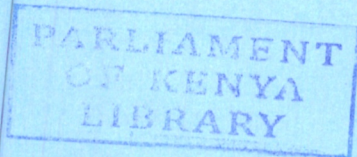


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR- GENERAL

PAPER LAID  
BY THE LEADER  
OF THE MAJORITY  
PARTY ON  
16/05/2017  
IBM



**REPORT**

**OF**

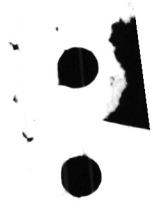
**THE AUDITOR-GENERAL**

**ON**

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

**FOR THE YEAR ENDED  
30 JUNE 2016**







KENYA REINSURANCE CORPORATION LIMITED

ANNUAL REPORT  
AND  
GROUP FINANCIAL STATEMENTS

31 DECEMBER 2016

KENYA REINSURANCE CORPORATION LIMITED  
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

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KENYA REINSURANCE CORPORATION LIMITED  
GROUP INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2016

DIRECTORS

David Kemei - Chairman  
Jadhah Mwarania - Managing Director  
Henry Rotich - Cabinet Secretary, National Treasury

Chiboli Shakaba

Everest Lenjo

Felix Okatch

Maina Mukoma

Jennifer Karina

Felista Ngatuny

Anthony Munyao - Elected on 17 June 2016

Zipporah Mogaka - Elected on 17 June 2016

Dr. Lumbi M'Nabea - Retired on 17 June 2016

Priscilla Mwangi - Retired on 17 June 2016

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

SUBSIDIARIES

Kenya Reinsurance Corporation Côte d'Ivoire

Imm. Verdier, Porte A13

Abidjan-Plateau Côte d'Ivoire

01 Bp 7539 Abidjan 01, Côte d'Ivoire

Kenya Reinsurance Corporation Zambia Limited

D.G Office Park, No. 1 Chila Road,

Kabulonga, Lusaka.

P.O. Box 30578 10101, Zambia.

AUDITORS

Auditor General

Kenya National Audit Office

P O Box 30084 - 00100 GPO

Nairobi, Kenya

CONSULTING ACTUARIES

Alexander Forbes Financial Services (East Africa) Limited

10th Floor, Landmark Plaza

Argwings Kodhek Road

P O Box 52439 - 00200 City Square

Nairobi, Kenya

Actuarial Services (East Africa) Limited

10th 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

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

4th 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 2016

The directors submit their report together with the audited financial statements for the year ended 31 December 2016. In accordance with Section 42 of the Sixth Schedule, Transitional and Saving Provisions, of the Kenyan Companies Act, 2015, this report has been prepared in accordance with Section 157 of the repealed Companies Act, as if that repeal had not taken effect.

1. BACKGROUND INFORMATION

The Kenya Reinsurance Corporation Limited is a public limited liability company reconstituted through an Act of Parliament in 1997. It was established through an Act of Parliament in December 1970 and commenced business in January 1971 as Kenya Reinsurance Corporation. The Government of Kenya owns 60% of the company while the public owns 40%.

It has two fully owned subsidiaries; Kenya Reinsurance Corporation, Cote d'Ivoire, which was incorporated on 19 September 2014 and Kenya Reinsurance Corporation Zambia Limited, which was incorporated on 26 November 2015. Kenya Reinsurance Corporation, Cote d'Ivoire, operated as a full subsidiary starting in 2015, while, the Zambian subsidiary started operating in 2016.

2. PRINCIPAL ACTIVITIES

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

3. RESULTS

|  | GROUP            |                  | COMPANY          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016             | 2015             | 2016             | 2015             |
|  | KShs '000        | KShs '000        | KShs '000        | KShs '000        |
| Profit before tax                                    | 4,218,086        | 4,514,136        | 4,309,404        | 4,390,705        |
| Tax charge   | (930,802)        | (959,886)        | (930,802)        | (957,086)        |
| Profit for the year transferred to retained earnings | <u>3,287,284</u> | <u>3,554,250</u> | <u>3,378,602</u> | <u>3,433,619</u> |

4. DIVIDENDS

The directors recommend the payment of a first and final dividend of KShs 0.80 (2015: KShs 0.75) per share totalling to KShs 560 million for the year ended 31 December 2016 (2015: KShs 525 million).

5. DIRECTORS

The present membership of the Board is set out on page 1.

In accordance with Article 110 of the Company's Articles of Association Mr. David Kemei, Mr. Maina Mukoma and Mr. Chiboli Shakaba retire by rotation as Directors and, being eligible, offer themselves for re-election at the Annual General Meeting to be held on 16 June 2017.

6. SECRETARY

The Company's Secretary is Mr Charles Kariuki.

7. AUDITORS

The Auditor General is responsible for the statutory audit of the Company's books of account in accordance with Section 48 of the Public Audit Act, 2015. Section 23 of the Act empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Ernst & Young LLP, were appointed by the Auditor General, to carry out the audit for the year ended 31 December 2016.

BY ORDER OF THE BOARD

Secretary

Nairobi

30th March 2017

KENYA REINSURANCE CORPORATION LIMITED  
STATEMENT ON CORPORATE GOVERNANCE  
FOR THE YEAR ENDED 31 DECEMBER 2016

Corporate governance is the process and structure by which companies are directed, controlled and held accountable in order to achieve long term value to shareholders taking cognisance of the interest of other stakeholders.

The Board of Directors of Kenya Reinsurance Corporation Limited is responsible for the governance of the Company and is accountable to the shareholders and stakeholders in ensuring that the Company complies with the laws and the highest standards of business ethics and corporate governance. Accordingly the Board attaches very high importance to the generally accepted corporate governance practices and has embraced the internationally developed principles and code of best practice of good corporate governance.

#### Board of Directors

The roles and functions of the Chairman and the Managing Director are distinct and their respective responsibilities clearly defined within the Company. The Board comprises of eleven (11) directors ten (10) of whom are non-executive directors including the Chairman. The Board defines the Company's strategies, objectives and values and ensures that procedures and practices are set in place to ensure effective control over strategic, financial, operational and compliance issues. The directors bring a wealth of experience and knowledge to the Board's deliberations. Except for direction and guidance on general policy, the Board delegates authority of its day-to-day business to the Management through the Managing Director. The Board nonetheless is responsible for the stewardship of the Company and assumes responsibilities for the effective control over the Company. The Company Secretary attends all meetings of the Board and advises the Board on all corporate governance matters as well as prevailing statutory requirements.

#### Board Meetings

The Board holds meetings on a regular basis while special meetings are called when it is deemed necessary to do so. The Board held five (5) regular and sixteen (16) special meetings during the year under review. As the Company is a State Corporation, the Inspector General of State Corporations from time to time attends meetings of the Board and Board Committees for oversight and advisory purposes in accordance with the State Corporations Act.

#### Committees of the Board

The Board has set up the following principal Committees which meet under well defined terms of reference set by the Board. This is intended to facilitate efficient decision making of the Board in discharging its duties and responsibilities.

#### Audit Committee

The membership of the Audit Committee is comprised as follows:

- |                  |  |
|------------------|--|
| Anthony Munyao   | - Chairman                             |
| Protus Sigei     | - (Alternate to CS, National Treasury) |
| Everest Lenjo    |  |
| Felistas Ngatuny |  |
| Chiboli Shakaba  |  |

Committees of the Board (Continued)

Audit Committee (continued)

The Committee assists the Board in fulfilling its corporate governance responsibilities and in particular to:

- Review financial statements before submission to the Board focusing on changes in accounting policies, compliance with International Financial Reporting Standards and legal requirements.
- Strengthen the effectiveness of the internal audit function.
- Maintain oversight on internal control systems.
- Increase the shareholders' confidence in the credibility and standing of the Company.
- Review and make recommendations regarding the Company's budgets, financial plans and risk management.
- Liaise with the external auditors.

The Committee held four (4) regular meetings and five (5) special meetings in the year under review.

Risk & Compliance Committee

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

Maina Mukoma - Chairman  
Felix Okatch  
Everest Lenjo  
Anthony Munyao  
Jadiah Mwarania

The responsibilities of this Committee include:

- Provision of general oversight in risk and compliance matters in the Company.
- Ensuring quality, integrity, effectiveness and reliability of the Company's risk management framework.
- Setting out the nature, role, responsibility and authority of the risk management and the compliance function of the Company.
- 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 Company is exposed to from time to time.

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

Human Resources Committee

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

Felistas Ngatuny - Chairman  
Jennifer Karina  
Zipporah Mogaka  
Protus Sigei - Alternate to CS, National Treasury  
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 nine (9) special meetings in the year under review.

KENYA REINSURANCE CORPORATION LIMITED  
STATEMENT ON CORPORATE GOVERNANCE (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

Committees of the Board (continued)

Finance and Strategy Committee

The membership of the Finance and Strategy Committee is comprised as follows:

|                 |            |
|-----------------|------------|
| Zipporah Mogaka | - Chairman |
| Maina Mukoma    |            |
| Jennifer Karina |            |
| Felix Okatch    |            |
| Jadiah Mwarania |            |

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

The Committee held four (4) regular and one (1) special meetings in the year under review.

Risk Management and Internal Controls

The Company 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 Company. 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 Company. 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 Company to achieve its objectives both in the short and long term.

Creating Shareholders' Value

In order to assure the shareholders of the Company'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 2016 are disclosed in the notes to the financial statements under note 43. 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 Company's shares. There were no loans advanced to directors during the financial year.

KENYA REINSURANCE CORPORATION LIMITED  
STATEMENT ON CORPORATE GOVERNANCE (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

Directors' interests as at 31 December 2016:

|                                | Number<br>of shares | %<br>Shareholding |
|--------------------------------|---------------------|-------------------|
| The National Treasury of Kenya | 420,000,000         | 60                |
| Jadhah Mwarania                | 100,000             | -                 |
| Chiboli Shakaba                | 117,205             | -                 |
| Jennifer Kabura Karina         | 55,889              | -                 |
| Felix Okatch                   | 2,000               | -                 |
| Maina Mukoma                   | 1,681               | -                 |
| David Kibet Kemei              | <u>1,063</u>        | <u>-</u>          |
|                                | <u>420,277,838</u>  | <u>60</u>         |

|   | Number<br>of shares | %<br>Shareholding |
|---|---------------------|-------------------|
| Major Shareholders                              |                     |                   |
| The National Treasury of Kenya                  | 420,000,000         | 60.00             |
| CFC Stanbic Nominees Ltd                        | 28,447,800          | 4.06              |
| CFC Stanbic Nominees Ltd A/C NR 1031141         | 16,716,800          | 2.39              |
| CFC Stanbic Nominees Ltd A/C NR 1031144         | 11,383,200          | 1.63              |
| Standard Chartered Nominees Ltd A/C KE22446     | 8,390,302           | 1.20              |
| Investments & Mortgages Nominees Ltd A/C O28950 | 7,660,988           | 1.09              |
| Co-op Bank Custody A/C 4003A                    | 6,949,372           | 0.99              |
| Kenya Commercial Bank Nominees Ltd A/C 915B     | 6,917,811           | 0.99              |
| Kenya Commercial Bank Nominees Ltd A/C 915A     | 6,796,943           | 0.97              |
| Standard Chartered Nominees Ltd A/C KE002382    | <u>6,720,500</u>    | <u>0.96</u>       |
|   | <u>519,983,716</u>  | <u>74.29</u>      |

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

| Shares Range        | Shareholders   | Number of Shares   | % Shareholding |
|---------------------|----------------|--------------------|----------------|
| 1 - 500             | 74,133         | 15,976,902         | 2.28           |
| 501 - 1,000         | 15,039         | 10,527,428         | 1.50           |
| 1,001 - 5,000       | 12,329         | 23,503,032         | 3.36           |
| 5,001 - 10,000      | 1,155          | 8,022,370          | 1.15           |
| 10,001 - 50,000     | 926            | 18,119,010         | 2.59           |
| 50,001 - 100,000    | 91             | 6,324,763          | 0.90           |
| 100,001 - 500,000   | 121            | 24,447,088         | 3              |
| 500,001 - 1,000,000 | 31             | 21,323,968         | 3.05           |
| 1,000,001 & above   | <u>33</u>      | <u>571,704,507</u> | <u>81.68</u>   |
|                     | <u>103,858</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    | 97,570         | 84,102,147         | 12.01          |
| Local Institutional Investors | 5,753          | 509,254,988        | 72.76          |
| Foreign Investors             | <u>535</u>     | <u>106,591,933</u> | <u>15.23</u>   |
|                               | <u>103,858</u> | <u>699,949,068</u> | <u>100.00</u>  |

Director

*30<sup>th</sup> March* 2017

Director

KENYA REINSURANCE CORPORATION LIMITED  
STATEMENT OF DIRECTORS' RESPONSIBILITIES  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

The Kenyan Companies Act, 2015, requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Group and the Company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.


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

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

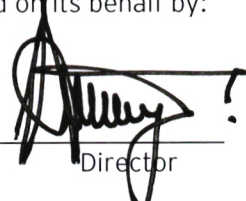
Having made an assessment of the Group's and the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

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

Approved by the board of directors on 30<sup>th</sup> March ..... 2017 and signed on its behalf by:

  
Principal Officer

  
Director

  
Director

KENYA REINSURANCE CORPORATION LIMITED  
REPORT OF THE CONSULTING ACTUARY  
FOR THE YEAR ENDED 31 DECEMBER 2016

I have conducted an actuarial valuation of the long term business of Kenya Reinsurance Corporation Limited as at 31 December 2016.

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 Company.

In my opinion, the long term business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of long term insurance business did not exceed the amount of funds of the long term business as at 31 December 2016.

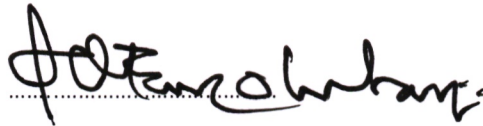
Name of Actuary

JAMES. I. O. OLUBATI

Qualification

FELLOW OF THE INSTITUTE AND FACULTY OF ACTUARIES

Signed



23 MARCH .....2017

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA REINSURANCE CORPORATION LIMITED FOR THE YEAR ENDED 31 DECEMBER 2016

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#### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

##### Opinion

The accompanying financial statements of Kenya Reinsurance Corporation Limited set out on pages 15 to 92, which comprise the consolidated and company statement of financial position as at 31 December 2016, and the consolidated and company statement of profit or loss and other comprehensive income, consolidated and company statement of changes in equity and consolidated and company 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 Ernst and Young LLP auditors appointed under Section 23 of the Public Audit Act, 2015 and in accordance with the provisions of Article 229 of the Constitution of Kenya. 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.

In my opinion, the consolidated and company's financial statements present fairly, in all material respects the financial position of Kenya Reinsurance Corporation Limited as at 31 December 2016, and of its consolidated and company's financial performance and its consolidated and company's cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

##### Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of my report. I am independent of the Group and the Company in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Emphasis of Matter

I draw attention to Note 44 of the financial statements, which describes a contingent liability in relation to tax assessment by Kenya Revenue Authority (KRA). The group is currently involved in a tax claim dispute with KRA, arising from KRA's demand of Kshs.1,272,488,000 relating to withholding tax on cedant acquisition costs and brokerage fees. The outcome of the tax claim is uncertain. However, the company has continued to hold discussions with KRA in an attempt to resolve the matter in contention with the assistance of its professional advisers. My opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the consolidated and separate financial statements of the current year. These matters were addressed in the context of the audit of the consolidated and separate financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

| No. | Key Audit Matter  | How the audit addressed the key audit matter  |
|-----|---|---|
| 1.  | Credit risk and impairment of reinsurance receivables balances  |   |
|     | Impairment of receivables is a highly subjective area due to the significant judgment and assumptions applied by management. The estimation of impaired receivables is made based on review of outstanding amounts at year-end. The losses arising from impairment are recognized in the statement of profit or loss while debts are written off after all efforts of recovery have been exhausted. | <ul style="list-style-type: none"><li>• The audit procedures included the testing and evaluation of controls over the underwriting process, recording and ageing of outstanding reinsurance receivables, and monitoring of the receivables by the group's credit control department.</li><li>• The adequacy of the allowance for doubtful accounts, including the appropriateness of the methodology used and</li></ul> |

| No. | Key Audit Matter   | How the audit addressed the key audit matter  |
|-----|--|---|
|     | <p>As disclosed in note 24 to these financial statements, judgement is applied in determining the appropriate parameters and assumptions used to calculate impairment of the receivables. For example, the assumptions of customers that will default, the expected future cash flows from the customers and the timing of the cash flows.</p> <p>Due to the significance of the reinsurance receivables balances of Kshs. 3,582,067,000, and the significant judgement involved in calculating impairment, particularly regarding the estimation of the expected future cash collections, this was considered a key audit matter.</p>   | <p>assumptions made to calculate the allowance was evaluated.</p> <ul style="list-style-type: none"> <li>• Testing was performed, on a sample basis, on whether the group's assumptions on the expected future cash flows and timing of the cash flows were supported.</li> <li>• The audit also assessed whether the financial statement disclosures made, appropriately reflect the Group's credit risk and impairment provision on the receivables.</li> </ul>   |
| 2.  | Reinsurance Contract Liabilities   |   |
|     | <p>Under IFRS 4, management is required to estimate the amount of re-insurance contract liabilities and provide for possible current claims and periodically make assessment for the adequacy of these liabilities. The valuation of the Group's reinsurance contracts is dependent on a number of subjective assumptions about future experience as disclosed in notes 35 and 36 to the financial statements. Some of the economic and non-economic actuarial assumptions used in valuing insurance contracts are judgemental, in particular persistency (the retention of policies over time), longevity (the expectation of how long an annuity policyholder will live and how that might change over time), expenses (future expenses incurred to maintain existing policies to maturity).</p> | <ul style="list-style-type: none"> <li>• The key controls around the processes for analysing the economic and noneconomic assumptions used in the valuation of the reinsurance contract liabilities were tested.</li> <li>• Using internal actuarial specialists, the appropriateness of management's liability adequacy testing was assessed. This is a key test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. The work on the liability adequacy tests included reviewing the assumptions adopted in the context of both the Group and industry experience and specific product features.</li> </ul> |

| No. | Key Audit Matter  | How the audit addressed the key audit matter  |
|-----|---|---|
|     | <p>The Group uses external actuaries to value both the life and non –life liabilities.</p> <p>This matter was considered significant to the audit because of the sensitivity of the valuation of the reinsurance contract liabilities to changes in the key assumptions.</p> <p>I also considered there to be a risk that the disclosures in Notes 34 and 35 to the financial statements which are significant to the understanding of the Group’s insurance contracts liabilities are not complete.</p>  | <ul style="list-style-type: none"> <li>• Recent experience and the appropriateness of the judgements applied by management on how future experience will evolve was also considered.</li> <li>• The adequacy of the disclosures regarding the reinsurance contract liabilities in the financial statements to determine that they were in accordance with IFRS was assessed.</li> </ul>   |
| 3.  | Revenue Recognition - Premiums income and un-earned premium reserves  |   |
|     | <p>The Group’s business involves underwriting policies with tenure that does not align with the reporting period. The Group has estimated unearned premium reserves of Kshs. 4,513,703,000 (Note 39 to the financial statements) at 40% of the written premiums to defer premium income written but not earned during the reporting period. I considered this to be a key audit matter since the Group’s financial results are significantly sensitive to changes in this judgement by the directors.</p> <p>I also considered there to be a risk that revenue is inappropriately reported to achieve desired financial results. I assessed that the opportunity to manipulate revenue creates a heightened risk where premiums are recorded in the improper period by not observing proper cut off procedures.</p> | <p>The audit approach included controls testing and substantive procedures covering, in particular:</p> <ul style="list-style-type: none"> <li>• Testing the controls over the underwriting process.</li> <li>• Performing an analysis of premiums income and unearned premiums based on our industry knowledge and forming an expectation of revenue based on key performance indicators taking into account changes in the Group’s business.</li> <li>• Reviewing supporting documentation for premium income on a sample basis.</li> <li>• Checking that the revenue adjustments after year-end were supported and processed in the correct period.</li> </ul> |

| No. | Key Audit Matter  | How the audit addressed the key audit matter  |
|-----|---|---|
|     |   | <ul style="list-style-type: none"> <li>• Involving internal actuarial specialists in checking whether the assumptions used to determine the un-earned premium reserves were supported.</li> </ul>   |
| 4.  | Valuation of investment property  |   |
|     | <p>As at 31 December 2016, and as disclosed in Note 18 to the financial statements, the carrying amount of the Group's investment property was KShs. 8,903,000,000 which includes fair value gain of Kshs. 813,513,000.</p> <p>The investment property is carried in the books using the revaluation model in accordance with the International Accounting Standard (IAS) 40 <i>Investment Property</i>. The Group's policy is to revalue the investment property annually using an external valuer. The basis adopted in the valuation of investment property was open market value assessed using the investment, cost and market comparison analysis methods.</p> <p>Given that the fair value of investment property involves significant estimation and assumptions (such as future rent rates, expected maintenance), and the importance of the disclosures relating to the assumptions used in the valuation (Note 3(ii)) I considered this as a key audit matter.</p> | <p>The following audit procedures were performed in response to this matter:</p> <ul style="list-style-type: none"> <li>• Evaluated the objectivity and independence of the external valuer.</li> <li>• Assessed whether the underlying assumptions applied in the determination of the fair value were justifiable in the context of the industry and nature of the investment property.</li> <li>• Assessed whether the valuation methodologies and assumptions adopted in determining the fair values of the investment property were in accordance with IFRS.</li> <li>• Evaluated whether the determined fair values were in line with the market values for similar property in similar locations.</li> <li>• Assessed the adequacy of the Group's disclosures in respect of the assumptions used in valuation</li> </ul> |

| No. | Key Audit Matter  | How the audit addressed the key audit matter  |
|-----|---|---|
|     |   | as set out in Note 3(ii) to the financial statements.   |
| 5.  | <b>Accounting for tax positions</b>   |   |
|     | <p>Tax positions were significant to the audit because the assessment process involves judgement in the interpretation and application of tax laws and in assessing tax liabilities and contingencies that could arise from tax audits. In addition, the Group operates in different countries, all with different tax regimes and is therefore open to tax assessments from multiple tax authorities.</p> <p>Determination of provisions and contingent liabilities for income tax and indirect taxes requires the directors to make judgements and estimates in relation to the income tax computations and exposures arising from open tax assessments. As disclosed in Note 44 to the financial statements, the Group has open tax assessments and the determination of provisions and contingent liabilities arising from the open tax assessments make this a particular area of significant judgement.</p> <p>I also considered there to be a risk that the income tax disclosures in notes 11 and 37 which are significant to the understanding of the Group's tax position are not complete.</p> | <ul style="list-style-type: none"> <li>• The audit procedures included understanding the Group's processes for the recording and re-assessment of tax provisions and contingent liabilities.</li> <li>• The audit team included tax specialists to analyse the tax positions and to evaluate the assumptions used to determine tax positions.</li> <li>• Audit procedures were performed on the completeness and accuracy of the amounts recognized as current and deferred tax, including the assessment of the correspondence with tax authorities, reports of the lawyers involved in the current open tax assessment and evaluation of tax exposures.</li> <li>• Assessment of the adequacy of the Group's disclosures in respect of income tax was performed.</li> </ul> |

### Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the

requirements of the Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's and Company's financial reporting process.

The Directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Group and / or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements.

I communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

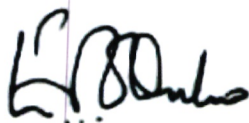
I also provide the Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with the Directors, I determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

#### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015 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, adequate accounting records have been kept by the Group and Company, so far as appears from the examination of those books; and
- (iii) The Group and Company's financial statements are in agreement with the accounting records.



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

**30 March 2017**

KENYA REINSURANCE CORPORATION LIMITED  
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016

|  | Notes | Long term<br>business<br>2016<br>KShs '000 | Short term<br>Business<br>2016<br>KShs '000 | Total<br>2016<br>KShs '000 | Total<br>2015<br>KShs '000 |
|--|-------|--|---|----------------------------|----------------------------|
| <b>INCOME</b>  |       |  |   |                            |                            |
| Gross premiums written   |       | 1,481,941                                  | 11,762,650                                  | 13,244,591                 | 13,060,341                 |
| Less: change in unearned premiums  | 39    | -  | 46,891                                      | 46,891                     | (549,717)                  |
| Less: retrocession premiums  |       | (126,330)                                  | (478,392)                                   | (604,722)                  | (494,546)                  |
| <b>NET EARNED PREMIUMS</b>   | 6     | <b>1,355,611</b>                           | <b>11,331,149</b>                           | <b>12,686,760</b>          | <b>12,016,078</b>          |
| Investment income  | 7     | 518,327                                    | 2,560,971                                   | 3,079,298                  | 3,041,138                  |
| Acquisition cost recoveries  |       | 36,136                                     | 51  | 36,187                     | 40,490                     |
| Fair value gains on revaluation of investment properties   | 18    | 160,496                                    | 653,017                                     | 813,513                    | 729,599                    |
| Other income   | 8     | -  | 54,321                                      | 54,321                     | 248,094                    |
| Share of associates profits  | 19    | -  | 361,159                                     | 361,159                    | 335,727                    |
| <b>TOTAL INCOME</b>  |       | <b>2,070,570</b>                           | <b>14,960,668</b>                           | <b>17,031,238</b>          | <b>16,411,126</b>          |
| <b>OUTGO</b>   |       |  |   |                            |                            |
| Gross claims incurred and policy holder benefits   | 9     | (663,086)                                  | (6,350,648)                                 | (7,013,734)                | (7,391,724)                |
| Less : Re-insurers share of claims and policy holder benefits                                    | 9     | 30,200                                     | 303,016                                     | 333,216                    | 330,114                    |
| <b>NET CLAIMS INCURRED</b>   |       | <b>(632,886)</b>                           | <b>(6,047,632)</b>                          | <b>(6,680,518)</b>         | <b>(7,061,610)</b>         |
| Cedant acquisition costs   | 10(a) | (457,175)                                  | (3,178,081)                                 | (3,635,256)                | (3,402,811)                |
| Operating and other expenses   | 10(b) | (210,065)                                  | (1,622,295)                                 | (1,832,360)                | (1,318,950)                |
| Provision for doubtful debts   | 25    | -  | (665,018)                                   | (665,018)                  | (113,619)                  |
| <b>TOTAL OUTGO</b>   |       | <b>(1,300,126)</b>                         | <b>(11,513,026)</b>                         | <b>(12,813,152)</b>        | <b>(11,896,990)</b>        |
| <b>PROFIT BEFORE TAX</b>   |       | <b>770,444</b>                             | <b>3,447,642</b>                            | <b>4,218,086</b>           | <b>4,514,136</b>           |
| <b>INCOME TAX EXPENSE</b>  | 11(a) | <b>(263,485)</b>                           | <b>(667,317)</b>                            | <b>(930,802)</b>           | <b>(959,886)</b>           |
| <b>PROFIT FOR THE YEAR</b>   |       | <b>506,959</b>                             | <b>2,780,325</b>                            | <b>3,287,284</b>           | <b>3,554,250</b>           |
| <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   | 19    | -  | 2,431                                       | 2,431                      | 344                        |
| Remeasurement gains/(losses) on defined benefit plans, net of tax                                | 21    | -  | 112,470                                     | 112,470                    | (210,659)                  |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                            |       |  |   |                            |                            |
| Reclassification adjustment relating to available-for-sale financial assets disposed in the year | 7     | -  | (209,228)                                   | (209,228)                  | (202,319)                  |
| Net losses on revaluation of available-for-sale quoted equity instruments                        | 27    | (33,549)                                   | (501,889)                                   | (535,438)                  | (613,315)                  |
| Net losses on revaluation of available-for-sale government securities                            | 28    | -  | (6,952)                                     | (6,952)                    | -                          |
| Exchange differences on retranslation of foreign operations                                      |       | -  | (780)                                       | (780)                      | -                          |
| Share of movement in associate reserves:   |       |  |   |                            |                            |
| - currency translation   | 19    | -  | 102,440                                     | 102,440                    | (35,896)                   |
| - fair value reserve   | 19    | -  | (26,833)                                    | (26,833)                   | (60,980)                   |
| <b>TOTAL OTHER COMPREHENSIVE INCOME</b>  |       | <b>(33,549)</b>                            | <b>(528,341)</b>                            | <b>(561,890)</b>           | <b>(1,122,825)</b>         |
| <b>TOTAL COMPREHENSIVE INCOME</b>  |       | <b>473,410</b>                             | <b>2,251,984</b>                            | <b>2,725,394</b>           | <b>2,431,425</b>           |
| <b>EARNINGS PER SHARE - basic and diluted</b>  | 12    |  |   | <b>4.70</b>                | <b>5.10</b>                |

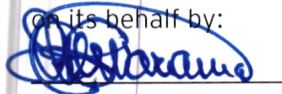
KENYA REINSURANCE CORPORATION LIMITED  
 COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 31 DECEMBER 2016

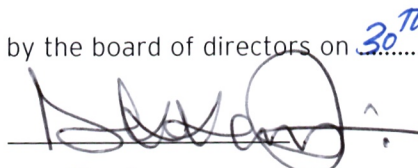
|  | Notes | Long term<br>business<br>2016<br>KShs '000 | Short term<br>Business<br>2016<br>KShs '000 | Total<br>2016<br>KShs '000 | Total<br>2015<br>KShs '000 |
|--|-------|--|---|----------------------------|----------------------------|
| <b>INCOME</b>  |       |  |   |                            |                            |
| Gross premiums written   |       | 1,476,800                                  | 11,223,537                                  | 12,700,337                 | 12,676,629                 |
| Less: change in unearned premiums  | 39    | -  | 109,334                                     | 109,334                    | (501,421)                  |
| Less: retrocession premiums  |       | (126,329)                                  | (478,392)                                   | (604,721)                  | (494,546)                  |
| <b>NET EARNED PREMIUMS</b>   | 6     | <b>1,350,471</b>                           | <b>10,854,479</b>                           | <b>12,204,950</b>          | <b>11,680,662</b>          |
| Investment income  | 7     | 518,327                                    | 2,558,082                                   | 3,076,373                  | 3,038,128                  |
| Acquisition cost recoveries  |       | 36,136                                     | 51  | 36,187                     | 40,490                     |
| Fair value gains on revaluation of investment properties   | 18    | 160,496                                    | 653,017                                     | 813,513                    | 729,599                    |
| Other income   | 8     | -  | 54,299                                      | 54,335                     | 211,120                    |
| Share of profits associates  |       | -  | 361,159                                     | 361,159                    | 335,727                    |
| <b>TOTAL INCOME</b>  |       | <b>2,065,430</b>                           | <b>14,481,087</b>                           | <b>16,546,517</b>          | <b>16,035,726</b>          |
| <b>OUTGO</b>   |       |  |   |                            |                            |
| Gross claims incurred and policy holder benefits   | 9     | (663,085)                                  | (6,224,617)                                 | (6,887,702)                | (7,304,525)                |
| Less : Re-insurers share of claims and policy holder benefits                                    | 9     | 30,200                                     | 303,016                                     | 333,216                    | 330,114                    |
| <b>NET CLAIMS INCURRED</b>   |       | <b>(632,885)</b>                           | <b>(5,921,601)</b>                          | <b>(6,554,486)</b>         | <b>(6,974,411)</b>         |
| Cedant acquisition costs   | 10(a) | (456,647)                                  | (3,044,526)                                 | (3,501,173)                | (3,314,693)                |
| Operating and other expenses   | 10(b) | (210,065)                                  | (1,464,012)                                 | (1,674,077)                | (1,242,298)                |
| Provision for doubtful debts   | 25    | -  | (507,377)                                   | (507,377)                  | (113,619)                  |
| <b>TOTAL OUTGO</b>   |       | <b>(1,299,597)</b>                         | <b>(10,937,516)</b>                         | <b>(12,237,113)</b>        | <b>(11,645,021)</b>        |
| <b>PROFIT BEFORE TAX</b>   |       | <b>765,833</b>                             | <b>3,543,571</b>                            | <b>4,309,404</b>           | <b>4,390,705</b>           |
| <b>INCOME TAX EXPENSE</b>  | 11(a) | <b>(263,485)</b>                           | <b>(667,317)</b>                            | <b>(930,802)</b>           | <b>(957,086)</b>           |
| <b>PROFIT FOR THE YEAR</b>   |       | <b>502,348</b>                             | <b>2,876,254</b>                            | <b>3,378,602</b>           | <b>3,433,619</b>           |
| <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   | 19    | -  | 2,431                                       | 2,431                      | 344                        |
| Remeasurement gain/(losses) on defined benefit plans   | 21    | -  | 112,470                                     | 112,470                    | (210,659)                  |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                            |       |  |   |                            |                            |
| Reclassification adjustment relating to available-for-sale financial assets disposed in the year | 7     | -  | (209,228)                                   | (209,228)                  | (202,319)                  |
| Net losses on revaluation of available-for-sale quoted equity instruments                        | 27    | (33,549)                                   | (501,889)                                   | (535,438)                  | (613,315)                  |
| Net losses on revaluation of available-for-sale government securities                            | 28    | -  | (6,952)                                     | (6,952)                    | -                          |
| Share of movement in associate reserves:   |       |  |   |                            |                            |
| - currency translation   | 19    | -  | 102,440                                     | 102,440                    | (35,896)                   |
| - fair value reserve   | 19    | -  | (26,833)                                    | (26,833)                   | (60,980)                   |
| <b>TOTAL OTHER COMPREHENSIVE INCOME</b>  |       | <b>(33,549)</b>                            | <b>(527,561)</b>                            | <b>(561,110)</b>           | <b>(1,122,825)</b>         |
| <b>TOTAL COMPREHENSIVE INCOME</b>  |       | <b>468,799</b>                             | <b>2,348,693</b>                            | <b>2,817,492</b>           | <b>2,310,794</b>           |
| <b>EARNINGS PER SHARE - basic and diluted</b>  | 12    |  |   | <b>4.82</b>                | <b>4.90</b>                |

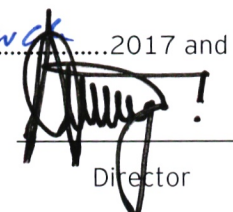
KENYA REINSURANCE CORPORATION LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016

|  | Note  | Long term<br>business<br>2016<br>KShs '000 | Short term<br>Business<br>2016<br>KShs '000 | Total<br>2016<br>KShs '000 | Total<br>2015<br>KShs '000 |
|--|-------|--|---|----------------------------|----------------------------|
| <b>EQUITY</b>  |       |  |   |                            |                            |
| Share capital  | 13    | -  | 1,749,873                                   | 1,749,873                  | 1,749,873                  |
| Revaluation reserve  | 14    | -  | 3,795                                       | 3,795                      | 4,049                      |
| Fair value reserve   | 14    | (33,549)                                   | 289,386                                     | 255,837                    | 1,034,288                  |
| Translation reserve  | 14    | -  | 370,767                                     | 370,767                    | 269,107                    |
| Statutory reserve  | 14    | 3,502,132                                  | -   | 3,502,132                  | 2,995,173                  |
| Retained earnings  | 14    | -  | 18,250,893                                  | 18,250,893                 | 15,880,375                 |
| <b>TOTAL EQUITY</b>  |       | <b>3,468,583</b>                           | <b>20,664,714</b>                           | <b>24,133,297</b>          | <b>21,932,865</b>          |
| <b>ASSETS</b>  |       |  |   |                            |                            |
| Property and equipment   | 15    | -  | 86,673                                      | 86,673                     | 68,688                     |
| Intangible assets  | 16    | -  | 328,858                                     | 328,858                    | 123,419                    |
| Mortgage loans   | 17    | -  | 707,417                                     | 707,417                    | 648,104                    |
| Investment properties  | 18    | 1,465,000                                  | 7,438,000                                   | 8,903,000                  | 8,025,000                  |
| Investment in associate  | 19    | -  | 3,907,825                                   | 3,907,825                  | 3,436,180                  |
| Employee defined benefit asset                                       | 21    | -  | 14,334                                      | 14,334                     | -                          |
| Unquoted equity instruments  | 22    | -  | 202,231                                     | 202,231                    | 202,231                    |
| Corporate bonds  | 23    | -  | 487,923                                     | 487,923                    | 494,146                    |
| Receivables arising out of reinsurance and retrocession arrangements | 24    | 230,922                                    | 3,351,145                                   | 3,582,067                  | 3,199,969                  |
| Premium and loss reserves  | 25    | -  | 379,597                                     | 379,597                    | 298,977                    |
| Other receivables  | 26    | -  | 186,056                                     | 186,056                    | 112,786                    |
| Income tax recoverable   | 11(c) | -  | -   | -                          | 44,435                     |
| Quoted equity instruments  | 27    | 235,685                                    | 1,830,567                                   | 2,066,252                  | 2,553,572                  |
| Government securities  | 28    | 2,258,399                                  | 9,462,877                                   | 11,721,276                 | 9,186,523                  |
| Inventory  | 29    | -  | 43,968                                      | 43,968                     | 32,846                     |
| Deferred acquisition costs   | 30    | -  | 1,303,254                                   | 1,303,254                  | 1,223,150                  |
| Non-current assets held for sale                                     | 31    | -  | 28,098                                      | 28,098                     | 28,098                     |
| Deposits with financial institutions                                 | 32    | 2,887,294                                  | 1,309,641                                   | 4,196,935                  | 5,957,281                  |
| Cash and bank balances   | 33    | 77   | 348,469                                     | 348,546                    | 318,729                    |
| <b>TOTAL ASSETS</b>  |       | <b>7,077,377</b>                           | <b>31,416,933</b>                           | <b>38,494,310</b>          | <b>35,954,134</b>          |
| <b>LIABILITIES</b>   |       |  |   |                            |                            |
| Long term reinsurance contract liabilities                           | 34    | 2,177,401                                  | -   | 2,177,401                  | 2,179,836                  |
| Short term reinsurance contracts liabilities                         | 35    | -  | 5,530,550                                   | 5,530,550                  | 5,166,290                  |
| Payables arising out of reinsurance arrangements                     | 36    | 40,256                                     | 520,301                                     | 560,557                    | 512,496                    |
| Employee defined benefit liability                                   | 21    | -  | -   | -                          | 81,105                     |
| Deferred tax liability   | 37    | 1,498,938                                  | (596,180)                                   | 902,758                    | 904,118                    |
| Income tax payable   | 11(c) | (107,801)                                  | 290,145                                     | 182,344                    | -                          |
| Other payables   | 38    | -  | 493,700                                     | 493,700                    | 616,830                    |
| Unearned premiums  | 39    | -  | 4,513,703                                   | 4,513,703                  | 4,560,594                  |
| <b>TOTAL LIABILITIES</b>   |       | <b>3,608,794</b>                           | <b>10,752,219</b>                           | <b>14,361,013</b>          | <b>14,021,269</b>          |
| <b>NET ASSETS</b>  |       | <b>3,468,583</b>                           | <b>20,664,714</b>                           | <b>24,133,297</b>          | <b>21,932,865</b>          |

The financial statements were approved by the board of directors on 30<sup>th</sup> March 2017 and were signed on its behalf by:

  
Principal Officer

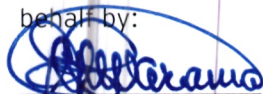
  
Director

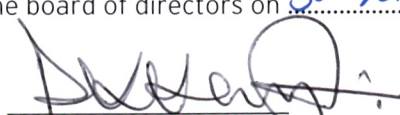
  
Director

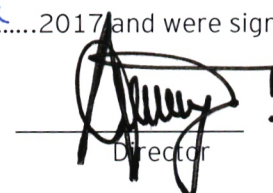
NYA REINSURANCE CORPORATION LIMITED  
 COMPANY STATEMENT OF FINANCIAL POSITION  
 AS AT 31 DECEMBER 2016

|  | Notes | Long term<br>Business<br>2016<br>KShs '000 | Short term<br>business<br>2016<br>KShs '000 | Total<br>2016<br>KShs '000 | Total<br>2015<br>KShs '000 |
|--|-------|--|---|----------------------------|----------------------------|
| <b>EQUITY</b>  |       |  |   |                            |                            |
| Share capital  | 13    | -  | 1,749,873                                   | 1,749,873                  | 1,749,873                  |
| Revaluation reserve  | 14    | -  | 3,795                                       | 3,795                      | 4,049                      |
| Fair value reserve   | 14    | (33,549)                                   | 289,386                                     | 255,837                    | 1,034,288                  |
| Translation reserve  | 14    | -  | 371,547                                     | 371,547                    | 269,107                    |
| Statutory reserve  | 14    | 3,496,869                                  | -   | 3,496,869                  | 2,994,521                  |
| Retained earnings  | 14    | -  | 18,226,843                                  | 18,226,843                 | 15,760,396                 |
| <b>TOTAL EQUITY</b>  |       | <b>3,463,320</b>                           | <b>20,641,444</b>                           | <b>24,104,764</b>          | <b>21,812,234</b>          |
| <b>ASSETS</b>  |       |  |   |                            |                            |
| Property and equipment   | 15    | -  | 79,866                                      | 79,866                     | 66,445                     |
| Intangible assets  | 16    | -  | 328,858                                     | 328,858                    | 123,419                    |
| Mortgage loans   | 17    | -  | 707,417                                     | 707,417                    | 643,290                    |
| Investment properties  | 18    | 1,465,000                                  | 7,438,000                                   | 8,903,000                  | 8,025,000                  |
| Investment in associate  | 19    | -  | 3,907,825                                   | 3,907,825                  | 3,436,180                  |
| Investment in subsidiary companies                                   | 20    | -  | 187,782                                     | 187,782                    | 4,186                      |
| Employee defined benefit asset                                       | 21    | -  | 14,334                                      | 14,334                     | -                          |
| Unquoted equity instruments  | 22    | -  | 202,231                                     | 202,231                    | 202,231                    |
| Corporate bonds  | 23    | -  | 487,923                                     | 487,923                    | 494,146                    |
| Receivables arising out of reinsurance and retrocession arrangements | 24    | 230,922                                    | 3,120,695                                   | 3,351,617                  | 2,858,326                  |
| Premium and loss reserves  | 25    | -  | 276,883                                     | 276,883                    | 233,541                    |
| Due from related party   | 42    | -  | 42,624                                      | 42,624                     | 196,805                    |
| Other receivables  | 26    | -  | 184,733                                     | 184,733                    | 93,878                     |
| Income tax recoverable   | 11(c) | -  | -   | -                          | 47,235                     |
| Quoted equity instruments  | 27    | 235,685                                    | 1,830,567                                   | 2,066,252                  | 2,553,572                  |
| Government securities  | 28    | 2,257,539                                  | 9,463,737                                   | 11,721,276                 | 9,186,523                  |
| Inventory  | 29    | -  | 42,908                                      | 42,908                     | 32,017                     |
| Deferred acquisition costs   | 30    | -  | 1,240,471                                   | 1,240,471                  | 1,183,769                  |
| Non-current assets held for sale                                     | 31    | -  | 28,098                                      | 28,098                     | 28,098                     |
| Deposits with financial institutions                                 | 32    | 2,884,410                                  | 1,067,006                                   | 3,951,416                  | 5,881,609                  |
| Cash and bank balances   | 33    | 78   | 305,855                                     | 305,933                    | 281,925                    |
| <b>TOTAL ASSETS</b>  |       | <b>7,073,634</b>                           | <b>30,957,813</b>                           | <b>38,031,447</b>          | <b>35,572,195</b>          |
| <b>LIABILITIES</b>   |       |  |   |                            |                            |
| Long term reinsurance contract liabilities                           | 34    | 2,177,401                                  | -   | 2,177,401                  | 2,179,836                  |
| Short term reinsurance contracts liabilities                         | 35    | -  | 5,441,537                                   | 5,441,537                  | 5,077,277                  |
| Payables arising out of reinsurance arrangements                     | 36    | 41,776                                     | 372,331                                     | 414,107                    | 376,698                    |
| Employee defined benefit liability                                   | 21    | -  | -   | -                          | 81,105                     |
| Deferred tax liability   | 37    | 1,498,938                                  | (596,180)                                   | 902,758                    | 904,118                    |
| Other payables   | 38    | -  | 479,460                                     | 479,460                    | 733,535                    |
| Income tax payable   | 11(c) | (107,801)                                  | 321,163                                     | 213,362                    | -                          |
| Unearned premiums  | 39    | -  | 4,298,058                                   | 4,298,058                  | 4,407,392                  |
| <b>TOTAL LIABILITIES</b>   |       | <b>3,610,314</b>                           | <b>10,316,369</b>                           | <b>13,926,683</b>          | <b>13,759,961</b>          |
| <b>NET ASSETS</b>  |       | <b>3,463,320</b>                           | <b>20,641,444</b>                           | <b>24,104,764</b>          | <b>21,812,234</b>          |

The financial statements were approved by the board of directors on 30<sup>th</sup> March 2017 and were signed on its behalf by:

  
Principal Officer

  
Director

  
Director

KENYA REINSURANCE CORPORATION LIMITED  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016

|                                 | Note | Share capital<br>KShs '000 | Revaluation reserve<br>KShs '000 | Fair value reserve<br>KShs '000 | Translation reserve<br>KShs '000 | Statutory reserve<br>KShs '000 | Retained earnings<br>KShs '000 | Total<br>KShs '000 |
|---------------------------------|------|----------------------------|----------------------------------|---------------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------|
| At 1 January 2015               |      | 1,749,873                  | 6,965                            | 1,910,902                       | 305,003                          | 2,576,743                      | 13,441,918                     | 19,991,404         |
| Profit for the year             |      | -                          | -                                | -                               | -                                | 418,430                        | 3,135,820                      | 3,554,250          |
| Other comprehensive income      |      | -                          | 344                              | (876,614)                       | (35,896)                         | -                              | (210,659)                      | (1,122,825)        |
| Total comprehensive income      |      | -                          | 344                              | (876,614)                       | (35,896)                         | 418,430                        | 2,925,161                      | 2,431,425          |
| Dividends declared - 2014       | 40   | -                          | -                                | -                               | -                                | -                              | (489,964)                      | (489,964)          |
| Transfer of excess depreciation |      | -                          | (4,657)                          | -                               | -                                | -                              | 4,657                          | -                  |
| Deferred tax thereon            |      | -                          | 1,397                            | -                               | -                                | -                              | (1,397)                        | -                  |
| At 31 December 2015             |      | <u>1,749,873</u>           | <u>4,049</u>                     | <u>1,034,288</u>                | <u>269,107</u>                   | <u>2,995,173</u>               | <u>15,880,375</u>              | <u>21,932,865</u>  |
| At 1 January 2016               |      | 1,749,873                  | 4,049                            | 1,034,288                       | 269,107                          | 2,995,173                      | 15,880,375                     | 21,932,865         |
| Profit for the year             |      | -                          | -                                | -                               | -                                | 506,959                        | 2,780,325                      | 3,287,284          |
| Other comprehensive income      |      | -                          | 2,431                            | (778,451)                       | 101,660                          | -                              | 112,470                        | (561,890)          |
| Total comprehensive income      |      | -                          | 2,431                            | (778,451)                       | 101,660                          | 506,959                        | 2,892,795                      | 2,725,394          |
| Dividends declared - 2015       | 40   | -                          | -                                | -                               | -                                | -                              | (524,962)                      | (524,962)          |
| Transfer of excess depreciation |      | -                          | (3,836)                          | -                               | -                                | -                              | 3,836                          | -                  |
| Deferred tax thereon            |      | -                          | 1,151                            | -                               | -                                | -                              | (1,151)                        | -                  |
| At 31 December 2016             |      | <u>1,749,873</u>           | <u>3,795</u>                     | <u>255,837</u>                  | <u>370,767</u>                   | <u>3,502,132</u>               | <u>18,250,893</u>              | <u>24,133,297</u>  |

KENYA REINSURANCE CORPORATION LIMITED  
 COMPANY STATEMENT OF CHANGES IN EQUITY  
 FOR THE YEAR ENDED 31 DECEMBER 2016

|                                 | Note | Share capital<br>KShs '000 | Revaluation<br>reserve<br>KShs '000 | Fair value<br>reserve<br>KShs '000 | Translation<br>reserve<br>KShs '000 | Statutory<br>reserve<br>KShs '000 | Retained<br>earnings<br>KShs '000 | Total<br>KShs '000 |
|---------------------------------|------|----------------------------|-------------------------------------|------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|--------------------|
| At 1 January 2015               |      | 1,749,873                  | 6,965                               | 1,910,902                          | 305,003                             | 2,576,743                         | 13,441,918                        | 19,991,404         |
| Profit for the year             |      | -                          | -                                   | -                                  | -                                   | 417,778                           | 3,015,841                         | 3,433,619          |
| Other comprehensive income      |      | -                          | 344                                 | (876,614)                          | (35,896)                            | -                                 | (210,659)                         | (1,122,825)        |
| Total comprehensive income      |      | -                          | 344                                 | (876,614)                          | (35,896)                            | 417,778                           | 2,805,182                         | 2,310,794          |
| Dividends declared - 2014       | 40   | -                          | -                                   | -                                  | -                                   | -                                 | (489,964)                         | (489,964)          |
| Transfer of excess depreciation |      | -                          | (4,657)                             | -                                  | -                                   | -                                 | 4,657                             | -                  |
| Deferred tax thereon            |      | -                          | 1,397                               | -                                  | -                                   | -                                 | (1,397)                           | -                  |
| At 31 December 2015             |      | <u>1,749,873</u>           | <u>4,049</u>                        | <u>1,034,288</u>                   | <u>269,107</u>                      | <u>2,994,521</u>                  | <u>15,760,396</u>                 | <u>21,812,234</u>  |
| At 1 January 2016               |      | 1,749,873                  | 4,049                               | 1,034,288                          | 269,107                             | 2,994,521                         | 15,760,396                        | 21,812,234         |
| Profit for the year             |      | -                          | -                                   | -                                  | -                                   | 502,348                           | 2,876,254                         | 3,378,602          |
| Other comprehensive income      |      | -                          | 2,431                               | (778,451)                          | 102,440                             | -                                 | 112,470                           | (561,110)          |
| Total comprehensive income      |      | -                          | 2,431                               | (778,451)                          | 102,440                             | 502,348                           | 2,988,724                         | 2,817,492          |
| Dividends declared - 2015       | 40   | -                          | -                                   | -                                  | -                                   | -                                 | (524,962)                         | (524,962)          |
| Transfer of excess depreciation |      | -                          | (3,836)                             | -                                  | -                                   | -                                 | 3,836                             | -                  |
| Deferred tax thereon            |      | -                          | 1,151                               | -                                  | -                                   | -                                 | (1,151)                           | -                  |
| At 31 December 2016             |      | <u>1,749,873</u>           | <u>3,795</u>                        | <u>255,837</u>                     | <u>371,547</u>                      | <u>3,496,869</u>                  | <u>18,226,843</u>                 | <u>24,104,764</u>  |

KENYA REINSURANCE CORPORATION LIMITED  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016

|   | Notes | 2016<br>KShs '000  | 2015<br>KShs '000  |
|---|-------|--------------------|--------------------|
| Net cash generated from operations                        | 41    | 378,513            | 1,548,924          |
| Interest received on corporate bonds                      |       | 59,489             | 55,709             |
| Interest received on government securities                |       | 1,202,931          | 991,842            |
| Interest received on staff mortgages and loans            |       | 14,356             | 11,694             |
| Interest received on deposits with financial institutions |       | 541,893            | 647,915            |
| Interest received on commercial mortgages                 |       | 62,325             | 77,329             |
| Tax paid in the year                                      | 11(c) | <u>(705,383)</u>   | <u>(798,762)</u>   |
| Net cash generated from operating activities              |       | <u>1,554,124</u>   | <u>2,534,651</u>   |
| Cash flows used in investing activities                   |       |                    |                    |
| Purchase of investment property                           | 18    | (64,487)           | (100,401)          |
| Purchase of property and equipment                        | 15    | (49,864)           | (3,655)            |
| Proceeds on sale of property and equipment                |       | -                  | 1,116              |
| Proceeds on disposal of inventory property                | 43    | 47,461             | 130,000            |
| Purchase of intangible assets                             | 16    | (245,379)          | (56,383)           |
| Purchase of unquoted equity instruments                   | 22    | -                  | (35,118)           |
| Purchase of government securities                         | 28    | (2,898,870)        | (1,796,642)        |
| Proceeds on maturity of government securities             | 28    | 396,337            | 416,500            |
| Purchase of quoted equity instruments                     | 27    | (355,602)          | (160,293)          |
| Proceeds on sale of quoted equity instruments             | 27    | 307,484            | 250,381            |
| Proceeds on redemption of corporate bonds                 | 23    | 5,925              | 5,925              |
| Purchase of corporate bonds                               | 23    | -                  | (80,512)           |
| Dividends received on quoted equity instruments           |       | 129,752            | 117,308            |
| Dividend received from associate company                  | 19    | -                  | 68,485             |
| Purchase of shares in associate company                   | 19    | <u>(32,448)</u>    | <u>(1,257,408)</u> |
| Net cash used in investing activities                     |       | <u>(2,759,691)</u> | <u>(2,500,697)</u> |
| Cash flows used in financing activities                   |       |                    |                    |
| Dividends paid  | 40    | (524,962)          | (489,964)          |
| Net decrease in cash and cash equivalents                 |       | (1,730,529)        | (456,010)          |
| Cash and cash equivalents at 1 January                    |       | <u>6,276,010</u>   | <u>6,732,020</u>   |
| Cash and cash equivalent at 31 December                   | 33    | <u>4,545,481</u>   | <u>6,276,010</u>   |

KENYA REINSURANCE CORPORATION LIMITED  
COMPANY STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016

|   | Notes | 2016<br>KShs '000  | 2015<br>KShs '000  |
|---|-------|--------------------|--------------------|
| Net cash generated from operations                        | 41    | 350,159            | 1,441,005          |
| Interest received on corporate bonds                      |       | 59,489             | 55,709             |
| Interest received on government securities                |       | 1,202,931          | 991,842            |
| Interest received on staff mortgages and loans            |       | 14,224             | 11,556             |
| Interest received on deposits with financial institutions |       | 539,099            | 645,043            |
| Interest received on commercial mortgages                 |       | 62,325             | 77,329             |
| Tax paid in the year                                      | 11(c) | <u>(671,565)</u>   | <u>(798,762)</u>   |
| Net cash generated from operating activities              |       | <u>1,556,662</u>   | <u>2,423,722</u>   |
| Cash flows used in investing activities                   |       |                    |                    |
| Purchase of investment property                           | 18    | (64,487)           | (100,401)          |
| Purchase of property and equipment                        | 15    | (44,462)           | (3,096)            |
| Proceeds on sale of property and equipment                |       | -                  | 3,196              |
| Proceeds on disposal of inventory property                | 43    | 47,461             | 130,000            |
| Purchase of intangible assets                             | 16    | (245,379)          | (56,383)           |
| Purchase of unquoted equity instruments                   | 22    | -                  | (35,118)           |
| Purchase of government securities                         | 28    | (2,898,870)        | (1,796,642)        |
| Proceeds on maturity of government securities             | 28    | 396,337            | 416,500            |
| Purchase of quoted equity instruments                     | 27    | (355,602)          | (160,293)          |
| Proceeds on sale of quoted equity instruments             | 27    | 307,484            | 250,381            |
| Proceeds on redemption of corporate bonds                 | 23    | 5,925              | 5,925              |
| Purchase of corporate bonds                               | 23    | -                  | (80,512)           |
| Investment in Subsidiary                                  |       | (183,596)          | (4,186)            |
| Dividends received on quoted equity instruments           |       | 129,752            | 117,308            |
| Dividend received from associate company                  | 19    | -                  | 68,485             |
| Purchase of shares in associate company                   | 19    | <u>(32,448)</u>    | <u>(1,257,408)</u> |
| Net cash used in investing activities                     |       | <u>(2,937,885)</u> | <u>(2,502,244)</u> |
| Cash flows used in financing activities                   |       |                    |                    |
| Dividends paid  | 40    | (524,962)          | (489,964)          |
| Net decrease in cash and cash equivalents                 |       | (1,906,185)        | (568,486)          |
| Cash and cash equivalents at 1 January                    |       | <u>6,163,534</u>   | <u>6,732,020</u>   |
| Cash and cash equivalent at 31 December                   | 33    | <u>4,257,349</u>   | <u>6,163,534</u>   |

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards (IFRS)

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

For the purposes of reporting under the Kenyan Companies Act, 2015, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

(a) Basis of preparation

The consolidated financial statements are prepared on a going concern basis in compliance with International Financial Reporting Standards (IFRSs) and the requirements of the Kenyan Companies Act, 2015. The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments and investment properties which have been measured at fair value and actuarially determined liabilities at their present value. The consolidated financial statements are presented in Kenya Shillings (KShs), rounded to the nearest thousand, which is also the functional currency.

The consolidated financial statements comprise the Group's and Company's statement of profit or loss and other comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows, and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in profit or loss. Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by IFRSs. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the previous periods. Transactions with the owners of the Group in their capacity as owners are recognised in the statement of changes in equity.

The Group presents its statement of financial position broadly in order of liquidity from the least liquid to the most liquid. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the accounting policies adopted by the Group. Although such estimates and assumptions are based on the directors' best knowledge of the information available, actual results may differ from those estimates. The judgements and estimates are reviewed at the end of each reporting period, and any revisions to such estimates are recognised in the year in which the revision is made. The areas involving the judgements of most significance to the financial statements, and the sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year, are disclosed in note (2).

(b) Basis of consolidation

(i) Subsidiary

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

(i) Subsidiary (continued)

Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date the control ceases.

All inter-company balances, transactions, income and expenses and profits and losses resulting from inter-company transactions are eliminated in full on consolidation.

Losses within a subsidiary are attributed to the non-controlling interest even if this results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

(ii) The Group financial statements reflect the result of the consolidation of the financial statements of the Company and its wholly owned subsidiaries, Kenya Reinsurance Corporation Limited Côte d'Ivoire and Kenya Reinsurance Corporation Zambia Limited. The investments into the subsidiaries did not meet the definition of a business combination.

(iii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group's identifiable assets and liabilities are measured at their acquisition-date fair value.

Non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's net identifiable assets. This accounting policy choice can be made on an individual business combination basis.

Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the amount recognised for non-controlling interests, and any previous interest held, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the of the acquiree are assigned to those units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards and interpretations

The following new amendments to the existing standards issued by the International Accounting Standards Board are effective for current financial period:

IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively, with early adoption permitted. The amendments do not have any impact on Group's financial statements.

Amendments to IFRS 11 "Joint Arrangements" - Accounting for Acquisitions of Interests (effective for annual periods beginning on or after 1 January 2016).

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards and interpretations (continued)

Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016).

The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. These amendments did not have significant impact on the Group.

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. The group early adopted these amendments and accounts for investment in associate using the equity method in both separate and consolidated financial statements.

Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"- issued by IASB on 25 September 2014. Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. Changes include new or revised requirements regarding: (i) changes in methods of disposal; (ii) servicing contracts; (iii) applicability of the offsetting disclosures to condensed interim financial statements; (iv) discount rate: regional market issue; (v) disclosure of information 'elsewhere in the interim financial report'. The amendments are to be applied for annual reporting periods beginning on or after 1 January 2016. The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards and interpretations (continued)

Standards issued but not yet effective

At the date of authorisation of these financial statements the following new standards and amendments to existing standards were in issue, but not yet effective:

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

Issued by IASB on 13 January 2016, the new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17. Lessees are to recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately. The new standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less). Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach. Early application is permitted, but not before an entity applies IFRS 15.

IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018).

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new Standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

►Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded).

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards and interpretations (continued)

Standards issued but not yet effective (continued)

IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).

In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

Classification and Measurement - IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

Impairment - IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a timelier basis.

Hedge accounting - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

Own credit - IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets. An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards and interpretations (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017).

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

IFRIC Interpretation 22 "Foreign Currency" - Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018).

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) New and amended standards and interpretations (continued)

Standards issued but not yet effective (continued)

Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" issued in December 2016. They include:

- IFRS 12 "Disclosure of Interests in Other Entities" - Clarification of the scope of the disclosure requirements in IFRS 12 (effective from 1 January 2017).

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- IAS 28 "Investments in Associates and Joint Ventures" - Clarification that measuring investees at fair value through profit or loss is an investment-by investment choice (effective from 1 January 2018).

The amendments clarifies that:

- o An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- o If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The Group has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Group anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Group in the period of initial application.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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 Group 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.

(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), medical, 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 Group'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.
- Medical reinsurance business means the business of underwriting the medical class of business offered by the insurers. This is to the individual or group in-patient or outpatient medical insurances'
- 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Reinsurance contracts (continued)

(b) Long-term reinsurance business

Includes reinsurance business of all or any of the following classes: ordinary life and group 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.

Group life reinsurance business refers to the business of, or in relation to, the issuing of or the undertaking of liability under group 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Reinsurance contracts (continued)

(ii) Recognition and measurement (continued)

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 Group with retrocessionaires under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for retrocession 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 Group is entitled under its retrocession contracts held are recognised as retrocession assets. These assets consist of short-term balances due from retrocessionaires, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related retrocession contracts. Amounts recoverable from or due to retrocessionaires are measured consistently with the amounts associated with the retrocession contracts and in accordance with the terms of each retrocession contract. Retrocession liabilities are primarily premiums payable for retrocession contracts and are recognised as an expense when due.

The Group assesses its retrocession assets for impairment on a quarterly basis. If there is objective evidence that the retrocession asset is impaired, the Group reduces the carrying amount of the retrocession asset to its recoverable amount and recognises that impairment loss. The Group gathers the objective evidence that a retrocession 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.

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 Group reduces the carrying amount of the reinsurance receivable accordingly and recognises the impairment loss in profit or loss. The Group 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.

Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Reinsurance contracts (continued)

(ii) Recognition and measurement (continued)

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 Group at the expiry of the policy period.

h. 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.

(f) 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.

Investments in foreign currency denominated subsidiaries are translated into Kenya shillings at the Closing rates with the resulting exchange differences recognised in other comprehensive income.

(g) Tax

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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Tax (continued)

*(ii) Deferred tax (continued)*

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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*(iv) 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.

(h) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) 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% |

(j) 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 Group 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 Group 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

(l) Leases

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

*Company as a lessor*

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

*Company 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.

(m) Inventories

Inventories comprise housing units for sale, stationery items and repair materials. 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.

(n) 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.

(o) 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.

(p) 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 and the foreign denominated subsidiary.

(q) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Investment in associate

Investment in associate is accounted for using the equity method of accounting in both the separate and consolidated financial statements. The associate is a company in which the Group 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 Company'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 Company's interest in the associate are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

(s) Investment in subsidiaries

Investments in subsidiaries are carried in the Company's separate statement of financial position at cost less provisions for impairment losses. Where in the opinion of directors, there has been impairment in the value of the investment; the loss is recognised as an expense in the period in which the impairment is recognised.

(t) 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 Group becomes party to the contractual provisions of the instrument.

Financial assets

The Group 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. The Group has not designated any of its financial assets into this category.

*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. These include mortgage loans, receivables arising out of reinsurance and retrocession arrangements, premium and loss reserves, rent receivables, deposits with financial institutions and other receivables. After initial measurement, such financial assets are subsequently measured at amortised cost. The losses arising from impairment are recognised in the statement of profit or loss under provisions for doubtful debts accounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Financial instruments (continued)

Classification (continued)

*Loans and receivables*

The Group assesses its loans and receivables for impairment on a quarterly basis. If there is objective evidence that they are impaired, the Group reduces the carrying amount of the assets to its recoverable amount and recognises that impairment loss.

Loans and receivables, together with the associated allowance are written off when there is no realistic prospect of future. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

*Held-to-maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the group 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 and corporate bonds.

*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. The Group has also designated some government securities into this category.

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, are measured at cost less any identified impairment losses at the end of each reporting period. These include the company's unquoted equities.

*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 Company has transferred substantially all risks and rewards of ownership.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Financial instruments (continued)

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(u) 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.

(v) Retirement benefits obligations

*Defined benefit scheme*

The Group 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 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 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 2010, the Scheme was closed to new entrants.

*Statutory defined contributions scheme*

The Group also contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). The Company'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. These are short term in nature and are settled within 12 months.

Non pensionable employees are entitled to a gratuity. The gratuity is recognised when the benefits accrue to the employees. Gratuity payments are specified lump sum payments paid to employees when the contract comes to an end. The final pay-out is based on the contracted period of service. The expense accruals are recognised in profit or loss and the liability recognised in the statement of financial position.

(w) 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.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S AND COMPANY'S ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the accounting policies adopted by the Group, the directors make certain judgements and estimates that may affect the carrying values of assets and liabilities in the next financial period. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The directors evaluate these at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available.

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The judgements made by the directors in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Held -to-maturity financial assets

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. If the Group were to sell other than an insignificant amount of such investments before maturity, it would be required to classify the entire class as 'available-for-sale' and measure them at fair value. In making this judgment, the Group evaluates its intention and ability to hold such assets to maturity. If the Group fails to keep these financial assets 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.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S AND COMPANY'S ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Assessment of significant influence over an associate

The Group considers that it has significant influence over Zep -Re Limited though it owns less than the 20% of the voting power of the company. This is because the Group is the single largest shareholder of Zep-Re Limited with an 18.97% (2015: 19.88%) interest of the equity interest. The remaining 81.03% (2015: 80.22%) of the equity shares in Zep-Re Limited are widely held by many other shareholders, none of which individually hold more than 14 % of the equity shares (as recorded in the company's shareholders' register from 31 December 2013 to 31 December 2016). The group also has representation in the associate's Board.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

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

Valuation of insurance contract liabilities

Critical assumptions are made by the actuary in determining the present value of actuarial liabilities. The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group base mortality and morbidity on standard industry and Kenya's mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure. Further details are disclosed in note 34 and 35.

Property and equipment

Critical estimates are made by the Group's management, in determining depreciation rates for property and equipment. The rates used are set out in accounting policy in note (i) above.

Receivables

Critical estimates are made by the directors in determining the recoverable amount of receivables. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S AND COMPANY'S ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Equity investment impairment

In assessing whether equity investments classified as available-for-sale has had a 'significant or prolonged' decline in the fair value of the investment below its cost, the Group would benchmark the performance of the investment against its peers, review three years strategic plan and perform in-depth analysis on key identified ratios. Further details are disclosed in note 22.

Impairment losses

At each reporting date, the Group 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. Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for coming years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

In assessing whether there is any indication that the tangible and intangible assets may be impaired, the Group considers the following indications:

- (a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
- (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- (c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (d) the carrying amount of the net assets of the entity is more than its market capitalisation.
- (e) evidence is available of obsolescence or physical damage of an asset.
- (f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE GROUP'S AND COMPANY'S ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Revaluation of property and equipment and investment properties

The Group carries certain classes of property and equipment and all its investment properties at fair value, with changes in fair value of property and equipment being recognised in the other comprehensive income and changes in fair value of investment properties being recognised in the statement of profit or loss. Investment properties were last revalued as at 31 December 2016 on the basis of open market value by independent valuer, Caroline N. Nyororo - P/No. 0002566 of Ebony Estates Limited. The Group's property and equipment was last revalued as at 31 March 2011 by independent valuers, Gimco Limited. As at 31 December 2016, the carrying value of computers, furniture and equipment did not differ significantly from its fair value. Further details are disclosed in notes 15 and 18.

Contingent liabilities

The Group is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The Directors evaluate the status of these exposures on a regular basis to assess the probability of the Group incurring related liabilities. However, provisions are only made in the financial statements where, based on the Directors' evaluation, a present obligation has been established. Judgement and assumptions are required in:

- assessing the existence of a present obligation (legal or constructive) as a result of a past event,
- assessing the probability that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- Estimating the amount of the obligation to be paid out.

Further details are disclosed in note 43.

Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Further details are disclosed in note 21.

Tax

Critical judgements are made by the directors in determining future tax obligations that would arise as a result of the entity entering into certain transactions that would normally attract tax. In particular, management's judgement is required in the estimation of the amount of capital gain tax that would be payable by the entity should it dispose any of its investment properties. These estimates are based on assumptions about a number of factors, which include the likelihood of sale of any of its investment properties, the circumstances that would most likely trigger a sale of its investment properties and the likelihood of the entity being granted an exemption by the revenue authority within the confines of the law due to those factors.

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

The Group'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 Group'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 Group manages key risks:

#### Reinsurance risk

The Group reinsures all classes of insurance business including accident, engineering, medical 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 Group 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 Group 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 Group 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 Group re-insures to specialist reinsurance companies a proportion of its portfolio or certain types of insurance risk. This serves primarily to:

- reduce the net liability on large individual risks
- obtain greater diversification of insurance risks
- provide protection against large losses

The retrocession arrangements include proportional and non-proportional treaties. The expected effect of such retrocession arrangements is that the Company should not suffer total net insurance losses of more than set limits per class of business.

Claims are managed through a dedicated claims management team, with formal claims acceptance limits and appropriate training and development of staff to ensure payment of all genuine claims. Claims experience is assessed regularly and appropriate actuarial reserves are established to reflect up-to-date experience and any anticipated future events. This includes reserves for claims incurred but not yet reported

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 Group 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 Group 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 Group'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 Group'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. There were no significant shifts in the portfolio concentration.

*Sensitivity to insurance risk*

The actuarial methods used are not very sensitive to changes in the key assumptions used in determining the actuarial liabilities. The key actuarial assumptions will need to change very significantly for the actuarial liabilities to change by a relatively small percentage. The methods used and significant assumptions made did not change from the previous period.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

|   | GROUP             |                   | COMPANY           |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| <b>Financial assets</b>                             |                   |                   |                   |                   |
| <b>Held to maturity:</b>                            |                   |                   |                   |                   |
| - Government securities                             | 11,721,276        | 9,186,523         | 11,721,276        | 9,186,523         |
| - Corporate bonds                                   | 487,923           | 494,146           | 487,923           | 494,146           |
| <b>Available for sale</b>                           |                   |                   |                   |                   |
| - Quoted equities                                   | 2,066,252         | 2,553,572         | 2,066,252         | 2,553,572         |
| - Unquoted equities                                 | 202,231           | 202,231           | 202,231           | 202,231           |
| <b>Loans and receivables</b>                        |                   |                   |                   |                   |
| Receivables arising out of reinsurance arrangements | 3,582,067         | 3,199,969         | 3,351,617         | 2,858,326         |
| Cash and bank balances                              | 348,546           | 318,729           | 305,933           | 281,925           |
| Due from related parties                            | -                 | -                 | 42,624            | 196,805           |
| Deposits with financial institutions                | 4,196,935         | 5,957,281         | 3,951,416         | 5,881,609         |
| Premium and loss reserves                           | 379,597           | 298,977           | 276,883           | 233,541           |
| Mortgage loans                                      | 707,417           | 648,104           | 707,417           | 643,290           |
| Other receivables                                   | 179,697           | 101,325           | 178,653           | 83,278            |
| <b>Total financial assets</b>                       | <u>23,887,534</u> | <u>22,960,857</u> | <u>23,292,225</u> | <u>22,615,246</u> |
| <b>Financial liabilities at amortised cost</b>      |                   |                   |                   |                   |
| Payables arising out of reinsurance arrangements    | 560,557           | 512,496           | 414,107           | 376,698           |
| Other payables                                      | 476,333           | 603,697           | 466,828           | 719,701           |
| <b>Total financial liabilities</b>                  | <u>1,036,890</u>  | <u>1,116,193</u>  | <u>880,935</u>    | <u>1,096,399</u>  |
| <b>Insurance contract liabilities</b>               |                   |                   |                   |                   |
| Long term liabilities                               | 2,177,401         | 2,179,836         | 2,177,401         | 2,179,836         |
| Short term liabilities                              | 5,530,550         | 5,166,290         | 5,441,537         | 5,077,277         |
| <b>Total insurance contract liabilities</b>         | <u>7,707,951</u>  | <u>7,346,126</u>  | <u>7,618,938</u>  | <u>7,257,113</u>  |

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)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

| GROUP<br>31 December 2016                              | Carrying<br>amount<br>KShs '000 | No stated<br>maturity<br>KShs '000 | Contractual cash flows (undiscounted) |                        |                       |
|--|---------------------------------|------------------------------------|---------------------------------------|------------------------|-----------------------|
|  |                                 |                                    | 0-1 years<br>KShs '000                | 1-5 years<br>KShs '000 | >5 years<br>KShs '000 |
| <b>Financial assets</b>                                |                                 |                                    |                                       |                        |                       |
| <b>Held to maturity:</b>                               |                                 |                                    |                                       |                        |                       |
| - Government securities                                | 11,227,931                      | -                                  | 2,560,016                             | 5,544,117              | 14,428,341            |
| - Corporate bonds                                      | 487,923                         | -                                  | 64,832                                | 519,955                | 113,250               |
| <b>Available for sale</b>                              |                                 |                                    |                                       |                        |                       |
| - Quoted equities                                      | 2,066,252                       | 2,066,252                          | -                                     | -                      | -                     |
| - Government securities                                | 493,345                         | -                                  | 64,371                                | 257,485                | 617,178               |
| - Unquoted equities                                    | 202,231                         | 202,231                            | -                                     | -                      | -                     |
| <b>Loans and receivables</b>                           |                                 |                                    |                                       |                        |                       |
| Receivables arising out of<br>reinsurance arrangements | 3,582,067                       | 3,582,067                          | -                                     | -                      | -                     |
| Other receivables                                      | 179,697                         | 179,697                            | -                                     | -                      | -                     |
| Premium loss reserves                                  | 379,597                         | 379,597                            | -                                     | -                      | -                     |
| Mortgage loans   | 707,417                         | -                                  | 136,164                               | 461,565                | 196,174               |
| Cash and cash equivalents                              | 4,545,481                       | -                                  | 4,545,481                             | -                      | -                     |
| <b>Total</b>   | <b>23,871,941</b>               | <b>6,409,844</b>                   | <b>7,370,864</b>                      | <b>6,783,122</b>       | <b>15,354,943</b>     |
| <b>Financial liabilities at<br/>amortised cost</b>     |                                 |                                    |                                       |                        |                       |
| Payables arising out of<br>reinsurance arrangements    | 560,557                         | 560,557                            | -                                     | -                      | -                     |
| Other payables   | 476,333                         | 476,333                            | -                                     | -                      | -                     |
| <b>Total financial liabilities</b>                     | <b>1,036,890</b>                | <b>1,036,890</b>                   | <b>-</b>                              | <b>-</b>               | <b>-</b>              |
| <b>Reinsurance liabilities</b>                         |                                 |                                    |                                       |                        |                       |
| Long term liabilities                                  | 2,177,401                       | 2,177,401                          | -                                     | -                      | -                     |
| Short term liabilities                                 | 5,530,550                       | 5,530,550                          | -                                     | -                      | -                     |
| <b>Total</b>   | <b>7,707,951</b>                | <b>7,707,951</b>                   | <b>-</b>                              | <b>-</b>               | <b>-</b>              |
| <b>Net gap</b>   | <b>15,127,100</b>               | <b>(2,334,997)</b>                 | <b>7,370,864</b>                      | <b>6,783,122</b>       | <b>15,354,943</b>     |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

| COMPANY   | Carrying amount   | No stated maturity | Contractual cash flows (undiscounted) |                  |                   |
|---|-------------------|--------------------|---------------------------------------|------------------|-------------------|
|   |                   |                    | 0-1 years                             | 1-5 years        | >5 years          |
| 31-December 2016                                    |                   |                    |                                       |                  |                   |
| <b>Held to maturity:</b>                            |                   |                    |                                       |                  |                   |
| - Government securities                             | 11,227,931        | -                  | 2,560,016                             | 5,544,117        | 14,428,341        |
| - Corporate bonds                                   | 487,923           | -                  | 64,832                                | 519,955          | 113,250           |
| <b>Available for sale</b>                           |                   |                    |                                       |                  |                   |
| -Quoted equities                                    | 2,066,252         | 2,066,252          | -                                     | -                | -                 |
| -Government securities                              | 493,345           | -                  | 64,371                                | 257,485          | 617,178           |
| -Unquoted equities                                  | 202,231           | 202,231            | -                                     | -                | -                 |
| <b>Loans and receivables</b>                        |                   |                    |                                       |                  |                   |
| Receivables arising out of reinsurance arrangements | 3,351,617         | 3,351,617          | -                                     | -                | -                 |
| Due from related parties                            | 42,624            | 42,624             | -                                     | -                | -                 |
| Other receivables                                   | 178,653           | 178,653            | -                                     | -                | -                 |
| Premium loss reserves                               | 276,883           | 276,883            | -                                     | -                | -                 |
| Mortgage loans                                      | 707,417           | -                  | 136,164                               | 461,565          | 196,174           |
| Cash and cash equivalents                           | 4,257,349         | -                  | 4,257,349                             | -                | -                 |
| <b>Total</b>  | <b>23,292,225</b> | <b>6,118,260</b>   | <b>7,082,732</b>                      | <b>6,783,122</b> | <b>15,354,943</b> |
| <b>Financial liabilities at amortised cost</b>      |                   |                    |                                       |                  |                   |
| Payables arising out of reinsurance arrangements    | 414,107           | 414,107            | -                                     | -                | -                 |
| Other payables                                      | 466,828           | 466,828            | -                                     | -                | -                 |
| <b>Total financial liabilities</b>                  | <b>880,935</b>    | <b>880,935</b>     | <b>-</b>                              | <b>-</b>         | <b>-</b>          |
| <b>Reinsurance liabilities</b>                      |                   |                    |                                       |                  |                   |
| Long term liabilities                               | 2,177,401         | 2,177,401          | -                                     | -                | -                 |
| Short term liabilities                              | 5,441,437         | 5,441,437          | -                                     | -                | -                 |
| <b>Total</b>  | <b>7,618,838</b>  | <b>7,618,838</b>   | <b>-</b>                              | <b>-</b>         | <b>-</b>          |
| <b>Net gap</b>                                      | <b>14,792,452</b> | <b>(2,381,513)</b> | <b>7,082,732</b>                      | <b>6,783,122</b> | <b>15,354,943</b> |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

| GROUP   | Carrying amount   | No stated maturity | Contractual cash flows (undiscounted) |                  |                   |
|---|-------------------|--------------------|---------------------------------------|------------------|-------------------|
| 31 December 2015                                    | amount            | maturity           | 0-1 years                             | 1-5 years        | >5 years          |
| Financial assets                                    | KShs '000         | KShs '000          | KShs '000                             | KShs '000        | KShs '000         |
| <b>Held to maturity:</b>                            |                   |                    |                                       |                  |                   |
| - Government bonds                                  | 9,186,523         | -                  | 1,423,146                             | 4,715,230        | 14,342,905        |
| - Corporate bonds                                   | 494,146           | -                  | 60,897                                | 562,435          | 126,500           |
| <b>Available for sale</b>                           |                   |                    |                                       |                  |                   |
| - Quoted equities                                   | 2,553,572         | 2,553,572          | -                                     | -                | -                 |
| - Unquoted equities                                 | 202,231           | 202,231            | -                                     | -                | -                 |
| <b>Loans and receivables</b>                        |                   |                    |                                       |                  |                   |
| Receivables arising out of reinsurance arrangements | 3,199,969         | 3,199,969          | -                                     | -                | -                 |
| Premium loss reserves                               | 298,977           | 298,977            | -                                     | -                | -                 |
| Mortgage loans                                      | 648,104           | -                  | 154,140                               | 411,928          | 156,566           |
| Other receivables                                   | 101,325           | 101,325            | -                                     | -                | -                 |
| Cash and cash equivalents                           | 6,276,010         | -                  | 6,276,010                             | -                | -                 |
| <b>Total</b>  | <b>22,960,857</b> | <b>6,356,074</b>   | <b>7,914,193</b>                      | <b>5,689,593</b> | <b>14,625,971</b> |
| <b>Financial liabilities at amortised cost</b>      |                   |                    |                                       |                  |                   |
| Payables arising out of reinsurance arrangements    | 512,496           | 512,496            | -                                     | -                | -                 |
| Other payables                                      | 603,697           | 603,697            | -                                     | -                | -                 |
| <b>Total financial liabilities</b>                  | <b>1,116,193</b>  | <b>1,116,193</b>   | <b>-</b>                              | <b>-</b>         | <b>-</b>          |
| <b>Reinsurance liabilities</b>                      |                   |                    |                                       |                  |                   |
| Long term liabilities                               | 2,179,836         | 2,179,836          | -                                     | -                | -                 |
| Short term liabilities                              | 5,166,290         | 5,166,290          | -                                     | -                | -                 |
| <b>Total</b>  | <b>7,346,126</b>  | <b>7,346,126</b>   | <b>-</b>                              | <b>-</b>         | <b>-</b>          |
| <b>Net gap</b>                                      | <b>14,498,538</b> | <b>(2,106,245)</b> | <b>7,914,193</b>                      | <b>5,689,593</b> | <b>14,625,971</b> |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

| COMPANY<br>31-December 2015                         | Carrying<br>amount<br>KShs '000 | No stated<br>maturity<br>KShs '000 | Contractual cash flows (undiscounted) |                        |                       |
|---|---------------------------------|------------------------------------|---------------------------------------|------------------------|-----------------------|
|   |                                 |                                    | 0-1 years<br>KShs '000                | 1-5 years<br>KShs '000 | >5 years<br>KShs '000 |
| <b>Held to maturity:</b>                            |                                 |                                    |                                       |                        |                       |
| - Government bonds                                  | 9,186,523                       | -                                  | 1,423,146                             | 4,715,230              | 14,342,905            |
| - Corporate bonds                                   | 494,146                         | -                                  | 60,897                                | 562,435                | 126,500               |
| <b>Available for sale</b>                           |                                 |                                    |                                       |                        |                       |
| -Quoted equities                                    | 2,553,572                       | 2,553,572                          | -                                     | -                      | -                     |
| -Unquoted equities                                  | 202,231                         | 202,231                            | -                                     | -                      | -                     |
| <b>Loans and receivables</b>                        |                                 |                                    |                                       |                        |                       |
| Receivables arising out of reinsurance arrangements | 2,858,326                       | 2,858,326                          | -                                     | -                      | -                     |
| Premium loss reserves                               | 233,541                         | 233,541                            | -                                     | -                      | -                     |
| Mortgage loans                                      | 643,290                         | -                                  | 154,140                               | 411,928                | 156,566               |
| Due from related parties                            | 196,805                         | 196,805                            | -                                     | -                      | -                     |
| Other receivables                                   | 83,278                          | 83,278                             | -                                     | -                      | -                     |
| Cash and cash equivalents                           | 6,163,534                       | -                                  | 6,163,534                             | -                      | -                     |
| <b>Total</b>  | <b>22,615,246</b>               | <b>6,127,753</b>                   | <b>7,801,717</b>                      | <b>5,689,593</b>       | <b>14,625,971</b>     |
| <b>Financial liabilities at amortised cost</b>      |                                 |                                    |                                       |                        |                       |
| Payables arising out of reinsurance arrangements    | 376,698                         | 376,698                            | -                                     | -                      | -                     |
| Other payables                                      | 719,701                         | 719,701                            | -                                     | -                      | -                     |
| <b>Total financial liabilities</b>                  | <b>1,096,399</b>                | <b>1,096,399</b>                   | <b>-</b>                              | <b>-</b>               | <b>-</b>              |
| <b>Reinsurance liabilities</b>                      |                                 |                                    |                                       |                        |                       |
| Long term liabilities                               | 2,179,836                       | 2,179,836                          | -                                     | -                      | -                     |
| Short term liabilities                              | 5,077,277                       | 5,077,277                          | -                                     | -                      | -                     |
| <b>Total</b>  | <b>7,257,113</b>                | <b>7,257,113</b>                   | <b>-</b>                              | <b>-</b>               | <b>-</b>              |
| <b>Net gap</b>                                      | <b>14,261,734</b>               | <b>(2,225,759)</b>                 | <b>7,801,717</b>                      | <b>5,689,593</b>       | <b>14,625,971</b>     |

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risk

The Group 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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The risk management policies established identify and analyse the risks faced by the Group, 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 Group, 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 Group's failure to meet its maturing obligations when they fall due without incurring unacceptable losses. The Group'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 Group'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 Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group 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)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Liquidity risk (continued)

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

|  | Due on<br>demand<br>KShs '000 | Due after<br>1 year<br>KShs '000 | Total<br>KShs '000 |
|--|-------------------------------|----------------------------------|--------------------|
| <b>GROUP</b>                                     |                               |                                  |                    |
| 31 December 2016                                 |                               |                                  |                    |
| Long term reinsurance contract liabilities       | 2,177,401                     | -                                | 2,177,401          |
| Short term insurance contract liabilities        | 5,530,550                     | -                                | 5,530,550          |
| Other payables                                   | 476,333                       |                                  | 476,333            |
| Payables arising out of reinsurance arrangements | <u>560,557</u>                | <u>-</u>                         | <u>560,557</u>     |
| Total financial liabilities                      | <u>8,744,841</u>              | <u>-</u>                         | <u>8,744,841</u>   |
| 31 December 2015                                 |                               |                                  |                    |
| Long term reinsurance contract liabilities       | 2,179,836                     | -                                | 2,179,836          |
| Short term insurance contract liabilities        | 5,166,290                     | -                                | 5,166,290          |
| Other payables                                   | 603,697                       |                                  | 603,697            |
| Payables arising out of reinsurance arrangements | <u>512,496</u>                | <u>-</u>                         | <u>512,496</u>     |
| Total financial liabilities                      | <u>8,462,319</u>              | <u>-</u>                         | <u>8,462,319</u>   |
| <b>COMPANY</b>                                   |                               |                                  |                    |
| 31 December 2016                                 |                               |                                  |                    |
| Long term reinsurance contract liabilities       | 2,177,401                     | -                                | 2,177,401          |
| Short term insurance contract liabilities        | 5,441,537                     | -                                | 5,441,537          |
| Other payables                                   | 466,828                       | -                                | 466,828            |
| Payables arising out of reinsurance arrangements | <u>414,107</u>                | <u>-</u>                         | <u>414,107</u>     |
| Total financial liabilities                      | <u>8,499,873</u>              | <u>-</u>                         | <u>8,499,873</u>   |
| 31 December 2015                                 |                               |                                  |                    |
| Long term reinsurance contract liabilities       | 2,179,836                     | -                                | 2,179,836          |
| Short term insurance contract liabilities        | 5,077,277                     | -                                | 5,077,277          |
| Other payables                                   | 719,701                       |                                  | 719,701            |
| Payables arising out of reinsurance arrangements | <u>376,698</u>                | <u>-</u>                         | <u>376,698</u>     |
| Total financial liabilities                      | <u>8,353,512</u>              | <u>-</u>                         | <u>8,353,512</u>   |

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 Group'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*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes 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 Group holds include investments in government securities, mortgage loans and deposits with financial institutions. Re-insurance receivables are not interest bearing. Liabilities under short term insurance contracts are not interest bearing.

The interest rate risk of the above future cash flows is considered to be low primarily because they are at fixed interest rates. A change of 1% in interest rates would have immaterial effects on the future cash flows.

*Currency rate risk*

The Group writes business from a number of countries and as a consequence receives premiums in several currencies. The Group's obligations to, and receivables from the cedants are therefore in these original currencies. The Group is therefore exposed to the exchange rate risk where there is a mismatch between assets and liabilities per currency.

The Group's main operations are concentrated in Kenya and its assets and liabilities are reported in the local currency. It has transactions in foreign currency which are mainly denominated in US Dollars.

Foreign exchange risk also arises from commercial transactions, recognized assets and liabilities in foreign currencies such as deposits with financial institutions.

|   | GROUP            |                  | COMPANY          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016<br>KShs'000 | 2015<br>KShs'000 | 2016<br>KShs'000 | 2015<br>KShs'000 |
| Assets in foreign currencies                        |                  |                  |                  |                  |
| Trade and other receivables                         | 3,907,863        | 3,126,126        | 3,541,473        | 2,784,483        |
| Premiums and loss reserves                          | 935,948          | 767,996          | 811,533          | 702,560          |
| Deposits with financial institutions                | 947,087          | 696,219          | 701,569          | 620,548          |
| Cash and bank                                       | <u>51,806</u>    | <u>163,505</u>   | <u>9,424</u>     | <u>137,904</u>   |
| Foreign currency assets                             | <u>5,842,704</u> | <u>4,753,846</u> | <u>5,063,999</u> | <u>4,245,495</u> |
| Liabilities in foreign currencies                   |                  |                  |                  |                  |
| Payables  | <u>(431,577)</u> | <u>(467,011)</u> | <u>(285,127)</u> | <u>(331,213)</u> |
| Net foreign currency (liability)/<br>asset position | <u>5,411,127</u> | <u>4,286,835</u> | <u>4,778,872</u> | <u>3,914,282</u> |

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Market risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in USD, with all other variables held constant, of the Group's and the Company's profit before tax and equity (due to changes in the fair value of monetary assets and liabilities).

| USD  |                         | GROUP                                   |                              | COMPANY                                 |                              |
|------|-------------------------|---|------------------------------|---|------------------------------|
|      |                         | Effect on profit before tax<br>KShs'000 | Effect on equity<br>KShs'000 | Effect on profit before tax<br>KShs'000 | Effect on equity<br>KShs'000 |
| 2016 | Increase in US\$ by 10% | 541,113                                 | 378,779                      | 477,887                                 | 334,521                      |
|      | Decrease in US\$ by 10% | (541,113)                               | (378,779)                    | (477,887)                               | (334,521)                    |
| 2015 | Increase in US\$ by 10% | 428,684                                 | 300,078                      | 391,428                                 | 274,000                      |
|      | Decrease in US\$ by 10% | (428,684)                               | (300,078)                    | (391,428)                               | (274,000)                    |

*Price risk*

The Group is exposed to equity securities price risk as a result of its holdings in equity investments which are listed and traded on the Nairobi Securities Exchange 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 Group has a defined investment policy which sets limits on the Group's exposure to equities both in aggregate terms and by category/share. This policy of diversification is used to manage the Group's price risk arising from its investments in equity securities.

The Group's unlisted equities are also subject to price risk however, the Group has carried them at cost less any impairment cost. Refer to note 22.

As at the reporting date, the exposure to listed equity securities at fair value was KShs 2,553 million. An increase/decrease of 15 % in the value of the listed equity would result in a decrease /increase in profits of KShs 383 million (2015: KShs 489 million).

(c) Credit risk

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

Key areas where the Group 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;
- mortgage advances to its customers and staff;
- government and corporate bonds;
- deposits with financial institutions;
- cash and bank balances.

The Group structures the levels of credit risk it accepts by placing credit limits on its exposure to a single counterparty or company 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. The Group maintain records of the payment history for significant contract holders with whom they conduct regular business.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Credit risk (continued)

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 Group. 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:

|  | GROUP             |                   | COMPANY           |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Held to maturity instruments   |                   |                   |                   |                   |
| Government securities  | 11,721,276        | 9,186,523         | 11,721,276        | 9,186,523         |
| Corporate bonds  | 487,923           | 494,146           | 487,923           | 494,146           |
| Loans and receivables at amortized cost:                                       |                   |                   |                   |                   |
| Deposits with financial institutions   | 4,196,935         | 5,957,281         | 3,951,416         | 5,881,609         |
| Mortgage loans   | 707,417           | 648,104           | 707,417           | 643,290           |
| Receivables arising out of reinsurance arrangements                            | 3,582,067         | 3,199,969         | 3,351,617         | 2,858,326         |
| Premium and loss reserves (note 25)  | 379,597           | 298,977           | 276,883           | 233,541           |
| Bank balances  | 348,376           | 318,559           | 305,782           | 281,814           |
| Other receivables  | 179,697           | 101,325           | 178,653           | 83,278            |
| Total assets bearing credit risk   | 21,603,288        | 20,204,884        | 20,980,967        | 19,662,527        |
| Receivables arising out of reinsurance arrangements are summarized as follows: |                   |                   |                   |                   |
| Neither past due nor impaired  | 673,311           | 506,233           | 581,363           | 340,427           |
| Past due but not impaired:   |                   |                   |                   |                   |
| -up to 91 to 365 days  | 2,181,133         | 2,094,108         | 2,106,027         | 2,007,366         |
| -up to 1 to 2 years  | 727,623           | 599,628           | 664,227           | 510,533           |
| -Impaired  | 1,210,885         | 640,846           | 1,074,945         | 640,846           |
|  | 4,792,952         | 3,840,815         | 4,426,562         | 3,499,172         |
| Less: provision for impairment (note 24)                                       | (1,210,885)       | (640,846)         | (1,074,945)       | (640,846)         |
| Total  | 3,582,067         | 3,199,969         | 3,351,617         | 2,858,326         |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
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3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Credit risk (continued)

Mortgage loans are summarized as follows:

|  | GROUP            |                  | COMPANY          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016             | 2015             | 2016             | 2015             |
|  | KShs '000        | KShs '000        | KShs '000        | KShs '000        |
| Neither past due nor impaired            | 648,139          | 596,294          | 648,139          | 591,480          |
| Past due but not impaired                | 59,278           | 51,810           | 58,278           | 51,810           |
| Impaired                                 | <u>130,780</u>   | <u>120,021</u>   | <u>130,780</u>   | <u>120,021</u>   |
|  | 838,197          | 768,125          | 838,197          | 763,311          |
| Less: provision for impairment (note 17) | <u>(130,780)</u> | <u>(120,021)</u> | <u>(130,780)</u> | <u>(120,021)</u> |
| Total                                    | <u>707,417</u>   | <u>648,104</u>   | <u>707,417</u>   | <u>643,290</u>   |

The accounts under the fully performing category are paying their debts as they continue trading. The default rate is low. Credit control department actively monitors overdue account balances. In addition, the Group settles claims on a net basis i.e. net of any re-insurance receivables due from cedants. An impairment analysis is performed at each reporting date on an individual basis. The debt that is impaired has been fully provided for. The maximum exposure to credit risk at the reporting date is the carrying amount.

Refer to note 17 and 25 for impairment analysis of mortgage loans and premiums and loss reserves respectively.

Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

The following fair value disclosures have been made in respect of quoted Government securities and quoted corporate bonds which have been carried at amortised cost. The carrying amounts of the remaining financial instruments i.e. cash and bank and receivables, approximate their fair values hence no fair value disclosures have been made.

| GROUP                 | Level 1    | Level 2   | Level 3   | Total      |
|-----------------------|------------|-----------|-----------|------------|
|                       | KShs '000  | KShs '000 | KShs '000 |            |
| At 31 December 2016:  |            |           |           |            |
| Government securities | 11,042,836 | -         | -         | 11,042,836 |
| Corporate bonds       | 473,632    | -         | -         | 473,632    |
| At 31 December 2015:  |            |           |           |            |
| Government securities | 8,161,130  | -         | -         | 8,161,130  |
| Corporate bonds       | 467,099    | -         | -         | 467,099    |
| COMPANY               |            |           |           |            |
| At 31 December 2016:  |            |           |           |            |
| Government securities | 11,042,836 | -         | -         | 11,042,836 |
| Corporate bonds       | 473,632    | -         | -         | 473,632    |
| At 31 December 2015:  |            |           |           |            |
| Government securities | 8,161,130  | -         | -         | 8,161,130  |
| Corporate bonds       | 467,099    | -         | -         | 467,099    |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Fair value hierarchy (continued)

IFRS 13 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 Group'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 Group considers relevant and observable market prices in its valuations where possible.

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

| GROUP                     | Level 1<br>KShs '000 | Level 2<br>KShs '000 | Level 3<br>KShs '000 | Total<br>KShs '000 |
|---------------------------|----------------------|----------------------|----------------------|--------------------|
| At 31 December 2016       |                      |                      |                      |                    |
| Quoted equity instruments | 2,066,252            | -                    | -                    | 2,066,252          |
| Property and equipment    | -                    | -                    | 86,673               | 86,673             |
| Investment properties     | -                    | -                    | 8,903,000            | 8,903,000          |
| At 31 December 2015       |                      |                      |                      |                    |
| Quoted equity instruments | 2,553,572            | -                    | -                    | 2,553,572          |
| Property and equipment    | -                    | -                    | 68,688               | 68,688             |
| Investment properties     | -                    | -                    | 8,025,000            | 8,025,000          |
| COMPANY                   |                      |                      |                      |                    |
| At 31 December 2016       |                      |                      |                      |                    |
| Quoted equity instruments | 2,066,252            | -                    | -                    | 2,066,252          |
| Property and equipment    | -                    | -                    | 79,866               | 79,866             |
| Investment properties     | -                    | -                    | 8,903,000            | 8,903,000          |
| At 31 December 2015       |                      |                      |                      |                    |
| Quoted equity instruments | 2,553,572            | -                    | -                    | 2,553,572          |
| Property and equipment    | -                    | -                    | 66,445               | 66,445             |
| Investment properties     | -                    | -                    | 8,025,000            | 8,025,000          |

The management assessed that the fair values of cash and short-term deposits, re-insurance receivables, other receivables, re-insurance payables, mortgage debtors, treasury bills and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Fair value hierarchy (continued)

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2016 and 2015 are as shown below:

|                        | Valuation Technique                                  | Significant unobservable inputs                          | Range (weighted average)             |
|------------------------|--|--|--------------------------------------|
| Investment properties  | Sales comparison approach                            | Price per acre in a similar location                     | KShs 500 million - KShs 800 million  |
|                        | Income capitalization approach                       | Rental income per square meter                           | KShs 750-Kshs 1,000 per square metre |
|                        | Cost approach  | Estimated costs associated with maintaining the building | -                                    |
|                        |  | Depreciated replacement cost of a similar building       | -                                    |
| Property and equipment | Depreciated replacement cost for plant and machinery | Capital expenditure on a similar asset                   | -                                    |

- The valuation of investment properties was carried out by Caroline N. Nyororo - P/No. 0002566 of Ebony Estates Limited, professional independent valuers as at 31 December 2016.
- The valuation of property and equipment was last carried out by Gimco Valuers Limited, professional independent valuers as at 31 December 2011. As at 31 December 2016, the carrying value of computers, furniture and equipment did not differ significantly from its fair value.

#### 4. CAPITAL MANAGEMENT

Capital includes ordinary shares and equity attributable to the shareholders of the Group. Externally imposed capital requirements are set and regulated by the Insurance Regulatory Authority (IRA). These requirements are put in place to ensure solvency margins are maintained in the insurance industry. Further objectives are set by the Group to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders value.

Further, the Group currently has a paid up capital of KShs 1.75 billion for the combined composite business, which meets the minimal requirement of KShs 800 million as per the Insurance Act.

As at 31 December 2016, the Group had complied with the externally imposed capital requirements.

The Group'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 Group 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 Group 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 Group manages as capital all items that are eligible to be treated as capital. The Group has no borrowings.

During the year the Group 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 Group 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 Group'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 group life. These segments are the basis on which the CODM allocates resources and assesses performance. Investment and cash management for the Group'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 Group's main geographical segment of business is in Kenya.

The management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

5. SEGMENTAL REPORTING (continued)

The various products and services that the reporting segments derive their revenues from have been described as follows.

|  | GROUP             |                   | COMPANY           |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2016<br>KShs'000  | 2015<br>KShs'000  | 2016<br>KShs'000  | 2015<br>KShs'000  |
| <b>Gross earned premiums</b>   |                   |                   |                   |                   |
| General insurance business   | 11,762,650        | 11,779,216        | 11,223,537        | 11,396,212        |
| Life business  | <u>1,481,941</u>  | <u>1,281,125</u>  | <u>1,476,800</u>  | <u>1,280,417</u>  |
|  | <u>13,244,591</u> | <u>13,060,341</u> | <u>12,700,337</u> | <u>12,676,629</u> |
| <b>Investment income:</b>  |                   |                   |                   |                   |
| <b>General insurance business</b>                                    |                   |                   |                   |                   |
| Rental income from investment properties                             | 597,706           | 583,243           | 597,706           | 583,243           |
| Interest on Government securities held to maturity                   | 969,865           | 897,080           | 969,865           | 897,080           |
| Gain on sale of available-for-sale quoted equity instruments         | 209,228           | 202,319           | 209,228           | 202,319           |
| Dividends receivable on available for sale quoted equity instruments | 107,002           | 112,350           | 107,002           | 112,350           |
| Interest on commercial mortgages                                     | 68,550            | 77,329            | 68,550            | 77,329            |
| Interest on deposits with financial institutions- held to maturity   | 493,531           | 492,929           | 490,738           | 490,057           |
| Interest on corporate bonds- held to maturity                        | 53,272            | 56,134            | 53,272            | 56,134            |
| Profit on sale of non-current asset held for sale                    | 47,461            | 101,206           | 47,497            | 101,206           |
| Interest on staff mortgages and loans                                | <u>14,356</u>     | <u>11,694</u>     | <u>14,224</u>     | <u>11,556</u>     |
|  | <u>2,560,971</u>  | <u>2,534,284</u>  | <u>2,558,082</u>  | <u>2,531,274</u>  |
| <b>Life assurance business</b>                                       |                   |                   |                   |                   |
| Rental income from investment properties                             | 171,730           | 163,130           | 171,730           | 163,130           |
| Interest on Government securities held to maturity                   | 272,240           | 188,738           | 272,240           | 188,738           |
| Dividends receivable on available-for-sale quoted equity instruments | 20,077            | -                 | 20,077            | -                 |
| Interest on deposits with financial institutions- held to maturity   | 48,361            | 154,986           | 48,361            | 154,986           |
| Interest on corporate bonds- held to maturity                        | <u>5,919</u>      | <u>-</u>          | <u>5,919</u>      | <u>-</u>          |
|  | <u>518,327</u>    | <u>506,854</u>    | <u>518,327</u>    | <u>506,854</u>    |
| Total investment income  | <u>3,079,298</u>  | <u>3,041,138</u>  | <u>3,076,409</u>  | <u>3,038,128</u>  |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

5. SEGMENTAL REPORTING (continued)

Other disclosures:

| GROUP                                  | General<br>Insurance<br>business<br>KShs'000 | Life<br>Assurance<br>Business<br>KShs'000 | Total<br>2016<br>KShs'000 | Total<br>2015<br>KShs'000 |
|--|--|---|---------------------------|---------------------------|
| Reportable segment profits after tax   | 2,780,325                                    | 506,959                                   | 3,287,284                 | 3,554,250                 |
| Reportable segment total assets        | 31,416,933                                   | 7,110,926                                 | 38,494,310                | 35,954,134                |
| Less:                                  |  |   |                           |                           |
| : related party balances               | -  | -   | -                         | -                         |
| Net                                    | 31,416,933                                   | 7,110,926                                 | 38,494,310                | 14,021,269                |
| Reportable segment total liabilities   | 10,752,219                                   | 3,608,794                                 | 14,361,013                | 14,021,269                |
| Less:                                  |  |   |                           |                           |
| : related party balances               | -  | -   | -                         | -                         |
| Net                                    | 10,752,219                                   | 3,608,794                                 | 14,361,013                | 14,021,269                |
| Fees and commission income             | 51   | 36,136                                    | 36,187                    | 40,490                    |
| Depreciation of property and equipment | 26,189                                       | 5,364                                     | 31,553                    | 27,402                    |
| Amortisation of intangible assets      | 33,150                                       | 6,790                                     | 39,940                    | 26,570                    |
| Property and equipment additions       | 49,864                                       | -   | 49,864                    | 3,655                     |
| Intangible assets additions            | 245,379                                      | -   | 245,379                   | 56,383                    |
| COMPANY                                | General<br>Insurance<br>business<br>KShs'000 | Life<br>Assurance<br>Business<br>KShs'000 | Total<br>2016<br>KShs'000 | Total<br>2015<br>KShs'000 |
| Reportable segment profits after tax   | 2,876,254                                    | 502,348                                   | 3,378,602                 | 3,433,619                 |
| Reportable segment total assets        | 30,957,813                                   | 7,073,634                                 | 38,031,447                | 35,572,195                |
| Less:                                  |  |   |                           |                           |
| : Related party balances               | (42,624)                                     | -   | (42,624)                  | (196,805)                 |
| : Investment in subsidiaries           | (187,782)                                    | -   | (187,782)                 | (4,186)                   |
| Reportable segment total assets-Net    | 30,727,407                                   | 7,073,634                                 | 37,801,041                | 35,371,204                |
| Reportable segment total liabilities   | 10,316,369                                   | 3,610,314                                 | 13,926,683                | 13,885,607                |
| Less: related party balances           | -  | -   | -                         | (125,646)                 |
| Net                                    | 10,316,369                                   | 3,610,314                                 | 13,926,683                | 13,759,961                |
| Fees and commission income             | 51   | 36,136                                    | 36,187                    | 40,490                    |
| Depreciation of property and equipment | 25,764                                       | 5,277                                     | 31,041                    | 27,005                    |
| Amortisation of intangible assets      | 33,150                                       | 6,790                                     | 39,940                    | 26,570                    |
| Property and equipment additions       | 44,462                                       | -   | 44,462                    | 3,096                     |
| Intangible assets additions            | 245,379                                      | -   | 245,379                   | 56,383                    |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

6. PREMIUMS INCOME

The Group 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 Group, analysed into several sub-classes of business based on the nature of the assumed risks.

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

|                   | GROUP             |                   | COMPANY           |                   |
|-------------------|-------------------|-------------------|-------------------|-------------------|
|                   | 2016<br>KShs'000  | 2015<br>KShs'000  | 2016<br>KShs'000  | 2015<br>KShs'000  |
| Super annuation   | 1,250,162         | 1,090,851         | 1,245,021         | 1,090,148         |
| Ordinary life     | 105,450           | 73,459            | 105,450           | 73,455            |
| Motor             | 587,799           | 519,433           | 565,891           | 502,117           |
| Fire              | 3,526,401         | 3,678,015         | 3,271,475         | 3,480,352         |
| Theft             | 518,350           | 572,156           | 500,098           | 565,090           |
| Personal accident | 806,958           | 1,461,196         | 757,991           | 1,450,261         |
| Engineering       | 737,703           | 705,301           | 683,260           | 669,260           |
| Marine            | 612,610           | 638,171           | 561,432           | 595,964           |
| Medical           | 3,339,849         | 2,219,663         | 3,339,849         | 2,219,663         |
| Other             | <u>1,201,478</u>  | <u>1,057,833</u>  | <u>1,174,483</u>  | <u>1,034,352</u>  |
|                   | <u>12,686,760</u> | <u>12,016,078</u> | <u>12,204,950</u> | <u>11,680,662</u> |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

7. INVESTMENT INCOME

|  | GROUP            |                  | COMPANY          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2016<br>KShs'000 | 2015<br>KShs'000 | 2016<br>KShs'000 | 2015<br>KShs'000 |
| Rental income from investment properties                             | 769,436          | 746,373          | 769,436          | 746,373          |
| Interest on Government securities held to maturity                   | 1,242,104        | 1,085,818        | 1,242,104        | 1,085,818        |
| Gain on sale of available for sale quoted equity instruments         | 209,228          | 202,319          | 209,228          | 202,319          |
| Dividends receivable on available-for-sale quoted equity instruments | 127,079          | 112,350          | 127,079          | 112,350          |
| Interest on commercial mortgages                                     | 68,550           | 77,329           | 68,550           | 77,329           |
| Interest on deposits with financial institutions - held to maturity  | 541,893          | 647,915          | 539,099          | 645,043          |
| Interest on corporate bonds - held to maturity                       | 59,191           | 56,134           | 59,191           | 56,134           |
| Profit on sale of inventory property                                 | 47,461           | 101,206          | 47,461           | 101,206          |
| Interest on staff mortgages and loans                                | 14,356           | 11,694           | 14,224           | 11,556           |
| <b>Total investment income</b>                                       | <b>3,079,298</b> | <b>3,041,138</b> | <b>3,076,373</b> | <b>3,038,128</b> |

8. OTHER INCOME

|  |        |         |        |         |
|--|--------|---------|--------|---------|
| COMESA Yellow Card income                  | 41,679 | 32,520  | 41,679 | 32,521  |
| Net foreign exchange gains                 | -      | 200,632 | -      | 163,866 |
| Gain on disposal of property and equipment | -      | 904     | -      | 904     |
| Miscellaneous income*                      | 12,642 | 14,038  | 12,656 | 13,829  |
|  | 54,321 | 248,094 | 54,335 | 211,120 |

\* Miscellaneous income relates to income from hire of promotional space and mortgage commitment fees.

|  | GROUP             |                   | COMPANY           |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| 9. CLAIMS INCURRED                               |                   |                   |                   |                   |
| Claims paid                                      | 6,651,908         | 6,661,418         | 6,525,877         | 6,574,219         |
| Changes in the provision for outstanding claims  | 364,260           | 648,151           | 364,260           | 648,151           |
| Increase in actuarial liability                  | (2,435)           | 82,155            | (2,435)           | 82,155            |
| Gross claims incurred                            | 7,013,734         | 7,391,724         | 6,887,702         | 7,304,525         |
| Less: Amounts recoverable from retrocessionaires | (333,216)         | (330,114)         | (333,216)         | (330,114)         |
| <b>Net claims incurred</b>                       | <b>6,680,518</b>  | <b>7,061,610</b>  | <b>6,554,487</b>  | <b>6,974,411</b>  |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

| 10 (a). | CEDANT ACQUISITION COSTS | GROUP             |                   | COMPANY           |                   |
|---------|--------------------------|-------------------|-------------------|-------------------|-------------------|
|         |                          | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
|         | Super annuation          | 312,000           | 40,623            | 311,470           | 40,566            |
|         | Ordinary life            | 145,175           | 373,765           | 145,175           | 373,767           |
|         | Motor                    | 57,083            | 45,758            | 55,306            | 44,728            |
|         | Fire                     | 1,120,848         | 1,083,327         | 1,046,590         | 1,031,216         |
|         | Theft                    | 180,445           | 191,738           | 175,035           | 189,876           |
|         | Personal accident        | 205,159           | 417,852           | 192,500           | 414,868           |
|         | Engineering              | 236,527           | 233,715           | 219,579           | 222,305           |
|         | Marine                   | 180,039           | 194,156           | 165,299           | 182,188           |
|         | Medical                  | 829,165           | 488,606           | 829,165           | 488,606           |
|         | Other                    | 368,815           | 333,271           | 361,054           | 326,572           |
|         |                          | <u>3,635,256</u>  | <u>3,402,811</u>  | <u>3,501,173</u>  | <u>3,314,693</u>  |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

| 10 (b). | OPERATING AND OTHER EXPENSES                         | GROUP             |                   | COMPANY           |                   |
|---------|--|-------------------|-------------------|-------------------|-------------------|
|         |  | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
|         | Staff costs  | 641,842           | 555,823           | 598,646           | 528,199           |
|         | Depreciation (note 15)                               | 31,553            | 27,402            | 31,041            | 27,005            |
|         | Amortisation (note 16)                               | 39,940            | 26,570            | 39,940            | 26,570            |
|         | Auditors' remuneration                               | 11,184            | 7,085             | 11,184            | 7,085             |
|         | Directors' - emoluments                              | 15,967            | 12,218            | 15,967            | 12,218            |
|         | Directors' - fees                                    | 5,443             | 6,000             | 5,443             | 6,000             |
|         | Mortgages provisions                                 | 10,758            | 9,096             | 10,758            | 9,096             |
|         | Rent provisions                                      | 5,674             | -                 | 5,674             | -                 |
|         | Annual General Meeting expenses                      | 14,728            | 21,371            | 14,728            | 21,371            |
|         | Investment property direct operating expenses        | 200,197           | 178,635           | 200,197           | 178,636           |
|         | Travel and accommodation                             | 140,495           | 84,023            | 135,477           | 80,576            |
|         | Advertisement  | 29,007            | 10,689            | 25,686            | 10,689            |
|         | Professional and consultancy fees                    | 67,197            | 99,135            | 65,875            | 99,029            |
|         | Rent and rates                                       | 9,298             | 12,529            | 8,287             | 12,075            |
|         | Hardware and software maintenance                    | 28,784            | 52,453            | 28,770            | 52,367            |
|         | Donations, sponsorship and CSR activities            | 32,780            | 10,730            | 32,780            | 10,730            |
|         | Bank charges   | 14,975            | 19,229            | 14,495            | 18,555            |
|         | Taxation expenses in subsidiaries                    | 1,517             | 24,938            | -                 | -                 |
|         | Provision for unreconciled differences               | -                 | 84,738            | -                 | 68,939            |
|         | Forex losses   | 380,579           | -                 | 306,138           | -                 |
|         | Other expenses                                       | <u>150,442</u>    | <u>76,286</u>     | <u>122,991</u>    | <u>73,158</u>     |
|         |  | <u>1,832,360</u>  | <u>1,318,950</u>  | <u>1,674,077</u>  | <u>1,242,298</u>  |
|         | Staff costs consist:                                 |                   |                   |                   |                   |
|         | Salaries and wages                                   | 370,159           | 328,824           | 342,363           | 312,936           |
|         | Retirement benefit costs (note 21)                   | 17,031            | -                 | 17,031            | -                 |
|         | Medical expenses                                     | 30,130            | 22,773            | 28,077            | 23,210            |
|         | Leave allowance                                      | 29,265            | 40,882            | 27,346            | 37,625            |
|         | National social security benefit costs               | 526               | 1,137             | 293               | 265               |
|         | Gratuity accrual                                     | 15,978            | 20,488            | 9,769             | 18,932            |
|         | Bonus  | 88,423            | 69,153            | 88,105            | 68,919            |
|         | Staff welfare expenses                               | 19,429            | 18,882            | 16,288            | 17,215            |
|         | Training and recruitment                             | 44,329            | 17,695            | 43,886            | 17,091            |
|         | Leave pay provision                                  | (994)             | 8,430             | (1,028)           | 8,772             |
|         | Pension contributions to defined contribution scheme | <u>27,566</u>     | <u>27,559</u>     | <u>26,515</u>     | <u>23,234</u>     |
|         |  | <u>641,842</u>    | <u>555,823</u>    | <u>598,646</u>    | <u>528,199</u>    |
|         | Other expenses consist:                              |                   |                   |                   |                   |
|         | Motor vehicle running expenses                       | 4,548             | 3,955             | 4,302             | 3,789             |
|         | General office expenses                              | 27,588            | 17,029            | 21,000            | 14,483            |
|         | Marketing expenses                                   | 43,282            | 23,020            | 33,523            | 22,656            |
|         | Corporate and other sundry expenses                  | <u>75,024</u>     | <u>32,282</u>     | <u>64,166</u>     | <u>32,230</u>     |
|         |  | <u>150,442</u>    | <u>76,286</u>     | <u>122,991</u>    | <u>73,158</u>     |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

11. TAX

|  | GROUP             |                   | COMPANY           |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| (a) Tax charge   |                   |                   |                   |                   |
| Current tax on the taxable profit for the year   | 909,472           | 609,411           | 909,472           | 606,611           |
| Prior year under provision   | <u>22,690</u>     | <u>(3,124)</u>    | <u>22,690</u>     | <u>(3,124)</u>    |
|  | <u>932,162</u>    | <u>606,287</u>    | <u>932,162</u>    | <u>603,487</u>    |
| Deferred tax charge (note 37)  |                   |                   |                   |                   |
| - Current year   | (1,360)           | 354,768           | (1,360)           | 354,768           |
| - Prior year over provision  | <u>-</u>          | <u>(1,169)</u>    | <u>-</u>          | <u>(1,169)</u>    |
|  | <u>930,802</u>    | <u>959,886</u>    | <u>930,802</u>    | <u>957,086</u>    |
| (b) The Group's current tax charge is computed in accordance with income tax rules applicable to composite insurance and reinsurance companies. A reconciliation of the tax charge is shown below: |                   |                   |                   |                   |
|  | GROUP             |                   | COMPANY           |                   |
|  | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Profit before tax  | <u>4,218,086</u>  | <u>4,514,136</u>  | <u>4,309,404</u>  | <u>4,390,705</u>  |
| Tax applicable   | 1,265,426         | 1,320,012         | 1,292,821         | 1,317,212         |
| Tax effects of non-taxable income  | (463,441)         | (431,142)         | (463,441)         | (431,142)         |
| Tax effect of non-deductible expenses  | 106,127           | 75,309            | 78,732            | 75,309            |
| Prior year under/(over) provision- current tax   | 22,690            | (3,124)           | 22,690            | (3,124)           |
| Prior year over provision- deferred tax  | <u>-</u>          | <u>(1,169)</u>    | <u>-</u>          | <u>(1,169)</u>    |
|  | <u>930,802</u>    | <u>959,886</u>    | <u>930,802</u>    | <u>957,086</u>    |
| Attributable to:   |                   |                   |                   |                   |
| Long term business   | 263,485           | 223,956           | 263,485           | 223,956           |
| Short term business  | <u>667,317</u>    | <u>735,930</u>    | <u>667,317</u>    | <u>733,130</u>    |
|  | <u>930,802</u>    | <u>959,886</u>    | <u>930,802</u>    | <u>957,086</u>    |
| (c) Tax (recoverable) / payable  |                   |                   |                   |                   |
| At 1 January   | (44,435)          | 148,040           | (47,235)          | 148,040           |
| Charge for the year  | 932,162           | 606,287           | 932,162           | 603,487           |
| Paid in the year   | <u>(705,383)</u>  | <u>(798,762)</u>  | <u>(671,565)</u>  | <u>(798,762)</u>  |
| At 31 December   | <u>182,344</u>    | <u>(44,435)</u>   | <u>213,362</u>    | <u>(47,235)</u>   |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

12. EARNINGS PER SHARE (EPS)

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.

|   | GROUP             |                   | COMPANY           |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Profit attributable to shareholders                 | 3,287,284         | 3,554,250         | 3,378,602         | 3,433,619         |
| Weighted average number of ordinary shares in issue | <u>699,949</u>    | <u>699,949</u>    | <u>699,949</u>    | <u>699,949</u>    |
| Basic and diluted earnings per share                | <u>4.70</u>       | <u>5.10</u>       | <u>4.82</u>       | <u>4.90</u>       |

There were no potentially dilutive shares outstanding at 31 December 2016 and 2015. The diluted earnings per share is therefore the same as the basic earnings per share.

13. SHARE CAPITAL

|                               |   | 2016               | 2015                              |
|-------------------------------|---|--------------------|-----------------------------------|
|                               |   | KShs '000          | KShs '000                         |
| (i) Authorized: share capital |   |                    |                                   |
|                               | 800,000,000 ordinary shares of KShs 2.50 each | <u>2,000,000</u>   | <u>2,000,000</u>                  |
| (ii) Issued and fully paid    | Number of shares                              | 2016<br>KShs '000  | 2015<br>KShs '000                 |
|                               | At 31 December                                | <u>699,949,068</u> | <u>1,749,873</u> <u>1,749,873</u> |

14. 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.

Fair value reserve

The fair value reserve includes the cumulative 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 and cumulative foreign exchange movement on the subsidiaries.

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 Group, except for cumulative fair value gains on the Group's investment properties amounting to KShs 6,014,828,000 (2015: KShs 5,201,315,000) whose distribution is subject to restrictions imposed by legislation.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

15. PROPERTY AND EQUIPMENT

| GROUP                          | Motor<br>Vehicles<br>KShs'000 | Computers<br>KShs'000 | Furniture and<br>equipment<br>KShs'000 | Capital<br>W.I.P<br>KShs'000 | Total<br>KShs'000 |
|--------------------------------|-------------------------------|-----------------------|--|------------------------------|-------------------|
| 31 DECEMBER 2016               |                               |                       |  |                              |                   |
| COST / VALUATION               |                               |                       |  |                              |                   |
| At 1 January 2016              | 13,256                        | 81,332                | 94,883                                 | 550                          | 190,021           |
| Additions                      | 19,896                        | 17,714                | 11,697                                 | 557                          | 49,864            |
| Transfers from W.I.P           | -                             | 540                   | 10                                     | (550)                        | -                 |
| Exchange difference adjustment | (80)                          | (37)                  | (79)                                   | -                            | (196)             |
| At 31 December 2016            | <u>33,072</u>                 | <u>99,549</u>         | <u>106,511</u>                         | <u>557</u>                   | <u>239,689</u>    |
| DEPRECIATION                   |                               |                       |  |                              |                   |
| At 1 January 2016              | 10,366                        | 56,080                | 54,887                                 | -                            | 121,333           |
| Charge for the year            | 4,351                         | 15,605                | 11,597                                 | -                            | 31,553            |
| Exchange difference adjustment | 80                            | 17                    | 33                                     | -                            | 130               |
| At 31 December 2016            | <u>14,797</u>                 | <u>71,702</u>         | <u>66,517</u>                          | <u>-</u>                     | <u>153,016</u>    |
| NET CARRYING AMOUNT            |                               |                       |  |                              |                   |
| At 31 December 2016            | <u>18,275</u>                 | <u>27,847</u>         | <u>39,994</u>                          | <u>557</u>                   | <u>86,673</u>     |
| 31 DECEMBER 2015               |                               |                       |  |                              |                   |
| COST / VALUATION               |                               |                       |  |                              |                   |
| At 1 January 2015              | 15,005                        | 79,175                | 94,219                                 | -                            | 188,399           |
| Additions                      | -                             | 2,345                 | 760                                    | 550                          | 3,655             |
| Transfers                      | -                             | 7                     | (7)                                    | -                            | -                 |
| Exchange difference adjustment | 51                            | 25                    | (89)                                   | -                            | (13)              |
| Disposal                       | (1,800)                       | (220)                 | -                                      | -                            | (2,020)           |
| At 31 December 2015            | <u>13,256</u>                 | <u>81,332</u>         | <u>94,883</u>                          | <u>550</u>                   | <u>190,021</u>    |
| DEPRECIATION                   |                               |                       |  |                              |                   |
| At 1 January 2015              | 10,368                        | 42,343                | 43,041                                 | -                            | 95,752            |
| Charge for the year            | 1,747                         | 13,811                | 11,844                                 | -                            | 27,402            |
| Transfers                      | -                             | 3                     | (3)                                    | -                            | -                 |
| Exchange difference adjustment | 51                            | 1                     | 5                                      | -                            | 57                |
| Disposal                       | (1,800)                       | (78)                  | -                                      | -                            | (1,878)           |
| At 31 December 2015            | <u>10,366</u>                 | <u>56,080</u>         | <u>54,887</u>                          | <u>-</u>                     | <u>121,333</u>    |
| NET CARRYING AMOUNT            |                               |                       |  |                              |                   |
| At 31 December 2015            | <u>2,890</u>                  | <u>25,252</u>         | <u>39,996</u>                          | <u>550</u>                   | <u>68,688</u>     |

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. The net carrying amount of the Group's property and equipment would have been KShs 84,725,000 (2015: KShs 64,031,000) if they had not been revalued. As at 31 December 2016, the carrying value of computer, furniture and equipment did not differ significantly from its fair value.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

15. PROPERTY AND EQUIPMENT (continued)

| COMPANY             | Motor<br>Vehicles<br>KShs'000 | Computers<br>KShs'000 | Furniture and<br>equipment<br>KShs'000 | Capital<br>W.I.P<br>KShs'000 | Total<br>KShs'000 |
|---------------------|-------------------------------|-----------------------|--|------------------------------|-------------------|
| 31 DECEMBER 2016    |                               |                       |  |                              |                   |
| COST / VALUATION    |                               |                       |  |                              |                   |
| At 1 January 2016   | 10,988                        | 80,871                | 92,670                                 | 53                           | 184,582           |
| Additions           | 19,580                        | 16,867                | 7,967                                  | 48                           | 44,462            |
| Transfers*          | -                             | 53                    | -                                      | (53)                         | -                 |
| At 31 December 2016 | <u>30,568</u>                 | <u>97,791</u>         | <u>100,637</u>                         | <u>964</u>                   | <u>229,044</u>    |
| DEPRECIATION        |                               |                       |  |                              |                   |
| At 1 January 2016   | 8,098                         | 55,842                | 54,197                                 | -                            | 118,137           |
| Charge for the year | <u>4,195</u>                  | <u>15,146</u>         | <u>11,700</u>                          | -                            | <u>31,041</u>     |
| At 31 December 2016 | <u>12,293</u>                 | <u>70,988</u>         | <u>65,897</u>                          | -                            | <u>149,178</u>    |
| NET CARRYING AMOUNT |                               |                       |  |                              |                   |
| At 31 December 2016 | <u>18,275</u>                 | <u>26,803</u>         | <u>34,740</u>                          | <u>48</u>                    | <u>79,866</u>     |
| 31 DECEMBER 2015    |                               |                       |  |                              |                   |
| COST / VALUATION    |                               |                       |  |                              |                   |
| At 1 January 2015   | 15,005                        | 79,175                | 94,219                                 | -                            | 188,399           |
| Additions           | -                             | 2,283                 | 760                                    | 53                           | 3,096             |
| Transfers*          | (2,217)                       | (366)                 | (2,309)                                | -                            | (4,892)           |
| Disposal            | <u>(1,800)</u>                | <u>(221)</u>          | -                                      | -                            | <u>(2,021)</u>    |
| At 31 December 2015 | <u>10,988</u>                 | <u>80,871</u>         | <u>92,670</u>                          | <u>53</u>                    | <u>184,582</u>    |
| DEPRECIATION        |                               |                       |  |                              |                   |
| At 1 January 2015   | 10,368                        | 42,343                | 43,041                                 | -                            | 95,752            |
| Charge for the year | 1,747                         | 13,718                | 11,540                                 | -                            | 27,005            |
| Transfers*          | (2,217)                       | (141)                 | (384)                                  | -                            | (2,742)           |
| Disposal            | <u>(1,800)</u>                | <u>(78)</u>           | -                                      | -                            | <u>(1,878)</u>    |
| At 31 December 2015 | <u>8,098</u>                  | <u>55,842</u>         | <u>54,197</u>                          | -                            | <u>118,137</u>    |
| NET CARRYING AMOUNT |                               |                       |  |                              |                   |
| At 31 December 2015 | <u>2,890</u>                  | <u>25,029</u>         | <u>38,473</u>                          | <u>53</u>                    | <u>66,445</u>     |

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. \*Relates to the transfer of assets to Kenya Reinsurance Corporation Cote d'Ivoire at net book values. The net carrying amount of the Company's property and equipment would have been KShs 77,918,000 (2015: KShs 61,788,000) if they had not been revalued. Management believes that the carrying amounts of property and equipment approximate their fair values.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

16. INTANGIBLE ASSETS - GROUP and COMPANY

| GROUP               | Intangible<br>assets<br>KShs'000 | Capital<br>WIP<br>KShs'000 | Total<br>KShs'000 |
|---------------------|----------------------------------|----------------------------|-------------------|
| 31 DECEMBER 2016    |                                  |                            |                   |
| COST                |                                  |                            |                   |
| At 1 January 2016   | 187,412                          | -                          | 187,412           |
| Additions           | -                                | 245,379                    | 245,379           |
| Transfers           | <u>31,033</u>                    | <u>(31,033)</u>            | <u>-</u>          |
| At 31 December 2016 | <u>218,445</u>                   | <u>214,346</u>             | <u>432,791</u>    |
| AMORTISATION        |                                  |                            |                   |
| At 1 January 2016   | 63,993                           | -                          | 63,993            |
| Charge for the year | <u>39,940</u>                    | <u>-</u>                   | <u>39,940</u>     |
| At 31 December 2016 | <u>103,933</u>                   | <u>-</u>                   | <u>103,933</u>    |
| NET CARRYING AMOUNT |                                  |                            |                   |
| At 31 December 2016 | <u>114,512</u>                   | <u>214,346</u>             | <u>328,858</u>    |
| 31 DECEMBER 2015    |                                  |                            |                   |
| COST                |                                  |                            |                   |
| At 1 January 2015   | 42,242                           | 88,787                     | 131,029           |
| Additions           | 56,383                           | -                          | 56,383            |
| Transfers           | <u>88,787</u>                    | <u>(88,787)</u>            | <u>-</u>          |
| At 31 December 2015 | <u>187,412</u>                   | <u>-</u>                   | <u>187,412</u>    |
| AMORTISATION        |                                  |                            |                   |
| At 1 January 2015   | 37,423                           | -                          | 37,423            |
| Charge for the year | <u>26,570</u>                    | <u>-</u>                   | <u>26,570</u>     |
| At 31 December 2015 | <u>63,993</u>                    | <u>-</u>                   | <u>63,993</u>     |
| NET CARRYING AMOUNT |                                  |                            |                   |
| At 31 December 2015 | <u>123,419</u>                   | <u>-</u>                   | <u>123,419</u>    |

Capital Work-In-Progress relate to costs incurred to-date towards acquisition of a new reinsurance system.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

17. MORTGAGE LOANS

|                               | GROUP             |                   | COMPANY           |                   |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|
|                               | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Staff mortgages               | 307,700           | 234,067           | 307,700           | 229,253           |
| Commercial mortgages          | <u>530,497</u>    | <u>534,058</u>    | <u>530,497</u>    | <u>534,058</u>    |
|                               | 838,197           | 768,125           | 838,197           | 763,311           |
| Less: impairment provision    | <u>(130,780)</u>  | <u>(120,021)</u>  | <u>(130,780)</u>  | <u>(120,021)</u>  |
|                               | <u>707,417</u>    | <u>648,104</u>    | <u>707,417</u>    | <u>643,290</u>    |
| Maturity analysis             |                   |                   |                   |                   |
| Within 1 year                 | 434               | 667               | 434               | 667               |
| Within 1 to 5 years           | 4,153             | 122,131           | 4,153             | 122,131           |
| Over 5 years                  | <u>702,830</u>    | <u>525,306</u>    | <u>702,830</u>    | <u>520,492</u>    |
|                               | <u>707,417</u>    | <u>648,104</u>    | <u>707,417</u>    | <u>643,290</u>    |
| Impairment provision analysis |                   |                   |                   |                   |
| Balance brought forward       | 120,021           | 110,925           | 120,021           | 110,925           |
| Additional provision          | <u>10,759</u>     | <u>9,096</u>      | <u>10,759</u>     | <u>9,096</u>      |
| Balance carried forward       | <u>130,780</u>    | <u>120,021</u>    | <u>130,780</u>    | <u>120,021</u>    |

The weighted average effective interest rate on the mortgages was 10.891% (2015 - 11.63 %). mortgages loans are fully secured.

18. INVESTMENT PROPERTIES - GROUP AND COMPANY

|                 | 2016<br>KShs '000 | 2015<br>KShs '000 |
|-----------------|-------------------|-------------------|
| At fair value   |                   |                   |
| At 1 January    | 8,025,000         | 7,195,000         |
| Additions       | 64,487            | 100,401           |
| Fair value gain | <u>813,513</u>    | <u>729,599</u>    |
| At 31 December  | <u>8,903,000</u>  | <u>8,025,000</u>  |

- (i) The revalued properties consist of office properties situated in Nairobi and Kisumu 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 carried out by Caroline N. Nyororo - P/No. 0002566 of Ebony Estates Limited, professional independent valuers as at 31 December 2016.
- (iii) Fair value of the properties was determined using the open market value method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property.
- (iv) Valuations are performed on an annual basis and the fair value gains and losses are recorded within the profit or loss.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
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19. INVESTMENT IN ASSOCIATE - GROUP AND COMPANY

The group has a 19.88% interest in ZEP-Re (PTA Reinsurance) Company, a reinsurance company that underwrites all classes of life and non-life reinsurance risks. ZEP Re Limited is a private entity that is not listed on any public exchange. The Group's interest ZEP Re Limited is accounted for using the equity method in the both separate and consolidated financial statements.

|                                       | 2016<br>KShs '000 | 2015<br>KShs '000 |
|---------------------------------------|-------------------|-------------------|
| At 1 January                          | 3,436,180         | 2,008,062         |
| Share of profit for the year          | 361,159           | 335,727           |
| Less: dividends* - received in cash   | -                 | (68,485)          |
| - receipt of additional shares        | <u>(73,687)</u>   | <u>-</u>          |
|                                       | <u>3,723,652</u>  | <u>2,275,304</u>  |
| Share of revaluation reserve          | 2,431             | 344               |
| Share of fair value reserve           | (26,833)          | (60,980)          |
| Currency translation adjustment       | 102,440           | (35,896)          |
| Investment in the year - paid in cash | 32,448            | 1,257,408         |
| -capitalisation of dividends          | <u>73,687</u>     | <u>-</u>          |
|                                       | <u>184,173</u>    | <u>1,160,876</u>  |
| Net carrying amount of the investment | <u>3,907,825</u>  | <u>3,436,180</u>  |

Summary financial information for ZEP-Re

The presentation and functional currency for ZEP-Re is US Dollars. The following exchange rates have been applied in converting the balances to Kenya shillings:

|              | 2016<br>KShs | 2015<br>KShs |
|--------------|--------------|--------------|
| Closing rate | 102.49       | 102.31       |
| Average rate | 101.50       | 98.59        |
| Ownership    | 18.97%       | 19.88%       |

Summary financial information for ZEP-Re

|  | 2016<br>KShs '000   | 2015<br>KShs '000   |
|--|---------------------|---------------------|
| Total assets                             | 33,026,074          | 31,355,867          |
| Total liabilities                        | <u>(12,741,494)</u> | <u>(14,075,138)</u> |
| Net assets                               | <u>20,284,580</u>   | <u>17,280,729</u>   |
| Group's share of net assets of associate | <u>3,731,699</u>    | <u>3,436,180</u>    |
| Profit before tax                        | 1,859,184           | 1,901,013           |
| Tax*                                     | <u>-</u>            | <u>-</u>            |
| Profit for the year                      | <u>1,859,184</u>    | <u>1,901,013</u>    |
| Group's share of profit for the year     | <u>361,159</u>      | <u>335,727</u>      |

\* The associate company is exempt from all forms of taxation.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

20. INVESTMENT IN SUBSIDIARIES -COMPANY

Details of the company's subsidiaries at the end of the reporting year are as follows:

| Investment at cost:                         | Proportion of ownership interest and voting power held at |      | 2016           | 2015         |
|---|---|------|----------------|--------------|
|   | 2016  | 2015 | KShs '000      | KShs '000    |
| Kenya Reinsurance Corporation Côte d`Ivoire | 100%  | 100% | 4,186          | 4,186        |
| Kenya Reinsurance Corporation Zambia        | 100%  | -    | <u>183,596</u> | <u>-</u>     |
|   |   |      | <u>187,782</u> | <u>4,186</u> |

The primary business of the two subsidiaries is reinsurance.

21. RETIREMENT BENEFIT OBLIGATION- GROUP and COMPANY

Defined benefit scheme

The Group operates a defined benefit pension plan for some of its employees. The Group's defined benefit pension plan is a final salary plan for its employees, which requires contributions to be made to a separately administered fund.

The Fund is registered under irrevocable trust with the Retirement Benefits Authority, which requires final salary payments to be adjusted for the consumer price index upon payment during retirement. The Retirement Benefits Act, 1997 and the Regulations under the Act require the Fund to maintain a funding level of 100%. Where the funding level is below 100%, such deficits are required to be amortised over a period not exceeding 6 years.

The level of benefits provided depends on the member's length of service and salary at retirement age. Scheme members' contributions are a fixed percentage of pensionable pay with the Corporation responsible for the balance of the cost of benefits accruing.

The Fund is managed by a Board of Trustees. The Board of Trustees is responsible for the overall operation and investments of the Fund. The Board of Trustees decides the investment portfolio mix based on the results of this annual review. Generally, it aims to have a portfolio mix of a variety of asset classes comprising quoted equities, government securities, property and shares

The weighted average duration of the liability as at 31 December 2016 is 3.8 (2015: 3.9).

During the reading of the budget statement for 2015/2016 by the Cabinet Secretary, National Treasury, amendments to the Retirement Benefit Regulations now provide for an equal 50/50 sharing of surplus between members and the Fund sponsor upon wind up of a Fund

Effective 30 September 2010, the Fund was closed to new entrants and to future accrual of benefits and a new defined contribution plan ('DC Plan') was established in respect of new entrants and existing in-service members who opted to join the new DC Plan. As part of the terms of closure of the Fund, active in-service members and pensioners (including deferred pensioners) were entitled to annual pension increases of 3% per annum. Further, for existing in-service members, members' pensionable salaries for the purpose of determining their retirement or earlier benefits will increase at the lower of the actual increase granted and 5% per annum

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

21. RETIREMENT BENEFIT OBLIGATION- GROUP and COMPANY (continued)

The major categories of plan assets of the fair value of the total plan assets are, as follows:

| Asset Class  | 2016               |                 | 2015               |                 |
|--|--------------------|-----------------|--------------------|-----------------|
|  | Amount<br>Kshs'000 | Proportion<br>% | Amount<br>Kshs'000 | Proportion<br>% |
| Quoted equities  | 94,585             | 15.3            | 86,350             | 20.1            |
| Fixed deposits, commercial papers and government bonds | 284,909            | 46.2            | 301,736            | 70.1            |
| Employer contribution                                  | -                  | -               | 41,600             | 9.7             |
| Net current assets                                     | 82,443             | 13.4            | 467                | 0.1             |
| Properties and other fixed assets                      | <u>155,000</u>     | <u>25.1</u>     | <u>-</u>           | <u>-</u>        |
| Total  | <u>616,937</u>     | <u>100%</u>     | <u>430,153</u>     | <u>100%</u>     |

Sensitivity of the Scheme:

The scheme is more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In assessing sensitivity analysis of the scheme to the discount rate used, the duration of the liability was considered. The results of the sensitivity analysis are summarized in the table below:

|   | Current Discount<br>Rate (14% per<br>annum) | Discount Rate less 1%<br>(13% per annum) |
|---|---|--|
| Present Value of Obligation at 31 December 2016 | KShs 602.6 million                          | KShs 530.8 million                       |

As the bulk of the benefits payable under the Fund are salary related, the sensitivity of the liability to a change in the salary escalation assumption is not expected to be materially different. However, the impact of a change in salary escalation is expected to be less than the impact of a change in the discount rate as a portion of the liabilities would not be affected by a change in the salary escalation rate.

| GROUP AND COMPANY                                | 2016<br>KShs '000 | 2015<br>KShs '000 |
|--|-------------------|-------------------|
| The actuarial valuation results were as follows: |                   |                   |
| Present value of funded obligations              | (602,603)         | (511,258)         |
| Fair value of scheme assets                      | <u>616,937</u>    | <u>430,153</u>    |
| Net asset in the statement of financial position | <u>14,334</u>     | <u>(81,105)</u>   |
| Movement in present value of funded obligation:  |                   |                   |
| As at 1 January                                  | 511,258           | 492,234           |
| Current service costs                            | 5,305             | 5,761             |
| Interest cost                                    | 70,296            | 64,430            |
| Actuarial (gain)/loss                            | 39,334            | (15,450)          |
| Benefits payment                                 | <u>(23,590)</u>   | <u>(35,717)</u>   |
| At 31 December                                   | <u>602,603</u>    | <u>511,258</u>    |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

21. RETIREMENT BENEFIT OBLIGATION (continued)

Defined benefit scheme (continued)

|  | GROUP             |                   | COMPANY           |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Movement in fair value of plan assets                          |                   |                   |                   |                   |
| As at 1 January  | 430,153           | 572,671           | 430,153           | 572,671           |
| Interest income on plan assets                                 | 58,570            | 77,708            | 58,570            | 77,708            |
| Return on plan assets (excluding amount in interest income)    | 151,804           | (226,109)         | 151,804           | (226,109)         |
| Employer contributions   | -                 | 41,600            | -                 | 41,600            |
| Benefits and expenses paid                                     | (23,590)          | (35,717)          | (23,590)          | (35,717)          |
| At 31 December   | <u>616,937</u>    | <u>430,153</u>    | <u>616,937</u>    | <u>430,153</u>    |
| Movement in net assets   |                   |                   |                   |                   |
| As at 1 January  | (81,105)          | 80,437            | (81,105)          | 80,437            |
| Net expense recognised in profit or loss                       | (17,031)          | 7,517             | (17,031)          | 7,517             |
| Net (charge) / credit recognised in other comprehensive income | 112,470           | (210,659)         | 112,470           | (210,659)         |
| Employer contributions   | -                 | 41,600            | -                 | 41,600            |
| At 31 December   | <u>14,334</u>     | <u>(81,105)</u>   | <u>14,334</u>     | <u>(81,105)</u>   |
| Amount recognised in profit or loss:                           |                   |                   |                   |                   |
| Current service cost net of employees' contributions           | 5,305             | 5,761             | 5,305             | 5,761             |
| Net interest on obligation and plan assets                     | <u>11,726</u>     | <u>(13,278)</u>   | <u>11,726</u>     | <u>(13,278)</u>   |
| Total included in "staff costs" in respect of scheme           | <u>17,031</u>     | <u>(7,517)</u>    | <u>17,031</u>     | <u>(7,517)</u>    |
| Amount recognised in other comprehensive income:               |                   |                   |                   |                   |
| Actuarial gains  | 39,334            | (15,450)          | 39,334            | (15,450)          |
| Return on plan assets (excluding amount in interest income)    | <u>(151,804)</u>  | <u>226,109</u>    | <u>(151,804)</u>  | <u>226,109</u>    |
| Total (credit) / charge to other comprehensive income          | <u>(112,470)</u>  | <u>210,659</u>    | <u>(112,470)</u>  | <u>210,659</u>    |
| Actuarial assumptions  |                   |                   |                   |                   |
| Discount rate (% p.a.)   | 14.5%             | 14%               | 14.5%             | 14%               |
| Future salary increases (% p.a.)                               | 5%                | 5%                | 5%                | 5%                |
| Future pension increases (% p.a.)                              | 3%                | 3%                | 3%                | 3%                |
| Retirement age (years)   | 55                | 55                | 55                | 55                |

KENYA REINSURANCE CORPORATION LIMITED  
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 FOR THE YEAR ENDED 31 DECEMBER 2016

21. RETIREMENT BENEFIT OBLIGATION (continued)

Defined contribution scheme

The Company 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 2016, the Group contributed KShs 27,559,000 to the defined contribution pension scheme and KShs 1,137,000 for NSSF which has been charged to the statement of profit or loss. The Company contributed KShs 23,234,000 (2015 - KShs 20,776,000) to the defined contribution pension scheme and KShs 265,000 (2015 - KShs 1,045,000) to the NSSF.

22. UNQUOTED EQUITY INSTRUMENTS - AVAILABLE FOR SALE

|                                    |               | GROUP             |                   | COMPANY           |                   |
|------------------------------------|---------------|-------------------|-------------------|-------------------|-------------------|
|                                    |               | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| At cost                            |               |                   |                   |                   |                   |
| At 1 January                       |               | 202,231           | 167,113           | 202,231           | 167,113           |
| Addition                           |               | -                 | 35,118            | -                 | 35,118            |
| At 31 December                     |               | <u>202,231</u>    | <u>202,231</u>    | <u>202,231</u>    | <u>202,231</u>    |
|                                    | Share holding |                   |                   |                   |                   |
| Industrial Development Bank        | 3.5%          | 24,474            | 24,474            | 24,474            | 24,474            |
| Africa Reinsurance Limited         | 0.2%          | 35,491            | 35,491            | 35,491            | 35,491            |
| African Trade Insurance Agency     | 0.6%          | 87,506            | 87,506            | 87,506            | 87,506            |
| Uganda Reinsurance Company Limited | 11.5%         | <u>54,760</u>     | <u>54,760</u>     | <u>54,760</u>     | <u>54,760</u>     |
| Gross investment                   |               | <u>202,231</u>    | <u>202,231</u>    | <u>202,231</u>    | <u>202,231</u>    |

The above unquoted instruments relate to investments in the financial markets, notably the banking and insurance sectors. The unquoted equities are not actively traded and management does not intend to dispose them in the immediate future.

The fair value measurement of the above unquoted equity instruments have not been disclosed. The carrying amounts of the above financial instruments amounting to KShs. 202 million (2015: KShs. 202 million) may therefore differ from their fair values. The valuation has not been done by management because the significant inputs that would be used by management for the valuation are not based on observable market data neither does management hold any recent price quotations of all of the above investments. Management would therefore be required to make significant judgements and assumptions, which may or may not result in correct fair value measurements.

The instruments have therefore been stated at cost less any impairment loss in the year.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

23. CORPORATE BONDS

|                                    | GROUP             |                   | COMPANY           |                   |                |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|----------------|
|                                    | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |                |
| At 1 January                       | 494,146           | 419,134           | 494,146           | 419,134           |                |
| Purchases during the year          | -                 | 80,512            | -                 | 80,512            |                |
| Redemptions during the year        | (5,925)           | (5,925)           | (5,925)           | (5,925)           |                |
| Increase in interest accrued       | (299)             | 425               | (299)             | 425               |                |
|                                    | <u>487,923</u>    | <u>494,146</u>    | <u>487,923</u>    | <u>494,146</u>    |                |
|                                    |                   |                   |                   |                   |                |
|                                    | GROUP             |                   | COMPANY           |                   |                |
|                                    | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |                |
| Made up as below:                  |                   |                   |                   |                   |                |
|                                    | Maturity          |                   |                   |                   |                |
| KENGEN Limited                     | 31-Oct-19         | 18,122            | 24,237            | 18,122            | 24,237         |
| Consolidated Bank of Kenya Limited | 24-Jul-19         | 105,679           | 105,642           | 105,679           | 105,642        |
| NIC Bank                           | 09-Sep-19         | 207,830           | 207,898           | 207,830           | 207,898        |
| Centum                             | 08-Jun-20         | 81,029            | 81,001            | 81,029            | 81,001         |
| Commercial bank of Kenya Ltd       | 14-Dec-20         | <u>75,263</u>     | <u>75,368</u>     | <u>75,263</u>     | <u>75,368</u>  |
|                                    |                   | <u>487,923</u>    | <u>494,146</u>    | <u>487,923</u>    | <u>494,146</u> |

The average effective interest rate on the corporate bonds at 31 December 2016 was 11.74% (2015: 12.80 %).

24. RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

|   | GROUP              |                   | COMPANY            |                   |
|---|--------------------|-------------------|--------------------|-------------------|
|   | 2016<br>KShs '000  | 2015<br>KShs '000 | 2016<br>KShs '000  | 2015<br>KShs '000 |
| Local companies                         | 885,089            | 714,689           | 885,089            | 714,689           |
| International companies                 | 3,907,863          | 3,126,126         | 3,541,473          | 2,784,483         |
| Less: impairment provision              | <u>(1,210,885)</u> | <u>(640,846)</u>  | <u>(1,074,945)</u> | <u>(640,846)</u>  |
|   | <u>3,582,067</u>   | <u>3,199,969</u>  | <u>3,351,617</u>   | <u>2,858,326</u>  |
|   |                    |                   |                    |                   |
| The movement in provisions is as below: |                    |                   |                    |                   |
| Balance brought forward                 | (640,846)          | (1,173,420)       | (640,846)          | (1,173,420)       |
| Write offs                              | -                  | 646,193           | -                  | 646,193           |
| Additional provision                    | <u>(570,039)</u>   | <u>(113,619)</u>  | <u>(434,099)</u>   | <u>(113,619)</u>  |
| Balance carried forward                 | <u>(1,210,885)</u> | <u>(640,846)</u>  | <u>(1,074,945)</u> | <u>(640,846)</u>  |

25. PREMIUM AND LOSS RESERVES

|                                 |                  |                  |                  |                  |
|---------------------------------|------------------|------------------|------------------|------------------|
| International companies         | 935,948          | 767,996          | 811,533          | 702,560          |
| Local companies                 | 56,946           | 49,299           | 56,946           | 49,299           |
| Provision for impaired balances | <u>(613,297)</u> | <u>(518,318)</u> | <u>(591,596)</u> | <u>(518,318)</u> |
|                                 | <u>379,597</u>   | <u>298,977</u>   | <u>276,883</u>   | <u>233,541</u>   |

KENYA REINSURANCE CORPORATION LIMITED  
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25. PREMIUM AND LOSS RESERVES (continued)

The movement in provisions is as below:

|                      | GROUP             |                   | COMPANY           |                   |
|----------------------|-------------------|-------------------|-------------------|-------------------|
|                      | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| At 1 January         | (518,318)         | (518,318)         | (518,318)         | (518,318)         |
| Additional provision | <u>(94,979)</u>   | <u>-</u>          | <u>(73,278)</u>   | <u>-</u>          |
| At 31 December       | <u>(613,297)</u>  | <u>(518,318)</u>  | <u>(591,596)</u>  | <u>(518,318)</u>  |

Reconciliation of provisions in the Statement of Comprehensive Income is as below:

|  | GROUP             |                   | COMPANY           |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Provision on receivables arising out of reinsurance arrangements | (570,039)         | (113,619)         | (434,099)         | (113,619)         |
| Provision on premium and loss reserves                           | <u>(94,979)</u>   | <u>-</u>          | <u>(73,278)</u>   | <u>-</u>          |
| At 31 December   | <u>(665,018)</u>  | <u>(113,619)</u>  | <u>(507,377)</u>  | <u>(113,619)</u>  |

26. OTHER RECEIVABLES

|                      | GROUP             |                   | COMPANY           |                   |
|----------------------|-------------------|-------------------|-------------------|-------------------|
|                      | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Staff advances       | 45,304            | 41,042            | 44,552            | 39,518            |
| Prepayments          | 6,359             | 11,461            | 6,080             | 10,600            |
| Rental receivables   | 132,069           | 34,794            | 132,069           | 34,794            |
| Dividends receivable | 1,902             | 4,579             | 1,902             | 4,579             |
| Other receivables    | <u>422</u>        | <u>20,910</u>     | <u>130</u>        | <u>4,387</u>      |
|                      | <u>186,056</u>    | <u>112,786</u>    | <u>184,733</u>    | <u>93,878</u>     |

Other trade receivables are non-interest bearing and generally on terms of 30 to 120 days

27. QUOTED EQUITY INSTRUMENTS - AVAILABLE FOR SALE

| GROUP and COMPANY         | 2016<br>KShs '000 | 2015<br>KShs '000 |
|---------------------------|-------------------|-------------------|
| At 1 January              | 2,553,572         | 3,256,975         |
| Fair value gain           | (535,438)         | (613,315)         |
| Purchases during the year | 355,602           | 160,293           |
| Disposal during the year  | <u>(307,484)</u>  | <u>(250,381)</u>  |
|                           | <u>2,066,252</u>  | <u>2,553,572</u>  |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

28. GOVERNMENT SECURITIES- GROUP and COMPANY

|   | 2016<br>KShs '000 | 2015<br>KShs '000 |
|---|-------------------|-------------------|
| At 1 January  | 9,186,523         | 7,712,401         |
| Purchases during the year                                   | 2,898,870         | 1,796,642         |
| Maturities during the year                                  | (396,337)         | (416,500)         |
| Amortisation charge for the period- Held to maturity        | 4,205             | 24,080            |
| Fair value loss on available-for-sale government securities | (6,952)           | -                 |
| Increase in Interest accrued                                | <u>34,968</u>     | <u>69,900</u>     |
|   | <u>11,721,276</u> | <u>9,186,523</u>  |
| Maturing:   |                   |                   |
| - Within 3 months   | 214,757           | 15,623            |
| - Within 4 to 12 months                                     | 1,222,077         | 398,116           |
| - Within 1 to 5 years                                       | 1,753,500         | 1,055,905         |
| - Over 5 years  | <u>8,530,942</u>  | <u>7,716,879</u>  |
| At 31 December  | <u>11,721,276</u> | <u>9,186,523</u>  |

Treasury bonds amounting to KShs 1,889,550,000 (2015 - KShs 1,889,550,000) 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 11.06 % (2015 - 11.96%).

29. INVENTORY

|                | GROUP             |                   | COMPANY           |                   |
|----------------|-------------------|-------------------|-------------------|-------------------|
|                | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| As 31 December | <u>43,968</u>     | <u>32,846</u>     | <u>42,908</u>     | <u>32,017</u>     |

Inventories comprise stationery and repair materials.

30. DEFERRED ACQUISITION COSTS

|   | GROUP              |                    | COMPANY            |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | 2016<br>KShs'000   | 2015<br>KShs '000  | 2016<br>KShs '000  | 2015<br>KShs '000  |
| At 1 January                                | 1,223,150          | 1,148,252          | 1,183,769          | 1,148,252          |
| Deferred during the year                    | 1,303,254          | 1,223,150          | 1,240,471          | 1,183,769          |
| Released to the statement of profit or loss | <u>(1,223,150)</u> | <u>(1,148,252)</u> | <u>(1,183,769)</u> | <u>(1,148,252)</u> |
| At 31 December                              | <u>1,303,254</u>   | <u>1,223,150</u>   | <u>1,240,471</u>   | <u>1,183,769</u>   |

Deferred acquisition costs have been estimated at 40% of cedant costs incurred.

31. NON CURRENT ASSETS HELD FOR SALE

|                | GROUP            |                   | COMPANY           |                   |
|----------------|------------------|-------------------|-------------------|-------------------|
|                | 2016<br>KShs'000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| At 31 December | <u>28,098</u>    | <u>28,098</u>     | <u>28,098</u>     | <u>28,098</u>     |

The non-current assets held for sale represent land which the Company intends to dispose within the next 12 months. The assets have remained in this category for two years due to the nature of these assets. The period it takes to complete such sale and the search for a willing buyer can be a lengthy process. The period of sale has therefore been extended beyond one year.

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 FOR THE YEAR ENDED 31 DECEMBER 2016

32. DEPOSITS WITH FINANCIAL INSTITUTIONS

|                       | GROUP             |                   | COMPANY           |                   |
|-----------------------|-------------------|-------------------|-------------------|-------------------|
|                       | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Loans and receivables | <u>4,196,935</u>  | <u>5,957,281</u>  | <u>3,951,416</u>  | <u>5,881,609</u>  |

The weighted average effective interest rate on deposits with financial institutions was 11.80% (2015-10.40%).

33. CASH AND CASH EQUIVALENTS

|                        | GROUP             |                   | COMPANY           |                   |
|------------------------|-------------------|-------------------|-------------------|-------------------|
|                        | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Cash and bank balances | <u>348,546</u>    | <u>318,729</u>    | <u>305,933</u>    | <u>281,925</u>    |

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

|                          | GROUP             |                   | COMPANY           |                   |
|--------------------------|-------------------|-------------------|-------------------|-------------------|
|                          | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Short term bank deposits | 4,196,935         | 5,957,281         | 3,951,416         | 5,881,609         |
| Cash and bank balances   | <u>348,546</u>    | <u>318,729</u>    | <u>305,933</u>    | <u>281,925</u>    |
|                          | <u>4,545,481</u>  | <u>6,276,010</u>  | <u>4,257,349</u>  | <u>6,163,534</u>  |

KENYA REINSURANCE CORPORATION LIMITED  
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 FOR THE YEAR ENDED 31 DECEMBER 2016

34. LONG TERM REINSURANCE LIABILITIES- GROUP and COMPANY

The long term reinsurance liabilities, which comprise Ordinary Life Fund and Superannuation Fund, were established in respect of the Company'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 2016 and according to the valuation, the fund had a surplus of KShs 5,001 million (2015 - KShs 4,279 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 2016 is summarised as follows:

|  | 2016<br>KShs '000  | 2015<br>KShs '000  |
|--|--------------------|--------------------|
| Life fund  | 7,178,471          | 6,458,375          |
| Less: actuarial value of policy holder liabilities | <u>(2,177,401)</u> | <u>(2,179,836)</u> |
| Actuarial surplus                                  | 5,001,070          | 4,278,539          |
| Less deferred tax liability (note 37)              | <u>(1,498,938)</u> | <u>(1,283,366)</u> |
| Statutory reserve                                  | <u>3,502,132</u>   | <u>2,995,173</u>   |

The movement in the actuarial value of policy holder liabilities is as follows:

|                         | 2016<br>KShs '000 | 2015<br>KShs '000 |
|-------------------------|-------------------|-------------------|
| As at 1 January         | 2,179,836         | 2,097,683         |
| Movement in liabilities | <u>(2,435)</u>    | <u>82,153</u>     |
|                         | <u>2,177,401</u>  | <u>2,179,836</u>  |

Valuation assumptions

The significant valuation assumptions for the actuarial valuation as at 31 December 2016 are summarised below. The same assumptions were used in 2015.

(i) Actuarial basis and method of valuation

The Company 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.

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 Company 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, Company 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 2016 was 9.7% per annum (2015 - 13.4% per annum).

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

35. SHORT TERM INSURANCE CONTRACT LIABILITIES

GROUP

| 2016                   | Gross<br>KShs'000 | Reinsurance<br>KShs'000 | Net<br>KShs'000  |
|------------------------|-------------------|-------------------------|------------------|
| As at 1 January 2016   | 5,718,429         | (552,139)               | 5,166,290        |
| Movement               | <u>100,925</u>    | <u>263,335</u>          | <u>364,260</u>   |
| As at 31 December 2016 | <u>5,819,354</u>  | <u>(288,804)</u>        | <u>5,530,550</u> |
| 2015                   | Gross<br>KShs'000 | Reinsurance<br>KShs'000 | Net<br>KShs'000  |
| As at 1 January 2015   | 5,051,159         | (533,020)               | 4,518,139        |
| Movement               | <u>667,270</u>    | <u>(19,119)</u>         | <u>648,151</u>   |
| As at 31 December 2015 | <u>5,718,429</u>  | <u>(552,139)</u>        | <u>5,166,290</u> |

COMPANY

| 2016              | Gross<br>KShs'000 | Reinsurance<br>KShs'000 | Net<br>KShs'000  |
|-------------------|-------------------|-------------------------|------------------|
| As at 1 Jan 2016  | 5,629,416         | (552,139)               | 5,077,277        |
| Movement          | <u>100,925</u>    | <u>263,335</u>          | <u>364,260</u>   |
| As at 31 Dec 2016 | <u>5,730,341</u>  | <u>(288,804)</u>        | <u>5,441,537</u> |
| 2015              | Gross<br>KShs'000 | Reinsurance<br>KShs'000 | Net<br>KShs'000  |
| As at 1 Jan 2015  | 4,962,146         | (444,008)               | 4,518,138        |
| Movement          | <u>667,270</u>    | <u>(108,131)</u>        | <u>559,139</u>   |
| As at 31 Dec 2015 | <u>5,629,416</u>  | <u>(552,139)</u>        | <u>5,077,277</u> |

The Chain Ladder method and the Bornhuetter Ferguson method were used to project the claim reserves. Gross paid claims were used for all projections. The net IBNR was then calculated using historical reinsurance recoveries over the last three years.

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

35. SHORT TERM INSURANCE CONTRACT LIABILITIES (continued)

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

Claims development

GROUP

| Accident year  | 2012<br>KShs '000   | 2013<br>KShs '000  | 2014<br>KShs '000  | 2015<br>KShs '000  | 2016<br>KShs '000  | Total<br>KShs '000  |
|--|---------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| Estimate of ultimate claims costs:   |                     |                    |                    |                    |                    |                     |
| At end of accident year  | 4,497,474           | 2,145,215          | 2,646,722          | 3,012,228          | 6,869,702          | 19,171,341          |
| One year later   | 4,800,334           | 1,914,299          | 2,334,330          | 2,446,494          | -                  | 11,495,456          |
| Two years later  | 1,141,326           | 369,261            | 1,046,220          | -                  | -                  | 2,556,808           |
| Three years later  | 350,054             | 339,383            | -                  | -                  | -                  | 689,437             |
| Four years onwards   | <u>829,954</u>      | <u>-</u>           | <u>-</u>           | <u>-</u>           | <u>-</u>           | <u>829,954</u>      |
| Current estimate of cumulative claims  | 11,619,142          | 4,768,157          | 6,027,273          | 5,458,721          | 6,869,702          | 34,742,996          |
| Less: cumulative payments to date  | <u>(11,185,157)</u> | <u>(4,513,719)</u> | <u>(5,593,543)</u> | <u>(4,603,894)</u> | <u>(3,316,132)</u> | <u>(29,212,446)</u> |
| Total gross claims liability included in the statement of financial position | <u>433,986</u>      | <u>254,439</u>     | <u>433,729</u>     | <u>854,827</u>     | <u>3,553,570</u>   | <u>5,530,550</u>    |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

35. SHORT TERM INSURANCE CONTRACT LIABILITIES (continued)

COMPANY

| Accident year  | 2012                | 2013               | 2014               | 2015               | 2016               | Total               |
|--|---------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
|  | KShs '000           | KShs '000          | KShs '000          | KShs '000          | KShs '000          | KShs '000           |
| Estimate of ultimate claims costs:   |                     |                    |                    |                    |                    |                     |
| At end of accident year  | 4,497,474           | 2,145,215          | 2,646,722          | 3,012,228          | 6,869,702          | 19,171,341          |
| One year later   | 4,800,334           | 1,914,299          | 2,334,330          | 2,357,480          | -                  | 11,406,443          |
| Two years later  | 1,141,326           | 369,261            | 1,046,220          | -                  | -                  | 2,556,808           |
| Three years later  | 350,054             | 339,383            | -                  | -                  | -                  | 689,437             |
| Four years onwards   | <u>829,954</u>      | -                  | -                  | -                  | -                  | <u>829,954</u>      |
| Current estimate of cumulative claims  | 11,619,142          | 4,768,157          | 6,027,273          | 5,369,708          | 6,869,702          | 34,653,983          |
| Less: cumulative payments to date  | <u>(11,185,157)</u> | <u>(4,513,719)</u> | <u>(5,593,543)</u> | <u>(4,603,894)</u> | <u>(3,316,132)</u> | <u>(29,212,446)</u> |
| Total gross claims liability included in the statement of financial position | <u>433,986</u>      | <u>254,439</u>     | <u>433,729</u>     | <u>765,814</u>     | <u>3,553,570</u>   | <u>5,441,537</u>    |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

36. PAYABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

|                         | GROUP             |                   | COMPANY           |                   |
|-------------------------|-------------------|-------------------|-------------------|-------------------|
|                         | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Local companies         | 128,980           | 117,329           | 128,980           | 117,329           |
| International companies | <u>431,577</u>    | <u>395,167</u>    | <u>285,127</u>    | <u>259,369</u>    |
|                         | <u>560,557</u>    | <u>512,496</u>    | <u>414,107</u>    | <u>376,698</u>    |

37. DEFERRED TAX LIABILITY

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

The net deferred tax asset is attributable to the following items:

GROUP and COMPANY

|   | 2016<br>KShs '000 | 2015<br>KShs '000 |
|---|-------------------|-------------------|
| Deferred tax assets:                        |                   |                   |
| Excess depreciation over capital allowances | 17,525            | 14,283            |
| Leave pay provision                         | (8,492)           | (8,390)           |
| Defined benefit liability                   | 5,986             | 877               |
| Other provisions                            | (26,432)          | -                 |
| Bad debts provisions                        | <u>(584,767)</u>  | <u>(412,979)</u>  |
|   | (596,180)         | (406,209)         |
| Deferred tax liabilities:                   |                   |                   |
| Unrealised exchange gain                    | -                 | 26,961            |
| Life fund actuarial surplus                 | <u>1,498,938</u>  | <u>1,283,366</u>  |
| Net deferred tax liability                  | <u>902,758</u>    | <u>904,118</u>    |

The movement on the deferred tax account during the year was as follows:

|                               |                |                |                |                |
|-------------------------------|----------------|----------------|----------------|----------------|
| At 1 January                  | 904,118        | 550,519        | 904,118        | 550,519        |
| Charge for the year (note 11) | <u>(1,360)</u> | <u>353,599</u> | <u>(1,360)</u> | <u>353,599</u> |
| At 31 December                | <u>902,758</u> | <u>904,118</u> | <u>902,758</u> | <u>904,118</u> |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

38. OTHER PAYABLES

|                              | GROUP             |                   | COMPANY           |                   |
|------------------------------|-------------------|-------------------|-------------------|-------------------|
|                              | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Purchasers deposits          | 5,879             | 11,356            | 5,879             | 11,356            |
| Legal fees deposits          | 4,259             | 9,979             | 4,259             | 9,979             |
| Rental deposits              | 117,937           | 101,714           | 117,937           | 101,714           |
| Accrued leave pay            | 17,367            | 13,133            | 12,632            | 13,834            |
| Accounts payable             | 233,990           | 341,125           | 229,072           | 338,191           |
| Other creditors and accruals | <u>114,268</u>    | <u>139,523</u>    | <u>109,681</u>    | <u>258,461</u>    |
|                              | <u>493,700</u>    | <u>616,830</u>    | <u>479,460</u>    | <u>733,535</u>    |

Other payables are non-interest bearing and have an average term of not more than 1 year.

39. UNEARNED PREMIUMS

|                                  | GROUP             |                   | COMPANY           |                   |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                  | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| At 1 January                     | 4,560,594         | 4,010,877         | 4,407,392         | 4,010,877         |
| Transfer to Kenya Re Ivory coast | -                 | -                 | (218,668)         | (104,906)         |
| Increase/ decrease in the year   | <u>(46,891)</u>   | <u>549,717</u>    | <u>109,334</u>    | <u>501,421</u>    |
| At 31 December                   | <u>4,513,703</u>  | <u>4,560,594</u>  | <u>4,298,058</u>  | <u>4,407,392</u>  |

40. DIVIDENDS

The directors propose the payment of a first and final dividend of KShs 0.80 (2015 - KShs 0.75) per share totalling to KShs 560 million in respect of the year ended 31 December 2016 (2015 - KShs 525 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:

|   | GROUP             |                   | COMPANY           |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| At 1 January                            | -                 | -                 | -                 | -                 |
| Dividend declared                       | 559,959           | 524,962           | 559,959           | 524,962           |
| Dividends paid                          | <u>(559,959)</u>  | <u>(524,962)</u>  | <u>(559,959)</u>  | <u>(524,962)</u>  |
| At 31 December                          | <u>-</u>          | <u>-</u>          | <u>-</u>          | <u>-</u>          |
| Proposed cash dividend per share (KShs) | <u>0.80</u>       | <u>0.75</u>       | <u>0.80</u>       | <u>0.75</u>       |

KENYA REINSURANCE CORPORATION LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

41. NOTES TO THE STATEMENT OF CASH FLOWS

|   | GROUP            |                  | COMPANY          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2016             | 2015             | 2016             | 2015             |
|   | KShs '000        | KShs '000        | KShs '000        | KShs '000        |
| Profit before tax   | 4,218,086        | 4,514,136        | 4,309,404        | 4,390,705        |
| Adjustment for:   |                  |                  |                  |                  |
| Depreciation (note 15)  | 31,553           | 27,402           | 31,041           | 27,005           |
| Interest on corporate bonds   | (59,191)         | (56,134)         | (59,191)         | (56,134)         |
| Interest on government securities (note 7)  | (1,242,104)      | (1,085,818)      | (1,242,104)      | (1,085,818)      |
| Interest on staff mortgages and loans (note 7)  | (14,356)         | (11,694)         | (14,224)         | (11,556)         |
| Interest on deposits with financial institutions (note 7)                                     | (541,893)        | (647,915)        | (539,099)        | (645,043)        |
| Interest on commercial mortgages (note 7)   | (68,550)         | (77,329)         | (68,550)         | (77,329)         |
| Dividend income (note 7)  | (127,079)        | (112,350)        | (127,079)        | (112,350)        |
| Provision for doubtful debts  | 665,018          | 113,619          | 507,377          | 113,619          |
| Amortisation of software (note 16)  | 39,940           | 26,570           | 39,940           | 26,570           |
| Realised accumulated fair value gain on available for sale quoted equity instruments (note 7) | (209,228)        | (202,319)        | (209,228)        | (202,319)        |
| Gain on disposal of property and equipment (note 8)   | -                | (904)            | -                | (904)            |
| Profit on sale of inventory property (note 7)   | (47,461)         | (101,206)        | (47,461)         | (101,206)        |
| Fair value gain on investment properties (note 18)  | (813,513)        | (729,599)        | (813,513)        | (729,599)        |
| Defined benefit gain recognised in profit or loss   | 17,031           | (7,517)          | 17,031           | (7,517)          |
| Share of profit of associate (note 19)  | <u>(361,159)</u> | <u>(335,727)</u> | <u>(361,159)</u> | <u>(335,727)</u> |
| Operating profit before working capital changes   | <u>1,487,094</u> | <u>1,313,215</u> | <u>1,423,185</u> | <u>1,192,397</u> |
| Short term reinsurance contract liabilities   | 364,260          | 648,152          | 364,260          | 559,139          |
| Unearned premiums   | (46,891)         | 549,717          | (109,334)        | 396,515          |
| Other payables  | (123,130)        | 210,925          | (254,075)        | 327,631          |
| Long term reinsurance contract liabilities  | (2,435)          | 82,155           | (2,435)          | 82,155           |
| Mortgage loans  | (53,537)         | 66,852           | (57,902)         | 71,666           |
| Other receivables   | (75,947)         | (14,735)         | (93,527)         | 4,173            |
| Increase in inventories   | (11,122)         | (32,846)         | (10,891)         | (32,017)         |
| Deferred acquisition costs (note 31)  | (80,104)         | (74,898)         | (56,702)         | (35,517)         |
| Premium and loss reserves   | (175,599)        | (128,191)        | (116,620)        | (62,755)         |
| Payables arising out of reinsurance arrangements  | 48,061           | 60,805           | 37,409           | (74,993)         |
| Increase in due from related party  | -                | -                | 154,181          | (196,805)        |
| Receivables arising out of reinsurance arrangements   | (952,137)        | (1,090,627)      | (927,390)        | (748,984)        |
| Defined benefit liability   | -                | <u>(41,600)</u>  | -                | <u>(41,600)</u>  |
| Net cash generated from operations  | <u>378,513</u>   | <u>1,548,924</u> | <u>350,159</u>   | <u>1,441,005</u> |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

42. RELATED PARTIES

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

|  | 2016           | GROUP             | COMPANY           |                   |
|--|----------------|-------------------|-------------------|-------------------|
|  | Kshs'000       | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| (a) Transactions and balances with directors and staff |                |                   |                   |                   |
| (i) Directors' remuneration                            |                |                   |                   |                   |
| Fees   | 5,999          | 6,000             | 5,999             | 6,000             |
| Other emoluments                                       | <u>15,411</u>  | <u>12,218</u>     | <u>15,411</u>     | <u>12,218</u>     |
|  | <u>21,410</u>  | <u>18,218</u>     | <u>21,410</u>     | <u>18,218</u>     |
| (ii) Key management remuneration                       |                |                   |                   |                   |
| Salaries and other short term benefits                 | 45,874         | 40,208            | 45,874            | 40,208            |
| Post-employment benefits                               | <u>2,177</u>   | <u>1,736</u>      | <u>2,177</u>      | <u>1,736</u>      |
|  | <u>48,051</u>  | <u>41,944</u>     | <u>48,051</u>     | <u>41,944</u>     |
| (iii) Loans to staff                                   | <u>196,678</u> | <u>262,417</u>    | <u>196,678</u>    | <u>262,417</u>    |

Interest income on these loans was KShs 11,694,120 (2015 - KShs 10,457,940). The effective interest on the loans is 5 % (2015 - 5%). Staff mortgages and car loans are fully secured.

|  | GROUP           |                   | COMPANY           |                   |
|--|-----------------|-------------------|-------------------|-------------------|
|  | 2016<br>Ksh'000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| (b) Transaction with associate company, ZEP Re |                 |                   |                   |                   |
| (i) Net premium written                        | <u>54,863</u>   | <u>42,832</u>     | <u>54,863</u>     | <u>42,832</u>     |
| (ii) Claims incurred                           | <u>35,215</u>   | <u>29,700</u>     | <u>35,215</u>     | <u>29,700</u>     |

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.

COMPANY

|   |              | 2016          | 2015           |
|---|--------------|---------------|----------------|
|   |              | KShs '000     | KShs '000      |
| (c) Outstanding balances with related parties:              |              |               |                |
| Due From:-  | Relationship |               |                |
| Amount due from Kenya Reinsurance Corporation Cote d'Ivoire | Subsidiary   | 7,422         | 196,805        |
| Amount due from Kenya Reinsurance Corporation Zambia        | Subsidiary   | <u>35,202</u> | -              |
|   |              | <u>42,624</u> | <u>196,805</u> |

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

43. INVENTORY PROPERTY HELD FOR SALE

|                            | GROUP             |                   | COMPANY           |                   |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
|                            | 2016<br>KShs '000 | 2015<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
| Cost                       | 918,077           | 946,871           | 918,077           | 946,871           |
| Less: Disposal*            | -                 | (28,794)          | -                 | (28,794)          |
| Less: Impairment provision | <u>(918,077)</u>  | <u>(918,077)</u>  | <u>(918,077)</u>  | <u>(918,077)</u>  |
|                            | -                 | -                 | -                 | -                 |

There was no movement in impairment provision for inventory property held for sale. The impairment allowance mainly relates to inventory properties that are currently in dispute and are subject to ongoing court cases.

\* Included in prior year disposal is the cost of undisputed property disposed in the current year for KShs 46,761,000.

44. CONTINGENT LIABILITIES

The Kenya Revenue Authority made a final assessment relating to withholding tax on cedant acquisition costs and brokerage fees as indicated below:

|                 | Principal<br>KShs '000 | Interest<br>KShs '000 | Penalty<br>KShs '000 | Total<br>KShs '000 |
|-----------------|------------------------|-----------------------|----------------------|--------------------|
| Withholding tax | <u>742,215</u>         | <u>456,052</u>        | <u>74,221</u>        | <u>1,272,488</u>   |

The amount is the subject of ongoing court case between Kenya Re and KRA. Management are of the opinion that this will not be payable and as a result, no provision has been made in these financial statements.

45. CONSOLIDATION OF SUBSIDIARY

The company incorporated a new subsidiary in Zambia, Kenya Reinsurance Corporation Zambia Limited, on 26 November 2015. The subsidiary commenced operations in the current year and has therefore been consolidated into these financial statements.

46. EVENTS AFTER REPORTING DATE

There were no events after the reporting date which could have a material impact on the financial statements for the Group or the Company which have not been adequately adjusted for.

47. INCORPORATION

The Company is incorporated and domiciled in Kenya under the Companies Act.

48. CURRENCY

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

KENYA REINSURANCE CORPORATION LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

49. COMMITMENTS

Operating lease commitments - Group as lessor

The Group has entered into operating leases on its investment property portfolio consisting of certain office buildings. These leases have terms of 6 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

The total contingent rents recognised as income during the year is KShs. 746 million (2015: Kshs.712 million). Future minimum rentals receivable under non-cancellable operating leases as at 31 December are, as follows:

|  | 2016<br>KShs'000 | 2015<br>KShs'000 |
|--|------------------|------------------|
| Not later than one year                      | 53,955           | 923,633          |
| Later than 1 year but not later than 5 years | 1,947,629        | 2,386,213        |
| Later than 5 years                           | <u>121,076</u>   | <u>17,500</u>    |
|  | <u>2,122,660</u> | <u>3,327,346</u> |

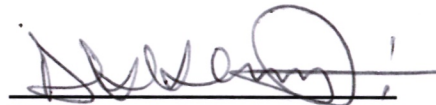
Appendix I  
 KENYA REINSURANCE CORPORATION LIMITED  
 SHORT TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016

|                                | Aviation  |           | Fire     |             | Liability | Marine    | Motor    |            | Personal  |           | Workmen      |           |           | Total 2016  | Total 2015  |
|--------------------------------|-----------|-----------|----------|-------------|-----------|-----------|----------|------------|-----------|-----------|--------------|-----------|-----------|-------------|-------------|
|                                | KShs '000 | KShs '000 | Domestic | Industrial  |           |           | Private  | Commercial | Accident  | Theft     | Compensation | Medical   | Misc.     |             |             |
| Gross premium                  | 23,455    | 749,227   | 9,868    | 3,547,692   | 143,826   | 569,391   | 9,835    | 614,731    | 522,842   | 498,619   | 12,724       | 3,860,073 | 1,200,366 | 11,762,650  | 11,779,216  |
| Unearned premiums b/f          | 11,988    | 288,166   | 951      | 1,596,483   | 47,586    | 270,975   | 14,668   | 198,391    | 493,253   | 219,179   | 257          | 1,023,806 | 394,891   | 4,560,594   | 4,010,877   |
| Unearned premiums c/f          | (3,902)   | 299,691   | 3,947    | 1,282,031   | 57,531    | 227,757   | 3,934    | 245,892    | 209,137   | 199,448   | 5,089        | 1,544,029 | 439,119   | 4,513,703   | 4,560,594   |
| Movement in unearned premium   | 15,890    | (11,525)  | (2,997)  | 314,452     | (9,944)   | 43,219    | 10,734   | (47,502)   | 284,116   | 19,731    | (4,832)      | (520,223) | (44,228)  | 46,891      | (549,717)   |
| Earned premiums                | 39,345    | 737,703   | 6,872    | 3,862,144   | 133,882   | 612,610   | 20,569   | 567,229    | 806,958   | 518,350   | 7,891        | 3,339,849 | 1,156,138 | 11,809,541  | 11,229,499  |
| Less: Retrocession premiums    | 23,210    | -         | -        | 342,614     | -         | -         | -        | -          | -         | -         | -            | -         | 112,568   | 478,392     | 377,730     |
| Net earned premiums            | 16,135    | 737,703   | 6,872    | 3,519,530   | 133,882   | 612,610   | 20,569   | 567,229    | 806,958   | 518,350   | 7,891        | 3,339,849 | 1,043,570 | 11,331,149  | 10,851,769  |
| Claims paid                    | 9,559     | 246,332   | 18,118   | 2,309,698   | 9,927     | 259,672   | 4,675    | 206,928    | 283,597   | 210,127   | 558          | 2,213,490 | 213,705   | 5,986,387   | 6,158,271   |
| Claims recoverable             | -         | -         | -        | (303,016)   | -         | -         | -        | -          | -         | -         | -            | -         | -         | (303,016)   | (293,165)   |
| Claims reserves - beg. of year | (13,828)  | (330,558) | (309)    | (1,537,664) | (22,654)  | (405,236) | (43,970) | (729,135)  | (702,246) | (393,401) | (576)        | (744,812) | (241,900) | (5,166,290) | (4,518,139) |
| - end of year                  | 14,369    | 268,152   | 5,173    | 1,912,444   | 34,438    | 506,087   | 40,755   | 694,878    | 342,757   | 293,869   | 1,836        | 1,121,567 | 294,228   | 5,530,550   | 5,166,290   |
| Net claims Incurred            | 10,099    | 183,926   | 22,982   | 2,381,462   | 21,712    | 360,523   | 1,459    | 172,671    | (75,893)  | 110,594   | 1,817        | 2,590,246 | 266,033   | 6,047,632   | 6,513,257   |
| Commissions                    | 6,044     | 236,527   | 1,895    | 1,118,953   | 36,241    | 180,039   | 1,290    | 55,793     | 205,159   | 180,445   | 1,114        | 829,165   | 325,416   | 3,178,081   | 2,988,422   |
| Commissions receivable         | -         | (51)      | -        | -           | -         | -         | -        | -          | -         | -         | -            | -         | -         | (51)        | (5,445)     |
| Provision for bad debts        | 1,326     | 42,359    | 558      | 200,574     | 8,131     | 32,191    | 556      | 34,755     | 29,560    | 28,190    | 719          | 218,235   | 67,864    | 665,019     | 198,357     |
| Management expenses            | 3,235     | 103,333   | 1,361    | 489,295     | 19,836    | 78,530    | 1,356    | 84,783     | 72,110    | 68,769    | 1,755        | 532,378   | 165,553   | 1,622,295   | 1,033,132   |
| Total expenses                 | 10,605    | 382,168   | 3,814    | 1,808,822   | 64,209    | 290,761   | 3,202    | 175,331    | 306,828   | 277,404   | 3,588        | 1,579,778 | 558,834   | 5,465,344   | 4,214,466   |
| Underwriting profit/ (loss)    | (4,569)   | 171,608   | (19,924) | (670,754)   | 47,961    | (38,674)  | 15,908   | 219,227    | 576,023   | 130,352   | 2,486        | (830,174) | 218,703   | (181,827)   | 124,046     |

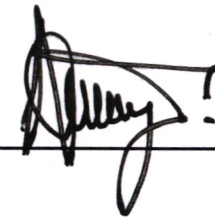
This short term business revenue account was approved by the Board of Directors on 30<sup>th</sup> March 2017 and was signed on its behalf by



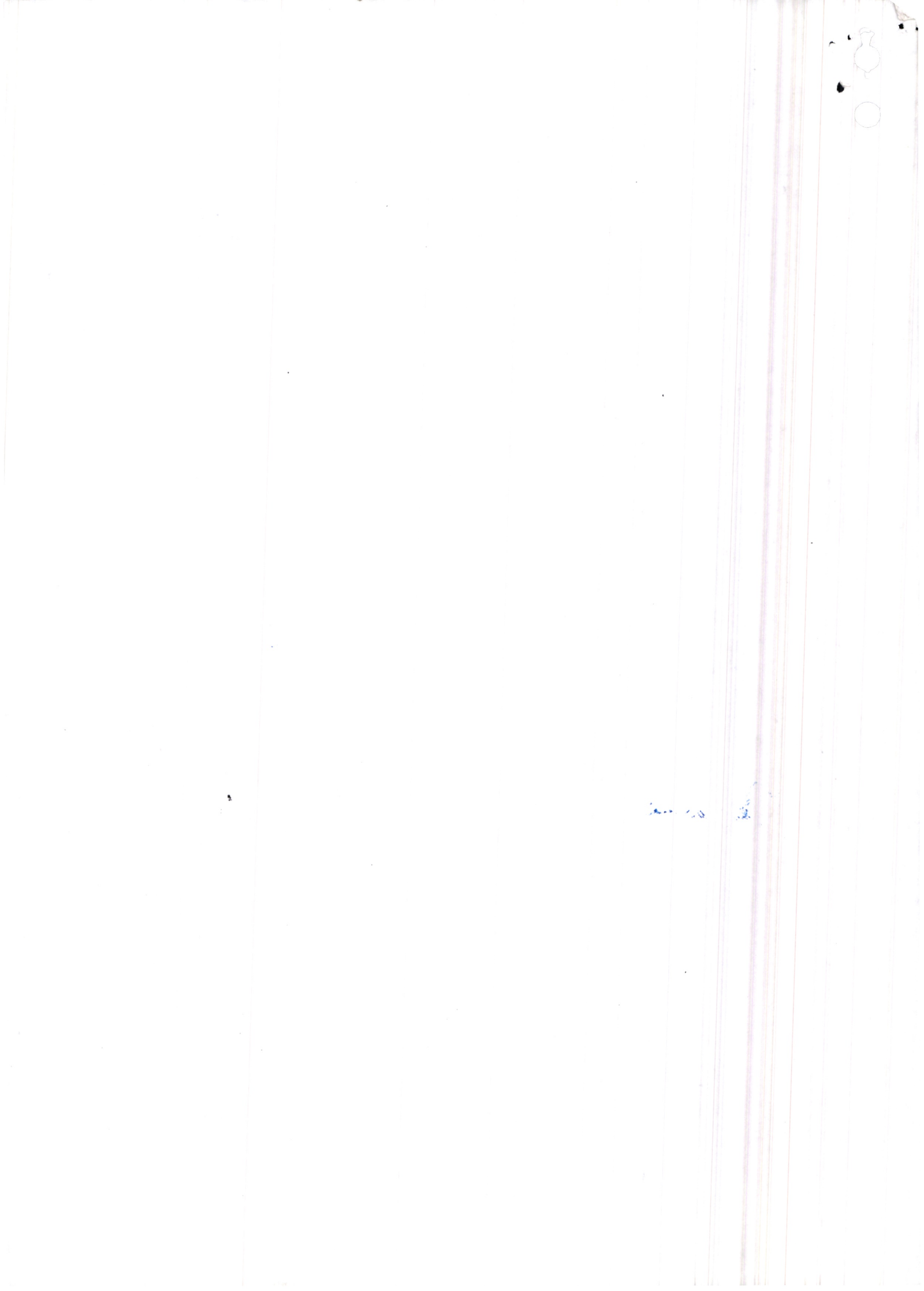
Principal Officer



Director



Director



Appendix II  
 KENYA REINSURANCE CORPORATION LIMITED  
 LONG TERM BUSINESS REVENUE ACCOUNT  
 FOR THE YEAR ENDED 31 DECEMBER 2016

|                               | Ordinary<br>KShs '000 | Super<br>Annuation<br>KShs '000 | 2016<br>KShs '000 | 2015<br>KShs '000 |
|-------------------------------|-----------------------|---------------------------------|-------------------|-------------------|
| Gross earned premiums         | 115,277               | 1,366,664                       | 1,481,941         | 1,281,125         |
| Less: Retrocession premiums   | <u>(9,827)</u>        | <u>(116,503)</u>                | <u>(126,329)</u>  | <u>(116,816)</u>  |
| Net earned premium            | <u>105,450</u>        | <u>1,250,162</u>                | <u>1,355,611</u>  | <u>1,164,309</u>  |
| Net claims incurred           | 15,782                | 619,539                         | 635,321           | 466,198           |
| Change in actuarial liability | 13,829                | (16,264)                        | (2,435)           | 82,155            |
| Net cedant acquisition costs  | 52,479                | 368,560.06                      | 421,039           | 379,344           |
| Management expenses           | <u>16,340</u>         | <u>193,725</u>                  | <u>210,065</u>    | <u>201,080</u>    |
|                               | <u>98,431</u>         | <u>1,165,560</u>                | <u>1,263,990</u>  | <u>1,128,777</u>  |
| Underwriting surplus          | 7,019                 | 84,602                          | 91,621.14         | 35,532            |
| Fair value gains              | 12,485                | 148,012                         | 160,496           | 100,000           |
| Investment income             | <u>40,319</u>         | <u>478,007</u>                  | <u>518,327</u>    | <u>506,854</u>    |
| Increase in life funds        | <u>59,823</u>         | <u>710,621</u>                  | <u>770,444</u>    | <u>642,386</u>    |

The long term business revenue account was approved by the board of directors on 25<sup>th</sup> March 2017 and was signed on its behalf by:



Principal Officer