KENYA REINSURANCE CORPORATION LIMITED AND ITS SUBSIDIARIES

ANNUAL REPORT
AND
FINANCIAL STATEMENTS

31 DECEMBER 2019

KENYA REINSURANCE CORPORATION LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

DIRECTORS

Chiboli Shakaba	- Chairman
Jadiah Mwarania	- Managing Director
Ukur Yatani Kanacho	- Cabinet Secretary, The National Treasury
David Kemei	
Felix Okatch	
Jasper Mugambi	- Elected on 14 June 2019
Maina Mukoma	
Eric Gumbo	- Elected on 14 June 2019
Thamuda Hassan	- Elected on 14 June 2019
Anthony Munyao	
Jennifer Karina	

SECRETARY
Charles Kariuki
Registration No. R/CPS B/2305
Certified Public Secretary (Kenya)
Reinsurance Plaza, Taifa Road
P.O. Box 30271 - 00100 GPO
Nairobi, Kenya

REGISTERED OFFICE
Reinsurance Plaza
Taifa Road
P.O. Box 30271 - 00100 GPO
Nairobi, Kenya

BANKERS
KCB Bank Kenya Limited
Moi Avenue
P.O. Box 30081 - 00100 GPO
Nairobi, Kenya

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

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

Citibank Zambia Limited
Citibank House
Stand 4646 Addis Ababa Roundabout
P.O. Box 30037 - 10101
Lusaka, Zambia
Argwings Kodhek Road

CONSULTING ACTUARIES
Zamara Actuaries, Administrators & Consultants Limited
10th Floor, Landmark Plaza
P.O. Box 52439 - 00200 City Square
Nairobi, Kenya
Actuarial Services (East Africa) Limited
10th Floor Victoria Towers
Kilimanjaro Avenue, Upper hill
P.O. Box 10472 - 00100 GPO
Nairobi, Kenya

SHARE REGISTRARS
Image Registrars Limited
Barclays Plaza, Loita Street, 5th Floor
P.O. Box 9287 - 00100 GPO
Nairobi, Kenya

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

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

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

SUBSIDIARIES
Kenya Reinsurance Corporation Côte d`Ivoire
Saphir Center
7e tranche Carrefour Les Oscars
Cocody-Abidjan

Kenya Reinsurance Corporation Zambia Limited
D.G Office Park, No. 1 Chila Road
Kabulonga, Lusaka
P.O. Box 30578 10101, Zambia

Kenya Reinsurance Corporation Uganda-SMC LIMITED
Lrv 1835 Folio 10,Bandali Rise.
Bugolobi, Kampala
P.O Box 34988
Kampala, Uganda

AUDITORS
Auditor General
Kenya National Audit Office
P.O. Box 30084 - 00100 GPO
Nairobi, Kenya

KENYA REINSURANCE CORPORATION LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors submit their report together with the audited financial statements for the year ended 31 December 2019.

1. INCORPORATION AND BACKGROUND INFORMATION

The Kenya Reinsurance Corporation Limited is a public limited liability company reconstituted through an Act of Parliament in 1997. It was established through an Act of Parliament in December 1970 and commenced business in January 1971 as Kenya Reinsurance Corporation. The Government of Kenya owns 60% of the company while the public through Nairobi Securities Exchange owns 40%. The address of the registered office is set out on page 1.

It has three fully owned subsidiaries; Kenya Reinsurance Corporation, Cote d`Ivoire, which was incorporated on 19 September 2010, Kenya Reinsurance Corporation Zambia Limited, which was incorporated on 26 November 2015 and Kenya Reinsurance Corporation Uganda-SMC Limited, which was incorporated on 26 August 2019. Kenya Reinsurance Corporation, Cote d`Ivoire, operated as a full subsidiary starting in 2015, the Zambian subsidiary started operating in 2016, while Uganda subsidiary started operations in January 2020

2. PRINCIPAL ACTIVITIES

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

3. RESULTS

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Profit before tax	4,176,194	3,101,850	4,041,808	3,033,273
Income tax expense	(209,815)	(823,568)	(180,842)	(823,568)
Profit for the year transferred to retained earnings	3,966,379	2,278,282	3,860,966	2,209,705

4. DIVIDENDS

The directors recommend the approval of a first and final dividend of KShs 0.10 (2018: KShs 0.45) per share totalling to KShs 280 million for the year ended 31 December 2019 (2018: KShs 315 million).

5. DIRECTORATE

The directors who held office during the year and to the date of this report are set out on page 1.

6. BUSINESS REVIEW

We delivered on our commitment to continue growing the shareholders' value. The gross written premiums, investments income, shareholders' funds and assets base registered growth.

Operational performance

Gross written premiums grew from KShs 14.838 billion in the year 2018 to KShs 17,521 billion in 2019. Net earned premiums grew by 9% from KShs 14.2 billion in 2018 to KShs 15.5 billion in 2019. Investment income grew from KShs 3.39 billion to KShs 3.71 billion. The profit before tax for the year was KShs 4.2 billion, which was an increase of 35% compared to the profit before tax of KShs 3.1 billion for the year ended 31 December 2019

Our accomplishments are the outcome of disciplined execution of our five-year strategy which is grounded on the following five pillars; financial performance, business process improvement, business development, risk management and people and culture.

Financial overview

Financial overview of the Group continues to deliver positive results to shareholders and has maintained a good performance despite the challenging business environment experienced during the year.

Our investment portfolio grew to KShs 43.8 billion in 2019 up from KShs 37.4 billion in 2018. The asset base increased from KShs 44.2 billion in 2018 to KShs.50.3 billion in 2019, a 14% growth. The Shareholders funds increased from KShs 28.37 billion in 2018 to KShs 31.9 billion in 2019 which represented a growth of 12 %.

The Key performance drivers that are responsible for positive financial state of the organization include, aggressive collection of the reinsurance receivables and real time market intelligence which guided our response to market changes and the uptake of investment opportunities.

Key performance indicators

	2014 KShs Millions	2015 KShs Millions	2016 KShs Millions	2017 KShs Millions	2018 KShs Millions	2019 KShs Millions
Gross premium	11,570	13,060	13,245	14,827	14,838	17,521
Net premiums written	10,313	12,016	12,687	13,680	14,206	15,530
Investment Income	2,592	3,041	3,079	3,165	3,386	3,715
Total assets	32,174	35,954	38,494	42,733	44,363	50,361
Shareholders' funds	19,991	21,933	24,133	27,205	28,373	31,951
Management Expenses	1,093	1,319	1,832	1,709	2,020	2,043

Principal risks and uncertainties facing the Corporation

In the course of its business operations, the Corporation faces key threats in meeting its business objectives. Among these are market risk exposures from its investment activities which arise due to reduced earnings on deposits with financial institutions due to interest rate capping which was repealed in November 2019, erratic prices of quoted equities and foreign exchange losses from underwriting operations in diverse regions with different currencies.

The Corporation faces stiff competition both in its local and international markets. There has been increasing cases of domestication of reinsurance business in some key markets, setting up of national reinsurance in countries where there were none, mergers and acquisitions, increasing retention capacity of direct underwriters reducing reinsurance premiums, creation of captive reinsurance companies which are new entrants in Corporation's target markets, unfavourable changes in legislation in some markets and price undercutting amongst competitors.

Delays in receiving outstanding reinsurance premiums continues to pose credit risk to the Group. This is mainly from outstanding retro recoveries as well as outstanding premium receivables from cedants and brokers. As at 31 December 2019, gross receivables stood at KShs 5.42 billion against provisions of KShs 2.8 billion as compared to 31 December 2018, where gross reinsurance receivables stood at KShs 5.67 billion against provisions of KShs 2.0 billion.

Underwriting risks mainly relate to the risk that underwriting costs may exceed the premiums generated from the underwriting activity. The Corporation's underwriting loss was Kshs 2.1 billion in year 2019 from a loss of KShs 0.3 billion for year 2018. The Corporation's claim ratio stood at 72 % in year 2019 up from 62 % registered in year 2018. Claims incurred in year 2019 grew by 27 % to KShs 11.2 billion up from KShs 8.8 billion.

7. STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

With respect to each director at the time this report was approved:

a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and

b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

8. SECRETARY

The Company's Secretary is Mr Charles Kariuki.

9. TERMS OF APPOINTMENT OF THE AUDITOR

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

Ernst & Young LLP were appointed by the Auditor General, to carry out the audit for the year ended 31 December 2019. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KShs 9,549,240 has been charged to profit or loss in the year.

BY ORDER OF THE BOARD

Secretary

Nairobi

26th March 2020

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

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

Board of Directors

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

Board Meetings

The Board holds meetings on a regular basis while special meetings are called when it is deemed necessary to do so. The Board held eight (8) regular and three (3) special meetings during the year under review. As the Company is a State Corporation, the Inspector General of State Corporations from time to time attends meetings of the Board and Board Committees for oversight and advisory purposes in accordance with the State Corporations Act.

Committees of the Board

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

Audit Committee

The membership of the Audit Committee is comprised as follows:

Anthony Munyao - Chairman
Felix Okatch
Eric Gumbo
Gitonga Mugambi
Thamuda Hassan

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

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

The Committee held four (4) regular meetings and three (3) special meetings in the year under review.

Risk and Compliance Committee

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

Felix Okatch - Chairman
Maina Mukoma
Eric Gumbo
Anthony Munyao
Jadiah Mwarania

The responsibilities of this Committee include:

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

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

Human Resources Committee

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

Jennifer Karina - Chairman
Gitonga Mugambi
David Kemei
Geoffrey Mwau - Alternate to CS, National Treasury
Thamuda Hassan
Jadiah Mwarania

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

The Committee held three (3) regular meetings and four (4) special meetings in the year under review.

Finance and Strategy Committee

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

Maina Mukoma - Chairman
Geoffrey Mwau - Alternate to CS, National Treasury
Jennifer Karina
David Kemei
Jadiah Mwarania

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

The Committee held four (4) regular and three (3) special meetings in the year under review.

Risk Management and Internal Controls

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

Creating Shareholders' Value

In order to assure the shareholders of the Company's commitment to activities that create and enhance shareholder value, the Board signs a performance contract with the Ministry of The National Treasury and Planning of the Government of Kenya 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 2019 are disclosed in the notes to the financial statements under note 41. Non-executive directors are paid sitting allowances for every meeting attended. There were no arrangements for the directors to acquire benefits through the acquisition of the Company's shares. There were no loans advanced to directors during the financial year.

Directors' interests as at 31 December 2019:

	Number of shares	Shareholding %
The National Treasury of Kenya	1,680,000,000	60
Jadiah Mwarania	400,000	-
Chiboli Induli Shakaba	1,139,800	-
Jennifer Kabura Karina	223,556	-
Maina Mukoma	6,724	
David Kibet Kemei	4,252	-
Felix Okatch	400	-
	1,681,774,732	60

Major Shareholders as at 31 December 2019

The National Treasury of Kenya	1,680,000,000	60
Investments & Mortgages Nominees Ltd A/C 028950	65,411,600	2.34
SSB Bene Universal Investment Gesellschart FD 4942	48,000,000	1.71
Standard Chartered Kenya Nominees Ltd A/C KE22446	37,798,348	1.35
Standard Chartered Kenya Nominees Ltd A/C KE000954	31,501,600	1.13
Kestrel Capital Nominees Ltd A/C Krohne fund	30,592,000	1.09
Stanbic Nominees Ltd A/C NR 1031144	28,916,800	1.03
Kenya Commercial Bank Nominees Ltd A/C 915B	27,671,244	0.99
Kenya Commercial Bank Nominees Ltd A/C 915A	27,187,772	0.97
The Jubilee Insurance Company Ltd	26,656,600	0.95
Standard Chartered Nominees Non-Resd. A/C KE10085	24,000,000	0.86
Standard Chartered Nominees RESD A/C KE11443	22,636,619	0.81
Shah Mansukhal Khetshi Dharanshi Shah Vijayaben Mansukhal Khetshi shah	18,316,300	0.65

Major Shareholders as at 31 December 2019 (continued)

	Number of shares	Shareholding %
Equity Nominees Limited A/C 00099	14,739,059	0.53
Kestrel Capital Nominees Ltd A/C 009	12,046,600	0.43
Standard Chartered Nominees RESD A/C KE11450	10,737,912	0.38
Standard Chartered Kenya Nominees Ltd A/C KE002749	9,334,080	0.33
Standard Chartered Kenya Nominees Ltd A/C KE002262	9,156,080	0.33
Stanbic Nominees Ltd A/C NR 1031142	8,969,406	0.32
Standard Chartered Kenya Nominees Ltd A/C 1700	8,000,000	0.29
Others	658,124,252	23.51
	2,799,796,272	100

The distribution of the Company's shareholding as at 31 December 2019 is as shown below:

Shares Range	Shareholders	Number of Shares	% Shareholding
1 - 500	37,118	7,138,545	0.26
501 - 1,000	2,415	1,944,765	0.07
1,001 - 5,000	51,062	103,946,127	3.71
5,001 - 10,000	7,266	48,195,417	1.72
10,001 - 50,000	3,934	79,584,187	2.84
50,001 - 100,000	512	35,568,519	1.27
100,001 - 500,000	406	89,847,124	3.21
500,001- 1,000,000	75	55,687,303	1.99
1,000,001-2,000,000,000	102	2,377,884,285	84.93
	102,890	2,799,796,272	100

The distribution of the shareholders based on their nationalities as at 31 December 2019 is as follows:

Nationality	Shareholders	Shares held	% Shareholding
Local Individual Investors	97,000	382,085,449	13.65
Local Institutional Investors	5,419	2,212,153,341	79.01
Foreign Investors	471	205,557,482	7.34
	109,890	2,799,796,272	100.00

Directors' interests and shareholding as at 31 December 2018:

	Number of shares	Shareholding %
The National Treasury of Kenya	420,000,000	60
Jadiah Mwarania	100,000	
Chiboli Induli Shakaba	75,403	-
Jennifer Kabura Karina	55,889	-
Maina Mukoma	1,681	
David Kibet Kemei	1,063	-
Felix Okatch	100	-
	420,234,136	60

Major Shareholders as at 31 December 2018:	Number of shares	Shareholding %
The National Treasury of Kenya	420,000,000	60
Standard Chartered Kenya Nominees Ltd A/C KE22446	25,399,670	3.63
Stanbic Nominees Ltd A/C NR 1031141	17,094,400	2.44
Standard Chartered Kenya Nominees Ltd A/C KE002382	8,720,500	1.25
Stanbic Nominees Ltd A/C NR 1031144	7,940,600	1.13
Investments & Mortgages Nominees Ltd A/C 028950	7,666,488	1.1
Kestrel Capital Nominees Ltd A/C Krohne fund	7,000,000	1
Kenya Commercial Bank Nominees Ltd A/C 915B	6,917,811	0.99
Kenya Commercial Bank Nominees Ltd A/C 915A	6,796,943	0.97
Standard Chartered Nominees Non-Resd. A/C KE10085	6,000,000	0.86
Others	186,412,656	26.63
	699,949,068	100

The distribution of the Company's shareholding as at 31 December 2018 is as shown below:

Shares Range	Shareholders	Number of Shares	% Shareholding
1 - 500	73,685	15,620,843	2.23
501 - 1,000	14,511	10,161,418	1.45
1,001 - 5,000	11,842	22,720,483	3.25
5,001 - 10,000	1,143	8,005,130	1.14
10,001 - 50,000	967	19,406,084	2.77
50,001 - 100,000	111	7,839,551	1.12
100,001 - 500,000	125	25,513,914	3.65
500,001- 1,000,000	30	20,681,559	2.95
1,000,000-2,000,000,000	32	570,000,086	81.44
	102,446	699,949,068	100

The distribution of the shareholders based on their nationalities as at 31 December 2018 is as follows:

Nationality	Shareholders	Shares held	% Shareholding
Local Individual Investors	96,411	84,091,098	12.01
Local Institutional Investors	5,539	518,862,061	74.13
Foreign Investors	496	96,995,909	13.86
	102,446	699,949,068	100.00

....
Chiboli Shakaba
Director

....
Anthony Munyao
Director

26 March 2020

KENYA REINSURANCE CORPORATION LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and the Company as at the end of the financial year and of its profit and loss for that year. It also requires the directors to ensure that the group and company keeps proper accounting records that: (a) show and explain the transactions of the company; (b) disclose, with reasonable accuracy, the financial position of the company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Kenyan Companies Act, 2015.

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

(i) designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

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

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

Approved by the board of directors on 26 March 2020 and signed on its behalf by:

Jadiah Mwarania Principal Officer	Chiboli Shakaba Director	Anthony Munyao Director

KENYA REINSURANCE CORPORATION LIMITED
REPORT OF THE CONSULTING ACTUARY
FOR THE YEAR ENDED 31 DECEMBER 2019

I have conducted an actuarial valuation of the long term business of Kenya Reinsurance Corporation Limited as at 31 December 2019.

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

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

In my opinion, the long term business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of long term insurance business did not exceed the amount of funds of the long term business as at 31 December 2019.

Name of Actuary ....

Qualification ....

Signed ....

....2020

INFORMATION NOT SUBJECT TO AUDIT

The Corporation's directors' remuneration policy and strategy

The Board establishes and approves formal and transparent remuneration policies to attract and retain both executive and non-executive Board members. These policies clearly stipulate remuneration elements such as directors' fees, honorarium and attendance allowances that are competitive and in line with those of other agencies in the industry.

In accordance with the guidelines provided under the State Corporations Act and by the Salaries and Remuneration Commission as well as shareholder approval granted at the Annual General Meeting; the directors are paid a taxable director's fee at KShs 80,000 for every month served (KShs 960,000 per annum) and a sitting allowance of KShs 20,000 for every meeting attended. The Chairman is also paid a monthly honorarium of KShs 80,000.

Kenya Reinsurance Corporation Limited does not grant personal loans, guarantees, share options or incentives to its non-executive directors. The Managing Director is entitled to such loans as are available to other employees as per the Corporation's human resource policies.

Contract of service

In accordance with the Capital Markets Authority (CMA) regulations on non-executive directors and the Corporation's Articles of Association, a third of the directors retire every year by rotation and subject themselves to election at every Annual General Meeting by the shareholders.

The Managing Director and Chief Executive Officer (CEO) has a five year renewable contract of service with the Corporation starting 12 April 2016.

Changes to directors' remuneration

During the period, there were no changes in directors' remuneration which is set as per the guidelines provided in the State Corporations Act and by the Salaries and Remuneration Commission.

Statement of voting on the directors' remuneration report at the previous Annual General Meeting

During the Annual General Meeting held on 20 June 2019, the shareholders approved directors' remuneration for the year ended 31 December 2018 by show of hands.

At the Annual General Meeting to be held on 20 June 2020, approval will be sought from shareholders of this Directors' remuneration report for the financial year ended 31 December 2019.

INFORMATION NOT SUBJECT TO AUDIT

The following tables show the remuneration for the Managing Director and CEO and Non-Executive Directors in respect of qualifying services for the year ended 31 December 2019 together with the comparative figures for 2018.

YEAR ENDED 31 DECEMBER 2019

DIRECTOR	CATEGORY	GROSS PAYMENTS KShs	DIRECTOR FEES KShs	ALLOWANCES KShs	TOTAL KShs
Chiboli Shakaba	Chairman, Non-Executive		960,000	1,395,000	2,355,000
Jadiah Mwarania	Managing Director	28,968,186	-	-	28,968,186
David Kibet Kemei	Non -Executive	-	960,000	1,722,000	2,682,000
Everest Lenjo	Non -Executive	-	437,333	760,000	1,197,333
Felista Seenoi Ngatuny	Non -Executive	-	437,333	760,000	1,197,333
Felix Okatch	Non -Executive	-	960,000	1,080,000	2,040,000
Jennifer Karina	Non -Executive	-	960,000	840,000	1,800,000
Maina Mukoma	Non -Executive	-	960,000	1,180,000	2,140,000
Anthony Muthama Munyao	Non -Executive	-	960,000	1,240,000	2,200,000
Zipporah Kinanga Mogaka	Non -Executive	-	437,333	560,000	997,333
Protus Sigei (alternate to CS Treasury)	Non -Executive	-	-	520,000	520,000
Jasper Mugambi	Non -Executive	-	522,667	300,000	822,667
Thamuda Hassan	Non -Executive	-	522,667	320,000	842,667
Eric Gumbo	Non -Executive	-	522,667	240,000	762,667
Cabinet Secretary - The National Treasury	Non -Executive	-	960,000	-	960,000
TOTAL		28,968,186	9,600,000	10,917,000	49,485,186

INFORMATION NOT SUBJECT TO AUDIT (continued)

YEAR ENDED 31 DECEMBER 2018

DIRECTOR	CATEGORY	GROSS PAYMENTS KShs	DIRECTOR FEES KShs	ALLOWANCES KShs	TOTAL KShs
David Kibet Kemei	Chairman, Non-Executive	-	960,000	2,080,000	3,040,000
Jadiah Mwarania	Managing Director	22,242,000	-	-	22,242,000
Chiboli Shakaba	Non -Executive	-	960,000	1,144,000	2,104,000
Everest Lenjo	Non -Executive	-	960,000	1,562,000	2,522,000
Felista Seenoi Ngatuny	Non -Executive	-	960,000	1,280,000	2,240,000
Felix Okatch	Non -Executive	-	960,000	1,262,000	2,222,000
Jennifer Karina	Non -Executive	-	960,000	1,214,000	2,174,000
Maina Mukoma	Non -Executive	-	960,000	1,626,000	2,586,000
Anthony Muthama Munyao	Non -Executive	-	960,000	1,492,000	2,452,000
Zipporah Kinanga Mogaka	Non -Executive	-	960,000	1,378,000	2,338,000
Protus Sigei (alternate to CS Treasury)	Non -Executive	-	-	1,446,000	1,446,000
Cabinet Secretary - The National Treasury	Non -Executive	-	960,000	-	960,000
TOTAL		22,242,000	9,600,000	14,484,000	46,326,000

Approved by the board of directors on 26th March 2020 and signed on its behalf by:

BY ORDER OF THE BOARD

Secretary

Nairobi

..................................2020

KENYA REINSURANCE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Short term[1] business 2019 KShs '000	Long term[1] Business 2019 KShs '000	Total 2019 KShs '000	Total 2018 KShs '000
INCOME					
Gross premiums written	5	15,477,937	2,043,406	17,521,343	14,838,393
Less: change in unearned premiums	38	(913,270)	-	(913,270)	190,991
Less: retrocession premiums	6	(979,053)	(98,402)	(1,077,455)	(823,408)
NET EARNED PREMIUMS	6	13,585,614	1,945,004	15,530,618	14,205,976
Investment income	7	2,866,683	848,013	3,714,696	3,386,177
Commissions recovered	10(a)	25,222	29,520	54,742	41,229
Fair value gains on revaluation of investment properties	18	1,861,315	315,277	2,176,592	397,211
Other income	8	52,969	-	52,969	54,876
Share of associate profits	19	587,444	-	587,444	180,865
TOTAL INCOME		18,979,247	3,137,814	22,117,061	18,266,334
CLAIMS AND POLICY HOLDERS BENEFITS EXPENSES					
Gross claims incurred and policy holder benefits expenses	9	(10,514,875)	(932,846)	(11,447,721)	(9,456,217)
Less: Re-insurers share of claims and policy holder benefits	9	353,755	32,026	385,781	625,967
NET CLAIMS AND BENEFITS		(10,161,120)	(900,820)	(11,061,940)	(8,830,250)
Cedant acquisition costs	10(a)	(3,492,083)	(599,964)	(4,092,047)	(3,890,255)
Operating and other expenses	10(b)	(1,805,137)	(238,315)	(2,043,452)	(2,019,834)
Provision for doubtful receivables	24	(743,428)	-	(743,428)	(424,145)
TOTAL CLAIMS, BENEFITS, AND OTHER EXPENSES		(16,201,768)	(1,739,099)	(17,940,867)	(15,164,484)
PROFIT BEFORE TAX		2,777,479	1,398,715	4,176,194	3,101,850
INCOME TAX EXPENSE	11(a)	(185,346)	(24,469)	(209,815)	(823,568)
PROFIT FOR THE YEAR		2,592,133	1,374,246	3,966,379	2,278,282
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Share of gain on property revaluation of associate	19	1,812		1,812	401
Remeasurement losses on defined benefit plans, net of tax	21	(60,119)	-	(60,119)	(22,305)
Items that may be reclassified subsequently to profit or loss:					
Reclassification adjustment relating to available-for-sale financial assets disposed in the year	7	(137,457)	-	(137,457)	(201,532)
Net losses on revaluation of available-for-sale quoted equity instruments	27	(52,777)	-	(52,777)	(328,495)
Net gains on revaluation of available-for-sale government securities	28	69,316	-	69,316	46,896
Share of movement in associate reserves:					
- currency translation	19	7,415	-	7,415	(45,990)
- fair value reserve	19	99,275	-	99,275	35,649
TOTAL OTHER COMPREHENSIVE INCOME		(73,710)	-	(73,710)	(515,376)
TOTAL COMPREHENSIVE INCOME		2,518,423	1,374,246	3,892,669	1,762,906
EARNINGS PER SHARE - basic and diluted	12			2.55	3.25

[1] The comparatives are as disclosed in the segment reporting section in Note 5 to the financial statements.

KENYA REINSURANCE CORPORATION LIMITED
COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Short term[2] Business 2019 KShs '000	Long term[2] Business 2019 KShs '000	Total 2019 KShs '000	Total 2018 KShs '000
INCOME					
Gross premiums written	5	14,332,826	2,040,656	16,373,482	14,047,041
Less: change in unearned premiums	38	(836,587)	-	(836,587)	208,661
Less: retrocession premiums	6	(793,553)	(98,402)	(891,955)	(803,958)
NET EARNED PREMIUMS	6	12,702,686	1,942,254	14,644,940	13,451,744
Investment income	7	2,818,516	863,114	3,681,630	3,365,243
Commissions recovered	10(a)	6,327	29,520	35,847	34,421
Fair value gains on revaluation of investment properties	18	1,861,315	315,277	2,176,592	397,211
Other income	8	52,969	-	52,969	54,876
Share of associate profits	19	587,444	-	587,444	180,865
TOTAL INCOME		18,029,257	3,150,165	21,179,422	17,484,360
CLAIMS AND POLICY HOLDERS BENEFITS EXPENSES					
Gross claims incurred and policy holder benefits expenses	9	(10,123,244)	(929,998)	(11,053,242)	(9,167,627)
Less: Re-insurers share of claims and policy holder benefits	9	353,755	32,026	385,781	625,967
NET CLAIMS AND BENEFITS		(9,769,489)	(897,972)	(10,667,461)	(8,541,660)
Cedant acquisition costs	10(a)	(3,196,101)	(599,140)	(3,795,241)	(3,650,381)
Operating and other expenses	10(b)	(1,686,095)	(240,060)	(1,926,155)	(1,900,568)
Provision for doubtful receivables	24	(748,757)	-	(748,757)	(358,478)
CLAIMS AND BENEFITS AND OTHER EXPENSES		(15,400,442)	(1,737,172)	(17,137,614)	(14,451,087)
PROFIT BEFORE TAX		2,628,815	1,412,993	4,041,808	3,033,273
INCOME TAX EXPENSE	11(a)	(158,303)	(22,539)	(180,842)	(823,568)
PROFIT FOR THE YEAR		2,470,512	1,390,454	3,860,966	2,209,705
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Share of gain on property revaluation of associate	19	1,812		1,812	401
Remeasurement losses on defined benefit plans, net of tax	21	(60,119)	-	(60,119)	(22,305)
Items that may be reclassified subsequently to profit or loss:					
Reclassification adjustment relating to available-for-sale financial assets disposed in the year	7	(137,457)	-	(137,457)	(201,532)
Net losses on revaluation of available-for-sale quoted equity instruments	27	(53,952)	-	(53,952)	(328,495)
Net gains on revaluation of available-for-sale government securities	28	69,316		69,316	46,896
Share of movement in associate reserves:					
- currency translation	19	7,415		7,415	(45,990)
- fair value reserve	19	99,275	-	99,275	35,649
TOTAL OTHER COMPREHENSIVE INCOME		(73,710)	-	(73,710)	(515,376)
TOTAL COMPREHENSIVE INCOME		2,396,802	1,390,454	3,787,256	1,694,329
EARNINGS PER SHARE - basic and diluted	12			2.48	3.16

[2] The comparatives are as disclosed in the segment reporting section in Note 5 to the financial statements.

KENYA REINSURANCE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	Short term[3] Business 2019 KShs '000	Long term[3] Business 2019 KShs '000	Total 2019 KShs '000	Total 2018 KShs '000
EQUITY					
Share capital	13	6,499,491	500,000	6,999,491	1,749,873
Revaluation reserve	14	17,530	-	17,530	15,718
Fair value reserve	14	(81,424)	(10,064)	(91,488)	(68,670)
Translation reserve	14	288,983	-	288,983	281,568
Statutory reserve	33	-	5,754,183	5,754,183	4,379,937
Retained earnings	14	18,982,026	-	18,982,026	22,014,607
TOTAL EQUITY		25,706,606	6,244,119	31,950,725	28,373,033
ASSETS					
Property and equipment	15	88,919	-	88,919	91,631
Intangible assets	16	180,046	293,758	473,804	588,256
Investment properties	18	10,330,225	1,749,775	12,080,000	10,105,000
Investment in associate	19	5,169,908	-	5,169,908	4,473,962
Unquoted equity instruments	22	205,733	-	205,733	202,231
Mortgage loans	17	677,385	-	677,385	725,862
Corporate bonds-held to maturity	23	156,450	-	156,450	475,912
Receivables arising out of reinsurance and retrocession arrangements	24	2,467,972	157,530	2,625,502	3,673,176
Premium and loss reserves	25	281,968	-	281,968	271,655
Deferred acquisition costs	30	1,408,838	-	1,408,838	1,363,134
Other receivables	26	538,401	-	538,401	224,806
Income tax receivable	11(c)	584,440	-	584,440	441,976
Quoted equity instruments	27	1,219,059	346,246	1,565,305	1,599,431
Government securities	28	13,209,840	3,903,101	17,112,941	14,314,752
Inventory	29	22,071	-	22,071	13,590
Deposits with financial institutions	31	1,731,660	5,054,975	6,786,635	5,459,225
Cash and bank balances	32	572,977	11,693	584,670	338,035
TOTAL ASSETS		38,845,892	11,517,078	50,362,970	44,362,634
LIABILITIES					
Long term reinsurance contract liabilities	33	-	2,687,032	2,687,032	2,629,125
Short term reinsurance contracts liabilities	34	6,205,183	-	6,205,183	6,002,946
Payables arising out of reinsurance arrangements	35	1,482,457	325,417	1,807,874	549,466
Deferred tax liability	36	(1,218,165)	2,260,510	1,042,345	1,083,782
Retirement benefits obligation	21	127,629	-	127,629	55,462
Other payables	37	705,961	-	705,961	745,869
Unearned premiums	38	5,836,221	-	5,836,221	4,922,951
TOTAL LIABILITIES		13,139,286	5,272,959	18,412,245	15,989,601
NET ASSETS		25,706,606	6,244,119	31,950,725	28,373,033

The financial statements were approved by the board of directors on 26 March 2020 and were signed on its behalf by:

Jadiah Mwarania
Principal Officer

Chiboli Shakaba
Director

Anthony Munyao
Director

[3] The comparatives are as disclosed in the segment reporting section in Note 5 to the financial statements.

KENYA REINSURANCE CORPORATION LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	Short term[4] Business 2019 KShs '000	Long term[4] Business 2019 KShs '000	Total 2019 KShs '000	Total 2018 KShs '000
EQUITY					
Share capital	13	6,499,491	500,000	6,999,491	1,749,873
Revaluation reserve	14	17,530	-	17,530	15,718
Fair value reserve	14	(81,424)	(10,064)	(91,488)	(68,670)
Translation reserve	14	289,763	-	289,763	282,348
Statutory reserve	33	-	5,711,407	5,711,407	4,320,953
Retained earnings	14	19,011,450	-	19,011,450	22,165,652
TOTAL EQUITY		25,736,810	6,201,343	31,938,153	28,465,874
ASSETS					
Property and equipment	15	66,794	-	66,794	68,541
Intangible assets	16	180,046	293,758	473,804	588,256
Investment properties	18	10,330,225	1,749,775	12,080,000	10,105,000
Investment in associate	19	5,169,908	-	5,169,908	4,473,962
Investment in subsidiary companies	20	463,408	-	463,408	187,782
Unquoted equity instruments	22	205,733	-	205,733	202,231
Mortgage loans	17	668,075	-	668,075	716,550
Corporate bonds-held to maturity	23	156,450	-	156,450	475,912
Receivables arising out of reinsurance and retrocession arrangements	24	1,951,839	124,585	2,076,424	3,296,200
Premium and loss reserves	25	158,820	-	158,820	170,731
Deferred acquisition costs	30	1,285,548	-	1,285,548	1,249,752
Due from related party	41	85,508	-	85,508	93,820
Other receivables	26	516,970	-	516,970	212,125
Income tax receivable	11(c)	565,720	-	565,720	410,956
Quoted equity instruments	27	1,219,059	346,246	1,565,305	1,599,431
Government securities	28	13,069,364	3,903,101	16,972,465	14,314,752
Inventory	29	21,973	-	21,973	13,492
Deposits with financial institutions	31	1,231,785	5,006,347	6,238,132	5,212,505
Cash and bank balances	32	346,207	6,761	352,968	161,216
TOTAL ASSETS		37,693,432	11,430,573	49,124,005	43,553,214
LIABILITIES					
Long term reinsurance contract liabilities	33	-	2,687,032	2,687,032	2,629,125
Short term reinsurance contracts liabilities	34	5,706,891	-	5,706,891	5,553,840
Payables arising out of reinsurance arrangements	35	1,283,243	281,688	1,564,931	440,611
Deferred tax liability	36	(1,234,837)	2,260,510	1,025,673	1,083,782
Retirement benefits obligation	21	127,629	-	127,629	55,462
Due to related party	41	35,938	-	35,938	43,091
Other payables	37	628,511	-	628,511	708,769
Unearned premiums	38	5,409,247	-	5,409,247	4,572,660
TOTAL LIABILITIES		11,956,622	5,229,230	17,185,852	15,087,340
NET ASSETS		25,736,810	6,201,343	31,938,153	28,465,874

The financial statements were approved by the board of directors on 26 March 2020 and were signed on its behalf by:

Jadiah Mwarania
Principal Officer

Chiboli Shakaba
Director

Anthony Munyao
Director

[4] The comparatives are as disclosed in the segment reporting section in Note 5 to the financial statements.

KENYA REINSURANCE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Share capital KShs '000	Revaluation reserve KShs '000	Fair value reserve KShs '000	Translation reserve KShs '000	Statutory reserve KShs '000	Retained earnings KShs '000	Total KShs '000
At 1 January 2018		1,749,873	15,317	378,812	327,558	3,939,491	20,794,033	27,205,084
Profit for the year		-	-	-	-	440,446	1,837,836	2,278,282
Other comprehensive income		-	401	(447,482)	(45,990)	-	(22,305)	(515,376)
Total comprehensive income		-	401	(447,482)	(45,990)	440,446	1,815,531	1,762,906
Dividends declared - 2017	39	-	-	-	-	-	(594,957)	(594,957)
At 31 December 2018		1,749,873	15,718	(68,670)	281,568	4,379,937	22,014,607	28,373,033
At 1 January 2019		1,749,873	15,718	(68,670)	281,568	4,379,937	22,014,607	28,373,033
Profit for the year						1,374,246	2,592,133	3,966,379
Other comprehensive income		-	1,812	(22,818)	7,415	-	(60,119)	(73,710)
Total comprehensive income		-	1,812	(22,818)	7,415	1,374,246	2,532,014	3,892,669
Capitalisation of retained earnings		5,249,618	-	-	-	-	(5,249,618)	-
Dividends declared - 2018	39	-	-	-	-	-	(314,977)	(314,977)
At 31 December 2019		6,999,491	17,530	(91,488)	288,983	5,754,183	18,982,026	31,950,725

KENYA REINSURANCE CORPORATION LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Share capital KShs '000	Revaluation reserve KShs '000	Fair value reserve KShs '000	Translation reserve KShs '000	Statutory reserve KShs '000	Retained earnings KShs '000	Total KShs '000
At 1 January 2018		1,749,873	15,317	378,812	328,338	3,885,371	21,008,791	27,366,502
Profit for the year		-	-	-	-	435,582	1,774,123	2,209,705
Other comprehensive income		-	401	(447,482)	(45,990)	-	(22,305)	(515,376)
Total comprehensive income		-	401	(447,482)	(45,990)	435,582	1,751,818	1,694,329
Dividends declared - 2017	39	-	-	-	-	-	(594,957)	(594,957)
At 31 December 2018		1,749,873	15,718	(68,670)	282,348	4,320,953	22,165,652	28,465,874
At 1 January 2019		1,749,873	15,718	(68,670)	282,348	4,320,953	22,165,652	28,465,874
Profit for the year		-	-	-	-	1,390,454	2,470,512	3,860,966
Other comprehensive income		-	1,812	(22,818)	7,415	-	(60,119)	(73,710)
Total comprehensive income		-	1,812	(22,818)	7,415	1,390,454	2,410,393	3,787,256
Dividends declared - 2018	39	-	-	-	-	-	(314,977)	(314,977)
Capitalisation of retained earnings		5,249,619	-	-	-	-	(5,249,619)	-
At 31 December 2019		6,999,492	17,530	(91,488)	289,763	5,711,407	19,011,450	31,938,153

KENYA REINSURANCE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs '000	2018 KShs '000
Net cash generated from operations	40	2,283,783	1,210,624
Interest received on corporate bonds		61,056	58,004
Interest received on government securities		1,892,961	1,823,523
Interest received on staff mortgages and loans		22,931	18,745
Interest received on deposits with financial institutions		443,677	215,445
Interest received on commercial mortgages		38,825	47,828
Tax paid in the year	11(c)	(410,389)	(999,879)
Net cash generated from operating activities		4,332,844	2,374,290
Cash flows from investing activities			
Purchase of investment property	18	(98,558)	(85,789)
Purchase of property and equipment	15	(30,953)	(49,572)
Purchase of quoted equity instruments	27	(152,911)	-
Purchase of intangible assets	16	(88,361)	(194,395)
Purchase of government securities	28	(11,347,233)	(7,751,243)
Proceeds on maturity of government securities	28	8,739,837	8,009,796
Proceeds on sale of quoted equity instruments	27	133,085	259,376
Proceeds on redemption of corporate bonds	23	305,925	5,925
Dividends received on quoted equity instruments		95,347	187,742
Net cash generated (used in)/from investing activities		(2,443,822)	381,840
Cash flows used in financing activities			
Dividends paid	39	(314,977)	(594,957)
Net increase in cash and cash equivalents		1,574,045	2,161,173
Cash and cash equivalents at 1 January		5,797,260	3,635,590
Effect of unrealised exchange rate changes		-	649
Cash and cash equivalent at 31 December	32	7,371,305	5,797,260

KENYA REINSURANCE CORPORATION LIMITED
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 KShs '000	2018 KShs '000
Net cash generated from operations	40	2,089,547	1,196,722
Interest received on corporate bonds	23	61,056	58,004
Interest received on government securities		1,871,787	1,823,523
Interest received on staff mortgages and loans		22,763	18,348
Interest received on deposits with financial institutions		435,129	184,563
Interest received on commercial mortgages		38,825	47,828
Tax paid in the year	11(c)	(393,713)	(999,879)
Net cash generated from operating activities		4,125,394	2,329,109
Cash flows from investing activities			
Purchase of investment property	18	(98,558)	(85,789)
Purchase of property and equipment	15	(25,554)	(37,940)
Purchase of quoted equity instruments	27	(152,911)	-
Purchase of intangible assets	16	(88,361)	(194,395)
Purchase of government securities	28	(11,226,222)	(7,117,235)
Proceeds on maturity of government securities	28	8,739,837	7,375,788
Proceeds on sale of quoted equity instruments	27	133,085	259,376
Proceeds on redemption of corporate bonds	23	305,925	5,925
Investment in subsidiary	20	(275,626)	-
Dividends received on quoted equity instruments		95,347	187,742
Net cash generated (used in)/from investing activities		(2,593,038)	393,472
Cash flows used in financing activities			
Dividends paid	39	(314,977)	(594,957)
Net increase in cash and cash equivalents		1,217,379	2,127,624
Cash and cash equivalents at 1 January		5,373,721	3,245,755
Effect of unrealised exchange rate changes		-	342
Cash and cash equivalent at 31 December	32	6,591,100	5,373,721

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards (IFRS)

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

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

(a) Basis of preparation

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

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

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

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

(b) Basis of consolidation

(i) Subsidiary

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

(i) Subsidiary (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date the control ceases.
All inter-company balances, transactions, income and expenses and profits and losses resulting from inter-company transactions are eliminated in full on consolidation.
Losses within a subsidiary are attributed to the non-controlling interest even if this results in a deficit balance.
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

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

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

(ii) The Group financial statements reflect the result of consolidation of the financial statements of the Company and its wholly owned subsidiaries, Kenya Reinsurance Corporation Limited Côte d`Ivoire, Kenya Reinsurance Corporation Zambia Limited and Kenya Reinsurance Corporation Uganda Limited.

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

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

(c) Business combinations and goodwill

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business combinations and goodwill (continued)

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

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

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

(d) New and amended standards and interpretations

The Group applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

On 1 January 2019, the group adopted the following new standards, new Interpretations and amendments to standards.

	Effective for accounting period beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC Interpretation 23 Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
AIP IFRS 3 Business Combinations - Previously held Interests in a joint operation	1 January 2019
AIP IFRS 11 Joint Arrangements - Previously held Interests in a joint operation	1 January 2019
AIP IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity	1 January 2019

Except adoption of IFRS 16 Leases as discussed below, all the other amendments and annual improvements did not have an impact on the group.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective:

New or revised standards and interpretations:

	Effective for accounting period beginning on or after
Amendments to IFRS 3: Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
The Conceptual Framework Financial Reporting	1 January 2020
IFRS 17 Insurance contracts	1 January 2021*
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or indefinitely Joint Venture	Effective date deferred indefinitely

The above new standards and amendments to existing standards issued but not yet effective are not expected to have an impact on the Group except for IFRS 17.

*The new proposed date is 1 January 2023

IFRS 17 *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 *Insurance Contracts*. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short- duration which typically applies to certain non-life insurance contracts.
The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period

- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non- distinct investment components) are not presented in the income statement but are recognised directly on the statement of financial position.
- Insurance services results (earned.revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, newly proposed date 1 January 2023, with comparative figures required. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The group did not adopt IFRS 9 when it became effective on 1 January 2019 as it met the eligibility criteria of the temporary exemption from IFRS 9 and opted to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17).

The Group expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Group and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

(e) Reinsurance contracts

(i) Classification

Reinsurance contracts are those contracts that transfer significant reinsurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant reinsurance risk, as the possibility of having to pay benefits on the occurrence of a reinsured event that is at least 10% more than the benefits payable if the reinsured event did not occur. Reinsurance contracts are classified into two main categories, depending on the duration of risk and as per the provisions of the Kenyan Insurance Act.

(a) Short-term reinsurance business

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

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

The Group's main classes are described below:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Reinsurance contracts (continued)

(i) Classification (continued)

(b) Long-term reassurance business

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

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

(ii) Recognition and measurement

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

a. Premium income

General reinsurance written 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.

Recurring premiums on life contracts are recognised as revenue when payable by the policy holder. For single premium business, revenue is recognised on the date on which the policy is effective. Outward retrocession premiums are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

b. Claims incurred

General reinsurance 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").

Benefits and claims for life reinsurance contracts include the cost of all claims arising during the year, including: internal and external claims handling costs that are directly related to the processing and settlement of claims. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

c. Cedant acquisition costs and deferred acquisition costs

For general reinsurance business a proportion of cedant acquisition costs is deferred and amortised over the period in which the related premium is earned. Deferred acquisition costs represent the proportion of cedant acquisition costs and other acquisition costs that relate to the unexpired term of the policies that are in force at the year end. Cedant acquisition costs on life reinsurance contracts are recognised as an expense when incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Reinsurance contracts (continued)

(ii) Recognition and measurement

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

The Group 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 are established as a proportion of gross annual premiums written. Each type or class of ordinary life business is valued as a different percentage of annual office premiums written.

e. Retrocession contracts held

Contracts entered into by the Group with retrocessionnaires under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for retrocession contracts are classified as retrocession contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Retrocession premiums payable are recognised in the period in which the related premium income and claims are earned /incurred, respectively. The benefits to which the Group is entitled under its retrocession contracts held are recognised as retrocession assets. These assets consist of short-term balances due from retrocessionnaires, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related retrocession contracts. Amounts recoverable from or due to retrocessionnaires are measured consistently with the amounts associated with the retrocession contracts and in accordance with the terms of each retrocession contract. Retrocession liabilities are primarily premiums payable for retrocession contracts and are recognised as an expense when due.

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

f. Receivable and payables related to reinsurance contracts

Receivables and payables are recognised when due. These include amounts due to and from cedants and brokers. If there is objective evidence that the reinsurance receivable is impaired, the Group reduces the carrying amount of the reinsurance receivable accordingly and recognises the impairment loss in profit or loss. The Group gathers the objective evidence that a reinsurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets. Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Reinsurance contracts (continued)

(ii) Recognition and measurement (continued)

g. Premium and loss reserves

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

h. Other income recognition

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

(f) Foreign currency transactions

The Group's consolidated financial statements are presented in Kenya Shillings (KShs), which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Difference arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively)

(g) Tax

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

(i) Current tax

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

(ii) Deferred tax

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Tax (continued)

(ii) Deferred tax (continued)

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

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

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

(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.

(h) Investment properties

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

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

(i) Property and equipment

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

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 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%

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible assets - computer software and licenses

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

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Impairment

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. 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 recognised in OCI up to the amount of any previous revaluation. 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.

The impairment reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

(k) Leases

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

Group as a lessor

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

Group 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Inventories

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

(m) 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.

(n) 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.

(o) Translation reserve

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

(p) 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.

(q) Investment in associate

Investment in associate is accounted for using the equity method of accounting in both the separate and consolidated financial statements. The associate is a company in which the Group exercises significant influence but which it does not control. Significant influence is the power to participate in financial and operating policy decisions of the investment but it is not control or joint control over those policies.

Under the equity method, the investment in associate is carried in the statement of financial position at cost as adjusted for post-acquisition changes in the Group'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 group's interest in the associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

(r) Investment in subsidiaries

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Financial instruments

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

Financial assets

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

Classification

Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit making, or if so designated by management. The Group has not designated any of its financial assets into this category.

(t) Financial instruments

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the company intends to sell in the short term or that it has designated as at fair value through income or available-for-sale. These include mortgage loans, receivables arising out of reinsurance and retrocession arrangements, premium and loss reserves, rent receivables, deposits with financial institutions and other receivables. After initial measurement, such financial assets are subsequently measured at amortised cost. The losses arising from impairment are recognised in the statement of profit or loss under provisions for doubtful debts accounts.

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

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

Held-to-maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the group to sell or reclassify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. This class includes government securities and corporate bonds. In the case of financial assets held to maturity, impairment of is assessed based on the same criteria as loans and receivables.

Available-for-sale (AFS) financial assets
This category represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity. This class includes quoted and unquoted equity instruments. The Group has also designated some government securities into this category.

Available for sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less any identified impairment losses at the end of each reporting period. These include the company's unquoted equities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Financial instruments (continued)

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss - is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

Recognition

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

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of financial assets carried at fair value through profit or loss are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the fair value reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments fair value reserve is reclassified to profit or loss.

Derecognition

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

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.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Cash and cash equivalents

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

(v) Retirement benefits obligations

Defined benefit scheme

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

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

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

Statutory defined contributions scheme

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

Other Employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the end of the reporting period. These are short term in nature and are settled within 12 months.

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

(w) Dividends

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

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

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

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

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

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

Operating lease commitments - Group as lessor

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

Held -to-maturity financial assets

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

Assessment of significant influence over an associate

The Group considers that it has significant influence over Zep -Re Limited though it owns less than the 20% of the voting power of the company. This is because the Group is the single largest shareholder of Zep-Re Limited with a % (2018: 19.13%) interest of the equity interest. The remaining % (2018: 80.87%) of the equity shares in Zep-Re Limited are widely held by many other shareholders, none of which individually hold more than 14 % of the equity shares (as recorded in the company's shareholders' register from 31 December 2014 to 31 December 2018). The group also has representation in the associate's Board.

Deferred tax assets

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

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

Valuation of insurance contract liabilities

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

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

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

Valuation of insurance contract liabilities (continued)

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

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

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

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

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

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

Impairment losses
At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

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

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

(a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.

(b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

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

Impairment losses (continued)

(d) the carrying amount of the net assets of the entity is more than its market capitalisation.

(e) evidence is available of obsolescence or physical damage of an asset.

(f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

Revaluation of investment properties

The Group carries all its investment properties at fair value, with changes in fair value of investment properties being recognised in the statement of profit or loss. Investment properties were last revalued as at 31 December 2018 on the basis of open market value by independent valuer, Caroline N. Nyororo - P/No. 0002566 of Ebony Estates Limited. Further details are disclosed in note 18.

Contingent liabilities

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

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

Further details are disclosed in note 43.

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

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

3. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Reinsurance risk

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

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

Frequency and severity of claims

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

The Group has developed its reinsurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Group also manages these risks through its underwriting strategy and adequate retrocession arrangements and proactive claims handling.

Underwriting limits are in place to enforce appropriate risk selection criteria. The Group re-insures to specialist reinsurance companies a proportion of its portfolio or certain types of insurance risk. This serves primarily to:

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

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

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

Sources of uncertainty in the estimation of future claim payments

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

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

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

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

Sources of uncertainty in the estimation of future claim payments (continued)

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

Concentration of insurance risk

The Group's concentration of reinsurance risk is determined by class of business. The shared characteristic that identifies each concentration is the insured event and the key indicator is the net earned premium as disclosed in note 6. There were no significant shifts in the portfolio concentration.

Sensitivity to insurance risk

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

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

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Financial assets				
Held to maturity:				
- Government securities	16,888,564	13,226,931	16,748,088	13,226,931
- Corporate bonds	156,450	475,912	156,450	475,912
Available for sale				
- Government securities	224,377	1,087,821	224,377	1,087,821
- Quoted equities	1,565,305	1,599,431	1,565,305	1,599,431
- Unquoted equities	202,231	202,231	202,231	202,231
Loans and receivables				
Receivables arising out of reinsurance arrangements	2,625,502	3,673,176	2,076,424	3,296,200
Cash and bank balances	584,670	338,035	352,968	161,216
Due from related parties		-	85,508	93,820
Deposits with financial institutions	6,786,635	6,786,635	6,238,132	5,212,505
Premium and loss reserves	281,968	271,655	158,820	170,731
Mortgage loans	677,385	725,862	668,075	716,550
Other receivables	504,405	198,151	485,350	192,948
Total financial assets and receivables arising from reinsurance arrangements	30,497,492	28,585,840	28,961,728	26,436,296
Financial liabilities at amortised cost				
Payables arising out of reinsurance arrangements	1,807,874	549,466	1,564,931	440,611
Other payables	511,112	553,262	487,116	530,256
Total financial liabilities and payables arising from reinsurance arrangements	2,318,986	1,102,728	2,052,047	970,867
Insurance contract liabilities				
Long term liabilities	2,687,032	2,629,125	2,687,032	2,629,125
Short term liabilities	6,376,059	6,002,946	5,877,767	5,553,840
Total insurance contract liabilities	9,063,091	8,632,071	8,564,799	8,182,965

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

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

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

GROUP 31 December 2019	Carrying	No stated	Contractual cash flows (undiscounted)		
	Amount	maturity	0-1 years	1-5 years	>5 years
Financial assets	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Held to maturity:					
- Government securities	16,888,564	-	778,867	9,621,948	13,705,064
- Corporate bonds	156,450	-	84,132	100,433	-
Available for sale					
-Quoted equities	1,565,305	1,565,305	-	-	-
-Government securities	224,377	-	-	-	272,782
-Unquoted equities	202,231	202,231	-	-	-
Loans and receivables					
Receivables arising out of reinsurance arrangements	2,625,502	2,625,502	-	-	-
Other receivables	504,405	504,405	-	-	-
Premium loss reserves	281,968	281,968	-	-	-
Mortgage loans	677,385	-	33,493	92,874	570,525
Cash and cash equivalents	7,371,305	-	7,371,305	-	-
Total	30,497,492	5,179,411	8,267,797	9,815,255	14,548,371
Financial liabilities at amortised cost					
Payables arising out of reinsurance arrangements	1,807,874	1,807,874	-	-	-
Other payables	511,112	511,112	-	-	-
Total financial liabilities	2,318,986	2,318,986	-	-	-
			-	-	-
Reinsurance liabilities			-	-	-
Long term liabilities	2,687,032	2,687,032	-	-	-
Short term liabilities	6,376,059	6,376,059	-	-	-
Total	11,382,077	11,382,077	-	-	-
Net gap	19,115,415	(6,202,666)	8,267,797	9,815,255	14,548,371

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

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

COMPANY

31-December 2019	Carrying amount	No stated maturity	Contractual cash flows (undiscounted) 0-1 years	1-5 years	>5 years
Held to maturity:					
- Government securities	16,748,088	-	778,867	9,621,948	13,705,064
- Corporate bonds	156,450	-	84,132	100,433	-
Available for sale					
-Quoted equities	1,565,305	1,565,305	-	-	-
-Government securities	224,377	-	-	-	272,782
-Unquoted equities	202,231	202,231	-	-	-
Loans and receivables					
Receivables arising out of reinsurance arrangements	2,076,424	2,076,424	-	-	-
Due from related parties	85,508	85,508	-	-	-
Other receivables	485,350	485,350	-	-	-
Premium loss reserves	158,820	158,820	-	-	-
Mortgage loans	668,075	-	33,033	91,597	562,684
Cash and cash equivalents	6,591,100	-	6,591,100	-	-
Total	28,961,728	4,573,638	7,487,132	9,813,978	14,540,530
Financial liabilities at amortised cost					
Payables arising out of reinsurance arrangements	1,564,931	1,564,931	-	-	-
Other payables	487,116	487,116	-	-	-
Total financial liabilities	2,052,047	2,052,047	-	-	-
Reinsurance liabilities					
Long term liabilities	2,687,032	2,687,032	-	-	-
Short term liabilities	5,877,767	5,877,767	-	-	-
Total	10,616,846	10,616,846	-	-	-
Net gap	18,344,882	(6,043,208)	7,487,132	9,813,978	14,540,530

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

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

GROUP 31 December 2018 Financial assets	Carrying Amount KShs '000	No stated maturity KShs '000	Contractual cash flows (undiscounted) 0-1 years KShs '000	 1-5 years KShs '000	 >5 years KShs '000
Held to maturity:					
- Government securities	13,226,931	-	610,000	7,535,800	10,733,650
- Corporate bonds	475,912	-	255,925	305,512	-
Available for sale					
-Quoted equities	1,599,431	1,599,431	-	-	-
-Government securities	1,087,821	-	-	520,000	802,500
-Unquoted equities	202,231	202,231	-	-	-
Loans and receivables					
Receivables arising out of reinsurance arrangements	3,673,176	3,673,176	-	-	-
Other receivables	198,151	198,151	-	-	-
Premium loss reserves	271,655	271,655	-	-	-
Mortgage loans	725,862	-	35,890	99,520	611,355
Cash and cash equivalents	5,797,260	-	5,797,260	-	-
Total	27,258,430	5,944,644	6,699,075	8,460,832	12,147,505
Financial liabilities at amortised cost					
Payables arising out of reinsurance arrangements	549,466	549,466	-	-	-
Other payables	553,262	553,262	-	-	-
Total financial liabilities	1,102,728	1,102,728	-	-	-
Reinsurance liabilities					
Long term liabilities	2,629,125	2,629,125	-	-	-
Short term liabilities	6,002,946	6,002,946	-	-	-
Total	9,734,799	9,734,799			
Net gap	17,523,631	(3,790,155)	6,699,075	8,460,832	12,147,505

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

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

COMPANY

31-December 2018	Carrying amount	No stated maturity	Contractual cash flows (undiscounted) 0-1 years	1-5 years	>5 years
Held to maturity:					
- Government securities	13,226,931	-	610,000	7,535,800	10,733,650
- Corporate bonds	475,912	-	255,925	305,512	-
Available for sale					
-Quoted equities	1,599,431	1,599,431	-	-	-
-Government securities	1,087,821	-	-	520,000	802,500
-Unquoted equities	202,231	202,231	-	-	-
Loans and receivables					
Receivables arising out of reinsurance arrangements	3,296,200	3,296,200	-	-	-
Due from related parties	93,820	93,820	-	-	-
Other receivables	192,948	192,948	-	-	-
Premium loss reserves	170,731	170,731	-	-	-
Mortgage loans	716,550	-	34,890	99,300	611,355
Cash and cash equivalents	5,373,721	-	5,373,721	-	-
Total	26,436,296	5,555,361	6,274,536	8,460,612	12,147,505
Financial liabilities at amortised cost					
Payables arising out of reinsurance arrangements	440,611	440,611	-	-	-
Other payables	530,256	530,256	-	-	-
Total financial liabilities	970,867	970,867	-	-	-
Reinsurance liabilities					
Long term liabilities	2,629,125	2,629,125	-	-	-
Short term liabilities	5,553,840	5,553,840	-	-	-
Total	9,153,832	9,153,832	-	-	-
Net gap	17,282,464	(3,598,471)	6,274,536	8,460,612	12,147,505

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

Financial risk

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

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

(a) Liquidity risk

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

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

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

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

The analysis of the liquidity position of the Group's financial liabilities is as disclosed in the table above.

(b) Market risk

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

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is managed principally through monitoring interest rate gaps. The board of directors is the monitoring body for compliance with these limits and is assisted by risk management in its day-to-day monitoring activities.

The interest earning financial assets that the Group holds include investments in government securities, mortgage loans ,corporate bonds and deposits with financial institutions. Re-insurance receivables are not interest bearing. Liabilities under short term insurance contracts are not interest bearing.

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

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

(b) Market risk (continued)

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

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

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

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Assets in foreign currencies				
Trade and other receivables	3,476,551	3,831,077	3,154,651	3,154,651
Premiums and loss reserves	567,066	962,727	806,580	806,580
Deposits with financial institutions	1,887,692	1,163,374	1,625,203	1,108,251
Cash and bank	365,825	266,794	170,093	45,240
Foreign currency assets	6,297,134	6,223,972	5,756,527	5,512,632
Liabilities in foreign currencies				
Payables	(712,583)	(336,903)	(508,868)	(228,048)
Net foreign currency (liability)/ asset position	5,584,551	5,887,069	5,247,659	4,886,674

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

USD		GROUP		COMPANY	
		Effect on profit before tax KShs'000	Effect on equity KShs'000	Effect on profit before tax KShs'000	Effect on equity KShs'000
2019	Increase in US$ by 10%	558,455	390,918	524,766	367,336
	Decrease in US$ by 10%	(558,455)	(390,918)	(524,766)	(367,336)
2018	Increase in US$ by 10%	588,707	412,095	488,667	342,067
	Decrease in US$ by 10%	(588,707)	(412,095)	(488,667)	(342,067)

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

(b) Market risk (continued)

Price risk

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

The Group has a defined investment policy which sets limits on the Group's exposure to equities both in aggregate terms and by category/share. This policy of diversification is used to manage the Group's price risk arising from its investments in equity securities. The Group's unlisted equities are also subject to price risk however, the Group has carried them at cost less any impairment cost. Refer to note 22.

As at the reporting date, the exposure to listed equity securities at fair value was KShs 1,565 million (2018: KShs 1,599). An increase/decrease of 15% in the value of the listed equity would result in a decrease / increase in profits of KShs 235 million (2018:240 KShs million) and an increase/decrease in equity by KShs 164 million (2018: KShs 168 million).

(c) Credit risk

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

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

- amounts due from reinsurers in respect of claims already paid;
- amounts due from cedants;
- amounts due from re-insurance intermediaries;
- mortgage advances to its customers and staff;
- government and corporate bonds;
- deposits with financial institutions;
- cash and bank balances.

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

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

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

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

(c) Credit risk (continued)

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

	GROUP		COMPANY	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Government securities	17,112,941	14,314,752	16,972,465	14,314,752
Corporate bonds	156,450	475,912	156,450	475,912
Loans and receivables at amortized cost:				
Deposits with financial institutions	6,786,635	5,459,225	6,238,132	5,212,505
Mortgage loans	677,385	725,862	668,075	716,550
Receivables arising out of reinsurance arrangements	2,625,502	3,673,176	2,076,424	3,296,200
Premium and loss reserves (note 25)	281,968	271,655	158,820	170,731
Bank balances	584,670	338,035	352,968	161,216
Other receivables	538,401	198,151	516,969	192,948
Total assets bearing credit risk	28,763,952	25,456,768	27,140,304	24,540,814
Receivables arising out of reinsurance arrangements are summarized as follows:				
Neither past due nor impaired	813,442	711,762	655,908	655,908
Past due but not impaired:				
-up to 91 to 365 days	945,200	2,597,586	1,402,857	2,289,764
-up to 1 to 2 years	866,860	363,828	350,528	350,528
-Impaired	2,798,296	2,004,593	2,504,174	1,705,142
	5,423,798	5,677,769	4,580,598	5,001,342
Less: provision for impairment (note 24)	(2,798,296)	(2,004,593)	(2,504,174)	(1,705,142)
Total	2,625,502	3,673,176	2,076,424	3,296,200

Mortgage loans are summarized as follows:

	GROUP		COMPANY	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Neither past due nor impaired	677,385	721,687	668,075	712,478
Past due but not impaired:				
-0 to 60 days	-	648	-	545
-61 to 120 days	-	1,160	-	1,160
-121 to 180 days	-	2,367	-	2,367
Impaired	146,404	146,404	146,404	146,404
	823,789	872,266	814,479	862,954
Less: provision for impairment (note 17)	(146,404)	(146,404)	(146,404)	(146,404)
Total	677,385	725,862	668,075	716,550

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

(c) Credit risk (continued)

The accounts under the fully performing category are paying their debts as they continue trading. The default rate is low. Credit control department actively monitors overdue account balances. In addition, the Group settles claims on a net basis i.e. net of any re-insurance receivables due from cedants. An impairment analysis is performed at each reporting date on an individual basis. The debt that is impaired has been fully provided for. The maximum exposure to credit risk at the reporting date is the carrying amount. Refer to note 17 and 25 for impairment analysis of mortgage loans and premiums and loss reserves respectively.

Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

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

GROUP	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
At 31 December 2019:				
Government securities	16,748,088	-	-	16,748,088
Corporate bonds	156,450	-	-	156,450
At 31 December 2018:				
Government securities	12,456,287	-	-	12,456,287
Corporate bonds	462,867	-	-	462,867
COMPANY				
At 31 December 2019:				
Government securities	16,638,588	-	-	16,638,588
Corporate bonds	156,450	-	-	156,450
At 31 December 2018:				
Government securities	12,456,287	-	-	12,456,287
Corporate bonds	462,867	-	-	462,867

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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

(c) Credit risk (continued)

(ii) Fair value hierarchy (continued)

The following table shows an analysis of financial and non- financial assets and liabilities recorded at fair value by level of the fair value hierarchy. However, the unquoted equity instruments have been stated at cost less any impairment loss for the year.

GROUP	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
At 31 December 2019				
Government securities	224,377	-	-	224,377
Quoted equity instruments	1,565,305	-	-	1,565,305
Investment properties	-	-	12,080,000	12,080,000
At 31 December 2018				
Government securities	1,087,821	-	-	1,087,821
Quoted equity instruments	1,599,431	-	-	1,599,431
Investment properties	-	-	10,105,000	10,105,000
COMPANY				
At 31 December 2019				
Government securities	224,377	-	-	224,377
Quoted equity instruments	1,565,305	-	-	1,565,305
Investment properties	-	-	12,080,000	12,080,000
At 31 December 2018				
Government securities	1,087,821	-	-	1,087,821
Quoted equity instruments	1,599,431	-	-	1,599,431
Investment properties	-	-	10,105,000	10,105,000

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

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2019 and 2018 are as shown below:

	Valuation technique	Significant unobservable inputs	Range (weighted average)
Investment properties	Open market basis	Price per acre in a similar location	KShs 500 million - KShs 800 million
	Depreciated replacement cost method	Rental income per square meter Estimated costs associated with maintaining the building	KShs 750-KShs 1,000 per square metre -

- The valuation of investment properties was carried out by Caroline N. Nyororo - P/No. 0002566 of Ebony Estates Limited, professional independent valuers as at 31 December 2019.

4. CAPITAL MANAGEMENT

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

Further, the Group currently has a paid up capital of KShs 7 billion for the combined composite business, which meets the minimal requirement of KShs 800 million as per the Insurance Act.

As at 31 December 2019, the Group had complied with the externally imposed capital requirements. The Kenya Reinsurance Corporation Cote d'ivoire Subsidiary is required by CIMA regulation article 810 on share capital to have a registered capital of at least ten billion (10,000,000,000) FCFA equivalent to KShs 1,768,127,729 by 15 November 2020.

The Group's objectives in managing its capital are:

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

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

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

5. SEGMENTAL REPORTING

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the corporation's total revenue in 2019 or 2018.

5. SEGMENTAL REPORTING (continued)

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

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Gross earned premiums				
General insurance business	15,477,937	12,933,106	14,332,826	12,146,618
Life business	2,043,406	1,905,287	2,040,656	1,900,423
	17,521,343	14,838,393	16,373,482	14,047,041
Investment income:				
General insurance business				
Rental income from investment properties	752,757	828,994	752,757	828,994
Interest on Government securities held to maturity	1,573,725	1,498,428	1,554,259	1,498,428
Gain on sale of available-for-sale quoted equity instruments	137,457	201,532	137,457	201,532
Dividends receivable on available for sale quoted equity instruments	76,984	124,772	76,984	124,772
Interest on commercial mortgages	47,473	51,116	47,473	51,116
Interest on deposits with financial institutions- held to maturity	114,454	195,269	85,921	174,732
Interest on corporate bonds- held to maturity	47,519	57,145	47,519	57,145
Capital Gain on T.Bond-General Fund	93,383	-	93,383	-
Interest on staff mortgages and loans	22,931	18,745	22,763	18,348
	2,866,683	2,976,001	2,818,516	2,955,067
Life assurance business				
Rental income from investment properties	127,505	46,414	127,505	46,414
Interest on Government securities held to maturity	364,535	263,917	364,535	263,917
Dividends receivable on available-for-sale quoted equity instruments	21,865	44,466	21,865	21,091
Interest on deposits with financial institutions- held to maturity	334,108	55,379	349,209	55,379
	848,013	410,176	863,114	410,176
Total investment income	3,714,696	3,386,177	3,681,630	3,365,243

5. SEGMENTAL REPORTING (continued)

Other disclosures:

GROUP	General Insurance business KShs'000	Life Assurance Business KShs'000	Total 2019 KShs'000	Total 2018 KShs'000
Reportable segment profits before tax	2,777,479	1,398,715	4,176,194	3,101,850
Income tax expense	(185,346)	(24,469)	(209,815)	(823,568)
Reportable segment profits after tax	2,592,133	1,374,246	3,966,379	2,278,282
Reportable segment total assets	38,845,892	11,517,078	50,362,970	44,362,634
Less:				
: Related party balances	-	-	-	-
Net	38,845,892	11,517,078	50,362,970	44,362,634
Reportable segment total liabilities	13,139,286	5,272,959	18,412,245	15,989,601
Less:				
: Related party balances	-	-	-	-
Net	13,139,286	5,272,959	18,412,245	15,989,601
Fees and commission income	25,222	29,520	54,742	41,229
Depreciation of property and equipment	29,614	4,051	33,665	34,652
Amortisation of intangible assets	179,160	23,653	202,813	142,415
Property and equipment additions	88,919	-	88,919	49,724
Intangible assets additions	(70,960)	(43,492)	(114,452)	194,395
Share of associates profit	587,444	-	587,444	180,865

COMPANY	General Insurance Business KShs'000	Life Assurance Business KShs'000	Total 2019 KShs'000	Total 2018 KShs'000
Reportable segment profits before tax	2,628,815	1,412,993	4,041,808	3,033,273
Income tax expense	(158,303)	(22,539)	(180,842)	(823,568)
Reportable segment profits after tax	2,470,512	1,390,454	3,860,966	2,209,705
Reportable segment total assets	37,693,431	11,430,573	49,124,004	43,553,214
Less:				
: Related party balances	(85,508)	-	(85,508)	(93,820)
: Investment in subsidiaries	(463,408)	-	(463,408)	(187,782)
Reportable segment total assets-Net	37,144,515	11,430,573	48,575,088	43,271,612

5. SEGMENTAL REPORTING (continued)

Other disclosures (continued):

COMPANY (continued)	General Insurance Business KShs'000	Life Assurance Business KShs'000	Total 2019 KShs'000	Total 2018 KShs'000
Reportable segment total liabilities	11,956,621	5,229,230	17,185,851	15,087,340
Less:				
: Related party balances	(35,938)	-	(35,938)	(43,091)
Net	11,920,683	5,229,230	17,149,913	15,044,248
Fees and commission income	6,327	29,520	35,847	34,421
Depreciation of property and equipment	21,178	4,196	25,374	26,361
Amortisation of intangible assets	177,536	25,277	202,813	142,415
Property and equipment additions	(1,747)		(1,747)	37,940
Intangible assets additions	(70,960)	(43,492)	(114,452)	194,395
Share of associates profit	587,444	-	587,444	180,865

6. PREMIUMS INCOME

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

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

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs'000	2019 KShs'000	2018 KShs'000
Long-term business				
Super annuation	1,899,662	1,751,438	1,897,132	1,736,061
Ordinary life	45,342	48,703	45,122	48,703
Total	1,945,004	1,800,141	1,942,254	1,784,764
Short-term business				
Aviation	16,368	31,785	15,221	26,870
Engineering	897,242	884,343	758,570	788,505
Fire	3,583,835	3,783,844	3,139,347	3,307,521
Liability	180,357	207,406	141,323	181,647
Marine	511,603	582,582	443,669	525,540
Motor	763,592	754,979	722,142	695,554
Medical	3,214,139	2,986,865	3,212,360	2,986,284
Agriculture	3,086,570	1,164,592	3,081,110	1,503,476
Bond	245,094	160,088	210,466	139,532
Miscellaneous (incl. Theft)	865,570	412,223	764,652	1,269,676
Oil & Energy	30,582	19,619	30,332	19,619
Political Risks	190,662	1,417,509	183,494	222,756
Total	13,585,614	12,405,835	12,702,686	11,666,980
TOTAL	15,530,618	14,205,976	14,644,940	13,451,744

6. PREMIUMS INCOME

RETROCESSION PREMIUMS

The retrocessions premiums of the Group can be analysed between the main classes of business as shown below:

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Aviation	30,627	9,937	30,627	9,937
Engineering	185,214	120,397	55,752	120,397
Fire	280,899	240,743	279,007	240,743
Liability	15,560	-	-	-
Marine	62,968	31,781	62,968	31,781
Motor	38,586	19,449	-	-
Agriculture	297,747	201,416	297,747	201,416
Miscellaneous (incl. Theft)	21,602	22,095	21,602	22,094
Oil & Energy	-	20,019	-	20,019
Political Risks	45,850	52,425	45,850	52,425
Life business	98,402	105,146	98,402	105,146
TOTAL	1,077,455	823,408	891,955	803,958

7. INVESTMENT INCOME

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Rental income from investment properties	880,262	875,408	880,262	875,408
Interest on Government securities held to maturity	1,899,495	1,632,802	1,880,418	1,632,802
Interest income on available for sale Government securities	38,765	129,543	38,376	129,543
Gain on sale of available for sale quoted equity instruments	137,457	201,532	137,457	201,532
Dividends receivable on available- for sale quoted equity instruments	98,849	169,238	98,849	169,238
Interest on commercial mortgages	47,473	51,116	47,473	51,116
Interest on deposits with financial institutions-held to maturity	448,562	250,441	435,129	230,110
Interest on corporate bonds - held to maturity	47,519	57,145	47,519	57,145
Capital Gain on disposal of government securities	93,383	-	93,383	-
Interest on staff mortgages and loans	22,931	18,952	22,764	18,349
Total investment income	3,714,696	3,386,177	3,681,630	3,365,243

8. OTHER INCOME

	GROUP		COMPANY	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
COMESA Yellow Card income	44,278	50,464	44,278	50,464
Miscellaneous income	8,691	4,412	8,691	4,412
	52,969	54,876	52,969	54,876

9. CLAIMS AND POLICY HOLDERS BENEFITS EXPENSES

Claims paid	11,187,577	8,953,707	10,842,284	8,665,117
Changes in the provision for outstanding claims incurred but not reported (IBNR)	202,237	265,808	153,051	265,808
Increase in actuarial liability on long term insurance contracts (note 34)	57,907	236,702	57,907	236,702
Gross claims incurred	11,447,721	9,456,217	11,053,242	9,167,627
Less: Amounts recoverable from retrocessionaires	(385,781)	(625,967)	(385,781)	(625,967)
Net claims incurred	11,061,940	8,830,250	10,667,461	8,541,660

10 (a). CEDANT ACQUISITION COSTS

CEDANT ACQUISITION COSTS	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Super annuation	586,651	511,161	585,827	510,365
Ordinary life	13,313	25,101	13,313	25,101
Aviation	9,724	7,679	9,471	7,560
Engineering	313,250	291,804	265,887	262,000
Fire	1,066,653	1,143,878	916,910	1,013,161
Liability	58,563	58,650	46,550	51,613
Marine	178,745	173,836	159,107	157,972
Motor	108,403	104,518	106,841	89,252
Medical	821,685	787,339	821,411	787,243
Agriculture	358,058	227,311	356,532	226,707
Bond	100,096	59,606	89,022	53,353
Miscellaneous (incl. Theft)	401,511	425,963	350,588	173,662
Oil & Energy	5,123	4,115	5,076	223,406
Political Risks	70,272	69,294	68,706	68,986
TOTAL	4,092,047	3,890,255	3,795,241	3,650,381

COMMISSIONS RECOVERED	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs'000	KShs'000	KShs'000	KShs'000
Engineering	63	51	-	51
Fire	10,142	98	2,559	98
Marine	1,697	34	459	34
Motor	1,088	6,807	-	-
Agriculture	10,033	-	2,713	-
Miscellaneous (incl. Theft)	264	-	71	-
Political Risks	1,935	-	525	-
Life business	29,520	34,239	29,520	34,238
TOTAL	54,742	41,229	35,847	34,421

		GROUP		COMPANY	
		2019	2018	2019	2018
10 (b).	OPERATING AND OTHER EXPENSES	KShs '000	KShs '000	KShs '000	KShs '000
	Staff costs	799,235	736,288	717,258	665,453
	Depreciation (note 15)	33,665	34,652	27,301	26,361
	Amortisation (note 16)	202,813	142,415	202,813	142,415
	Auditors' remuneration	13,087	11,615	11,632	11,004
	Directors' - emoluments	9,600	8,640	9,600	8,640
	Directors' - fees	15,019	16,962	13,605	16,962
	Directors' - training	13,439	14,728	13,439	14,728
	Rent provisions	46,456	9,570	46,456	9,570
	Annual General Meeting expenses	15,776	12,886	15,776	12,886
	Investment property direct operating expenses	206,888	205,463	206,832	204,884
	Travel and accommodation	175,839	120,275	166,724	114,021
	Advertisement	23,316	14,515	23,316	14,515
	Professional and consultancy fees	56,200	42,625	55,160	42,772
	Rent and rates	14,731	8,854	12,154	7,417
	Hardware and software maintenance	45,464	77,058	45,358	77,017
	Donations, sponsorship and CSR activities	25,712	7,949	25,712	7,100
	Bank charges	16,345	15,138	12,128	12,888
	Indirect tax expenses in subsidiaries	620	1,109	10	-
	Foreign currency exchange losses	102,630	291,070	110,740	291,087
	Provision for un-reconciled inventory	-	4,828	-	4,828
	Other expenses	226,707	243,194	217,654	216,020
		2,043,452	2,019,834	1,926,155	1,900,568
	Staff costs consist:				
	Salaries and wages	498,143	469,978	451,043	427,422
	Retirement benefit costs (note 21)	12,048	7,931	12,048	7,931
	Medical expenses	34,428	35,985	33,414	32,029
	Leave allowance	56,046	44,519	37,122	33,150
	Contribution to National Social Security Fund	754	1,259	373	367
	Gratuity accrual	30,505	-	21,823	-
	Bonus	73,495	76,417	73,495	72,896
	Staff welfare expenses	29,535	37,701	26,570	32,636
	Training and recruitment	23,370	24,866	23,117	23,821
	Leave pay provision	3,211	2,415	3,382	2,347
	Pension contributions to defined contribution scheme	37,700	35,217	34,871	32,854
		799,235	736,288	717,258	665,453
	Other expenses consist:				
	Motor vehicle running expenses	887	583	436	236
	General office expenses	8,112	9,442	7,759	8,925
	Marketing expenses	2,767	8,858	2,767	8,858
	Corporate and other sundry expenses	214,941	224,311	206,692	198,001
		226,707	243,194	217,654	216,020

11. TAXATION

		GROUP		COMPANY	
		2019	2018	2019	2018
(a)	Profit or Loss	KShs '000	KShs '000	KShs '000	KShs '000
	Current tax on the taxable profit for the year	257,441	671,001	228,468	671,001
	Prior year under provision	10,484	13,771	10,484	13,771
		267,925	684,772	238,952	684,772
	Deferred tax charge (note 37)				
	- Current year	177,261	138,796	160,585	138,796
	- Prior year over provision	(235,371)	-	(218,695)	-
		209,815	823,568	180,842	823,568

(b) The Group's current tax charge is computed in accordance with income tax rules applicable to composite insurance and reinsurance companies. A reconciliation of the tax charge is shown below:

		GROUP		COMPANY	
		2019	2018	2019	2018
		KShs '000	KShs '000	KShs '000	KShs '000
	Profit before tax	4,176,194	3,101,850	4,041,808	3,033,273
	Tax applicable	1,252,858	930,563	1,212,542	909,991
	Tax effects of non-taxable income	(856,506)	(331,854)	(861,839)	(332,142)
	Tax effect of non-deductible expenses	38,350	211,088	38,350	231,948
	Prior year under/(over) provision- current tax	10,484	13,771	10,484	13,771
	Prior year over provision- deferred tax	(235,371)	-	(218,695)	-
		209,815	823,568	180,842	823,568
	Attributable to:				
	Long term business	463,645	232,446	463,645	232,446
	Short term business	(253,829)	591,122	(282,802)	591,122
		209,815	823,568	180,842	823,568
(c)	Statement of financial position				
	At 1 January	(441,976)	(126,869)	(410,957)	(95,853)
	Charge for the year	257,441	684,772	228,468	684,772
	Prior year adjustment	10,484	-	10,484	
	Paid in the year	(410,389)	(999,879)	(393,713)	(999,876)
	At 31 December	(584,440)	(441,976)	(565,720)	(410,957)

12. EARNINGS PER SHARE (EPS)

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

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Profit attributable to shareholders	3,966,379	2,278,282	3,860,966	2,209,705
Weighted average number of ordinary shares in issue	1,557,147	699,949	1,557,147	699,949
Basic and diluted earnings per share	2.55	3.25	2.48	3.16

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

13. SHARE CAPITAL

		2019	2018
(i)	Authorized: share capital	KShs '000	KShs '000
	3,200,000,000 ordinary shares of KShs 2.50 each (2018-800,000,000 ordinary shares of KShs 2.50 each)	8,000,000	2,000,000

		Number of shares	2019 KShs '000	2018 KShs '000
(ii)	Issued and fully paid			
	At 01 January	699,949,068	1,749,873	1,749,873
	Bonus share issues at One(1) to Three(3) shares	2,099,847,204	5,249,618	-
	At 31 December	2,799,796,272	6,999,491	1,749,873

The Corporation issued Bonus share at one (1) to three (3) in the year 2019 by Capitalisation of retained earnings. This was mainly to enable the Corporation to continue underwriting business in Egypt market where they had revised the capital requirement for the reinsurance company to trade in Egypt.

14. RETAINED EARNINGS

The retained earnings balance represents the amounts available for distribution to the shareholders of the Group, except for cumulative fair value gains on the Group's investment properties amounting to KShs 8,097,224,133 (2018: KShs 7,826,795,000) whose distribution is subject to restrictions imposed by legislation.

15. PROPERTY AND EQUIPMENT

GROUP	Motor vehicles KShs'000	Computers KShs'000	Furniture and equipment KShs'000	Total KShs'000
2019				
COST				
At 1 January 2019	49,511	144,598	121,579	315,688
Additions	-	17,847	13,106	30,953
At 31 December 2019	49,511	162,445	134,685	346,641
ACCUMULATED DEPRECIATION				
At 1 January 2019	29,790	99,615	94,652	224,057
Charge for the year	8,861	17,956	6,848	33,665
At 31 December 2019	38,651	117,571	101,500	257,722
CARRYING AMOUNT				
At 31 December 2019	10,860	44,874	33,185	88,919
31 DECEMBER 2019				
2018				
COST				
At 1 January 2018	40,122	109,481	116,361	265,964
Additions	9,389	35,117	5,218	49,724
At 31 December 2018	49,511	144,598	121,579	315,688
ACCUMULATED DEPRECIATION				
At 1 January 2018	19,773	87,594	82,038	189,405
Charge for the year	10,017	12,021	12,614	34,652
At 31 December 2018	29,790	99,615	94,652	224,057
CARRYING AMOUNT				
At 31 December 2018	19,721	44,983	26,927	91,631

15. PROPERTY AND EQUIPMENT (continued)

COMPANY	Motor vehicles KShs'000	Computers KShs'000	Furniture and equipment KShs'000	Total KShs'000
2019				
COST				
At 1 January 2019	26,803	139,177	108,155	274,135
Additions	-	17,743	7,811	25,554
At 31 December 2019	26,803	156,920	115,966	299,689
ACCUMULATED DEPRECIATION				
At 1 January 2019	19,460	97,036	89,098	205,594
Charge for the year	4,895	17,002	5,404	27,301
At 31 December 2019	24,355	114,038	94,502	232,895
CARRYING AMOUNT				
At 31 December 2019	2,448	42,882	21,464	66,794

COMPANY

2018				
COST				
At 1 January 2018	26,803	106,972	102,420	236,195
Additions	-	32,205	5,735	37,940
At 31 December 2018	26,803	139,177	108,155	274,135
ACCUMULATED DEPRECIATION				
At 1 January 2018	14,565	86,355	78,313	179,233
Charge for the year	4,895	10,681	10,785	26,361
At 31 December 2018	19,460	97,036	89,098	205,594
CARRYING AMOUNT				
At 31 December 2018	7,343	42,141	19,057	68,541

16. INTANGIBLE ASSETS - GROUP and COMPANY

	Computer Software KShs'000	Capital WIP KShs'000	Total KShs'000
31 DECEMBER 2019			
COST			
At 1 January 2019	879,805	-	879,805
Additions	88,362	-	88,362
Transfer from W.I.P	-	-	-
At 31 December 2019	968,167	-	968,167
AMORTISATION			
At 1 January 2019	291,550	-	291,550
Charge for the year	202,813	-	202,813
At 31 December 2019	494,363	-	494,363
NET CARRYING AMOUNT			
At 31 December 2019	473,804	-	473,804
31 DECEMBER 2018			
COST			
At 1 January 2018	260,384	425,027	685,411
Additions	-	194,395	194,395
Transfer from W.I.P	619,422	(619,422)	-
At 31 December 2018	879,806	-	879,806
AMORTISATION			
At 1 January 2018	149,289	-	149,289
Charge for the year	142,261	-	142,261
At 31 December 2018	291,550	-	291,550
NET CARRYING AMOUNT	588,256	-	588,256

17. MORTGAGE LOANS

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Staff mortgages	454,382	445,392	445,072	415,705
Commercial mortgages	369,407	426,874	369,408	447,249
	823,789	872,266	814,479	862,954
Less: impairment provision	(146,404)	(146,404)	(146,404)	(146,404)
	677,385	725,862	668,075	716,550
Maturity analysis:				
Within 1 year	1,789	648	1,789	1,890
Within 1 to 5 years	78,636	99,520	78,636	99,520
Over 5 years	596,960	625,694	587,650	615,140
	677,385	725,862	668,075	716,550
Impairment provision analysis:				
Balance brought forward	146,404	135,917	146,404	135,917
Additional provision	-	10,487	-	10,487
Balance carried forward	146,404	146,404	146,404	146,404

The weighted average effective interest rate on the mortgages was 10.5% (2018 - 10.31%). Mortgage loans are fully secured.

18. INVESTMENT PROPERTIES - GROUP AND COMPANY

	Reinsurance Plaza Nairobi L.R. No. 209/8770	Reinsurance Plaza Kisumu- Kisumu Municipality/Block 7/378	Anniversary Towers Nairobi - LR No. 209/9744	Kenya Re Towers Nairobi- LR No. 209/11260	Upper Hill Plot -L.R. No.209/12 922	JKIA Plot- LR No. 9042/222	Mbagathi plot- L.R no:209/11976	Total
2018								
At 1 January	2,700,000	911,800	2,785,000	1,590,200	975,000	690,000	660,000	9,622,000
Additions	44,625	4,487	16,588	14,639	5,450	-	-	85,789
Fair value gains	105,375	38,713	148,412	70,161	4,550	10,000	30,000	397,211
At 31 December	2,850,000	955,000	2,950,000	1,675,000	985,000	700,000	690,000	10,105,000
2019								
At 1 January	2,850,000	955,000	2,950,000	1,675,000	985,000	690,000	-	10,105,000
Additions	77,748	1,536	7,770	6,183	5,321	-	-	98,558
Fair value gains	57,252	23,464	112,230	68,817	9,679	10,000	1,895,150	2,176,592
Disposals in the year	-	-	-	-	-	-	(300,150)	(300,150)
At 31 December 2019	2,985,000	980,000	3,070,000	1,750,000	1,000,000	700,000	1,595,000	12,080,000

(i) The revalued properties consist of office properties situated in Nairobi and Kisumu held to earn rentals and/or capital appreciation and land acquired for development of office buildings and housing projects for rental and/or capital appreciation.

(ii) The valuation of investment properties was carried out by Caroline N. Nyororo - P/No. 0002566 of Ebony Estates Limited, professional independent valuers as at 31 December 2019.

(iii) Fair value of the properties was determined using the open market basis and depreciated replacement cost method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property.

(iv) Valuations are performed on an annual basis and the fair value gains and losses are recorded within the profit or loss.

19. INVESTMENT IN ASSOCIATE - GROUP AND COMPANY

The group has a 19.17% interest in ZEP-Re (PTA Reinsurance) Company, a reinsurance company that underwrites all classes of life and non-life reinsurance risks. ZEP Re Limited is a private entity that is not listed on any public exchange. The Group's interest ZEP Re Limited is accounted for using the equity method in the both separate and consolidated financial statements.

	2019 KShs '000	2018 KShs '000
At 1 January	4,473,962	4,399,320
Share of profit for the year	587,444	180,865
Less: dividends - received in cash	-	(96,283)
- receipt of additional shares	48,815	-
	5,110,221	4,483,902
Share of revaluation reserve	1,812	401
Share of fair value reserve	99,275	35,649
Currency translation adjustment	7,415	(45,990)
- capitalisation of dividends	(48,815)	-
	59,687	(9,940)
Net carrying amount of the investment	5,169,908	4,473,962

Summary financial information for ZEP-Re

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

	2019 KShs	2018 KShs
Closing rate	101.34	101.85
Average rate	102.01	101.30
Ownership	19.17%	19.13%
Summary financial information for ZEP-Re		
Total assets	43,934,779	38,359,327
Total liabilities	(17,219,970)	(14,972,178)
Net assets	26,714,809	23,387,149
Group's share of net assets of associate	5,169,908	4,473,962
Profit before tax	3,067,594	945,453
Tax*	-	-
Profit for the year	3,067,594	945,453
Group's share of profit for the year	587,444	180,865

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

20. INVESTMENT IN SUBSIDIARIES -COMPANY

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

	Country of iincorporation	Proportion of ownership interest and voting power held at		Investment at cost:	
		2019	2018	2019 KShs '000	2018 KShs '000
Kenya Reinsurance Corporation Côte d`Ivoire	Ivory Coast	100%	100%	4,186	4,186
Kenya Reinsurance Corporation Zambia	Zambia	100%	100%	183,596	183,596
Kenya Reinsurance Corporation Uganda limited	Uganda	100%	-	275,626	-
				463,408	187,782

The primary business of the three subsidiaries is reinsurance.

21. RETIREMENT BENEFIT OBLIGATION- GROUP and COMPANY

Defined Benefit Scheme

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

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

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

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

The weighted average duration of the liability as at 31 December 2019 is (2018: 3.6).

During the reading of the budget statement for 2017/2018 by the Cabinet Secretary, National Treasury, amendments to the Retirement Benefit Regulations now provide for an equal 50/50 sharing of surplus between members and the Fund sponsor upon wind up of a Fund.

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

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

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

	2019		2018	
	Amount	Proportion	Amount	Proportion
Asset Class	KShs'000	%	KShs'000	%
Quoted equity investments	128,002	17.95	126,676	19.7
Fixed deposits, commercial papers and government securities	414,928	58.2	350,203	54.5
Net current assets	-	-	(4,154)	(0.6)
Properties and other fixed assets	170,000	23.85	170,000	26.4
Total	712,930	100	642,725	100

Sensitivity of the Scheme:

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

	Current Discount Rate (13% per annum)	Discount Rate less (13% per annum)
	KShs'000	KShs'000
Present Value of Obligation at 31 December 2019	840,559	869.8

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

GROUP AND COMPANY	2019	2018
	KShs '000	KShs '000
The actuarial valuation results were as follows:		
Present value of funded obligations	(840,559)	(698,187)
Fair value of scheme assets	712,930	642,725
Net (liability) in the statement of financial position	(127,629)	(55,462)
Movement in present value of funded obligation:		
As at 1 January	698,187	681,347
Current service costs	4,543	4,574
Interest cost	89,028	80,779
Actuarial gain/(loss)	80,052	(25,486)
Benefits payment	(31,251)	(43,027)
At 31 December	840,559	698,187

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

Defined benefit scheme (continued)

	2019 KShs '000	2018 KShs '000
Movement in fair value of plan assets		
As at 1 January	642,725	656,121
Interest income on plan assets	81,523	77,422
Return on plan assets (excluding amount in interest income)	19,933	(47,791)
Benefits and expenses paid	(31,251)	(43,027)
At 31 December	712,930	642,725
Movement in net assets		
As at 1 January	(55,462)	(25,226)
Net expense recognised in profit or loss	(12,048)	(7,931)
Net charge recognised in other comprehensive income	(60,119)	(22,305)
At 31 December	(127,629)	(55,462)
Amount recognised in profit or loss:		
Current service cost net of employees' contributions	4,543	4,574
Net interest on obligation and plan assets	7,505	3,357
Total included in "staff costs" in respect of scheme	12,048	7,931
Amount recognised in other comprehensive income:		
Actuarial gains/(loss)	80,052	(25,486)
Return on plan assets (excluding amount in interest income)	(19,933)	47,791
Total charge /(credit) to other comprehensive income	60,119	22,305
Actuarial assumptions		
Discount rate (% p.a.)	13%	13%
Future salary increases (% p.a.)	5%	5%
Future pension increases (% p.a.)	3%	3%
Retirement age (years)	55	55

Defined contribution scheme

The Company also makes contributions to a statutory provident fund, the National Social Security Fund (NSSF). Contributions are determined by local statute. For the year ended 31 December 2019, the Group contributed KShs 37,700,000 (2018 - KShs 35,271,000) to the defined contribution pension scheme and KShs 754,000 (2018 - KShs 2,500,000) for NSSF which has been charged to the statement of profit or loss. The Company contributed KShs 34,871,000 (2018 - KShs 32,854,000) to the defined contribution pension scheme and KShs 373,000 (2018 - KShs 532,000) to the NSSF.

22. UNQUOTED EQUITY INSTRUMENTS - AVAILABLE FOR SALE

		GROUP		COMPANY	
		2019	2018	2019	20187
		KShs '000	KShs '000	KShs '000	KShs '000
At cost					
At 1 January		202,231	202,231	202,231	202,231
Addition		3,502	-	3,502	-
At 31 December		205,733	202,231	205,733	202,231
	Share holding				
Industrial Development Bank	3.5%	24,474	24,474	24,474	24,474
Africa Reinsurance Limited	0.2%	38,993	35,491	38,993	35,491
African Trade Insurance Agency	0.6%	87,506	87,506	87,506	87,506
Uganda Reinsurance Company Limited	11.5%	54,760	54,760	54,760	54,760
		205,733	202,231	205,733	202,231

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

The fair value measurement of the above unquoted equity instruments have not been disclosed. The carrying amounts of the above financial instruments amounting to KShs. 205 million (2018: KShs.202 million) may therefore differ from their fair values. The valuation has not been done by management because the significant inputs that would be used by management for the valuation are not based on observable market data neither does management hold any recent price quotations of all of the above investments. Management would therefore be required to make significant judgements and assumptions, which may or may not result in correct fair value measurements.

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

23. CORPORATE BONDS-HELD TO MATURITY

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
At 1 January	475,912	482,696	475,912	482,696
Redemptions during the year	(305,925)	(5,925)	(305,925)	(5,925)
Interest received	(61,056)	(58,004)	(61,056)	(58,004)
Interest earned	47,519	57,145	47,519	57,145
	156,450	475,912	156,450	475,912

		GROUP		COMPANY	
		2019	2018	2019	2018
Made up as below:	Maturity	KShs '000	KShs '000	KShs '000	KShs '000
Centum Investment Ltd	08-Jun-20	81,030	81,030	81,030	81,030
NCBA Bank Kenya PLC	20-Dec-20	75,420	283,093	75,420	283,093
KENGEN Limited	31-Oct-19	-	6,110	-	6,110
Consolidated Bank of Kenya Limited	24-Jul-19	-	105,679	-	105,679
		156,450	475,912	156,450	475,912

The average effective interest rate on the corporate bonds at 31 December 2019 was 8 % (2018: 12 %).

24. RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Local companies	2,190,612	1,846,692	2,190,612	1,846,691
International companies	3,182,911	3,831,077	2,339,711	3,154,651
Less: provision for doubtful receivable	(2,748,021)	(2,004,593)	(2,453,899)	(1,705,142)
	2,625,502	3,673,176	2,076,424	3,296,200
The movement in provisions is as below:				
Balance brought forward	(2,004,593)	(1,580,448)	(1,705,142)	(1,346,664)
Additional provision	(743,428)	(424,145)	(748,757)	(358,478)
Balance carried forward	(2,748,021)	(2,004,593)	(2,453,899)	(1,705,142)

25. PREMIUM AND LOSS RESERVES

International companies	567,066	962,727	388,694	806,580
Local companies	69,438	52,920	69,439	52,920
Provision for impaired balances	(354,536)	(743,992)	(299,313)	(688,769)
	281,968	271,655	158,820	170,731

The movement in provisions is as below:

At 1 January	(743,992)	(743,992)	(688,769)	(688,769)
Write off during the year	389,456	-	389,456	-
At 31 December	(354,536)	(743,992)	(299,313)	(688,769)

Reconciliation of provisions in the statement of profit or loss is as below:

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Provision on receivables arising out of reinsurance arrangements (note 25)	(743,428)	(424,145)	(748,757)	(358,478)
Provision on premium and loss reserves	-	-	-	-
At 31 December	(743,428)	(424,145)	(748,757)	(358,478)

26. OTHER RECEIVABLES

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Staff advances	55,221	65,707	42,869	56,424
Prepayments	7,996	8,371	5,620	7,141
Gross rental receivables	306,461	245,136	306,461	245,136
Dividends receivable	-	799	-	799
Other receivables	312,554	2,168	305,851	-
Rental receivables provisions	(143,831)	(97,375)	(143,831)	(97,375)
	538,401	224,806	516,970	212,125

26. OTHER RECEIVABLES (continued)

The movement in Rental receivables provisions is as below:

	GROUP		COMPANY	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
At 1 January	(97,375)	(87,805)	(97,375)	(87,805)
Additional provision	(46,456)	(9,570)	(46,456)	(9,570)
At 31 December	(143,831)	(97,375)	(143,831)	(97,375)

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

27. QUOTED EQUITY INSTRUMENTS - AVAILABLE FOR SALE

GROUP and COMPANY	2019 KShs '000	2018 KShs '000
At 1 January	1,599,431	2,107,855
Additions	152,911	79,447
Fair value gain loss	(53,952)	(328,495)
Disposal during the year	(133,085)	(259,376)
At 31 December	1,565,305	1,599,431

28. GOVERNMENT SECURITIES- GROUP and COMPANY

	Group		Company	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
At 1 January	14,314,752	14,562,840	14,314,752	14,562,840
Purchases during the year	11,347,233	7,117,235	11,226,222	7,117,235
Maturities during the year	(8,739,837)	(7,375,788)	(8,739,837)	(7,375,788)
Amortisation charge for the period- Held to maturity	8,633	8,442	8,633	8,442
Fair value gain on available-for-sale government securities	69,316	46,849	69,316	46,849
Increase/(Decrease) in Interest accrued[5]	112,844	(44,826)	93,379	(44,826)
	17,112,941	14,314,752	16,972,465	14,314,752
Maturing:				
Within 3 months	-	-	-	-
Within 4 to 12 months	756,793	362,759	756,793	362,759
Within 1 to 5 years	3,524,064	4,567,685	3,524,064	4,567,685
Over 5 years	12,832,084	9,384,308	12,691,608	9,384,308
At 31 December	17,112,941	14,314,752	16,972,465	14,314,752

Treasury bonds amounting to KShs 2,319,550,000 (2018 - KShs 2,319,550,000) are held under lien by the Commissioner of Insurance as required by the Kenyan Insurance Act. The weighted average effective interest rate on the government securities was 12.25% (2018 - 10.80 %).

29. INVENTORY

	GROUP		COMPANY	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
As 31 December	22,071	13,590	21,973	13,492

Inventories comprise stationery and repair materials.

[5] Total interest income recognised in profit or loss from investments in Government securities amounted to KShs 1,938,260 (2018: KShs 1,762,345) of which KShs 38,765 (2018: KShs 129,543) related to those held as available for sale.

30. DEFERRED ACQUISITION COSTS

	GROUP		COMPANY	
	2019 KShs'000	2018 KShs '000	2019 KShs '000	2018 KShs '000
At 1 January	1,363,134	1,408,301	1,249,752	1,318,322
Deferred during the year	1,408,838	1,363,134	1,285,548	1,249,752
Amortized during the year	(1,363,134)	(1,408,301)	(1,249,752)	(1,318,322)
At 31 December	1,408,838	1,363,134	1,285,548	1,249,752

31. DEPOSITS WITH FINANCIAL INSTITUTIONS

	GROUP		COMPANY	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Deposit with financial institutions	6,691,760	5,459,225	6,143,257	5,212,505
Deposit with offshore fund managers	94,875	-	94,875	-
	6,786,635	5,459,225	6,238,132	5,212,505

The weighted average effective interest rate on deposits with financial institutions was 5.7 % (2018-4.2%).

32. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Cash and bank balances	584,670	338,035	352,968	161,216

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

	GROUP		COMPANY	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Short term bank deposits	6,786,635	5,459,225	6,238,132	5,212,505
Cash and bank balances	584,670	338,035	352,968	161,216
	7,371,305	5,797,260	6,591,100	5,373,721

33. LONG TERM REINSURANCE LIABILITIES- GROUP and COMPANY

The long term reinsurance liabilities, which comprise Ordinary Life Fund and Superannuation Fund, were established in respect of the Company's long-term business as required under Section 45 of the Kenyan Insurance Act. Income arising from the investment of the assets of the statutory funds is credited to and forms part of these funds. Transfers from the statutory funds to the profit or loss are done upon the recommendation of the Actuary. The latest actuarial valuation of the life fund was carried out by Zamara Actuaries, Administrators & Consultants Limited, consulting actuaries as at 31 December 2019.

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 2019 is summarised as follows:

	Group		Company	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Life fund	10,701,725	8,859,835	10,658,949	8,800,851
Less: actuarial value of policy holder liabilities	(2,687,032)	(2,629,125)	(2,687,032)	(2,629,125)
Actuarial surplus	8,014,693	6,230,710	7,971,917	6,171,726
Less deferred tax liability (note 36)	(2,260,510)	(1,850,773)	(2,260,510)	(1,850,773)
Statutory reserve	5,754,183	4,379,937	5,711,407	4,320,953

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

	Group		Company	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
As at 1 January	2,629,125	2,392,423	2,629,125	2,392,423
Increase during the year	57,907	236,702	57,907	236,702
	2,687,032	2,629,125	2,687,032	2,629,125

Valuation assumptions

The significant valuation assumptions for the actuarial valuation as at 31 December 2019 are summarised below. The same assumptions were used in 2018.

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

The actuary has established actuarial reserves of 95% of the gross annual premiums written for all types of compulsory cessions ordinary life business at the valuation date.
Treaty business and Company life business actuarial reserves has been established to 95% of the annual premiums at the valuation date. For supplementary benefits, the actuarial reserve has been established to equal to 100% of annual premiums at the valuation date.

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

(ii) Investment returns
The rate of return on the life fund assets in 2019 was 12.4 % per annum (2018 - 7.4% per annum).

34. SHORT TERM INSURANCE CONTRACT LIABILITIES

GROUP

YEAR 2019	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
As at 1 January 2019	6,785,111	(782,165)	6,002,946
Movement	-	202,237	202,237
As at 31 December 2019	6,785,111	(579,928)	6,205,183
YEAR 2018			
As at 1 January 2018	5,980,320	(288,804)	5,691,516
Movement	804,791	(493,361)	311,430
As at 31 December 2018	6,785,111	(782,165)	6,002,946

COMPANY

YEAR 2019	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
As at 1 Jan 2019	6,245,803	(691,963)	5,553,840
Movement	-	153,051	153,051
As at 31 Dec 2019	6,245,803	(538,912)	5,706,891
YEAR 2018			
As at 1 Jan 2018	5,554,703	(288,804)	5,265,899
Movement	691,100	(403,159)	287,941
As at 31 Dec 2018	6,245,803	(691,963)	5,553,840

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

34. SHORT TERM INSURANCE CONTRACT LIABILITIES (continued)

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

Claims development

GROUP

Accident Year	2015 KShs '000	2016 KShs '000	2017 KShs '000	2018 KShs '000	2019 KShs '000	Total KShs '000
At the end of accident year	2,840,919	3,670,513	3,443,000	5,231,076	1,862,723	17,048,230
One year later	1,701,880	1,967,745	2,144,376	5,273,759	-	11,087,760
Two years later	800,624	268,953	1,486,407	-	-	2,555,985
Three years later	126,984	385,886	-	-	-	512,870
Four years later	298,525	-	-	-	-	298,525
Five years later	-	-	-	-	-	-
Current estimate of cumulative claims	6,318,165	6,825,143	8,809,759	12,140,883	3,614,603	37,708,553
Less: cumulative payments to date	(5,768,932)	(6,293,097)	(7,073,783)	(10,504,835)	(1,862,723)	(31,503,370)
Total net liability included in the statement of financial position	549,233	532,046	1,735,976	1,636,048	1,751,880	6,205,183

34. SHORT TERM INSURANCE CONTRACT LIABILITIES (continued)

COMPANY

Accident Year	2015 KShs '000	2016 KShs '000	2017 KShs '000	2018 KShs '000	2019 KShs '000	Total KShs '000
At the end of accident year	2,805,571	3,654,188	3,361,934	5,107,836	1,820,836	16,750,366
One year later	1,659,111	1,892,190	2,085,616	5,179,043	-	10,815,960
Two years later	774,995	232,820	1,383,922	-	-	2,391,737
Three years later	124,568	369,478	-	-	-	494,046
Four years later	294,776	-	-	-	-	294,776
Five years later	-	-	-	-	-	-
Current estimate of cumulative claims	6,207,549	6,678,188	8,517,004	11,834,656	3,216,377	36,453,775
Less: cumulative payments to date	(5,659,021)	(6,148,677)	(6,831,471)	(10,286,879)	(1,820,836)	(30,746,885)
Total net liability included in the statement of financial position	548,528	529,512	1,685,533	1,547,777	1,395,541	5,706,891

35. PAYABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Local companies	397,870	212,563	397,870	212,563
International companies	1,410,004	336,903	1,167,062	228,048
	1,807,874	549,466	1,564,931	440,611

36. DEFERRED TAX LIABILITY

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

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

GROUP and COMPANY	Group		Company	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Excess depreciation over capital allowances	(92,746)	137,362	(92,746)	137,362
Leave pay provision	(11,284)	(9,887)	(11,284)	(9,887)
Defined benefit liability	(12,783)	9,169	(12,783)	9,169
Other provisions	-	(42,413)	-	(42,413)
Bad debts provisions	(1,008,626)	(861,222)	(1,008,626)	(861,222)
Provision for bonus	(44,056)	-	(44,056)	-
Gratuity	(6,728)	-	(6,728)	-
Tax loss	(41,942)	-	(58,614)	-
	(1,218,165)	(766,991)	(1,234,837)	(766,991)
Life fund actuarial surplus	2,260,510	1,850,773	2,260,510	1,850,773
Net deferred tax liability	1,042,345	1,083,782	1,025,673	1,083,782
The movement on the deferred tax account during the year was as follows:				
At 1 January	1,083,783	944,986	1,083,783	944,986
Charge for the year (note 11)	177,257	138,797	160,585	138,797
Prior year adjustment (note 11)	(65,637)	-	(65,637)	-
Prior year under provision (note 11)	(153,058)	-	(153,058)	-
At 31 December	1,042,345	1,083,783	1,025,673	1,083,783

37. OTHER PAYABLES

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
Purchasers deposits	18,883	18,432	18,883	18,432
Legal fees deposits	-	1,238	-	1,238
Rental deposits	148,540	144,189	148,540	144,189
Accrued leave pay	63,396	43,443	37,613	32,957
Accounts payable	217,227	269,905	194,491	258,215
Other creditors and accruals	257,915	268,662	228,984	253,738
	705,961	745,869	628,511	708,769

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

38. UNEARNED PREMIUMS -SHORT TERM BUSINESS

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
At 1 January	4,922,951	5,113,942	4,572,660	4,781,322
Increase/ (decrease) in the year	913,270	(190,991)	836,587	(208,662)
At 31 December	5,836,221	4,922,951	5,409,247	4,572,660

39. DIVIDENDS - GROUP and COMPANY

The directors propose the payment of a first and final dividend of KShs0.10 (2018 - KShs 0.45) per share totalling to KShs 280 million in respect of the year ended 31 December 2019 (2018 - KShs 315 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.

Dividends per share is summarised as follows:

	2019	2018
Proposed dividends per share:		
Dividends appropriations (KShs '000')	-	314,977
Number of shares at 31 December	2,799,796,272	699,949,068
Dividends per share	279,980	0.45
Dividends per share declared and paid:		
Dividends appropriations (KShs '000')	314,977	594,957
Number of shares at 31 December	699,949,068	699,949,068
Dividends per share	0.45	0.85

40. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		COMPANY	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
Profit before tax	4,176,194	3,101,850	4,041,808	3,033,273
Adjustment for:				
Depreciation (note 15)	33,665	34,652	27,301	26,361
Unrealised foreign exchange losses		(649)	-	(342)
Interest on corporate bonds (note 7)	(47,519)	(57,145)	(47,519)	(57,145)
Interest on government securities (note 7)	(1,899,495)	(1,787,092)	(1,880,418)	(1,787,092)
Interest on staff mortgages and loans (note 7)	(22,931)	(18,745)	(22,763)	(18,348)
Interest on deposits with financial institutions (note 7)	(448,562)	(251,569)	(435,129)	(230,110)
Interest on commercial mortgages (note 7)	(47,473)	(51,116)	(47,473)	(51,116)
Dividend income (note 7)	(98,849)	(169,238)	(98,849)	(169,238)
Provision for doubtful debts(note 24)	743,428	453,915	748,757	358,478
Amortisation of software (note 16)	202,813	142,261	202,813	142,261
Realised accumulated fair value gain on available for sale quoted equity instruments (note 7)	(137,457)	(201,532)	(137,457)	(201,532)
Gain on disposal of government securities	(93,383)	-	(93,383)	-
Provision on non-current assets held for sale	-	23,000	-	23,000
Receivable on sale of Mbagathi plot to NLC*	300,150	-	300,150	-
Fair value gain on investment properties (note 18)	(2,176,592)	(397,211)	(2,176,592)	(397,211)
Defined benefit loss recognised in profit or loss	12,048	7,931	12,048	7,931
Share of profit of associate (note 19)	(587,444)	(180,865)	(587,444)	(180,865)
Operating profit before working capital changes	(91,407)	648,447	(194,150)	498,305
Short term reinsurance contract liabilities	202,237	265,808	153,051	234,435
Unearned premiums	913,270	(190,991)	836,587	(208,662)
Other payables	(39,908)	102,489	(80,259)	96,764
Long term reinsurance contract liabilities	57,907	236,702	57,907	236,702
Mortgage loans	57,123	(67,437)	57,123	(58,127)
Other receivables	(313,595)	61,565	(304,844)	63,960
Increase in inventories	(8,481)	6,307	(8,481)	6,405
Deferred acquisition costs (note 31)	(45,704)	45,167	(35,796)	68,570
Premium and loss reserves	(10,313)	35,301	11,911	13,689
Payables arising out of reinsurance arrangements	1,258,408	(121,021)	1,124,320	(40,065)
Increase in due to/ from related party	-	-	1,159	(48,671)
Receivables arising out of reinsurance arrangements	304,246	188,287	471,019	333,417
Net cash generated from operations	2,283,783	1,210,624	2,089,547	1,196,,722

NCL*-National Land Commission

41. RELATED PARTIES

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

	GROUP 2019 KShs'000	GROUP 2018 KShs '000	COMPANY 2019 KShs '000	COMPANY 2018 KShs '000
(a) Transactions and balances with directors and staff				
(i) Directors' remuneration				
Fees	9,600	8,640	9,600	8,640
Other emoluments	10,917	16,962	10,917	16,962
	19,517	25,602	19,517	25,602
(ii) Key management remuneration				
Salaries and other short-term benefits	75,897	65,554	58,594	59,556
Post-employment benefits	-	-	-	-
	75,897	65,554	58,594	59,556
(iii) Loans to staff	118,197	70,801	99,549	70,801

Interest income on these loans was KShs, 22,930,565 (2018: KShs 18,744,545). The effective interest on the loans is 5 % (2018 - 5%). Staff mortgages and car loans are fully secured.

	GROUP 2019 Ksh'000	GROUP 2018 KShs '000	COMPANY 2019 KShs '000	COMPANY 2018 KShs '000
(b) Transaction with associate company, ZEP Re				
(i) Net premium written	901	24,127	901	24,127
(ii) Claims incurred	-	14,310	-	14,310

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.

(c) Outstanding balances with related parties:	Relationship	COMPANY 2019 KShs '000	COMPANY 2018 KShs '000
Due from:			
Amount due from Kenya Reinsurance Corporation Zambia and Uganda subsidiary	Subsidiary	85,508	93,820
Due to:			
Amount due to Kenya Reinsurance Corporation Cote d'Ivoire	Subsidiary	35,938	43,091

42. INVENTORY PROPERTY - GROUP and COMPANY

	2019 KShs '000	2018 KShs '000
Cost	936,077	941,077
Less: Impairment provision	(936,077)	(941,077)
	-	-

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

43. CONTINGENT LIABILITIES

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

	Principal KShs '000	Interest KShs '000	Penalty KShs '000	Total KShs '000
Withholding tax	742,215	456,052	74,221	1,272,488

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

44. EVENTS AFTER REPORTING DATE

Initial cases of Corona Virus infection were reported in China towards the end of 2019. The infection was spreading to other regions in the world and on 11th March 2020 World Health Organization (WHO) declared the virial disease as epidemic. The first case of this infection was reported in Kenya on 13th March 2020 and since then a few other cases have been identified. As of the date of approval of this report, the Group operations were normal and uninterrupted. The directors, in consideration of the above facts, assess the post year end epidemic outbreak as a non-adjusting event.

45. INCORPORATION

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

46. CURRENCY

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

47. COMMITMENTS

Operating lease commitments - Group as lessor

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

The total contingent rents recognised as income during the year is KShs million 880 (2018: KShs 875 million). Future minimum rentals receivable under non-cancellable operating leases as at 31 December are, as follows:

	2019 KShs'000	2018 KShs'000
Not later than one year	18,791	2,372
Later than 1 year but not later than 5 years	1,931,072	2,193,636
Later than 5 years	438,381	1,089,647
	2,388,244	3,285,655

Appendix I
KENYA REINSURANCE CORPORATION LIMITED
SHORT TERM REVENUE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Aviation Shs '000'	Engineering Shs '000'	Fire domestic Shs '000'	Fire industrial Shs '000'	Liability Shs '000'	Marine Shs '000'	Motor private Shs '000'	Motor commercial Shs '000'	Personal accident Shs '000'	Theft Shs '000'	Workmen compensation Shs '000'	Medical Shs '000'	Miscellaneous Shs '000'	Total General 31.12.2019 Shs '000'	Total General 31.12.2018 Shs '000'
Gross premium	41,048,833	1,086,746,523	3,306,262,625	618,188,168	188,518,375	572,430,750	120,053,838	671,085,682	230,999,319	21,708,961	3,434,578	3,490,187,200	5,127,271,441	15,477,936,293	12,933,106
Movement in unearned premium	5,770,800	(8,950,000)	(50,322,209)	(9,408,991)	7,573,200	2,160,400	1,675,176	9,364,024	(29,881,674)	(2,808,234)	(444,291)	(175,088,400)	(662,909,612)	(913,269,811)	190,990
Earned premiums	46,819,633	1,077,796,523	3,255,940,416	608,779,177	196,091,575	574,591,150	121,729,014	680,449,706	201,117,645	18,900,727	2,990,287	3,315,098,800	4,464,361,829	14,564,666,482	13,124,096
Less: Retrocession premiums	30,627,035	185,213,448	254,388,379	26,510,992	15,560,496	62,967,636	0	38,585,772	21,602,203	-	-	-	343,597,609	979,053,570	(718,261)
Net earned premiums	16,192,598	892,583,075	3,001,552,037	582,268,185	180,531,079	511,623,514	121,729,014	641,863,934	179,515,442	18,900,727	2,990,287	3,315,098,800	4,120,764,220	13,585,612,912	12,405,835
Claims paid	25,299,819	444,261,685	1,984,811,562	151,330,359	31,508,279	331,247,477	30,067,829	702,116,858	158,846,057	9,069,841	182,195	2,624,961,638	3,818,935,409	10,312,639,008	8,258,711
Claims recoverable	0	(21,643,726)	(108,289,240)	(135,912,015)	-	-	-	-	(48,358,223)	-	-	-	(39,552,150)	(353,755,354)	(561,569)
Claims reserves at 01.01.2019	(57,838,119)	(320,523,574)	(10,695,408)	(2,542,637,333)	(75,269,493)	(340,364,751)	(7,992,594)	(500,374,915)	(42,403,331)	(116,119,228)	(357,107)	(823,511,026)	(1,164,859,084)	(6,002,945,963)	(5,737,138)
Claims reserves at 31.12.2019	7,350,329	440,233,442	16,583,810	2,310,060,589	115,696,390	373,736,236	2,551,085	913,121,802	15,082,827	75,176,620	39,205	611,131,802	1,324,419,113	6,205,183,250	6,002,946
Net claims incurred	(25,187,971)	542,327,827	1,882,410,724	(217,158,400)	71,935,176	364,618,962	24,626,320	1,114,863,745	83,167,330	(31,872,767)	(135,707)	2,412,582,414	3,938,943,288	10,161,120,941	7,962,950
Commissions	10,567,183	312,560,180	883,095,359	173,025,719	57,549,577	187,510,159	19,495,236	103,525,368	114,670,419	4,589,964	821,584	892,827,721	777,548,594	3,537,787,063	3,350,056
Commissions recoverable	0	37,484	5,587,351	462,021	-	1,012,025	-	10,826,307	157,618	-	-	-	7,138,366	25,221,172	(6,990)
Commissions movement	(888,000)	(413,600)	17,283,941	3,386,459	1,056,800	(7,068,400)	559,721	2,972,279	(2,383,725)	(95,414)	(17,079)	(43,933,600)	(16,163,382)	(45,704,000)	45,166
Net commissions	9,679,183	312,109,096	894,791,949	175,950,157	58,606,377	179,429,734	20,054,957	95,671,340	112,129,076	4,494,550	804,505	848,894,121	754,246,846	3,466,861,891	3,388,232
Provision for bad debts	1,971,636	52,198,031	158,804,647	29,692,485	9,054,814	27,494,689	5,766,362	32,233,230	11,095,236	1,042,713	164,968	167,638,814	246,270,374	743,427,999	424,145
Management expenses	4,239,153	112,229,370	341,440,957	63,840,893	19,468,476	59,115,480	12,398,077	69,303,671	23,855,524	2,241,906	354,692	360,435,027	529,498,309	1,598,421,535	1,576,418,000
Total expenses	(9,297,999)	1,018,864,324	3,277,448,277	52,325,135	159,064,843	630,658,865	62,845,716	1,312,071,986	230,247,166	(24,093,598)	1,188,458	3,789,550,376	5,468,958,817	15,969,832,366	1,588,193,327
Underwriting profit/(loss)	25,490,597	(126,281,249)	(275,896,240)	529,943,050	21,466,236	(119,035,351)	58,883,298	(670,208,052)	(50,731,724)	42,994,325	1,801,829	(474,451,576)	(1,348,194,597)	(2,384,219,454)	(1,575,787,492)
loss Ratio	-156%	61%	63%	-37%	40%	71%	20%	174%	46%	-169%	-5%	73%	96%	75%	64%

This short term business revenue account was approved the board of directors on 26 March 2020 and were signed on its behalf by:

Jadiah Mwarania
Principal Officer

Chiboli Shakaba
Director

Anthony Munyao
Director

Appendix II
KENYA REINSURANCE CORPORATION LIMITED
LONG TERM REVENUE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Ordinary Kshs '000	Super Annuation Kshs '000	2019 Kshs '000	2018 Kshs '000
Gross earned premiums	45,342	1,998,065	2,043,407	1,905,287
Less: Retrocessions premiums	-	(98,402)	(98,402)	(105,146)
Net earned premium	45,342	1,899,663	1,945,005	1,800,141
Net claims incurred	(1,368)	(841,544)	(842,912)	(630,598)
Change in actuarial liabilty	(1,285)	(56,622)	(57,907)	(236,701)
Net cedant acquisition costs	(13,313)	(586,651)	(599,964)	(496,758)
Management expenses	(5,288)	(233,027)	(238,315)	(237,953) 0
Underwriting surplus	24,088	181,819	205,907	198,131
Fair value gains	6,996	308,281	315,277	64,586
Investment income	18,817	829,196	848,013	410,176
Increase in life fund	49,901	1,319,296	1,369,197	672,893

This long term business revenue account was approved the board of directors on 26 March 2020 and were signed on its behalf by:

Jadiah Mwarania Principal Officer	Chiboli Shakaba Director	Anthony Munyao Director