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Kenya Reinsurance Corporation Ltd.

Reinsurance Plaza

P.O. Box 30271-00100 GPO

Nairobi, Kenya;

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Website: <https://www.kenyare.co.ke>

Our Ref: KRC/LD/MISC/56

31st May, 2021

The Chief Executive Officer
Capital Markets Authority
Embankment Plaza
Upper Hill, Longonot Road, Off Kilimanjaro Avenue
P.O Box 74800-00200

NAIROBI

Dear Sir,

**RE: KENYA REINSURANCE CORPORATION LIMITED
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2020**

In accordance with the provisions of the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002, the Board of Directors of Kenya Reinsurance Corporation is pleased to release to you the audited financial results for the year ended 31st December 2020.

The Statement of Profit or Loss and Other Comprehensive Income (Profit & Loss Statement), Statement of Financial Position (Balance Sheet), the Statement of Changes in Equity, and the Statement of Cashflows are detailed on pages 20 to 27 of the attached Annual Report.

The abridged version of these financial results will be published in the daily newspapers tomorrow.

We also bring to your attention the following dates for the Corporation's activities:

▪ Date of AGM	- 30th June 2021
▪ Date of Closure of Register	- 30th June 2021
▪ Dividend Payment Date	- 13th August 2021
▪ Dividend Amount per Share	- Kshs. 0.20

We thank you for your continued support.

Yours faithfully,


CHARLES KARIUKI
CORPORATION SECRETARY

Encl.

C.C. The Chief Executive Officer
Nairobi Securities Exchange Limited
The Exchange, 55 Westlands Road,
NAIROBI

MANAGEMENT
Chief Executive
Director-DMO ✓
Director-PMO
Director-CS
Director-IA
Director CS & LA
SM-Commodities
SM-SRP
SM-ICT
Manager-Supply Chain

KENYA REINSURANCE CORPORATION LIMITED
ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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KENYA REINSURANCE CORPORATION LIMITED
GROUP INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2020

DIRECTORS

Chiboli Shakaba	- Chairman
Jadiah Mwarania	- Managing Director
Ukur Yatani Kanacho	- Cabinet Secretary, The National Treasury Elected on 09 th October 2020
Amb. Peter O. Ole Nkuraiya Felix Okatch Jasper Mugambi	Elected on 09 th October 2020
Michael O. Monari Eric Gumbo Thamuda Hassan	Elected on 09 th October 2020
Nasra Ibrahim Ibren Jennifer Karina	Elected on 09 th October 2020

SECRETARY

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

REGISTERED OFFICE

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

BANKERS

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

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

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

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

CONSULTING ACTUARIES

Zamara Actuaries, Administrators & Consultants
Limited
10th Floor, Landmark Plaza
Argwings Kodhek Road
P.O. Box 52439 - 00200 City Square
Nairobi, Kenya

Actuarial Services (East Africa) Limited
10th Floor Victoria Towers
Kilimanjaro Avenue, Upper hill
P.O. Box 10472 - 00100 GPO
Nairobi, Kenya

SHARE REGISTRARS

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

ADVOCATES

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

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

SUBSIDIARIES

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

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

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

AUDITORS

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

KENYA REINSURANCE CORPORATION LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2020

The directors submit their report together with the audited financial statements for the year ended 31 December 2020.

1. INCORPORATION AND BACKGROUND INFORMATION

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

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

2. PRINCIPAL ACTIVITIES

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

3. RESULTS

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Profit before tax	3,983,592	4,176,194	3,750,291	4,041,808
Income tax expense	(1,040,670)	(209,815)	(954,113)	(180,842)
Profit for the year transferred to retained earnings	<u>2,942,922</u>	<u>3,966,379</u>	<u>2,796,178</u>	<u>3,860,966</u>

4. DIVIDENDS

The directors recommend the approval of a first and final dividend of KShs 0.20 (2019: KShs 0.10) per share totalling to KShs 560 million for the year ended 31 December 2020 (2019: KShs 280 million)

5. DIRECTORATE

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

6. BUSINESS REVIEW

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

Operational performance

Gross written premiums grew from KShs 17.521 billion in the year 2019 to KShs 18.536 billion in 2020. Net earned premiums grew from KShs 15.5 billion in 2019 to KShs 20.85 billion in 2020. Investment income grew from KShs 3.71 billion to KShs 3.79 billion. The profit before tax for the year was KShs 3.98 billion, which was a decrease of 5% compared to the profit before tax of KShs 4.17 billion for the year ended 31 December 2019.

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

KENYA REINSURANCE CORPORATION LIMITED
REPORT OF THE DIRECTORS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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 45.6 billion in 2020 up from KShs 43.8 billion in 2019. The asset base increased from KShs 50.3 billion in 2019 to KShs 53.2 billion in 2020, a 6% growth. The Shareholders funds increased from KShs 31.9 billion in 2019 to KShs 34.02 billion in 2020 which represented a growth of 6%.

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

	2015 KShs Millions	2016 KShs Millions	2017 KShs Millions	2018 KShs Millions	2019 KShs Millions	2020 KShs Millions
Gross premium	13,060	13,245	14,827	14,838	17,521	18,535
Net premiums written	12,016	12,687	13,680	14,206	15,530	20,850
Investment Income	3,041	3,079	3,165	3,386	3,715	3,792
Total assets	35,954	38,494	42,733	44,363	50,361	53,237
Shareholders' funds	21,933	24,133	27,205	28,373	31,951	34,397
Management Expenses	1,319	1,832	1,709	2,020	2,043	1,965

Principal risks and uncertainties facing the Corporation.

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

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

Delays in receiving outstanding reinsurance premiums continues to pose credit risk to the Group. This is mainly from outstanding retro recoveries as well as outstanding premium receivables from cedants and brokers. As at 31 December 2020, gross receivables stood at KShs 6.296 billion against provisions of KShs 2.98 billion as compared to 31 December 2019, where gross reinsurance receivables stood at KShs 5.37 billion against provisions of KShs 2.8 billion.

Underwriting risks mainly relate to the risk that underwriting costs may exceed the premiums generated from the underwriting activity. The Corporation's underwriting profit was KShs 2.074 billion in year 2020 from a loss of KShs 1.015 billion for year 2019. The Corporation's claim ratio stood at 64% in year 2020 down from 72 % registered in year 2019. Net Claims and policyholders benefits grew by 22% to KShs 13.5 billion in year 2020 from KShs 11.1 billion in 2019

KENYA REINSURANCE CORPORATION LIMITED
REPORT OF THE DIRECTORS (continued)
FOR THE YEAR ENDED 31 DECEMBER 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 Corporation's books of account in accordance with Section 48 of the Public Audit Act, 2015. Section 23 of the Act empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

Ernst & Young LLP were appointed by the Auditor General, to carry out the audit for the year ended 31 December 2020. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KShs 9,549,240 has been charged to profit or loss in the year.

BY ORDER OF THE BOARD

Secretary

Nairobi

31st May 2021



KENYA REINSURANCE CORPORATION LIMITED
STATEMENT ON CORPORATE GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

Board of Directors

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

Board Meetings

The Board holds meetings on a regular basis while special meetings are called when it is deemed necessary to do so. The Board held eight (8) 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
Felix Okatch	
Eric Gumbo	
Gitonga Mugambi	
Thamuda Hassan	

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

Review of financial statements before submission to the Board focusing on changes in accounting policies, compliance with International Financial Reporting Standards and legal requirements.

Strengthen the effectiveness of the internal audit function.

Maintain oversight on internal control systems.

Increase the shareholders' confidence in the credibility and standing of the Company.

Review and make recommendations regarding the Company's budgets, financial plans and risk management.

Liaise with the external auditors.

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

**Where reference is made to the Corporation, the context applies equally to the corporation itself and the group*

KENYA REINSURANCE CORPORATION LIMITED
STATEMENT ON CORPORATE GOVERNANCE (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

Risk and Compliance Committee

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

Felix Okatch - Chairman
Nasra Ibren
Eric Gumbo
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 Corporation on best practices on management of Information and technology.

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

Human Resource and Nominations Committee

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

Jennifer Karina - 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 held four (4) regular meetings and five (5) 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
Jennifer Karina
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 four (4) special meetings in the year under review.

KENYA REINSURANCE CORPORATION LIMITED
STATEMENT ON CORPORATE GOVERNANCE (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

Risk Management and Internal Controls

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

Creating Shareholders' Value

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

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors for services rendered during the financial year 2019 are disclosed in the notes to the financial statements under note 41. Non-executive directors are paid sitting allowances for every meeting attended. There were no arrangements for the directors to acquire benefits through the acquisition of the Company's shares. There were no loans advanced to directors during the financial year.

Directors' interests as at 31 December 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	-
	<u>1,682,659,356</u>	<u>60</u>

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 Gesellschaft 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	<u>780,704,092</u>	<u>27.88</u>
	<u>2,799,796,272</u>	<u>100</u>

KENYA REINSURANCE CORPORATION LIMITED
STATEMENT ON CORPORATE GOVERNANCE (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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	<u>99</u>	<u>2,358,568,573</u>	<u>84.24</u>
	<u>103,478</u>	<u>2,799,796,272</u>	<u>100</u>

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	<u>460</u>	<u>99,319,727</u>	<u>3.55</u>
	<u>103,478</u>	<u>2,799,796,272</u>	<u>100.00</u>

Directors' interests and shareholding as at 31 December 2019:

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

Major Shareholders as at 31 December 2019

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

KENYA REINSURANCE CORPORATION LIMITED
STATEMENT ON CORPORATE GOVERNANCE (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

Major Shareholders as at 31 December 2019 (continued)

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

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

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

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

Nationality	Shareholders	Shares held	% Shareholding
Local Individual Investors	97,000	382,085,449	13.65
Local Institutional Investors	5,419	2,212,153,341	79.01
Foreign Investors	<u>471</u>	<u>205,557,482</u>	<u>7.34</u>
	<u>102,890</u>	<u>2,799,796,272</u>	<u>100.00</u>



Chiboli Shakaba
Director

31st May 2021



Michael O. Monari
Director

KENYA REINSURANCE CORPORATION LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

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

Having made an assessment of the 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 31st May 2021 and signed on its behalf by:



Jadian Mwarania
Principal Officer



Chiboli Shakaba
Director



Michael O. Monari
Director

KENYA REINSURANCE CORPORATION LIMITED
REPORT OF THE CONSULTING ACTUARY
FOR THE YEAR ENDED 31 DECEMBER 2020

I have conducted an actuarial valuation of the long-term business of Kenya Reinsurance Corporation Limited as at 31 December 2020.

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 2020.

Name of Actuary

James I. O. Oluwangi

Qualification

F.I.A

Signed

James I. O. Oluwangi

31st May

2021

KENYA REINSURANCE CORPORATION LIMITED
DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

INFORMATION NOT SUBJECT TO AUDIT

The Corporation's directors' remuneration policy and strategy

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

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

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

Contract of service

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

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

Changes to directors' remuneration

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

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

During the Annual General Meeting held on 09 October 2020, the shareholders approved directors' remuneration for the year ended 31 December 2019 by show of hands.

At the Annual General Meeting to be held on 2021, approval will be sought from shareholders of this Directors' remuneration report for the financial year ended 31 December 2020.

KENYA REINSURANCE CORPORATION LIMITED
DIRECTORS' REMUNERATION REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 together with the comparative figures for 2019.

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		<u>36,689,938</u>	<u>9,600,000</u>	<u>19,466,876</u>	<u>65,756,814</u>

KENYA REINSURANCE CORPORATION LIMITED
DIRECTORS' REMUNERATION REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

INFORMATION NOT SUBJECT TO AUDIT (continued)

YEAR ENDED 31 DECEMBER 2019

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

Approved by the board of directors on 31st May 2021 and signed on its behalf by:

BY ORDER OF THE BOARD

Secretary

Nairobi

31st May 2021



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LLP/2015/52

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 21 to 93 which comprise the consolidated and separate statements of financial position as at 31 December 2020, 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 2020, and its consolidated and separate financial performance and its 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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No.	Key audit matter	How our audit addressed the key audit matter
1.	Credit risk and impairment of reinsurance receivables balances	
	<p>Impairment of receivables is a subjective area due to the significant judgment and assumptions applied by management. The estimation of impaired receivables is made based on review of outstanding amounts at year-end.</p> <p>As disclosed in note 2 to the consolidated and separate financial statements, judgement is applied in determining the appropriate parameters and assumptions used to calculate impairment of the receivables. For example, the assumptions of customers that will default, the expected future cash flows from the customers and the timing of the cash flows.</p> <p>Due to the significance of the reinsurance receivable balances to the consolidated and separate financial statements, and the significant judgement involved in calculating impairment losses on the receivables, particularly regarding the estimation of the amount and timing of expected future cash collections, this was considered a key audit matter.</p> <p>We also considered there to be a risk that the disclosures in notes 2 and 24 on impairment of receivables are not complete.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Testing and evaluation of key controls over the underwriting process, recording and ageing of outstanding reinsurance receivables, and monitoring of the receivables by the Group's credit control department. • Evaluating the adequacy of the allowance for doubtful accounts, including the appropriateness of the methodology used and assumptions made to calculate the allowance. • Testing, on a sample basis, whether the Group's assumptions on the expected future cash flows and timing of the cash flows were supported. • Evaluating whether the disclosures made in the consolidated and separate financial statements reflect the Group's credit risk and impairment provision on the receivables.
2.	Valuation of reinsurance contract liabilities	
	<p>The valuation of the Group's reinsurance contracts is dependent on a number of subjective assumptions about future experience as disclosed in notes 2, 33 and 34 to the consolidated and separate financial statements. Some of the economic and non-economic actuarial assumptions used in valuing insurance contracts are judgemental, in particular persistency (the retention of policies over time), longevity (the expectation of how long an annuity policyholder will live and how that might change over time), and expenses (future expenses incurred to maintain existing policies to maturity).</p> <p>The Group uses external actuaries to value both the life and non -life reinsurance contract liabilities.</p> <p>This matter was considered significant to our audit because of the sensitivity of the valuation of the reinsurance contract liabilities to changes in the key assumptions.</p> <p>We also considered there to be a risk that the disclosures in notes 2, 33 and 34 above are significant to the understanding of the Group's reinsurance contract liabilities are not complete.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Testing, on a sample basis, the key controls around the processes for analysing the economic and noneconomic assumptions used in the valuation of the reinsurance contract liabilities. • Assessing the appropriateness of management's liability adequacy testing which is a key test performed to check that the liabilities are adequate as compared to the expected future contractual obligations. Our audit procedures on the liability adequacy testing included reviewing the assumptions adopted in the context of both the Group and industry experience and specific product features. • Considering recent experience and the reasonableness of the judgements applied by management on how future experience will evolve. • Assessing the completeness of the disclosures regarding the reinsurance contract liabilities in the consolidated and separate financial statements.

3.	Revenue recognition - premiums income and un-earned premium reserves
	<p>The Group's business involves underwriting policies with tenure that does not align with the reporting period. The Group has estimated unearned premium reserves as disclosed in note 38 to the consolidated and separate financial statements using both the 8th and 24th 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.</p> <p>We also considered there to be a risk that revenue is inappropriately reported to achieve desired financial results. We assessed that the opportunity to manipulate revenue creates a heightened risk in the area of recording premium income in the improper period by not observing proper cut off procedures.</p> <p>Our audit approach included controls testing and substantive procedures covering, in particular:</p> <ul style="list-style-type: none"> • 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.
4.	Valuation of investment property
	<p>As at 31 December 2020, the carrying amount of the Group's investment property was KShs 12 billion as disclosed in note 18 to the consolidated and separate financial statements.</p> <p>The investment property is measured at fair value in accordance with International Accounting Standard (IAS) 40 <i>Investment Property</i>. The Group's policy is to revalue the investment property annually using an external valuer.</p> <p>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(ii) and 18 relating to the assumptions used in the valuation, we considered this as a key audit matter.</p> <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Evaluating the objectivity 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.

Other Information

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

Our opinion on the 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.

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 13 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 was CPA Herbert Chiveli Wasike, Practising Certificate No. P.1485.



Herbert Chiveli Wasike
For and on behalf of Ernst & Young LLP
Certified Public Accountants
Nairobi, Kenya

31/12/2021

KENYA REINSURANCE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	Short term ¹ business 2020 KShs '000	Long term ¹ Business 2020 KShs '000	Total 2020 KShs '000	Total 2019 KShs '000
INCOME					
Gross premiums written	5	16,671,121	1,864,099	18,535,220	17,521,343
Less: change in unearned premiums	38	2,984,891	-	2,984,891	(913,270)
Less: retrocession premiums	6	(603,420)	(66,425)	(669,845)	(1,077,455)
NET EARNED PREMIUMS	6	19,052,592	1,797,674	20,850,266	15,530,618
Investment income	7	2,751,300	1,040,616	3,791,916	3,714,696
Commissions recovered	10(a)	33,975	17,338	51,313	54,742
Fair value gains on revaluation of investment properties	18	(31,276)	(5,127)	(36,403)	2,176,592
Other income	8	53,351	-	53,351	52,969
Share of associate profits	19	292,844	-	292,844	587,444
TOTAL INCOME		<u>22,152,786</u>	<u>2,850,501</u>	<u>25,003,287</u>	<u>22,117,061</u>
CLAIMS AND POLICY HOLDERS BENEFITS EXPENSES					
Gross claims incurred and policy holder benefits expenses	9	(12,648,270)	(1,285,112)	(13,933,382)	(11,447,721)
Less: Re-insurers share of claims and policy holder benefits	9	385,703	31,101	416,804	385,781
NET CLAIMS AND BENEFITS		(12,262,567)	(1,254,011)	(13,516,578)	(11,061,940)
Cedant acquisition costs	10(a)	(4,784,076)	(526,420)	(5,310,496)	(4,092,047)
Operating and other expenses	10(b)	(1,767,206)	(197,602)	(1,964,808)	(2,043,452)
Provision for doubtful receivables	24	(227,813)	-	(227,813)	(743,428)
TOTAL CLAIMS, BENEFITS, AND OTHER EXPENSES		<u>(19,041,662)</u>	<u>(1,978,033)</u>	<u>(21,019,695)</u>	<u>(17,940,867)</u>
PROFIT BEFORE TAX		3,111,124	872,468	3,983,592	4,176,194
INCOME TAX EXPENSE	11(a)	(801,489)	(239,181)	(1,040,670)	(209,815)
PROFIT FOR THE YEAR		<u>2,309,635</u>	<u>633,287</u>	<u>2,942,922</u>	<u>3,966,379</u>
OTHER COMPREHENSIVE INCOME					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Share of gain on property revaluation of associate	19	2,938	-	2,938	1,812
Remeasurement losses on defined benefit plans, net of tax	21	(152,013)	-	(152,013)	(60,119)
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Reclassification adjustment relating to available-for-sale financial assets disposed in the year	7	-	-	-	(137,457)
Net losses on revaluation of available-for-sale quoted equity instruments	27	(396,063)	-	(396,063)	(53,952)
Net gains on revaluation of available-for-sale government securities	28	5,444	-	5,444	69,316
Translation reserve		27,610	-	27,610	
Share of movement in associate reserves:					
- currency translation	19	373,905	-	373,905	7,415
- fair value reserve	19	(78,163)	-	(78,163)	99,275
TOTAL OTHER COMPREHENSIVE INCOME		<u>(216,342)</u>	<u>-</u>	<u>(216,342)</u>	<u>(73,710)</u>
TOTAL COMPREHENSIVE INCOME		<u>2,093,293</u>	<u>633,287</u>	<u>2,726,580</u>	<u>3,892,669</u>
EARNINGS PER SHARE - basic and diluted	12			<u>1.05</u>	<u>2.55</u>

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 2020

	Notes	Short term ² Business 2020 KShs '000	Long term ² Business 2020 KShs '000	Total 2020 KShs '000	Total 2019 KShs '000
INCOME					
Gross premiums written	5	15,197,743	1,847,058	17,044,801	16,373,482
Less: change in unearned premiums	38	2,816,807	-	2,816,807	(836,587)
Less: retrocession premiums	6	(552,395)	(66,342)	(618,737)	(891,955)
NET EARNED PREMIUMS	6	17,462,155	1,780,716	19,242,871	14,644,940
Investment income	7	2,698,292	1,037,369	3,735,661	3,681,630
Commissions recovered	10(a)	14,392	15,331	29,723	35,847
Fair value gains on revaluation of investment properties	18	(31,276)	(5,127)	(36,403)	2,176,592
Other income	8	53,351	-	53,351	52,969
Share of associate profits	19	292,844	-	292,844	587,444
TOTAL INCOME		<u>20,489,758</u>	<u>2,828,289</u>	<u>23,318,047</u>	<u>21,179,422</u>
CLAIMS AND POLICY HOLDERS BENEFITS EXPENSES					
Gross claims incurred and policy holder benefits expenses	9	(12,100,526)	(1,280,923)	(13,381,449)	(11,053,242)
Less: Re-insurers share of claims and policy holder benefits	9	385,703	31,101	416,804	385,781
NET CLAIMS AND BENEFITS		<u>(11,714,823)</u>	<u>(1,249,822)</u>	<u>(12,964,645)</u>	<u>(10,667,461)</u>
Cedant acquisition costs	10(a)	(4,305,501)	(522,149)	(4,827,650)	(3,795,241)
Operating and other expenses	10(b)	(1,512,908)	(183,871)	(1,696,779)	(1,926,155)
Provision for doubtful receivables	24	(78,682)	-	(78,682)	(748,757)
CLAIMS AND BENEFITS AND OTHER EXPENSES		<u>(17,611,914)</u>	<u>(1,955,842)</u>	<u>(19,567,756)</u>	<u>(17,137,614)</u>
PROFIT BEFORE TAX		<u>2,877,844</u>	<u>872,447</u>	<u>3,750,291</u>	<u>4,041,808</u>
INCOME TAX EXPENSE	11(a)	(714,932)	(239,181)	(954,113)	(180,842)
PROFIT FOR THE YEAR		<u>2,162,912</u>	<u>633,266</u>	<u>2,796,178</u>	<u>3,860,966</u>
OTHER COMPREHENSIVE INCOME					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Share of gain on property revaluation of associate	19	2,938	-	2,938	1,812
Remeasurement losses on defined benefit plans, net of tax	21	(152,013)	-	(152,013)	(60,119)
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Reclassification adjustment relating to available-for-sale financial assets disposed in the year	7	-	-	-	(137,457)
Net losses on revaluation of available-for-sale quoted equity instruments	27	(396,063)	-	(396,063)	(53,952)
Net gains on revaluation of available-for-sale government securities	28	5,444	-	5,444	69,316
Share of movement in associate reserves:					
- currency translation	19	373,905	-	373,905	7,415
- fair value reserve	19	(78,163)	-	(78,163)	99,275
TOTAL OTHER COMPREHENSIVE INCOME		<u>(243,952)</u>	<u>-</u>	<u>(243,952)</u>	<u>(73,710)</u>
TOTAL COMPREHENSIVE INCOME		<u>1,918,960</u>	<u>633,266</u>	<u>2,552,226</u>	<u>3,787,256</u>
EARNINGS PER SHARE - basic and diluted	12			<u>1.00</u>	<u>2.48</u>

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 2020

		Short term ³	Long term ³		
	Notes	Business 2020 KShs '000	Business 2020 KShs '000	Total 2020 KShs '000	Total 2019 KShs '000
EQUITY					
Share capital	13	6,499,491	500,000	6,999,491	6,999,491
Revaluation reserve	14	20,468	-	20,468	17,530
Fair value reserve	14	(498,640)	(61,630)	(560,270)	(91,488)
Translation reserve	14	690,498	-	690,498	288,983
Statutory reserve	33		6,387,470	6,387,470	5,754,183
Retained earnings	14	<u>20,859,668</u>	<u>-</u>	<u>20,859,668</u>	<u>18,982,026</u>
TOTAL EQUITY		<u>27,571,485</u>	<u>6,825,840</u>	<u>34,397,325</u>	<u>31,950,725</u>
ASSETS					
Property and equipment	15	92,729	-	92,729	88,919
Intangible assets	16	113,150	184,614	297,764	473,804
Investment properties	18	10,460,225	1,714,775	12,175,000	12,080,000
Investment in associate	19	5,761,432	-	5,761,432	5,169,908
Unquoted equity instruments	22	209,674	-	209,674	205,733
Mortgage loans	17	776,835	-	776,835	677,385
Corporate bonds-held to maturity	23	-	-	-	156,450
Receivables arising out of reinsurance and retrocession arrangements	24	3,055,003	265,652	3,320,655	2,625,502
Premium and loss reserves	25	153,294	-	153,294	281,968
Deferred acquisition costs	30	737,689	-	737,689	1,408,838
Other receivables	26	493,185	-	493,185	538,401
Income tax receivable	11(c)	-	-	-	584,440
Quoted equity instruments	27	900,911	285,210	1,186,121	1,565,305
Government securities	28	12,740,691	4,517,371	17,258,062	17,112,941
Inventory	29	14,265	-	14,265	22,071
Deposits with financial institutions	31	2,741,242	5,565,310	8,306,552	6,786,635
Cash and bank balances	32	<u>2,355,193</u>	<u>98,133</u>	<u>2,453,326</u>	<u>584,670</u>
TOTAL ASSETS		<u>40,605,518</u>	<u>12,631,065</u>	<u>53,236,583</u>	<u>50,362,970</u>
LIABILITIES					
Long term reinsurance contract liabilities	33	-	2,721,542	2,721,542	2,687,032
Short term reinsurance contracts liabilities	34	9,340,902	-	9,340,902	6,205,183
Payables arising out of reinsurance arrangements	35	993,263	608,954	1,602,217	1,807,874
Deferred tax liability	36	(1,193,202)	2,474,729	1,281,527	1,042,345
Retirement benefits obligation	21	175,911	-	175,911	127,629
Income tax payable	11(c)	156,101	-	156,101	
Other payables	37	709,728	-	709,728	705,961
Unearned premiums	38	<u>2,851,330</u>	<u>-</u>	<u>2,851,330</u>	<u>5,836,221</u>
TOTAL LIABILITIES		<u>13,034,033</u>	<u>5,805,225</u>	<u>18,839,258</u>	<u>18,412,245</u>
NET ASSETS		<u>27,571,485</u>	<u>6,825,840</u>	<u>34,397,325</u>	<u>31,950,725</u>

The financial statements were approved by the board of directors on 31st May 2021 and were signed on its behalf by:


Jadhah Mwarania
Principal Officer


Chiboli Shakaba
Director



Michael O. Monari
Director


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

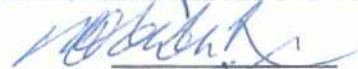
KENYA REINSURANCE CORPORATION LIMITED
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

		Short term ⁴	Long term ⁴	Total	Total
	Notes	Business 2020 KShs '000	Business 2020 KShs '000	2020 KShs '000	2019 KShs '000
EQUITY					
Share capital	13	6,499,491	500,000	6,999,491	6,999,491
Revaluation reserve	14	20,468	-	20,468	17,530
Fair value reserve	14	(498,640)	(61,630)	(560,270)	(91,488)
Translation reserve	14	663,668	-	663,668	289,763
Statutory reserve	33	-	6,344,673	6,344,673	5,711,407
Retained earnings	14	<u>20,742,369</u>	<u>-</u>	<u>20,742,369</u>	<u>19,011,450</u>
TOTAL EQUITY		<u>27,427,356</u>	<u>6,783,043</u>	<u>34,210,399</u>	<u>31,938,153</u>
ASSETS					
Property and equipment	15	59,150	-	59,150	66,794
Intangible assets	16	87,931	209,833	297,764	473,804
Investment properties	18	10,460,225	1,714,775	12,175,000	12,080,000
Investment in associate	19	5,761,432	-	5,761,432	5,169,908
Investment in subsidiary companies	20	2,421,540	-	2,421,540	463,408
Unquoted equity instruments	22	209,674	-	209,674	205,733
Mortgage loans	17	765,636	-	765,636	668,075
Corporate bonds-held to maturity	23	-	-	-	156,450
Receivables arising out of reinsurance and retrocession arrangements	24	2,249,511	143,586	2,393,097	2,076,424
Premium and loss reserves	25	127,338	-	127,338	158,820
Deferred acquisition costs	30	654,771	-	654,771	1,285,548
Due from related party	41	65,311	-	65,311	85,508
Other receivables	26	465,515	-	465,515	516,970
Income tax receivable	11(c)	-	-	-	565,720
Quoted equity instruments	27	900,911	285,210	1,186,121	1,565,305
Government securities	28	12,642,882	4,517,371	17,160,253	16,972,465
Inventory	29	14,152	-	14,152	21,973
Deposits with financial institutions	31	2,391,827	5,193,473	7,585,300	6,238,132
Cash and bank balances	32	<u>131,457</u>	<u>5,477</u>	<u>136,934</u>	<u>352,968</u>
TOTAL ASSETS		<u>39,409,263</u>	<u>12,069,725</u>	<u>51,478,988</u>	<u>49,124,005</u>
LIABILITIES					
Long term reinsurance contract liabilities	33	-	2,721,542	2,721,542	2,687,032
Short term reinsurance contracts liabilities	34	8,646,523	-	8,646,523	5,706,891
Payables arising out of reinsurance arrangements	35	1,039,726	90,411	1,130,137	1,564,931
Deferred tax liability	36	(1,209,875)	2,474,729	1,264,854	1,025,673
Retirement benefits obligation	21	175,911	-	175,911	127,629
Due to related party	41	28,454	-	28,454	35,938
Income tax payable	11(c)	105,516	-	105,516	-
Other payables	37	603,212	-	603,212	628,511
Unearned premiums	38	<u>2,592,440</u>	<u>-</u>	<u>2,592,440</u>	<u>5,409,247</u>
TOTAL LIABILITIES		<u>11,981,907</u>	<u>5,286,682</u>	<u>17,268,589</u>	<u>17,185,852</u>
NET ASSETS		<u>27,427,356</u>	<u>6,783,043</u>	<u>34,210,399</u>	<u>31,938,153</u>

The financial statements were approved by the board of directors on 31st May 2021 and were signed on its behalf by:


Jadhav Mwarania
Principal Officer


Chiboli Shakaba
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 2020

	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 2019		1,749,873	15,718	(68,670)	281,568	4,379,937	22,014,607	28,373,033
Profit for the year		-	-	-	-	1,374,246	2,592,133	3,966,379
Other comprehensive income		-	1,812	(22,818)	7,415	-	(60,119)	(73,710)
Total comprehensive income		-	1,812	(22,818)	7,415	1,374,246	2,532,014	3,892,669
Capitalisation of retained earnings*		5,249,618	-	-	-	-	(5,249,618)	-
Dividends declared - 2018	39	-	-	-	-	-	(314,977)	(314,977)
At 31 December 2019		<u>6,999,491</u>	<u>17,530</u>	<u>(91,488)</u>	<u>288,983</u>	<u>5,754,183</u>	<u>18,982,026</u>	<u>31,950,725</u>
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		<u>6,999,491</u>	<u>20,468</u>	<u>(560,270)</u>	<u>690,498</u>	<u>6,387,470</u>	<u>20,859,668</u>	<u>34,397,325</u>

*This relates to bonus shares being issued

KENYA REINSURANCE CORPORATION LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	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 2019		1,749,873	15,718	(68,670)	282,348	4,320,953	22,165,652	28,465,874
Profit for the year		-	-	-	-	1,390,454	2,470,512	3,860,966
Other comprehensive income		-	1,812	(22,818)	7,415	-	(60,119)	(73,710)
Total comprehensive income		-	1,812	(22,818)	7,415	1,390,454	2,410,393	3,787,256
Dividends declared - 2018	39	-	-	-	-	-	(314,977)	(314,977)
Capitalisation of retained earnings*		5,249,618	-	-	-	-	(5,249,618)	-
At 31 December 2019		6,999,491	17,530	(91,488)	289,763	5,711,407	19,011,450	31,938,153
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

*This relates to bonus shares being issued

KENYA REINSURANCE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs '000	2019 KShs '000
Net cash generated from operations	40	1,010,730	2,283,297
Interest received on corporate bonds		11,620	61,056
Interest received on government securities		2,058,283	1,892,961
Interest received on staff mortgages and loans		25,474	22,931
Interest received on deposits with financial institutions		555,126	443,677
Interest received on commercial mortgages		24,075	38,825
Tax paid in the year	11(c)	<u>(45,039)</u>	<u>(410,389)</u>
Net cash generated from operating activities		<u>3,640,269</u>	<u>4,332,358</u>
Cash flows from investing activities			
Purchase of investment property	18	(131,403)	(98,558)
Purchase of property and equipment	15	(34,989)	(30,953)
Purchase of quoted equity instruments	27	(27,134)	(152,911)
Purchase of intangible assets	16	(15,577)	(88,361)
Purchase of government securities	28	(2,692,338)	(11,347,233)
Proceeds on maturity of government securities	28	2,675,246	8,739,837
Proceeds on sale of quoted equity instruments	27	10,255	133,085
Proceeds on redemption of corporate bonds	23	155,512	305,925
Dividends received on quoted equity instruments		<u>88,712</u>	<u>95,347</u>
Net cash generated from/(used in) investing activities		<u>28,284</u>	<u>(2,443,822)</u>
Cash flows used in financing activities			
Dividends paid	39	<u>(279,980)</u>	<u>(314,977)</u>
Net increase in cash and cash equivalents		3,388,573	1,573,559
Cash and cash equivalents at 1 January		7,371,305	5,797,260
Effect of unrealised exchange rate changes		<u>-</u>	<u>486</u>
Cash and cash equivalent at 31 December	32	<u>10,759,878</u>	<u>7,371,305</u>

KENYA REINSURANCE CORPORATION LIMITED
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 KShs '000	2019 KShs '000
Net cash generated from operations	40	764,032	2,089,422
Interest received on corporate bonds	23	11,620	61,056
Interest received on government securities		2,032,564	1,871,787
Interest received on staff mortgages and loans		25,000	22,763
Interest received on deposits with financial institutions		543,018	435,129
Interest received on commercial mortgages		24,075	38,825
Tax paid in the year	11(c)	<u>(45,039)</u>	<u>(393,713)</u>
Net cash generated from operating activities		<u>3,355,270</u>	<u>4,125,269</u>
Cash flows from investing activities			
Purchase of investment property	18	(131,403)	(98,558)
Purchase of property and equipment	15	(17,952)	(25,554)
Purchase of quoted equity instruments	27	(27,134)	(152,911)
Purchase of intangible assets	16	(15,577)	(88,361)
Purchase of government securities	28	(2,602,673)	(11,226,222)
Proceeds on maturity of government securities	28	2,554,235	8,739,837
Proceeds on sale of quoted equity instruments	27	10,255	133,085
Proceeds on redemption of corporate bonds	23	155,512	305,925
Investment in subsidiary	20	(1,958,132)	(275,626)
Dividends received on quoted equity instruments		<u>88,712</u>	<u>95,347</u>
Net cash generated from/ (used in) investing activities		<u>(1,944,157)</u>	<u>(2,593,038)</u>
Cash flows used in financing activities			
Dividends paid	39	<u>(279,980)</u>	<u>(314,977)</u>
Net increase in cash and cash equivalents		1,131,133	1,217,254
Cash and cash equivalents at 1 January		6,591,101	5,373,721
Effect of unrealised exchange rate changes		<u>-</u>	<u>125</u>
Cash and cash equivalent at 31 December	32	<u>7,722,234</u>	<u>6,591,100</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards (IFRS)

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

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

(a) Basis of preparation

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

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

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

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

(b) Basis of consolidation

(i) Subsidiary

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

(i) Subsidiary (continued)

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

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

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

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

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

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

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

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

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

(c) Business combinations and goodwill

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business combinations and goodwill (continued)

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

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

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

(d) New and amended standards and interpretations

The Group applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

On 1 January 2020, the group adopted the following new standards, new Interpretations and amendments to standards.

	Effective for accounting period beginning on or after
Amendment to IFRS 3 Definition of a Business	1 January 2020
Amendment to IFRS 7, IFRS 9 and IAS 39, Interest Benchmark Reforms	1 January 2020
Amendment to IAS 1 and IAS 8, Definition of Material	1 January 2020
Conceptual Framework for Financial reporting.	1 January 2020
Amendment to IFRS 16: Covid -19 Related Rent concession (Effective 1st June 2020)	1 January 2020
Amendment to IFRS 3 Definition of a Business	1 January 2020
Amendment to IFRS 7, IFRS 9 and IAS 39, Interest Benchmark Reforms	1 January 2020
Amendment to IAS 1 and IAS 8, Definition of Material	1 January 2020

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

KENYA REINSURANCE CORPORATION LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective:

New or revised standards and interpretations:

	Effective for accounting period beginning on or after
IFRS 9 Financial Instruments	1 January 2023
IFRS 17 Insurance contracts	1 January 2023
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or indefinitely Joint Venture	Effective date deferred indefinitely

The above new standards and amendments to existing standards issued but not yet effective are not expected to have an impact on the Group except for IFRS 17 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 2020, 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.

(e) Reinsurance contracts

(i) Classification

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

(a) Short-term reinsurance business

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

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

The Group's main classes are described below:

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

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

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

(ii) Recognition and measurement

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

a. Premium income

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 8th 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 reinsurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

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.

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Reinsurance contracts (continued)

(ii) Recognition and measurement (continued)

g. Premium and loss reserves

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

h. Other income recognition

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

(f) Foreign currency transactions

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

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

(g) Tax

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

(i) *Current tax*

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

(ii) *Deferred tax*

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Tax (continued)

(ii) *Deferred tax (continued)*

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

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

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

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

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

(h) Investment properties

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

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

(i) Property and equipment

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

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

Depreciation

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible assets - computer software and licenses

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

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

Impairment

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. Any impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is recognised in OCI up to the amount of any previous revaluation. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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

(k) Leases

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 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.

(n) Fair value reserve

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

(o) Translation reserve

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

(p) Statutory reserve

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

(q) Investment in associate

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

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

(r) Investment in subsidiaries

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Financial instruments

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

Financial assets

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

Classification

Financial assets at fair value through profit or loss

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

(t) Financial instruments

Loans and receivables

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

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

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

Held-to-maturity

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

Available-for-sale (AFS) financial assets

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) *Financial instruments (continued)*

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

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

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

Recognition

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

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

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

Derecognition

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

Financial liabilities

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

Derecognition

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

Offsetting of financial instruments

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Cash and cash equivalents

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

(v) Retirement benefits obligations

Defined benefit scheme

The Group operates a defined benefit pension scheme (the "Scheme") for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by contributions from the employer. Contributions are determined by the rules of the scheme. The cost of providing retirement benefits is assessed using the attained age method by qualified actuaries. The scheme is valued annually. The 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 owns less than the 20% of the voting power of the company. This is because the Group is the single largest shareholder of Zep-Re Limited with a 19.15% (2019: 19.17%) interest of the equity interest. The remaining 80.85% (2019: 80.83%) 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 2020). The group also has representation in the associate's Board.

Deferred tax assets

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

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

Valuation of insurance contract liabilities

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

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group base mortality and morbidity on standard industry and Kenya's mortality tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to 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 34 and 35.

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 2019 on the basis of open market value by independent valuer, Caroline N. Nyororo - P/No. 0002566 of Ebony Estates Limited. Further details are disclosed in note 18.

Contingent liabilities

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

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

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 Company should not suffer total net insurance losses of more than set limits per class of business.

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

Sources of uncertainty in the estimation of future claim payments

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

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Financial assets				
Held to maturity:				
- Government securities	17,028,241	16,888,564	16,930,432	16,748,088
- Corporate bonds	-	156,450	-	156,450
Available for sale				
- Government securities	229,821	224,377	229,821	224,377
- Quoted equities	1,186,121	1,565,305	1,186,121	1,565,305
- Unquoted equities	209,674	205,773	209,674	205,773
Loans and receivables				
Receivables arising out of reinsurance arrangements	3,320,655	2,625,502	2,393,097	2,076,424
Cash and bank balances	2,453,326	584,670	136,934	352,968
Due from related parties	-	-	65,311	85,508
Deposits with financial institutions	8,306,552	6,786,635	7,585,300	6,238,132
Premium and loss reserves	153,294	281,968	127,338	158,820
Mortgage loans	776,835	677,385	765,636	668,075
Other receivables	<u>493,185</u>	<u>504,405</u>	<u>465,515</u>	<u>485,350</u>
Total financial assets and receivables arising from reinsurance arrangements	<u>34,157,704</u>	<u>30,501,034</u>	<u>30,095,179</u>	<u>28,965,270</u>
Financial liabilities at amortised cost				
Payables arising out of reinsurance arrangements	1,602,217	1,807,874	1,130,137	1,564,931
Other payables	<u>709,728</u>	<u>511,112</u>	<u>603,212</u>	<u>487,116</u>
Total financial liabilities and payables arising from reinsurance arrangements	<u>2,311,945</u>	<u>2,318,986</u>	<u>1,733,349</u>	<u>2,052,047</u>
Insurance contract liabilities				
Long term liabilities	2,721,542	2,687,032	2,721,542	2,687,032
Short term liabilities	<u>9,340,902</u>	<u>6,205,183</u>	<u>8,646,523</u>	<u>5,706,891</u>
	<u>12,062,444</u>	<u>8,892,215</u>	<u>11,368,065</u>	<u>8,393,923</u>
Total insurance contract liabilities	<u>12,062,444</u>	<u>9,063,091</u>	<u>11,368,065</u>	<u>8,564,799</u>

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

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020	Carrying Amount	No stated Maturity	Contractual cash flows (undiscounted)		
	KShs '000	KShs '000	0-1 years KShs '000	1-5 years KShs '000	>5 years KShs '000
Financial assets					
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	<u>10,759,878</u>	<u>-</u>	<u>10,759,878</u>	<u>-</u>	<u>-</u>
Total	34,157,704	5,362,929	12,147,414	3,441,400	28,441,572
Financial liabilities at amortised cost					
Payables arising out of reinsurance arrangements	1,602,217	1,602,217	-	-	-
Other payables	<u>709,728</u>	<u>709,728</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	2,311,945	2,311,945	-	-	-
Insurance contract liabilities					
Long term liabilities	2,721,542	2,721,542	-	-	-
Short term liabilities	<u>9,340,902</u>	<u>9,340,902</u>	<u>-</u>	<u>-</u>	<u>-</u>
	12,062,444	12,062,444	-	-	-
Total	14,374,389	14,374,389	-	-	-
Net gap	19,783,315	(9,011,460)	12,147,414	3,441,400	28,441,572

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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	Carrying amount	No stated maturity	Contractual cash flows (undiscounted)		
31-December 2020			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	<u>7,722,234</u>	<u>-</u>	<u>7,722,234</u>	<u>-</u>	<u>-</u>
Total	<u>30,095,179</u>	<u>4,447,056</u>	<u>9,109,643</u>	<u>3,439,342</u>	<u>28,415,008</u>
Financial liabilities at amortised cost					
Payables arising out of reinsurance arrangements	1,130,137	1,130,137	-	-	-
Other payables	<u>603,212</u>	<u>603,212</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>1,733,349</u>	<u>1,733,349</u>	<u>-</u>	<u>-</u>	<u>-</u>
Insurance contract liabilities					
Long term liabilities	2,721,542	2,721,542	-	-	-
Short term liabilities	<u>8,646,523</u>	<u>8,646,523</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>11,368,065</u>	<u>11,368,065</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>13,101,414</u>	<u>13,101,414</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net gap	<u>16,993,765</u>	<u>(8,654,358)</u>	<u>9,109,643</u>	<u>3,439,342</u>	<u>28,415,008</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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 2019	Carrying Amount KShs '000	No stated maturity KShs '000	Contractual cash flows (undiscounted)		
			0-1 years KShs '000	1-5 years KShs '000	>5 years KShs '000
Financial assets					
Held to maturity:					
- Government securities	16,888,564	-	778,867	9,621,948	13,705,064
- Corporate bonds	156,450	-	84,132	100,433	-
Available for sale					
- Quoted equities	1,565,305	1,565,305	-	-	-
- Government securities	224,377	-	-	-	272,782
- Unquoted equities	205,733	205,733	-	-	-
Loans and receivables					
Receivables arising out of reinsurance arrangements	2,625,502	2,625,502	-	-	-
Other receivables	504,405	504,405	-	-	-
Premium loss reserves	281,968	281,968	-	-	-
Mortgage loans	677,385	-	33,493	92,874	570,525
Cash and cash equivalents	<u>7,371,305</u>	<u>-</u>	<u>7,371,305</u>	<u>-</u>	<u>-</u>
Total	<u>30,500,994</u>	<u>5,182,913</u>	<u>8,267,797</u>	<u>9,815,255</u>	<u>14,548,371</u>
Financial liabilities at amortised cost					
Payables arising out of reinsurance arrangements	1,807,874	1,807,874	-	-	-
Other payables	<u>705,961</u>	<u>705,961</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>2,513,835</u>	<u>2,513,835</u>	<u>-</u>	<u>-</u>	<u>-</u>
Insurance contract liabilities					
Long term liabilities	2,687,032	2,687,032	-	-	-
Short term liabilities	<u>6,205,183</u>	<u>6,205,183</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>8,892,215</u>	<u>8,892,215</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>11,406,050</u>	<u>11,406,050</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net gap	<u>19,094,944</u>	<u>(6,223,137)</u>	<u>8,267,797</u>	<u>9,815,255</u>	<u>14,548,371</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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	Carrying amount	No stated Maturity	Contractual cash flows (undiscounted)		
31-December 2019			0-1 years	1-5 years	>5 years
Held to maturity:					
- Government securities	16,748,088	-	778,867	9,621,948	13,705,064
- Corporate bonds	156,450	-	84,132	100,433	-
Available for sale					
-Quoted equities	1,565,305	1,565,305	-	-	-
-Government securities	224,377	-	-	-	272,782
-Unquoted equities	202,231	202,231	-	-	-
Loans and receivables					
Receivables arising out of reinsurance arrangements	2,076,424	2,076,424	-	-	-
Due from related parties	85,508	85,508	-	-	-
Other receivables	516,969	516,969	-	-	-
Premium loss reserves	158,820	158,820	-	-	-
Mortgage loans	668,075	-	33,033	91,597	562,684
Cash and cash equivalents	<u>6,591,100</u>	<u>-</u>	<u>6,591,100</u>	<u>-</u>	<u>-</u>
Total	<u>28,993,347</u>	<u>4,605,257</u>	<u>7,487,132</u>	<u>9,813,978</u>	<u>14,540,530</u>
Financial liabilities at amortised cost					
Payables arising out of reinsurance arrangements	1,564,931	1,564,931	-	-	-
Other payables	<u>628,510</u>	<u>628,510</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial liabilities	<u>2,193,441</u>	<u>2,193,441</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reinsurance liabilities					
Long term liabilities	2,687,032	2,687,032	-	-	-
Short term liabilities	<u>5,706,891</u>	<u>5,706,891</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>8,393,923</u>	<u>8,393,923</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>10,587,364</u>	<u>10,587,364</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net gap	<u>18,405,983</u>	<u>(5,982,107)</u>	<u>7,487,132</u>	<u>9,813,978</u>	<u>14,540,530</u>

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.

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
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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	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Assets in foreign currencies				
Trade and other receivables	5,169,960	3,476,551	3,799,149	3,154,651
Premiums and loss reserves	405,696	567,066	324,516	806,580
Deposits with financial institutions	2,198,144	1,887,692	1,824,968	1,625,203
Cash and bank	<u>2,234,310</u>	<u>365,825</u>	<u>64,926</u>	<u>170,093</u>
Foreign currency assets	<u>10,008,110</u>	<u>6,297,134</u>	<u>6,013,559</u>	<u>5,756,527</u>
Liabilities in foreign currencies				
Payables	<u>(1,394,561)</u>	<u>(712,583)</u>	<u>(922,475)</u>	<u>(508,868)</u>
Net foreign currency (liability)/asset position	<u>8,613,549</u>	<u>5,584,551</u>	<u>5,091,084</u>	<u>5,247,659</u>

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
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)
2019	Increase in US\$ by 10%	558,455	390,918	524,766	367,336
	Decrease in US\$ by 10%	(558,455)	(390,918)	(524,766)	(367,336)

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 1,186 million (2019: KShs 1,565 million). An increase/decrease of 15% in the value of the listed equity would result in a decrease / increase in profits of KShs 178 million (2019: KShs 235 million) and an increase/decrease in equity by KShs 125 million (2019: KShs 164 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.

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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	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Government securities	17,258,062	17,112,941	17,160,253	16,972,465
Corporate bonds	-	156,450		156,450
Loans and receivables at amortized cost:				
Deposits with financial institutions	8,306,552	6,786,635	7,585,302	6,238,132
Mortgage loans	776,835	677,385	765,636	668,075
Receivables arising out of reinsurance arrangements	3,320,655	2,625,502	2,393,097	2,076,424
Premium and loss reserves (note 25)	153,294	281,968	127,338	158,820
Bank balances	2,453,326	584,670	136,934	352,968
Other receivables	<u>493,185</u>	<u>538,401</u>	<u>465,515</u>	<u>516,969</u>
Total assets bearing credit risk	<u>32,761,909</u>	<u>28,763,952</u>	<u>28,634,075</u>	<u>27,140,303</u>
Receivables arising out of reinsurance arrangements are summarized as follows:				
Neither past due nor impaired	691,449	813,442	690,908	655,908
Past due but not impaired:				
-up to 91 to 365 days	1,562,013	945,200	669,996	1,402,857
-up to 1 to 2 years	1,067,193	866,860	1,032,193	350,528
-Impaired	<u>2,975,834</u>	<u>2,748,021</u>	<u>2,532,581</u>	<u>2,453,899</u>
	6,296,489	5,373,523	4,925,678	4,863,192
Less: provision for impairment (note 24)	<u>(2,975,834)</u>	<u>(2,748,021)</u>	<u>(2,532,581)</u>	<u>(2,453,899)</u>
Total	<u>3,320,655</u>	<u>2,625,502</u>	<u>2,393,097</u>	<u>2,409,293</u>

Mortgage loans are summarized as follows:

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Neither past due nor impaired	776,835	677,385	765,636	668,075
Past due but not impaired:				
-0 to 60 days	-	-	-	-
-61 to 120 days	-	-	-	-
-121 to 180 days	-	-	-	-
Impaired	<u>146,404</u>	<u>146,404</u>	<u>146,404</u>	<u>146,404</u>
	923,239	823,789	912,040	814,479
Less: provision for impairment (note 17)	<u>(146,404)</u>	<u>(146,404)</u>	<u>(146,404)</u>	<u>(146,404)</u>
Total	<u>776,835</u>	<u>677,385</u>	<u>765,636</u>	<u>668,075</u>

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

(c) Credit risk (continued)

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

Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value.

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

GROUP	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
At 31 December 2020:				
Government securities	16,930,432	-	-	16,930,432
Corporate bonds	-	-	-	-
At 31 December 2019:				
Government securities	16,748,088	-	-	16,748,088
Corporate bonds	156,450	-	-	156,450
COMPANY				
At 31 December 2020:				
Government securities	16,709,988	-	-	16,709,988
Corporate bonds	-	-	-	-
At 31 December 2019:				
Government securities	16,638,588	-	-	16,638,588
Corporate bonds	156,450	-	-	156,450

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.

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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 2020				
Government securities	229,821	-	-	229,821
Quoted equity instruments	1,186,121	-	-	1,186,121
Investment properties			12,175,000	12,175,000
At 31 December 2019				
Government securities	224,377	-	-	224,377
Quoted equity instruments	1,565,305	-	-	1,565,305
Investment properties	-	-	12,080,000	12,080,000
COMPANY				
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
At 31 December 2019				
Government securities	224,377	-	-	224,377
Quoted equity instruments	1,565,305	-	-	1,565,305
Investment properties	-	-	12,080,000	12,080,000

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 2020 and 2019 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%
	Depreciated replacement cost method	Rental income per square meter Estimated costs associated with maintaining the building	KShs 750-KShs 1,000 per square metre

The 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 2020.

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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.

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

(d) Insurance risk (continued)

(i) Life reinsurance contracts (continued)

	Group 2020 KShs '000	2019 KShs '000	Company 2020 KShs '000	2019 KShs '000
Life fund	11,583,741	10,701,725	11,540,944	10,658,949
Less: actuarial value of policy holder liabilities	<u>(2,721,542)</u>	<u>(2,687,032)</u>	<u>(2,721,542)</u>	<u>(2,687,032)</u>
Actuarial surplus	8,862,199	8,014,693	8,819,402	7,971,917
Less deferred tax liability (note 36)	<u>(2,474,729)</u>	<u>(2,260,510)</u>	<u>(2,474,729)</u>	<u>(2,260,510)</u>
Statutory reserve	<u>6,387,470</u>	<u>5,754,183</u>	<u>6,344,673</u>	<u>5,711,407</u>

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.

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

(d) Insurance risk (continued)

(i) Life reinsurance contracts (continued)

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 2020	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
As at 1 January 2020	6,601,842	(396,659)	6,205,183
Movement in claims reserves	<u>3,206,618</u>	<u>(70,899)</u>	<u>3,135,719</u>
Total Claims reserves	<u>9,808,460</u>	<u>(467,558)</u>	<u>9,340,902</u>
As at 1 January 2019	6,785,111	(782,165)	6,002,946
Movement in claims reserves	<u>(183,269)</u>	<u>385,506</u>	<u>202,237</u>
Total short-term contract liabilities as at 31 December 2019	<u>6,601,842</u>	<u>(396,659)</u>	<u>6,205,183</u>

COMPANY

YEAR 2020

As at 1 Jan 2020	6,058,529	(351,638)	5,706,891
Movement in claims reserves	<u>3,050,392</u>	<u>(110,760)</u>	<u>2,939,632</u>
Total Claims reserves	<u>9,108,921</u>	<u>(462,398)</u>	<u>8,646,523</u>
As at 1 Jan 2019	6,245,803	(691,963)	5,553,840
Movement in claims reserves	<u>(187,274)</u>	<u>340,325</u>	<u>153,051</u>
Total short-term contract liabilities as at 31 December 2019	<u>6,058,529</u>	<u>(351,638)</u>	<u>5,706,891</u>

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.

<i>Change in assumption</i>	<i>Change in gross liability</i>	<i>Change in net liability</i>
+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.

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

The Group's objectives in managing its capital are:

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

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

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

5. SEGMENTAL REPORTING

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

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the corporation's total revenue in 2020 or 2019.

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 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	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Gross earned premiums				
General insurance business	16,671,121	15,477,937	15,197,743	14,332,826
Life business	<u>1,864,099</u>	<u>2,043,406</u>	<u>1,847,058</u>	<u>2,040,656</u>
	<u>18,535,220</u>	<u>17,521,343</u>	<u>17,044,801</u>	<u>16,373,482</u>
Investment income:				
General insurance business				
Rental income from investment properties	819,143	752,757	819,143	752,757
Interest on Government securities held to maturity	1,586,191	1,573,725	1,571,793	1,554,259
Gain on sale of available-for-sale quoted equity instruments	-	137,457	-	137,457
Dividends receivable on available for sale quoted equity instruments	67,381	76,984	67,381	76,984
Interest on commercial mortgages	32,739	47,473	32,739	47,473
Interest on deposits with financial institutions- held to maturity	209,690	114,454	171,554	85,921
Interest on corporate bonds- held to maturity	10,682	47,519	10,682	47,519
Capital Gain on T.Bond-General Fund	-	93,383	-	93,383
Interest on staff mortgages and loans	<u>25,474</u>	<u>22,931</u>	<u>25,000</u>	<u>22,763</u>
	<u>2,751,300</u>	<u>2,866,683</u>	<u>2,698,292</u>	<u>2,818,516</u>
Life assurance business				
Rental income from investment properties	134,285	127,505	134,285	127,505
Interest on Government securities held to maturity	509,250	364,535	509,250	364,535
Dividends receivable on available-for-sale quoted equity instruments	21,331	21,865	21,331	21,865
Interest on deposits with financial institutions- held to maturity	<u>375,750</u>	<u>334,108</u>	<u>372,503</u>	<u>349,209</u>
	<u>1,040,616</u>	<u>848,013</u>	<u>1,037,369</u>	<u>863,114</u>
Total investment income	<u>3,791,916</u>	<u>3,714,696</u>	<u>3,735,661</u>	<u>3,681,630</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

5. SEGMENTAL REPORTING (continued)

Other disclosures:

GROUP	General Insurance business KShs'000	Life Assurance Business KShs'000	Total 2020 KShs'000	Total 2019 KShs'000
Reportable segment profits before tax	3,111,124	872,468	3,983,592	4,176,194
Income tax expense	(801,489)	(239,181)	(1,040,670)	(209,815)
Reportable segment profits after tax	<u>2,309,635</u>	<u>633,287</u>	<u>2,942,922</u>	<u>3,966,379</u>
Reportable segment total assets	40,605,518	12,631,065	53,236,583	50,362,970
Less:				
: Related party balances	-	-	-	-
Net	<u>40,605,518</u>	<u>12,631,065</u>	<u>53,236,583</u>	<u>50,362,970</u>
Reportable segment total liabilities	13,034,033	5,805,225	18,839,258	18,412,245
Less:				
: Related party balances	-	-	-	-
Net	<u>13,034,033</u>	<u>5,805,225</u>	<u>18,839,258</u>	<u>18,412,245</u>
Fees and commission income	50,464	849	51,313	54,742
Depreciation of property and equipment	28,077	3,139	31,216	33,665
Amortisation of intangible assets	172,346	19,271	191,617	202,813
Property and equipment additions	92,729	-	92,729	88,919
Intangible assets additions	(109,145)	(66,895)	(176,040)	(114,452)
Share of associates profit	292,844	-	292,844	587,444
COMPANY	General Insurance Business KShs'000	Life Assurance Business KShs'000	Total 2020 KShs'000	Total 2019 KShs'000
Reportable segment profits before tax	2,877,844	872,447	3,750,291	4,041,808
Income tax expense	(714,932)	(239,181)	(954,113)	(180,842)
Reportable segment profits after tax	<u>2,162,912</u>	<u>633,266</u>	<u>2,796,178</u>	<u>3,860,966</u>
Reportable segment total assets	39,409,263	12,069,725	51,478,988	49,124,004
Less:				
: Related party balances	(65,311)	-	(65,311)	(85,508)
: Investment in subsidiaries	(2,421,540)	-	(2,421,540)	(463,408)
Reportable segment total assets-Net	<u>36,922,412</u>	<u>12,069,725</u>	<u>48,992,137</u>	<u>48,575,088</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

5. SEGMENTAL REPORTING (continued)

Other disclosures (continued):

COMPANY (continued)	General Insurance Business KShs'000	Life Assurance Business KShs'000	Total 2020 KShs'000	Total 2019 KShs'000
Reportable segment total liabilities	11,981,907	5,286,682	17,268,589	17,185,851
Less:				
: Related party balances	<u>(28,454)</u>	<u>-</u>	<u>(28,454)</u>	<u>(35,938)</u>
Net	<u>11,953,453</u>	<u>5,286,682</u>	<u>17,240,135</u>	<u>17,149,913</u>
Fees and commission income	14,392	15,331	29,723	35,847
Depreciation of property and equipment	19,542	3,383	22,925	25,374
Amortisation of intangible assets	170,852	20,765	191,617	202,813
Property and equipment additions	(7,644)	-	(7,644)	(1,747)
Intangible assets additions	(124,070)	(51,984)	(176,054)	(114,452)
Share of associates profit	292,844	-	292,844	587,444

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	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Long-term business				
Super annuation	1,729,548	1,899,662	1,719,773	1,897,132
Ordinary life	<u>68,126</u>	<u>45,342</u>	<u>60,943</u>	<u>45,122</u>
Total	<u>1,797,674</u>	<u>1,945,004</u>	<u>1,780,716</u>	<u>1,942,254</u>
Short-term business				
Aviation	44,208	16,368	40,532	15,221
Engineering	677,231	897,242	506,978	758,570
Fire	5,429,035	3,583,835	4,565,330	3,139,347
Liability	182,775	180,357	113,783	141,323
Marine	835,749	511,603	687,033	443,669
Motor	160,471	763,592	170,335	722,142
Medical	2,972,171	3,214,139	2,913,130	3,212,360
Agriculture	6,148,707	3,086,570	6,187,422	3,081,110
Bond	441,912	245,094	294,386	210,466
Miscellaneous (incl. Theft)	1,721,677	865,570	1,560,125	764,652
Oil & Energy	69,991	30,582	68,061	30,332
Political Risks	<u>368,665</u>	<u>190,662</u>	<u>355,040</u>	<u>183,494</u>
Total	<u>19,052,592</u>	<u>13,585,614</u>	<u>17,462,155</u>	<u>12,702,686</u>
TOTAL	<u>20,850,266</u>	<u>15,530,618</u>	<u>19,242,871</u>	<u>14,644,940</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Aviation	20,010	30,627	20,010	30,627
Engineering	332,152	185,214	328,714	55,752
Fire	58,027	280,899	28,596	279,007
Liability	70	15,560	-	-
Marine	64,348	62,968	63,905	62,968
Motor	11,213	38,586	-	-
Agriculture	42,229	297,747	42,229	297,747
Miscellaneous (incl. Theft)	37,251	21,602	37,251	21,602
Oil & Energy	2,939	-	-	-
Political Risks	35,184	45,850	31,689	45,850
Life business	<u>66,422</u>	<u>98,402</u>	<u>66,343</u>	<u>98,402</u>
TOTAL	<u>669,845</u>	<u>1,077,455</u>	<u>618,737</u>	<u>891,955</u>

7. INVESTMENT INCOME

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs'000	KShs'000	KShs'000	KShs'000
Rental income from investment properties	953,428	880,262	953,428	880,262
Interest on Government securities held to maturity	2,053,532	1,899,495	2,039,422	1,880,418
Interest income on available for sale Government securities	41,909	38,765	41,621	38,376
Gain on sale of available for sale quoted equity instruments	-	137,457	-	137,457
Dividends receivable on available- for sale quoted equity instruments	88,712	98,849	88,712	98,849
Interest on commercial mortgages	32,739	47,473	32,739	47,473
Interest on deposits with financial institutions-held to maturity	585,440	448,562	544,056	435,129
Interest on corporate bonds - held to maturity	10,682	47,519	10,682	47,519
Capital Gain on disposal of government securities	-	93,383	-	93,383
Interest on staff mortgages and loans	<u>25,474</u>	<u>22,931</u>	<u>25,001</u>	<u>22,764</u>
Total investment income	<u>3,791,916</u>	<u>3,714,696</u>	<u>3,735,661</u>	<u>3,681,630</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
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8. OTHER INCOME

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
COMESA Yellow Card income	43,246	44,278	43,246	44,278
Miscellaneous income	<u>10,105</u>	<u>8,691</u>	<u>10,105</u>	<u>8,691</u>
	<u>53,351</u>	<u>52,969</u>	<u>53,351</u>	<u>52,969</u>

9. CLAIMS AND POLICY HOLDERS BENEFITS EXPENSES

Claims paid	10,763,153	11,187,577	10,407,307	10,842,284
Changes in the provision for outstanding claims incurred but not reported (IBNR)	3,135,719	202,237	2,939,632	153,051
Increase in actuarial liability on long term insurance contracts (note 34)	<u>34,510</u>	<u>57,907</u>	<u>34,510</u>	<u>57,907</u>
Gross claims incurred	13,933,382	11,447,721	13,381,449	11,053,242
Less: Amounts recoverable from retrocessionaires	<u>(416,804)</u>	<u>(385,781)</u>	<u>(416,804)</u>	<u>(385,781)</u>
Net claims incurred	<u>13,516,578</u>	<u>11,061,940</u>	<u>12,964,645</u>	<u>10,667,461</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

10 (a). CEDANT ACQUISITION COSTS

CEDANT ACQUISITION COSTS	GROUP		COMPANY	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Super annuation	505,702	586,651	503,464	585,827
Ordinary life	20,718	13,313	18,685	13,313
Aviation	17,687	9,724	16,650	9,471
Engineering	(917,616)	313,250	246,026	265,887
Fire	1,573,421	1,066,653	1,308,405	916,910
Liability	48,855	58,563	29,431	46,550
Marine	283,504	178,745	242,536	159,107
Motor	(121,664)	108,403	(103,218)	106,841
Medical	781,360	821,685	764,808	821,411
Agriculture	945,696	358,058	957,507	356,532
Bond	171,350	100,096	124,257	89,022
Miscellaneous (incl. Theft)	1,875,726	401,511	596,030	350,588
Oil & Energy	7,723	5,123	7,225	5,076
Political Risks	<u>118,034</u>	<u>70,272</u>	<u>115,844</u>	<u>68,706</u>
TOTAL	<u>5,310,496</u>	<u>4,092,047</u>	<u>4,827,650</u>	<u>3,795,241</u>
COMMISSIONS RECOVERED	GROUP		COMPANY	
	2020 KShs'000	2019 KShs'000	2020 KShs'000	2019 KShs'000
Engineering	15,966	63	8,804	-
Fire	6,817	10,142	637	2,559
Marine	1,638	1,697	1,338	459
Motor	3,206	1,088	-	-
Liability	605	-	-	-
Agriculture	1,734	10,033	1,535	2,713
Miscellaneous (incl. Theft)	785	264	695	-
Oil & Energy	830	-	-	71
Political Risks	2,394	1,935	1,383	525
Life business	<u>17,338</u>	<u>29,520</u>	<u>15,331</u>	<u>29,520</u>
TOTAL	<u>51,313</u>	<u>54,742</u>	<u>29,723</u>	<u>35,847</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

10 (b). OPERATING AND OTHER EXPENSES	GROUP		COMPANY	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Staff costs	788,290	799,235	696,200	717,258
Depreciation (note 15)	31,216	33,665	25,632	27,301
Amortisation (note 16)	191,617	202,813	191,617	202,813
Auditors' remuneration-Current year	15,385	13,087	9,549	9,549
Auditors' remuneration- Prior year	750	-	750	-
Directors' - emoluments	14,311	9,600	6,937	9,600
Directors' - fees	20,687	15,019	11,226	13,605
Directors' - training	4,299	13,439	4,299	13,439
Rent provisions	112,278	46,456	112,278	46,456
Annual General Meeting expenses	11,386	15,776	11,386	15,776
Investment property direct operating (revenue generating) expenses	188,136	206,888	188,136	206,832
Travel and accommodation	30,172	175,839	27,325	166,724
Advertisement	13,120	23,316	12,576	23,316
Professional and consultancy fees	86,035	56,200	85,218	57,243
Rent and rates	11,594	14,731	11,594	12,154
Hardware and software maintenance	161,690	45,464	161,663	45,358
Donations, sponsorship and CSR activities	50,720	25,712	50,720	25,712
Bank charges	10,832	16,345	5,670	12,128
Indirect tax expenses in subsidiaries	-	620	-	10
Foreign currency exchange losses	141,615	102,540	(2,621)	103,227
Provision for un-reconciled inventory	3,445	-	3,445	-
Other expenses	<u>77,230</u>	<u>226,707</u>	<u>83,179</u>	<u>217,654</u>
	<u>1,964,808</u>	<u>2,043,452</u>	<u>1,696,779</u>	<u>1,926,155</u>
Staff costs consist:				
Salaries and wages	519,002	498,143	457,157	451,043
Retirement benefit costs (note 21)	13,269	12,048	13,269	12,048
Medical expenses	40,967	34,428	36,934	33,414
Leave allowance	48,266	56,046	36,541	37,122
Contribution to National Social Security Fund	537	754	375	373
Gratuity accrual	16,852	30,505	10,826	21,823
Bonus	74,619	73,495	73,054	73,495
Staff welfare expenses	23,192	29,535	21,290	26,570
Training and recruitment	7,348	23,370	6,815	23,117
Leave pay provision	3,485	3,211	4,092	3,382
Pension contributions to defined contribution scheme	<u>40,753</u>	<u>37,700</u>	<u>35,847</u>	<u>34,871</u>
	<u>788,290</u>	<u>799,235</u>	<u>696,200</u>	<u>717,258</u>
Other expenses consist:				
Motor vehicle running expenses	1,209	887	690	436
General office expenses	10,198	8,112	9,728	7,759
Marketing expenses	2,488	2,767	2,488	2,767
Corporate and other sundry expenses	<u>63,335</u>	<u>214,941</u>	<u>70,273</u>	<u>206,692</u>
	<u>77,230</u>	<u>226,707</u>	<u>83,179</u>	<u>217,654</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

11. TAXATION

	GROUP		COMPANY	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
(a) Profit or Loss				
Current tax on the taxable profit for the year	682,334	257,441	595,777	228,468
Change in tax rate	119,155		119,155	
Prior year under provision	-	10,484	-	10,484
	<u>801,489</u>	<u>267,925</u>	<u>714,932</u>	<u>238,952</u>
Deferred tax charge (note 37)				
- Current year	239,181	(3,490)	239,181	(3,490)
- Prior year over provision	-	(54,620)	-	(54,620)
	<u>1,040,670</u>	<u>209,815</u>	<u>954,113</u>	<u>180,842</u>

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

	GROUP		COMPANY	
	2020 KShs '000	2019 KShs '000	2020 KShs '000	2019 KShs '000
Profit before tax	<u>3,983,592</u>	<u>4,176,194</u>	<u>3,750,291</u>	<u>4,041,808</u>
Tax calculated at the statutory income tax rate of 25% (2019 - 30%)	1,195,078	1,252,858	1,125,087	1,223,885
Tax effects of non-taxable income**	(207,719)	(1,037,257)	(207,719)	(1,037,257)
Tax effect of non-deductible expenses*	53,311	38,350	36,745	38,350
Prior year under provision- current tax	-	10,484	-	10,484
Prior year over provision- deferred tax	-	(54,620)	-	(54,620)
	<u>1,040,670</u>	<u>209,815</u>	<u>954,113</u>	<u>180,842</u>
Attributable to:				
Long term business	239,181	463,644	239,181	463,644
Short term business	<u>801,489</u>	<u>(253,829)</u>	<u>714,932</u>	<u>(282,802)</u>
	<u>1,040,670</u>	<u>209,815</u>	<u>954,113</u>	<u>180,842</u>
(c) Statement of financial position				
At 1 January	(584,440)	(441,976)	(565,720)	(410,959)
Charge for the year	801,489	257,441	714,932	228,468
Under provision in prior year	(15,909)	10,484	1,343	10,484
Paid in the year	<u>(45,039)</u>	<u>(410,389)</u>	<u>(45,039)</u>	<u>(393,713)</u>
At 31 December	<u>156,101</u>	<u>(584,440)</u>	<u>105,516</u>	<u>(565,720)</u>

* 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.

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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	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Profit attributable to shareholders	2,942,922	3,966,379	2,796,178	3,860,966
Weighted average number of ordinary shares in issue	<u>2,799,796</u>	<u>1,557,147</u>	<u>2,799,796</u>	<u>1,557,147</u>
Basic and diluted earnings per share	<u>1.05</u>	<u>2.55</u>	<u>1.00</u>	<u>2.48</u>

There were no potentially dilutive shares outstanding at 31 December 2020 and 2019. 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		<u>8,000,000</u>	<u>8,000,000</u>
	(3,200,000,000 ordinary shares of KShs 2.50 each)			
(ii)	Issued and fully paid	Number of shares	2020 KShs '000	2019 KShs '000
	At 31 December	<u>2,799,796,272</u>	<u>6,999,491</u>	<u>6,999,491</u>

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 8,060,821,074 (2019: KShs 8,097,224,133) 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 PTA 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.

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15. PROPERTY AND EQUIPMENT

GROUP	Motor vehicles KShs'000	Computers KShs'000	Furniture and equipment KShs'000	Total KShs'000
2020				
COST				
At 1 January 2020	49,511	162,444	134,685	346,640
Additions	<u>8,887</u>	<u>18,055</u>	<u>8,049</u>	<u>34,991</u>
At 31 December 2020	<u>58,398</u>	<u>180,499</u>	<u>142,734</u>	<u>381,631</u>
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	<u>-</u>	<u>(36)</u>	<u>-</u>	<u>(36)</u>
At 31 December 2020	<u>44,334</u>	<u>136,716</u>	<u>107,852</u>	<u>288,902</u>
CARRYING AMOUNT				
At 31 December 2020	<u>14,064</u>	<u>43,783</u>	<u>34,882</u>	<u>92,729</u>
31 DECEMBER 2020				
2019				
COST				
At 1 January 2019	49,511	144,598	121,579	315,688
Additions	<u>-</u>	<u>17,847</u>	<u>13,106</u>	<u>30,953</u>
At 31 December 2019	<u>49,511</u>	<u>162,445</u>	<u>134,685</u>	<u>346,641</u>
ACCUMULATED DEPRECIATION				
At 1 January 2019	29,790	99,615	94,652	224,057
Charge for the year	<u>8,861</u>	<u>17,956</u>	<u>6,848</u>	<u>33,665</u>
At 31 December 2019	<u>38,651</u>	<u>117,571</u>	<u>101,500</u>	<u>257,722</u>
CARRYING AMOUNT				
At 31 December 2019	<u>10,860</u>	<u>44,874</u>	<u>33,185</u>	<u>88,919</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

15. PROPERTY AND EQUIPMENT (continued)

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	<u>26,803</u>	<u>174,872</u>	<u>115,966</u>	<u>317,641</u>
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
Disposal	-	(36)	-	(36)
At 31 December 2020	<u>26,803</u>	<u>132,551</u>	<u>99,137</u>	<u>258,491</u>
CARRYING AMOUNT	<u>-</u>	<u>42,321</u>	<u>16,829</u>	<u>59,150</u>
At 31 December 2020				
COMPANY				
2019				
COST				
At 1 January 2019	26,803	139,177	108,155	274,135
Additions	-	17,743	7,811	25,554
At 31 December 2019	<u>26,803</u>	<u>156,920</u>	<u>115,966</u>	<u>299,689</u>
ACCUMULATED DEPRECIATION				
At 1 January 2019	19,460	97,036	89,098	205,594
Charge for the year	<u>4,895</u>	<u>17,002</u>	<u>5,404</u>	<u>27,301</u>
At 31 December 2019	<u>24,355</u>	<u>114,038</u>	<u>94,502</u>	<u>232,895</u>
CARRYING AMOUNT				
At 31 December 2019	<u>2,448</u>	<u>42,882</u>	<u>21,464</u>	<u>66,794</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

16. INTANGIBLE ASSETS - GROUP and COMPANY

	Computer Software KShs'000	Capital WIP KShs'000	Total KShs'000
31 DECEMBER 2020			
COST			
At 1 January 2020	968,166	-	968,166
Additions	15,577	-	15,577
Transfer from W.I.P	-	-	-
At 31 December 2020	<u>983,743</u>	<u>-</u>	<u>983,743</u>
AMORTISATION			
At 1 January 2020	494,363	-	494,363
Charge for the year	<u>191,616</u>	<u>-</u>	<u>191,616</u>
At 31 December 2020	<u>685,979</u>	<u>-</u>	<u>685,979</u>
NET CARRYING AMOUNT			
At 31 December 2020	<u>297,764</u>	<u>-</u>	<u>297,764</u>
31 DECEMBER 2019			
COST			
At 1 January 2019	879,805	-	879,805
Additions	88,362	-	88,362
Transfer from W.I.P	-	-	-
At 31 December 2019	<u>968,167</u>	<u>-</u>	<u>968,167</u>
AMORTISATION			
At 1 January 2019	291,550	-	291,550
Charge for the year	<u>202,813</u>	<u>-</u>	<u>202,813</u>
At 31 December 2019	<u>494,363</u>	<u>-</u>	<u>494,363</u>
NET CARRYING AMOUNT	<u>473,804</u>	<u>-</u>	<u>473,804</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

17. MORTGAGE LOANS

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Staff mortgages	545,279	454,382	534,202	445,072
Commercial mortgages	<u>377,960</u>	<u>369,407</u>	<u>377,838</u>	<u>369,407</u>
	923,239	823,789	912,040	814,479
Less: impairment provision	<u>(146,404)</u>	<u>(146,404)</u>	<u>(146,404)</u>	<u>(146,404)</u>
	<u>776,835</u>	<u>677,385</u>	<u>765,636</u>	<u>668,075</u>
Maturity analysis:				
Within 1 year	2,409	1,789	2,409	1,789
Within 1 to 5 years	131,437	78,636	131,437	78,636
Over 5 years	<u>642,989</u>	<u>596,960</u>	<u>631,790</u>	<u>587,650</u>
	<u>776,835</u>	<u>677,385</u>	<u>765,636</u>	<u>668,075</u>
Impairment provision analysis:				
Balance brought forward	146,404	146,404	146,404	146,404
Additional provision	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance carried forward	<u>146,404</u>	<u>146,404</u>	<u>146,404</u>	<u>146,404</u>

The weighted average effective interest rate on the mortgages was 7.98% (2019 - 10.5%). Mortgage loans are fully secured.

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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
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	<u>3,035,000</u>	<u>995,000</u>	<u>3,130,000</u>	<u>1,715,000</u>	<u>980,000</u>	<u>720,000</u>	<u>1,600,000</u>	<u>12,175,000</u>
	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
2019								
At 1 January	2,850,000	955,000	2,950,000	1,675,000	985,000	690,000	-	10,105,000
Additions	77,748	1,536	7,770	6,183	5,321	-	-	98,558
Fair value gains	57,252	23,464	112,230	68,817	9,679	10,000	1,895,150	2,176,592
Disposals in the year	-	-	-	-	-	-	(300,150)	(300,150)
At 31 December 2019	<u>2,985,000</u>	<u>980,000</u>	<u>3,070,000</u>	<u>1,750,000</u>	<u>1,000,000</u>	<u>700,000</u>	<u>1,595,000</u>	<u>12,080,000</u>

- 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.
- 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 2020.
- Fair value of the properties was determined using the open market basis and depreciated replacement cost method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property. The effect of Covid-19 Pandemic has been incorporated in input of valuation of land and Building.
- Valuations are performed on an annual basis and the fair value gains and losses are recorded within the profit or loss.

*The Corporation 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 2020. 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.

*Mbagathi plot- L.R no:209/11976 had a NIL carrying amount owing to existing disputes and was included as part of the fully provided for inventory property in note 42. However, after all the disputes relating to the properties were resolved with the National Lands Commission (NLC), This has been recognised as part of the investment properties in the current year. The land was valued at KShs 1.895 billion. The company disposed a portion of the land worth KShs 300million to Kenya Urbans Roads Authority for road construction.

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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 953 million (2019: KShs 880 million). Future minimum rentals receivable under non-cancellable operating leases as at 31 December are, as follows:

	2020 KShs'000	2019 KShs'000
Not later than one year	201,845	18,791
Later than 1 year but not later than 5 years	1,508,533	1,931,072
Later than 5 years	<u>415,425</u>	<u>438,381</u>
	<u>2,125,803</u>	<u>2,388,244</u>

19. INVESTMENT IN ASSOCIATE - GROUP AND COMPANY

The group has a 19.15% interest in ZEP-Re (PTA Reinsurance) Company, a reinsurance company that underwrites all classes of life and non-life reinsurance risks. ZEP Re Limited is a private entity that is not listed on any public exchange. The Company was established on 23rd November 1990 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.

	2020 KShs '000	2019 KShs '000
At 1 January	5,169,908	4,473,962
Share of profit for the year	292,844	587,444
Less: dividends - received in cash	-	-
- receipt of additional shares	<u>(102,049)</u>	<u>(48,815)</u>
	<u>5,360,703</u>	<u>5,012,591</u>
Share of revaluation reserve	2,938	1,812
Share of fair value reserve	(78,163)	99,275
Currency translation adjustment	373,905	7,415
- capitalisation of dividends	<u>102,049</u>	<u>48,815</u>
	<u>400,729</u>	<u>157,317</u>
Net carrying amount of the investment	<u>5,761,432</u>	<u>5,169,908</u>

Summary financial information for ZEP-Re

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

	2020 KShs	2019 KShs
Closing rate	109.17	101.34
Average rate	106.47	102.01
Ownership	<u>19.145%</u>	<u>19.17%</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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

Summary financial information for ZEP-Re

	2020 KShs'000	2019 KShs'000
Current assets	36,928,729	17,505,462
Non- current assets	11,871,214	26,429,317
Current liabilities	(4,120,930)	(64,751)
Non- current liabilities	(14,585,349)	(16,901,285)
Equity	<u>30,093,664</u>	<u>26,968,743</u>
Group's share of net assets of associate	<u>5,761,432</u>	<u>5,169,908</u>
Total Income	17,631,225	18,870,293
Total expense	15,963,650	15,802,699
Profit	1,667,575	3,067,594
Other incomprehensive Income	<u>(392,665)</u>	<u>527,870</u>
Total Comprehensive Income	<u>1,274,910</u>	<u>3,595,464</u>
Group's share of profit for the year	<u>292,844</u>	<u>587,444</u>

* 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:	
		2020	2019	2020 KShs '000	2019 KShs '000
Kenya Reinsurance Corporation Côte d'Ivoire	Ivory Coast	100%	100%	1,962,318	4,186
Kenya Reinsurance Corporation Zambia	Zambia	100%	100%	183,596	183,596
Kenya Reinsurance Corporation Uganda limited	Uganda	100%	-	<u>275,626</u>	<u>275,626</u>
				<u>2,421,540</u>	<u>463,408</u>

The primary business of the three subsidiaries is reinsurance.

21. RETIREMENT BENEFIT OBLIGATION- GROUP and COMPANY

Defined Benefit Scheme

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

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

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

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
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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 2020 is 3.5 (2019: 3.0).

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:

Asset Class	2020		2019	
	Amount KShs'000	Proportion %	Amount KShs'000	Proportion %
Quoted equity investments	118,918	14.61	128,002	17.95
Fixed deposits, commercial papers and government securities	373,847	45.93	414,928	58.2
Net current assets	-	-	-	-
Properties and other fixed assets	<u>321,185</u>	<u>39.46</u>	<u>170,000</u>	<u>23.85</u>
Total	<u>813,950</u>	<u>100</u>	<u>712,930</u>	<u>100</u>

Sensitivity of the Scheme:

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

	Current Discount Rate (10.41% per annum) KShs'000	Discount Rate less (10.41 % per annum) KShs'000
Present Value of Obligation at 31 December 2020	<u>989,861</u>	<u>1,021,893</u>

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	2020 KShs '000	2019 KShs '000
The actuarial valuation results were as follows:		
Present value of funded obligations	(989,861)	(840,559)
Fair value of scheme assets	<u>813,950</u>	<u>712,930</u>
Net (liability) in the statement of financial position	<u>(175,911)</u>	<u>(127,629)</u>
Movement in present value of funded obligation:		
As at 1 January	840,559	698,187
Current service costs	4,021	4,543
Administration costs	(4,021)	-
Interest cost	106,989	89,028
Actuarial gain/(loss)	77,448	80,052
Benefits payment	<u>(35,135)</u>	<u>(31,251)</u>
At 31 December	<u>989,861</u>	<u>840,559</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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

Defined benefit scheme (continued)

	2020 KShs '000	2019 KShs '000
Movement in fair value of plan assets		
As at 1 January	712,930	642,725
Interest income on plan assets	97,741	81,523
Return on plan assets (excluding amount in interest income)	(74,565)	19,933
Administration expenses	(4,021)	-
Employer Contributions	117,000	-
Benefits and expenses paid	<u>(35,135)</u>	<u>(31,251)</u>
At 31 December	<u>813,950</u>	<u>712,930</u>
Movement in net assets		
As at 1 January	(127,629)	(55,462)
Net expense recognised in profit or loss	(13,269)	(12,048)
Company contributions	117,000	-
Net charge recognised in other comprehensive income	<u>(152,013)</u>	<u>(60,119)</u>
At 31 December	<u>(175,911)</u>	<u>(127,629)</u>
Amount recognised in profit or loss:		
Current service cost net of employees' contributions	4,021	4,543
Net interest on obligation and plan assets	<u>9,248</u>	<u>7,505</u>
Total included in "staff costs" in respect of scheme	<u>13,269</u>	<u>12,048</u>
Amount recognised in other comprehensive income:		
Actuarial gains/(loss)	77,448	80,052
Return on plan assets (excluding amount in interest income)	<u>74,565</u>	<u>(19,933)</u>
Total charge /(credit) to other comprehensive income	<u>152,013</u>	<u>60,119</u>
Actuarial assumptions		
Discount rate (% p.a.)	10.40%	13%
Future salary increases (% p.a.)	5%	5%
Future pension increases (% p.a.)	3%	3%
Retirement age (years)	<u>60</u>	<u>55</u>

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 2020, the Group contributed KShs 40,753,000 (2019- KShs 37,700,000) to the defined contribution pension scheme and KShs 537,000 (2019 - KShs 754,000) for NSSF which has been charged to the statement of profit or loss. The Company contributed KShs 35,847,000 (2019 - KShs 34,871,000) to the defined contribution pension scheme and KShs 375,000 (2019 - KShs 373,000) to the NSSF.

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

22. UNQUOTED EQUITY INSTRUMENTS

		GROUP		COMPANY	
		2020	2019	2020	2019
		KShs '000	KShs '000	KShs '000	KShs '000
At cost					
At 1 January		205,733	202,231	205,733	202,231
Addition		<u>3,941</u>	<u>3,502</u>	<u>3,941</u>	<u>3,502</u>
At 31 December		<u>209,674</u>	<u>205,733</u>	<u>209,674</u>	<u>205,733</u>
	Share holding				
Industrial Development Bank	3.5%	24,474	24,474	24,474	24,474
Africa Reinsurance Limited	0.2%	35,491	38,993	35,491	38,993
African Trade Insurance Agency	0.6%	87,506	87,506	87,506	87,506
Uganda Reinsurance Company Limited	11.5%	<u>62,203</u>	<u>54,760</u>	<u>62,203</u>	<u>54,760</u>
		<u>209,674</u>	<u>205,733</u>	<u>209,674</u>	<u>205,733</u>

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

The fair value measurement of the above unquoted equity instruments has not been disclosed. The carrying amounts of the above financial instruments amounting to KShs. 209.6 million (2019: KShs. 205 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	
		2020	2019	2020	2019
		KShs '000	KShs '000	KShs '000	KShs '000
At 1 January		156,450	475,912	156,450	475,912
Redemptions during the year		(155,512)	(305,925)	(155,512)	(305,925)
Interest received		(11,620)	(61,056)	(11,620)	(61,056)
Interest earned		<u>10,682</u>	<u>47,519</u>	<u>10,682</u>	<u>47,519</u>
		<u>-</u>	<u>156,450</u>	<u>-</u>	<u>156,450</u>
		GROUP		COMPANY	
		2020	2019	2020	2019
		KShs '000	KShs '000	KShs '000	KShs '000
Made up as below:	Maturity				
Centum Investment Ltd	08-Jun-20	-	81,030	-	81,030
NCBA Bank Kenya PLC	20-Dec-20	-	75,420	-	75,420
KENGEN Limited	31-Oct-19	-	-	-	-
Consolidated Bank of Kenya Limited	24-Jul-19	-	-	-	-
		<u>-</u>	<u>156,450</u>	<u>-</u>	<u>156,450</u>

The average effective interest rate on the corporate bonds at 31 December 2020 was 7% (2019: 12 %).

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

24. RECEIVABLES ARISING OUT OF REINSURANCE ARRANGEMENTS

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Local companies	1,126,529	2,190,612	1,126,529	2,190,612
International companies	5,169,960	3,182,911	3,799,149	2,339,711
Less: provision for doubtful receivable	<u>(2,975,834)</u>	<u>(2,748,021)</u>	<u>(2,532,581)</u>	<u>(2,453,899)</u>
	<u>3,320,655</u>	<u>2,625,502</u>	<u>2,393,097</u>	<u>2,076,424</u>

The movement in provisions is as below:

Balance brought forward	(2,748,021)	(2,004,593)	(2,453,899)	(1,705,142)
Additional provision	<u>(227,813)</u>	<u>(743,428)</u>	<u>(78,682)</u>	<u>(748,757)</u>
Balance carried forward	<u>(2,975,834)</u>	<u>(2,748,021)</u>	<u>(2,532,581)</u>	<u>(2,453,899)</u>

25. PREMIUM AND LOSS RESERVES

International companies	405,696	567,066	324,516	388,694
Local companies	74,477	69,438	74,477	69,439
Provision for impaired balances	<u>(326,879)</u>	<u>(354,536)</u>	<u>(271,655)</u>	<u>(299,313)</u>
	<u>153,294</u>	<u>281,968</u>	<u>127,338</u>	<u>158,820</u>

The movement in provisions is as below:

At 1 January	(743,992)	(743,992)	(688,769)	(688,769)
Write off during the year	<u>417,113</u>	<u>389,456</u>	<u>417,114</u>	<u>389,456</u>
At 31 December	<u>(326,879)</u>	<u>(354,536)</u>	<u>(271,655)</u>	<u>(299,313)</u>

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

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Provision on receivables arising out of reinsurance arrangements (note 24)	(227,813)	(743,428)	(78,682)	(748,757)
Provision on premium and loss reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December	<u>(227,813)</u>	<u>(743,428)</u>	<u>(78,682)</u>	<u>(748,757)</u>

26. OTHER RECEIVABLES

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Staff advances	60,070	55,221	46,879	42,869
Prepayments	15,066	7,996	5,696	5,620
Gross rental receivables	341,341	306,461	341,341	306,461
Dividends receivable	6,346	-	6,346	-
Receivable from KURA*	300,150	300,150	300,150	300,150
Other receivables	15,763	12,404	10,654	5,701
Rental receivables provisions	<u>(245,551)</u>	<u>(143,831)</u>	<u>(245,551)</u>	<u>(143,831)</u>
	<u>493,185</u>	<u>538,401</u>	<u>465,515</u>	<u>516,970</u>

KURA* -Kenya Urbans Roads Authority. Refer to note 18 for more details

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

26. OTHER RECEIVABLES (continued)

The movement in Rental receivables provisions is as below:

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
At 1 January	(143,831)	(97,375)	(143,831)	(97,375)
Additional provision	<u>(101,720)</u>	<u>(46,456)</u>	<u>(101,720)</u>	<u>(46,456)</u>
At 31 December	<u>(245,551)</u>	<u>(143,831)</u>	<u>(245,551)</u>	<u>(143,831)</u>

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

27. QUOTED EQUITY INSTRUMENTS - AVAILABLE FOR SALE

GROUP and COMPANY	2020	2019
	KShs '000	KShs '000
At 1 January	1,565,305	1,599,431
Additions	27,134	152,911
Fair value gain loss	(396,063)	(53,952)
Disposal during the year	<u>(10,255)</u>	<u>(133,085)</u>
At 31 December	<u>1,186,121</u>	<u>1,565,305</u>

28. GOVERNMENT SECURITIES- GROUP and COMPANY

	Group		Company	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
At 1 January	17,112,941	14,314,752	17,112,941	14,314,752
Purchases during the year	2,692,338	11,347,232	2,602,673	11,226,222
Maturities during the year	(2,675,246)	(8,739,837)	(2,554,235)	(8,739,837)
Fair value gain on available-for-sale government securities	5,444	69,316	5,444	69,316
Interest received	(2,022,115)	(1,816,782)	(1,996,397)	(1,816,782)
Interest earned ⁵	<u>2,144,700</u>	<u>1,938,260</u>	<u>1,989,827</u>	<u>1,918,794</u>
	<u>17,258,062</u>	<u>17,112,941</u>	<u>17,160,253</u>	<u>16,972,465</u>
Maturing:				
Within 3 months	24,745	-	24,746	-
Within 4 to 12 months	644,241	756,793	546,431	756,793
Within 1 to 5 years	3,158,082	3,524,064	3,158,082	3,524,064
Over 5 years	<u>13,430,994</u>	<u>12,832,084</u>	<u>13,430,994</u>	<u>12,691,608</u>
At 31 December	<u>17,258,062</u>	<u>17,112,941</u>	<u>17,160,253</u>	<u>16,972,465</u>

Treasury bonds amounting to Kshs 2,319,550,000 (2019 - 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 11.98% (2019 - 12.25%).

29. INVENTORY

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
As 31 December	<u>14,265</u>	<u>22,071</u>	<u>14,152</u>	<u>21,973</u>

Inventories comprise stationery and repair materials.

⁵ interest income recognised in Total profit or loss from investments in Government securities amounted to KShs 2,059,273 (2019: KShs 1,938,260) of which KShs 41,185 (2019: KShs 38,765) related to those held as available for sale.

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

30. DEFERRED ACQUISITION COSTS

	2020 KShs'000	GROUP 2019 KShs'000	COMPANY 2020 KShs '000	2019 KShs '000
At 1 January	1,408,838	1,363,134	1,285,548	1,249,752
Deferred during the year	737,689	1,408,838	654,771	1,285,548
Amortized during the year	<u>(1,408,838)</u>	<u>(1,363,134)</u>	<u>(1,285,548)</u>	<u>(1,249,752)</u>
At 31 December	<u>737,689</u>	<u>1,408,838</u>	<u>654,771</u>	<u>1,285,548</u>

31. DEPOSITS WITH FINANCIAL INSTITUTIONS

	GROUP 2020 KShs '000	2019 KShs '000	COMPANY 2020 KShs '000	2019 KShs '000
Deposit with financial institutions	8,306,552	6,691,760	7,585,300	6,143,257
Deposit with offshore fund managers	<u>-</u>	<u>94,875</u>	<u>-</u>	<u>94,875</u>
	<u>8,306,552</u>	<u>6,786,635</u>	<u>7,585,300</u>	<u>6,238,132</u>

The weighted average effective interest rate on deposits with financial institutions was 7.42% (2019-5.7 %).

32. CASH AND CASH EQUIVALENTS

	GROUP 2020 KShs '000	2019 KShs '000	COMPANY 2020 KShs '000	2019 KShs '000
Cash and bank balances	<u>2,453,326</u>	<u>584,670</u>	<u>136,934</u>	<u>352,968</u>

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

	GROUP 2020 KShs '000	2019 KShs '000	COMPANY 2020 KShs '000	2019 KShs '000
Short term bank deposits	8,306,552	6,786,635	7,585,300	6,238,132
Cash and bank balances	<u>2,453,326</u>	<u>584,670</u>	<u>136,934</u>	<u>352,968</u>
	<u>10,759,878</u>	<u>7,371,305</u>	<u>7,722,234</u>	<u>6,591,100</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

33. LONG TERM REINSURANCE LIABILITIES- GROUP and COMPANY

The long-term reinsurance liabilities, which comprise Ordinary Life Fund and Superannuation Fund, were established in respect of the Company's long-term business as required under Section 45 of the Kenyan Insurance Act. Income arising from the investment of the assets of the statutory funds is credited to and forms part of these funds. Transfers from the statutory funds to the profit or loss are done upon the recommendation of the Actuary. The latest actuarial valuation of the life fund was carried out by Zamara Actuaries, Administrators & Consultants Limited, consulting actuaries as at 31 December 2020.

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 2020 is summarised as follows:

	Group		Company	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Life fund	11,583,741	10,701,725	11,540,944	10,658,949
Less: actuarial value of policy holder liabilities	<u>(2,721,542)</u>	<u>(2,687,032)</u>	<u>(2,721,542)</u>	<u>(2,687,032)</u>
Actuarial surplus	8,862,199	8,014,693	8,819,402	7,971,917
Less deferred tax liability (note 36)	<u>(2,474,729)</u>	<u>(2,260,510)</u>	<u>(2,474,729)</u>	<u>(2,260,510)</u>
Statutory reserve	<u>6,387,470</u>	<u>5,754,183</u>	<u>6,344,673</u>	<u>5,711,407</u>

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

	Group		Company	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
As at 1 January	2,687,032	2,629,125	2,687,032	2,629,125
Increase during the year	<u>34,510</u>	<u>57,907</u>	<u>34,510</u>	<u>57,907</u>
	<u>2,721,542</u>	<u>2,687,032</u>	<u>2,721,542</u>	<u>2,687,032</u>

Valuation assumptions

The significant valuation assumptions for the actuarial valuation as at 31 December 2020 are summarised below. The same assumptions were used in 2019.

(i) Actuarial basis and method of valuation

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

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

Treaty business and Company life business actuarial reserves has been established to 95% of the annual premiums at the valuation date. For supplementary benefits, the actuarial reserve has been established to equal to 100% of annual premiums at the valuation date.

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

(ii) Investment returns

The rate of return on the life fund assets in 2020 was 12.6% per annum (2019 - 12.4% per annum).

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

34. SHORT TERM INSURANCE CONTRACT LIABILITIES

GROUP

YEAR 2020	Gross KShs'000	Reinsurance KShs'000	Net KShs'000
As at 1 January 2020	6,601,842	(396,659)	6,205,183
Movement in claims reserves	<u>3,206,618</u>	<u>(70,899)</u>	<u>3,135,719</u>
Total Claims reserves	<u>9,808,460</u>	<u>(467,558)</u>	<u>9,340,902</u>
As at 1 January 2019	6,785,111	(782,165)	6,002,946
Movement in claims reserves	<u>(183,269)</u>	<u>385,506</u>	<u>202,237</u>
Total short-term contract liabilities as at 31 December 2019	<u>6,601,842</u>	<u>(396,659)</u>	<u>6,205,183</u>

COMPANY

YEAR 2020

As at 1 Jan 2020	6,058,529	(351,638)	5,706,891
Movement in claims reserves	<u>3,050,392</u>	<u>(110,760)</u>	<u>2,939,632</u>
Total Claims reserves	<u>9,108,921</u>	<u>(462,398)</u>	<u>8,646,523</u>
As at 1 Jan 2019	6,245,803	(691,963)	5,553,840
Movement in claims reserves	<u>(187,274)</u>	<u>340,325</u>	<u>153,051</u>
Total short-term contract liabilities as at 31 December 2019	<u>6,058,529</u>	<u>(351,638)</u>	<u>5,706,891</u>

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

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

34. SHORT TERM INSURANCE CONTRACT LIABILITIES (continued)

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

Claims development.

GROUP

Underwriting Year	2014& Prior	2015	2016	2017	2018	2019	2020	Total
At the end of accident year	6,132,473	2,128,158	2,218,720	1,983,229	1,899,289	1,773,312	1,217,972	17,353,153
One year later	9,379,430	2,096,456	2,423,856	3,502,669	5,330,836	3,651,571	-	26,384,818
Two years later	3,405,819	1,146,335	1,361,347	1,599,363	2,581,679	-	-	10,094,543
Three years later	1,682,677	487,585	401,555	801,142	-	-	-	3,372,959
Four years later	1,205,690	303,677	280,689	-	-	-	-	1,790,056
Five years later	497,909	139,851	-	-	-	-	-	637,760
Six years later	<u>1,547,475</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,547,475</u>
Current estimate of cumulative claims	24,177,554	6,611,560	7,212,437	8,859,202	11,441,181	8,915,064	3,304,668	70,521,666
Less cumulative payments to date	<u>23,851,473</u>	<u>6,302,062</u>	<u>6,686,167</u>	<u>7,886,403</u>	<u>9,811,804</u>	<u>5,424,883</u>	<u>1,217,972</u>	<u>61,180,764</u>
Total net liability included in the statement of financial position	<u>326,081</u>	<u>309,498</u>	<u>526,270</u>	<u>972,799</u>	<u>1,629,377</u>	<u>3,490,181</u>	<u>2,086,696</u>	<u>9,340,902</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

34. SHORT TERM INSURANCE CONTRACT LIABILITIES (continued)

COMPANY

Underwriting Year	2014& Prior	2015	2016	2017	2018	2019	2020	Total
At the end of accident year	6,040,026	2,119,275	2,216,206	1,916,170	1,839,307	1,724,732	1,159,651	17,015,367
One year later	9,301,113	2,046,619	2,325,666	3,392,611	5,218,653	3,537,298	-	25,821,960
Two years later	3,327,616	1,110,047	1,317,119	1,489,791	2,522,631	-	-	9,767,204
Three years later	1,618,801	466,257	384,929	722,570	-	-	-	3,192,557
Four years later	1,191,555	299,361	264,258	-	-	-	-	1,755,174
Five years later	452,878	132,829	-	-	-	-	-	585,707
Six years later	<u>1,529,485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,529,485</u>
Current estimate of cumulative claims	23,763,226	6,460,795	6,995,186	8,421,367	11,088,411	8,491,832	3,093,160	68,313,977
Less cumulative payments to date	<u>23,461,474</u>	<u>6,174,388</u>	<u>6,508,178</u>	<u>7,521,142</u>	<u>9,580,591</u>	<u>5,262,030</u>	<u>1,159,651</u>	<u>59,667,454</u>
Total net liability included in the statement of financial position	<u>301,752</u>	<u>286,407</u>	<u>487,008</u>	<u>900,225</u>	<u>1,507,820</u>	<u>3,229,802</u>	<u>1,933,509</u>	<u>8,646,523</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

35. PAYABLES ARISING OUT OF REINSURANCE ARRANGEMENTS-OUTSTANDING CLAIMS

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Local companies	207,662	397,870	207,662	397,870
International companies	<u>1,394,555</u>	<u>1,410,004</u>	<u>922,475</u>	<u>1,167,061</u>
	<u>1,602,217</u>	<u>1,807,874</u>	<u>1,130,137</u>	<u>1,564,931</u>

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	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Excess depreciation over capital allowances	(94,593)	(92,746)	(94,593)	(92,746)
Leave pay provision	(12,428)	(11,284)	(12,428)	(11,284)
Defined benefit liability	(16,764)	(12,783)	(16,764)	(12,783)
Other provisions	(1,034)	(43,921)	(1,034)	(43,921)
Bad debts provisions	(1,035,604)	(964,705)	(1,052,277)	(964,705)
Provision for bonus	(22,803)	(44,056)	(22,803)	(44,056)
Gratuity	(9,976)	(6,728)	(9,976)	(6,728)
Tax loss	-	(41,942)	-	(58,614)
	<u>(1,193,202)</u>	<u>(1,218,165)</u>	<u>(1,209,875)</u>	<u>(1,234,837)</u>
Life fund actuarial surplus	<u>2,474,729</u>	<u>2,260,510</u>	<u>2,474,729</u>	<u>2,260,510</u>
Net deferred tax liability	<u>1,281,527</u>	<u>1,042,345</u>	<u>1,264,854</u>	<u>1,025,673</u>

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

At 1 January	1,042,345	1,083,783	1,025,673	1,083,783
Charge for the year (note 11)	239,182	13,182	239,181	(3,490)
Prior year over provision (note 11)	-	(54,620)	-	(54,620)
At 31 December	<u>1,281,527</u>	<u>1,042,345</u>	<u>1,264,854</u>	<u>1,025,673</u>

37. OTHER PAYABLES

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Purchasers deposits	-	18,883	-	18,883
Legal fees deposits	360	-	360	-
Rental deposits	155,143	148,540	155,143	148,540
Accrued leave pay	75,634	63,396	41,426	37,613
Accounts payable	249,339	217,227	202,189	194,491
Other creditors and accruals	<u>229,252</u>	<u>257,915</u>	<u>204,094</u>	<u>228,984</u>
	<u>709,728</u>	<u>705,961</u>	<u>603,212</u>	<u>628,511</u>

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

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

38. UNEARNED PREMIUMS -SHORT TERM BUSINESS

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
At 1 January	5,836,221	4,922,951	5,409,247	4,572,660
Increase/ (decrease) in the year	(3,181,017)	913,270	(3,012,933)	836,587
Additional unexpired risk reserve (AURR)	<u>196,126</u>	<u>-</u>	<u>196,126</u>	<u>-</u>
At 31 December	<u>2,851,330</u>	<u>5,836,221</u>	<u>2,592,440</u>	<u>5,409,247</u>

The significant drop is due to change in estimate from the 40% of written premiums to 8th and 24th method of written premiums. The effect on future periods is impracticable to estimate.

39. DIVIDENDS - GROUP and COMPANY

The directors propose the payment of a first and final dividend of KShs 0.20 (2019 - KShs 0.10) per share totalling to KShs million in respect of the year ended 31 December 2020 KShs 560 million (2019 - KShs 280 million). The proposed dividends are subject to approval by shareholders at the Annual General Meeting and therefore the cash dividend has not been included as a liability in these financial statements.

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

Dividends per share is summarised as follows:

	2020	2019
Proposed dividends per share:		
Dividends appropriations (KShs '000')	<u>559,959</u>	<u>279,980</u>
Number of shares at 31 December	<u>2,799,796,272</u>	<u>2,799,796,272</u>
Dividends per share	<u>0.20</u>	<u>0.10</u>
Dividends per share declared and paid:		
Dividends appropriations (KShs '000')	<u>279,980</u>	<u>314,977</u>
Number of shares at 31 December	<u>2,799,796,272</u>	<u>699,949,068</u>
Dividends per share	<u>0.10</u>	<u>0.45</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

40. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		COMPANY	
	2020	2019	2020	2019
	KShs '000	KShs '000	KShs '000	KShs '000
Profit before tax	3,983,592	4,176,194	3,750,291	4,041,808
Adjustment for:				
Depreciation (note 15)	31,180	33,665	25,596	27,301
Unrealised foreign exchange losses	-	(486)	-	(125)
Interest on corporate bonds (note 7)	(10,682)	(47,519)	(10,682)	(47,519)
Interest on government securities (note 7)	(2,095,441)	(1,899,495)	(2,081,043)	(1,880,418)
Interest on staff mortgages and loans (note 7)	(25,474)	(22,931)	(25,000)	(22,763)
Interest on deposits with financial institutions (note 7)	(585,440)	(448,562)	(544,056)	(435,129)
Interest on commercial mortgages (note 7)	(32,739)	(47,473)	(32,739)	(47,473)
Dividend income (note 7)	(88,712)	(98,849)	(88,712)	(98,849)
Provision for doubtful debts (note 24)	227,813	743,428	78,682	748,757
Amortisation of software (note 16)	191,617	202,813	191,617	202,813
Realised accumulated fair value gain on available for sale quoted equity instruments (note 7)	-	(137,457)	-	(137,457)
Gain on disposal of government securities	-	(93,383)	-	(93,383)
Provision on non-current assets held for sale	-	-	-	-
Receivable on sale of Mbagathi plot to NLC*	-	300,150	-	300,150
Fair value gain on investment properties (note 18)	36,403	(2,176,592)	36,403	(2,176,592)
Defined benefit loss recognised in profit or loss	13,269	12,048	13,269	12,048
Share of profit of associate (note 19)	(292,844)	(587,444)	(292,844)	(587,444)
Operating profit before working capital changes	1,352,542	(91,893)	1,020,782	(194,275)
Short term reinsurance contract liabilities	3,135,719	202,237	2,939,632	153,051
Unearned premiums	(2,984,891)	913,270	(2,816,807)	836,587
Other payables	3,767	(39,908)	(25,298)	(80,259)
Long term reinsurance contract liabilities	34,510	57,907	34,510	57,907
Mortgage loans	(99,450)	57,123	(97,561)	57,123
Other receivables	45,216	(313,595)	51,454	(304,844)
Increase in inventories	7,806	(8,481)	7,821	(8,481)
Deferred acquisition costs (note 31)	671,149	(45,704)	630,777	(35,796)
Premium and loss reserves	128,674	(10,313)	31,482	11,911
Payables arising out of reinsurance arrangements	(361,346)	1,258,408	(645,086)	1,124,320
Increase in due to/ from related party	-	-	27,681	1,159
Receivables arising out of reinsurance arrangements	(922,966)	304,246	(395,355)	471,019
Net cash generated from operations	1,010,730	2,283,297	764,032	2,089,422

NCL*-National Land Commission

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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.

	2020 KShs'000	GROUP 2019 KShs'000	COMPANY 2020 KShs '000	2019 KShs '000
(a) Transactions and balances with directors and staff				
(i) Directors' remuneration				
Fees	9,600	9,600	9,600	9,600
Other emoluments	<u>19,467</u>	<u>10,917</u>	<u>19,467</u>	<u>10,917</u>
	<u>29,067</u>	<u>20,517</u>	<u>29,067</u>	<u>20,517</u>
(ii) Key management remuneration				
Salaries and other short-term benefits	90,186	75,897	65,674	58,594
Post-employment benefits	<u>7,542</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>97,728</u>	<u>75,897</u>	<u>65,674</u>	<u>58,594</u>
(iii) Loans to staff	<u>545,217</u>	<u>454,382</u>	<u>534,043</u>	<u>445,072</u>

Interest income on these loans was KShs 25,020,054(2019: KShs 22,930,565). The effective interest on the loans is 5 % (2019 - 5%). Staff mortgages and car loans are fully secured.

	2020 KSh'000	GROUP 2019 KShs '000	COMPANY 2020 KShs '000	2019 KShs '000
(b) Transaction with associate company, ZEP Re				
(i) Net premium written	<u>620</u>	<u>901</u>	<u>620</u>	<u>901</u>
(ii) Claims incurred	<u>5,348</u>	<u>-</u>	<u>5,348</u>	<u>-</u>

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

		COMPANY 2020 KShs '000	2019 KShs '000
(c) Outstanding balances with related parties:	Relationship		
Due from:			
Amount due from Kenya Reinsurance Corporation Zambia and Uganda subsidiary	Subsidiary	<u>65,311</u>	<u>85,508</u>
Due to:			
Amount due to Kenya Reinsurance Corporation Cote d'Ivoire	Subsidiary	<u>28,454</u>	<u>35,938</u>

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

	2020 KShs '000	2019 KShs '000
Cost	936,077	936,077
Less: Impairment provision	<u>(936,077)</u>	<u>(936,077)</u>
	<u>-</u>	<u>-</u>
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	<u>23,000</u>	<u>23,000</u>
	<u>936,077</u>	<u>936,077</u>

KENYA REINSURANCE CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2020

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 lands located in various places and towns and registered in the Corporations' have their ownership to title disputed. The Corporation has fully provided for the parcels in dispute in financial statements. The ownership dispute/ restrictions is as outlined below:

a) L.R. No. 27269 Ngong Road

The Corporation 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 Corporation 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 Corporation has obtained confirmation from the Director of Survey that the Corporation land is distinct from that of Kenya Forest Service, the matter remains unresolved until the National Land Commission adjudicate and give its verdict. The Corporation 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 Corporation is the registered owner of land LR No. 12236 of approximately 99.5813 hectares along Kiambu Road valued at Kshs.563, 077,000. The Corporation is in dispute with one of the directors of the vendor of the land and the case is in court. The Corporation therefore is not realizing the full value of the fund invested in the property.

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

The Corporation 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 Corporation is in dispute with Kenya Prisons Department and the case is in court. The Corporation 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	<u>742,215</u>	<u>456,052</u>	<u>74,221</u>	<u>1,272,488</u>

The group is involved in a tax claim dispute with KRA arising from the assessment done from year 2009 to 2012. KRA demanded Kshs.1, 272,488,000 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 are of the opinion that this will not be payable and as a result, no provision has been made in these financial statements

44. EVENTS AFTER REPORTING DATE

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.

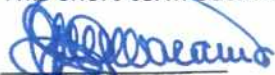
46. CURRENCY


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

Appendix I (C)
KENYA REINSURANCE CORPORATION LIMITED
SHORT TERM REVENUE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2020
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 31.12.2020	Total General 31.12.2019
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
Gross premium	73,399,337	1,221,388,045	4,014,535,548	732,130,830	215,143,875	771,811,805	131,010,352	626,587,983	305,483,471	39,302,033	12,082,335	3,193,512,264	5,334,733,770	16,671,121,648	15,477,936,293
Movement in unearned premium	(9,181,129)	(216,764,461)	(253,837,192)	994,232,150	(32,297,910)	128,285,475	(685,092,854)	99,178,401	2,870,696,900	(80,544,931)	(56,642,848)	(171,771,096)	398,630,620	2,984,891,125	(913,269,811)
Earned premiums	64,218,208	1,004,623,584	3,760,698,356	1,726,362,980	182,845,965	900,097,280	(554,082,502)	725,766,384	3,176,180,371	(41,242,898)	(44,560,513)	3,021,741,168	5,733,364,390	19,656,012,773	14,564,666,482
Less: Retrocession premiums	20,010,132	332,152,674	38,507,644	19,520,005	70,217	64,347,219	11,213,128	-	37,250,621	-	-	-	80,351,412	603,423,052	979,053,570
Net earned premiums	44,208,076	672,470,910	3,722,190,712	1,706,842,975	182,775,748	835,750,061	-565,295,630	725,766,384	3,138,929,750	(41,242,898)	(44,560,513)	3,021,741,168	5,653,012,978	19,052,589,721	13,585,612,912
Claims paid	16,949,312	511,099,884	1,861,013,399	316,179,773	36,114,144	253,952,587	100,362,479	649,330,081	115,471,400	3,397,439	3,025,644	2,297,130,939	3,348,524,636	9,512,551,717	10,312,639,008
Claims recoverable	-	(129,002,041)	(76,231,556)	-	-	(84,796,233)	-	-	(95,673,305)	-	-	-	-	(385,703,135)	(353,755,354)
Claims reserves at 01.01.2020	(7,350,329)	(440,233,442)	(16,583,810)	(2,310,060,589)	(115,696,390)	(373,736,236)	(2,551,085)	(913,121,802)	(15,082,827)	(75,176,620)	(39,205)	(611,131,802)	(1,324,419,113)	(6,205,183,250)	(6,002,945,963)
Claims reserves at 31.12.2020	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
Net claims incurred	30,969,539	835,094,578	1,802,258,152	1,009,155,245	(5,734,409)	139,952,230	180,142,534	1,677,511,665	62,666,055	(62,575,971)	5,465,121	3,110,721,100	3,476,941,277	12,262,567,116	10,161,120,941
Commissions	17,748,756	367,708,124	1,179,321,255	202,432,353	64,375,376	243,348,703	12,802,345	89,312,776	111,979,202	9,442,650	3,275,164	786,712,399	1,024,471,915	4,112,931,018	3,537,787,063
Commissions recoverable	-	15,965,986	1,637,535	5,179,388	604,813	1,638,125	3,205,842	-	785,636	-	-	-	4,958,084	33,975,409	25,221,172
Commissions movement	(71,545)	(54,909,591)	(7,494,888)	207,458,736	(14,773,342)	42,149,386	(162,198,445)	(57,679,854)	755,177,843	(1,948,649)	(21,247,941)	10,968,166	(24,281,705)	671,148,171	(45,704,000)
Net commissions	17,677,211	296,832,547	1,170,188,832	404,711,701	48,997,221	283,859,964	(152,601,942)	31,632,922	866,371,409	7,494,001	(17,972,777)	797,680,565	995,232,126	4,750,103,780	3,466,861,891
Provision for bad debts	1,003,011	16,690,423	54,859,139	10,004,661	2,939,968	10,546,907	1,790,273	8,562,405	4,174,471	537,067	165,107	43,639,752	72,899,816	227,813,000	743,427,999
Management expenses	7,324,622	121,884,007	400,616,071	73,060,351	21,469,506	77,020,171	13,073,705	62,528,084	30,484,619	3,922,004	1,205,713	318,685,019	532,360,483	1,663,634,355	1,598,421,535
Total expenses	56,974,383	1,270,501,555	3,427,922,194	1,496,931,958	67,672,286	511,379,272	42,404,570	1,780,235,076	963,696,554	(50,622,899)	(11,136,836)	4,270,726,436	5,077,433,702	18,904,118,251	15,969,832,366
Underwriting profit/(loss)	(12,766,307)	(598,030,645)	294,268,518	209,911,017	115,103,462	324,370,789	(607,700,200)	(1,054,468,692)	2,175,233,196	9,380,001	(33,423,677)	(1,248,985,268)	575,579,276	148,471,470	(2,384,219,454)
loss Ratio	70%	124%	48%	59%	(3%)	17%	(32%)	231%	2%	152%	(12%)	103%	62%	64%	75%

This short-term business revenue account was approved the board of directors on 31st May 2021 and were signed on its behalf by:


Jadhah Mwarania
Principal Officer

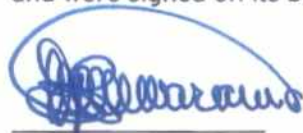

Chiboli Shaka
Director


Michael O. Monari
Director

Appendix II
KENYA REINSURANCE CORPORATION LIMITED
LONG TERM REVENUE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2020
INFORMATION NOT SUBJECT TO AUDIT

GROUP LONG TERM REVENUE ACCOUNT AS AT 31 DECEMBER 2020	Ordinary Kshs '000	Super Annuation Kshs '000	2020 Kshs '000	2019 Kshs '000
Gross earned premiums	73,363	1,790,736	1,864,099	2,043,407
Less: Retrocessions premiums	(5,237)	(61,188)	(66,425)	(98,402)
Net earned premium	68,126	1,729,548	1,797,674	1,945,005
Net claims incurred	(7,679)	(1,211,822)	(1,219,501)	(842,912)
Change in actuarial liability	(1,358)	(33,152)	(34,510)	(57,907)
Net cedant acquisition costs	(20,718)	(505,702)	(526,420)	(599,964)
Management expenses	(7,777)	(189,825)	(197,602)	(238,315)
Underwriting surplus	30,594	(210,953)	(180,359)	205,907
Fair value gains	(202)	(4,925)	(5,127)	315,277
Investment income	41,603	1,015,502	1,057,105	848,013
Increase in life fund	71,995	799,624	871,619	1,369,197

This long-term business revenue account was approved the board of directors on 31st May 2021
and were signed on its behalf by:



Jadhah Mwarania
Principal Officer



Chiboli Shakaba
Director



Michael O. Monari
Director