

REPUBLIC OF KENYA



*Paper laid
by the Hon Aden Duale,
Leader of Majority
on the 5/8/14*

KENYA NATIONAL AUDIT OFFICE



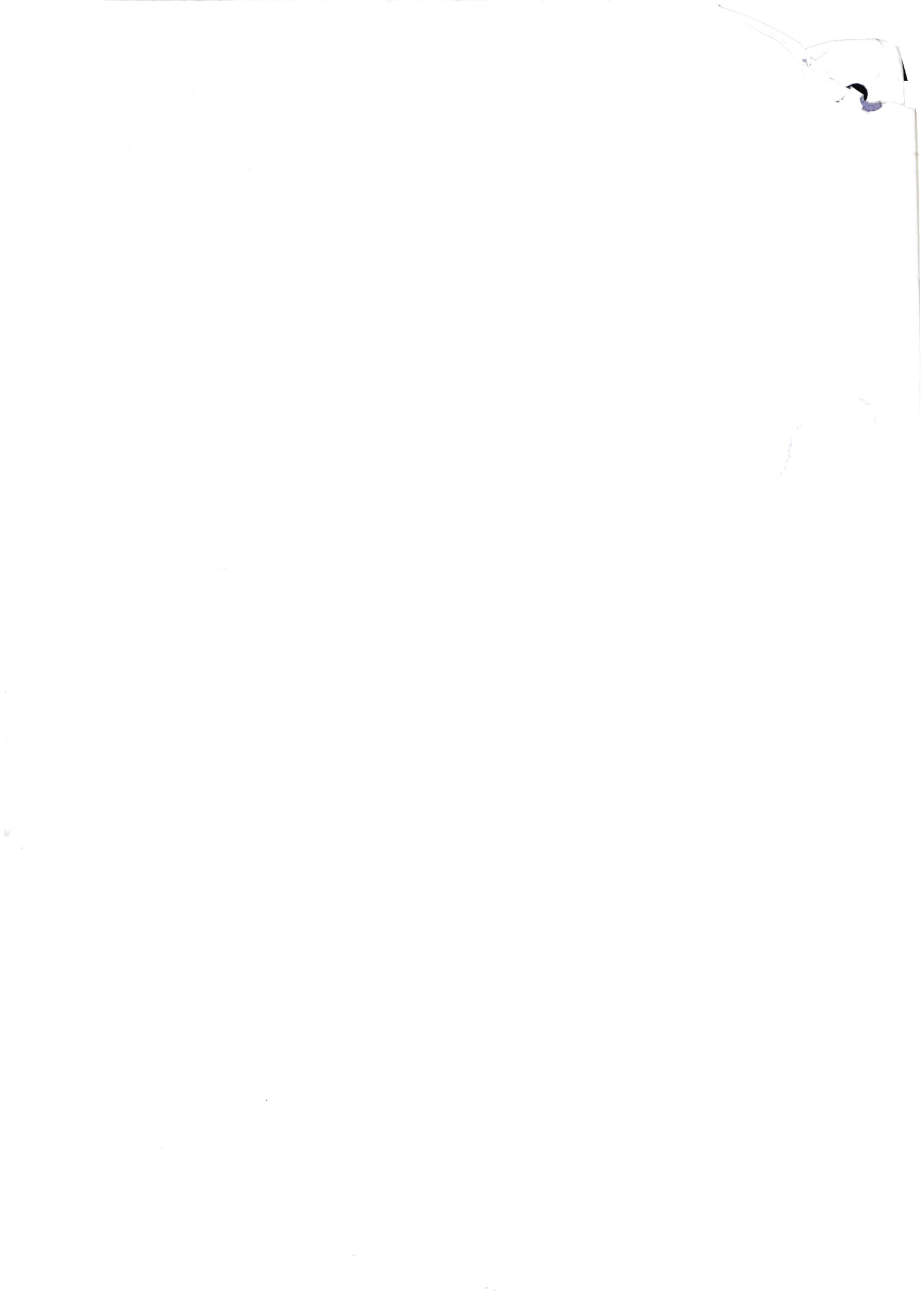
**REPORT OF
THE
AUDITOR-GENERAL**

KENYA NATIONAL AUDIT OFFICE

ON



**THE FINANCIAL STATEMENTS OF
KENYA REINSURANCE CORPORATION
LIMITED FOR THE YEAR ENDED
31 DECEMBER 2013**



Deloitte.

**KENYA REINSURANCE CORPORATION
LIMITED**

**ANNUAL REPORT &
FINANCIAL STATEMENTS**

31 DECEMBER 2013



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KENYA REINSURANCE CORPORATION LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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CORPORATE INFORMATION (Continued)

ADVOCATES (Continued)

Coulson Harney Advocates
Unit A, Nairobi Business Park
Ngong Road
P O Box 10643 – 00100
Nairobi, Kenya

Igeria & Ngugi Advocates
Hughes Building, 8th Floor
P O Box 60635 – 00200
Nairobi, Kenya

Kiogora Mutai & Company Advocates
Consolidated Bank House, 2nd Floor
Koinange Street
P O Box 45790 – 00100
Nairobi, Kenya

Macharia-Mwangi & Njeru Advocates
ACK Garden annex, 6th Floor
1st Ngong Avenue
P O Box 10627 – 00100
Nairobi, Kenya

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

Muthaura Mugambi Ayugi & Njonjo
Advocates
Capitol Hill Square, 4th Floor
Off Chyulu Road
P O Box 8418 – 00200
Nairobi, Kenya

Ogeto Otachi & Company Advocates
Ambassador Court, Block C, Door 6
Milimani Road
P O Box 79438 – 00200
Nairobi, Kenya

Otieno Ragot & Company Advocates
Post Bank House, 15th Floor
P O Box 1883 – 40100
Nairobi, Kenya

Sisule Munyi Kilonzo & Company
Advocates
Reinsurance Plaza, 13th Floor
P O Box 1392 – 00600
Nairobi, Kenya

E N Omotii & Company Advocates
Reinsurance Plaza, 5th Floor
P O Box 3465 – 00200
Nairobi, Kenya

K. Mwaura & Company Advocates
Ojijo Plaza, 2nd floor
P O Box 50515 – 00200
Nairobi, Kenya

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

Maina & Maina Advocates
View Park Towers, 14th Floor, Wing A
Utalii Lane/ Uhuru Highway
P O Box 2607 – 00200
Nairobi, Kenya

Muri Mwaniki & Wamiti
Advocates
Rehani House, 10th Floor
Koinange Street/Kenyatta Avenue
P O Box 13726 – 00100
Nairobi, Kenya

Mwaniki Gachoka & Company Advocates
Design Centre, 3rd Floor, Office
Suite No. 3A
Tausi/Mogotio Road, Off Muthithi Road
P O Box 13439 – 00800 Westlands
Nairobi, Kenya

Ogola Okello & Company Advocates
The Green House, 1st Floor, Suite 14
Ngong Road
P O Box 62550 – 00200
Nairobi, Kenya

Rautta & Company Advocates
Reinsurance Plaza, 5th Floor
Taifa Road
P O Box 52036 – 00200
Nairobi, Kenya

Waweru Gatonye & Company Advocates
Timau Plaza, 4th Floor
Argwings Kodhek/Timau Road
P O Box 55207 – 00200
Nairobi, Kenya

CORPORATE INFORMATION (Continued)

BANKERS

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

National Bank of Kenya Limited
Harambee Avenue
P O Box 41862 - 00100 GPO
Nairobi, Kenya

Bank of Africa Kenya Limited
Reinsurance Plaza, Taifa Road
P O Box 69562 - 00400
Nairobi, Kenya

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

Commercial Bank of Africa Limited
Mara & Ragati Road
P.O Box 30437 - 00100
Nairobi, Kenya

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

Standard Chartered Bank Cote d'Ivoire
23, Boulevard de la Republique
17 BP 1141 Abidjan 17
Plateau, Cote d'Ivoire



KENYA REINSURANCE CORPORATION LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2013

The directors have the pleasure of presenting their report together with the audited financial statements of Kenya Reinsurance Corporation Limited (the "Corporation") for the year ended 31 December 2013 which show the Corporation's state of affairs.

PRINCIPAL ACTIVITIES

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

RESULTS

	2013 Sh '000
Profit before taxation	3,268,803
Taxation charge	(268,372)
Profit for the year transferred to retained earnings	<u>3,000,431</u>

DIVIDENDS

The directors recommend the payment of a first and final dividend of Sh 0.60 (2012 - Sh 0.40) per share totalling to 420 million for the year ended 31 December 2013 (2012 - Sh 280 million).

DIRECTORS

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

In accordance with Articles 110 of the Corporation's Articles of Association Mr Henry Rotich, Mr Jacob Ali Haji and Dr. Iruki Kailemia retire by rotation as Directors and, being eligible, offer themselves for re-election at the Annual General Meeting to be held on 13 June 2014

SECRETARY

The Corporation's Secretary is Mr Charles Kariuki.

AUDITORS

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

Deloitte & Touche were appointed by the Auditor General to carry out the audit for the year ended 31 December 2013.

BY ORDER OF THE BOARD



Secretary

28 APRIL 2014

Nairobi

KENYA REINSURANCE CORPORATION LIMITED

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Committees of the Board (Continued)

b) Risk & Compliance Committee

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

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

The responsibilities of this Committee include:

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

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

c) Human Resources Committee

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

Dr. Iruki Kailemia - Chairman
Jacob Haji
Everest Lenjo
Dr. Lumbi Wa M'Nabea
Jadiah Mwarania
Cabinet Secretary – National Treasury

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

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

d) Finance Investment and Tender Oversight Committee

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

Felix Okatch - Chairman
Dr. Iruki Kailemia
Jadiah Mwarania
Cabinet Secretary – National Treasury

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

KENYA REINSURANCE CORPORATION LIMITED

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Committees of the Board (Continued)

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

Risk Management and Internal Controls

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

Creating Shareholders' Value

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

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors for services rendered during the financial year 2013 are disclosed in the notes to the financial statements under note 42. Non-executive directors are paid sitting allowances for every meeting attended. There were no arrangements for the directors to acquire benefits through the acquisition of the Corporation's shares. Loans and advances to directors as at the end of the year are also disclosed in the financial statements under note 42.

Directors' interest and distribution of shareholding

Directors' interests in the shares of the Corporation and the distribution of the Corporation's shareholding and analysis of the ten largest shareholders as at 31 December 2013 were as follows:

Directors' interests as at 31 December 2013:

	Number of shares	% Shareholding
Cabinet Secretary to the National Treasury of Kenya	420,000,000	60
Jadhah Mwarania	100,000	-
Nelius Kariuki	38,510	-
Gladys Mboya	18,400	-
Jacob Haji Ali	2,336	-
Felix Okatch	15,800	-
Dr. Iruki Kailemia	1,537	-
Everest Lenjo	1,166	-
	<u>420,177,749</u>	<u>60</u>



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KENYA REINSURANCE CORPORATION LIMITED
STATEMENT CORPORATE GOVERNANCE (Continued)

	Number of shares	% Shareholding
Major Shareholders		
Cabinet Secretary to the National Treasury of Kenya	420,000,000	60.004
Cooperative Bank Custody A/C 4003A	15,204,072	2.172
National Social Security Fund	10,737,910	1.534
Gidjoy Investments Limited	10,271,382	1.467
Standard Chartered (K) Nominees Ltd A/C 9230	9,104,717	1.301
CFC Stanbic Nominees Ltd A/C NR 1030624	8,991,100	1.285
Cooperative Custody A/C 4003	8,296,417	1.185
Standard Chartered (K) Nominees Ltd A/C 9389	7,671,800	1.096
CFC Stanbic Nominees Ltd A/C R48701	6,361,231	0.909
CFC Stanbic Nominees Ltd A/C NR 1030685	4,720,600	0.674
Best Investment Decision Limited	4,310,927	0.616
Standard Chartered (K) Nominees Ltd A/C 9197	3,915,492	0.559
	<u>509,585,648</u>	<u>72.802</u>


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

Shares Range	Shareholders	Number of Shares	% Shareholding
1 - 500	77,043	17,345,169	2.48
501 - 1,000	17,076	11,934,654	1.71
1,001 - 5,000	14,934	28,690,741	4.10
5,001 - 10,000	1,438	9,976,873	1.43
10,001 - 50,000	1,272	24,940,921	3.56
50,001 - 100,000	143	10,100,850	1.44
100,001 - 500,000	125	25,282,389	3.61
500,001 - 1,000,000	26	19,268,522	2.75
1,000,001 & above	36	552,408,949	78.92
	<u>112,093</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	104,640	107,476,538	15.35
Local Institutional Investors	6,907	566,899,587	80.99
Foreign Investors	546	25,572,943	3.66
	<u>112,093</u>	<u>699,949,068</u>	<u>100.00</u>


.....
Director


.....
Director



KENYA REINSURANCE CORPORATION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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



Principal Officer



Director



Director

28 April 2014

KENYA REINSURANCE CORPORATION LIMITED

REPORT OF THE CONSULTING ACTUARY

I have conducted an actuarial valuation of the long term business of Kenya Reinsurance Corporation Limited as at 31 December 2013.

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

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

In my opinion, the long term business of the Corporation was financially sound and the actuarial value of the liabilities in respect of all classes of long term insurance business did not exceed the amount of funds of the long term business as at 31 December 2013.

Name of Actuary

James Israel Ombayi

Qualification

Fellow of the Institute of Actuaries

Signed

James Ombayi

28 April

2014

REPUBLIC OF KENYA



Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: cag@kenao.go.ke
Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA REINSURANCE CORPORATION LIMITED FOR THE YEAR ENDED 31 DECEMBER 2013

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Reinsurance Corporation Limited set out on pages 15 to 66, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Deloitte & Touche, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

reasonable assurance about whether the financial statements are free from material misstatement.

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

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

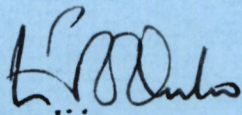
Opinion

In my opinion the financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on my 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 my audit;
- ii. In my opinion, proper books of account have been kept by the Corporation, so far as appears from my examination of those books; and
- iii. The Corporation's statement of financial position and statement of comprehensive income are in agreement with the books of account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

28 April 2014

KENYA REINSURANCE CORPORATION LIMITED
 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Long term business 2013 Sh'000	Short term business 2013 Sh'000	Total 2013 Sh'000	Total 2012 Sh'000 (restated)
INCOME					
Gross premiums written		1,089,859	8,555,292	9,645,151	7,944,183
Less: change in unearned premiums		-	(620,442)	(620,442)	(505,533)
Less: retrocession premiums		(94,300)	(348,579)	(442,879)	(384,335)
NET EARNED PREMIUMS					
Investment income	6	995,559	7,586,271	8,581,830	7,054,315
Commissions receivable	7	520,711	1,757,038	2,277,749	2,651,422
Fair value gains on revaluation of investment properties	15	26,657	309	26,966	70,194
Other income	8	86,242	355,346	441,588	523,008
		-	76,472	76,472	94,254
NET INCOME					
		1,629,169	9,775,436	11,404,605	10,393,193
Gross claims incurred					
Amounts recoverable from retrocessionaires		(441,044)	(4,804,959)	(5,246,003)	(4,221,576)
		24,351	498,482	522,833	159,999
NET CLAIMS INCURRED					
	9	(416,693)	(4,306,477)	(4,723,170)	(4,061,577)
Commissions payable					
Operating and other expenses	10	(291,264)	(2,202,696)	(2,493,960)	(2,041,855)
Provision for doubtful debts		(200,819)	(813,949)	(1,014,768)	(1,084,141)
		-	(160,904)	(160,904)	(466,919)
TOTAL EXPENSES					
		(492,083)	(3,177,549)	(3,669,632)	(3,592,915)
SHARE OF PROFIT OF ASSOCIATE					
	18	-	257,000	257,000	205,934
PROFIT BEFORE TAXATION					
TAXATION CHARGE	12(a)	720,393	2,548,410	3,268,803	2,944,635
		(27,175)	(241,197)	(268,372)	(142,743)
PROFIT FOR THE YEAR					
		693,218	2,307,213	3,000,431	2,801,892
OTHER COMPREHENSIVE INCOME					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Share of gain on property revaluation of associate	18	-	10	10	2,180
Defined benefit obligation remeasurement	38	-	(6,148)	(6,148)	44,262
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Fair value gain arising on revaluation of available-for-sale financial assets	29	-	732,270	732,270	779,704
Reclassification from equity of accumulated fair value gain on available-for-sale financial assets sold in the year	7	-	(307,681)	(307,681)	(314,209)
Share of movement in associate reserves:					
- currency translation	18	-	52,978	52,978	15,757
- fair value reserve	18	-	44,886	44,886	13,812
Adjustment to deferred tax on revaluation surplus due to change in tax rate from 20% to 30%		-	-	-	(2,466)
		-	516,315	516,315	539,040
TOTAL COMPREHENSIVE INCOME FOR THE YEAR					
		693,218	2,823,528	3,516,746	3,340,932
EARNINGS PER SHARE - basic and diluted					
	13			4.29	4.00



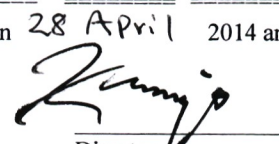
KENYA REINSURANCE CORPORATION LIMITED
 STATEMENT OF FINANCIAL POSITION
 AS AT 31 DECEMBER 2013

		Long term business 2013 Sh '000	Short term business 2013 Sh '000	Total 2013 Sh '000	Total 2012 Sh '000 (restated)	Total 2011 Sh '000 (restated)
ASSETS						
Investment properties	15	1,145,000	5,314,000	6,459,000	5,935,000	5,365,000
Property and equipment	16	-	112,874	112,874	80,511	87,196
Intangible assets	17	-	64,584	64,584	2,604	10,472
Investment in associate	18	-	1,652,940	1,652,940	1,340,048	1,133,445
Deferred taxation asset	19	-	594,276	594,276	614,709	330,551
Deferred acquisition costs	20	-	960,819	960,819	761,158	626,597
Unquoted equity instruments	21	-	59,965	59,965	89,971	89,971
Inventories	22	-	28,794	28,794	28,794	28,794
Non current assets held for sale	23	-	28,098	28,098	40,032	186,858
Mortgage loans	24	-	734,456	734,456	521,539	320,074
Defined benefit asset	38	-	9,044	9,044	-	-
Tax recoverable	12(c)	-	-	-	-	15,795
Receivables arising out of reinsurance arrangements	25	126,753	1,876,203	2,002,956	1,518,502	1,248,975
Premium and loss reserves	26	-	194,055	194,055	290,178	337,672
Other receivables	27	-	109,603	109,603	56,470	42,781
Corporate bonds	28	-	141,846	141,846	153,970	48,393
Quoted equity instruments	29	-	2,959,490	2,959,490	2,436,749	2,008,823
Government securities	30	967,580	6,726,374	7,693,954	5,459,118	3,357,582
Deposits with financial institutions	31	3,054,481	1,162,521	4,217,002	4,217,389	3,687,082
Cash and bank balances	41	18,110	180,721	198,831	241,215	170,380
TOTAL ASSETS		5,311,924	22,910,663	28,222,587	23,787,957	19,096,441
EQUITY						
Share capital	32	-	1,749,873	1,749,873	1,749,873	1,500,000
Revaluation reserve	33	-	10,973	10,973	15,994	13,439
Fair value reserve	33	-	1,768,740	1,768,740	1,299,255	817,768
Translation reserve	33	-	198,283	198,283	145,305	129,548
Statutory reserve	33	3,095,848	-	3,095,848	2,402,630	1,457,106
Retained earnings	33	-	11,098,665	11,098,665	9,072,559	7,636,823
Shareholders' funds		3,095,848	14,826,534	17,922,382	14,685,616	11,554,684
LIABILITIES						
Long term reinsurance contract liabilities	34	2,094,357	-	2,094,357	2,073,032	2,285,709
Short term reinsurance contracts liabilities	35	-	3,702,715	3,702,715	3,049,991	2,373,622
Unearned premiums	36	-	3,282,685	3,282,685	2,662,244	2,156,709
Payables arising out of reinsurance arrangements	37	121,719	580,193	701,912	709,445	394,555
Defined benefit liability	38	-	-	-	23,729	90,361
Other payables	39	-	477,404	477,404	419,239	240,801
Taxation payable	12(c)	-	41,132	41,132	164,661	-
TOTAL LIABILITIES		2,216,076	8,084,129	10,300,205	9,102,341	7,541,757
TOTAL EQUITY AND LIABILITIES		5,311,924	22,910,663	28,222,587	23,787,957	19,096,441

The financial statements on pages 14 to 65 were approved by the board of directors on 28 April 2014 and were signed on its behalf by:


Principal Officer


Director


Director

KENYA REINSURANCE CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Share capital Sh '000	Revaluation reserve Sh '000	Fair value reserve Sh '000	Translation reserve Sh '000	Statutory reserve Sh '000	Retained earnings Sh '000	Total Sh '000
At 1 January 2012		1,500,000	13,439	817,768	129,548	1,457,106	7,608,624	11,526,485
Prior year adjustment (note 43)		-	-	-	-	-	28,199	28,199
As restated		1,500,000	13,439	817,768	129,548	1,457,106	7,636,823	11,554,684
Issue of shares (note 32)		249,873	-	-	-	-	(249,873)	-
Profit for the year		-	-	-	-	945,524	1,856,368	2,801,892
Other comprehensive (loss)/ income		-	(2,466)	481,487	15,757	-	-	494,778
Prior year adjustment (note 43)		-	(2,466)	481,487	15,757	945,524	1,856,368	3,296,670
		-	-	-	-	-	44,262	44,262
Total comprehensive income-restated		-	(2,466)	481,487	15,757	945,524	1,900,630	3,340,932
Dividends declared – 2011	14	-	-	-	-	-	(210,000)	(210,000)
Transfer of excess depreciation		-	7,173	-	-	-	(7,173)	-
Deferred taxation thereon		-	(2,152)	-	-	-	2,152	-
At 31 December 2012-restated		1,749,873	15,994	1,299,255	145,305	2,402,630	9,072,559	14,685,616
At 1 January 2013		1,749,873	15,994	1,299,255	145,305	2,402,630	9,000,098	14,613,155
-As previously stated		-	-	-	-	-	72,461	72,461
- Prior year adjustment (note 43)		-	-	-	-	-	-	-
As restated		1,749,873	15,994	1,299,255	145,305	2,402,630	9,072,559	14,685,616
Profit for the year		-	-	-	-	693,218	2,307,213	3,000,431
Other comprehensive income		-	-	469,485	52,978	-	(6,148)	516,315
Total comprehensive income		-	-	469,485	52,978	693,218	2,301,065	3,516,746
Dividends declared – 2012	14	-	-	-	-	-	(279,980)	(279,980)
Transfer of excess depreciation		-	(7,173)	-	-	-	7,173	-
Deferred taxation thereon		-	2,152	-	-	-	(2,152)	-
At 31 December 2013		1,749,873	10,973	1,768,740	198,283	3,095,848	11,098,665	17,922,382

KENYA REINSURANCE CORPORATION LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 Sh '000	2012 Sh '000
Cash (used in)/generated from operations	40	(92,375)	556,429
Interest received on corporate bond		18,425	11,567
Interest received on government securities		843,826	520,185
Tax paid in the year	12(c)	(371,468)	(248,911)
		<hr/>	<hr/>
Net cash generated from operating activities		398,408	839,270
		<hr/>	<hr/>
Cash flows from investing activities			
Purchase of investment property	15	(82,412)	(46,992)
Purchase of property and equipment	16	(55,382)	(12,216)
Purchase of intangibles	17	(65,387)	-
Dividend received from associate company	18	41,982	31,080
		<hr/>	<hr/>
Net cash used in investing activities		(161,199)	(28,128)
		<hr/>	<hr/>
Cash flows from financing activities			
Dividends paid	14	(279,980)	(210,000)
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents		(42,771)	601,142
Cash and cash equivalents at 1 January		4,458,604	3,857,462
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	41	<u>4,415,833</u>	<u>4,458,604</u>

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1 ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Adoption of new and revised International Financial Reporting Standards (IFRS)

i) *New standards and amendments to published standards effective for the year ended 31 December 2013*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

New and revised standards on consolidation and joint arrangements, associates and disclosures

In May 2011, a package of five standards in consolidation and joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IASs 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.

Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

The application of the amendment had no effect on the company's financial statements as the company did not have any subsidiaries as at 31 December 2013.

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

1 ACCOUNTING POLICIES (CONTINUED)

(b) Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

i) *New standards and amendments to published standards effective for the year ended 31 December 2013 (Continued)*

Impact of the application of IFRS 12

IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgements and assumptions - such as how control, joint control, significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

Other than additional disclosures, the application of the standard had no material impact on the amounts recognised in these financial statements.

IFRS 13 Fair Value Measurement

The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the company has not made any new disclosures required by IFRS 13 for the 2012 comparative period

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

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

1 ACCOUNTING POLICIES (CONTINUED)

(b) Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

i) *New standards and amendments to published standards effective for the year ended 31 December 2013 (Continued)*

ii)

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' (and the 'income statement' is renamed as the 'statement of profit or loss'). The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The new terminology has been adopted in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

IAS 19 Employee Benefits (as revised in 2011)

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

The company recognised all actuarial gains and losses through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus, and restated the comparative amounts on a retrospective basis.

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

1 ACCOUNTING POLICIES (CONTINUED)

(b) Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2013*

<i>New and Amendments to standards</i>	<i>Effective for annual per. beginning on or after</i>
IFRS 9	1 January 2018
Amendments to IFRS 9 and IFRS 7	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014

(iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods*

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. The directors of the company anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the company's financial assets and financial liabilities (e.g. the company's investments in redeemable notes that are currently classified as available-for-sale investments will have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

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

1 ACCOUNTING POLICIES (CONTINUED)

(b) Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods (Continued)*

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The directors of the company do not anticipate that the investment entities amendments will have any effect on the company's financial statements as the company is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the company anticipate that the application of these amendments to IAS 32 will have a significant impact on the financial statements as the company has financial assets and financial liabilities that qualify for offset. However it is not practicable to provide a reasonable estimate on the effects of IAS 32 until a detailed review has been completed.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

Amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The directors of the company do not anticipate that the application of these amendments to IAS 36 will have a significant impact on the company's financial statements.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

Amends IAS 39 Financial Instruments: Recognition and Measurement to make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.

The directors of the company do not anticipate that the application of these amendments to IAS 39 will have a significant impact on the company's financial statements.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (CONTINUED)

(b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRIC)(Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods (Continued)

Annual Improvements 2010-2012 Cycle

The annual improvements 2010-2012 cycle makes amendments to the following standards:

- IFRS 2 — Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- IFRS 8 — Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52.
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

These IFRS improvements are effective for accounting periods beginning on or after 1 January 2014. The directors of the company do not anticipate that the application of these improvements to IFRSs will have a significant impact on the company's financial statements.

(iv) Early adoption of standards

The Corporation did not early-adopt any new or amended standards in 2013.

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

1 ACCOUNTING POLICIES (CONTINUED)

(c) **Significant Accounting Policies (Continued)**

Basis of preparation

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

Reinsurance contracts

(i) **Classification**

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

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

a) **Short-term reinsurance business**

Short term reinsurance business refers to reinsurance business of any class or classes that is not long term reinsurance business.

Classes of short term reinsurance include aviation, engineering, fire (domestic risks, industrial and commercial risks), liability, marine, motor (private vehicles and commercial vehicles), personal accident, theft, workmen's compensation, employer's liability and miscellaneous (i.e. any class of business not included under those listed above). The Corporation's main classes are described below:

- Motor reinsurance business means the business of effecting and carrying out contracts of reinsurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks.
- Fire reinsurance business refers to the business of effecting and carrying out contracts of reinsurance, other than incidental to some other class of reinsurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.
- Miscellaneous reinsurance business refers to the business of effecting and carrying out contracts of reinsurance which are not principally or wholly of any types included in other classes of business but include reinsurance of bonds of all types, reinsurance of livestock and crop reinsurance.

b) **Long-term reinsurance business**

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

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

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

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

1 ACCOUNTING POLICIES (CONTINUED)

(c) Significant Accounting Policies (Continued)

(ii) Recognition and measurement (Continued)

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. Commissions payable and deferred acquisition costs

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

d. Liability adequacy test

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

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

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

1 ACCOUNTING POLICIES (CONTINUED)

(c) Significant Accounting Policies (Continued)

(ii) Recognition and measurement (Continued)

e. Retrocession contracts held

Contracts entered into by the Corporation with retrocessionnaires under which the Corporation is compensated for losses on one or more contracts issued by the Corporation and that meet the classification requirements for reinsurance contracts are classified as retrocession contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Retrocession premiums payable are recognised in the period in which the related premium income and claims are earned /incurred, respectively.

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

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

f. Receivable and payables related to reinsurance contracts

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

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

g. Premium and loss reserves

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

Other income recognition

Commissions receivable 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.

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

1 ACCOUNTING POLICIES (CONTINUED)

(c) Significant Accounting Policies (Continued)

Foreign currency transactions

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

Taxation

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

(i) *Current tax*

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

(ii) *Deferred tax*

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

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

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

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

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

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

1 ACCOUNTING POLICIES (CONTINUED)

(c) Significant Accounting Policies (Continued)

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.

Property and equipment

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

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

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

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

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

Depreciation

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

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

Intangible assets – computer software and licenses

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

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

1 ACCOUNTING POLICIES (CONTINUED)

(d) Significant Accounting Policies (Continued)

Impairment

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

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

Non current assets held for sale

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

Leases

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

Corporation as a lessor

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

Corporation as a lessee

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

Inventories

Inventories comprise housing units for sale.

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

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

1 ACCOUNTING POLICIES (CONTINUED)

(c) Significant Accounting Policies (Continued)

Revaluation reserve

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

Fair value reserve

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

Translation reserve

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

Statutory reserve

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

Investment in associate

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

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

Financial instruments

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

Financial assets

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

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

1 ACCOUNTING POLICIES (CONTINUED)

(c) Significant Accounting Policies (Continued)

Classification

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity

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

Available-for-sale financial assets

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

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

Recognition

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

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

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (CONTINUED)

(c) Significant Accounting Policies (Continued)

Derecognition

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

Financial liabilities

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

Employee entitlements

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

Cash and cash equivalents

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

Retirement benefits obligations

Defined benefit scheme

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

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

Effective 30 September 2010, the Scheme was closed to new entrants.

Statutory defined contributions scheme

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

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.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(c) Significant Accounting Policies (Continued)

Comparatives

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

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The ultimate liability arising from claims payable under reinsurance contracts

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

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

Held-to-maturity investments

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

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Available for sale investments

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

Useful lives of equipment and intangible assets

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

3 FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Reinsurance risk

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

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

Frequency and severity of claims

A key risk, related to pricing and provisioning, that the Corporation faces under its reinsurance contracts is that the actual claims and benefit payments exceed the carrying amount of the reinsurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established based on past experience.

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

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

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 Corporation takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

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

Reinsurance risks (Continued)

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

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Concentration of insurance risk

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

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

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Long term business 2013 Shs'000	Short term business 2013 Shs'000	Total 2013 Shs'000	Total 2012 Shs'000
Financial assets				
Debt securities:				
Held to maturity:				
- Government securities	950,470	6,743,484	7,693,954	5,459,118
- Corporate bonds	-	141,846	141,846	153,970
Equity securities:				
- Available for sale (Quoted)	-	2,959,490	2,959,490	2,436,749
- Available for sale (Unquoted)	-	59,965	59,965	89,971
Receivables arising out of reinsurance arrangements	126,753	1,876,203	2,002,956	1,518,502
Premium and loss reserves	-	194,055	194,055	290,178
Mortgage loans	-	734,456	734,456	521,539
Cash and cash equivalents (note 41)	2,994,192	1,421,641	4,415,833	4,458,604
Other receivables	-	109,603	109,603	56,470
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets	4,071,415	14,240,743	18,312,158	14,985,101
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Reinsurance liabilities				
Long term liabilities	2,094,357	-	2,094,357	2,073,032
Short term liabilities	-	3,702,715	3,702,715	3,049,991
	<hr/>	<hr/>	<hr/>	<hr/>
Total short term liabilities	2,094,357	3,702,715	5,797,072	5,123,023
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Reinsurance risks (Continued)

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

Financial assets	Carrying amount Shs'000	No stated maturity Shs'000	Contractual cash flows (undiscounted)		
			0-1 years Shs'000	1-5 years Shs'000	>5 yrs Shs'000
Debt securities:					
Held to maturity:					
- Government bonds	7,693,954	-	822,906	416,664	6,454,384
- Corporate bonds	141,846	-	-	-	141,846
Equity securities:					
- Available for sale	2,959,490	2,959,490	-	-	-
Receivables arising out of reinsurance arrangements	2,002,956	2,002,956	-	-	-
Premium loss reserves	194,055	194,055	-	-	-
Mortgage loans	734,456	-	61	8,174	726,221
Cash and cash equivalents	4,415,833	-	4,415,830	-	3
Total	18,142,590	5,156,501	5,238,797	424,838	7,322,454
Reinsurance liabilities					
Long term liabilities	2,094,357	2,094,357	-	-	-
Short term liabilities	3,702,715	3,702,715	-	-	-
Total	5,797,072	5,797,072	-	-	-
Net gap	12,345,518	(640,571)	5,238,797	424,838	7,322,454

31 December 2012

Financial assets	Carrying amount Shs'000	No stated Maturity Shs'000	Contractual cash flows (undiscounted)		
			0-1 years Shs'000	1-5 years Shs'000	>5 yrs Shs'000
Financial assets	14,838,660	4,245,429	4,944,124	833,924	4,815,183
Reinsurance liabilities	5,123,023	5,123,023	-	-	-
Net gap	9,715,637	(877,594)	4,944,124	833,924	4,815,183

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Financial risk

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

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

(a) Liquidity risk

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

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

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

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

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Financial risk

(a) Liquidity risk (Continued)

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

	Due on demand Sh '000	Due after 1 year Sh '000	Total Sh '000
31 December 2013			
Long term reinsurance contract liabilities	-	2,094,357	2,094,357
Short term insurance contract liabilities	3,702,715	-	3,702,715
Payables arising out of reinsurance arrangements	580,193	121,719	701,912
	<u>4,282,908</u>	<u>2,216,076</u>	<u>6,498,984</u>
31 December 2012			
Long term reinsurance contract liabilities	-	2,073,042	2,073,042
Short term insurance contract liabilities	3,049,991	-	3,049,991
Payables arising out of reinsurance arrangements	706,634	2,811	709,445
	<u>3,756,625</u>	<u>2,075,853</u>	<u>5,832,478</u>

(b) Market risk

Management of market risk

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

Interest rate risk

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

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

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Financial risk

(b) Market risk (Continued)

Interest rate risk (Continued)

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

Currency rate risk

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

Price risk

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

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

(c) Credit risk

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

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

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

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

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

KENYA REINSURANCE CORPORATION LIMITED

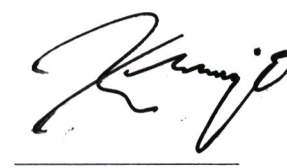
LONG TERM BUSINESS REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Ordinary	Super	2013	2012
	Sh '000	Annuation Sh '000	Sh '000	Sh '000
Gross earned premiums	146,053	943,806	1,089,859	1,052,583
Less: Retrocession premiums	(10,063)	(84,237)	(94,300)	(148,345)
Net earned premium	135,990	859,569	995,559	904,238
Net claims incurred	10,798	384,570	395,368	464,945
Decrease in actuarial liability	28,128	(6,803)	21,325	(212,677)
Net commissions	48,136	216,471	264,607	203,326
Management expenses	26,106	174,713	200,819	112,835
	113,168	768,951	882,119	568,429
Underwriting surplus	22,822	90,618	133,440	335,809
Fair value gains	11,211	75,031	86,242	80,771
Investment income	67,692	453,019	520,711	555,471
Increase in life funds	101,725	618,668	720,393	972,051

The long term business revenue account was approved by the board of directors on 28 April 2014 and was signed on its behalf by:


Principal Officer


Director


Director

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KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Financial risk

(c) Credit risk (Continued)

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

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

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

	2013 Sh'000	2012 Sh'000
Held to maturity instruments		
Government securities	7,693,954	5,459,118
Deposits with financial institutions	4,217,002	4,217,389
Corporate bonds	141,846	153,970
Loans and receivables at amortized cost		
Mortgage loans	734,456	521,539
Receivables arising out of reinsurance arrangements	2,002,956	1,518,502
Premium and loss reserves	194,055	290,178
Cash and bank balances	198,831	241,215
Other receivables	109,603	56,470
Total assets bearing credit risk	<u>15,292,703</u>	<u>12,458,381</u>

Receivables arising out of reinsurance arrangements are summarized as follows:

	2013 Sh'000	2012 Sh'000
Neither past due nor impaired	440,020	321,012
Past due but not impaired:		
-up to 91 to 365 days	1,221,404	891,061
-up to 1 to 2 years	341,532	306,429
-up to 2 to 3 years	-	-
Impaired	1,306,371	1,271,687
	<u>3,309,327</u>	<u>2,790,189</u>
Less: provision for impairment	(1,306,371)	(1,271,687)
Total	<u>2,002,956</u>	<u>1,518,502</u>

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

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

Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

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

(ii) Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The corporation considers relevant and observable market prices in its valuations where possible.

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

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

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Fair value of financial assets and liabilities (Continued)

(ii) Fair value hierarchy (Continued)

At 31 December 2012	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
Financial assets				
Quoted equity instruments	2,436,749	-	-	2,436,749
Unquoted equity instruments	-	89,971	-	89,971
Receivables arising out of reinsurance arrangements	-	1,518,502	-	1,518,502
Corporate bonds	153,970	-	-	153,970
Government securities	5,459,118	-	-	5,459,118
Deposits with financial institutions	4,217,389	-	-	4,217,389
Cash and bank balances	241,215	-	-	241,215
Non- financial assets				
Investment properties	5,935,000	-	-	5,935,000
	<u>18,443,441</u>	<u>1,608,473</u>	<u>-</u>	<u>20,051,914</u>
Reinsurance liabilities				
Long term reinsurance contract liabilities	-	2,073,032	-	2,073,032
Short term reinsurance contract liabilities	-	3,049,991	-	3,049,991
Payables arising out of reinsurance arrangements	-	709,445	-	709,445
	<u>-</u>	<u>5,832,468</u>	<u>-</u>	<u>5,832,468</u>

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 CAPITAL MANAGEMENT

As at 31 December 2013, the required level of paid up share capital for a composite reinsurance company was Sh 450 million.

The Corporation's objectives in managing its capital are:

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

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

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

5 SEGMENTAL REPORTING

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

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

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

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 PREMIUMS INCOME

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

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

	Long term Business Sh'000	Short term business Sh'000	Total 2013 Sh'000	Total 2012 Sh'000
Super annuation	948,177	-	948,177	786,687
Ordinary life	47,382	-	47,382	117,551
Motor	-	462,403	462,403	402,034
Fire	-	2,113,969	2,113,969	2,277,263
Theft	-	632,155	632,155	545,580
Personal accident	-	799,336	799,336	471,025
Engineering	-	646,102	646,102	659,082
Marine	-	658,683	658,683	491,465
Other	-	2,273,623	2,273,623	1,303,628
	<u>995,559</u>	<u>7,586,271</u>	<u>8,581,830</u>	<u>7,054,315</u>

7 INVESTMENT INCOME

Rental income from investment properties	142,825	476,225	619,050	574,594
Interest on Government securities held to maturity	277,237	566,589	843,826	520,185
Reclassification from equity of accumulated fair value gain on available for sale quoted equity instruments		307,681	307,681	314,209
Realised gain on sale of available for sale quoted equity instruments	-	73,611	73,611	108,785
Dividends receivable on available-for-sale quoted equity instruments	-	107,923	107,923	138,866
Interest on commercial mortgages	-	66,943	66,943	32,978
Interest on deposits with financial institutions – held to maturity	100,649	129,024	229,673	630,382
Interest on corporate bonds – held to maturity	-	18,425	18,425	11,567
Profit on sale of non current asset held for sale	-	3,757	3,757	310,271
Interest on staff mortgages and loans	-	6,860	6,860	9,585
Total investment income	<u>520,711</u>	<u>1,757,038</u>	<u>2,277,749</u>	<u>2,651,422</u>

8 OTHER INCOME

Miscellaneous income	-	76,472	76,472	42,688
Net foreign exchange gains	-	-	-	51,566
Total	<u>-</u>	<u>76,472</u>	<u>76,472</u>	<u>94,254</u>



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

	Long term business 2013 Sh '000	Short term business 2013 Sh '000	Total 2013 Sh '000	Total 2012 Sh '000
9	CLAIMS INCURRED			
	419,719	4,152,235	4,571,954	3,757,884
Claims paid				
Changes in the provision for outstanding claims	-	652,724	652,724	676,369
Increase/(decrease) in actuarial liability	21,325	-	21,325	(212,677)
	<u>441,044</u>	<u>4,804,959</u>	<u>5,246,003</u>	<u>4,221,576</u>
Gross claims incurred				
Less: Amounts recoverable from retrocessionaires	(24,351)	(498,482)	(522,833)	(159,999)
	<u>416,693</u>	<u>4,306,477</u>	<u>4,723,170</u>	<u>4,061,577</u>
	Long term business 2013 Sh '000	Short term business 2013 Sh '000	Total 2013 Sh '000	Total 2012 Sh '000 (restated)
10	OPERATING AND OTHER EXPENSES			
	66,670	321,479	388,149	335,012
Staff costs (note 11)				
Depreciation (note 16)	3,936	19,083	23,019	18,901
Amortisation (note 17)	583	2,824	3,407	7,868
Auditors' remuneration	934	4,523	5,457	6,439
Directors' - emoluments	2,106	10,209	12,315	14,710
- fees	765	3,711	4,476	2,940
Mortgages provisions	-	4,737	4,737	10,951
Annual General Meeting expenses	2,558	12,404	14,962	22,832
Fines and penalties	37	179	216	133,251
Investment property direct operating expenses	32,897	159,481	192,378	214,836
Net foreign exchange losses	-	34,281	34,281	-
Travel and accommodation	7,234	35,071	42,305	41,817
Advertisement	1,814	8,796	10,610	16,310
Professional and consultancy fees	14,060	68,161	82,221	62,540
Impairment charge on unquoted equity instruments	-	30,006	30,006	-
Other expenses	67,225	99,004	166,229	195,734
	<u>200,819</u>	<u>813,949</u>	<u>1,014,768</u>	<u>1,084,141</u>
11	STAFF COSTS			
	48,814	236,646	285,460	234,047
Salaries and wages				
Retirement benefit (credit)/costs (note 38)	755	1,924	2,679	19,230
Medical expenses	3,113	15,090	18,203	18,090
Leave allowance	3,670	17,789	21,459	17,235
National social security benefit costs	41	199	240	224
Gratuity accrual	62	299	361	-
Bonus	2,151	10,430	12,581	7,615
Staff welfare expenses	1,779	8,627	10,406	6,979
Training and recruitment	2,460	11,926	14,386	9,416
Leave pay provision	337	1,638	1,975	5,451
Pension contributions	3,488	16,911	20,399	16,725
	<u>66,670</u>	<u>321,479</u>	<u>388,149</u>	<u>335,012</u>



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

12 TAXATION CHARGE

	2013	2012
	Sh '000	Sh '000
(a) Taxation charge		
Current tax at 30% on the taxable profit for the year	384,695	429,367
Prior year over provision	(136,756)	-
	<u>247,939</u>	<u>429,367</u>
Deferred taxation charge/(credit) (note 19)		
- Current year	22,281	(286,033)
- Prior year over provision	(1,848)	(591)
	<u>20,433</u>	<u>(286,624)</u>
	<u>268,372</u>	<u>142,743</u>
(b) The Corporation's current tax charge is computed in accordance with income tax rules applicable to composite Kenyan insurance and reinsurance companies. A reconciliation of the tax charge is shown below:		
	2013	2012
	Sh '000	Sh '000
Short term business profit before taxation	2,548,410	1,972,584
Long term business profit before taxation	720,393	972,051
	<u>3,268,803</u>	<u>2,944,635</u>
Tax applicable rate of 30%	980,641	883,391
Tax effects of non taxable income	(669,773)	(653,758)
Tax effect of non-deductible expenses	96,108	81,739
Effect on deferred tax due to change in tax rate from 20% to 30%	-	(168,038)
Prior year over provision- current tax	(136,756)	-
Prior year over provision- deferred tax	(1,848)	(591)
	<u>268,372</u>	<u>142,743</u>
Attributable to:		
Long term business	27,175	26,527
Short term business	241,197	116,216
	<u>268,372</u>	<u>142,743</u>
(c) Taxation payable/(recoverable)		
At 1 January	164,661	(15,795)
Charge for the year	384,695	429,367
Prior year over provision	(136,756)	-
Paid in the year	(371,468)	(248,911)
	<u>41,132</u>	<u>164,661</u>
Attributable to:		
Long term business	-	-
Short term business	41,132	164,661
	<u>41,132</u>	<u>164,661</u>

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 EARNINGS PER SHARE

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

	2013	2012
Profit attributable to shareholders (Sh'000)	3,000,431	2,801,892
Weighted average number of ordinary shares in issue	699,949	699,949
Basic and diluted earnings per share (Sh)	4.29	4.00

There were no potentially dilutive shares outstanding at 31 December 2013 and 2012. The diluted earnings per share is therefore the same as the basic earnings per share.

14 DIVIDENDS

The directors propose the payment of a first and final dividend of Sh 0.60 (2012 – Sh 0.40) per share totalling to Sh 420 million in respect of the year ended 31 December 2013 (2012 – Sh 280 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:

	2013 Sh '000	2012 Sh '000
At 1 January	-	-
Dividend declared	279,980	210,000
Dividends paid	(279,980)	(210,000)
At 31 December	-	-
Proposed cash dividend per share (Sh)	0.60	0.40

15 INVESTMENT PROPERTIES

	Long term business 2013 Sh '000	Short term business 2013 Sh '000	Total 2013 Sh '000	Total 2012 Sh '000
At fair value				
At 1 January	1,050,000	4,885,000	5,935,000	5,365,000
Additions	8,758	73,654	82,412	46,992
Fair value gain	86,242	355,346	441,588	523,008
At 31 December	1,145,000	5,314,000	6,459,000	5,935,000

- (i) Investment properties comprise office buildings held to earn rentals and/or capital appreciation and land acquired for development of office buildings and housing projects for rental and/or capital appreciation.
- (ii) The valuation of investment properties was last carried out by Chapter Property Consultants Limited, professional independent valuers as at 31 December 2013. The basis of valuation was open market value, based on the highest and best use of the properties.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 PROPERTY AND EQUIPMENT

	Motor vehicles Sh'000	Computers Sh'000	Furniture & equipment Sh'000	Total Sh'000
Cost or valuation				
At 1 January 2012	8,017	26,481	73,391	107,889
Additions	-	3,495	8,721	12,216
At 31 December 2012	8,017	29,976	82,112	120,105
At 1 January 2013	8,017	29,976	82,112	120,105
Additions	3,223	44,494	7,665	55,382
At 31 December 2013	11,240	74,470	89,777	175,487
COMPRISING				
Cost	9,440	51,160	81,986	142,586
Valuation - 2008	1,800	-	-	1,800
Valuation - 2011	-	23,310	7,791	31,101
	11,240	74,470	89,777	175,487
Depreciation				
At 1 January 2012	3,346	6,161	11,186	20,693
Charge for the year	1,951	6,984	9,966	18,901
At 31 December 2012	5,297	13,145	21,152	39,594
At 1 January 2013	5,297	13,145	21,152	39,594
Charge for the year	2,218	10,460	10,341	23,019
At 31 December 2013	7,515	23,605	31,493	62,613
Net book value				
At 31 December 2013	3,725	50,865	58,284	112,874
At 31 December 2012	2,720	16,831	60,960	80,511
Net book value at cost				
At 31 December 2013	3,725	40,881	54,197	98,803
At 31 December 2012	2,721	1,526	55,021	59,268

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



KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 INTANGIBLE ASSETS

	Intangible Assets	Capital WIP	Total
Cost			
At 1 January 2012	48,908	-	48,908
Additions	-	-	-
At 31 December 2012	48,908	-	48,908
At 1 January 2013	48,908	-	48,908
Additions	5,508	59,879	65,387
Write-off	(13,813)	-	(13,813)
At 31 December 2013	40,603	59,879	100,482
Amortisation			
At 1 January 2012	38,436	-	38,436
Charge for the year	7,868	-	7,868
At 31 December 2012	46,304	-	46,304
At 1 January 2013	46,304	-	46,304
Charge for the year	3,407	-	3,407
Write-off	(13,813)	-	(13,813)
At 31 December 2013	35,898	-	35,898
Net book value			
At 31 December 2013	4,705	59,879	64,584
At 31 December 2012	2,604	-	2,604

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

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Sh '000	2012 Sh '000
18 INVESTMENT IN ASSOCIATE		
At 1 January	1,340,048	1,133,445
Share of profit for the year	257,000	205,934
Less dividends received	(41,982)	(31,080)
	<u>1,555,066</u>	<u>1,308,299</u>
Share of revaluation reserve	10	2,180
Share of fair value reserve	44,886	13,812
Currency translation adjustment	52,978	15,757
	<u>97,874</u>	<u>31,749</u>
At 31 December	<u><u>1,652,940</u></u>	<u><u>1,340,048</u></u>

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

Summary financial information for ZEP-Re

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

	2013 Sh	2012 Sh
Closing rate	86.31	86.03
Average rate	<u>86.13</u>	<u>84.52</u>
Ownership	<u>18.11%</u>	<u>20.73%</u>

During 2013, there was a dilution of the Corporation's equity interest ownership percentage in the associate due to capitalisation of dividends paid in the year, in which the Corporation did not participate. In addition, the associate sold equity interests to new investors.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Sh '000	2012 Sh '000
18 INVESTMENT IN ASSOCIATE (Continued)		
Summary financial information for ZEP-Re (Continued)		
Total assets	17,421,044	13,256,007
Total liabilities	(8,295,621)	(6,479,118)
	-----	-----
Net assets	9,125,423	6,776,889
	=====	=====
Corporation's share of net assets of associate	1,652,940	1,340,048
	=====	=====
Profit before taxation	1,325,989	987,370
	=====	=====
Share of profit for the year	257,000	205,934
Less: dividends received	(41,982)	(31,080)
	-----	-----
Corporation's share of associate's profit	215,018	174,854
	=====	=====

During the year, a dividend of Sh 41,981,573 (2012 – Sh 31,080,449) was received.

19 DEFERRED TAXATION ASSET

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

	2013 Sh '000	2012 Sh '000
The net deferred taxation asset is attributable to the following items:		
Deferred tax assets:		
Excess depreciation over capital allowances	4,612	14,565
Leave pay provision	6,259	5,777
Defined benefit liability	-	28,857
Unrealised exchange loss	10,559	1,571
Bad debts provisions	578,657	586,463
	-----	-----
	600,087	637,233
	-----	-----
Deferred tax liabilities:		
Revaluation surplus – property and equipment	(3,098)	(5,249)
Unrealised exchange gain	-	(17,275)
Defined benefit asset	(2,713)	
	-----	-----
Net deferred taxation asset	594,276	614,709
	=====	=====

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Sh '000	2012 Sh '000
19	DEFERRED TAXATION ASSET (Continued)	
	The movement on the deferred taxation account during the year was as follows:	
	At 1 January	(614,709) (330,551)
	Charge/(credit) for the year (note 12)	22,281 (286,033)
	Prior year under provision	(1,848) (591)
	<u>20,433</u>	<u>(286,624)</u>
	Effect of change in tax rate from 20% to 30% on deferred tax on revaluation surplus	- 2,466
	<u>At 31 December</u>	<u>(594,276) (614,709)</u>
20	DEFERRED ACQUISITION COSTS	
	At 1 January	761,158 626,597
	Movement in the year	199,661 134,561
	<u>At 31 December</u>	<u>960,819 761,158</u>
21	UNQUOTED EQUITY INSTRUMENTS – AVAILABLE FOR SALE	
	<i>At cost</i>	
	At 1 January	89,971 89,971
	Impairment charge	(30,006) -
	<u>At 31 December</u>	<u>59,965 89,971</u>
	The investment in unquoted equity instruments is analysed as follows:	
	International Development Bank (12% shareholding)	24,474 54,480
	Africa Reinsurance Limited (0.2% shareholding)	35,491 35,491
	<u>Gross investment</u>	<u>59,965 89,971</u>
22	INVENTORIES	
	At 1 January	28,794 28,794
	Inventories comprise property units for sale.	

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Sh '000	2012 Sh '000
23 NON CURRENT ASSETS HELD FOR SALE		
At 1 January	40,032	536,858
Disposal	(11,934)	(146,826)
Provision for assets held for sale	-	(350,000)
	<u>40,032</u>	<u>40,032</u>
At 31 December	<u>28,098</u>	<u>40,032</u>

The provision in 2012 relates to a parcel of land which is under dispute with the Government due to claims of wrongful allocation. The remaining non current assets held for sale represent office blocks and land which the Corporation intends to sell within the next 12 months. The Corporation continues to actively market the remaining non current assets held for sale.

	2013 Sh '000	2012 Sh '000
24 MORTGAGE LOANS		
Commercial mortgages	634,541	425,111
Staff mortgages	202,327	194,103
	<u>836,868</u>	<u>619,214</u>
Less: impairment provision	(102,412)	(97,675)
	<u>734,456</u>	<u>521,539</u>
Maturity analysis		
Within 1 year	61	8,941
Within 1 to 5 years	8,174	125,661
Over 5 years	726,221	386,937
	<u>734,456</u>	<u>521,539</u>

The weighted average effective interest rate on the mortgages was 14.93% (2012 – 10%).

	Long term		Short term	
	business	business	Total	Total
	2013	2013	2013	2012
	Sh '000	Sh '000	Sh '000	Sh '000
Local companies	126,753	1,059,435	1,186,188	756,252
International companies	-	2,123,139	2,123,139	2,033,937
	<u>126,753</u>	<u>3,182,574</u>	<u>3,309,327</u>	<u>2,790,189</u>
Less: impairment provision	-	(1,306,371)	(1,306,371)	(1,271,687)
	<u>126,753</u>	<u>1,876,203</u>	<u>2,002,956</u>	<u>1,518,502</u>

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2013 Sh '000	2012 Sh '000
26 PREMIUM AND LOSS RESERVES		
International companies	735,334	718,152
Local companies	48,215	161,520
Provision for impaired balances	(589,494)	(589,494)
	<u>194,055</u>	<u>290,178</u>

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

	2013 Sh '000	2012 Sh '000
27 OTHER RECEIVABLES		
Staff advances	45,062	28,607
Prepayments	1,105	1,646
Rental receivables	1,887	-
Dividends receivable	3,748	4,186
Due from the investment custodian	56,218	15,423
Other receivables	1,583	6,608
	<u>109,603</u>	<u>56,470</u>

28 CORPORATE BONDS

Held to maturity

Kenya Electricity Generating Company Limited	37,451	48,328
Consolidated Bank of Kenya Limited	104,395	105,642
	<u>141,846</u>	<u>153,970</u>

The effective interest rate on the corporate bond at 31 December 2013 was 12.5 % (2012 – 5.8%) The corporate bonds mature on 9 November 2019 and 30 July 2022.

29 QUOTED EQUITY INSTRUMENTS – AVAILABLE FOR SALE

	2013 Sh '000	2012 Sh '000
<i>At fair value</i>		
At 1 January	2,436,749	2,008,823
Fair value gain	732,270	779,704
Purchases during the year	158,320	75,272
Disposals during the year	(367,849)	(427,050)
	<u>2,959,490</u>	<u>2,436,749</u>

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 GOVERNMENT SECURITIES

	Long term business 2013 Sh '000	Short term business 2013 Sh '000	Total 2013 Sh '000	Total 2012 Sh '000
Held to maturity				
Maturing:				
- Within 3 months	31,744	153,892	185,636	181,280
- Within 4 to 12 months	108,973	528,297	637,270	306,282
- Within 1 to 5 years	71,250	345,414	416,664	509,881
- Over 5 years	755,613	5,698,771	6,454,384	4,461,675
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December	967,580	6,726,374	7,693,954	5,459,118
	<hr/>	<hr/>	<hr/>	<hr/>

Treasury bonds amounting to Sh 1,263,850,000 (2012 – Sh 200,000,000) 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 11.61 % (2012 – 11.8%).

31 DEPOSITS WITH FINANCIAL INSTITUTIONS

Held to maturity

	Long term business 2013 Sh '000	Short term business 2013 Sh '000	Total 2013 Sh '000	Total 2012 Sh '000
Deposits maturing within 3 months	3,054,481	1,162,521	4,217,002	4,217,389
	<hr/>	<hr/>	<hr/>	<hr/>

The weighted average effective interest rate on deposits with financial institutions was 8% (2012 – 16%).

32 SHARE CAPITAL

		2013 Sh '000	2012 Sh '000
(i) Authorised: share capital			
800,000,000 ordinary shares of Sh 2.50 each		2,000,000	2,000,000
		<hr/>	<hr/>
	Number of Shares	Share capital	
		2013	2012
		Sh '000	Sh '000
(ii) Issued and fully paid			
At 1 January 2012 and 2013	600,000,000	1,749,873	1,500,000
Issue of Bonus Shares in 2012	99,949,068	-	249,873
	<hr/>	<hr/>	<hr/>
At 31 December	699,949,068	1,749,873	1,749,873
	<hr/>	<hr/>	<hr/>

33 RESERVES

Revaluation reserve

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

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

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 RESERVES (Continued)

Fair value reserve

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

Translation reserve

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

Statutory reserve

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

Retained earnings

The retained earnings balance represents the amounts available for distribution to the shareholders of the Corporation, except for cumulative fair value gains on the Corporation's investment properties amounting to Sh 4,516,517,259 (2012: Sh 4,074,929,259) whose distribution is subject to restrictions imposed by legislation.

34 LONG TERM REINSURANCE LIABILITIES

The long term reinsurance liabilities, which comprise Ordinary Life Fund and Superannuation Fund, were established in respect of the Corporation's long-term business as required under Section 45 of the Kenyan Insurance Act. Income arising from the investment of the assets of the statutory funds is credited to and forms part of these funds. Transfers from the statutory funds to the profit or loss are done upon the recommendation of the Actuary. The latest actuarial valuation of the life fund was carried out by Alexander Forbes Financial Services (EA) Limited, consulting actuaries as at 31 December 2013 and according to the valuation, the fund had a surplus of Sh 3,096 million (2012 – Sh 2,403 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 2013 is summarised as follows:

	2013 Sh '000	2012 Sh '000
Life fund	5,190,205	4,475,662
Less: actuarial value of policy holder liabilities	(2,094,357)	(2,073,032)
	<hr/>	<hr/>
Statutory reserve	3,095,848	2,402,630
	<hr/> <hr/>	<hr/> <hr/>

Valuation assumptions

The significant valuation assumptions for the actuarial valuation as at 31 December 2013 are summarised below. The same assumptions were used in 2012.

(i) *Actuarial basis and method of valuation*

The Corporation underwrites both treaty and mandatory cessions business. Compulsory cessions ordinary life business is written on a risk premium basis. Accordingly, this business can be viewed as a series of one year renewable term assurances reinsured on guaranteed risk premium rates and valued as such. Therefore, the actuarial reserves have been established as a proportion of gross annual premiums written. Each type or class of ordinary life business has been valued as a different percentage of annual office premiums written. The actuary has established actuarial reserves of 95% of the gross annual premiums written for all types of compulsory cessions ordinary life business at the valuation date.

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

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

34 LONG TERM REINSURANCE LIABILITIES (Continued)

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

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

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

(ii) Investment returns

The rate of return on the life fund assets in 2013 was 11.9% per annum (2012 – 11.9% per annum).

35 SHORT TERM INSURANCE CONTRACT LIABILITIES

	2013 Sh '000	2012 Sh '000
Short term insurance contract liabilities	3,702,715	3,049,991

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

Claims Development

Accident year	2009 Shs'000	2010 Shs'000	2011 Shs'000	2012 Shs'000	2013 Shs'000	Total Shs'000
Estimate of ultimate claims costs:						
At end of accident year	1,256,930	1,819,592	2,327,902	2,261,182	4,697,764	12,363,370
One year later	156,058	265,215	47,247	654,476	-	1,122,996
Two years later	43,670	11,810	295,497	-	-	350,977
Three years later	7,700	169,921	-	-	-	177,621
Four years later	56,611	-	-	-	-	56,611
Current estimate of cumulative claims	1,520,969	2,266,538	2,670,646	2,915,658	4,697,764	14,071,575
Less: cumulative payments to date	(1,449,357)	(2,096,618)	(2,375,149)	(2,261,182)	(2,186,554)	(10,368,860)
Total claims reported and claims handling expenses	71,612	169,920	295,497	654,476	2,511,210	3,702,715

Total gross claims liability included in the statement of financial position 3,702,715

	2013 Sh '000	2012 Sh '000
36 UNEARNED PREMIUMS		
At 1 January	2,662,244	2,156,709
Increase in the year	620,441	505,535
At 31 December	3,282,685	2,662,244

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

37 PAYABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	Long term business 2013 Sh '000	Short term business 2013 Sh '000	Total 2013 Sh '000	Total 2012 Sh '000
Local companies	121,719	322,030	443,749	164,480
International companies	-	258,163	258,163	544,965
	<u>121,719</u>	<u>580,193</u>	<u>701,912</u>	<u>709,445</u>

38 RETIREMENT BENEFIT OBLIGATION

a) Defined Benefit Scheme

The Corporation operates a funded defined benefit plan for substantially all employees. Scheme members' contributions are a fixed percentage of pensionable pay with the Corporation responsible for the balance of the cost of benefits accruing. The Scheme is established under a trust. The Scheme funds are invested by the Corporation in a variety of asset classes comprising government securities, property and shares. The scheme was closed to new entrants effective 30 September 2010 and was converted to a defined contribution scheme with effect from 1 October 2010.

	2013 Sh '000	2012 Sh '000 (restated)
The actuarial valuation results were as follows:		
Present value of funded obligations	474,539	441,693
Fair value of scheme assets	(483,583)	(417,964)
	<u>(9,044)</u>	<u>23,729</u>
Net (asset)/liability in the statement of financial position		
Movement in present value of funded obligation		
As at 1 January	441,693	418,741
Current service costs	3,767	7,959
Interest cost	55,064	54,944
Actuarial loss	14,874	(8,489)
Benefits payment	(40,859)	(31,462)
	<u>474,539</u>	<u>441,693</u>
At 31 December		

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

38 RETIREMENT BENEFIT OBLIGATION (Continued)

a) Defined Benefit Scheme (Continued)

	2013 Sh '000	2012 Sh '000 (restated)
Movement in fair value of assets		
As at 1 January	417,964	328,380
Expected return on assets	54,635	45,104
Actuarial gain	10,243	34,257
Employer contributions	41,600	41,600
Benefit payments	(40,859)	(31,462)
Prior year adjustments	-	85
	<hr/>	<hr/>
At 31 December	483,583	417,964
	<hr/> <hr/>	<hr/> <hr/>
Movement in net liability		
As at 1 January	23,729	118,560
Net expense recognised in profit or loss	2,679	19,230
Net charge/(credit) recognised in other comprehensive income	6,148	-
Actuarial gains previously recognized (note 43)	-	(72,461)
Employer contributions	(41,600)	(41,600)
	<hr/>	<hr/>
At 31 December	(9,044)	23,729
	<hr/> <hr/>	<hr/> <hr/>
Amount recognised in profit or loss:		
Current service cost net of employees' contributions	2,250	7,959
Interest on obligation	429	11,356
Prior year adjustments	-	(85)
	<hr/>	<hr/>
Total included in "staff costs" in respect of scheme	2,679	19,230
	<hr/>	<hr/>
Amount recognised in other comprehensive income:		
Actuarial gains and losses	14,874	(36,688)
Actuarial gains previously recognised	-	28,199
Return on plan assets	(8,726)	(35,773)
	<hr/>	<hr/>
Total credit to other comprehensive income	6,148	(44,262)
	<hr/>	<hr/>
Actual return on plan assets	64,878	76,015
	<hr/> <hr/>	<hr/> <hr/>
	2013	2012
Actuarial assumptions		
Discount rate (% p.a.)	12.18%	13.01%
Expected return on Scheme assets (% p.a.)	10%	10%
Future salary increases (% p.a.)	5%	5%
Future pension increases (% p.a.)	3%	3%
	<hr/> <hr/>	<hr/> <hr/>

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

38 RETIREMENT BENEFIT OBLIGATION (Continued)

a) Defined Benefit Scheme (Continued)

Historical information	2013 Sh '000	2012 Sh '000	2011 Sh '000	2010 Sh '000
Fair value of plan assets	483,583	417,964	328,380	351,725
Present value of funded obligations	(474,539)	(441,693)	(418,741)	(523,976)
Net over/(under) funding in the scheme	9,044	(23,729)	(90,361)	(172,251)
Unrecognised actuarial (gain)/loss	-	-	-	34,500
Defined benefit liability	9,044	(23,729)	(90,361)	(137,751)

b) Defined contribution scheme

The Corporation also makes contributions to a statutory provident fund, the National Social Security Fund (NSSF). Contributions are determined by local statute. For the year ended 31 December 2013, the Corporation contributed Sh 20,398,878 (2012 – Sh 16,724,527) to the defined contribution pension scheme and Sh 239,800 (2012 – Sh 224,000) for NSSF which has been charged to the profit or loss.

	2013 Sh '000	2012 Sh '000
39 OTHER PAYABLES		
Purchasers deposits	5,319	19,753
Legal fees deposits	15,864	17,929
Rental deposits	68,158	63,073
Accrued leave pay	20,863	19,256
Taxation arrears	139,733	117,687
Accounts payable	213,630	142,636
Other creditors and accruals	13,837	38,905
	477,404	419,239

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

40 NOTES TO THE STATEMENT OF CASH FLOWS

	2013 Sh '000	2012 Sh '000 (restated)
Profit before taxation	3,268,803	2,944,635
Adjustment for:		
Depreciation (note 16)	23,019	18,901
Interest on corporate bonds	(18,425)	(11,567)
Interest on government securities	(843,826)	(520,185)
Amortisation of software (note 17)	3,407	7,868
Reclassification from equity of accumulated fair value gain on available-for-sale equity instruments	(307,681)	(314,209)
Gain on disposal of available-for-sale quoted equity instruments	(73,611)	(108,785)
Profit on sale of non current asset held for sale	3,757	(310,271)
Fair value gain on investment properties (note 15)	(441,588)	(523,008)
Share of profit of associate (note 18)	(257,000)	(205,934)
	<hr/>	<hr/>
Operating profit before working capital changes	1,356,855	977,445
Working capital changes:		
Mortgage loans	(212,917)	(201,465)
Receivables arising out of reinsurance arrangements	(484,454)	(269,527)
Premium and loss reserves	96,123	47,494
Other receivables	(53,133)	(13,689)
Deferred acquisition costs	(199,661)	(134,561)
Long term reinsurance contract liabilities	21,325	(212,677)
Short term reinsurance contract liabilities	652,724	676,369
Unearned premiums	620,441	505,535
Payables arising out of reinsurance arrangements	(7,533)	314,890
Defined benefit liability	(32,773)	(22,370)
Other payables	58,165	178,438
Purchase of Government securities	(2,564,424)	(2,598,516)
Proceeds on maturity of Government securities	389,950	537,200
Purchase of quoted equity instruments (note 29)	(158,320)	(75,272)
Proceeds on sale of quoted equity instruments	367,710	535,835
Impairment charge on unquoted equity instruments	30,006	-
Proceeds on disposal of corporate bond	11,850	-
Proceeds on disposal of non current asset held for sale	15,691	411,300
Purchase of corporate bond	-	(100,000)
	<hr/>	<hr/>
Net cash (used in)/generated from operations	(92,375)	556,429

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 CASH AND CASH EQUIVALENTS

	2013 Sh '000	2012 Sh '000
Deposits with financial institutions maturing within 3 months	4,217,002	4,217,389
Cash and bank balances	198,831	241,215
	<u>4,415,833</u>	<u>4,458,604</u>

42 RELATED PARTIES

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

	2013 Sh '000	2012 Sh '000
a) Transactions and balances with directors and staff		
(i) Directors' remuneration		
Fees	4,476	2,940
Other emoluments	12,315	14,710
	<u>16,791</u>	<u>17,650</u>
(ii) Key management remuneration		
Salaries and other short term benefits	55,066	48,979
	<u>55,066</u>	<u>48,979</u>
(iii) Loans to staff	245,653	222,772
	<u>245,653</u>	<u>222,772</u>

Interest income on these loans was Sh 10,044,951 (2012 – Sh 9,585,354). The effective interest on the loans is 5 % (2012 – 5%). Staff mortgages and car loans are secured by way of charging the related property to the Corporation.

	2013 Sh'000	2012 Sh'000
(iv) Loans to directors		
Included in commercial mortgages (note 24)	3,486	4,265
	<u>3,486</u>	<u>4,265</u>

Interest earned on these loans was Sh 278,730 (2012 – Sh 301,758). The effective interest rate on the loans is 5% (2012 - 5%). Loans to directors are secured by mortgages on the property purchased.

KENYA REINSURANCE CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

42 RELATED PARTIES (Continued)

	2013 Sh '000	2012 Sh '000
b) Transaction with associate company, ZEP Re		
(i) Net premium written	189,585 =====	33,476 =====
(ii) Claims incurred	58,916 =====	28,031 =====

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

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

	2013 Sh '000	2012 Sh '000
Amounts due from related parties	79,965 =====	72,629 =====
Amounts due to related parties	27,963 =====	53,439 =====

43 PRIOR YEAR ADJUSTMENTS

The prior year adjustment relates to the recognition of unrecognised actuarial gains in line with the requirements of the revised IAS 19 on Employee Benefits.

a) Restatement of Audited Statement of Comprehensive Income for the year ended 31 December 2011

	As previously reported 2011 Shs'000	Prior year adjustment 2011 Shs'000	Restated 2011 Shs'000
Defined benefit actuarial gains	-	(28,199)	(28,199)

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

	As previously reported 2012 Shs'000	Prior year adjustment 2012 Shs'000	Restated 2012 Shs'000
Defined benefit actuarial gains	-	(44,262)	(44,262)

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

43 PRIOR YEAR ADJUSTMENTS (Continued)

c) Restatement of Audited Statement of Financial position

Equity & Liabilities	As previously reported 2011 Shs'000	Prior year adjustment Shs'000	Restated 2011 Shs'000
As at 1 January 2012			
Defined benefit liability	(118,560)	28,199	(90,361)
Retained earnings	(7,608,624)	(28,199)	(7,636,823)
As at 1 January 2013			
Defined benefit liability	(96,190)	72,461	(23,729)
Retained earnings	(9,000,098)	(72,461)	(9,072,559)

44 CONTINGENT LIABILITIES

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

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

Out of the total assessment of Sh 258 million, management made payments of Sh 103 million in the year. The remaining amount of Sh 156 million is the subject of ongoing discussions with the KRA to establish KRA's basis for the assessment. A provision of Sh 139 million has been made in these financial statements relating to the outstanding assessment.

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

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

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

45 INCORPORATION

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

46 CURRENCY

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



KENYA REINSURANCE CORPORATION LIMITED

Appendix I

SHORT TERM BUSINESS REVENUE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2013

	Aviation Shs '000'	Engineering Shs '000'	Fire	Fire	Marine Shs '000'	Motor	Motor	Motor	Personal	Thft Shs '000'	Compens- ation Shs '000'	Workmen	Misc. Shs '000'	Total Shs '000'	2012 Sh '000
		Domestic Shs '000'	Industrial Shs '000'	Liability Shs '000'	Private Shs '000'	Commercial Shs '000'	Accident Shs '000'	Medical Shs '000'							
Gross premium	10,152	4,467	3,078,523	120,851	15,210	447,193	799,336	1,449,857		632,155	1,297	1,449,857	691,466	8,555,292	6,891,600
Unearned premiums b/f	2,699	1,607	946,130	33,398	4,809	156,858	211,270	449,630		232,219	405	449,630	143,865	2,662,244	2,156,711
c/f	4,061	1,787	1,110,143	48,340	6,084	178,877	319,734	579,943		252,862	519	579,943	258,422	3,282,686	2,662,244
Movement in unearned premium	(1,362)	(180)	(164,013)	(14,942)	(1,275)	(22,019)	(108,464)	(130,313)		(20,643)	(114)	(130,313)	(114,557)	(620,442)	(505,533)
Earned premiums	8,790	4,287	2,914,510	105,909	13,935	425,174	690,872	1,319,544		611,512	1,183	1,319,544	576,909	7,934,850	6,386,067
Less: Retrocession premiums	-	-	303,164	-	-	-	-	-		-	-	-	45,415	348,579	235,990
Net earned premiums	8,790	4,287	2,611,346	105,909	13,935	425,174	690,872	1,319,544		611,512	1,183	1,319,544	531,494	7,586,271	6,150,077
Claims paid	1,912	183	1,348,630	20,219	3,441	248,988	415,099	1,021,287		509,503	429	1,021,287	196,986	4,152,234	3,292,939
Claims recoverable	-	-	(498,482)	-	-	-	-	-		-	-	-	-	(498,482)	(159,999)
Claims reserves	(6,914)	(178,204)	(1,209,092)	(36,977)	(9,408)	(336,112)	(287,939)	(383,153)		(215,374)	(2,807)	(383,153)	(145,487)	(3,049,990)	(2,373,622)
of year	7,633	186,590	1,380,445	44,294	11,689	366,795	412,349	629,102		243,537	3,058	629,102	190,426	3,702,715	3,049,991
Net claims incurred	2,631	149,466	1,021,501	27,536	5,722	279,671	539,509	1,267,236		537,666	680	1,267,236	241,925	4,306,477	3,809,309
Commissions Commissions receivable	1,104	225,525	868,365	26,211	(132)	44,628	178,554	305,388		208,528	299	305,388	167,435	2,202,696	1,769,517
Provision for bad debts	197	12,509	59,604	2,340	294	8,658	15,476	28,071		12,239	25	28,071	8,652	160,904	466,919
Management expenses	964	61,331	292,227	11,472	1,444	42,450	75,876	137,627		60,007	123	137,627	67,479	813,949	646,068
Total expenses	4,896	448,831	2,241,697	67,559	7,328	375,407	809,415	1,738,322		818,440	1,127	1,738,322	485,182	7,483,717	6,690,631
Underwriting profit/(loss)	3,894	216,192	369,649	38,350	6,607	49,767	(118,543)	(418,778)		(206,928)	56	(418,778)	46,312	102,554	(540,554)

This short term business revenue account was approved by the Board of Directors on 28 April 2014 and was signed on its behalf by


Principal Officer


Director


Director

