-	-	-	6,430	-
Deferred taxation thereon		-	1,929	-	-	-	(1,929)	-
At 31 December 2014		1,749,873	6,965	1,910,902	305,003	2,576,743	13,441,918	19,991,404

KENYA REINSURANCE CORPORATION LIMITED

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 Sh '000	2013 Sh '000
<b>Cash generated from operations</b>	40	2,495,378	60,310
Interest received on corporate bond		25,658	18,425
Interest received on government securities		712,803	691,141
Tax paid in the year	12(c)	(459,611)	(371,468)
		<hr/>	<hr/>
Net cash generated from operating activities		2,774,228	398,408
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Purchase of investment property	15	(51,202)	(82,412)
Purchase of property and equipment	16	(12,912)	(55,382)
Purchase of intangibles	17	(30,547)	(65,387)
Dividend received from associate company	18	56,579	41,982
		<hr/>	<hr/>
Net cash used in investing activities		(38,082)	(161,199)
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Dividends paid	14	(419,959)	(279,980)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		2,316,187	(42,771)
Cash and cash equivalents at 1 January		4,415,833	4,458,604
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	41	<u>6,732,020</u>	<u>4,415,833</u>

# KENYA REINSURANCE CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 1 ACCOUNTING POLICIES

#### **Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards.

For purposes of reporting under the Kenyan Companies Act, in these financial statements the balance sheet is represented by the statement of financial position and the profit or loss account is presented in the statement of profit or loss and other comprehensive income.

#### **Application of new and revised International Financial Reporting Standards (IFRS)**

##### *i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2014*

Several new and revised standards and interpretations were effective during the year. The directors have evaluated the impact of the new standards and interpretations and none of them had an impact on the company's financial statements.

##### *ii) Expected impact of issued relevant new and amended standards and interpretations but not yet effective as at 31 December 2014*

Only IFRS 9 on financial instruments issued in November 2009 will be relevant to the company. The standard introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition. The directors of the company anticipate that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the company.

##### *iii) Early adoption of standards*

The company did not early-adopt any new or amended standards in 2014.

#### **Basis of preparation**

The financial statements are prepared under the historical cost convention as modified to include the revaluation of certain assets.

#### **Reinsurance contracts**

##### **(i) Classification**

Reinsurance contracts are those contracts that transfer significant reinsurance risk. Such contracts may also transfer financial risk. As a general guideline, the Corporation defines significant reinsurance risk, as 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 Kenyan Insurance Act.

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

**Reinsurance contracts (Continued)**

**(i) Classification (Continued)**

**a) Short-term reinsurance business**

Short term reinsurance business refers to reinsurance business of any class or classes that is not long term reinsurance 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 and miscellaneous (i.e. any class of business not included under those listed above). The Corporation's main classes are described below:

- Motor reinsurance business means the business of effecting and carrying out contracts of reinsurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks.
- Fire reinsurance business refers to the business of effecting and carrying out contracts of reinsurance, other 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.
- Miscellaneous reinsurance business refers to 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 include reinsurance of bonds of all types, reinsurance of livestock and crop reinsurance.

**b) Long-term reinsurance business**

Includes reinsurance business of all or any of the following classes: ordinary life and Corporation life and business incidental to any such class of business.

Ordinary life reinsurance business refers to 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 includes contracts which are subject to the payment of premiums for term dependent on the termination or continuance of human life.

Corporation life reinsurance business refers to the business of, or in relation to, the issuing of or the undertaking of liability under Corporation life and permanent health reinsurance policies.

**(ii) Recognition and measurement**

The results of the reinsurance business are determined on an annual basis as follows:

**a. Premium income**

Premiums and related expenses are accounted for in profit or loss when earned or incurred. Gross earned premiums comprise gross premiums relating to risks assumed in the year after accounting for any movement in gross unearned premiums. Unearned premiums represent the proportion of the premiums written in the year that are attributable to the subsequent accounting period and are estimated at 40% of net premiums.

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

**Reinsurance contracts (Continued)**

**(ii) Recognition and measurement (Continued)**

**b. Claims incurred**

Claims incurred comprise claims paid in the period and changes in the provision for outstanding claims. Claims paid represent all payments made during the period, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the period are closed and include provisions for claims incurred but not reported ("IBNR").

**c. Cedant acquisition costs and deferred acquisition costs**

A proportion of cedant acquisition costs is deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs represent the proportion of cedant acquisition costs and other acquisition costs that relate to the unexpired term of the policies that are in force at the year end.

**d. Liability adequacy test**

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. 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 by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Long-term reinsurance 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.

**e. Retrocession contracts held**

Contracts entered into by the Corporation with retrocessionnaires under which the Corporation is compensated for losses on one or more contracts issued by the Corporation and that meet the classification requirements for reinsurance contracts are classified as retrocession contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Retrocession premiums payable are recognised in the period in which the related premium income and claims are earned /incurred, respectively.

The benefits to which the Corporation is entitled under its reinsurance contracts held are recognised 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 recognised as an expense when due.

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

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(ii) Recognition and measurement (Continued)

f. Receivable and payables related to reinsurance contracts

Receivables and payables are recognised when due. These include amounts due to and from cedants and brokers.

If there is objective evidence that the reinsurance receivable is impaired, the Corporation reduces the carrying amount of the reinsurance receivable accordingly and recognises the impairment loss in profit or loss. The Corporation gathers the objective evidence that a reinsurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

g. Premium and loss reserves

Premium and loss reserves relate to premiums retained by cedants as a deposit for due performance of obligations by the reinsurers. The percentage retained varies from one treaty to another and from one cedant to another. Premium and loss reserves are recognised when retained by the cedants. Premiums retained are subsequently released to the reinsurer at the expiry of the policy period.

**Other income recognition**

Acquisition cost recoveries are recognised as income in the period in which they are earned. Interest income is recognised on a time proportion basis that takes into account the effective yield on the principal outstanding. Dividends receivable are recognised as income in the period in which the right to receive payment is established.

**Foreign currency transactions**

Transactions in foreign currencies during the period are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the reporting date, which are expressed in foreign currencies, are translated into Kenya Shillings at rates ruling at the reporting date. The resulting differences are dealt with in profit or loss in the period in which they arise.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) *Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

**Taxation**

*(ii) Deferred tax*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in associates, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

*(iii) Current and deferred tax for the year*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**Investment properties**

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from the changes in fair value of investment properties are included in profit or loss in the period which they arise.

An investment property is derecognised upon disposal or when investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in profit or loss in the period which the property is derecognised.

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

**Property and equipment**

Property and equipment is stated at cost or valuation less depreciation and any accumulated impairment losses.

Property and equipment is revalued at periodic intervals, usually every three to five years. The basis of valuation is depreciated replacement cost.

Any revaluation increase arising on the revaluation of such property and equipment is credited to other comprehensive income and accumulated in the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such property and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Any accumulated depreciation at the date of the revaluation is eliminated against the carrying amount of the asset.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Depreciation**

Depreciation is calculated on the straight line basis to write off the cost or valuation of the property and equipment over their expected useful lives at the following annual rates:-

Computer equipment	25.0%
Motor vehicles	25.0%
Furniture, fittings and equipment	12.5%

**Intangible assets – computer software and licenses**

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives, not exceeding a period of three years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**Impairment**

At each reporting date, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Any impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

**Non current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of the asset's previous carrying amount and the market value less costs to sell.

**Leases**

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

*Corporation as a lessor*

Rental income from operating leases is recognised on the straight line basis over the term of the relevant lease.

*Corporation as a lessee*

Rentals payable under operating leases are charged to profit or loss. Any payment required to be made to the lessor by way of penalty, for termination of leases before the expiry of the lease period, is recognised in the year in which the termination takes place. Payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

**Inventories**

Inventories comprise housing units for sale.

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**Revaluation reserve**

The revaluation reserve relates to equipment. The reserve is non-distributable. The revaluation surplus represents the surplus on the revaluation of equipment, net of deferred tax. Movements in the revaluation reserve are shown in the statement of changes in equity.

**Fair value reserve**

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

**Translation reserve**

The translation reserve relates to cumulative foreign exchange movement on the net investment in PTA Re, an associate company accounted for under the equity method.

**Statutory reserve**

The statutory reserve represents actuarial surpluses from the long term business whose distribution is subject to restrictions imposed by the Kenyan Insurance Act. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of the accumulated profits of the long term business.

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

**Investment in associate**

Investment in associate is accounted for using the equity method of accounting. The associate is a company in which the Corporation has between 20% and 50% of the voting rights and over which the Corporation exercises significant influence but which it does not control. Significant influence is the power to participate in financial and operating policy decisions of the investment but it is not control or joint control over those policies.

Under the equity method, the investment in associate is carried in the statement of financial position at cost as adjusted for post-acquisition changes in the Corporation's share of the net assets of the associate, less any impairment in the carrying value of the investments. Losses of the associate in excess of the Corporation's interest in the associate are recognised only to the extent that the Corporation has incurred legal or constructive obligations or made payments on behalf of the associate.

**Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset or liability is recognised when the Corporation becomes party to the contractual provisions of the instrument.

**Financial assets**

The Corporation classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the appropriate classification of its financial assets at initial recognition and re-evaluates this at every reporting date. The classification depends on the purpose for which the financial assets were acquired.

***Classification***

*Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit making, or if so designated by management.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the company intends to sell in the short term or that it has designated as at fair value through income or available-for-sale. They arise when the Corporation provides money directly to a debtor with no intention of trading the receivable. These include mortgage loans, receivables arising out of reinsurance and retrocession arrangements, premium and loss reserves and other receivables.

*Held-to-maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's management has the positive intention and ability to hold to maturity. Were the Corporation to sell or reclassify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. This class includes government securities, deposits with financial institutions and corporate bonds.

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

*Classification (Continued)*

*Available-for-sale financial assets*

This category represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity. This class includes quoted and unquoted equity instruments.

Available for sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

*Recognition*

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of financial assets carried at fair value through profit or loss are included in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the fair value reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments fair value reserve is reclassified to profit or loss.

*Derecognition*

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

**Financial liabilities**

All financial liabilities are classified as other financial liabilities and are initially measured at fair value net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method.

**Employee entitlements**

Entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued on the reporting date.

**Cash and cash equivalents**

Cash and cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (Continued)

**Retirement benefits obligations**

*Defined benefit scheme*

The Corporation operates a defined benefit pension scheme (the "Scheme") for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and the employer. Contributions are determined by the rules of the scheme. The cost of providing retirement benefits is assessed using the attained age method by qualified actuaries. The scheme is valued annually.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the Scheme.

Effective 30 September 2011, the Scheme was closed to new entrants.

*Statutory defined contributions scheme*

The Corporation also contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). The Corporation's obligations to retirement benefits schemes are charged to the profit or loss as they fall due.

*Other employee entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the end of the reporting period.

**Dividends**

Dividends payable to shareholders are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

**Comparatives**

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

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## KENYA REINSURANCE CORPORATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

##### *The ultimate liability arising from claims payable under reinsurance contracts*

For short term reinsurance, the assumption is based on an actuarial model which relies on the basic approach of the "Bornhuetter-Ferguson" method. This method relies on historical loss ratios in order to derive estimates of the total outstanding claims without differentiating between the reported outstanding claims and the incurred but not reported claims as at the reporting date. The method relies on the accuracy of the past claims data and past claims trends in order to project future estimates. The method also assumes implicitly that the weighted average of past claims inflation will be repeated in the future. The method used takes the past trends of claims run-off for each class of business and projects these trends to the future. Accordingly, the statistical method used will not produce reliable results if the fundamental assumption of a stable pattern of past trends of claims is not fulfilled.

For long term reinsurance, the assumption is based on an actuarial model which relies on risk premiums rates based on the gross annual premiums written, adjustments are made for an AIDs reserve and a claims equalization reserve. The model is open to some uncertainty in the estimation of the appropriate percentage of gross premiums to apply and the estimated value of the contingency reserve. Estimations related to the AIDs reserve rely on changes on mortality rates which may have some variations depending on the source of the data.

##### *Held-to-maturity investments*

The Corporation follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to hold these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not at amortised cost.

##### *Available for sale investments*

The fair value of financial instruments that are not quoted in an active market are carried at cost. The directors estimate that the fair value of the unlisted equity investments approximates their cost.

##### *Useful lives of equipment and intangible assets*

The Corporation reviews the estimated useful lives of property and equipment and intangible assets at the end of each annual reporting period.

#### 3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES

The Corporation's activities expose it to a variety of financial risks, including insurance risk, liquidity risk, credit risk, and the effects of changes in property and equity market prices, foreign currency exchange rates and interest rates. The Corporation's overall risk management program focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

The disclosures below summarises the way the Corporation manages key risks:

# KENYA REINSURANCE CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### **Reinsurance risk**

The Corporation reinsures all classes of insurance business including accident, engineering, liability, motor, fire, aviation and life. The bulk of the business written is of a short-term nature.

The risk under any one insurance contract arises from the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

#### *Frequency and severity of claims*

A key risk, related to pricing and provisioning, that the Corporation faces under its reinsurance contracts is that the actual claims and benefit payments exceed the carrying amount of the reinsurance liabilities. 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 based on past experience.

The Corporation has developed its reinsurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Corporation also manages these risks through its underwriting strategy and adequate retrocession arrangements and proactive claims handling. Underwriting limits are in place to enforce appropriate risk selection criteria. The reinsurance arrangements include proportional and non proportional treaties. The expected effect of such reinsurance arrangements is that the Corporation should not suffer total net insurance losses of more than set limits per class of business.

#### *Sources of uncertainty in the estimation of future claim payments*

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Corporation takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The liability for these contracts comprise a provision for incurred but not reported (IBNR) claims, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

In estimating the liability for the cost of reported claims not yet paid, the Corporation considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. The main assumption underlying this technique is that the Corporation's past claims development experience be used to project future claims development and hence ultimate claims costs.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, 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.

#### *Concentration of insurance risk*

The Corporation's concentration of reinsurance risk is determined by class of business. The shared characteristic that identifies each concentration is the insured event and the key indicator is the gross earned premium as disclosed in note 6.

An analysis of the Corporation's financial assets and its reinsurance liabilities is presented below;

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

	<b>Long term business 2014 Shs'000</b>	<b>Short term business 2014 Shs'000</b>	<b>Total 2014 Shs'000</b>	<b>Total 2013 Shs'000</b>
<b>Financial assets</b>				
Debt securities:				
Held to maturity:				
- Government securities	1,559,241	6,153,160	7,712,401	7,693,954
- Corporate bonds	-	419,134	419,134	141,846
Equity securities:				
- Available for sale (Quoted)	-	3,256,975	3,256,975	2,959,490
- Available for sale (Unquoted)	-	167,113	167,113	59,965
Receivables arising out of reinsurance arrangements	186,055	2,036,906	2,222,961	2,002,956
Premium and loss reserves	-	170,786	170,786	194,055
Mortgage loans	-	714,956	714,956	734,456
Cash and cash equivalents (note 41)	2,985,946	3,746,074	6,732,020	4,415,833
Other receivables	-	103,009	103,009	109,603
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total financial assets</b>	<b>4,731,242</b>	<b>16,768,113</b>	<b>21,499,355</b>	<b>18,312,158</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Reinsurance liabilities</b>				
Long term liabilities	2,097,681	-	2,097,681	2,094,357
Short term liabilities	-	4,518,138	4,518,138	3,702,715
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total short term liabilities</b>	<b>2,097,681</b>	<b>4,518,138</b>	<b>6,615,819</b>	<b>5,797,072</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Reinsurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non interest bearing

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Reinsurance risks (Continued)**

The tables below indicates the contractual timing of cash flows arising from assets and liabilities

Financial assets	Carrying amount Shs'000	No stated maturity Shs'000	Contractual cash flows (undiscounted)		
			0-1 years Shs'000	1-5 years Shs'000	>5 years Shs'000
Debt securities:					
Held to maturity:					
- Government bonds	7,712,401	-	153,150	320,433	7,238,818
- Corporate bonds	419,134	-	-	-	419,134
Equity securities:					
- Available for sale	3,256,975	3,256,975	-	-	-
Receivables arising out of reinsurance arrangements	2,222,961	2,222,961	-	-	-
Premium loss reserves	170,786	170,786	-	-	-
Mortgage loans	714,956	-	-	-	714,956
Cash and cash equivalents	6,723,020	-	6,732,020	-	-
<b>Total</b>	<b>21,229,233</b>	<b>5,650,722</b>	<b>6,885,170</b>	<b>320,433</b>	<b>8,372,908</b>
<b>Reinsurance liabilities</b>					
Long term liabilities	2,097,681	2,097,681	-	-	-
Short term liabilities	4,518,138	4,518,138	-	-	-
<b>Total</b>	<b>6,615,819</b>	<b>6,615,819</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net gap</b>	<b>14,613,414</b>	<b>(965,097)</b>	<b>6,885,170</b>	<b>320,433</b>	<b>8,372,908</b>

31 December 2013

Financial assets	Carrying amount Shs'000	No stated Maturity Shs'000	Contractual cash flows (undiscounted)		
			0-1 years Shs'000	1-5 years Shs'000	>5 yrs Shs'000
Financial assets	18,142,590	5,156,501	5,238,797	424,838	7,322,454
Reinsurance liabilities	5,797,072	5,797,072	-	-	-
<b>Net gap</b>	<b>12,345,518</b>	<b>(640,571)</b>	<b>5,238,797</b>	<b>424,838</b>	<b>7,322,454</b>

## KENYA REINSURANCE CORPORATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

##### **Financial risk**

The Corporation is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

The Corporation's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Corporation's financial performance. The risk management policies established identify and analyse the risks faced by the Corporation, set appropriate risk limits and controls, and monitor risks and adherence to limits. These risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

##### **(a) Liquidity risk**

Liquidity risk is current or prospective risk to earnings and capital arising from the Corporation's failure to meet its maturing obligations when they fall due without incurring unacceptable losses. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

To this end, there is a Board approved policy to effectively manage liquidity at all times to meet claims payable, unexpected outflow/non-receipt of expected inflow of funds as well as ensure adequate diversification of funding sources. The Finance, Investment and Tender Oversight Committee undertakes liquidity management and scenario analysis as per the policy.

Funds are raised mainly from reinsurance premiums and investment income and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Corporation continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Corporation strategy.

In addition, the Corporation holds a portfolio of liquid assets as part of its liquidity risk management strategy.

# KENYA REINSURANCE CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Financial risk

##### (a) Liquidity risk (Continued)

The table below analyses the liquidity position of the Corporation's financial liabilities. The amounts disclosed in the table below are the contractual undiscounted cash flows.

31 December 2014	Due on demand Sh '000	Due after 1 year Sh '000	Total Sh '000
Long term reinsurance contract liabilities	-	2,097,681	2,097,681
Short term insurance contract liabilities	4,518,138	-	4,518,138
Payables arising out of reinsurance arrangements	373,363	78,328	451,691
	<u>4,891,501</u>	<u>2,176,009</u>	<u>7,067,510</u>
31 December 2013			
Long term reinsurance contract liabilities	-	2,094,357	2,094,357
Short term insurance contract liabilities	3,702,715	-	3,702,715
Payables arising out of reinsurance arrangements	580,193	121,719	701,912
	<u>4,282,908</u>	<u>2,216,076</u>	<u>6,498,984</u>

##### (b) Market risk

###### *Management of market risk*

Market risk is the risk that changes in market prices, interest rates and foreign exchange rates will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Overall authority for market risk is vested in the board of directors. The board of directors is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

###### *Interest rate risk*

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

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

## KENYA REINSURANCE CORPORATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

##### **Financial risk**

##### **(b) Market risk (Continued)**

###### *Interest rate risk (Continued)*

Liabilities under short term insurance contracts are not interest bearing. For liabilities under long term re-insurance contracts, with fixed terms, changes in interest rates will not cause a change to the amount of the liability.

###### *Currency rate risk*

The Corporation underwrites reinsurance contracts from cedants in various currencies and is thus exposed to risk related to fluctuations in currency.

###### *Price risk*

The Corporation is exposed to equity securities price risk as a result of its holdings in equity investments which are listed and traded on the Nairobi and Dar-es-Salaam Securities Exchanges and which are classified as available for sale financial assets. Exposure to equity price risks in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

The Corporation has a defined investment policy which sets limits on the Corporation's exposure to equities both in aggregate terms and by category/share. This policy of diversification is used to manage the Corporation's price risk arising from its investments in equity securities.

##### **(c) Credit risk**

The Corporation has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Corporation manages, limits and controls concentration of credit risks periodically against internal and regulatory requirements with respect to individual counterparties or related Corporations of counterparties, industry sectors, business lines, product types, amongst others.

Key areas where the Corporation is exposed to credit risk are:

- amounts due from reinsurers in respect of claims already paid;
- amounts due from cedants;
- amounts due from re-insurance intermediaries; and
- mortgage advances to its customers and staff.

The Corporation structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty or Corporations of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved quarterly by the board of directors.

The creditworthiness of cedants is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Financial risk**

(c) **Credit risk (Continued)**

The Corporation maintain records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Corporation. Management information reported to the board of directors includes details of provisions for impairment on amounts due from cedants and subsequent write-offs.

Investments in government securities are deemed adequately secured by the Government of Kenya with no inherent default risk. The credit risk on the corporate bonds, deposits and balances with financial institutions is considered to be low because the counterparties are companies and banks with high credit ratings. The credit risk on mortgages is managed by ensuring that the mortgage issued is secured by the related property and that the mortgage amount given is below the value of the related property.

The following table details the maximum exposure before consideration of any collateral:

	2014 Sh'000	2013 Sh'000
<b>Held to maturity instruments</b>		
Government securities	7,712,401	7,693,954
Deposits with financial institutions	6,507,244	4,217,002
Corporate bonds	419,134	141,846
Loans and receivables at amortized cost		
Mortgage loans	714,956	734,456
Receivables arising out of reinsurance arrangements	2,222,961	2,002,956
Premium and loss reserves	170,786	194,055
Cash and bank balances	224,776	198,831
Other receivables	103,009	109,603
<b>Total assets bearing credit risk</b>	<u>18,075,267</u>	<u>15,292,703</u>

Receivables arising out of reinsurance arrangements are summarized as follows:

	2014 Sh'000	2013 Sh'000
Neither past due nor impaired	700,466	440,020
Past due but not impaired:		
-up to 91 to 365 days	1,036,163	1,221,404
-up to 1 to 2 years	486,332	341,532
-up to 2 to 3 years	-	-
Impaired	1,173,420	1,306,371
	<u>3,396,381</u>	<u>3,309,327</u>
Less: provision for impairment	(1,173,420)	(1,306,371)
<b>Total</b>	<u>2,222,961</u>	<u>2,002,956</u>

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Fair value of financial assets and liabilities**

**(i) Financial instruments not measured at fair value**

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

**(ii) Fair value hierarchy**

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the corporation's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- 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 are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The corporation considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

<b>At 31 December 2014</b>	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
Quoted equity instruments	3,256,975	-	-	3,256,975
Unquoted equity instruments	-	167,113	-	167,113
Receivables arising out of reinsurance arrangements	-	2,222,961	-	2,222,961
Corporate bonds	419,134	-	-	419,134
Government securities	7,712,401	-	-	7,712,401
Deposits with financial institutions	6,507,244	-	-	6,507,244
Cash and bank balances	224,776	-	-	224,776
<b>Non- financial assets</b>				
Investment properties	7,195,000	-	-	7,195,000
	<u>25,315,530</u>	<u>2,390,074</u>	<u>-</u>	<u>27,705,604</u>
<b>Reinsurance liabilities</b>				
Long term reinsurance contract liabilities	-	2,097,681	-	2,097,681
Short term reinsurance contract liabilities	-	4,518,138	-	4,518,138
Payables arising out of reinsurance arrangements	-	451,691	-	451,691
	<u>-</u>	<u>7,067,510</u>	<u>-</u>	<u>7,067,510</u>

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Fair value of financial assets and liabilities (Continued)**

**(ii) Fair value hierarchy (Continued)**

<b>At 31 December 2013</b>	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
<b>Financial assets</b>				
Quoted equity instruments	2,959,490	-	-	2,959,490
Unquoted equity instruments	-	59,965	-	59,965
Receivables arising out of reinsurance arrangements	-	2,002,956	-	2,002,956
Corporate bonds	141,846	-	-	141,846
Government securities	7,693,954	-	-	7,693,954
Deposits with financial institutions	4,217,002	-	-	4,217,002
Cash and bank balances	198,831	-	-	198,831
<b>Non- financial assets</b>				
Investment properties	6,459,000	-	-	6,459,000
	<u>21,670,123</u>	<u>2,062,921</u>	<u>-</u>	<u>23,733,044</u>
<b>Reinsurance liabilities</b>				
Long term reinsurance contract liabilities	-	2,094,357	-	2,094,357
Short term reinsurance contract liabilities	-	3,702,715	-	3,702,715
Payables arising out of reinsurance arrangements	-	701,912	-	701,912
	<u>-</u>	<u>6,498,984</u>	<u>-</u>	<u>6,498,984</u>

## KENYA REINSURANCE CORPORATION LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### 4 CAPITAL MANAGEMENT

As at 31 December 2014, the required level of paid up share capital for a composite reinsurance company was Sh 450 million.

The Corporation's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its reinsured and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth;
- to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The Corporation has a number of sources of capital available to it and seeks to optimize its retention capacity in order to ensure that it can consistently maximize returns to shareholders. The Corporation considers not only the traditional sources of capital funding but the alternative sources of capital including retrocession, as appropriate, when assessing its deployment and usage of capital. The Corporation manages as capital all items that are eligible to be treated as capital. The Corporation has no borrowings.

During the year the Corporation held the minimum paid up capital required and also met the required solvency margins.

#### 5 SEGMENTAL REPORTING

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Corporation that are regularly reviewed by the Chief Operating Decision Maker (CODM) in order to allocate resources to the segments and to assess performance.

Thus, under IFRS 8 the Corporation's reportable segments are long term business and short term business. The short term business segment comprises of motor, marine, aviation, fire, and accident. The long term business segment includes individual and Corporation life. These segments are the basis on which the CODM allocates resources and assesses performance. Investment and cash management for the Corporation's own accounts are also reported as part of the above segments. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest and investment income is credited to business segments based on segmental capital employed.

The financial statements have been reported based on the two operating segments as mentioned above. Therefore no further segmental information has been provided.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 PREMIUMS INCOME

The Corporation is organised into two main divisions, General reinsurance and Long term business. Long term business relates to the underwriting of risks relating to death of an insured person. General insurance business relates to all other categories of short term insurance business written by the Corporation, analysed into several sub-classes of business based on the nature of the assumed risks.

The premium income of the Corporation can be analysed between the main classes of business as shown below:

	Long term Business Sh'000	Short term business Sh'000	Total 2014 Sh'000	Total 2013 Sh'000
Super annuation	906,521	-	906,521	948,177
Ordinary life	107,885	-	107,885	47,382
Motor	-	499,613	499,613	462,403
Fire	-	2,394,397	2,394,397	2,113,969
Theft	-	608,470	608,470	632,155
Personal accident	-	1,803,292	1,803,292	799,336
Engineering	-	682,628	682,628	646,102
Marine	-	606,040	606,040	658,683
Other	-	2,704,562	2,704,562	2,273,623
	<u>1,014,406</u>	<u>9,299,002</u>	<u>10,313,408</u>	<u>8,581,830</u>

7 INVESTMENT INCOME

Rental income from investment properties	159,886	551,912	711,798	619,050
Interest on Government securities held to maturity	141,846	724,954	866,800	843,826
Reclassification from equity of accumulated fair value gain on available for sale quoted equity instruments	-	250,555	250,555	307,681
Realised gain on sale of available for sale quoted equity instruments	-	12,895	12,895	73,611
Dividends receivable on available-for-sale quoted equity instruments	-	109,543	109,543	107,923
Interest on commercial mortgages	-	81,199	81,199	66,943
Interest on deposits with financial institutions – held to maturity	154,028	312,601	466,629	229,673
Interest on corporate bonds – held to maturity	-	25,658	25,658	18,425
Profit on sale of non current asset held for sale	-	-	-	3,757
Interest on staff mortgages and loans	-	10,458	10,458	6,860
Capital gain on disposal of government securities	-	56,400	56,400	-
Total investment income	<u>455,760</u>	<u>2,136,175</u>	<u>2,591,935</u>	<u>2,277,749</u>

8 OTHER INCOME

Miscellaneous income	-	81,516	81,516	76,472
Net foreign exchange gains	-	63,405	63,405	-
Total	<u>-</u>	<u>144,921</u>	<u>144,921</u>	<u>76,472</u>

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

	Long term business 2014 Sh '000	Short term business 2014 Sh '000	Total 2014 Sh '000	Total 2013 Sh '000
9 CLAIMS INCURRED				
Claims paid	436,760	5,138,706	5,575,466	4,571,954
Changes in the provision for outstanding claims	-	815,424	815,424	652,724
Increase in actuarial liability	3,324	-	3,324	21,325
Gross claims incurred	440,084	5,954,130	6,394,214	5,246,003
Less: Amounts recoverable from retrocessionaires	(27,622)	(409,052)	(436,674)	(522,833)
Net claims incurred	412,462	5,545,078	5,957,540	4,723,170
10 OPERATING AND OTHER EXPENSES				
Staff costs (note 11)	67,882	329,085	396,967	388,149
Depreciation (note 16)	5,667	27,472	33,139	23,019
Amortisation (note 17)	261	1,264	1,525	3,407
Auditors' remuneration	1,111	5,387	6,498	5,457
Directors' - emoluments	2,190	10,617	12,807	12,315
- fees	1,027	4,977	6,004	4,476
Mortgages provisions	-	-	-	4,737
Annual General Meeting expenses	2,022	9,802	11,824	14,962
Fines and penalties	1,194	5,789	6,983	216
Investment property direct operating expenses	35,015	169,751	204,766	192,378
Net foreign exchange losses	-	-	-	34,281
Travel and accommodation	9,120	44,211	53,331	42,305
Advertisement	2,701	13,096	15,797	10,610
Professional and consultancy fees	21,924	106,285	128,209	82,221
Impairment charge on unquoted equity instruments	-	-	-	30,006
Taxation expenses in West Africa	-	17,994	17,994	-
Other expenses	30,434	166,377	196,811	166,229
	180,548	912,107	1,092,655	1,014,768
11 STAFF COSTS				
Salaries and wages	49,155	238,302	287,457	285,460
Retirement benefit costs (note 38)	239	1,156	1,395	2,679
Medical expenses	3,319	16,088	19,407	18,203
Leave allowance	3,809	18,465	22,274	21,459
National social security benefit costs	179	866	1,045	240
Gratuity accrual	-	-	-	361
Bonus	1,866	9,047	10,913	12,581
Staff welfare expenses	2,520	12,219	14,739	10,406
Training and recruitment	2,398	11,625	14,023	14,386
Leave pay provision	844	4,094	4,938	1,975
Pension contributions	3,553	17,223	20,776	20,399
	67,882	329,085	396,967	388,149

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 TAXATION CHARGE

	2014	2013 (restated)
	Sh '000	Sh '000
(a) Taxation charge		
Current tax at 30% on the taxable profit for the year	567,195	384,695
Prior year over provision	(17,952)	(136,756)
Tax penalties	17,276	-
	<u>566,519</u>	<u>247,939</u>
Deferred taxation charge (note 19)		
- Current year	280,785	22,281
- Prior year adjustment (note 44)	-	207,965
- Prior year under provision	(64,744)	(1,848)
	<u>216,041</u>	<u>228,398</u>
	<u>782,560</u>	<u>476,337</u>
(b) The Corporation's current tax charge is computed in accordance with income tax rules applicable to composite Kenyan insurance and reinsurance companies. A reconciliation of the tax charge is shown below:		
	2014	2013
	Sh '000	Sh '000 (restated)
Short term business profit before taxation	3,297,333	2,548,410
Long term business profit before taxation	622,399	720,393
Profit before taxation	<u>3,919,732</u>	<u>3,268,803</u>
Tax applicable rate of 30%	1,175,920	980,641
Tax effects of non taxable income	(398,347)	(669,773)
Tax effect of non-deductible expenses	70,407	96,108
Prior year adjustment (note 44)	-	207,965
Tax penalty	17,276	-
Prior year over provision- current tax	(17,952)	(136,756)
Prior year under provision- deferred tax	(64,744)	(1,848)
	<u>782,560</u>	<u>476,337</u>
Attributable to:		
Long term business	212,750	235,140
Short term business	569,810	241,197
	<u>782,560</u>	<u>476,337</u>
(c) Taxation payable		
At 1 January	41,132	164,661
Charge for the year	566,519	247,939
Paid in the year	(459,611)	(371,468)
At 31 December	<u>148,040</u>	<u>41,132</u>
Attributable to:		
Long term business	-	-
Short term business	148,040	41,132
	<u>148,040</u>	<u>41,132</u>

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares in issue during the year.

	2014	2013 (restated)
Profit attributable to shareholders (Sh'000)	3,137,172	2,792,466
Weighted average number of ordinary shares in issue	699,949	699,949
Basic and diluted earnings per share (Sh)	4.48	3.99

There were no potentially dilutive shares outstanding at 31 December 2014 and 2013. The diluted earnings per share is therefore the same as the basic earnings per share.

14 DIVIDENDS

The directors propose the payment of a first and final dividend of Sh 0.70 (2013 – Sh 0.60) per share totalling to Sh 490 million in respect of the year ended 31 December 2014 (2013 – Sh 420 million). The proposed dividends are subject to approval by shareholders at the Annual General Meeting and therefore the cash dividend has not been included as a liability in these financial statements.

The cash dividend is payable subject to, where applicable, deduction of withholding tax as required under the Kenyan Income Tax Act, Chapter 470, Laws of Kenya.

The movement in the dividend payable account is as follows:

	2014 Sh '000	2013 Sh '000
At 1 January	-	-
Dividend declared	419,959	279,980
Dividends paid	(419,959)	(279,980)
At 31 December	-	-
Proposed cash dividend per share (Sh)	0.70	0.60

15 INVESTMENT PROPERTIES

	Long term business 2014 Sh '000	Short term business 2014 Sh '000	Total 2014 Sh '000	Total 2013 Sh '000
<b>At fair value</b>				
At 1 January	1,145,000	5,314,000	6,459,000	5,935,000
Additions	1,192	50,010	51,202	82,412
Fair value gain	53,808	630,990	684,798	441,588
At 31 December	1,200,000	5,995,000	7,195,000	6,459,000

- (i) Investment properties comprise office buildings held to earn rentals and/or capital appreciation and land acquired for development of office buildings and housing projects for rental and/or capital appreciation.
- (ii) The valuation of investment properties was last carried out by Chapter Property Consultants Limited, professional independent valuers as at 31 December 2014. The basis of valuation was open market value, based on the highest and best use of the properties.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 PROPERTY AND EQUIPMENT

	Motor vehicles Sh'000	Computers Sh'000	Furniture & equipment Sh'000	Total Sh'000
<b>Cost or valuation</b>				
At 1 January 2013	8,017	29,976	82,112	120,105
Additions	3,223	44,494	7,665	55,382
At 31 December 2013	11,240	74,470	89,777	175,487
At 1 January 2014	11,240	74,470	89,777	175,487
Additions	3,765	4,705	4,442	12,912
At 31 December 2014	15,005	79,175	94,219	188,399
<b>COMPRISING</b>				
Cost	13,205	55,865	86,428	155,498
Valuation - 2008	1,800	-	-	1,800
Valuation - 2011	-	23,210	7,791	31,101
	15,005	79,175	94,219	188,399
<b>Depreciation</b>				
At 1 January 2013	5,297	13,145	21,152	39,594
Charge for the year	2,218	10,460	10,341	23,019
At 31 December 2013	7,515	23,605	31,493	62,613
At 1 January 2014	7,515	23,605	31,493	62,613
Charge for the year	2,853	18,738	11,548	33,139
At 31 December 2014	10,368	42,343	43,041	95,752
<b>Net book value</b>				
At 31 December 2014	4,637	36,832	51,178	92,647
At 31 December 2013	3,725	50,865	58,284	112,874
<b>Net book value at cost</b>				
At 31 December 2014	4,189	31,620	48,705	84,513
At 31 December 2013	3,725	40,881	54,197	98,803

Computers, furniture and equipment were last valued on 31 March 2011 by independent professional valuers, Gimco Limited. The basis of the revaluation was depreciated replacement cost.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 INTANGIBLE ASSETS

	Intangible Assets	Capital WIP	Total
<b>Cost</b>			
At 1 January 2013	48,908	-	48,908
Additions	5,508	59,879	65,387
Write-off	(13,813)	-	(13,813)
At 31 December 2013	48,908	-	48,908
At 1 January 2014	40,603	59,879	100,482
Additions	1,639	28,908	30,547
Write-off			
At 31 December 2014	42,242	88,787	131,029
<b>Amortisation</b>			
At 1 January 2013	46,304	-	46,304
Charge for the year	3,407	-	3,407
Write-off	(13,813)	-	(13,813)
At 31 December 2013	46,304	-	46,304
At 1 January 2014	35,898	-	35,898
Charge for the year	1,525	-	1,525
At 31 December 2014	37,423	-	37,423
<b>Net book value</b>			
At 31 December 2014	4,819	88,787	93,606
At 31 December 2013	4,705	59,879	64,584

Intangible assets relate to purchased computer software and licenses. Obsolete software with a cost of Sh 13.8 million was written off in 2013. This software was fully amortised and no longer in use.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Sh '000	2013 Sh '000
18 INVESTMENT IN ASSOCIATE		
At 1 January	1,652,940	1,340,048
Share of profit for the year	275,894	257,000
Less dividends received	(56,579)	(41,982)
	<u>1,872,255</u>	<u>1,555,066</u>
Share of revaluation reserve	493	10
Share of fair value reserve	28,594	44,886
Currency translation adjustment	106,720	52,978
	<u>135,807</u>	<u>97,874</u>
At 31 December	<u><u>2,008,062</u></u>	<u><u>1,652,940</u></u>

This represents an investment in ZEP-Re (PTA Reinsurance) Company, a reinsurance company that underwrites all classes of life and non-life reinsurance risks.

**Summary financial information for ZEP-Re**

The associate's year end is 31 December. The associate company is exempt from all forms of taxation. The presentation currency for ZEP-Re is US Dollars. The following exchange rates have been applied in converting the balances to Kenya shillings:

	2014 Sh	2013 Sh
Closing rate	90.60	86.31
Average rate	<u>87.92</u>	<u>86.13</u>
Ownership	<u>15.44%</u>	<u>18.11%</u>

During 2014, there was a dilution of the Corporation's equity interest ownership percentage in the associate due to capitalisation of dividends paid in the year, in which the Corporation did not participate. In addition, the associate sold equity interests to new investors. The directors have determined that the Corporation was in a position to exercise significant influence on the associate at the end of the year.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Sh '000	2013 Sh '000
18 INVESTMENT IN ASSOCIATE (Continued)		
<b>Summary financial information for ZEP-Re (Continued)</b>		
Total assets	23,123,406	17,421,044
Total liabilities	(10,114,759)	(8,295,621)
	<hr/>	<hr/>
Net assets	13,008,647	9,125,423
	<hr/>	<hr/>
Corporation's share of net assets of associate	2,008,062	1,652,940
	<hr/>	<hr/>
Profit before taxation	1,644,676	1,325,989
	<hr/>	<hr/>
Share of profit for the year	275,894	257,000
Less: dividends received	(56,579)	(41,982)
	<hr/>	<hr/>
Corporation's share of associate's profit	219,315	215,018
	<hr/>	<hr/>

During the year, a dividend of Sh 56,578,803 (2013 – Sh 41,981,573) was received.

19 DEFERRED TAXATION LIABILITY

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted tax rate of 30 %.

	2014 Sh '000	2013 (restated) Sh '000
The net deferred taxation asset is attributable to the following items:		
<b>Deferred tax assets:</b>		
Excess depreciation over capital allowances	(6,092)	(4,612)
Leave pay provision	(7,357)	(6,259)
Defined benefit liability	(419)	-
Provision for fines and penalties	(11,005)	-
Unrealised exchange loss	-	(10,559)
Bad debts provisions	(548,883)	(578,657)
	<hr/>	<hr/>
	(573,756)	(600,087)
	<hr/>	<hr/>
<b>Deferred tax liabilities:</b>		
Revaluation surplus – property and equipment	1,169	3,098
Unrealised exchange gain	18,788	-
Defined benefit asset	-	2,713
Life fund actuarial surplus	1,104,318	928,754
	<hr/>	<hr/>
Net deferred taxation liability	550,519	334,478
	<hr/>	<hr/>

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014	2013
	Sh '000	(restated) Sh '000
19	DEFERRED TAXATION ASSET (Continued)	
	The movement on the deferred taxation account during the year was as follows:	
	334,478	(614,709)
At 1 January		
Prior year adjustment (note 44)	-	928,754
Charge for the year (note 12)	280,785	22,281
Prior year under provision	(64,744)	(1,848)
	<u>550,519</u>	<u>334,478</u>
At 31 December		
20	DEFERRED ACQUISITION COSTS	
	960,819	761,158
At 1 January		
Movement in the year	187,433	199,661
	<u>1,148,252</u>	<u>960,819</u>
At 31 December		
21	UNQUOTED EQUITY INSTRUMENTS – AVAILABLE FOR SALE	
	<i>At cost</i>	
	59,965	89,971
At 1 January		
Addition	107,148	
Impairment charge	-	(30,006)
	<u>167,113</u>	<u>59,965</u>
At 31 December		
	The investment in unquoted equity instruments is analysed as follows:	
	24,474	24,474
Industrial Development Bank (12% shareholding)		
Africa Reinsurance Limited (0.2% shareholding)	35,491	35,491
African Trade Insurance Agency (0.6% shareholding)	87,506	-
Uganda Reinsurance Company Limited (7.8% shareholding)	19,642	-
	<u>167,113</u>	<u>59,965</u>
Gross investment		
22	INVENTORY	
	28,794	28,794
At 1 January		
	Inventories comprise property units for sale.	

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Sh '000	2013 Sh '000
23 NON CURRENT ASSETS HELD FOR SALE		
At 1 January	28,098	40,032
Disposal	-	(11,934)
	<u>28,098</u>	<u>28,098</u>
At 31 December	<u>28,098</u>	<u>28,098</u>

The non current assets held for sale represent office blocks and land which the Corporation intends to sell within the next 12 months. The Corporation continues to actively market the remaining non current assets held for sale.

	2014 Sh '000	2013 Sh '000
24 MORTGAGE LOANS		
Commercial mortgages	608,127	634,541
Staff mortgages	217,754	202,327
	<u>825,881</u>	<u>836,868</u>
Less: impairment provision	(110,925)	(102,412)
	<u>714,956</u>	<u>734,456</u>
Maturity analysis		
Within 1 year	6,150	61
Within 1 to 5 years	212,358	8,174
Over 5 years	496,448	726,221
	<u>714,956</u>	<u>734,456</u>

The weighted average effective interest rate on the mortgages was 11.63% (2014 – 13.35%).

	Long term business 2014 Sh '000	Short term business 2014 Sh '000	Total 2014 Sh '000	Total 2013 Sh '000
25 RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS				
Local companies	186,055	930,007	1,116,062	1,186,188
International companies	-	2,280,319	2,280,319	2,123,139
	<u>186,055</u>	<u>3,210,326</u>	<u>3,396,381</u>	<u>3,309,327</u>
Less: impairment provision	-	(1,173,420)	(1,173,420)	(1,306,371)
	<u>186,055</u>	<u>2,036,906</u>	<u>2,222,961</u>	<u>2,002,956</u>

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2014 Sh '000	2013 Sh '000
26 PREMIUM AND LOSS RESERVES		
International companies	646,701	735,334
Local companies	42,403	48,215
Provision for impaired balances	(518,318)	(589,494)
	<u>170,786</u>	<u>194,055</u>

Premium and loss reserves relate to premiums retained by cedants as deposits for due performance of obligations by the reinsurers. Premiums retained are subsequently released to the reinsurer at the expiry of the policy period.

	2014 Sh '000	2013 Sh '000
27 OTHER RECEIVABLES		
Staff advances	41,206	45,062
Prepayments	593	1,105
Rental receivables	625	1,887
Dividends receivable	9,538	3,748
Due from the investment custodian	49,870	56,218
Other receivables	1,177	1,583
	<u>103,009</u>	<u>109,603</u>

28 CORPORATE BONDS

**Held to maturity**

Kenya Electricity Generating Company Limited (maturity: 9 November 2019)	30,295	37,451
Consolidated Bank of Kenya Limited (maturity: 30 July 2022)	105,679	104,395
NIC Bank (maturity: 5 September 2024)	207,898	-
Commercial bank of Kenya Ltd (maturity: 14 December 2020)	75,262	-
	<u>419,134</u>	<u>141,846</u>

The effective interest rate on the corporate bond at 31 December 2014 was 12.73% (2013 – 12.5 %)

29 QUOTED EQUITY INSTRUMENTS – AVAILABLE FOR SALE

	2014 Sh '000	2013 Sh '000
<i>At fair value</i>		
At 1 January	2,959,490	2,436,749
Fair value gain	364,123	732,270
Purchases during the year	306,895	158,320
Disposals during the year	(373,533)	(367,849)
	<u>3,256,975</u>	<u>2,959,490</u>

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 GOVERNMENT SECURITIES

	Long term business 2014 Sh '000	Short term business 2014 Sh '000	Total 2014 Sh '000	Total 2013 Sh '000
<b>Held to maturity</b>				
Maturing:				
- Within 3 months	-	-	-	185,636
- Within 4 to 12 months	-	153,150	153,150	637,270
- Within 1 to 5 years	-	320,433	320,433	416,664
- Over 5 years	1,559,241	5,679,577	7,238,818	6,454,384
At 31 December	<u>1,559,241</u>	<u>6,153,160</u>	<u>7,712,401</u>	<u>7,693,954</u>

Treasury bonds amounting to Sh 1,344,550,000 (2013 – Sh 1,263,850,000) are held under lien by the Commissioner of Insurance as required by the Kenyan Insurance Act. The weighted average effective interest rate on the government securities was 11.29% (2013 – 11.61%).

31 DEPOSITS WITH FINANCIAL INSTITUTIONS

**Held to maturity**

	Long term business 2014 Sh '000	Short term business 2014 Sh '000	Total 2014 Sh '000	Total 2013 Sh '000
Deposits maturing within 3 months	<u>2,985,854</u>	<u>3,521,390</u>	<u>6,507,244</u>	<u>4,217,002</u>

The weighted average effective interest rate on deposits with financial institutions was 7.33% (2013 – 7.35%).

32 SHARE CAPITAL

	2014 Sh '000	2013 Sh '000
<b>(i) Authorised: share capital</b>		
800,000,000 ordinary shares of Sh 2.50 each	<u>2,000,000</u>	<u>2,000,000</u>
	Number of shares	Share capital
		2014 Sh '000
		2013 Sh '000
<b>(ii) Issued and fully paid</b>		
At 31 December	<u>699,949,068</u>	<u>1,749,873</u>

33 RESERVES

**Revaluation reserve**

The revaluation reserve relates to property and equipment. The reserve is non-distributable.

The revaluation surplus represents the surplus on the revaluation of property and equipment, net of deferred tax. Movements in the revaluation reserve are shown in the statement of changes in equity.

# KENYA REINSURANCE CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 33 RESERVES (Continued)

#### Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

#### Translation reserve

The translation reserve relates to cumulative foreign exchange movement on the net investment in PTA Re, an associate company accounted for under the equity method.

#### Statutory reserve

The statutory reserve represents actuarial surpluses from the long term business whose distribution is subject to restrictions imposed by the Kenyan Insurance Act. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of the accumulated profits of the long term business.

#### Retained earnings

The retained earnings balance represents the amounts available for distribution to the shareholders of the Corporation, except for cumulative fair value gains on the Corporation's investment properties amounting to Sh 5,201,315,259 (2013: Sh 4,516,517,259) whose distribution is subject to restrictions imposed by legislation.

### 34 LONG TERM REINSURANCE LIABILITIES

The long term reinsurance liabilities, which comprise Ordinary Life Fund and Superannuation Fund, were established in respect of the Corporation's long-term business as required under Section 45 of the Kenyan Insurance Act. Income arising from the investment of the assets of the statutory funds is credited to and forms part of these funds. Transfers from the statutory funds to the profit or loss are done upon the recommendation of the Actuary. The latest actuarial valuation of the life fund was carried out by Alexander Forbes Financial Services (EA) Limited, consulting actuaries as at 31 December 2014 and according to the valuation, the fund had a surplus of Sh 3,681 million (2013 – Sh 3,096 million).

#### Reconciliation of statutory fund to the actuarial surplus

The actuarial surplus resulting from the actuarial valuation carried out by the Consulting Actuaries as at 31 December 2014 is summarised as follows:

	2014	2013
	Sh '000	(restated) Sh '000
Life fund	5,778,742	5,190,205
Less: actuarial value of policy holder liabilities	(2,097,681)	(2,094,357)
	<hr/>	<hr/>
Actuarial surplus	3,681,061	3,095,848
Less deferred tax liability (note 19)	(1,104,318)	(928,754)
	<hr/>	<hr/>
Statutory reserve	<u>2,576,743</u>	<u>2,167,094</u>

#### Valuation assumptions

The significant valuation assumptions for the actuarial valuation as at 31 December 2014 are summarised below. The same assumptions were used in 2013.

#### (i) Actuarial basis and method of valuation

The Corporation underwrites both treaty and mandatory cessions business. Compulsory cessions ordinary life business is written on a risk premium basis. Accordingly, this business can be viewed as a series of one year renewable term assurances reinsured on guaranteed risk premium rates and valued as such. Therefore, the actuarial reserves have been established as a proportion of gross annual premiums written. Each type or class of ordinary life business has been valued as a different percentage of annual office premiums written.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 LONG TERM REINSURANCE LIABILITIES (Continued)

(j) Actuarial basis and method of valuation (Continued)

The actuary has established actuarial reserves of 95% of the gross annual premiums written for all types of compulsory cessions ordinary life business at the valuation date.

Treaty business and Corporation life business actuarial reserves has been established to 95% of the annual premiums at the valuation date.

For supplementary benefits, the actuarial reserve has been established to equal to 100% of annual premiums at the valuation date.

In addition to establishing actuarial reserves for ordinary life business, Corporation life business and supplementary benefits additional actuarial reserves namely AIDS reserve, claims equalisation reserve and contingency reserve have been established.

(ii) Investment returns

The rate of return on the life fund assets in 2014 was 9.7% per annum (2013 – 13.4% per annum).

35 SHORT TERM INSURANCE CONTRACT LIABILITIES

	2014 Sh '000	2013 Sh '000
Short term insurance contract liabilities	4,518,138	3,702,715

The claims development for the above insurance liabilities is shown below:

**Claims Development**

Accident year	2010 Shs'000	2011 Shs'000	2012 Shs'000	2013 Shs'000	2014 Shs'000	Total Shs'000
Estimate of ultimate claims costs:						
At end of accident year	17,998,007	4,859,583	3,583,169	4,245,145	5,343,029	36,028,933
One year later	55,431	203,122	76,092	833,746	-	1,168,391
Two years later	29,271	36,563	212,500	-	-	278,334
Three years later	25,936	95,307	-	-	-	121,243
Four years onwards	87,718	-	-	-	-	87,718
Current estimate of cumulative claims	18,196,363	5,194,575	3,871,761	5,078,891	5,343,029	37,684,619
Less: cumulative payments to date	(17,998,007)	(4,859,583)	(3,583,169)	(4,245,145)	(2,480,577)	(33,166,481)
Total claims reported and claims handling expenses	198,356	334,992	288,592	833,746	2,862,452	4,518,138

Total gross claims liability included in the statement of financial position 4,518,138

36 UNEARNED PREMIUMS

	2014 Sh '000	2013 Sh '000
At 1 January	3,282,685	2,662,244
Increase in the year	728,192	620,441
At 31 December	4,010,877	3,282,685

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 PAYABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	Long term business 2014 Sh '000	Short term business 2014 Sh '000	Total 2014 Sh '000	Total 2013 Sh '000
Local companies	152,500	130,814	283,314	443,749
International companies	-	168,377	168,377	258,163
	<u>152,500</u>	<u>299,191</u>	<u>451,691</u>	<u>701,912</u>

38 RETIREMENT BENEFIT OBLIGATION

a) Defined benefit scheme

The Corporation operates a funded defined benefit plan for substantially all employees. Scheme members' contributions are a fixed percentage of pensionable pay with the Corporation responsible for the balance of the cost of benefits accruing. The Scheme is established under a trust. The Scheme funds are invested by the Corporation in a variety of asset classes comprising government securities, property and shares. The scheme was closed to new entrants effective 30 September 2011 and was converted to a defined contribution scheme with effect from 1 October 2011.

	2014 Sh '000	2013 Sh '000
The actuarial valuation results were as follows:		
Present value of funded obligations	(492,234)	(474,539)
Fair value of scheme assets	572,671	483,583
	<u>80,437</u>	<u>9,044</u>

**Movement in present value of funded obligation**

As at 1 January	474,539	441,693
Current service costs	4,741	3,767
Interest cost	56,431	55,064
Actuarial (gain)/loss	(16,278)	14,874
Benefits payment	(27,199)	(40,859)
	<u>492,234</u>	<u>474,539</u>

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

38 RETIREMENT BENEFIT OBLIGATION (Continued)

a) Defined benefit scheme (Continued)

	2014 Sh '000	2013 Sh '000
<b>Movement in fair value of assets</b>		
As at 1 January	483,583	417,964
Expected return on assets	59,777	54,635
Actuarial gain	14,910	10,243
Employer contributions	41,600	41,600
Benefit payments	(27,199)	(40,859)
	<hr/>	<hr/>
At 31 December	572,671	483,583
	<hr/> <hr/>	<hr/> <hr/>
<b>Movement in net assets</b>		
As at 1 January	9,044	(23,729)
Net expense recognised in profit or loss	(1,395)	(2,679)
Net credit/(charge) recognised in other comprehensive income	31,188	(6,148)
Employer contributions	41,600	41,600
	<hr/>	<hr/>
At 31 December	80,437	9,044
	<hr/> <hr/>	<hr/> <hr/>
<b>Amount recognised in profit or loss:</b>		
Current service cost net of employees' contributions	4,741	2,250
Interest on obligation	(3,346)	429
	<hr/>	<hr/>
Total included in "staff costs" in respect of scheme	1,395	2,679
	<hr/>	<hr/>
<b>Amount recognised in other comprehensive income:</b>		
Actuarial gains and losses	16,278	(14,874)
Return on plan assets	14,910	8,726
	<hr/>	<hr/>
Total credit/(charge) to other comprehensive income	31,188	(6,148)
	<hr/>	<hr/>
Actual return on plan assets	74,687	64,878
	<hr/> <hr/>	<hr/> <hr/>
	2014	2013
<b>Actuarial assumptions</b>		
Discount rate (% p.a.)	13.50%	12.18%
Expected return on Scheme assets (% p.a.)	10%	10%
Future salary increases (% p.a.)	5%	5%
Future pension increases (% p.a.)	3%	3%
	<hr/> <hr/>	<hr/> <hr/>

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

38 RETIREMENT BENEFIT OBLIGATION (Continued)

a) Defined Benefit Scheme (Continued)

<b>Historical information</b>	2014 Sh '000	2013 Sh '000	2012 Sh '000	2011 Sh '000
Fair value of plan assets	572,671	483,583	417,964	328,380
Present value of funded obligations	(492,234)	(474,539)	(441,693)	(418,741)
Net over/(under) funding in the scheme	80,437	9,044	(23,729)	(90,361)
Unrecognised actuarial gain	-	-	-	-
Defined benefit liability	<u>80,437</u>	<u>9,044</u>	<u>(23,729)</u>	<u>(90,361)</u>

b) Defined contribution scheme

The Corporation also makes contributions to a statutory provident fund, the National Social Security Fund (NSSF). Contributions are determined by local statute. For the year ended 31 December 2014, the Corporation contributed Sh 20,776,000 (2013 – Sh 20,398,878) to the defined contribution pension scheme and Sh 1,045,000 (2013 – Sh 239,800) for NSSF which has been charged to the profit or loss.

	2014 Sh '000	2013 Sh '000
39 OTHER PAYABLES		
Purchasers deposits	16,437	5,319
Legal fees deposits	15,462	15,864
Rental deposits	84,407	68,158
Accrued leave pay	24,523	20,863
Taxation arrears	36,683	139,733
Accounts payable	168,842	213,630
Pension liability payable	41,600	-
Other creditors and accruals	17,947	13,837
	<u>405,901</u>	<u>477,404</u>

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 NOTES TO THE STATEMENT OF CASH FLOWS

	2014 Sh '000	2013 Sh '000
<b>Profit before taxation</b>	<b>3,919,732</b>	<b>3,268,803</b>
Adjustment for:		
Depreciation (note 16)	33,139	23,019
Interest on corporate bonds	(25,658)	(18,425)
Interest on government securities	(866,800)	(843,826)
Amortisation of software (note 17)	1,525	3,407
Gain on disposal of available-for-sale quoted equity instruments	(12,895)	(73,611)
Gain on disposal of government securities	(56,400)	-
Profit on sale of non current asset held for sale	-	3,757
Fair value gain on investment properties (note 15)	(684,798)	(441,588)
Share of profit of associate (note 18)	(275,894)	(257,000)
	<hr/>	<hr/>
<b>Operating profit before working capital changes</b>	<b>2,031,951</b>	<b>1,664,536</b>
<b>Working capital changes:</b>		
Mortgage loans	19,500	(212,917)
Receivables arising out of reinsurance arrangements	(220,005)	(484,454)
Premium and loss reserves	23,269	96,123
Other receivables	6,594	(53,133)
Deferred acquisition costs	(187,433)	(199,661)
Long term reinsurance contract liabilities	3,324	21,325
Short term reinsurance contract liabilities	815,423	652,724
Unearned premiums	728,192	620,441
Payables arising out of reinsurance arrangements	(250,221)	(7,533)
Defined benefit liability	(71,393)	(32,773)
Other payables	(71,503)	58,165
Purchase of Government securities	(1,228,541)	(2,719,420)
Proceeds on maturity of Government securities	783,094	389,950
Proceeds on disposal of government securities	427,000	-
Purchase of quoted equity instruments (note 29)	(306,895)	(158,320)
Proceeds on sale of quoted equity instruments	373,533	367,710
Impairment charge on unquoted equity instruments	-	30,006
Proceeds on redemption of corporate bond	5,925	11,850
Proceeds on disposal of non current asset held for sale	-	15,691
Purchase of corporate bond	(279,288)	-
Purchase of unquoted equity instrument	(107,148)	-
	<hr/>	<hr/>
<b>Net cash generated from operations</b>	<b>2,495,378</b>	<b>60,310</b>

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 CASH AND CASH EQUIVALENTS

	2014 Sh '000	2013 Sh '000
Deposits with financial institutions maturing within 3 months	6,507,244	4,217,002
Cash and bank balances	224,776	198,831
	<u>6,732,020</u>	<u>4,415,833</u>

42 RELATED PARTIES

The Corporation has various related parties, primarily by virtue of being shareholders and common directorships. The other related parties include the staff of the Corporation. The following transactions were carried out with related parties:

	2014 Sh '000	2013 Sh '000
a) Transactions and balances with directors and staff		
(i) Directors' remuneration		
Fees	6,004	4,476
Other emoluments	12,807	12,315
	<u>18,811</u>	<u>16,791</u>
(ii) Key management remuneration		
Salaries and other short term benefits	41,474	55,066
	<u>41,474</u>	<u>55,066</u>
(iii) Loans to staff	257,406	245,653
	<u>257,406</u>	<u>245,653</u>

Interest income on these loans was Sh 10,457,904 (2013 – Sh 10,044,951). The effective interest on the loans is 5 % (2013 – 5%). Staff mortgages and car loans are secured by way of charging the related property to the Corporation.

	2014 Sh'000	2013 Sh'000
(iv) Loans to directors		
Included in commercial mortgages (note 24)	2,406	3,486
	<u>2,406</u>	<u>3,486</u>

Interest earned on these loans was Sh 146,800 (2013 – Sh 278,730). The effective interest rate on the loans is 5% (2013 - 5%). Loans to directors are secured by mortgages on the property purchased.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

42 RELATED PARTIES (Continued)

	2014 Sh '000	2013 Sh '000
b) Transaction with associate company, ZEP Re		
(i) Net premium written	68,190	189,585
(ii) Claims incurred	42,088	58,916

Reinsurance policies taken out by related parties are in the ordinary course of business at terms and conditions similar to those offered to other clients.

(iii) Outstanding balances with related parties in respect of underwriting business:

	2014 Sh '000	2013 Sh '000
Amounts due from related parties	-	79,965
Amounts due to related parties	6,397	27,963

43 CONTINGENT LIABILITIES

(a) The corporation underwent a taxation review by the Kenya Revenue Authority (KRA). The following were the tax amounts due, based on the final assessment report:

	Principal Sh '000	Interest Sh '000	Penalty Sh '000	Total Sh '000
Corporation tax	78,371	58,212	13,538	150,121
VAT	57,444	36,386	-	93,830
Withholding tax	4,266	3,839	426	8,531
PAYE	3,023	2,597	605	6,225
	<u>143,104</u>	<u>101,034</u>	<u>14,569</u>	<u>258,707</u>

Out of the total assessment of Sh 258 million, management made payments of Sh 103 million in the year (2013: Sh 103 million). The remaining amount of Sh 53 million is the subject of ongoing discussions with the KRA to establish KRA's basis for the assessment. A provision of Sh 37 million has been made in these financial statements relating to the outstanding assessment.

(b) The Kenya Revenue Authority made a preliminary assessment relating to withholding tax on commissions (cedant acquisition costs) and brokerage fees as indicated below:

	Principal Sh '000	Interest Sh '000	Penalty Sh '000	Total Sh '000
Withholding tax	687,015	205,934	67,701	960,650

The amount is the subject of ongoing discussions with the KRA to establish KRA's basis for the assessment. Management are of the opinion that this will not be payable and as a result, no provision has been made in these financial statements.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

44 PRIOR YEAR ADJUSTMENTS

The prior year adjustment relates to the recognition of unrecognised deferred tax liabilities on the life fund actuarial surplus in line with the requirements of IAS 12 on Income Taxes.

a) Restatement of Audited Statement of Comprehensive Income for the year ended 31 December 2012

	As previously reported Shs'000	Prior year adjustment Shs'000	Restated Shs'000
Deferred tax on life fund actuarial surplus	-	720,789	720,789

b) Restatement of Audited Statement of Comprehensive Income for the year ended 31 December 2013

	As previously reported Shs'000	Prior year adjustment Shs'000	Restated Shs'000
Deferred tax on life fund actuarial surplus	-	207,965	207,965

c) Restatement of Audited Statement of Financial position

Equity & Liabilities	As previously reported Shs'000	Prior year adjustment Shs'000	Restated Shs'000
<b>As at 1 January 2012</b>			
Defined tax liability	-	(720,789)	(720,789)
Statutory reserve	(2,402,630)	720,789	(1,681,841)
<b>As at 1 January 2013</b>			
Defined tax liability	-	(928,754)	(928,754)
Statutory reserve	(3,095,848)	928,754	(2,167,094)

45 CONSOLIDATION OF SUBSIDIARY

The company incorporated a new subsidiary in Ivory Coast, Kenya Reinsurance Corporation Limited Cote d'Ivoire, on 1 October 2014. The new subsidiary did not transact any business in the current year and all the business carried out in Ivory Coast has been accounted for in Kenya Reinsurance Corporation Limited's books. Effective 1 January 2015, all the Corporation's business in Ivory Coast will be accounted for in the books of the new subsidiary and the subsidiary will be consolidated going forward.

46 INCORPORATION

The Corporation is incorporated and domiciled in Kenya under the Companies Act. The Government of Kenya owns 60% of the Corporation while the public owns 40%.

47 CURRENCY

The financial statements are presented in thousands of Kenya shillings (Sh'000).

## KENYA REINSURANCE CORPORATION LIMITED

## SHORT TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2014

	Aviation		Engineering		Fire		Fire		Liability		Marine		Motor		Motor		Personal		Theft		Workmen		Medical		Misc.		Total 2014		2013		
	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Sh '000	Sh '000	
Gross premium	19,613	682,628	4,455	3,551,089	105,304	606,040	39,997	459,616	1,803,292	608,470	1,631	1,709,886	868,128	10,460,149	8,555,292																
Unearned premiums b/f	4,061	258,441	1,787	1,110,143	48,340	263,473	6,084	178,877	319,734	252,862	519	579,943	258,421	3,282,685	2,662,244																
Unearned premiums c/f	7,845	273,051	1,782	1,280,083	42,122	231,708	15,999	183,846	721,317	243,388	652	683,955	325,129	4,010,877	3,282,685																
Movement in unearned premium	(3,784)	(14,610)	5	(169,940)	6,218	31,765	(9,915)	(4,969)	(401,583)	9,474	(133)	(104,012)	(66,708)	(728,192)	(620,442)																
Earned premiums	15,829	668,018	4,460	3,381,149	111,522	637,805	30,082	454,647	1,401,709	617,944	1,498	1,605,874	801,420	9,731,957	7,934,850																
Less: Retrocession premiums	-	-	-	350,881	-	26,770	-	-	-	-	-	-	-	-	348,579																
Net earned premiums	15,829	668,018	4,460	3,030,268	111,522	611,035	30,082	454,647	1,401,709	617,944	1,498	1,605,874	746,116	9,299,002	7,586,271																
Claims paid	14,165	201,777	351	1,547,717	18,075	215,347	6,460	215,242	1,005,029	282,822	15	1,363,996	267,710	5,138,706	4,152,234																
Claims recoverable	-	-	-	(409,052)	-	-	-	-	-	-	-	-	-	(409,052)	(498,482)																
Claims reserves - beg. of year	(7,633)	(186,590)	(785)	(1,380,445)	(44,294)	(226,012)	(11,689)	(366,795)	(412,349)	(243,537)	(3,058)	(629,102)	(190,426)	(3,702,715)	(3,049,990)																
- end of year	17,601	281,772	1,533	1,484,416	22,277	374,704	22,982	478,715	632,229	463,545	4,654	611,257	122,454	4,518,139	3,702,715																
Net claims incurred	24,133	296,959	1,099	1,242,636	(3,942)	364,039	17,753	327,162	1,224,909	502,830	1,611	1,346,151	199,738	5,545,078	4,306,477																
Cedant acquisition costs	3,667	220,857	1,086	975,254	28,479	180,169	292	55,600	396,516	209,526	330	387,694	224,202	2,683,672	2,202,696																
Acquisition cost recoveries	-	-	-	-	-	-	-	-	-	-	-	-	-	(475)	(309)																
Provision for bad debts	92	3,215	21	16,726	496	2,854	188	2,165	8,493	2,866	8	8,054	4,089	49,267	160,904																
Management expenses	1,710	59,524	388	309,649	9,182	52,846	3,488	40,078	157,244	53,058	142	149,099	75,699	912,107	813,949																
Total expenses Underwriting profit/(loss)	5,469	283,596	1,495	1,301,629	38,157	235,869	3,968	97,843	562,253	265,450	480	544,847	303,515	3,644,571	3,177,240																
	(13,773)	87,463	1,866	486,003	77,307	11,127	8,361	29,642	(385,453)	(150,336)	(593)	(285,124)	242,863	109,353	102,554																

This short term business revenue account was approved by the Board of Directors on 20th March 2015 and was signed on its behalf by

  
Director

  
Principal Officer

Director


KENYA REINSURANCE CORPORATION LIMITED


Appendix II


LONG TERM BUSINESS REVENUE ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2014

	Ordinary Sh '000	Super Annuation Sh '000	2014 Sh '000	2013 Sh '000
Gross earned premiums	107,885	1,002,056	1,109,941	1,089,859
Less: Retrocession premiums	(9,554)	(85,981)	(95,535)	(94,300)
Net earned premium	98,331	916,075	1,014,406	995,559
Net claims incurred	2,711	406,427	409,138	395,368
Change in actuarial liability	(146,631)	149,955	3,324	21,325
Net cedant acquisition costs	50,798	257,767	308,565	264,607
Management expenses	18,055	162,493	180,548	200,819
	(75,067)	976,642	901,575	882,119
Underwriting surplus	173,398	(60,567)	112,831	133,440
Fair value gains	6,995	46,813	53,808	86,242
Investment income	59,249	396,511	455,760	520,711
Increase in life funds	239,642	382,757	622,399	720,393

The long term business revenue account was approved by the board of directors on 28th March 2015 and was signed on its behalf by:

  
Principal Officer

  
Director

  
Director