PKF

PACIS INSURANCE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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COMPANY INFORMATION

BOARD OF DIRECTORS	:	Dr. Samuel Kiruthu
	:	James Ngunjiri
	:	Rt. Rev. James Wainaina
	:	Rev. Fr. Simon Ngángá
	:	Very Rev. Fr. Daniel K. Rono
	:	Angelica Kamuyu
	:	Charles Kanjama
	:	Ewart Salins
	:	Brian Omwenga
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	:	Centenary House, 2nd Floor
	:	Off Ring Road, Westlands
	:	P.O. Box 1870, 00200
	:	NAIROBI
INDEPENDENT AUDITOR	:	PKF Kenya
	:	Certified Public Accountants
	:	P.O. Box 14077, 00800
	:	NAIROBI
COMPANY SECRETARY	:	Emu Registrars
	:	Certified Public Secretary
	:	Green House, 3rd Floor, Suite 8
	:	P.O. Box 61120, 00200
	:	NAIROBI
PRINCIPAL BANKERS	:	Barclays Bank of Kenya Limited
	:	NAIROBI
	:	Kenya Commercial Bank Limited
	:	NAIROBI
	:	NIC Bank Limited
	:	NAIROBI
PRINCIPAL LEGAL ADVISORS	:	Nyiha, Mukoma and Company Advocates
	:	NAIROBI
CONSULTING ACTUARY	:	Zamara Actuaries, Administrators & Consultants Limited
	:	NAIROBI

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2018 which disclose the state of affairs of the company.

COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability company and is domiciled in Kenya.

PRINCIPAL ACTIVITIES

The company conducts all classes of general insurance business as defined by Section 31 of the Insurance Act (Cap 487), laws of Kenya with the exception of Aviation and Motor PSV (Matatu).

BUSINESS REVIEW

In the current period, the company reported net earned premiums of KES. 976,521,000 (2017 : KES. 893,506,000). The premiums underwritten in the period were mainly for motor commercial, motor private and medical classes. The increase is mainly due to increase in policy rates for motor commercial and motor private classes as well as increase in policies written for the year as compared to prior year.

The company reported a profit before tax of KES. 103,395,000 (2017: KES. 106,865,000).

As at 31 December 2018, the net asset position of the company was KES. 1,063,398,000 (2017: KES. 981,164,000).

Key performance indicators	2018 KES'000/%	2017 KES'000/%
Gross written premiums	1,307,287	1,217,078
Profit for the year	65,308	75,680
Claims ratio	41%	38%
Commission ratio	12%	13%
Expense ratio	34%	38%

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on overall performance of the company. The company's strategic focus is to enhance revenue growth whilst maintaining profit margins, the success of which remains dependent on overall market conditions, marketing strategies and innovativeness to obtain market share.

In addition to the business risks discussed above, the company's activities expose it to a number of financial risks and insurance risks which are described in detail in Note 3 to the financial statements.

DIVIDEND

The directors recommend a dividend payment of KES. 30,000,000 through a bonus issue of KES. 15,000,000 and cash dividend of KES.15,000,000 for the year ended 31 December 2018.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS

The directors who held office during the period and to the date of this report are shown on page 1.

In accordance with the company's Articles of Association, no director is due for retirement by rotation.

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.

TERMS OF APPOINTMENT OF THE AUDITOR

The company's auditor, PKF Kenya, who was appointed during the year and continues in accordance with the company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015. 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.

BY ORDER OF THE BOARD

COMPANY SECRETARY
NAIROBI

22nd March 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; that disclose, with reasonable accuracy, the financial position of the company and that enable them to prepare financial statements of the company that comply with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

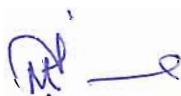
i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
ii. Selecting and applying appropriate accounting policies; and
iii. Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31 December 2018 and of the company's financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

In preparing these financial statements the directors have assessed the company's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

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 22nd March 2019 and signed on its behalf by:



DIRECTOR

DIRECTOR

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF PACIS INSURANCE COMPANY LIMITED

Opinion

We have audited the financial statements of Pacis Insurance Company Limited set out on pages 9 to 52, which comprise the statement of financial position as at 31 December 2018, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of Pacis Insurance Company Limited's financial position as at 31 December 2018 and of its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards (IFRSs) and 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 Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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

This section of the audit report is intended to describe the matters communicated with those charged with governance that we have determined, in our professional judgment, were of most significance in the audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of insurance contract liabilities

The directors exercise significant judgement in estimation of outstanding reported claims and Incurred But Not Reported (IBNR) claims. Accounting policy 1(b) to the financial statements describes the basis for such provisions and Note 25 to the financial statements sets out the disclosures in respect of these provisions. Such provisions are based on multiple sources of information including models developed that rely on an expected development patterns of claims. Because of the complexity of such models, the degree of judgement and estimation involved and the quantum of these provisions, the audit of insurance contract liabilities is a key audit matter.

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Partners: Rajan Shah, Atul Shah, Alpesh Vadher, Piyush Shah, Ritesh Mirchandani*, David Kabeberi, Charles Oguttu***, Asif Chaudhry, Ketan Shah**, Michael Mburugu, Gurmit Santokh, Darshan Shah, Salim Alibhai, Larian Abreu, Patrick Kuria, Nishith Shah, Jalpesh Shah, Erick Njuguna, Peter Kahi, Ajay Chandria, Mike Kimundu, Shilpa Chheda**
(*Indian, **British, ***Ugandan)

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF PACIS INSURANCE COMPANY LIMITED (CONTINUED)

Key Audit Matters (continued)

Valuation of insurance contract liabilities (continued)

Our audit procedures included testing the key controls over the claims recording procedures, including controls over the completeness and accuracy of the data that supports the models used in estimating the insurance contract liabilities. We tested management's model and in testing the reasonability of the estimates and assumptions used by management, we reviewed the expected pattern of claims development against provisions recognised. We also applied our knowledge of the industry to determine overall reasonability of the provisions recognised.

Information technology (IT) systems and controls over financial reporting

The company is reliant on IT systems, with respect to its underwriting function. There is a risk that the controls around the IT systems may not be designed and operating effectively which could have a material impact on amounts reported. Therefore this represented a key audit matter.

Our audit procedures involved testing the design and implementation of the controls around the information technology environment and operating effectiveness for controls that were critical to databases within the scope of our audit and the financial reporting process. Where our procedures identified deficiencies, we assessed the design and implementation of any controls that mitigated the identified risks and extended the scope of our tests of operating effectiveness of controls and/or substantive audit procedures.

Other information

The directors are responsible for the other information. The other information comprises the report of the directors, statement of directors responsibilities and the general business revenue account but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 that we 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.

When we read the other reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of directors for the financial statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 company or to cease operations, or has no realistic alternative but to do so.

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF PACIS INSURANCE COMPANY LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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 director's 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 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 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 company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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 those charged with governance 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.

PKF

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF PACIS INSURANCE COMPANY LIMITED (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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

In our opinion the information given in the report of the directors on pages 2 and 3 is consistent with the financial statements.

Certified Public Accountants
Nairobi

28 March 2019

CPA Salim Alibhai, Practising certificate No. 2151
Signing partner responsible for the independent audit

0209/19

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2018 KES'000	2017 KES'000 Restated*
Gross written premiums	4(a)	1,307,287	1,217,078
Change in gross UPR		2,327	(76,576)
Gross earned premiums	4(a)	1,309,614	1,140,502
Less: reinsurance premium ceded	4(b)	(333,093)	(246,996)
Net earned premiums		**976,521**	**893,506**
Investment income	5(a)	87,260	94,284
Other operating income	5(b)	4,538	43,546
Commissions earned		46,423	41,766
Net income		**1,114,742**	**1,073,102**
Claims payable	6	615,067	527,583
Less: amounts recoverable from reinsurers	6	(211,283)	(186,236)
Net claims payable	6	**403,784**	**341,347**
Commissions payable		155,784	160,988
Operating and other expenses	7	445,616	459,840
Finance cost		6,163	4,062
Total commission and operating expenses		**607,563**	**624,890**
Profit before tax		**103,395**	**106,865**
Tax charge	10	(38,087)	(31,185)
Profit for the year		**65,308**	**75,680**
Other Comprehensive Income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Fairvalue loss arising from available-for-sale financial assets		-	(124)
Available for sale reserve reclassified to profit or loss		-	(353)
Other comprehensive income for the year		-	**(477)**
Total comprehensive income for the year		**65,308**	**75,203**
Proposed dividend for the year	38	**30,000**	-

The notes on pages 13 to 52 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8.

***- refer to note 37**

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December		
		2018	**2017**	**2016**
		KES'000	**KES'000**	**KES'000**
			Restated*	**Restated***
CAPITAL EMPLOYED				
Share capital	23	325,000	325,000	300,000
Shareholder's contribution pending allotment	24	252,560	221,605	215,000
Share premium		5,712	5,712	5,712
Available for sale reserve		-	(477)	-
Revenue reserve		450,126	429,324	378,894
Proposed dividend	38	30,000	-	-
Shareholders' funds		1,063,398	981,164	899,606
REPRESENTED BY:				
Assets				
Property and equipment	11	33,192	29,475	36,915
Intangible assets	12	24,131	29,594	28,898
Investment properties	13	843,850	843,850	843,850
Investment in unquoted equity shares	14	113,089	59,003	-
Deferred tax	15	13,522	11,318	23,738
Government securities - 'Held to maturity'	16	240,700	214,390	146,390
Quoted equity investments - available for sale	17	40,976	25,764	2,202
Deferred acquisition costs	18	50,493	43,720	42,824
Reinsurers' share of insurance contract liabilities	19	366,104	284,124	219,628
Receivables arising out of direct insurance arrangements	20 (a)	467,544	438,592	250,222
Receivables arising out of reinsurance arrangements	20 (b)	180,547	142,002	118,844
Other receivables	21	39,394	32,739	68,880
Deposits with financial institutions	22	129,215	111,720	28,101
Cash and bank balances	32	12,474	19,300	216,534
Tax recoverable		-	11,565	16,640
Total assets		2,555,229	2,297,156	2,043,666
Liabilities				
Insurance contract liabilities	25	691,166	603,346	554,496
Unearned premium reserve	27	477,562	479,889	403,313
Other payables	28	100,670	118,720	82,920
Payables arising out of reinsurance arrangements	29	153,997	67,979	58,683
Borrowings	30	49,599	46,058	44,648
Tax payable		18,837	-	-
Total liabilities		1,491,831	1,315,992	1,144,060
Net assets		1,063,398	981,164	899,606

The financial statements on pages 9 to 52 were approved and authorised for issue by the Board of Directors on 22nd March 2019 and were signed on its behalf by:

Director | **Director** | **Principal officer**

The notes on pages 13 to 52 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8.

*** - refer to note 37**

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital KES'000	Shareholders contribution pending allotment KES'000	Share premium KES'000	Available - for - sale reserve KES'000	Revenue reserve KES'000	Proposed dividends KES'000	Total KES'000
Year ended 31 December 2017								
At start of year - as previously stated		303,000	200,000	17,712	-	389,459	-	910,171
Prior year adjustment*								
- Reclassification of capital employed		(3,000)	15,000	(12,000)	-	-	-	-
- Government securities - 'Held to maturity'		-	-	-	-	(10,565)		(10,565)
At start of year - as restated		300,000	215,000	5,712	-	378,894	-	899,606
Total comprehensive income for the year		-	-	-	(477)	75,680	-	75,203
Additional share capital		-	6,355	-	-	-	-	6,355
Bonus shares		25,000	250	-	-	(25,250)	-	-
At end of year		325,000	221,605	5,712	(477)	429,324	-	981,164
Year ended 31 December 2018								
At start of year - as previously stated		303,000	231,605	17,712	(477)	408,134	-	959,974
Prior year adjustment*								
- Bonus shares reclassification		25,000	(25,000)	-	-	-	-	-
- Reclassification of capital employed		(3,000)	15,000	(12,000)	-	-	-	-
- Deferred tax adjustment		-	-	-	-	(5,385)	-	(5,385)
- Government securities - 'Held to maturity'		-	-	-	-	(10,565)	-	(10,565)
- Salvage recoveries		-	-	-	-	37,140	-	37,140
At start of year - as restated		325,000	221,605	5,712	(477)	429,324	-	981,164
Total comprehensive income for the year		-	-	-	-	65,308	-	65,308
Transfer to revenue reserve		-	-	-	477	(477)	-	-
Additional share capital	32	-	30,955	-	-	-	-	30,955
Dividends declared	32	-	-	-	-	(14,029)	-	(14,029)
Dividend proposed for 2018	38	-	-	-	-	(30,000)	30,000	-
At end of year		325,000	252,560	5,712	-	450,126	30,000	1,063,398

The notes on pages 13 to 52 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8.

*** - refer to note 37**

STATEMENT OF CASH FLOWS

	Notes	2018 KES'000	2017 KES'000
Operating activities			
Cash generated from operations	31	100,967	42,227
Tax paid		(9,266)	(13,690)
Net cash from operations		91,701	28,537
Investing activities			
Dividend received	5(a)	436	230
Interest from government securities	5(a)	23,891	19,665
Interest on deposits with financial institutions	5(a)	11,072	11,221
Purchase of property and equipment	11	(14,094)	(2,664)
Purchase of intangible assets	12	(6,898)	(10,566)
Purchase unquoted equity investments	14	(54,086)	(59,003)
Purchase of quoted equity investments	17	(55,328)	(25,719)
Proceeds from disposal of quoted equity investments	17	25,328	2,033
Purchase of government securities	16	(152,700)	(123,700)
Proceeds from maturity of government securities	16	126,391	55,700
Net cash (used in) investing activities		(95,988)	(132,803)
Financing activities			
Proceeds from contributions pending allotment	24	30,955	6,355
Proceeds from borrowings	30	3,541	1,410
Interest paid on borrowings		(6,163)	(4,062)
Dividends paid during the year		(13,378)	(13,052)
Net cash from/(used in) financing activities		14,955	(9,349)
Increase/(decrease) in cash and cash equivalents		10,669	(113,615)
Movement in cash and cash equivalents			
At start of year		131,020	244,635
Increase/(decrease)		10,669	(113,615)
At end of year	32	141,689	131,020

The notes on pages 13 to 52 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8.

1. **Significant accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements comply with the requirements of the Kenyan Companies Act, 2015. The statement of profit or loss and other comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

a) **Basis of preparation**

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Transfer between levels of the fair value hierarchy are recognised by the directors at the end of the reporting period during which the change occurred.

Going concern

The financial performance of the company is set out in the report of the directors and in the statement of profit or loss. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk management are set out in Note 3.

Based on the financial performance and position of the company and its risk management policies, the directors are of the opinion that the company is well placed to continue in business for the foreseeable future and as a result the financial statements are prepared on a going concern basis.

New standards, amendments and interpretations issued but not effective

At the date of authorisation of these financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented:

- Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.

- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.

- Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.

1. **Significant accounting policies (continued)**

a) **Basis of preparation (continued)**

New standards, amendments and interpretations issued but not effective (continued)

- Amendments to IAS 28 'Investments in Associates and Joint Ventures' effective for annual periods beginning on or after 1 January 2019 clarifying that IFRS 9 is only applicable to investments to which the equity method is not applied.

- Amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' effective for annual periods beginning on or after 1 January 2019 in relation to remeasurement of previously held interests on a joint operation on obtaining control.

- IFRS 9 'Financial Instruments'

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively.

During 2018, the company performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the company expects no significant impact on its balance sheet and equity, except for the effect of applying the impairment requirements of IFRS 9.

The company expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent. The group meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments (see below).

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

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

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

During 2018, the company performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2015. During 2018, there had been no significant change in the activities of the company that requires reassessment. The company 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 starting on 1 January 2018.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

a) **Basis of preparation (continued)**

New standards, amendments and interpretations issued but not effective (continued)

- IFRS 16 'Leases' (issued in January 2017) effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease' and their interpretations (SIC-15 and SIC-27). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

- IFRS 17 'Insurance Contracts' (issued May 2017) effective for annual periods beginning on or after 1 January 2022 establishes the principles for the recognition, measurement, presentation and disclosure of 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, re-measured every reporting period (the fulfillment cash flows)

- A Contractual Service Margin (CSM)that is equal and opposite to any day one gain in the fulfillment 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 balance sheet

- 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

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. 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.

1. **Significant accounting policies (continued)**

a) **Basis of preparation (continued)**

New standards, amendments and interpretations issued but not effective (continued)

The company plans to adopt the new standard on the required effective date together with IFRS 9 (see above). The company started a project to implement IFRS 17 and has been performing a high-level impact assessment of IFRS 17. The company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the company and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

- IFRIC 23 'Uncertainty over income tax treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

The directors expect that the future adoption of IFRS17 and IFRS 9 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.

b) **Insurance contracts**

The company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance and investment contracts contain a discretionary participation feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the company; and

That are contractually based on:

- the performance of a specified pool of contracts or a specified type of contract;
- realised and/or unrealised investment returns on a specified pool of assets held by the company; or
- the profit or loss of the company, fund or other entity that issues the contract.

Local statutory regulations and the terms and conditions of these contracts set out the basis for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the Company may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the eligible surplus must be attributed to contract holders as a group (which can include future contract holders); the amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the relevant local appointed actuary.

Recognition and measurement

The company issues contracts that transfer insurance risk. As a general guideline, the company defines a significant insurance risk as the possibility of having to pay claims on the occurrence of an insured event.

Premium income

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium.

1. **Significant accounting policies (continued)**

b) **Insurance contracts (continued)**

Premium income (continued)

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned premium liability. Unearned premiums are computed based on the 1/365th method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, 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.

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, 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 year are closed and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

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 are used.

Commissions

Commissions payable are recognised in the period in which the related premiums are written. Commissions receivable are recognised in income in the period in which the related premiums ceded.

Reinsurance contracts held

Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

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

The company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss. The company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets (Note 1 (g)).

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

b) **Insurance contracts (continued)**

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivables are impaired, the company reduces the carrying amount of the insurance receivables accordingly and recognises that impairment loss in profit or loss. The company gathers the objective evidence that an insurance 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.

Salvage and subrogation reimbursements

Some insurance contracts permit the company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the asset.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

c) **Other income**

Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

d) **Property and equipment**

All property and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on a straight line basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	Rate %
Motor vehicle	25
Computer equipment	20
Furniture, fittings and office equipment	12.5

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax.

1. **Significant accounting policies (continued)**

e) **Investment properties**

Investment properties are long-term investment in land and buildings that is not occupied substantially for own use. Investment property is initially recognised at cost and subsequently carried at fair value representing open market value at the reporting date. Changes in fair value are recorded in profit or loss.

Gains and losses on disposal of investment property are determined by reference to their carrying amount and are taken into account in determining profit before tax.

f) **Intangible assets**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

i) **Computer software**

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which are estimated to be four years.

g) **Financial assets**

The company classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables and held to maturity. The classification is determined by management at initial recognition.

i) **Classification**

- **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

- **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables comprise receivables arising out of reinsurance arrangements, receivables arising out of direct insurance arrangements, other receivables, deposits with financial institutions and cash and cash equivalents.

- **Held-to-maturity financial assets**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity, other then:

- those that the company upon initial recognition designates as at fair value through profit or loss;
- those that the company designates as Available for sale; and
- those that meet the definition of loans and receivables

Interest on held-to-maturity investments are included in profit or loss and are reported as 'interest and similar income'. In the case of an impairment, it is been reported as a deduction from the carrying value of the investment and recognised in profit or loss as 'gain/(loss) on investments.'

1. **Significant accounting policies (continued)**

g) **Financial assets (continued)**

ii) **Recognition and measurement**

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or loss arising from changes in the fair value of the financial assets at fair value through profit or loss' category are presented in profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of investment income when the Company's right to receive payments is established.

iii) **Determination of fair value**

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities on the stock exchange (NSE). The quoted market price used for financial assets held by the company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. For example a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the reporting date.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value as disclosed in accounting policy (a).

iv) **Reclassification of financial assets**

Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading if the company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

1. **Significant accounting policies (continued)**

g) **Financial assets (continued)**

v) **Impairment of assets**

Evidence of impairment may include indications that the receivables or a group of receivables is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

Financial assets carried at amortised cost

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or company of financial assets is impaired. A financial asset or a company of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') has an impact on the estimated future cash flows of the financial asset or company of financial assets that can be reliably estimated.

vi) **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

vii) **Impairment of other non-financial assets**

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non- financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

h) **Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, net of restricted balances.

NOTES (CONTINUED)

1. **Significant accounting policies (continued)**

i) **Accounting for leases**

The company as lessee

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

j) **Employee benefits**

i) Retirement benefit obligations

The company operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the company and employees. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The employees of the company are also members of the National Social Security Fund ("NSSF").

The company's contributions to the defined contribution scheme and NSSF are charged to the profit or loss in the year to which they relate. The company has no further obligation once the contributions have been paid.

ii) Other entitlements

The estimated monetary liability for employees accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss.

k) **Taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss.

Current tax
Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax
Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recoverable entirely through sale unless presumption is rebutted. The presumption is rebutted when the investment property is depreciable and held within a business model whose objective is to consume substantially all its economic benefits embodied in it over time rather than through sale.

l) **Dividends**

Proposed dividends are disclosed as a separate component of equity until declared.

Dividends are recognised as a liability in the year in which they are approved by the Company's shareholders.

m) **Share capital**

Ordinary shares are classified as equity.

n) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparative figures have been adjusted as indicated on Note 37.

NOTES (CONTINUED)

2. Critical accounting estimates and judgments

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continuously evaluated and based on historical experience and other factors, expectations of future events that are believed to be reasonable under the circumstances.

a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the company will ultimately pay for such claims.

Judgement is also applied in the estimation of future contractual cash flows in relation to reported losses and losses incurred but not yet reported. There are several sources of uncertainty that need to be considered in the estimate of the ability that the company will ultimately pay for such claims. Case estimates are computed on the basis of the best information available at the time the records for the year are closed. Note 25 contains further details on this process.

b) Impairment of receivables

The company reviews their portfolio of receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.

c) Held to maturity financial assets

The directors have reviewed the company's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the company's positive intention and ability to hold those assets to maturity.

3. Management of insurance and financial risk

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

The company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the company manages them.

3.1 Insurance risk

The risk under any one insurance contract is 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.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance 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 using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The company has developed its insurance 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. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

3. **Management of insurance and financial risk (continued)**

3.1 **Insurance risk (continued)**

i) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered as a result of exposure to asbestos, and the increase in the number of cases coming to court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period typically required to settle these cases.

The company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the company to pursue third parties for payment of some or all costs (for example, subrogation).

The reinsurance arrangements include excess, surplus coverage. The effect of such reinsurance arrangements is that the company should not suffer total net insurance losses of more than set limits per class of business business in any one year. In addition to the overall company reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.

The company has specialised claims units dealing with the mitigation of risks surrounding known claims. This unit investigates and adjusts all claims. The claims are reviewed individually at least semi-annually and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

ii) Sources of uncertainty in the estimation of future benefit payments and premium receipts

Claims on all insurance contracts are payable on a claims-occurrence basis. The company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, claims are settled over a long period of time and a large element of the claims provision relates to incurred but not reported claims (IBNR). The compensation paid on these contracts is the monetary awards granted for bodily injury suffered and damage or loss to property.

The tables below disclose the concentration of insurance liabilities by the class of business in which the contract holder operates and by the maximum insured loss limit included in the terms of the policy. The amounts are the carrying amounts of the insurance liabilities (gross and net of reinsurance) arising from insurance contracts:

3. Management of insurance and financial risk (continued)

3.1 Insurance risk (continued)

ii) Sources of uncertainty in the estimation of future benefit payments and premium receipts (continued)

Concentration by class of business and maximum insured loss

Year ended 31 December 2018

		Maximum insured loss KES '000		
		KES 0 - KES 15m - KES'000	**KES 15- KES 250m KES'000**	**Total KES'000**
Engineering	Gross	1,302	-	1,302
	Net	423	-	423
Fire domestic	Gross	289	-	289
	Net	99	-	99
Fire industrial	Gross	-	42,011	42,011
	Net	-	12,456	12,456
Liability	Gross	-	17,990	17,990
	Net	4,501	-	4,501
Marine	Gross	-	-	-
	Net	-	-	-
Motor private	Gross	278,989	-	278,989
	Net	33,287	-	33,287
Motor commercial	Gross	199,458	-	199,458
	Net	-	48,576	48,576
Personal accident	Gross	879	-	879
	Net	97	-	97
Medical	Gross	-	37,896	37,896
	Net	11,289	-	11,289
Theft	Gross	7,089	-	7,089
	Net	2,215	-	2,215
WCA	Gross	14,678	-	14,678
	Net	6,569	-	6,569
Miscellaneous	Gross	12	-	12
	Net	-	-	-
Total	**Gross**	**502,696**	**97,897**	**600,593**
	Net	**58,480**	**61,032**	**119,512**

The concentration by sector or maximum insured loss at the end of the year is broadly consistent with the prior year.

3. **Management of insurance and financial risk (continued)**

3.1 **Insurance risk (continued)**

ii) **Sources of uncertainty in the estimation of future benefit payments and premium receipts (continued)**

Concentration by class of business and maximum insured loss

Year ended 31 December 2017

		Maximum insured loss KES '000		
		KES 0 - KES 15m - KES'000	**KES 15- KES 250m KES'000**	**Total KES'000**
Engineering	Gross	1,382	-	1,382
	Net	445	-	445
Fire domestic	Gross	297	-	297
	Net	87	-	87
Fire industrial	Gross	-	32,011	32,011
	Net	-	16,927	16,927
Liability	Gross	-	16,504	16,504
	Net	3,591	-	3,591
Marine	Gross	-	-	-
	Net	-	-	-
Motor private	Gross	-	194,622	194,622
	Net	-	30,270	30,270
Motor commercial	Gross	-	225,024	225,024
	Net	-	118,576	118,576
Personal accident	Gross	779	-	779
	Net	105	-	105
Medical	Gross	-	32,393	32,393
	Net	10,910	-	10,910
Theft	Gross	6,086	-	6,086
	Net	1,261	-	1,261
WCA	Gross	13,204	-	13,204
	Net	4,673	-	4,673
Miscellaneous	Gross	(68)	-	(68)
	Net	-	-	-
Total	**Gross**	**21,680**	**500,554**	**522,234**
	Net	**21,072**	**165,773**	**186,845**

iii) **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.

3. **Management of insurance and financial risk (continued)**

3.1 **Insurance risk (continued)**

iii) **Sensitivities (continued)**

The assumptions are as follows:

	Insurance contract liabilities	Re-insurance liabilities	Net
31 December 2018			
Average claim cost (KES)	185,814	19,239	166,575
Average number of claims	3,124	3,124	3,124
31 December 2017			
Average claim cost (KES)	171,049	4,631	166,418
Average number of claims	2,860	2,860	2,860

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity*
31 December 2018					
Average claim cost (KES)	+/-10%	+/- 37,163	+/- 37,163	+/- 37,163	+/- 221,374
Average number of claims	+/-10%	+/- 625	+/- 625	-/+ 625	-/+ 625
31 December 2017					
Average claim cost (KES)	+/-10%	+/- 10,692	+/- 10,692	-/+ 10,692	-/+ 7,484
Average number of claims	+/-10%	+/- 16,966	+/- 16,576	-/+ 16,576	-/+ 11,603

* Impact on equity reflects adjustments for tax, when applicable.

Sensitivity analysis - motor claims

The company derives a substantial portion of its revenue from Motor Insurance. The claims payable under third party motor claims are most sensitive to changes in the average claims awarded to claimants. These claims are influenced by changes in the inflation rates and the level of general claims awarded by the courts. In the opinion of the directors, the claims provisions as at 31 December 2018 were adequate.

iv) **Claims development table**

The following tables show the estimates of cumulative incurred claims, including both claims notified and incurred but not reported for each successive accident year at each reporting date, together with cumulative payments to date.

3. **Management of insurance and financial risk (continued)**

3.1 **Insurance risk (continued)**

iv) **Claims development table (continued)**

Claims development table

	2014 KES'000	2015 KES'000	2016 KES'000	2017 KES'000	2018 KES'000	Total KES'000
Claims Outstanding as at the end of year:	9,867	49,333	59,200	113,466	261,466	493,332
Accident Year	54,069	101,610	77,835	125,200	221,134	579,848
One year later	35,339	78,767	53,312	83,466	-	250,885
Two years later	23,098	61,060	39,200	-	-	123,357
Three years later	15,097	47,333	-	-	-	62,430
Four years later	9,867	-	-	-	-	9,867
Five years later	-	-	-	-	-	-
Total claims liability	9,867	47,333	39,200	83,466	221,134	401,001

Outstanding Claims for Accident Year 2013 & prior	92,332
Outstanding Claims for Medical Class (as at 31 Dec 2018)	46,812
Incurred But Not Reported Claims	151,022
Total Gross Claims Liabilities	691,166

3.2 **Financial risk**

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. It manages these positions with an Asset Liability Management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The company produces regular reports at portfolio and asset and liability class level that are circulated to the company's key management personnel. The principal technique of the company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The company's ALM is also integrated with the management of the financial risks associated with the company's other financial assets and liabilities not directly associated with insurance and investment liabilities (in particular, borrowings). The company does not use hedge accounting.

The company has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the company's ALM framework.

3. **Management of insurance and financial risk (continued)**

3.2 **Financial risk (continued)**

a) **Short-term insurance contracts**

The company engages in short term insurance contracts and funds the insurance liabilities with a portfolio of equity investments, debt securities and deposits with financial institutions exposed to market risk. An analysis of the company's financial assets and its short term insurance liabilities is presented below;

Financial assets	**2018 KES'000**	**2017 KES'000**
Held to maturity:		
- Government securities – treasury bonds	88,000	90,690
Loans and receivables:		
- Government securities – treasury bills	152,700	123,700
Available for sale:		
- Quoted equity investments	40,976	25,764
- Investment in unquoted shares	113,089	59,003
Receivables from direct insurance contracts	467,544	438,592
Reinsurance share of insurance liabilities and reserves	366,104	284,124
Receivables arising out of reinsurance arrangements	180,547	142,002
Other receivables (excluding non-financial assets)	39,394	32,739
Cash and bank balances	12,474	19,300
Deposits with financial institutions	129,215	111,720
Total	1,590,042	1,327,634
Short – term insurance liabilities		
Insurance contracts	691,166	603,346
Provisions for unearned premiums and unexpired risks	477,562	479,889
Payables arising from reinsurance arrangements	153,997	67,979
Total	1,322,725	1,151,214

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing. However, due to the time value of money and the impact of interest rates on the level of loss incurred by the company's policyholders policyholders (where a reduction of interest rate would normally produce a higher insurance liability), the company matches the cash flows of assets and liabilities in this portfolio by estimating their mean duration.

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from the insurance contracts in force at the statement of financial position date (both incurred claims and future claims arising from the unexpired risks at the statement of financial position date). The mean durations are:

	2018	**2017**
Net short term insurance liabilities - property risk	0.25 years	0.5 years
Net short term insurance liabilities - casualty risk	0.05 years	0.08 years
Financial assets (excluding equity securities)	1 year	1.25 years

NOTES (CONTINUED)

3. **Management of insurance and financial risk (continued)**

3.2 **Financial risk (continued)**

a) **Short-term insurance contracts (continued)**

The table below shows the contractual timing of cash flows arising from assets and liabilities included in the company's ALM framework for management of short term insurance contracts as of 31 December 2018:

	Carrying Amount	No stated maturity	Contractual cash flows (undiscounted)			
			0-1 year	1-2 years	2-3 years	> 5 years
	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000
Financial assets						
Investment in unquoted shares	113,089	113,089	-	-	-	-
Investments in Government securities	240,700	-	152,700	-	-	88,000
Available for sale						
- Quoted equity investments	40,976	40,976	-	-	-	-
Receivables from direct insurance contracts	467,544	-	408,230	59,314	-	-
Reinsurance share of insurance liabilities and reserves	366,104	-	366,104	-	-	-
Other receivables	39,394	-	39,394	-	-	-
Cash and bank balances	12,474	-	12,474	-	-	-
Deposits with financial institutions	129,215	-	129,215	-	-	-
	1,409,496	154,065	1,108,117	59,314	-	88,000
Short term insurance liabilities:						
Insurance contracts	691,166	-	483,816	82,940	41,470	82,940
Provisions for unearned premiums and unexpired risks	477,562	-	477,562	-	-	-
Payables arising out of reinsurance contracts	153,997	-	153,997	-	-	-
	1,322,725	-	1,115,375	82,940	41,470	82,940
Difference in contractual cash flows	86,771	154,065	(7,259)	(23,626)	(41,470)	5,060

3. **Management of insurance and financial risk (continued)**

3.2 **Financial risk (continued)**

a) **Short-term insurance contracts (continued)**

The table below shows the contractual timing of cash flows arising from assets and liabilities included in the company's ALM framework for management of short term insurance contracts as of 31 December 2017:

	Carrying Amount KES'000	No stated maturity KES'000	Contractual cash flows (undiscounted) 0-1 year KES'000	1-2 years KES'000	2-3 years KES'000	> 5 years KES'000
Financial assets						
Investment in unquoted shares	59,003	59,003	-	-	-	-
Investments in Government securities	214,390	-	138,680	9,960	9,960	55,790
Available for sale:						
- Quoted equity investments	25,764	25,764	-	-	-	-
Receivables from direct insurance contracts	438,592	-	438,592	-	-	-
Reinsurance share of insurance liabilities and reserves	284,124	-	284,124	-	-	-
Other receivables	32,739	-	32,739	-	-	-
Cash and bank balances	19,300	-	19,300	-	-	-
Deposits with financial institutions	111,720	-	111,720	-	-	-
	1,185,632	84,767	1,025,155	9,960	9,960	55,790
Short term insurance liabilities:						
Insurance contracts	603,346	-	603,346	-	-	-
Provisions for unearned premiums and unexpired risks	479,889	-	479,889	-	-	-
Payables arising out of reinsurance contracts	67,979	-	67,979	-	-	-
	1,151,214	-	1,151,214	-	-	-
Difference in contractual cash flows	34,418	84,767	(126,059)	9,960	9,960	55,790

The insurance contract liabilities presented are not based on contractual cash flows, but rather on expected cash flows due to the uncertainties involved in estimating the amount and timing of the liability.

3. **Management of insurance and financial risk (continued)**

3.2 **Financial risk (continued)**

b) **Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk that affects the company is interest rate risk, equity price risk and currency risk.

i) ***Interest rate risk***

Interest rate risk arises primarily from investments in fixed interest securities. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

The company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios due to a parallel movement in all yield curves of financial assets and financial liabilities. These particular exposures illustrate the company's overall exposure to interest rate sensitivities included in the company's ALM framework and its impact on the company's profit or loss by business.

	Percentage increase or decrease in interest rate	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
		2018	2018	2017	2017
		KES'000	KES'000	KES'000	KES'000
Treasury bills	2%	191	134	187	131
Treasury bonds	2%	210	147	206	144
Deposits with financial institutions	2%	228	160	224	157
Borrowings	4%	165	116	162	114

ii) ***Equity price risk***

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

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

Listed equity securities represent 40% (2017: 30%) of total equity investments. If equity market indices had increased/ decreased by 10%, with all other variables held constant, and all the company's equity investments moving according to the historical correlation with the index, the profit for the year would increase/ decrease by KES. 1,895,235 (2017: KES. 2,756,356).

Unquoted equity securities represent 60% (2017: 70%) of total equity investments. If equity market indices had increased/ decreased by 10%, with all other variables held constant, and all the company's equity investments moving according to the historical correlation with the index, the profit for the year would increase/ decrease by KES. 4,907,674 (2017: KES. 5,900,285).

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

b) Market risk (continued)

iii) Currency risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The company primarily transacts in Kenya shilling and its assets and liabilities are denominated in the same currency. The company is not exposed to material currency risk.

c) Credit risk

Credit risk on financial assets with banking institutions is managed by dealing with institutions with good credit ratings and placing limits on deposits that can be held with each institution.

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- receivables arising out of direct insurance arrangements;
- receivables arising out of reinsurance arrangements;
- reinsurers' share of insurance contract liabilities;
- amounts due from insurance intermediaries;
- deposits with financial institutions;
- cash and bank balances;
- other receivables; and
- government securities

The company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved quarterly by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the company's liability as primary insurer. If a reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder.

In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. The exposure to individual counterparties is also managed through other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the company. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the management.

The table below shows the carrying amounts of assets bearing credit risk.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets as disclosed below:

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

c) Credit risk (continued)

Financial assets	2018 KES'000	2017 KES'000
Investments in government securities	240,700	214,390
Receivables from direct insurance contracts	467,544	438,592
Reinsurance share of insurance liabilities and reserves	366,104	284,124
Other receivables (excluding non-financial assets)	39,394	32,739
Bank balances	12,474	19,300
Receivables arising out of reinsurance arrangements	180,547	142,002
Deposits with financial institutions	129,215	111,720
	1,435,978	1,242,867

Bank balances and deposits with financial institutions Investments in Government securities, reinsurance share of insurance liabilities and reserves and other receivables are all performing and no impairment losses have been recognised for them.

As at 31 December, the ageing analysis of receivables from direct insurance contracts is, as follows:

	Net	Neither past due nor impaired	Past due but not impaired		
			60-90 days	90-180 days	180-365 days
	KES'000	KES'000	KES'000	KES'000	KES'000
2018	467,544	93,554	38,715	117,671	217,604
2017	438,592	161,585	46,017	117,881	113,109

As at 31 December 2018, receivables from direct insurance contracts are provided for on a sliding scale under a general impairment provision for amounts less than 365 days old. Amounts greater than 365 days old with an initial carrying value of KKES 61 million (2017: KES 70 million) were specifically impaired and fully provided for. A general provision amounting to KKES 27 million (2017: KES 18 million) was recognised over the remaining debtors. See Note 20(a) for the movements in the allowance for bad and doubtful debts.

Management believes that the neither past due nor impaired amounts are fully recoverable, since the company continues to deal with the vast majority of the customers and most of the covers run for 12 months.

d) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. The company is exposed to daily calls on its available cash for claims settlement and other expenses. The company does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. On large claims arrangements are in place to obtain cash calls from reinsurers.

The table below presents the undiscounted cash flows payable by the company under financial liabilities by remaining contractual maturities (other than insurance contract liabilities which are based on expected maturities) at the reporting date. All figures are in Kenya Shillings.

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

d) Liquidity risk (continued)

As at 31 December 2018	0-1 year KES'000	1-2 years KES'000	2-5 years KES'000	Over 5 years KES'000	Total KES'000
Liabilities					
Insurance contract liabilities	483,816	82,940	41,470	82,940	691,166
Payables arising out of reinsurance arrangements	153,997	-	-	-	153,997
Other payables	100,670	-	-	-	100,670
Borrowings	49,599	-	-	-	49,599
Tax payble	18,837	-	-	-	18,837
Total financial liabilities	788,082	-	-	-	1,014,269

As at 31 December 2017	0-1 year KES'000	1-2 years KES'000	2-5 years KES'000	Over 5 years KES'000	Total KES'000
Liabilities					
Insurance contract liabilities	487,614	37,566	10,159	68,007	603,346
Payables arising out of reinsurance arrangements	67,979	-	-	-	67,979
Other payables	118,720	-	-	-	118,720
Borrowings	46,058	-	-	-	46,058
Total financial liabilities	720,371	-	-	-	836,103

3.3 Capital management

The company maintains an efficient capital structure from a combination of equity shareholders' funds, consistent with the company's risk profile and the regulatory and market requirements of its business.

The company'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 policyholders, regulators 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.

An important aspect of the company's overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the company is focused on the creation of value for shareholders.

The company is regulated by the Insurance Regulatory Authority in Kenya and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. The company manages capital in accordance with these rules and has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations. The company has complied with all externally imposed capital requirements throughout the year.

3. **Management of insurance and financial risk (continued)**

3.3 **Capital management (continued)**

The constitution of capital managed by the company is as :	2018 KES'000	2017 KES'000
Share capital	325,000	303,000
Shareholders Contribution pending allotment	252,560	231,605
Share premium	5,712	17,712
Revenue reserves	450,126	429,324
Fair value reserve	-	(477)
Equity	1,033,398	981,641

4 (a). **Gross written premiums**

The gross earned premium of the company can be analysed between the principal classes of business as shown below:

	2018 KES'000	2017 KES'000
Fire	109,025	113,076
Motor	689,746	615,603
Engineering	10,853	9,999
Liabilities	15,016	17,485
Marine	4,806	2,012
Group Personal Accident (GPA)	84,734	103,474
Medical	278,726	247,589
Theft	39,369	34,212
Workmen's compensation.	71,629	71,743
Miscellaneous	3,383	1,885
Gross written premiums	1,307,287	1,217,078
Change in unearned premium reserve	2,327	(76,576)
	1,309,614	1,140,502

4 (b). **Reinsurance premiums ceded**

	2018	2017
Fire	84,806	69,460
Motor	85,562	55,794
Engineering	9,106	5,849
Liabilities	5,115	1,564
Marine	6,016	4,121
Group Personal Accident (GPA)	19,611	9,619
Medical	111,491	99,036
Theft	5,020	3,948
Workmen's compensation	9,934	5,860
Miscellaneous	2,561	1,194
Gross reinsurance premiums ceded	339,223	256,445
Change in unearned premium reserve (note 27)	(6,130)	(9,449)
	333,093	246,996

Section 29(1) of the Insurance Act requires all registered underwriters to have in place appropri reinsurance arrangements being arrangements approved by the Commissioner of Insurance in respect of insurance business underwritten in the course of the business.

NOTES (CONTINUED)

5. (a) **Investment income**

	2018 KES'000	2017 KES'000
Interest from government securities	23,891	19,665
Interest from bank deposits and current accounts	11,072	11,221
Gain on disposal of quoted shares	2,133	353
Rental income from investment properties	66,267	62,108
Interest on staff and mortgage loans	382	707
Dividend income from quoted equity investments	436	230
(Loss) on valuation of quoted shares	(16,921)	-
	87,260	94,284

5. (b) **Other operating income**

	2018 KES'000	2017 KES'000
Medical fund management fee and tender fees	4,298	942
Bad debts recoveries	318	42,558
Foreign exchange gain	(78)	46
	4,538	43,546

6. **Net claims incurred**

Net claims incurred by principal class of business:

	2018 KES'000	2017 KES'000
Fire	29,492	25,247
Motor	362,066	340,345
Engineering	416	2,742
Liabilities	6,598	23,805
Marine	(100)	53
Group Personal Accident (GPA)	17,719	5,594
Medical	189,872	92,965
Theft	3,166	6,024
Workmen's compensation.	5,776	30,766
Miscellaneous	62	42
	615,067	527,583
Reinsurance share of incurred liabilities	(211,283)	(186,236)
	403,783	341,347

NOTES (CONTINUED)

7. Operating and other expenses

	2018 KES'000	2017 KES'000
Staff costs (Note 8)	232,672	188,122
Directors' remuneration	4,290	8,120
Allowance for bad and doubtful debts (Note 20 (a))	-	19,237
Bank charges	3,827	3,823
Rent expense	34,968	29,818
Amortisation of intangible assets (Note 12)	12,361	9,870
Stationery	19,591	23,933
Marketing	50,981	72,162
Depreciation on equipment (Note 11)	10,377	10,104
Auditors' remuneration	1,606	2,526
Stamp duty	262	134
Premium tax	13,065	12,171
Repairs and maintenance expenditure	5,006	7,631
Donations and social responsibility	50	352
Licenses	4,036	4,342
Motor vehicles expenses	802	125
Motor vehicles insurance certificates	3,675	2,782
Office expenses	22,583	39,950
Policyholders compensation fund	3,266	3,033
Professional and legal fees	11,009	7,880
Telephone and postage	9,399	12,358
Miscellaneous expenses	15	547
Investment properties expenses	1,775	820
	445,616	459,840

8. Staff costs

	2018 KES'000	2017 KES'000
Salaries and wages	188,241	145,916
Staff medical covers	16,759	17,277
Staff welfare	19,467	17,957
Retirement benefit costs - defined contribution scheme	8,205	6,972
	232,672	188,122

The average number of persons employed during the period, by category, were:

	2018	2017
- Underwriting	26	25
- Marketing	39	28
- Claims	8	8
- Management, administration and finance	34	31
Total	107	92

9. Profit before tax

The profit before tax is arrived at after charging;	2018 KES'000	2017 KES'000
Staff costs (note 8)	232,672	188,122
Depreciation (Note 11)	10,377	10,104
Amortisation of intangible assets (Note 12)	12,361	9,870
Directors' remuneration	4,290	8,120
Auditors' remuneration	1,606	2,526

NOTES (CONTINUED)

10. **Tax**	**2018 KES'000**	**2017 KES'000**
Current tax	40,291	18,765
Deferred tax (credit)/charge (Note 15)	(2,204)	12,420
Tax charge	38,087	31,185

The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:

	2018 KES'000	2017 KES'000
Profit before tax	103,395	106,865
Tax calculated at the rate of 30% (2017: 30%)	31,019	32,060
Tax effect of:		
- Adjustments in respect of current income tax of previous year	-	(172)
- expenses not deductible for tax purposes	8,213	5,755
- Non-taxable income	(1,145)	(6,314)
Tax charge	38,087	31,329

11. **Property and equipment**

Year ended 31 December 2018	**Motor vehicle KES'000**	**Computer equipment KES'000**	**Furniture and fittings KES'000**	**Total KES'000**
Cost				
At start of year	2,504	25,138	74,481	102,123
Additions	-	2,202	11,892	14,094
At end of year	2,504	27,340	86,373	116,217
Depreciation				
At start of year	2,504	21,943	48,201	72,648
Charge for the year	-	2,240	8,137	10,377
At end of year	2,504	24,183	56,338	83,025
Net book value	-	3,157	30,035	33,192
Year ended 31 December 2017				
Cost				
At start of year	2,504	23,721	73,234	99,459
Additions	-	1,417	1,247	2,664
At end of year	2,504	25,138	74,481	102,123
Depreciation				
At start of year	2,504	19,065	40,975	62,544
Charge for the year	-	2,878	7,226	10,104
At end of year	2,504	21,943	48,201	72,648
Net book value	-	3,195	26,280	29,475

12. Intangible assets

Year ended 31 December 2018	**Computer software KES'000**	**Work - in - progress KES'000**	**Total KES KES'000**
Cost			
At start of year	81,096	8,637	89,733
Additions	2,249	4,648	6,898
Transfer on capitalization	13,076	(13,076)	-
At end of year	96,421	209	96,631
Amortisation			
At start of year	60,139	-	60,139
Charge for the year	12,361	-	12,361
At end of year	72,500	-	72,500
Net book value	23,921	209	24,131

Year ended 31 December 2017	**Computer software KES'000**	**Work - in - progress KES'000**	**Total KES KES'000**
Cost			
At start of year	61,677	17,490	79,167
Additions	1,687	8,879	10,566
Transfer on capitalization	17,732	(17,732)	-
At end of year	81,096	8,637	89,733
Amortisation			
At start of year	50,269	-	50,269
Charge for the year	9,870	-	9,870
At end of year	60,139	-	60,139
Net book value	20,957	8,637	29,594

13. Investment properties

	2018 KES'000	**2017 KES'000**
At start of year	843,850	843,850
Fair value gain	-	-
At end of year	843,850	843,850

The company's investment properties consist of the following:

Property description	**Type**	**Land KES'000**	**Developments KES'000**	**2018 Totals KES'000**	**2017 Totals KES'000**
Pacis Centre Office Building - Nairobi	Commercial	300,000	430,000	730,000	730,000
Luna Gardens - Vila at Lavington	Residential	-	90,000	90,000	90,000
Land at Kwale/Diani	Land	8,500	-	8,500	8,500
Land at Mbeti/Gachuriri - Mbeere South District-156/157	Land	15,350	-	15,350	15,350
		323,850	520,000	843,850	843,850

NOTES (CONTINUED)

13. **Investment properties (continued)**	**2018 KES'000**	**2017 KES'000**
Rental income derived from investment properties (Note 5(a))	66,267	62,108
Direct operating expenses (including repairs and maintenance) generating rental income (included in other operating and administrative expense)	1,775	820

The valuation of investment properties was performed by Attic Property Consultants Limited, registered valuers and an industry specialist, in valuing these types of investment properties, based on an open market valuation as at 31 December 2018. The valuation takes into account recent prices of similar properties with adjustments made to reflect any changes in economic conditions since the date of the transactions at those prices. Based on the valuer's opinion the values of investment property have remained stagnant due to depressed property values led by poor economic performance heightened by the long political tension in 2017 and early 2018.

The fair value of investment property is determined using recognised valuation techniques. These techniques comprise both the Market Value (MV) method and current replacement cost method. Under the MV method, a property's fair value is the price received to sell an asset in an orderly transaction between market participants at the measurement date under current market conditions. The current replacement cost method reflects the amount that would be required currently to replace the service capacity of an asset. The fair value of investment properties is included within Level 3 of the fair value hierarchy.

Description of valuation techniques used and key inputs to valuation of investment properties:

	Valuation technique	**Significant unobservable inputs**	**Range (weighted average)**
Residential property	Market Approach of Comparable	Prices of the residential properties in the neighbourhood	KES 75 million - KES 100 million
Land	Market Approach of Comparable	Price per acre	KES 200,000 - KES 475,000
Commercial property - building	Current replacement costs	Capital expenditure adjusted for depreciation	KES 400 million - KES 480 million

14. **Investment in unquoted equity shares**	**2018 KES'000**	**2017 KES'000**
Investment in unquoted equity shares	113,089	59,003

On 28 November 2017, the company through a share purchase agreement acquired 6,000 shares in the Archdiocese of Nairobi Development Fund as part of their investment in the upcoming parking project at a par value of KES 25,000.The fully paid up shares as at 31 December 2018 were 4,524 (2017: 2,360).

The fair value of the unquoted equity shares is included within Level 2 of the fair value hierarchy.

NOTES (CONTINUED)

15. **Deferred tax**

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2017: 30%).

	2018 KES'000	2017 KES'000
At start of year - as previously stated	16,703	23,738
Prior period adjustments:		
- Unrealised exchange gain	10	10
- Deferred tax on property and equipment	(5,395)	(5,395)
At start of year - as restated	11,318	18,353
(Credit) to profit or loss (Note 10)	2,204	(7,035)
	13,522	11,318

Deferred tax liabilities and deferred tax charge/(credit) to profit or loss are attributable to the following items:

	At start of year - as previously stated KES'000	Prior year adjustment KES'000	At start of year - as restated KES'000	Charge/ (credit) to profit or loss KES'000	At end of year KES'000
Deferred tax asset					
property and equipment	5,064	(5,395)	(331)	2,223	1,892
Leave pay provision	988	-	988	63	1,051
Allowance for doubtful debts	26,654	-	26,654	(95)	26,559
	32,706	(5,395)	27,311	2,191	29,502
Deferred tax (liabilities)					
Revaluation of investment properties	(15,980)	-	(15,980)	-	(15,980)
Unrealised exchange gain	(23)	10	(13)	13	-
	(16,003)	10	(15,993)	13	(15,980)
Net deferred tax asset	16,703	(5,385)	11,318	2,204	13,522

16. **Investments in government securities**

	2018 KES'000	2017 KES'000
Treasury bonds	88,000	101,255
Treasury bills	152,700	123,700
Prior year adjustment - fair value	-	(10,565)
	240,700	214,390
Treasury bonds -held to maturity:		
Within 1 year	-	2,200
Maturing within 2 to 5 years	88,000	-
Maturing after 5 years	-	99,055
	88,000	101,255
Treasury bills - loans and receivables:		
Maturing within 120 days	-	-
Maturing within 121 - 365 days	152,700	113,135
	152,700	113,135

Treasury bonds and bills are debt securities issued by the Government of Kenya and are classified as held to maturity, loans and receivables, respectively. The effective interest rate realised on these securities for the year ended 31 December 2018 was 10.84% (2017: 10.8%).

NOTES (CONTINUED)

16. **Investments in government securities (continued)**

Included in Government securities are treasury bonds and treasury bills with Central Bank of Kenya amounting to KES. 183 million (2017 : KES. 128 million) which are under lien as required by the Insurance Regulatory Authority. The company has the intention and ability to hold the securities until maturity.

17. **Quoted equity investments**

	2018 KES'000	2017 KES'000
Available-for-sale investments		
At start of year	25,764	2,202
Purchased during the year - cost	55,328	25,719
Fair value loss	(16,921)	(477)
Gain on available for sale financial assets (Note 5(a))	2,133	353
Disposal	(25,328)	(2,033)
At end of year	40,976	25,764

The company's available for sale financial assets comprise investments in equity instruments of companies listed on the Nairobi Securities Exchange.

18. **Deferred acquisition costs**

	2018 KES'000	2017 KES'000
At start of year	43,720	42,824
Expenses deferred	54,667	45,011
Amortisation	(47,895)	(44,115)
At end of year	50,493	43,720

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalized as an asset and subsequently amortized over the life of the contracts. All other costs are recognized as expenses when incurred.

19. **Reinsurers' share of insurance contract liabilities**

	2018 KES'000	2017 KES'000
Reinsurers' share of:		
- Outstanding claims (Note 26)	251,915	186,846
- claims incurred but not reported (Note 26)	45,209	34,429
	297,124	221,275
- Unearned premium (Note 27)	68,980	62,849
	366,104	284,124

20. a) **Receivables arising out of direct insurance arrangements**

	2018 KES'000	2017 KES'000
Gross receivables arising out of direct insurance arrangements	556,072	527,438
Allowance for bad and doubtful debts	(88,528)	(88,846)
Net receivables arising out of direct insurance arrangements	467,544	438,592

The movement in allowance for bad and doubtful debts is as shown below:

	2018 KES'000	2017 KES'000
At start of year	88,846	112,167
Write back/recoveries (Note 5(b))	(318)	(42,558)
Charge for the year	-	19,237
At end of year	88,528	88,846

NOTES (CONTINUED)

20. b) Receivables arising out of reinsurance arrangements	2018 KES'000	2017 KES'000
At start of year	142,002	118,844
Payments from reinsurer	(57,108)	(50,660)
Claims recoverable	95,653	73,818
At end of year	180,547	142,002

Receivables arising out of reinsurance arrangements relates to claims actually incurred for which the company is awaiting payment from the reinsurer.

21. Other receivables	2018 KES'000	2017 KES'000
Interest receivable	1,009	241
Staff loans and advances	3,317	6,426
Prepayment	9,568	6,174
Rental deposits	11,671	15,478
Other receivables and deposits with various institutions	13,829	4,420
	39,394	32,739

Staff loans are unsecured and their weighted average effective interest rate is 8% (2017: 8%)

22. Deposits with financial institutions	2018 KES'000	2017 KES'000
Deposits with commercial banks	129,215	111,720

Deposits with financial institutions have an average effective maturity period of three months. The effective interest rate realised on the deposits during the year ended 31 December 2018 was 9.4% (2017: 9.5%).

23. Share capital	2018 KES'000	2017 KES'000
Authorised capital:		
8,000,000 (2017: 8,000,000) ordinary shares of KES. 100 each	800,000	800,000
Issued and fully paid capital:		
3,250,000 (2017: 3,250,000) ordinary shares of KES. 100 each	325,000	325,000

The movement in share capital is as shown below:

	Number of Shares		Share capital		Share premium		Share capital	
	2018 KES'000	2017 KES'000	2018 KES'000	2017 KES'000	2018 KES'000	2017 KES'000	2018 KES'000	2017 KES'000
At start and end of year	3,250	3,250	325,000	325,000	5,712	5,712	325,000	325,000

The company issued bonus shares amounting to Nil (2017: KES. 25,000,000) during the year in the ratio of Nil (2017 : 12:1) to existing shareholders.

NOTES (CONTINUED)

24. Shareholders' contribution pending allotment

	2018 KES'000	2017 KES'000
At start of year	221,605	215,000
Additional share capital	30,955	6,355
Bonus shares issued	-	250
	252,560	221,605

This is share capital contribution by the shareholders to the company pending allotment of the company shares. The allotment will be completed once the requisite documents have been filed with the registrar of Companies and share certificate issued to the shareholder.

25. Insurance contract liabilities

	2018 KES'000	2017 KES'000
Short term non-life insurance contracts:		
- claims reported and claims handling expenses	540,144	485,094
- claims incurred but not reported (IBNR)	151,022	118,252
	691,166	603,346

Movements in insurance liabilities and reinsurance assets are shown in note 26.

Gross claims reported, claims handling expenses and the liability for claims incurred but not reported (IBNR) are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2018 and 2017 were not material. The computation of IBNR in Kenya is as per the prescribed actuarial valuation methodologies.

The Company uses chain-ladder techniques to estimate the ultimate cost of claims and the IBNR provision. Chain ladder techniques are used as they are an appropriate technique for mature classes of business that have a relatively stable development pattern. This involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.

26. Movements in insurance liabilities and reinsurance assets

	2018			2017		
	Gross KES'000	Reinsurance KES'000	Net KES'000	Gross KES'000	Reinsurance KES'000	Net KES'000
Notified claims	485,094	(186,846)	298,248	476,080	(148,741)	327,339
Incurred but not reported	118,252	(34,429)	83,823	78,416	(17,486)	60,930
	603,346	(221,275)	382,071	554,496	(166,227)	388,269
At start of year	603,346	(221,275)	382,071	554,496	(166,227)	388,269
Less:- claims settled in the year	(580,482)	137,223	(443,259)	(452,061)	125,390	(326,671
Add:-increase in liabilities during the year	517,280	(167,863)	349,417	419,799	(146,009)	273,790
Prior year adjustment*						
Salvage recoveries	-	-	-	(37,140)	-	(37,140
At end of year	540,144	(251,915)	288,229	485,094	(186,846)	298,248
Notified claims	540,144	(251,915)	288,229	485,094	(186,846)	298,248
Incurred but not reported	151,022	(45,209)	105,813	118,252	(34,429)	83,823
	691,166	(297,124)	394,042	603,346	(221,275)	382,071

27. Provision for unearned premiums and unexpired risks

The movements in unearned premiums and unexpired risks are as shown below:

	2018			2017		
	Gross KES'000	Reinsurance KES'000	Net KES'000	Gross KES'000	Reinsurance KES'000	Net KES'000
At start of year	479,889	(62,849)	417,040	403,313	(53,400)	349,913
Written during the year	477,562	(68,980)	408,582	479,889	(62,849)	417,040
Earned during the year	(479,889)	62,849	(417,040)	(403,313)	53,400	(349,913)
Change in unearned premium reserve expensed (Note 4)	2,327	6,130	8,458	(76,576)	9,449	(67,127)
At end of year	477,562	(68,980)	408,582	479,889	(62,849)	417,040

28. Other payables

	2018 KES'000	2017 KES'000
Leave accrual	3,505	3,295
Customer's rent deposit	26,684	26,684
Commissions payable	26,469	32,879
Trade creditors	25,199	33,976
Dividend payable	3,937	3,286
Other payables*	14,876	18,600
	100,670	118,720

**Other payables represent accrued expenses as at year end*

The carrying amounts disclosed above reasonably approximate the fair value at the reporting date.

29. Payables arising out of reinsurance arrangements

	2018 KES'000	2017 KES'000
Amounts due to reinsurers	153,997	67,979

Payables arising from reinsurance arrangements are non-interest bearing and are generally on 30-90 days terms.

30. Borrowings

	2018 KES'000	2017 KES'000
Overdraft facility/term loan:		
Due within one year	49,599	46,058
Due after one year	-	-
	49,599	46,058

31. Cash from operations

Reconciliation of profit before tax to cash from operations:	2018 KES'000	2017 KES'000
Profit before tax	103,395	106,865
Adjustments for:		
Dividend income from quoted equity investments (Note 5(a))	(436)	(230)
Interest from government securities (Note 5(a))	(23,891)	(19,665)
Interest on deposits with financial institutions (Note 5(a))	(11,072)	(11,221)
Gain on disposal of quoted equity (Note 5(a))	(2,133)	(353)
Loss on valuation of quoted shares (Note 5(a))	16,921	-
Depreciation on property and equipment (Note 11)	10,377	10,104
Amortization of intangible assets (Note 12)	12,361	9,870
Finance costs	6,163	4,062
Adjusted profit before working capital changes	111,685	99,432
Changes in working capital		
- (decrease)/increase in provision for unearned premium reserve	(2,327)	76,576
- (increase)/decrease in net receivables arising out of reinsurance arrangements	47,473	(13,862)
- increase/(decrease) in insurance contract liabilities	4,565	(15,646)
- (increase) in receivables arising out of direct insurance arrangements	(28,952)	(188,370)
- (decrease)/increase in other payables	(18,050)	48,852
- (increase)/decrease in other receivables	(6,655)	36,141
- (increase) in deferred acquisition costs	(6,773)	(896)
Cash from operations	100,967	42,227
Reconciliation on liabilities arising from financing activities:		
At start of year	(46,058)	(44,648)
Interest charged during the year	6,163	4,062
Interest paid	(6,163)	(4,062)
Repayments and transfers into account	365,789	252,897
Proceeds from bank and transfers from account	(369,330)	(254,307)
	(49,599)	(46,058)

32. Cash and bank balances

Cash at bank and in hand	12,474	19,300

For the purposes of the statement of cash flows, the period-end cash and cash equivalents comprise the following:

Cash at bank and in hand	12,474	19,300
Deposits with financial institutions maturing within 90 days (Note 22)	129,215	111,720
	141,689	131,020

33. Related parties (continued)

The company is owned by the Catholic Church in Kenya through the various Archdioceses, Dioceses, the Catholic Missionary Priests, and the Association of the Catholic Nuns together with affiliated institutions of the Church. In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered in the ordinary course of business.

Transactions with related parties and outstanding balances with related parties arise from the normal sale of insurance contracts to the various Catholic Church Archdioceses, Dioceses, the Catholic Missionary Priests, and the Association of the Catholic Nuns together with affiliated institutions.

	2018 KES'000	2017 KES'000
a) **Transactions with related parties**		
- Sale of insurance contracts	575,206	669,393
Claims paid	270,629	269,060
b) **Outstanding balances with related parties:**		
Receivables arising out of direct insurance arrangements	154,290	241,225
Insurance contract liabilities	255,731	193,656
c) **Loans to related parties**		
Key management	3,081	3,551
d) **Key management compensation:**		
Short term employee benefits:		
- key management compensation	44,431	65,268
e) Shareholder contribution pending allotment	252,560	206,355
f) Directors' fees	4,290	8,120

Outstanding balances at the reporting date are unsecured and settlement will take place in cash. No specific impairment on outstanding balances with related parties has been recognised. However, the receivables are covered by the general impairment provision.

34. Fair value of financial instruments

a) Comparison by class of the carrying amount and fair values of the financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the company.

34. **Fair value of financial instruments (continued)**

a) **Comparison by class of the carrying amount and fair values of the financial instruments (continued)**

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Management has assessed that investment in government securities- treasury bills, deposits with financial institutions, cash and bank balances, other receivables, receivables arising out of direct insurance arrangements, receivables arising out of reinsurance arrangements trade receivables, trade payables, other payables, borrowings and payables arising out of reinsurance arrangements approximate their carrying amounts largely due to the short-term maturities of these instruments.

The table below sets out the company's classification of each class of financial assets and liabilities, and comparison of the carrying amount and their fair values:

	Carrying amount		Fair values	
	2018	2017	2018	2017
	KES'000	KES'000	KES'000	KES'000
Financial assets:				
Investments in government securities- treasury bonds	100,134	101,255	88,000	90,690

All other financial instruments not carried at fair value. Their carrying amounts approximate their fair value due to the short term nature of the balances.

b) **Fair value hierarchy**

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data.

2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Unquoted equity investments	-	113,089	-	113,089
Quoted equity investments – available for sale	40,976	-	-	40,976
Investments in Government securities - treasury bonds	100,134	-	-	100,134
Investment properties (Note 13)	-	-	843,850	843,850

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Unquoted equity investments	-	59,003	-	59,003
Quoted equity investments – available for sale	25,764	-	-	25,764
Investments in Government securities - treasury bonds	90,690	-	-	90,690
Investment properties (Note 13)	-	-	843,850	843,850

The valuation techniques and inputs for the level 3 – investment properties have been disclosed in note 13.

35. **Maturity analysis of assets and liabilities**

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled

31 December 2018 **Assets**	**Within 12 months KES'000**	**After 12 months KES'000**	**Total KES'000**
Property and equipment	-	33,192	33,192
Intangible assets	-	24,131	24,131
Investment properties	-	843,850	843,850
Investment in unquoted equity shares	-	113,089	113,089
Deferred tax	-	13,522	13,522
Government securities - 'Held to maturity'	152,700	88,000	240,700
Quoted equity investments - available for sale	-	40,976	40,976
Deferred acquisition costs	50,493	-	50,493
Reinsurers' share of insurance contract liabilities	366,104	-	366,104
Receivables arising out of direct insurance arrangements	467,544	-	467,544
Receivables arising out of reinsurance arrangements	180,547	-	180,547
Other receivables	39,394	-	39,394
Deposits with financial institutions	129,215	-	129,215
Cash and bank balances	12,474	-	12,474
	1,398,469	1,156,760	2,555,229
Liabilities			
Insurance contract liabilities	421,611	269,555	691,166
Provisions for unearned premiums and unexpired risks	477,562	-	477,562
Other payables	100,670	-	100,670
Payables arising out of reinsurance arrangements	153,997	-	153,997
Borrowings	49,599	-	49,599
Tax payable	18,837	-	18,837
	1,222,276	269,555	1,491,831
Net assets	176,193	887,205	1,063,398

35. **Maturity analysis of assets and liabilities (continued)**

31 December 2017 **Assets**	**Within 12 months KES'000**	**After 12 months KES'000**	**Total KES'000**
Property and equipment	-	29,475	29,475
Intangible assets	-	29,594	29,594
Investment properties	-	843,850	843,850
Investment in unquoted equity shares	-	59,003	59,003
Deferred tax	-	11,318	11,318
Government securities - 'Held to maturity'	123,700	90,690	214,390
Quoted equity investments - available for sale	-	25,764	25,764
Deferred acquisition costs	43,720	-	43,720
Reinsurers' share of insurance contract liabilities	284,124	-	284,124
Receivables arising out of direct insurance arrangements	438,592	-	438,592
Receivables arising out of reinsurance arrangements	142,002	-	142,002
Other receivables	32,739	-	32,739
Deposits with financial institutions	111,720	-	111,720
Cash and bank balances	19,300	-	19,300
Tax recoverable	11,565	-	11,565
	1,207,462	1,089,694	2,297,156
Liabilities			
Insurance contract liabilities	448,340	155,006	603,346
Provisions for unearned premiums and unexpired risks	479,889	-	479,889
Other payables	118,720	-	118,720
Payables arising out of reinsurance arrangements	67,979	-	67,979
Borrowings	46,058	-	46,058
	1,160,986	155,006	1,315,992
Net assets	46,476	934,688	981,164

36. **Operating leases**

a) **Operating leases – as a lessee**

The company has entered into lease agreements to pay rent for the premises that it occupies. The future minimum lease payments under non-cancellable operating lease are as follows:

	2018 KES'000	**2017 KES'000**
Not later than 1 year	2,720	17,459
Later than 1 year and not later than 5 years	89,781	55,818
Later than 5 years	-	6,452
	92,501	79,729

36. **Operating leases (continued)**

b) **Operating leases – as a lessor**

The company has entered into lease agreements to receive rent for the properties it owns. The future minimum lease payments under non-cancellable operating lease are as follows:

	2018 KES'000	2017 KES'000
Not later than 1 year	7,124	48,154
Later than 1 year and not later than 5 years	53,294	150,886
Later than 5 years	22,344	-
	82,762	199,040

37. **Prior year adjustment**

Comparative figures have been adjusted with respect to the following:

i) Transfer of proceeds from sale of salvages previously included under insurance contract liabilities to claims expense;
ii) To reverse fair value gain recognised in the previous years with respect to Government securities - Held To Maturity which are supposed to be carried at amortised cost and not at fair value;
iii) To correct errors in prior year's deferred tax computation; and
iv) To reclassify amount relating to shareholders contribution pending allotment previously included under share capital and share premium.

38. **Dividend**

The directors propose a dividend of KES. 9.23 per share amounting to KES. 30,000,000 for the year.

In accordance with the Kenyan Companies Act, these financial statements reflect this dividend payable, which is accounted for in the shareholders' funds as an appropriation of retained profits in the year ended 31 December 2018.

Payment of dividend is subject to withholding tax at a rate of 0%, 5% or 10% depending on the tax status or residency of the shareholder.

39. **Contigent liabilities**

In common with the insurance industry in general, the company is subject to litigation arising in the normal course of insurance business. The directors are of the opinion that any outstanding litigation in this respect will not have a material effect on the financial position or profits of the company.

40. **Events after the reporting date**

The directors are not aware of events after the reporting date that requires disclosure or an adjustment to the financial statements as at the date of this report.

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

2018 **Class of insurance business**	**Contractors All Risk**	**Domestic Package**	**Fire**	**Public Liability**	**Marine**	**Motor Private**	**Motor Commercial**	**GPA**	**Medical**	**Theft**	**Workmen's' Compensation**	**Miscellaneous**	**Total**
	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000
Gross premiums written	10,853	12,818	96,207	15,016	4,806	380,052	309,694	84,734	278,726	39,369	71,629	3,383	1,307,287
Change in gross unearned premiums	(689)	(259)	2,341	316	(1,640)	(13,163)	(3,700)	9,593	11,771	(1,007)	212	(1,448)	2,327
Gross premiums earned	10,164	12,559	98,547	15,332	3,166	366,889	305,994	94,328	290,497	38,362	71,841	1,934	1,309,614
Less: reinsurers premiums ceded	(8,279)	(6,314)	(79,045)	(5,104)	(4,417)	(32,657)	(43,628)	(21,099)	(116,199)	(4,469)	(9,882)	(2,000)	(333,093)
Net premiums earned	1,885	6,245	19,502	10,228	(1,251)	334,232	262,366	73,229	174,298	33,893	61,959	(66)	976,521
Gross claims incurred	416	2,128	27,364	6,598	(100)	258,003	104,063	17,719	189,872	3,166	5,776	62	615,067
Less: reinsurance recoverable	436	(150)	(13,634)	(5,234)	64	(47,536)	(60,600)	(7,622)	(75,949)	(1,311)	252	(1)	(211,282)
Net claims incurred	852	1,978	13,730	1,364	(36)	210,467	43,464	10,098	113,923	1,856	6,027	61	403,783
Commissions earned	(1,547)	(958)	(20,437)	13	(566)	337	62	(348)	(22,219)	(23)	(184)	(553)	(46,423)
Commissions payable	1,797	2,734	22,240	2,942	480	34,953	29,508	18,251	20,046	7,333	15,510	(10)	155,784
Expenses of management	3,699	4,369	32,794	5,118	1,638	129,548	105,566	28,883	95,010	13,420	24,416	1,153	445,616
Total expenses and commissions	3,949	6,145	34,597	8,074	1,553	164,839	135,136	46,786	92,837	20,730	39,742	589	554,977
Underwriting profit/(loss)	(2,916)	(1,878)	(28,825)	790	(2,768)	(41,074)	83,766	16,345	(32,462)	11,307	16,190	(716)	17,761

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

2017 **Class of insurance business**	**Contractors All Risk** KES'000	**Domestic Package** KES'000	**Fire** KES'000	**Public Liability** KES'000	**Marine** KES'000	**Motor Private** KES'000	**Motor Commercial** KES'000	**GPA** KES'000	**Medical** KES'000	**Theft** KES'000	**Workmen's' Compensation** KES'000	**Miscellaneous** KES'000	**Total** KES'000
Gross premiums written	9,999	12,281	100,795	17,485	2,012	332,116	283,487	103,474	247,589	34,212	71,743	1,885	1,217,078
Change in gross unearned premiums	91	831	(8,165)	(141)	52	10,699	20,219	(7,279)	(90,038)	(1,949)	(1,517)	621	(76,576)
Gross premiums earned	10,090	13,112	92,630	17,344	2,064	342,815	303,706	96,195	157,551	32,263	70,226	2,506	1,140,502
Less: reinsurers premiums ceded	(6,702)	(8,803)	(60,168)	(1,898)	(4,069)	(36,356)	(32,993)	(10,501)	(72,276)	(5,106)	(6,970)	(1,154)	(246,996)
Net premiums earned	3,388	4,309	32,462	15,446	(2,005)	306,459	270,713	85,694	85,275	27,157	63,256	1,352	893,506
Gross claims incurred	2,742	1,536	23,711	23,805	53	194,289	146,056	5,594	92,965	6,024	30,766	42	527,583
Less: reinsurance recoverable	(89)	109	(7,938)	(7,211)	184	(37,050)	(98,957)	379	(22,699)	(1,810)	(11,152)	(3)	(186,236)
Net claims incurred	2,653	1,645	15,773	16,594	237	157,239	47,099	5,973	70,266	4,214	19,614	39	341,346
Commissions earned	(1,137)	(788)	(14,397)	(80)	(330)	(1,007)	(619)	(381)	(22,283)	(264)	(222)	(257)	(41,766)
Commissions payable	2,009	3,083	22,374	3,944	228	34,084	30,174	18,942	24,759	6,416	14,602	373	160,988
Expenses of management	3,814	4,441	25,918	11,026	167	165,969	127,247	35,735	45,113	13,448	25,065	1,897	459,840
Total expenses and commissions	4,686	6,736	33,895	14,890	65	199,046	156,802	54,296	47,589	19,600	39,445	2,013	579,062
Underwriting profit/(loss)	(3,951)	(4,072)	(17,206)	(16,038)	(2,307)	(49,826)	66,812	25,425	(32,580)	3,343	4,197	(700)	(26,902)