KENYA REINSURANCE CORPORATION LIMITED AND ITS SUBSIDIARIES

ANNUAL REPORT
AND
FINANCIAL STATEMENTS

31 DECEMBER 2021

KENYA REINSURANCE CORPORATION LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS

DIRECTORS

Jennifer Karina	- Chairman
Jadiah Mwarania	- Managing Director
Ukur Yatani Kanacho	- Cabinet Secretary, The National Treasury
Amb. Peter O. Ole Nkuraiyia	
Jasper Mugambi	
Michael O. Monari	
Eric Gumbo	
Thamuda Hassan	
Nasra Ibrahim Ibren	
David Muthusi Mutuku	Elected on 30th June 2021
James Irungu Kirika	Elected on 30th June 2021

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
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Moi Avenue
P.O. Box 30081 - 00100 GPO
Nairobi, Kenya

Citibank NA
Citibank House, Upper Hill
P.O. Box 3071 - 00100
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Citibank House
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P.O. Box 30037 - 10101,Lusaka Zambia

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Actuarial Services (East Africa) Limited
10th Floor Victoria Towers
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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

Ngatia & Associates Advocates
Bishop Gardens Towers, Second floor
First Ngong Avenue,
Nairobi, Kenya.

Kaplan & Stratton Advocates
Williamson House
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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

The directors submit their report together with the audited financial statements for the year ended 31 December 2021.

1. INCORPORATION AND BACKGROUND INFORMATION

The Kenya Reinsurance Corporation Limited (the "Company") 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 2014, 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. The Company and its subsidiaries are referred to as the "Group".

2. PRINCIPAL ACTIVITIES

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

3. RESULTS

	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Profit before tax	4,000,497	3,983,592	3,803,994	3,750,291
Income tax expense	(1,032,132)	(1,040,670)	(968,389)	(954,113)
Profit for the year transferred to retained earnings	2,968,365	2,942,922	2,835,605	2,796,178

4. DIVIDENDS

The directors recommend the approval of a first and final dividend of KShs 0.10 (2020: KShs 0.20) per share totalling to KShs 280 million (2020: KShs 560 million) for the year ended 31 December 2021

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 18.535 billion in the year 2020 to KShs 20.355 billion in 2021.Net earned premiums decreased from KShs 20.85 billion in 2020 to KShs 18.82 billion in 2021. Investment income decreased from KShs 3.79 billion in the year 2020 to KShs 3.66 billion in the year 2021. The profit before tax for the year was KShs 4.00 billion, which was a increase of 0.4% compared to the profit before tax of KShs 3.98 billion for the year ended 31 December 2020.

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.

6. BUSINESS REVIEW (continued)

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 50.37 billion in 2021 up from KShs 45.6 billion in 2020. The asset base increased from KShs 53.2 billion in 2020 to KShs.55.81 billion in 2021, a 5% growth. The Shareholders funds increased from KShs 34.40 billion in 2020 to KShs 37.04 billion in 2021 which represented a growth of 8%.

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

	2016 KShs Millions	2017 KShs Millions	2018 KShs Millions	2019 KShs Millions	2020 KShs Millions	2021 KShs Millions
Gross premium	13,245	14,827	14,838	17,521	18,535	20,355
Net premiums written	12,687	13,680	14,206	15,530	20,850	19,096
Investment Income	3,079	3,165	3,386	3,715	3,792	3,658
Total assets	38,494	42,733	44,363	50,361	53,237	55,824
Shareholders' funds	24,133	27,205	28,373	31,951	34,397	37,040
Management Expenses	1,832	1,709	2,020	2,043	1,965	2,096

Principal risks and uncertainties facing the Corporation.

In the course of its business operations, the Group 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 Group 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 Group'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 2021, gross receivables stood at KShs 8.57 billion against provisions of KShs 3.89 billion as compared to 31 December 2020, where gross reinsurance receivables stood at KShs 5.865 billion against provisions of KShs 3.87 billion.

Underwriting risks mainly relate to the risk that underwriting costs may exceed the premiums generated from the underwriting activity. The Group's underwriting profit was Kshs 3.002 billion in year 2021 from a compared to KShs 2.074 billion for year 2020. The Group's claim ratio stood at 60% in year 2021 down from 64% % registered in year 2020. Claims incurred in year 2021 decreased by 15% to KShs 11.42 billion up from KShs 13.5 billion in 2020

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

Ernst & Young LLP were appointed by the Auditor General, to carry out the audit for the year ended 31 December 2021. 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 10,881,359 has been charged to profit or loss in the year.

BY ORDER OF THE BOARD

SECRETARY

Nairobi
30th March 2022

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 (the "Company") is responsible for the governance of the Company and is accountable to the shareholders and stakeholders in ensuring that the Company complies with the laws and 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 five (5) regular and five (5) 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:

Michael O. Monari (Chairman)
David Muthusi
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:

Eric Gumbo (Chairman)
Irungu Kirika
David Muthusi
Michael Monari
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 Company on best practices on management of information and technology.

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

Human Resource and Nominations Committee

The membership of the Human Resource and Nominations Committee is comprised as follows:

Nasra Ibren (Chairman)
Gitonga Mugambi
Peter Ole Nkuraiyia
Chris Huka (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 also evaluates the credentials of persons nominated to the Board.

The committee held four (4) 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:

Peter Ole Nkuraiyia (Chairman)
Chris Huka (Alternate to CS, National Treasury)
Irungu Kirika
Nasra Ibren
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 two (2) 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 2021 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 2021:

	Number of shares	Shareholding %
The National Treasury of Kenya	1,680,000,000	60
Jadiah Murungi Mwarania	400,000	-
Jennifer Kabura Karina	223,556	-
	1,680,623,556	60

Major Shareholders as at 31 December 2021

Cabinet secretary to The National Treasury of Kenya	1,680,000,000	60
Investments & Mortgages Nominees Ltd A/C 028950	65,553,300	2.34
The Jubilee Insurance Company of Kenya Limited	55,453,860	1.98
Kestrel Capital Nominees Ltd a/c Krohne fund	45,652,300	1.63
Standard Chartered Kenya Nominees Ltd A/C KE000954	43,500,000	1.55
SSB Bene Universal Investment Gesellschart FD 4942	36,500,000	1.30
Kenya Commercial Bank Nominees Limited A/C 915b	27,671,244	0.99
Kerai, Harji Mavji; Mavji, Ramila Harji	27,500,000	0.98
Stanbic Nominees Limited R6631578	27,187,772	0.97
Standard Chartered Nominees Non- resd. A/C KE10085	24,000,000	0.86
Others	766,777,796	27.39
	2,799,796,272	100

The distribution of the Company's shareholding as at 31 December 2021 is as shown below:

Shares Range	Shareholders	Number of Shares	% Shareholding
1 - 500	37,600	7,185,118	0.26
501 - 1,000	2,581	2,079,476	0.07
1,001 - 5,000	50,702	103,359,660	3.69
5,001 - 10,000	7,254	48,330,902	1.73
10,001 - 50,000	4,036	82,520,903	2.95
50,001 - 100,000	546	38,258,226	1.37
100,001 - 500,000	453	95,038,367	3.39
500,001- 1,000,000	76	56,467,503	2.02
1,000,001-2,000,000,000	91	2,366,556,117	84.53
	103,339	2,799,796,272	100

The distribution of the shareholders based on their nationalities as at 31 December 2021 is as follows:

Nationality	Shareholders	Shares held	% Shareholding
Local Individual Investors	97,543	446,198,235	15.94
Local Institutional Investors	5,342	2,211,275,932	78.98
Foreign Investors	454	142,322,105	5.08
	103,339	2,799,796,272	100.00

Directors' interests as at 31 December 2020:

	Number of shares	Shareholding %
The National Treasury of Kenya	1,680,000,000	60
Jadiah Mwarania	400,000	-
Chiboli Induli Shakaba	2,035,400	-
Jennifer Kabura Karina	223,556	-
Felix Okatch	400	-
	1,682,659,356	60

Major Shareholders as at 31 December 2020

Cabinet secretary to The National Treasury of Kenya	1,680,000,000	60
Investments & Mortgages Nominees Ltd A/C 028950	65,553,300	2.34
The Jubilee Insurance Company of Kenya Limited	55,986,864	2.00
Standard Chartered Kenya Nominees Ltd A/C KE000954	43,500,000	1.55
SSB Bene Universal Investment Gesellschart FD 4942	36,500,000	1.30
Kestrel Capital Nominees Ltd a/c Krohne fund	31,592,000	1.13
Kenya Commercial Bank Nominees Limited A/C 915b	27,671,244	0.99
Kenya Commercial Bank Nominees Limited A/C 915a	27,187,772	0.97
Kerai, Harji Mavji; Mavji, Ramila Harji	27,101,000	0.97
Standard Chartered Nominees Non- resd. A/C KE10085	24,000,000	0.86
Others	780,704,092	27.88
	2,799,796,272	100

The distribution of the Company's shareholding as at 31 December 2020 is as shown below:

Shares Range	Shareholders	Number of Shares	% Shareholding
1 - 500	37,340	7,155,137	0.26
501 - 1,000	2,522	2,031,394	0.07
1,001 - 5,000	51,034	104,030,908	3.72
5,001 - 10,000	7,335	48,847,736	1.74
10,001 - 50,000	4,072	83,122,511	2.97
50,001 - 100,000	546	38,236,597	1.37
100,001 - 500,000	445	94,762,363	3.38
500,001- 1,000,000	85	63,041,053	2.25
1,000,001-2,000,000,000	99	2,358,568,573	84.24
	103,478	2,799,796,272	100

The distribution of the shareholders based on their nationalities as at 31 December 2020 is as follows:

Nationality	Shareholders	Shares held	% Shareholding
Local Individual Investors	97,626	443,249,097	15.83
Local Institutional Investors	5,392	2,257,227,448	80.62
Foreign Investors	460	99,319,727	3.55
	103,478	2,799,796,272	100.00

....
Jennifer Karina
Director

....
Michael O. Monari
Director

..................................2022

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 Kenya Reinsurance Corporation Limited (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 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 Company and its subsidiaries' 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 their 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 .... 2022 and signed on its behalf by:

Jadiah Mwarania Principal Officer	Jennifer Karina Director	Michael O. Monari Director

KENYA REINSURANCE CORPORATION LIMITED

REPORT OF THE CONSULTING ACTUARY

FOR THE YEAR ENDED 31 DECEMBER 2021

I have conducted an actuarial valuation of the long-term business of Kenya Reinsurance Corporation Limited as at 31 December 2021.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act. 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 2021.

Name of Actuary: **Abed Mureithi**

Qualification: **Fellow of the Institute and Faculty of Actuaries (UK)**

Sign:...

Date: **30 March 2022**

Actuarial Services (EA) Ltd,
26th Floor, UAP Old Mutual Tower,
Upper Hill Road, Upper Hill, Nairobi Kenya.
P.O. Box 10472 – 00100, Nairobi, GPO Kenya.

INFORMATION NOT SUBJECT TO AUDIT

The directors' remuneration policy and strategy for Kenya Reinsurance Corporation Limited (the "Company")

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.

The Company 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 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 30th June 2021, the shareholders approved directors' remuneration for the year ended 31 December 2020 by show of hands.

At the Annual General Meeting to be held on 17th June 2022, approval will be sought from shareholders of this Directors' remuneration report for the financial year ended 31 December 2021.

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 2021 together with the comparative figures for 2020.

YEAR ENDED 31 DECEMBER 2021

DIRECTOR	CATEGORY	GROSS PAYMENTS KShs	DIRECTOR FEES KShs	ALLOWANCES KShs	TOTAL KShs
Jennifer Karina	Chairman, Non-Executive		1,440,000	1,275,048	2,715,048
Jadiah Mwarania	Managing Director	56,668,049	-	569,097	57,237,146
Michael O Monari	Non -Executive		1,920,000	1,056,600	2,976,600
James Kirika	Non -Executive	-	480,000	652,990	1,132,990
David Muthusi	Non -Executive	-	960,000	795,500	1,755,500
Jasper Mugambi	Non -Executive	-	1,904,769	1,101,246	3,006,015
Peter Ole Nkuraiya	Non -Executive	-	1,912,953	1,667,463	3,580,416
Nasra Ibrahim Ibren	Non -Executive	-	1,912,953	1,403,598	3,316,551
Thamuda Hassan	Non -Executive	-	1,440,000	1,117,768	2,557,768
Eric Gumbo	Non -Executive	-	1,904,769	722,948	2,627,717
Cabinet Secretary - The National Treasury	Non -Executive	-	960,000	-	960,000
Chiboli Shakaba	Non -Executive		480,000	1,150,000	1,630,000
Felix Okatch	Non -Executive	-	960,000	559,000	1,519,000
TOTAL		56,668,049	16,275,443	12,071,259	85,014,750

INFORMATION NOT SUBJECT TO AUDIT (continued)

YEAR ENDED 31 DECEMBER 2020

DIRECTOR	CATEGORY	GROSS PAYMENTS KShs	DIRECTOR FEES KShs	ALLOWANCES KShs	TOTAL KShs
Chiboli Shakaba	Chairman, Non-Executive		960,000	1,518,620	2,478,620
Jadiah Mwarania	Managing Director	36,689,938	-	-	36,689,938
David Kibet Kemei	Non -Executive	-	743,226	1,531,915	2,275,141
Michael O Monari	Non -Executive	-	216,774	363,120	579,894
Felix Okatch	Non -Executive	-	960,000	3,752,105	4,712,105
Jennifer Karina	Non -Executive	-	960,000	2,702,248	3,662,248
Maina Mukoma	Non -Executive	-	743,226	1,984,365	2,727,591
Anthony Muthama Munyao	Non -Executive	-	743,226	3,509,082	4,252,308
Jasper Mugambi	Non -Executive	-	216,774	1,162,713	1,379,487
Peter Ole Nkuraiya	Non -Executive	-	216,774	765,718	982,492
Nasra Ibrahim Ibren	Non -Executive	-	960,000	695,500	1,655,500
Thamuda Hassan	Non -Executive	-	960,000	966,490	1,926,490
Eric Gumbo	Non -Executive	-	960,000	515,000	1,475,000
Cabinet Secretary - The National Treasury	Non -Executive	-	960,000	-	960,000
TOTAL		36,689,938	9,600,000	19,466,876	65,756,814

Approved by the board of directors on 30th March 2022 and signed on its behalf by:

BY ORDER OF THE BOARD

Secretary

Nairobi
30th March 2022

Building a better
working world

Ernst & Young LLP
Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT
TO THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF
KENYA REINSURANCE CORPORATION LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated and separate financial statements of Kenya Reinsurance Corporation Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 20 to 93 which comprise the consolidated and separate statements of financial position as at 31 December 2021, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Company as at 31 December 2021, and their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group and the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Key Audit Matters

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

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

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<table>
<tr><th>No.</th><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>1.</td><td colspan="2">Valuation of reinsurance contract liabilities</td></tr>
<tr><td></td><td>The valuation of the Group's reinsurance contract liabilities is dependent on a number of subjective assumptions as disclosed in notes 2, 33, 34 and 38 to the consolidated and separate financial statements. These liabilities are based on the best estimate of all incurred claims but not settled, whether reported or not and the provision for unearned premium reserve.

The Group uses external actuaries to value both the life and non-life reinsurance contract liabilities.

This matter was considered significant to our audit because of the high sensitivity of the valuation of the reinsurance contract liabilities to changes in the key assumptions. Also, reinsurance contract liabilities are the largest liabilities on the Group's consolidated statement of financial condition.

We also considered the risk that the disclosures in notes 2, 33, 34 and 38, which are significant to the understanding of the Group's reinsurance contract liabilities, may not complete.</td><td>Our audit procedures included the following:

• Evaluating the objectivity, competence and independence of the external actuaries.

• Obtaining an understanding of the processes, controls, methodologies, and assumptions used to estimate the reinsurance contract liabilities.

• Assessing the methodologies and assumptions used in the estimation of these contract liabilities against industry practices and regulatory requirements.

• Testing, on a sample basis, the accuracy, completeness and appropriateness of the underlying data used in these valuations by performing checks against data recorded in the financial statements.

• Assessing the completeness of the disclosures related to the reinsurance contract liabilities in the consolidated and separate financial statements.</td></tr>
<tr><td>2.</td><td colspan="2">Valuation of investment property</td></tr>
<tr><td></td><td>As at 31 December 2021, the fair value of the Group's investment property was approximately KShs 12.3 billion as disclosed in note 18 to the consolidated and separate financial statements.

The investment property is measured at fair value in accordance with International Accounting Standard (IAS) 40 Investment Property. The Group's policy is to revalue the investment property annually with the assistance of an external valuer.

Given that the fair value of investment property involves significant estimation and assumptions, such as comparative active market prices and adjustments for differences in the nature, location or condition of the property, and the importance of the disclosures in notes 3(c)(ii) and 18 relating to the assumptions used in the valuation, we considered this as a key audit matter.</td><td>Our audit procedures included the following:

• Evaluating the objectivity, competence and independence of the external valuer.

• Assessing whether the underlying assumptions applied in the determination of the fair value were supported in the context of the industry and nature of the investment property.

• Assessing whether the valuation methodologies and assumptions adopted in determining the fair values of the investment property were in accordance with IFRS.

• Evaluating whether the determined fair values were comparable to the market values for similar property in similar locations.

• Assessing the adequacy of the Group's disclosures in respect of the methodology and assumptions used in valuation.</td></tr>
</table>

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3.	Provisions and contingent liabilities including taxation related matters	
	As disclosed in note 43 to the consolidated and separate financial statements, the Group has open tax assessments from Kenya Revenue Authority (KRA) of approximately KShs 3.2 billion, which is significant to the consolidated and separate financial statements. Management has objected to the assessments and has engaged external legal counsel to support its objections. Evaluation of the likely outcome of this process, that is whether the risk of loss is remote, possible or probable, requires significant judgement by management. Given the significant level of judgment involved, and the significance of the assessed amounts, this has been considered a key matter during the current year's audit.	Our audit procedures included the following: • Obtaining an understanding of the tax matters behind the assessments through the review of legal reports, discussions the Company's internal counsel, senior management and review of external legal opinions obtained by management. • Obtaining confirmation and legal opinions from the Company's external legal representatives on open tax matters including the assessment from KRA. • Involving EY tax specialists to review management's assessment and legal opinions from external representations, on the likely outcome on the open tax matters. • Assessing the adequacy of the disclosures of the open tax matters in the consolidated and separate financial statements.
4.	Revenue recognition - premiums income and un-earned premium reserves	
	The Group's business involves underwriting policies with tenure that does not align with the reporting period. The Group has estimated unearned premium reserves as disclosed in note 38 to the consolidated and separate financial statements using the 1/8 (eighths) underwriting method of the written premiums to defer premium income written but not earned during the reporting period. We considered this to be a key audit matter since the Group's financial results are significantly sensitive to changes in this assumption. We also considered there to be a risk that revenue may reported in the improper period by not observing proper cut off procedures.	Our audit approach included controls testing and substantive procedures covering, in particular: • Testing, on a sample basis, key controls over the underwriting process. • Performing an analysis of premium income and unearned premiums based on our industry knowledge and forming an expectation of revenue based on key performance indicators taking into account changes in the Group's business. • Reviewing supporting documentation for premium income on a sample basis. • Checking that adjustments to premium income after year-end were supported and processed in the correct period. • Checking whether the assumptions used to determine the un-earned premium reserves were supported. • Assessing the adequacy of the Group's disclosures in respect of revenue.

Other Information

Directors are responsible for other information. Other information consists of the information included in the annual report other than consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are responsible for overseeing the Group's and Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

i) in our opinion, the information given in the report of the directors on pages 2 to 4 is consistent with the consolidated and separate financial statements; and,

ii) in our opinion, the auditable part of directors' remuneration report on pages 12 to 14 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Denis Mugisha, Practicing Certificate No. 2773.

For and on behalf of Ernst & Young LLP
Certified Public Accountants
Nairobi, Kenya
30 March 2022

KENYA REINSURANCE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Short term[1] business 2021 KShs '000	Long term[1] Business 2021 KShs '000	Total 2021 KShs '000	Total 2020 KShs '000
INCOME					
Gross premiums written	6	18,507,202	1,848,252	20,355,454	18,535,220
Less: change in unearned premiums	38	(368,168)	270,550	(97,618)	2,984,894
Less: retrocession premiums	6	(1,082,916)	(79,294)	(1,162,210)	(669,848)
NET EARNED PREMIUMS	6	17,056,118	2,039,508	19,095,626	20,850,266
Investment income-Interest income	7(a)	1,909,118	852,974	2,762,092	2,749,776
Investment income-Other	7(b)	772,271	123,322	895,593	1,042,140
Commissions recovered	10(a)	119,329	17,301	136,630	51,313
Fair value gains on revaluation of investment properties	18	(94,643)	(21,999)	(116,642)	(36,403)
Other income	8	58,323	-	58,323	53,351
Share of associate profits	19	404,714	-	404,714	292,844
TOTAL INCOME		20,225,230	3,011,106	23,236,336	25,003,287
CLAIMS AND POLICY HOLDERS BENEFITS EXPENSES					
Gross claims incurred and policy holder benefits expenses	9	(10,973,790)	(678,873)	(11,652,663)	(13,933,382)
Less: Re-insurers share of claims and policy holder benefits	9	209,905	20,882	230,787	416,804
NET CLAIMS AND BENEFITS		(10,763,885)	(657,991)	(11,421,876)	(13,516,578)
Cedant acquisition costs	10(a)	(4,367,747)	(441,042)	(4,808,789)	(5,310,496)
Operating and other expenses	10(b)	(1,905,507)	(190,297)	(2,095,804)	(1,964,808)
Provision for doubtful receivables	24	(712,751)	(196,619)	(909,370)	(227,813)
TOTAL CLAIMS, BENEFITS, AND OTHER EXPENSES		(17,749,890)	(1,485,949)	(19,235,839)	(21,019,695)
PROFIT BEFORE TAX		2,475,340	1,525,157	4,000,497	3,983,592
INCOME TAX EXPENSE	11(a)	(744,742)	(287,390)	(1,032,132)	(1,040,670)
PROFIT FOR THE YEAR		1,730,598	1,237,767	2,968,365	2,942,922
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Share of gain on property revaluation of associate	19	8,524	-	8,524	2,938
Remeasurement gain/losses on defined benefit plans, net of tax	21	26,509	-	26,509	(152,013)
Items that may be reclassified subsequently to profit or loss:					
Net gains/ (losses) on revaluation of available-for-sale quoted equity instruments	27	60,828	-	60,828	(396,063)
Net gains on revaluation of available-for-sale government securities	28	(4,549)		(4,549)	5,444
Translation reserve		50,241	-	50,241	27,610
Share of movement in associate reserves:					
- currency translation	19	81,219	-	81,219	373,905
- fair value reserve	19	11,026	-	11,026	(78,163)
TOTAL OTHER COMPREHENSIVE INCOME		233,798	-	233,798	(216,342)
TOTAL COMPREHENSIVE INCOME		1,964,396	1,237,767	3,202,163	2,726,580
EARNINGS PER SHARE - basic and diluted	12			1.06	1.05

[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 2021

	Notes	Short term[2] Business 2021 KShs '000	Long term[2] Business 2021 KShs '000	Total 2021 KShs '000	Total 2020 KShs '000
INCOME					
Gross premiums written	6	16,196,181	1,825,195	18,021,376	17,044,801
Less: change in unearned premiums	38	(308,195)	277,834	(30,361)	2,816,806
Less: retrocession premiums	6	(579,916)	(78,973)	(658,889)	(618,736)
NET EARNED PREMIUMS	6	15,308,070	2,024,056	17,332,126	19,242,871
Investment income-Interest income	7(a)	1,784,551	881,034	2,665,585	2,693,521
Investment income-Other	7(b)	772,271	123,322	895,593	1,042,140
Commissions recovered	10(a)	23,952	3,473	27,425	29,723
Fair value gains on revaluation of investment properties	18	(94,643)	(21,999)	(116,642)	(36,403)
Other income	8	57,858	-	57,858	53,351
Share of associate profits	19	404,714	-	404,714	292,844
TOTAL INCOME		18,256,773	3,009,886	21,266,659	23,318,047
CLAIMS AND POLICY HOLDERS BENEFITS EXPENSES					
Gross claims incurred and policy holder benefits expenses	9	(10,401,894)	(665,630)	(11,067,524)	(13,381,449)
Less: Re-insurers share of claims and policy holder benefits	9	209,905	20,882	230,787	416,804
NET CLAIMS AND BENEFITS		(10,191,989)	(644,748)	(10,836,737)	(12,964,645)
Cedant acquisition costs	10(a)	(3,756,686)	(436,153)	(4,192,839)	(4,827,650)
Operating and other expenses	10(b)	(1,673,351)	(188,575)	(1,861,926)	(1,696,779)
Provision for doubtful receivables	24	(374,544)	(196,619)	(571,163)	(78,682)
CLAIMS AND BENEFITS AND OTHER EXPENSES		(15,996,570)	(1,466,095)	(17,462,665)	(19,567,756)
PROFIT BEFORE TAX		2,260,203	1,543,791	3,803,994	3,750,291
INCOME TAX EXPENSE	11(a)	(680,999)	(287,390)	(968,389)	(954,113)
PROFIT FOR THE YEAR		1,579,204	1,256,401	2,835,605	2,796,178
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Share of gain on property revaluation of associate	19	8,524	-	8,524	2,938
Remeasurement gains/losses on defined benefit plans, net of tax	21	26,509	-	26,509	(152,013)
Items that may be reclassified subsequently to profit or loss:					
Net gains/(losses) on revaluation of available-for-sale quoted equity instruments	27	60,828	-	60,828	(396,063)
Net gains on revaluation of available-for-sale government securities	28	(4,549)		(4,549)	5,444
Share of movement in associate reserves:					
- currency translation	19	81,219		81,219	373,905
- fair value reserve	19	11,026	-	11,026	(78,163)
TOTAL OTHER COMPREHENSIVE INCOME		183,557	-	183,557	(243,952)
TOTAL COMPREHENSIVE INCOME		1,762,761	1,256,401	3,019,162	2,552,226
EARNINGS PER SHARE - basic and diluted	12			1.01	1.00

[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 2021

	Notes	Short term[3] Business 2021 KShs '000	Long term[3] Business 2021 KShs '000	Total 2021 KShs '000	Total 2020 KShs '000
EQUITY					
Share capital	13	6,499,491	500,000	6,999,491	6,999,491
Revaluation reserve	14	28,992	-	28,992	20,468
Fair value reserve	14	(438,739)	(54,226)	(492,965)	(560,270)
Translation reserve	14	821,958	-	821,958	690,498
Statutory reserve	33	-	7,625,237	7,625,237	6,387,470
Retained earnings	14	22,056,816	-	22,056,816	20,859,668
TOTAL EQUITY	¤	28,968,518	8,071,011	37,039,529	34,397,325
ASSETS					
Property and equipment	15	68,256	-	68,256	92,729
Intangible assets	16	42,865	69,938	112,803	297,764
Investment properties	18	10,517,225	1,732,775	12,250,000	12,175,000
Investment in associate	19	6,770,334	-	6,770,334	5,761,432
Unquoted equity instruments	22	194,248	-	194,248	209,674
Mortgage loans	17	790,455	-	790,455	776,835
Corporate bonds-held to maturity	23	45,329	-	45,329	-
Receivables arising out of reinsurance and retrocession arrangements	24	2,158,817	96,996	2,255,813	3,320,655
Premium and loss reserves	25	418,173	-	418,173	153,294
Deferred acquisition costs	30	856,086	123,515	979,601	737,689
Other receivables	26	570,299	-	570,299	493,185
Income tax receivable	11(c)	-	-	-	-
Quoted equity instruments	27	994,161	208,302	1,202,463	1,186,121
Government securities	28	14,017,653	4,533,371	18,551,024	17,258,062
Inventory	29	18,505	-	18,505	14,265
Deposits with financial institutions	31	3,837,514	6,729,320	10,566,834	8,306,552
Cash and bank balances	32	1,029,822	91	1,029,913	2,453,326
TOTAL ASSETS		42,329,742	13,494,308	55,824,050	53,236,583
LIABILITIES					
Long term reinsurance contract liabilities	33	-	1,262,731	1,262,731	2,721,542
Short term reinsurance contracts liabilities	34	9,915,675	-	9,915,675	9,340,902
Payables arising out of reinsurance arrangements	35	858,563	774,110	1,632,673	1,602,217
Deferred tax liability	36	(1,368,682)	2,937,599	1,568,917	1,281,527
Retirement benefits obligation	21	49,000	-	49,000	175,911
Income tax payable	11(c)	4,863	-	4,863	156,101
Other payables	37	682,305	-	682,305	709,728
Unearned premiums	38	3,219,500	448,857	3,668,357	2,851,330
TOTAL LIABILITIES		13,361,224	5,423,297	18,784,521	18,839,258
NET ASSETS		28,968,518	8,071,011	37,039,529	34,397,325

The financial statements were approved by the board of directors on 30th March 2022 and were signed on its behalf by:

Jadiah Mwarania	Jennifer Karina	Michael O. Monari
Principal Officer	Director	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 2021

	Notes	Short term[4] Business 2021 KShs '000	Long term[4] Business 2021 KShs '000	Total 2021 KShs '000	Total 2020 KShs '000
EQUITY					
Share capital	13	6,499,491	500,000	6,999,491	6,999,491
Revaluation reserve	14	28,992	-	28,992	20,468
Fair value reserve	14	(438,736)	(54,229)	(492,965)	(560,270)
Translation reserve	14	744,887	-	744,887	663,668
Statutory reserve	33	-	7,601,074	7,601,074	6,344,673
Retained earnings	14	21,788,123	-	21,788,123	20,742,369
TOTAL EQUITY		28,622,757	8,046,845	36,669,602	34,210,399
ASSETS					
Property and equipment	15	41,489	-	41,489	59,150
Intangible assets	16	17,646	95,157	112,803	297,764
Investment properties	18	10,517,225	1,732,775	12,250,000	12,175,000
Investment in associate	19	6,770,334	-	6,770,334	5,761,432
Investment in subsidiary companies	20	2,630,947	-	2,630,947	2,421,540
Unquoted equity instruments	22	194,248	-	194,248	209,674
Mortgage loans	17	780,537	-	780,537	765,636
Corporate bonds-held to maturity	23	45,329	-	45,329	-
Receivables arising out of reinsurance and retrocession arrangements	24	1,253,420	96,996	1,350,416	2,393,097
Premium and loss reserves	25	368,638	-	368,638	127,338
Deferred acquisition costs	30	742,862	121,296	864,158	654,771
Due from related party	41	55,558	-	55,558	65,311
Other receivables	26	525,962	-	525,962	465,515
Income tax receivable	11(c)	104,006	-	104,006	-
Quoted equity instruments	27	994,161	208,302	1,202,463	1,186,121
Government securities	28	13,710,278	4,533,371	18,243,649	17,160,253
Inventory	29	18,406	-	18,406	14,152
Deposits with financial institutions	31	1,590,204	6,087,433	7,677,637	7,585,300
Cash and bank balances	32	144,311	91	144,402	136,934
TOTAL ASSETS		40,505,561	12,875,421	53,380,982	51,478,988
LIABILITIES					
Long term reinsurance contract liabilities	33	-	1,254,757	1,254,757	2,721,542
Short term reinsurance contracts liabilities	34	9,156,159	-	9,156,159	8,646,523
Payables arising out of reinsurance arrangements	35	439,267	194,647	633,914	1,130,137
Deferred tax liability	36	(1,385,355)	2,937,599	1,552,244	1,264,854
Retirement benefits obligation	21	49,000	-	49,000	175,911
Due to related party	41	134,940	-	134,940	28,454
Income tax payable	11(c)	-	-	-	105,516
Other payables	37	588,157	-	588,157	603,212
Unearned premiums	38	2,900,636	441,573	3,342,209	2,592,440
TOTAL LIABILITIES		11,882,804	4,828,576	16,711,380	17,268,589
NET ASSETS		28,622,757	8,046,845	36,669,602	34,210,399

The financial statements were approved by the board of directors on 30th March 2022 and were signed on its behalf by:

Jadiah Mwarania
Principal Officer

Jennifer Karina
Director

Michael O. Monari
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 2021

	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 2020		6,999,491	17,530	(91,488)	288,983	5,754,183	18,982,026	31,950,725
Profit for the year		-	-	-	-	633,287	2,309,635	2,942,922
Other comprehensive income		-	2,938	(468,782)	401,515	-	(152,013)	(216,342)
Total comprehensive income		-	2,938	(468,782)	401,515	633,287	2,157,622	2,726,580
Capitalisation of retained earnings		-	-	-	-	-	-	-
Dividends declared - 2019	39	-	-	-	-	-	(279,980)	(279,980)
At 31 December 2020		6,999,491	20,468	(560,270)	690,498	6,387,470	20,859,668	34,397,325
At 1 January 2021		6,999,491	20,468	(560,270)	690,498	6,387,470	20,859,668	34,397,325
Profit for the year		-	-	-	-	1,237,767	1,730,598	2,968,365
Other comprehensive income		-	8,524	67,305	131,460	-	26,509	233,798
Total comprehensive income		-	8,524	67,305	131,460	1,237,767	1,757,107	3,202,163
Capitalisation of retained earnings		-		-	-	-	-	-
Dividends declared - 2020	39	-	-	-	-	-	(559,959)	(559,959)
At 31 December 2021		6,999,491	28,992	(492,965)	821,958	7,625,237	22,056,816	37,039,529

KENYA REINSURANCE CORPORATION LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	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 2020		6,999,491	17,530	(91,488)	289,763	5,711,407	19,011,450	31,938,153
Profit for the year						633,266	2,162,912	2,796,178
Other comprehensive income		-	2,938	(468,782)	373,905	-	(152,013)	(243,952)
Total comprehensive income		-	2,938	(468,782)	373,905	633,266	2,010,899	2,552,226
Dividends declared - 2019	39	-	-	-	-	-	(279,980)	(279,980)
Capitalisation of retained earnings		-	-	-	-	-	-	-
At 31 December 2020		6,999,491	20,468	(560,270)	663,668	6,344,673	20,742,369	34,210,399
At 1 January 2021		6,999,491	20,468	(560,270)	663,668	6,344,673	20,742,369	34,210,399
Profit for the year						1,256,401	1,579,204	2,835,605
Other comprehensive income		-	8,524	67,305	81,219	-	26,509	183,557
Total comprehensive income		-	8,524	67,305	81,219	1,256,401	1,605,713	3,019,162
Dividends declared - 2020	39	-	-	-	-	-	(559,959)	(559,959)
Capitalisation of retained earnings		-	-	-	-	-	-	-
At 31 December 2021		6,999,491	28,992	(492,965)	744,887	7,601,074	21,788,123	36,669,602

KENYA REINSURANCE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 KShs '000	2020 KShs '000
Net cash generated from operations	40	1,437,956	1,010,730
Interest received on corporate bonds		2,865	11,620
Interest received on government securities		2,121,115	2,058,283
Interest received on staff mortgages and loans		28,169	25,474
Interest received on deposits with financial institutions		484,218	555,126
Interest received on commercial mortgages		25,497	24,075
Tax paid in the year	11(c)	(819,074)	(45,039)
Net cash generated from operating activities		3,280,746	3,640,269
Cash flows from investing activities			
Purchase of investment property	18	(191,642)	(131,403)
Purchase of property and equipment	15	(4,566)	(34,989)
Purchase of quoted equity instruments	27	(19,249)	(27,134)
Purchase of intangible assets	16	(4,043)	(15,577)
Purchase of government securities	28	(2,381,065)	(2,692,338)
Purchase of corporate bonds	23	(45,200)	-
Proceeds on maturity of government securities	28	1,118,234	2,675,246
Proceeds on sale of quoted equity instruments	27	63,735	10,255
Proceeds on redemption of corporate bonds	23	-	155,512
Investment in associate	19	(503,419)	-
Deposit on offshore investment	31	(114,938)	-
Dividends received on quoted equity instruments		83,297	88,712
Net cash generated from/ (used in) investing activities		(1,998,856)	28,284
Cash flows used in financing activities			
Dividends paid	39	(559,959)	(279,980)
Net increase in cash and cash equivalents		721,931	3,388,573
Cash and cash equivalents at 1 January		10,759,878	7,371,305
Effect of unrealised exchange rate changes		-	-
Cash and cash equivalent at 31 December	32	11,481,809	10,759,878

KENYA REINSURANCE CORPORATION LIMITED
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 KShs '000	2020 KShs '000
Net cash generated from operations	40	727,871	764,032
Interest received on corporate bonds		2,865	11,620
Interest received on government securities		2,107,016	2,032,564
Interest received on staff mortgages and loans		27,543	25,000
Interest received on deposits with financial institutions		446,301	543,018
Interest received on commercial mortgages		25,497	24,075
Tax paid in the year	11(c)	(794,045)	(45,039)
Net cash generated from operating activities		2,543,048	3,355,270
Cash flows from investing activities			
Purchase of investment property	18	(191,642)	(131,403)
Purchase of property and equipment	15	(3,632)	(17,952)
Purchase of quoted equity instruments	27	(19,249)	(27,134)
Purchase of intangible assets	16	(4,043)	(15,577)
Purchase of government securities	28	(2,054,259)	(2,602,673)
Purchase of corporate bonds	23	(45,200)	-
Proceeds on maturity of government securities	28	1,000,535	2,554,235
Proceeds on sale of quoted equity instruments	27	63,735	10,255
Proceeds on redemption of corporate bonds	23	-	155,512
Investment in subsidiary	20	(209,408)	(1,958,132)
Investment in associate	19	(503,419)	-
Deposit on offshore investment	31	(114,938)	-
Dividends received on quoted equity instruments		83,297	88,712
Net cash generated from/ (used in) investing activities		(1,998,223)	(1,944,157)
Cash flows used in financing activities			
Dividends paid	39	(559,959)	(279,980)
Net increase in cash and cash equivalents		(15,134)	1,131,133
Cash and cash equivalents at 1 January		7,722,235	6,591,101
Effect of unrealised exchange rate changes		-	-
Cash and cash equivalent at 31 December	32	7,707,101	7,722,234

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards (IFRS)

The consolidated and separate 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 and separate 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 and separate financial statements comprise the Group's and Company's statements 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 and Company in their capacity as owners are recognised in the statements of changes in equity.

The Group and Company present their statements 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 and Company. 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 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and can 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 and Company 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 2021. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

On 1 January 2021, the group adopted the following new standards, new Interpretations and amendments to standards.

	Effective for accounting period beginning on or after
Covid-19-Related Rent Concessions beyond 30 June 2021 - Amendment to IFRS 16	1 April 2021
Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021

The amendments and annual improvements did not have an impact on the group.

Standards issued but not yet effective:

New or revised standards and interpretations:

	Effective for accounting period beginning on or after
Reference to the Conceptual Framework - Amendments to IFRS 3	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16	1 January 2022
Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37	1 January 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter	1 January 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective: (continued)

New or revised standards and interpretations: (continued)

	Effective for accounting period beginning on or after
AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
AIP IAS 41 Agriculture – Taxation in fair value measurements	1 January 2022
IFRS 9 Financial Instruments	1 January 2023
IFRS 17 Insurance contracts	1 January 2023
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	1 January 2023
Definition of Accounting Estimates - Amendments to IAS 8	1 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12	1 January 2023

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 and IFRS 9.

IFRS 9 *Financial Instruments*

The Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance. During 2021 there had been no significant change in the activities of the Group that requires reassessment. The Group intends to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial assets and liabilities in its reporting period.

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 *Insurance Contracts (continued)*

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted; provided the entity also applies IFRS 9 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 2018 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.

The Group has undertaken gap analysis on aggregation, data and systems. Actuarial modelling has commenced and the Group will fully adopt the standard by 01st January 2023

(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 8^{th} of net premiums the effect on future periods is impracticable to estimate.

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. Dividend's receivable is 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 Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each subsidiary are measured using that functional currency. Transactions in foreign currencies are initially recorded by the Group's subsidiaries 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 cash generation unit's ("CGU") 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

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. The Group has not entered into any agreements where it acts as lessee, thus there are no lease liabilities or right of use assets in terms of IFRS 16.

Company as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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 property and equipment of the associate which carries property and equipment at the revalued amount. Although the Group's policy is to measure property and equipment at cost, the revaluation reserve of the foreign associate is immaterial for Group purposes and has thus not been adjusted to reflect the cost model. The reserve is non-distributable. The revaluation surplus represents the surplus on the revaluation of property and equipment, net of deferred tax. Movements in the revaluation reserve are shown in the statement of changes in equity.

(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 ZEP RE Limited 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 measureded 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 projected unit credit method has been used to determine the value of the liability.

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)

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 owned less than the 20% of the voting power of the company as of 31 December 2020. This is because the Group is the single largest shareholder of Zep-Re Limited with a 20.380% (2020: 19.15%) interest of the equity interest. The remaining 79.62% (2020: 80.85%) 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 2015 to 31 December 2021). 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 reinsurance 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 lifestyle, could result in significant changes to the expected future mortality exposure.

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

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

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure. Further details are disclosed in note 33 and 34.

Receivables

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

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

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

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

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

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

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

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

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

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

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

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

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 2021 on the basis of open market value by independent valuer, Bernard Muriithi Koome - P/No. ISK/897/F/VEMS/13 of Morgan Write 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.

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

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 because of the entity entering certain transactions that would normally attract tax. 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.

Reinsurance risk

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

The Group has in place a detailed underwriting manual covering risk acceptance procedures, accumulation control and how to arrange for reinsurance protection. It guides the underwriters in their day to day transaction of business, while emphasising prudence and professionalism. The group aims to have a diversified portfolio of business with a sufficiently large population of risks, in order to reduce reliance on one geographical area or class of business.

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.

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

Frequency and severity of claims (continued)

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 Group 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 claim's exposures. However, given the uncertainty in establishing claims provisions, it is likely that the outcome will prove to be different from the original liability established.

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

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

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

Concentration of insurance risk

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

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

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

	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Financial assets				
Held to maturity:				
- Government securities	17,228,637	17,028,241	16,887,597	16,930,432
- Corporate bonds	45,329	-	45,329	-
Available for sale				
- Government securities	1,356,052	229,821	1,356,052	229,821
- Quoted equities	1,202,463	1,186,121	1,202,463	1,186,121
- Unquoted equities	194,248	209,674	194,248	209,674
Loans and receivables				
Receivables arising out of reinsurance arrangements	2,255,813	3,320,655	1,350,416	2,393,097
Cash and bank balances	1,029,913	2,453,326	144,402	136,934
Due from related parties	-	-	55,558	65,311
Deposits with financial institutions	10,566,834	8,306,552	7,677,636	7,585,300
Premium and loss reserves	418,173	153,294	368,638	127,338
Mortgage loans	790,455	776,835	780,537	765,636
Other receivables	570,299	493,185	525,962	465,515
Total financial assets and receivables arising from reinsurance arrangements	35,658,216	34,157,704	30,588,839	30,095,179
Financial liabilities at amortised cost				
Payables arising out of reinsurance arrangements	1,632,673	1,602,217	633,914	1,130,137
Other payables	682,306	709,728	588,157	603,212
Total financial liabilities and payables arising from reinsurance arrangements	2,314,979	2,311,945	1,222,071	1,733,349
Reinsurance contract liabilities				
Long term liabilities	1,262,731	2,721,542	1,254,757	2,721,542
Short term liabilities	9,915,675	9,340,902	9,156,159	8,646,523
Total reinsurance contract liabilities	11,178,406	12,062,444	10,410,916	11,368,065

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 indicate the contractual timing of cash flows arising from assets and liabilities.

GROUP

31 December 2021	Carrying Amount	No stated Maturity	Contractual cash flows 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	17,228,637		1,949,541	2,103,237	13,143,473
- Corporate bonds	45,329	-	-	45,329	-
Available for sale					
-Quoted equities	1,202,463	1,202,463	-	-	-
-Government securities	1,356,052	-	-	160	1,355,892
-Unquoted equities	194,248	194,248	-	-	-
Loans and receivables					
Receivables arising out of reinsurance arrangements	2,255,813	2,255,813	-	-	-
Other receivables	570,299	570,299	-	-	-
Premium loss reserves	418,173	418,173	-	-	-
Mortgage loans	790,455	-	1,268	77,758	711,429
Cash and cash equivalents	11,596,747	-	11,596,747	-	-
Total	35,658,216	4,640,996	13,547,556	2,226,484	15,210,794

Financial liabilities at amortised cost	Carrying Amount	No stated Maturity	Contractual cash flows (undiscounted) 0-1 years	1-5 years	>5 years
Payables arising out of reinsurance arrangements	1,632,673	1,632,673	-	-	-
Other payables	682,306	682,306	-	-	-
Total financial liabilities	2,314,979	2,314,979	-	-	-
Reinsurance liabilities					
Long term liabilities	1,262,731	1,262,731	-	-	-
Short term liabilities	9,915,675	9,915,675	-	-	-
Total	13,493,385	13,493,385	-	-	-
Net gap	22,164,831	(8,852,389)	13,547,557	2,226,484	15,210,794

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

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

COMPANY

31-December 2021	Carrying amount	No stated maturity	Contractual cash flows 0-1 years	1-5 years	>5 years
Held to maturity:					
- Government securities	16,887,597	-	1,848,638	2,035,972	13,002,987
- Corporate bonds	45,329	-	-	45,329	-
Available for sale					
-Quoted equities	1,202,463	1,202,463	-	-	-
-Government securities	1,356,052	-	-	160.00	1,355,892
-Unquoted equities	194,248	194,248	-	-	-
Loans and receivables					
Receivables arising out of reinsurance arrangements	1,350,416	1,350,416	-	-	-
Due from related parties	55,558	55,558	-	-	-
Other receivables	525,962	525,962	-	-	-
Premium loss reserves	368,638	368,638	-	-	-
Mortgage loans	780,537	-	1,268	77,758	701,511
Cash and cash equivalents	7,822,039	-	7,822,039	-	-
Total	30,588,839	3,697,285	9,671,945	2,159,219	15,060,390

Financial liabilities at amortised cost	Carrying amount	No stated maturity	Contractual cash flows (undiscounted) 0-1 years	1-5 years	>5 years
Payables arising out of reinsurance arrangements	633,914	633,914	-	-	-
Other payables	588,157	588,157	-	-	-
Total financial liabilities	1,222,071	1,222,071	-	-	-
Reinsurance liabilities					
Long term liabilities	1,254,757	1,254,757	-	-	-
Short term liabilities	9,156,159	9,156,159	-	-	-
Total	11,632,987	11,632,632	-	-	-
Net gap	18,955,852	(7,935,702)	9,671,944	2,159,219	15,060,390

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

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

GROUP 31 December 2020	Carrying	No stated	Contractual cash flows		
	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	17,028,241		1,376,823	3,267,976	27,452,353
- Corporate bonds	-	-	-	-	-
Available for sale					
-Quoted equities	1,186,121	1,186,121	-	-	-
-Government securities	229,821	-	-	-	229,821
-Unquoted equities	209,674	209,674	-	-	-
Loans and receivables					
Receivables arising out of reinsurance arrangements	3,320,655	3,320,655	-	-	-
Other receivables	493,185	493,185	-	-	-
Premium loss reserves	153,294	153,294	-	-	-
Mortgage loans	776,835	-	10,713	173,424	759,398
Cash and cash equivalents	10,759,878	-	10,759,878	-	-
Total	34,157,704	5,362,929	12,147,414	3,441,400	28,441,572

	Carrying	No stated	Contractual cash flows (undiscounted)		
	Amount	maturity	0-1 years	1-5 years	>5 years
Financial liabilities at amortised cost					
Payables arising out of reinsurance arrangements	1,602,217	1,602,217	-	-	-
Other payables	709,728	709,728	-	-	-
Total financial liabilities	2,311,945	2,311,945	-	-	-
Reinsurance liabilities					
Long term liabilities	2,721,542	2,721,542	-	-	-
Short term liabilities	9,340,902	9,340,902	-	-	-
Total	14,374,389	14,374,389	-	-	-
Net gap	19,783,315	(9,011,460)	12,147,414	3,441,400	28,441,572

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

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

COMPANY

31-December 2020	Carrying amount	No stated Maturity	Contractual cash flows 0-1 years	1-5 years	>5 years
Held to maturity:					
- Government securities	16,930,432	-	1,376,823	3,267,976	27,434,802
- Corporate bonds	-	-	-	-	-
Available for sale					
-Quoted equities	1,186,121	1,186,121	-	-	-
-Government securities	229,821	-	-	-	229,821
-Unquoted equities	209,674	209,674	-	-	-
Loans and receivables					
Receivables arising out of reinsurance arrangements	2,393,097	2,393,097	-	-	-
Due from related parties	65,311	65,311	-	-	-
Other receivables	465,515	465,515	-	-	-
Premium loss reserves	127,338	127,338	-	-	-
Mortgage loans	765,636	-	10,586	171,366	750,385
Cash and cash equivalents	7,722,234	-	7,722,234	-	-
Total	30,095,179	4,447,056	9,109,643	3,439,342	28,415,008

	Carrying amount	No stated Maturity	Contractual cash flows (undiscounted) 0-1 years	1-5 years	>5 years
Financial liabilities at amortised cost					
Payables arising out of reinsurance arrangements	1,130,137	1,130,137	-	-	-
Other payables	603,212	603,212	-	-	-
Total financial liabilities	1,733,349	1,733,349	-	-	-
Reinsurance liabilities					
Long term liabilities	2,721,542	2,721,542	-	-	-
Short term liabilities	8,646,523	8,646,523	-	-	-
Total	13,101,414	13,101,414	-	-	-
Net gap	16,993,765	(8,654,358)	9,109,643	3,439,342	28,415,008

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	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Assets in foreign currencies				
Trade and other receivables	4,672,807	5,169,960	2,985,950	3,799,149
Premiums and loss reserves	670,423	405,696	565,664	324,516
Deposits with financial institutions	4,955,955	2,198,144	2,070,112	1,824,968
Cash and bank	610,029	2,234,310	108,141	64,926
Foreign currency assets	10,909,214	10,008,110	5,729,867	6,013,559
Liabilities in foreign currencies				
Payables	(1,284,089)	(1,394,561)	(285,331)	(922,475)
Net foreign currency (liability)/ asset position	9,625,125	8,613,549	5,444,536	5,091,084

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).

		GROUP		COMPANY	
USD		Effect on profit before tax KShs'000	Effect on equity KShs'000	Effect on profit before tax KShs'000	Effect on equity KShs'000
2021	Increase in US$ by 10%	962,513	673,759	544,454	381,118
	Decrease in US$ by 10%	(962,513)	(673,759)	(544,454)	(381,118)
2020	Increase in US$ by 10%	861,335	549,940	509,108	297,815
	Decrease in US$ by 10%	(861,335)	(549,940)	(509,108)	(297,815)

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 1,202.4 million (2020: KShs 1,186 million). An increase/decrease of 15% in the value of the listed equity would result in a decrease / increase in profits of KShs 180.4 million (2020: KShs 178 million) and an increase/decrease in equity by KShs 126.3 million (2019: KShs 125 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	
	2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
Government securities	18,551,024	17,258,062	18,243,649	17,160,253
Corporate bonds	45,329	-	45,329	
Loans and receivables at amortized cost:				
Deposits with financial institutions	10,566,834	8,306,552	7,677,637	7,585,302
Mortgage loans	790,455	776,835	780,537	765,636
Receivables arising out of reinsurance arrangements	2,255,813	3,320,655	1,350,416	2,393,097
Premium and loss reserves (note 25)	418,173	153,294	368,638	127,338
Bank balances	1,029,913	2,453,326	144,402	136,934
Other receivables	570,299	493,185	525,962	465,515
Total assets bearing credit risk	34,227,840	32,761,909	29,136,570	28,634,075
Receivables arising out of reinsurance arrangements are summarized as follows:				
Neither past due nor impaired	712,352	691,449	487,767	690,908
Past due but not impaired:				
-up to 91 to 365 days	1,543,461	1,562,013	862,649	669,996
-up to 1 to 2 years	-	1,067,193	-	1,032,193
-Impaired	3,885,204	2,975,834	3,103,744	2,532,581
	6,141,017	6,296,489	4,454,160	4,925,678
Less: provision for impairment (note 24)	(3,885,204)	(2,975,834)	(3,103,744)	(2,532,581)
Total	2,255,813	3,320,655	1,350,416	2,393,097

Mortgage loans are summarized as follows:

	GROUP		COMPANY	
	2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
Neither past due nor impaired	790,455	776,835	780,537	765,636
Past due but not impaired:				
-0 to 60 days	-	-	-	-
-61 to 120 days	-	-	-	-
-121 to 180 days	-	-	-	-
Impaired	104,153	146,404	104,153	146,404
	894,608	923,239	884,690	912,040
Less: provision for impairment (note 17)	(104,153)	(146,404)	(104,153)	(146,404)
Total	790,455	776,835	780,537	765,636

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, government securities held to maturity, corporate bonds and receivables, approximate their fair values hence no fair value disclosures have been made.

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 2021				
Government securities	1,356,052	-	-	1,356,052
Quoted equity instruments	1,202,463	-	-	1,202,463
Investment properties			12,250,000	12,250,000
At 31 December 2020				
Government securities	229,821	-	-	229,821
Quoted equity instruments	1,186,121	-	-	1,186,121
Investment properties			12,175,000	12,175,000
COMPANY				
At 31 December 2021				
Government securities	1,356,052	-	-	1,356,052
Quoted equity instruments	1,202,463	-	-	1,202,463
Investment properties			12,250,000	12,250,000
At 31 December 2020				
Government securities	229,821	-	-	229,821
Quoted equity instruments	1,186,121	-	-	1,186,121
Investment properties			12,175,000	12,175,000

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 2021 and 2020 are as shown below:

	Valuation Technique	Significant unobservable inputs	Range (weighted average)
Investment properties	Open market basis	Price per acre in a similar location Discount rate	KShs 500 million - KShs 800 million 7.25-9.25%
	Discounted cash flow method	Rental income per square meter Estimated costs associated with maintaining the building	KShs 130-KShs 250 per square metre

The Group has performed an assessment and currently there are no significant interrelationships between significant unobservable inputs and other unobservable inputs used in the fair value measurement. The valuation of investment properties was carried out by Bernard Muriithi Koome - P/No. ISK/897/4/VEMS/13 of Morgan Write Limited, professional independent valuers as at 31 December 2021.

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

(d) Insurance risk

The principal risk the group faces under reinsurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by frequency of the claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the group is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines as well as the use of reinsurance arrangements.

The group purchases reinsurance as a part of its risk's mitigation programme. Reinsurance ceded is placed on both a proportional and a non-proportional basis. Most of the proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure of the group to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the group's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of total reinsurance assets at the reporting date.

(i) Life reinsurance contracts

Life reinsurance contracts offered by the group include treaties and facultative business on individual life and group life. Benefits payable are dependent on the group's share of reinsured sum assured.

The main risks that the Group is exposed to are as follows:

- Mortality risk - risk of loss arising due to policyholder death experience being different than expected
- Morbidity risk - risk of loss arising due to policyholder health experience being different than expected
- Expense risk - risk of loss arising from expense experience being different than expected
- Policyholder decision risk - risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected

These risks do not vary significantly in relation to the location of the risk insured by the Group, type of risk insured or by industry.

The group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims' handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the group to pursue third parties for payment of some or all costs. The group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the group.

For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. Groupwide reinsurance limits of Kshs. 3,000,000 on any single life insured are in place. In 2021, the group changed the reserving estimate for the Un-earned Premiums Reserve (UPR) from 40% of Written Premium (WP) to 1/8th method and for IBNR from three month's annual premium net of retrocessions to chain ladder method because of improvement of the data quality. This resulted in the release of AIDS and claims equalization reserves.

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

(d) Insurance risk (continued)

(i) Life reinsurance contracts (continued)

	Group		Company	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Life fund	11,825,567	11,583,741	11,793,430	11,540,944
Less: actuarial value of policy holder liabilities	(1,262,731)	(2,721,542)	(1,254,757)	(2,721,542)
Actuarial surplus	10,562,836	8,862,199	10,538,673	8,819,402
Less deferred tax liability (note 36)	(2,937,599)	(2,474,729)	(2,937,599)	(2,474,729)
Statutory reserve	7,625,237	6,387,470	7,601,074	6,344,673

Key Assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience and current internal data which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are, as follows:

Mortality and morbidity rates

Assumptions are based on standard industry and national tables, according to the type of contract written. They reflect recent historical experience and are adjusted when appropriate to reflect the group's own experiences.

Sensitivities

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.
It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist, they are the main reason for the asymmetry of sensitivities. The method used for deriving sensitivity information and significant assumptions made did not change from the previous period.

In the table below it can be seen that when adjusting the main risk factors as described above, such as mortality, morbidity, expense risk and policyholder decision risk, there is no material impact on the best estimate liability. The only differences which occur when these factors are adjusted is the AIDS reserve and the claims equalisation reserve.

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

(d) Insurance risk (continued)

(i) Life reinsurance contracts (continued)

As at December 2021

Class of Business	Unearned premium reserve	Deferred acquisition costs	Incurred but not reported claims	Actuarial liability per statement of financial position (Note 33/38)	Actuarial liability after +10% movement in risk factors
Superannuation	426,146	118,037	1,039,196	1,465,342	1,569,262
Individual life	22,711	5,479	42,033	64,743	68,947
Contingency	-	-	181,503	181,503	199,653
Total	448,857	123,516	1,262,732	1,711,588	1,837,861

As at December 2020

Class of business	Sum assured (KShs)	Annual office premiums (KShs)	Unearned premium reserve (KShs)	Incurred but not reported (KShs)	Best estimate actuarial liability (KShs)	10% Up Actuarial liability (KShs)
Individual run off life business and supplementary benefits	1,758,859	125,792	50,317	31,448	81,765	81,765
Superannuation Fund	862,245,590,900	1,791,059,819	691,948,955	432,468,097	1,124,417,052	1,124,417,052
Individual life treaty business	4,798,707,792	73,363,292	27,283,383	17,052,114	44,335,497	44,335,497
AIDS reserve	-	-	-	-	1,298,815,835	1,515,285,141
Claims equalisation reserve	-	-	-	-	1,349,769,009	1,404,884,127
Contingency reserve	-	-	-	-	50,000,000	50,000,000
Total	867,046,057,551	1,864,548,903	719,282,655	449,551,659	3,867,419,158	4,139,003,582

(ii) Non-life insurance contracts

The Group principally issues the following types of general reinsurance contracts: motor, household, commercial and business interruption. Healthcare contracts provide medical expense coverage to policyholders and are not guaranteed as renewable. Risks under non-life insurance policies usually cover twelve months duration.

For general reinsurance contracts, the most significant risks arise when there is fire, motor accidents, property losses or medical claims for longer tail claims that take some years to settle, there is also inflation risk. For healthcare contracts, the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements. These risks do not vary significantly in relation to the location of the risk insured by the group, type of risk insured and by industry.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Group uses commercially available proprietary risk management software to assess catastrophe exposure However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic.

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

(d) Insurance risk (continued)

(ii) Non-life reinsurance contracts (continued)

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the group's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 50% of shareholders' equity on a gross basis and 10% on a net basis. In the event of such a catastrophe,

counterparty exposure to a single reinsurer is estimated not to exceed 2% of shareholders' equity. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

The table below sets out the concentration of insurance contract liabilities:

GROUP

YEAR 2021	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
As at 1 January 2021	9,808,460	(467,558)	9,340,902
Movement in claims reserves	349,260	175,702	524,962
IBNR as at 31 December 2021	10,157,720	(291,856)	9,865,864
Unallocated Loss adjustment Expenses	49,811	-	49,811
Total Claims reserves as at 31 December 2021	10,207,531	(291,856)	9,915,675
As at 1 January 2020	6,601,842	(396,659)	6,205,183
Movement in claims reserves	3,206,618	(70,899)	3,135,719
Total short-term contract liabilities as at 31 December 2020	9,808,460	(467,558)	9,340,902

COMPANY

YEAR 2021			
As at 1 Jan 2021	9,108,921	(462,398)	8,646,523
Movement in claims reserves	195,692	264,133	459,825
IBNR as at 31 December 2021	9,304,613	(198,265)	9,106,348
Unallocated Loss adjustment Expenses	49,811	-	49,811
Total Claims reserves	9,354,424	(198,265)	9,156,159
As at 1 Jan 2020	6,058,529	(351,638)	5,706,891
Movement in claims reserves	3,050,392	(110,760)	2,939,632
Total short-term contract liabilities as at 31 December 2020	9,108,921	(462,398)	8,646,523

Key Assumptions

The principal assumption underlying the liability estimates is that the group's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence; changes in market factors such as public attitude to claiming economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

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

(d) Insurance risk (continued)

(ii) Non-life reinsurance contracts (continued)

Sensitivities

The non-life insurance claim liabilities are sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in the ultimate claims liabilities with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity.

The liabilities were subjected to sensitivity analysis on the key assumption of ultimate loss ratios used in the liability calculations. The table below demonstrated the gross and net effect of an increase and decrease of the ultimate loss ratios by 10%.

It should be noted that movements in these assumptions are non-linear.

December 2021

Change in assumption	*Change in gross liability*	*Change in net liability*
+10%	*1,194,973,538*	*1,160,639,079*
-10%	*(1,191,863,341)*	*(1,157,618,245)*

December 2020

Change in assumption	*Change in gross liability*	*Change in net liability*
+10%	*1,167,640,222*	*1,000,176,347*
-10%	*(1,158,764,487)*	*(991,600,461)*

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 various Insurance Regulatory Authorities in the countries of operations. 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 and Company 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.

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 include among others 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 2021 or 2020.

5. SEGMENTAL REPORTING (continued)

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

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Gross earned premiums				
Short term business	18,507,202	16,671,121	16,196,181	15,197,743
Long term business	1,848,252	1,864,099	1,825,195	1,847,058
	20,355,454	18,535,220	18,021,376	17,044,801
Investment income:				
Short term business				
Rental income from investment properties	659,235	819,143	659,235	819,143
Interest on government securities held to maturity	1,655,964	1,586,191	1,630,703	1,571,793
Gain on sale of available-for-sale quoted equity instruments	42,833	-	42,833	-
Dividends receivable on available for sale quoted equity instruments	70,203	67,381	70,203	67,381
Interest on commercial mortgages	26,372	32,739	26,372	32,739
Interest on deposits with financial institutions- held to maturity	195,619	209,690	96,939	171,554
Interest on corporate bonds- held to maturity	2,994	10,682	2,994	10,682
Interest on staff mortgages and loans	28,169	25,474	27,543	25,000
	2,681,389	2,751,300	2,556,822	2,698,292
Long term business				
Rental income from investment properties	108,613	134,285	108,613	134,285
Interest on government securities held to maturity	509,943	509,250	509,943	509,250
Dividends receivable on available-for-sale quoted equity instruments	14,709	21,331	14,709	21,331
Interest on deposits with financial institutions- held to maturity	343,031	375,750	371,091	372,503
	976,296	1,040,616	1,004,356	1,037,369
Total investment income	3,657,685	3,791,916	3,561,178	3,735,661

5. SEGMENTAL REPORTING (continued)

Other disclosures:

GROUP	Short term business KShs'000	Long term Business KShs'000	Total 2021 KShs'000	Total 2020 KShs'000
Reportable segment profits before tax	2,475,340	1,525,157	4,000,497	3,983,592
Income tax expense	(744,742)	(287,390)	(1,032,132)	(1,040,670)
Reportable segment profits after tax	1,730,598	1,237,767	2,968,365	2,942,922
Reportable segment total assets	42,329,742	13,494,308	55,824,050	53,236,583
Less:				
: Related party balances	-	-	-	-
Net	42,329,742	13,494,308	55,824,050	53,236,583
Reportable segment total liabilities	13,361,224	5,423,297	18,784,521	18,839,258
Less:				
: Related party balances	-	-	-	-
Net	13,361,224	5,423,297	18,784,521	18,839,258
Fees and commission income	119,329	17,301	136,630	51,313
Depreciation of property and equipment	27,417	2,738	30,155	31,216
Amortisation of intangible assets	171,843	17,161	189,004	191,617
Property and equipment additions	68,256	-	68,256	92,729
Intangible assets additions	(114,676)	(70,285)	(184,961)	(176,040)
Share of associates profit	404,714	-	404,714	292,844

COMPANY	General Insurance Business KShs'000	Life Assurance Business KShs'000	Total 2020 KShs'000	Total 2020 KShs'000
Reportable segment profits before tax	2,260,203	1,543,791	3,803,994	3,750,291
Income tax expense	(680,999)	(287,390)	(968,389)	(954,113)
Reportable segment profits after tax	1,579,204	1,256,401	2,835,605	2,796,178
Reportable segment total assets	40,505,561	12,875,421	53,380,982	51,478,988
Less:				
: Related party balances	(55,558)	-	(55,558)	(65,311)
: Investment in subsidiaries	(2,630,947)	-	(2,630,947)	(2,421,540)
Reportable segment total assets-Net	37,819,056	12,875,421	50,694,477	48,992,137

5. SEGMENTAL REPORTING (continued)

Other disclosures (continued):

COMPANY (continued)	General Insurance Business KShs'000	Life Assurance Business KShs'000	Total 2021 KShs'000	Total 2020 KShs'000
Reportable segment total liabilities	11,882,804	4,828,576	16,711,380	17,268,589
Less:				
: Related party balances	(134,940)	-	(134,940)	(28,454)
Net	11,747,864	4,828,576	16,576,440	17,240,135
Fees and commission income	23,952	3,473	27,425	29,723
Depreciation of property and equipment	18,810	3,054	21,864	22,925
Amortisation of intangible assets	169,862	19,142	189,004	191,617
Property and equipment additions	(17,661)	-	(17,661)	(7,644)
Intangible assets additions	(156,027)	(28,934)	(184,961)	(176,054)
Share of associates profit	404,714	-	404,714	292,844

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	
	2021 KShs'000	2020 KShs'000	2021 KShs'000	2020 KShs'000
Long-term business				
Super annuation	1,966,539	1,729,548	1,966,425	1,719,773
Ordinary life	72,969	68,126	57,631	60,943
Total	2,039,508	1,797,674	2,024,056	1,780,716
Short-term business				
Aviation	75,519	44,208	62,502	40,532
Engineering	1,137,086	677,231	894,943	506,978
Fire	4,436,766	5,429,035	3,594,749	4,565,330
Liability	218,129	182,775	125,898	113,783
Marine	746,595	835,749	635,376	687,033
Motor	795,611	160,471	850,489	170,335
Medical	2,793,407	2,972,171	2,492,371	2,913,130
Agriculture	4,701,136	6,148,707	4,671,703	6,187,422
Bond	282,023	441,912	216,569	294,386
Miscellaneous (incl. Theft)	1,558,639	1,721,677	1,461,278	1,560,125
Oil & Energy	33,857	69,991	33,227	68,061
Political Risks	277,350	368,665	268,965	355,040
Total	17,056,118	19,052,592	15,308,070	17,462,155
TOTAL	19,095,626	20,850,266	17,332,126	19,242,871

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	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Aviation	34,041	20,010	34,041	20,010
Engineering	367,366	332,152	362,876	328,714
Fire	124,779	58,027	18,952	28,596
Liability	-	70	-	-
Marine	51,177	64,348	48,799	63,905
Motor	27	11,213	-	-
Medical	384,748	-	-	
Agriculture	43,068	42,229	43,068	42,229
Bond	5,137	-	5,137	
Miscellaneous (incl. Theft)	33,808	37,251	33,808	37,251
Oil & Energy	2,661	2,939	-	-
Political Risks	36,104	35,184	33,235	31,689
Life business	79,294	66,425	78,973	66,342
TOTAL	1,162,210	669,848	658,889	618,736

7. INVESTMENT INCOME

	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
(a). Interest Income				
Interest on Government securities held to maturity	2,014,294	2,053,532	1,990,801	2,039,422
Interest income on available for sale Government securities	151,613	41,909	149,845	41,621
Interest on corporate bonds - held to maturity	2,994	10,682	2,994	10,682
Interest on deposits with financial institutions-held to maturity	538,650	585,440	468,029	544,056
Interest on commercial mortgages	26,372	32,739	26,372	32,739
Interest on staff mortgages and loans	28,169	25,474	27,544	25,001
	2,762,092	2,749,776	2,665,585	2,693,521
(b). Other Investment Income				
Rental income from investment properties	767,848	953,428	767,848	953,428
Gain on sale of available for sale quoted equity instruments	42,833	-	42,833	-
Dividends receivable on available- for sale quoted equity instruments	84,912	88,712	84,912	88,712
	895,593	1,042,140	895,593	1,042,140
Total investment income	3,657,685	3,791,916	3,561,178	3,735,661

8. OTHER INCOME

	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
COMESA Yellow Card income	55,050	43,246	55,050	43,246
Miscellaneous income	3,273	10,105	2,808	10,105
	58,323	53,351	57,858	53,351

9. CLAIMS AND POLICY HOLDERS BENEFITS EXPENSES

	GROUP 2021	GROUP 2020	COMPANY 2021	COMPANY 2020
Claims paid	11,817,294	10,763,153	11,305,266	10,407,307
Changes in the provision for outstanding claims incurred but not reported (IBNR)	524,962	3,135,719	459,825	2,939,632
Increase in actuarial liability on long term insurance contracts (note 34)	(739,404)	34,510	(747,378)	34,510
Unallocated Loss adjustment Expenses	49,811	-	49,811	-
Gross claims incurred	11,652,663	13,933,382	11,067,524	13,381,449
Less: Amounts recoverable from retrocessionaires	(230,787	(416,804	(230,787)	(416,804)
Net claims incurred	11,421,876	13,516,578	10,836,737	12,964,645

10 (a). CEDANT ACQUISITION COSTS

CEDANT ACQUISITION COSTS	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Super annuation	424,159	505,702	421,890	503,464
Ordinary life	16,883	20,718	14,263	18,685
Aviation	24,656	17,687	21,463	16,650
Engineering	405,506	(917,616)	326,569	246,026
Fire	1,363,360	1,573,421	1,123,476	1,308,405
Liability	64,565	48,855	39,547	29,431
Marine	252,924	283,504	222,626	242,536
Motor	207,311	(121,664)	208,053	(103,218)
Medical	700,795	781,360	621,482	764,808
Agriculture	509,658	945,696	508,164	957,507
Bond	92,229	171,350	76,212	124,257
Miscellaneous (incl. Theft)	661,803	1,875,726	525,725	596,030
Oil & Energy	4,348	7,723	4,355	7,225
Political Risks	80,592	118,034	79,014	115,844
TOTAL	4,808,789	5,310,496	4,192,839	4,827,650

COMMISSIONS RECOVERED	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs'000	KShs'000	KShs'000	KShs'000
Engineering	15,565	15,966	15,920	8,804
Fire	21,220	6,817	-	637
Marine	2,447	1,638	2,196	1,338
Motor	7	3,206	-	-
Liability	-	605	-	-
Medical	73,564	-	-	
Agriculture	1,948	1,734	2,241	1,535
Bond	441	-	507	
Miscellaneous (incl. Theft)	1,181	785	1,358	695
Oil & Energy	819	830	-	-
Political Risks	2,137	2,394	1,730	1,383
Life business	17,301	17,338	3,473	15,331
TOTAL	136,630	51,313	27,425	29,723

	GROUP		COMPANY	
	2021	2020	2021	2020
10 (b). OPERATING AND OTHER EXPENSES	KShs '000	KShs '000	KShs '000	KShs '000
Staff costs	791,478	788,290	706,124	696,200
Depreciation (note 15)	30,155	31,216	21,293	25,632
Amortisation (note 16)	189,004	191,617	189,004	191,617
Auditors' remuneration	19,389	15,385	10,122	9,549
Directors' - emoluments	25,098	14,311	9,600	6,937
Directors' - fees	17,684	20,687	10,780	11,226
Directors' - training	2,440	4,299	2,440	4,299
Rent provisions	(48,651)	112,278	(48,651)	112,278
Annual General Meeting expenses	22,144	11,386	22,144	11,386
Investment property direct operating (revenue generating) expenses	191,669	188,136	191,366	188,136
Travel and accommodation	16,925	30,172	15,543	27,325
Advertisement	21,040	13,120	20,256	12,576
Professional and consultancy fees	78,546	86,785	77,133	85,968
Rent and rates	11,892	11,594	11,892	11,594
Hardware and software maintenance	96,134	161,690	96,060	161,663
Donations, sponsorship and CSR activities	29,024	50,720	29,024	50,720
Bank charges	26,959	10,832	20,164	5,670
Foreign currency exchange losses	270,825	141,615	280,645	(2,621)
Provision for un-reconciled inventory	(1,839)	3,445	(1,839)	3,445
Other expenses	305,888	77,230	198,826	83,179
	2,095,804	1,964,808	1,861,926	1,696,779
Staff costs consist:				
Salaries and wages	541,563	519,002	460,882	457,157
Retirement benefit costs (note 21)	16,598	13,269	16,598	13,269
Medical expenses	54,355	40,967	50,947	36,934
Leave allowance	5,592	48,266	36,077	36,541
Contribution to National Social Security Fund	2,838	537	373	375
Gratuity accrual	14,637	16,852	-	10,826
Bonus	71,138	74,619	66,665	73,054
Staff welfare expenses	34,698	23,192	32,343	21,290
Training and recruitment	14,296	7,348	13,596	6,815
Leave pay provision	(3,939)	3,485	(7,289)	4,092
Pension contributions to defined contribution scheme	39,702	40,753	35,932	35,847
	791,478	788,290	706,124	696,200
Other expenses consist:				
Motor vehicle running expenses	1,382	1,209	828	690
General office expenses	8,331	10,198	7,671	9,728
Marketing expenses	2,516	2,488	2,354	2,488
Corporate and other sundry expenses	293,659	63,335	187,973	70,273
	305,888	77,230	198,826	83,179

11. TAXATION

(a) Profit or Loss

	GROUP 2021 KShs '000	GROUP 2020 KShs '000	COMPANY 2021 KShs '000	COMPANY 2020 KShs '000
Current tax on the taxable profit for the year	744,742	682,334	680,999	595,776
Change in tax rate	-	119,155	-	119,155
	744,742	801,489	680,999	714,932
Deferred tax charge (note 36)	287,390		287,390	
- Current year	-	239,181	-	239,181
	1,032,132	1,040,670	968,389	954,113

(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 2021 KShs '000	GROUP 2020 KShs '000	COMPANY 2021 KShs '000	COMPANY 2020 KShs '000
Profit before tax	4,000,497	3,983,592	3,803,994	3,750,291
Tax calculated at the statutory income tax rate of 30% (2020 - 30%)	1,200,149	1,195,078	1,143,656	1,125,087
Tax effects of non-taxable income**	(247,408)	(207,719)	(254,658)	(207,719)
Tax effect of non-deductible expenses*	74,995	53,311	74,995	36,745
Prior year under provision- current tax	4,396	-	4,396	-
Prior year over provision- deferred tax	-	-	-	-
	1,032,132	1,040,670	968,389	954,113
Attributable to:				
Long term business	287,390	239,181	503,305	239,181
Short term business	744,742	801,489	465,084	714,932
	1,032,132	1,040,670	968,389	954,113

(c) Statement of financial position

	GROUP 2021 KShs '000	GROUP 2020 KShs '000	COMPANY 2021 KShs '000	COMPANY 2020 KShs '000
At 1 January	156,101	(584,440)	105,516	(565,720)
Charge for the year	744,742	801,489	680,999	714,932
Prior year adjustment	(76,906)	(15,909)	(96,476)	1,343
Paid in the year	(819,074)	(45,039)	(794,045)	(45,039)
At 31 December	4,863	156,101	(104,006)	105,516

* These expenses are valuation fees, fringe benefit tax, excess pension contributions, loss on valuation of shares etc.
** These incomes are Fair value gains from investment property, share of profit from associate, dividend income net of withholding tax and interest on infrastructure bond among others.

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	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Profit attributable to shareholders	2,968,365	2,942,922	2,835,605	2,796,178
Weighted average number of ordinary shares in issue	2,799,796	2,799,796	2,799,796	2,799,796
Basic and diluted earnings per share	1.06	1.05	1.01	1.00

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

13. SHARE CAPITAL

(i) Authorized: share capital		KShs '000	KShs '000
Ordinary shares of KShs 2.50 each (2020 -3,200,000,000 ordinary shares of KShs 2.50 each)		8,000,000	8,000,000
	Number of shares	2021 Kshs	2020 Kshs
(ii) Issued and fully paid	2,799,796,272	6,999,491	6,999,491

14. RESERVES

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 7,944,178,830 (2020: KShs 8,060,821,074) whose distribution is subject to restrictions imposed by legislation.

Revaluation reserve
The revaluation reserve relates to property and equipment of the foreign associate which carries property and equipment at the revalued amount. Although the groups policy is to measure property and equipment at cost, the revaluation reserve of the foreign associate is immaterial for group purposes and has thus not been adjusted to reflect the cost model. The reserve is non-distributable.
The revaluation surplus represents the surplus on the revaluation of property and equipment, net of deferred tax. Movements in the revaluation reserve are shown in the statement of changes in equity.

Fair value reserve
The fair value reserve includes the cumulative change in the fair value of available-for-sale investments until the investment is derecognised. Movements in the fair value reserve are shown in the statement of changes in equity.

Translation reserve
The translation reserve relates to cumulative foreign exchange movement on the net investment in ZEP RE, an associate company accounted for under the equity method and cumulative foreign exchange movement on the subsidiaries. Movements in the translation reserve are shown in the statement of changes in equity.

15. PROPERTY AND EQUIPMENT

GROUP	Motor vehicles KShs'000	Computers KShs'000	Furniture and equipment KShs'000	Total KShs'000
2021				
COST				
At 1 January 2021	58,398	180,499	142,734	381,631
Additions	-	3,834	732	4,566
At 31 December 2021	58,398	184,333	143,466	386,197
ACCUMULATED DEPRECIATION				
At 1 January 2021	44,334	136,716	107,852	288,902
Charge for the year	5,886	19,026	5,243	30,155
Disposal	-	-	(1,116)	(1,116)
At 31 December 2021	50,220	155,742	111,979	317,941
CARRYING AMOUNT				
At 31 December 2021	8,178	28,591	31,487	68,256
31 DECEMBER 2020				
2020				
COST				
At 1 January 2020	49,511	162,444	134,685	346,640
Additions	8,887	18,055	8,049	34,991
At 31 December 2020	58,398	180,499	142,734	381,631
ACCUMULATED DEPRECIATION				
At 1 January 2020	38,651	117,571	101,500	257,722
Charge for the year	5,683	19,181	6,352	31,216
Disposal	-	(36)	-	(36)
At 31 December 2020	44,334	136,716	107,852	288,902
CARRYING AMOUNT				
At 31 December 2020	14,064	43,783	34,882	92,729

15. PROPERTY AND EQUIPMENT (continued)

COMPANY	Motor Vehicles KShs'000	Computers KShs'000	Furniture and equipment KShs'000	Total KShs'000
2021				
COST				
At 1 January 2021	26,803	174,872	115,966	317,641
Additions	-	3,046	586	3,632
At 31 December 2021	26,803	177,918	116,552	321,273
ACCUMULATED DEPRECIATION				
At 1 January 2021	26,803	132,551	99,137	258,491
Charge for the year	-	17,184	4,109	21,293
Disposal	-	-	-	-
At 31 December 2021	26,803	149,735	103,246	279,784
CARRYING AMOUNT	-	28,183	13,306	41,489
At 31 December 2021				

COMPANY	Motor Vehicles KShs'000	Computers KShs'000	Furniture and equipment KShs'000	Total KShs'000
2020				
COST				
At 1 January 2020	26,803	156,920	115,966	299,689
Additions	-	17,952	-	17,952
At 31 December 2020	26,803	174,872	115,966	317,641
ACCUMULATED DEPRECIATION				
At 1 January 2020	24,355	114,038	94,502	232,895
Charge for the year	2,448	18,549	4,635	25,632
	-	(36)	-	(36)
At 31 December 2020	26,803	132,551	99,137	258,491
CARRYING AMOUNT				
At 31 December 2020	-	42,321	16,829	59,150

16. INTANGIBLE ASSETS - GROUP and COMPANY

	Computer Software KShs'000	Capital WIP KShs'000	Total KShs'000
31 DECEMBER 2021			
COST			
At 1 January 2021	983,743		983,743
Additions	4,043	-	4,043
Transfer from W.I. P	-	-	-
At 31 December 2021	987,786	-	987,786
AMORTISATION			
At 1 January 2021	685,979	-	685,979
Charge for the year	189,004	-	189,004
At 31 December 2021	874,983	-	874,983
NET CARRYING AMOUNT			
At 31 December 2021	112,803	-	112,803
31 DECEMBER 2020			
COST			
At 1 January 2020	968,166		968,166
Additions	15,577	-	15,577
Transfer from work-in-progress	-	-	-
At 31 December 2020	983,743	-	983,743
AMORTISATION			
At 1 January 2020	494,363	-	494,363
Charge for the year	191,616	-	191,616
At 31 December 2020	685,979	-	685,979
NET CARRYING AMOUNT	297,764	-	297,764

17. MORTGAGE LOANS

	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Staff mortgages	551,649	545,279	541,861	534,202
Commercial mortgages	342,959	377,960	342,829	377,838
	894,608	923,239	884,690	912,040
Less: impairment provision	(104,153)	(146,404)	(104,153)	(146,404)
	790,455	776,835	780,537	765,636
Maturity analysis:				
Within 1 year	1,268	2,409	1,268	2,409
Within 1 to 5 years	77,758	131,437	77,758	131,437
Over 5 years	711,429	642,989	701,511	631,790
	790,455	776,835	780,537	765,636
Impairment provision analysis:				
Balance brought forward	146,404	146,404	146,404	146,404
Write back	(42,251)	-	(42,251)	-
Balance carried forward	104,153	146,404	104,153	146,404

The weighted average effective interest rate on the mortgages was 7.18% (2020 - 7.98%). 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.209/129 22	JKIA Plot- LR No. 9042/222	Mbagathi plot- L.R no:209/11976	Total
2021								
At 1 January	3,035,000	995,000	3,130,000	1,715,000	980,000	720,000	1,600,000	12,175,000
Additions	65,563	7,632	78,448	39,999	-	-	-	191,642
Fair value gains	(43,563)	(4,632)	(44,448)	(21,999)	-	-	(2,000)	(116,642)
Disposals in the year	-	-	-	-	-	-	-	-
At 31 December 2021	3,057,000	998,000	3,164,000	1,733,000	980,000	720,000	1,598,000	12,250,000

	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.209/129 22	JKIA Plot- LR No. 9042/222	Mbagathi plot- L.R no:209/11976	Total
2020								
At 1 January	2,985,000	980,000	3,070,000	1,750,000	1,000,000	700,000	1,595,000	12,080,000
Additions	22,799	1,395	76,439	28,720	2,050	-	-	131,403
Fair value gains	27,201	13,605	(16,439)	(63,720)	(22,050)	20,000	5,000	(36,403)
Disposals in the year	-	-	-	-	-	-	-	-
At 31 December 2020	3,035,000	995,000	3,130,000	1,715,000	980,000	720,000	1,600,000	12,175,000

(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 Bernard Muriithi Koome - P/No. ISK/897/F/VEMS/13 of Morgan Write Limited, professional independent valuers as at 31 December 2021.

(iii) Fair value of the properties was determined using the open market basis and discounted cashflow 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. The effect of Covid-19 Pandemic has been incorporated in input of valuation of land and Building.

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

*The Company is the registered owner of Land LR No. 9042/222 within the precinct of Jomo Kenyatta International Airport (JKIA) valued at Kshs.720,000,000 as at 31 December 2021. However, management has disclosed that it has restricted access to the land as imposed by Kenya Airport Authority (KAA) mainly due to security reasons. Therefore, they are not realizing full potential of their investment.

18. INVESTMENT PROPERTIES - GROUP AND COMPANY (continued)

Future minimum rentals receivable under non-cancellable operating leases

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 772 million (2020: KShs 953 million). Future minimum rentals receivable under non-cancellable operating leases as at 31 December are, as follows:

	2021 KShs'000	2020 KShs'000
Not later than one year	43,136	201,845
Later than 1 year but not later than 5 years	1,116,815	1,508,533
Later than 5 years	806,667	415,425
	1,966,618	2,125,803

19. INVESTMENT IN ASSOCIATE - GROUP AND COMPANY

The group has a 20.380% interest in ZEP-Re, 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 Company was established on 23rd November1990 in Mbabane, Swaziland through an Agreement of Heads of State and Governments. The current signatories to the Company's charter include Angola, Burundi, Comoros, D.R. Congo, Djibouti, Kenya, Eritrea, Ethiopia, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Somali, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe. The Group's interest ZEP Re Limited is accounted for using the equity method in both separate and consolidated financial statements.

	2021 KShs '000	2020 KShs '000
At 1 January	5,761,432	5,169,908
Share of profit for the year	404,714	292,844
Less: dividends - received in cash		-
- receipt of additional shares	-	(102,049)
	6,166,146	5,360,703
Share of revaluation reserve	8,524	2,938
Share of fair value reserve	11,026	(78,163)
Currency translation adjustment	81,219	373,905
Investment in the year -capitalization of dividends	-	102,049
-Paid in cash	503,419	-
	604,188	400,729
Net carrying amount of the investment	6,770,334	5,761,432

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:

	2021 KShs	2020 KShs
Closing rate	113.14	109.17
Average rate	109.65	106.47
Ownership	20.380%	19.145%

19. INVESTMENT IN ASSOCIATE - GROUP AND COMPANY (continued)

Summary financial information for ZEP-Re

	2021 KShs'000	2020 KShs'000
Current assets	47,793,965	36,928,729
Non- current assets	6,016,793	11,871,214
Current liabilities	(1,406,959)	(4,120,930)
Non- current liabilities	(19,183,315)	(14,585,349)
Equity	33,220,484	30,093,664
Group's share of net assets of associate	6,770,334	5,761,432
Total Income	17,975,228	17,631,225
Total expense	16,119,571	15,963,650
Profit	1,855,656	1,667,575
Other incomprehensive Income	194,407	(392,665)
Total Comprehensive Income	2,050,064	1,274,910
Group's share of profit for the year	404,714	292,844

* 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 incorporation	Proportion of ownership interest and voting power held at		Investment at cost:	
		2021	2020	2021 KShs '000	2020 KShs '000
Kenya Reinsurance Corporation Côte d`Ivoire	Ivory Coast	100%	100%	1,962,3	1,962,318
Kenya Reinsurance Corporation Zambia	Zambia	100%	100%	183,5	183,596
Kenya Reinsurance Corporation Uganda Limited-SMC	Uganda	100%	100%	485,033	275,626
				2,630,947	2,421,540

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 (the "Fund") 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 Company responsible for the balance of the cost of benefits accruing.

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

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 2021 is 9.0 (2020: 3.5).

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.

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

	2021		2020	
Asset Class	Amount KShs'000	Proportion %	Amount KShs'000	Proportion %
Quoted equity investments	136,905	14.16	118,918	14.61
Fixed deposits, commercial papers and government securities	535,439	55.38	373,847	45.93
Net current assets	129,460	13.39	-	-
Properties and other fixed assets	165,040	17.07	321,185	39.46
Total	966,844	100	813,950	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 (12.40% per annum) KShs'000	Discount Rate less (12.40 % per annum) KShs'000
Present Value of Obligation at 31 December 2021	640,510	695,537

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	2021 KShs '000	2020 KShs '000
The actuarial valuation results were as follows:		
Present value of funded obligations	(989,861)	(989,861)
Fair value of scheme assets	940,861	813,950
Net (liability) in the statement of financial position	(49,000)	(175,911)
Movement in present value of funded obligation:		
As at 1 January	989,861	840,559
Current service costs	4,171	4,021
Administration costs	(4,171)	(4,021)
Interest cost	101,024	106,989
Actuarial gain/(loss)	(413,431)	77,448
Benefits payment	(36,944)	(35,135)
At 31 December	640,510	989,861

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

Defined benefit scheme (continued)

	2021 KShs '000	2020 KShs '000
Movement in fair value of plan assets		
As at 1 January	813,950	712,930
Interest income on plan assets	88,597	97,741
Return on plan assets (excluding amount in interest income)	(11,588)	(74,565)
Administration expenses	(4,171)	(4,021)
Employer Contributions	117,000	117,000
Benefits and expenses paid	(36,944)	(35,135)
At 31 December	966,844	813,950
Movement in net assets		
As at 1 January	(175,911)	(127,629)
Net expense recognised in profit or loss	(16,598)	(13,269)
Company contributions	117,000	117,000
Net charge recognised in other comprehensive income	26,509	(152,013)
At 31 December	(49,000)	(175,911)
Amount recognised in profit or loss:		
Current service cost net of employees' contributions	4,171	4,021
Net interest on obligation and plan assets	12,427	9,248
Total included in "staff costs" in respect of scheme	16,598	13,269
Amount recognised in other comprehensive income:		
Actuarial (gains)/loss-Financial	(413,431)	77,448
Change in additional IFRIC 14 liability	375,334	-
Return on plan assets (excluding amount in interest income)	11,588	74,565
Total charge /(credit) to other comprehensive income	(26,509)	152,013
Actuarial assumptions		
Discount rate (% p.a.)	12.40%	10.40%
Future salary increases (% p.a.)	5%	5%
Future pension increases (% p.a.)	3%	3%
Retirement age (years)	60	60

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 2021, the Group contributed KShs 39,702,000 (2020- KShs 40,753,000) to the defined contribution pension scheme and KShs 2,838 (2020 - KShs 537,000) for NSSF which has been charged to the statement of profit or loss. The Company contributed KShs 35,932,000 (2020 - KShs 35,847,000) to the defined contribution pension scheme and KShs 373,000 (2020 - KShs 375,000) to the NSSF.

22. UNQUOTED EQUITY INSTRUMENTS

		GROUP		COMPANY	
		2021	2020	2021	2020
		KShs '000	KShs '000	KShs '000	KShs '000
At cost					
At 1 January		209,674	205,733	209,674	205,733
Disposal - IDB		(24,474)	-	(24,474)	-
Additions - ATIA and Uganda Re		9,048	3,941	9,048	3,941
At 31 December		194,248	209,674	194,248	209,674
	Share holding				
Industrial Development Bank (IDB)	0.00%	-	24,474	-	24,474
Africa Reinsurance Limited (ATIA)	0.23%	35,491	35,491	35,491	35,491
African Trade Insurance Agency	0.38%	91,748	87,506	91,748	87,506
Uganda Reinsurance Company Limited (Uganda Re)	10.94%	67,009	62,203	67,009	62,203
		194,248	209,674	194,248	209,674

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 has not been disclosed. The carrying amounts of the above financial instruments amounting to KShs. 194.25million (2020: KShs. 209.6 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	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
At 1 January	-	156,450	-	156,450
Redemptions during the year	-	(155,512)	-	(155,512)
Purchases during the year	45,200	-	45,200	
Interest received	(2,865)	(11,620)	(2,865)	(11,620)
Interest earned	2,994	10,682	2,994	10,682
	45,329	-	45,329	-

		GROUP		COMPANY	
		2021	2020	2021	2020
Made up as below:	Maturity	KShs '000	KShs '000	KShs '000	KShs '000
Family bank Limited	24-Dec-2026	45,329	-	45,329	-
		45,329	-	45,329	-

The average effective interest rate on the corporate bonds at 31 December 2021 was 13% (2020: 7 %).

24. RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Local companies	1,468,210	1,126,529	1,468,210	1,126,529
International companies	4,672,807	5,169,960	2,985,950	3,799,149
Less: provision for doubtful receivable	(3,885,204)	(2,975,834)	(3,103,744)	(2,532,581)
	2,255,813	3,320,655	1,350,416	2,393,097

The movement in provisions is as below:

Balance brought forward	(2,975,834)	(2,748,021)	(2,532,581)	(2,453,899)
Additional provision	(909,370)	(227,813)	(571,163)	(78,682)
Write offs	-	-	-	-
Balance carried forward	(3,885,204)	(2,975,834)	(3,103,744)	(2,532,581)

25. PREMIUM AND LOSS RESERVES

International companies	670,424	405,696	565,665	324,516
Local companies	74,430	74,477	74,430	74,477
Provision for impaired balances	(326,681)	(326,879)	(271,457)	(271,655)
	418,173	153,294	368,638	127,338

The movement in provisions is as below:

At 1 January	(326,879)	(743,992)	(271,655)	(688,769)
Additional provision	-	-	-	-
Write off during the year	198	417,113	198	417,114
At 31 December	(326,681)	(326,879)	(271,457)	(271,655)

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

	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Provision on receivables arising out of reinsurance arrangements (note 24)	(909,370)	(227,813)	(571,163)	(78,682)
Provision on premium and loss reserves (note 25)	-	-	-	-
At 31 December	(909,370)	(227,813)	(571,163)	(78,682)

Increase in provision to Kshs 909,370 million from Kshs 227,813 million for group and to Kshs 571,163 million from Kshs 78,682 million for company was due to a change in accounting estimate (inputs & measurement) with regards to providing from 540 days to 365 days for both the group and company.

26. OTHER RECEIVABLES

	GROUP		COMPANY	
	2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
Staff advances	73,743	60,070	49,077	46,879
Prepayments	15,642	15,066	4,184	5,696
Gross rental receivables	362,539	341,341	362,539	341,341
Dividend's receivable	2,097	6,346	2,097	6,346
Receivable from KURA*	300,150	300,150	300,150	300,150
Other receivables	61,679	15,763	53,466	10,654
Rental receivables provisions**	(245,551)	(245,551)	(245,551)	(245,551)
	570,299	493,185	525,962	465,515

* The balance from KURA (Kenya Urbans Roads Authority) of KShs 300,150,000 relates to the sale of a portion of Mbagathi land to for a road construction.

Rental receivables provisions**There is no movements in provision because there was insignificant movement on the rental receivables. The balances over 271+ days have been provided for, the remaining balance of the gross rental receivable relates to balances in the 90-120 day bracket.

The movement in Rental receivables provisions is as below:

	GROUP		COMPANY	
	2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
At 1 January	(143,831)	(143,831)	(143,831)	(143,831)
Additional provision	(101,720)	(101,720)	(101,720)	(101,720)
At 31 December	(245,551)	(245,551)	(245,551)	(245,551)

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	2021 KShs '000	2020 KShs '000
At 1 January	1,186,121	1,565,305
Additions	19,249	27,134
Fair value gain/ (loss)	60,828	(396,063)
Disposal during the year	(63,735)	(10,255)
At 31 December	1,202,463	1,186,121

28. GOVERNMENT SECURITIES- GROUP and COMPANY

	Group		Company	
	2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
At 1 January	17,258,062	17,112,941	17,160,253	17,112,941
Purchases during the year	2,381,065	2,692,338	2,054,258	2,602,673
Maturities during the year	(1,118,234)	(2,675,246)	(1,000,535)	(2,554,235)
Fair value (loss)/gain on available-for-sale government securities	(4,549)	5,444	(4,549)	5,444
Revaluation of bonds at fair value	16,878		16,878	
Interest received	(2,149,385)	(2,022,115)	(2,123,302)	(1,996,397)
Interest earned[5]	2,167,187	2,144,700	2,140,646	1,989,827
	18,551,024	17,258,062	18,243,649	17,160,253
Maturing:				
Within 3 months	727,576	24,745	727,576	24,746
Within 4 to 12 months	1,221,965	644,241	1,121,062	546,431
Within 1 to 5 years	2,103,397	3,158,082	2,036,132	3,158,082
Over 5 years	14,498,086	13,430,994	14,358,879	13,430,994
At 31 December	18,551,024	17,258,062	18,243,649	17,160,253

Treasury bonds amounting to Kshs 2,989,550,000 (2020 - 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 12.10% (2020 - 11.98%).

29. INVENTORY

	GROUP		COMPANY	
	2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
As 31 December	18,505	14,265	18,406	14,152

Inventories comprise stationery and repair materials.

30. DEFERRED ACQUISITION COSTS

	GROUP		COMPANY	
	2021 KShs'000	2020 KShs'000	2021 KShs '000	2020 KShs '000
At 1 January	737,689	1,408,838	654,771	1,285,548
Deferred during the year	979,601	737,689	864,158	654,771
Amortized during the year	(737,689)	(1,408,838)	(654,771)	(1,285,548)
At 31 December	979,601	737,689	864,158	654,771

31. DEPOSITS WITH FINANCIAL INSTITUTIONS

	GROUP		COMPANY	
	2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
Deposit with financial institutions	10,451,896	8,306,552	7,562,699	7,585,300
Deposit with offshore fund managers	114,938	-	114,938	-
	10,566,834	8,306,552	7,677,637	7,585,300

The weighted average effective interest rate on deposits with financial institutions was 5.67% (2020- 7.42 %).

[5] interest income recognised in Total profit or loss from investments in Government securities amounted to KShs 2,167,187 (2020: KShs 2,059,273) of which KShs 168,982 (2020: KShs 41,185) related to those held as available for sale.

32. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
Cash and bank balances	1,029,913	2,453,326	144,402	136,934

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

	GROUP		COMPANY	
	2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
Short term bank deposits	10,451,896	8,306,552	7,562,699	7,585,300
Cash and bank balances	1,029,913	2,453,326	144,402	136,934
	11,481,809	10,759,878	7,707,101	7,722,234

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 Actuarial Services (East Africa) Limited, consulting actuaries as at 31 December 2021.

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 2021 is summarised as follows:

	Group		Company	
	2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
Life fund	11,825,567	11,583,741	11,793,430	11,540,944
Less: actuarial value of policy holder liabilities	(1,262,731)	(2,721,542)	(1,254,757)	(2,721,542)
Actuarial surplus	10,562,836	8,862,199	10,538,673	8,819,402
Less deferred tax liability (note 36)	(2,937,599)	(2,474,729)	(2,937,599)	(2,474,729)
Statutory reserve	7,625,237	6,387,470	7,601,074	6,344,673

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

	Group		Company	
	2021 KShs '000	2020 KShs '000	2021 KShs '000	2020 KShs '000
As at 1 January	2,721,542	2,687,032	2,721,542	2,687,032
Increase during the year	(1,458,811)	34,510	(1,466,785)	34,510
	1,262,731	2,721,542	1,254,757	2,721,542

33. LONG TERM REINSURANCE LIABILITIES- GROUP and COMPANY (continued)

Valuation assumptions

The significant valuation assumptions for the actuarial valuation as at 31 December 2021 are summarised below.

(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. Our claims analysis projects on an underwriting rather than financial year basis. Consequently, adjustments have been made to reflect the proportion of claims projected that would relate to the booked premium.

Estimation of claims reserves

The chain-ladder method was used to project the paid claims and booked premium based on underwriting year vs booking year development. Separate projections were done for group and individual life business. The ultimate loss ratios were then applied to the earned premium as booked in the accounts. The paid claims to date were then deducted from the ultimate losses to estimate the claims reserves that corresponds to the accounting premium.

The net outstanding claims have been estimated based on retrocession recoveries for each underwriting year.
Contingency reserve
We have also estimated the claims reserve at the 75th percentile and recommended that the difference to the best estimate be held to take care of any undetected occurrence that might affect the life fund in future.

(ii) Investment returns
The rate of return on the life fund assets in 2021 was 9.17% per annum (2020 - 12.6% per annum).

34. SHORT TERM INSURANCE CONTRACT LIABILITIES

GROUP

YEAR 2021	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
As at 1 January 2021	9,808,460	(467,558)	9,340,902
Movement in claims reserves	349,260	175,702	524,962
IBNR as at 31 December 2021	10,157,720	(291,856)	9,865,864
Unallocated Loss adjustment Expenses	49,811	-	49,811
Total Claims reserves as at 31 December 2021	10,207,531	(291,856)	9,915,675
As at 1 January 2020	6,601,842	(396,659)	6,205,183
Movement in claims reserves	3,206,618	(70,899)	3,135,719
Total short-term contract liabilities as at 31 December 2020	9,808,460	(467,558)	9,340,902

COMPANY

YEAR 2021			
As at 1 Jan 2021	9,108,921	(462,398)	8,646,523
Movement in claims reserves	195,692	264,133	459,825
IBNR as at 31 December 2021	9,304,613	(198,265)	9,106,348
Unallocated Loss adjustment Expenses	49,811	-	49,811
Total Claims reserves	9,354,424	(198,265)	9,156,159
As at 1 Jan 2020	6,058,529	(351,638)	5,706,891
Movement in claims reserves	3,050,392	(110,760)	2,939,632
Total short-term contract liabilities as at 31 December 2020	9,108,921	(462,398)	8,646,523

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

Underwriting Year	2015& Prior	2016	2017	2018	2019	2020	2021	Total
At the end of accident year	8,438,534	2,287,224	2,034,270	1,948,776	1,823,435	1,252,302	1,527,328	19,311,870
One year later	11,822,502	2,483,897	3,594,628	5,480,285	3,749,600	2,904,767	-	30,035,677
Two years later	4,713,294	1,396,521	1,633,107	2,654,697	3,552,794	-	-	13,950,413
Three years later	2,226,559	411,357	813,565	1,440,706	-	-	-	4,892,186
Four years later	1,554,093	286,776	354,595	-	-	-	-	2,195,464
Five years later	623,264	96,510	-	-	-	-	-	719,774
Six years later	1,909,986	-	-	-	-	-	-	1,909,986
Current estimate of cumulative claims	31,639,965	7,314,719	8,972,664	12,312,261	11,175,858	7,582,288	3,883,480	82,881,234
Less cumulative payments to date	31,288,232	6,962,284	8,430,165	11,524,463	9,125,828	4,157,070	1,527,328	73,015,370
Total net liability included in the statement of financial position	351,733	352,435	542,499	787,798	2,050,030	3,425,218	2,356,151	9,865,864

34. SHORT TERM INSURANCE CONTRACT LIABILITIES (continued)

COMPANY

Underwriting Year	2015& Prior	2016	2017	2018	2019	2020	2021	Total
At the end of accident year	8,412,485	2,284,975	1,975,629	1,896,381	1,778,251	1,195,635	1,390,720	18,934,075
One year later	11,699,855	2,397,831	3,497,885	5,380,588	3,647,060	2,691,994	-	29,315,213
Two years later	4,575,365	1,357,989	1,536,020	2,600,909	3,482,783	-	-	13,553,065
Three years later	2,149,757	396,874	744,991	1,408,687	-	-	-	4,700,309
Four years later	1,537,179	272,458	342,325	-	-	-	-	2,151,963
Five years later	603,881	81,817	-	-	-	-	-	685,698
Six years later	1,860,075	-	-	-	-	-	-	1,860,075
Current estimate of cumulative claims	31,233,742	7,144,205	8,598,803	12,052,871	10,812,797	6,976,005	3,488,324	80,306,747
Less cumulative payments to date	30,838,597	6,791,944	8,096,850	11,286,565	8,908,094	3,887,629	1,390,720	71,200,399
Total net liability included in the statement of financial position	395,145	352,261	501,953	766,306	1,904,703	3,088,376	2,097,604	9,106,348

35. PAYABLES ARISING OUT OF REINSURANCE ARRANGEMENTS-OUTSTANDING CLAIMS

	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Local companies	348,583	207,662	348,583	207,662
International companies	1,284,090	1,394,555	285,331	922,475
	1,632,673	1,602,217	633,914	1,130,137

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	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Excess depreciation over capital allowances	(106,831)	(94,593)	(106,831)	(94,593)
Leave pay provision	(10,156)	(12,428)	(10,156)	(12,428)
Defined benefit liability	(21,743)	(16,764)	(21,743)	(16,764)
Other provisions	16,190	(1,034)	(483)	(1,034)
Bad debts provisions	(1,216,532)	(1,035,604)	(1,216,532)	(1,052,277)
Provision for bonus	(19,634)	(22,803)	(19,634)	(22,803)
Gratuity	(9,976)	(9,976)	(9,976)	(9,976)
	(1,368,682)	(1,193,202)	(1,385,355)	(1,209,875)
Life fund actuarial surplus	2,937,599	2,474,729	2,937,599	2,474,729
Net deferred tax liability	1,568,917	1,281,527	1,552,244	1,264,854
The movement on the deferred tax account during the year was as follows:				
At 1 January	1,281,527	1,042,345	1,264,854	1,025,673
Charge for the year (note 11)	287,390	239,182	287,390	239,181
At 31 December	1,568,917	1,281,527	1,552,244	1,264,854

37. OTHER PAYABLES

	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Legal fees deposits	(3,211)	360	(3,115)	360
Rental deposits	153,574	155,143	153,574	155,143
Accrued leave pay	37,093	75,634	33,855	41,426
Accounts payable	259,394	249,339	225,489	202,189
Other creditors and accruals	235,455	229,252	178,354	204,094
	682,305	709,728	588,157	603,212

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

38. UNEARNED PREMIUMS

	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
At 1 January	2,851,330	5,836,221	2,592,440	5,409,247
Increase/ (decrease) in the year	851,895	(3,181,017)	784,637	(3,012,933)
Additional unexpired risk reserve (AURR)	(34,868)	196,126	(34,868)	196,126
At 31 December	3,668,357	2,851,330	3,342,209	2,592,440

In 2020, the Company adopted 1/8 (eighths) underwriting method of computing unearned premiums on written premiums resulting to a significant release of unearned premium reserve to premium income. The company was previously using 40% in computing the unearned premiums. The effect on future periods is impracticable to estimate.

The UPR for long term business has been estimated using 1/8ths method.

The premium was allocated according to the accounting period in which it relates. The premium has been assumed to be in respect of primary cedant policies that run from the commencement date that corresponds to the accounting period. The company was previously using 40% in computing the unearned premiums for long term business.

39. DIVIDENDS - GROUP and COMPANY

The directors propose the payment of a first and final dividend of KShs 0.10 (2020 - KShs 0.20) per share totalling to KShs million in respect of the year ended 31 December 2021 Kshs 280 million (2020 - KShs 560 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:

	2021	2020
Proposed dividends per share:		
Dividends appropriations (KShs '000')	279,979	559,959
Number of shares at 31 December	2,799,796,272	2,799,796,272
Dividends per share	0.10	0.20
Dividends per share declared and paid:		
Dividends appropriations (KShs '000')	559,959	279,980
Number of shares at 31 December	2,799,796,272	2,799,796,272
Dividends per share	0.20	0.10

40. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		COMPANY	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Profit before tax	4,000,497	3,983,592	3,803,994	3,750,291
Adjustment for:				
Depreciation (note 15)	29,039	31,180	21,293	25,596
Interest on corporate bonds (note 7)	(2,994)	(10,682)	(2,994)	(10,682)
Interest on government securities (note 7)	(2,165,907)	(2,095,441)	(2,140,646)	(2,081,043)
Interest on staff mortgages and loans (note 7)	(28,169)	(25,474)	(27,543)	(25,000)
Interest on deposits with financial institutions (note 7)	(538,650)	(585,440)	(468,029)	(544,056)
Interest on commercial mortgages (note 7)	(26,372)	(32,739)	(26,372)	(32,739)
Dividend income (note 7)	(84,912)	(88,712)	(84,912)	(88,712)
Provision for doubtful debts (note 24)	909,370	227,813	571,163	78,682
Amortisation of software (note 16)	189,004	191,617	189,004	191,617
Realised accumulated fair value gain on available for sale quoted equity instruments (note 7)	(42,833)	-	(42,833)	-
Fair value gain on investment properties (note 18)	116,642	36,403	116,642	36,403
Defined benefit loss recognised in profit or loss	16,598	13,269	16,598	13,269
Share of profit of associate (note 19)	(404,714)	(292,844)	(404,714)	(292,844)
Operating profit before working capital changes	1,966,599	1,352,542	1,520,651	1,020,782
Short term reinsurance contract liabilities	574,773	3,135,719	509,636	2,939,632
Unearned premiums	97,620	(2,984,891)	30,362	(2,816,807)
Other payables	(27,422)	3,767	(15,055)	(25,298)
Long term reinsurance contract liabilities	(739,404)	34,510	(747,378)	34,510
Mortgage loans	(13,620)	(99,450)	(14,901)	(97,561)
Other receivables	(77,114)	45,216	(60,447)	51,454
Increase in inventories	(4,240)	7,806	(4,254)	7,821
Deferred acquisition costs (note 30)	(241,912)	671,149	(209,387)	630,777
Premium and loss reserves	(264,879)	128,674	(241,300)	31,482
Payables arising out of reinsurance arrangements	12,083	(361,346)	(414,841)	(645,086)
Increase in due to/ from related party	-	-	(96,733)	27,681
Receivables arising out of reinsurance arrangements	155,472	(922,966)	471,518	(395,355)
Net cash generated from operations	1,437,956	1,010,730	727,871	764,032

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 2021 KShs'000	GROUP 2020 KShs'000	COMPANY 2021 KShs '000	COMPANY 2020 KShs '000
(a) Transactions and balances with directors and staff				
(i) Directors' remuneration				
Fees	25,099	9,600	9,600	9,600
Other emoluments	17,338	19,467	10,450	19,467
	42,437	29,067	20,050	29,067
(ii) Key management remuneration				
Salaries and other short-term benefits	84,719	90,186	59,073	65,674
Post-employment benefits	24,323	7,542	24,323	-
	109,042	97,728	83,396	65,674
(iii) Loans to staff	626,109	545,217	590,898	534,043

Interest income on these loans was KShs 28,162,232 (2020: KShs 25,020,054). The effective interest on the loans is 5 % (2020 - 5%). Staff mortgages and car loans are fully secured.

	GROUP 2021 KShs'000	GROUP 2020 KShs '000	COMPANY 2021 KShs '000	COMPANY 2020 KShs '000
(b) Transaction with associate company, ZEP Re				
(i) Net premium written	14,265	620	(2,726)	620
(ii) Claims incurred	-	5,348	-	5,348

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 2021 KShs '000	COMPANY 2020 KShs '000
Due from:			
Amount due from Kenya Reinsurance Corporation Zambia and Uganda subsidiary	Subsidiary	55,558	65,311
Due to:			
Amount due to Kenya Reinsurance Corporation Cote d'Ivoire	Subsidiary	134,940	28,454

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. The Outstanding balances are current and payable on demand.

42. INVENTORY PROPERTY - GROUP and COMPANY

	2021 KShs '000	2020 KShs '000
Cost	936,077	936,077
Less: Impairment provision	(936,077)	(936,077)
	-	-
The Inventory Property are listed below:		
L.R no:209/11976- Mbagathi plot	-	-
L.R. No. 27269 Ngong Road	350,000	350,000
Land LR No.12236 Kiambu Road	563,077	563,077
Land LR MN-1-9141- Shanzu Mombasa	23,000	23,000
	936,077	936,077

42. INVENTORY PROPERTY - GROUP and COMPANY (continued)

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.

As disclosed in note 18 and 42 to the Group and Company financial statements, the Company has made investments in land out of which four (4) parcels of land located in various places and towns, registered in the Company's name have their ownership to title disputed. The Company has fully provided for the parcels in dispute in financial statements. The ownership disputes/ restrictions are as outlined below:

a) L.R. No. 27269 Ngong Road

The Company invested Kshs.350, 000,000 in L.R. No. 27269 of approximately 59.87 hectares along Ngong Road which is a subject of dispute between the Company and Kenya Forest Service. The dispute of ownership of LR No.27269 is before the National Land Commission. The National Land Commission requested for the confirmed of boundaries from the Director of Surveys which have been forwarded to the Commission for verification. Although the Company has obtained confirmation from the Director of Survey that the Company's land is distinct from that of Kenya Forest Service, the matter remains unresolved until the National Land Commission adjudicate and give its verdict. The Company is not realizing the benefit that accrue from ownership of land not will management plan to make long term investment plans.

b) Land LR No.12236 Kiambu Road

The Company is the registered owner of land LR No. 12236 of approximately 99.5813 hectares along Kiambu Road valued at Kshs.563, 077,000. The Company is in dispute with one of the directors of the vendor of the land and the case is in court. The Company therefore is not realizing the full value of the fund invested in the property.

c) Land LR MN-1-9141- Shanzu Mombasa

The Company is the registered owner of land LR MIN-1-9141 of approximately 17.3 hectares located at Shanzu Mombasa valued at Kshs.23, 000,000. The Company is in dispute with Kenya Prisons Department and the case is in court. The Company therefore is not realizing the full value of the fund invested in the property

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 (2009-2012)	742,215	456,052	74,221	1,272,488
Withholding tax (2013-2017)	1,187,254	700,166	59,363	1,946,783

The Company is involved in a tax claim dispute with KRA arising from the assessment done from year 2009 to 2012 and 2013 to 2017. KRA demanded KShs 1, 272,488,000 and KShs 1, 946,783,000 respectively. relating to withholding tax on cedant acquisition costs and brokerage fees. The outcome of the tax remains uncertain even though the Company continues to hold discussions with KRA in an attempt to resolve the matter in contention with the assistance of professional advisers. Management is 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

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

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).

Appendix I
KENYA REINSURANCE CORPORATION LIMITED
SHORT TERM REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2021
INFORMATION NOT SUBJECT TO AUDIT

	Aviation	Engineering	Fire domestic	Fire industrial	Liability	Marine	Motor private	Motor commercial	Personal accident	Theft	Workmen compensation	Medical	Miscellaneous	Total General 31.12.2021	Total General 31.12.2020
	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Gross premium	140,097,058	1,550,992,713	87,261,424	4,569,152,612	215,088,900	814,724,355	407,884,726	494,179,426	667,524,196	307,433,197	54,238,207	3,103,657,510	6,094,968,997	18,507,203,321	16,671,121,648
Movement in unearned premium	(30,536,056)	(46,540,144)	(1,926,057)	(92,943,920)	3,040,671	(16,952,442)	(137,636,902)	31,210,644	(145,125,611)	(63,474,161)	(13,614,636)	74,497,262	71,831,036	(368,170,316)	2,984,891,125
Earned premiums	109,561,002	1,504,452,569	85,335,367	4,476,208,692	218,129,571	797,771,913	270,247,824	525,390,070	522,398,585	243,959,036	40,623,571	3,178,154,772	6,166,800,033	18,139,033,005	19,656,012,773
Less: Retrocession premiums	34,041,394	367,366,068	2,592,444	122,186,868	0	51,177,085	0	27,225	33,808,254	0	0	384,748,103	86,970,342	1,082,917,783	603,423,052
Net earned premiums	75,519,608	1,137,086,501	82,742,923	4,354,021,824	218,129,571	746,594,828	270,247,824	525,362,845	488,590,331	243,959,036	40,623,571	2,793,406,669	6,079,829,691	17,056,115,222	19,052,589,721
Claims paid	29,138,924	660,791,658	36,168,668	1,798,401,087	47,613,390	288,621,072	79,207,962	504,852,469	149,183,101	60,748,556	2,358,162	2,322,327,320	4,419,603,838	10,399,016,207	9,512,551,717
Claims recoverable	-	(57,026,973)	-	(54,824,680)	-	-	-	-	(98,052,783)	-	-	-	-	(209,904,436)	(385,703,135)
Claims reserves at 01.01.2021	(21,370,556)	(893,230,177)	(34,060,119)	(3,003,036,061)	(73,847,837)	(344,532,112)	(82,331,140)	(1,941,303,386)	(57,950,787)	(9,203,210)	(2,478,682)	(1,424,721,963)	(1,452,835,754)	(9,340,901,784)	(6,205,183,250)
Claims reserves at 31.12.2021	33,427,693	1,136,079,345	41,806,713	2,819,860,976	44,967,799	417,975,143	122,320,301	2,019,964,770	165,635,582	84,275,451	16,935,414	1,499,462,536	1,512,963,083	9,915,674,806	9,340,901,784
Net claims incurred	41,196,061	846,613,853	43,915,262	1,560,401,322	18,733,352	362,064,103	119,197,123	583,513,853	158,815,113	135,820,797	16,814,894	2,397,067,893	4,479,731,167	10,763,884,793	12,262,567,116
Commissions	28,882,804	444,395,108	35,883,711	1,362,056,207	62,617,112	256,317,175	147,524,516	39,251,058	231,368,724	100,273,457	17,659,689	801,148,091	958,765,769	4,486,143,421	4,112,931,018
Commissions recoverable	-	15,539,948	-	21,186,252	-	2,442,690	-	7,377	1,178,555	-	-	73,447,426	5,526,764	119,329,012	33,975,409
Commissions movement	(4,226,829)	(21,683,953)	(1,017,082)	(10,107,142)	1,947,962	(686,541)	24,637,871	(4,095,558)	16,657,790	(75,733,411)	(45,979,147)	(19,036,828)	20,925,442	(118,397,426)	671,148,171
Net commissions	24,655,975	407,171,207	34,866,629	1,330,762,813	64,565,074	253,187,944	172,162,387	35,148,123	246,847,959	24,540,046	(28,319,458)	708,663,837	974,164,447	4,248,416,983	4,750,103,780
Provision for bad debts	5,395,430	59,731,964	3,360,619	175,967,597	8,283,522	31,376,734	15,708,492	19,031,880	25,707,749	11,839,894	2,088,826	119,528,324	234,729,968	712,750,999	227,813,000
Management expenses	13,613,755	150,715,766	8,479,519	444,001,657	20,900,993	79,169,814	39,635,685	48,021,264	64,865,824	29,874,434	5,270,530	301,594,014	592,270,945	1,798,414,200	1,663,634,355
Total expenses	84,861,221	1,464,232,790	90,622,029	3,511,133,389	112,482,941	725,798,595	346,703,687	685,715,120	496,236,645	202,075,171	(4,145,208)	3,526,854,068	6,280,896,527	17,523,466,975	18,904,118,251
Underwriting profit/(loss)	(9,341,613)	(327,146,289)	(7,879,106)	842,888,435	105,646,630	20,796,233	(76,455,863)	(160,352,275)	(7,646,314)	41,883,865	44,768,779	(733,447,399)	(201,066,836)	(467,351,753)	148,471,470
loss Ratio	55%	74%	53%	36%	9%	48%	44%	111%	33%	56%	41%	86%	74%	63%	64%

This short-term business revenue account was approved the board of directors on 31st March 2022 and were signed on its behalf by:

Jadiah Mwarania
Principal Officer

Jennifer Karina
Director

Michael O.Monari
Director

Appendix II
KENYA REINSURANCE CORPORATION LIMITED
LONG TERM REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2021
INFORMATION NOT SUBJECT TO AUDIT

GROUP LONG TERM REVENUE ACCOUNT AS AT 31 DECEMBER 2021	**Ordinary Kshs '000**	**Super Annuation Kshs '000**	**2021 Kshs '000**	**2020 Kshs '000**
Gross earned premiums	73,651	1,774,601	1,848,252	1,864,099
Less: Retrocessions premiums	(11,464)	(67,831)	(79,295)	(66,425)
Less: change in unearned premiums	10,781	259,769	270,550	-
Net earned premium	72,968	1,966,539	2,039,507	1,797,674
Net claims incurred	(24,090)	(1,643,854)	(1,667,944)	(1,219,501)
Change in actuarial liability	(1,602,428)	2,612,381	1,009,953	(34,510)
Net cedant acquisition costs	(16,883)	(406,858)	(423,741)	(526,420)
Management expenses	(7,583)	(182,714)	(190,297)	(197,602)
Provision for doubtful debts	(7,835)	(188,784)	(196,619)	-
Underwriting surplus	(1,585,851)	2,156,710	570,859	(180,359)
Fair value gains	(877)	(21,122)	(21,999)	(5,127)
Investment income	38,904	937,392	976,296	1,057,105
Increase in life fund	(1,547,824)	3,072,980	1,525,157	871,619

This long-term business revenue account was approved the board of directors on 31st March 2022 and were signed on its behalf by:

Jadiah Mwarania
Principal Officer

Jennifer Karina
Director

Michael O.Monari
Director