PKF

PACIS INSURANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

	PAGE
Company information	1
Report of the directors	2 - 3
Statement of directors' responsibilities	4
Report of the independent auditor	5 - 8
Financial statements:	
Statement of profit or loss and other comprehensive income	9
Statement of financial position	10
Statement of changes in equity	11
Statement of cash flows	12
Notes	13 - 60

The following pages do not form an integral part of these financial statements

General insurance business revenue account	61 - 62

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
	:	Mary Theresa Onyango
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 LLP
	:	Certified Public Accountants
	:	P.O. Box 14077, 00800
	:	NAIROBI
COMPANY SECRETARIES	:	Emu Registrars
	:	Certified Public Secretaries
	:	Green House, 3rd Floor, Suite 8
	:	P.O. Box 61120, 00200
	:	NAIROBI
PRINCIPAL BANKERS	:	Absa Bank Kenya PLC
	:	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 2019 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. 1,106,829,000 (2018: KES. 976,521,000). 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 medical, 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 loss before tax of KES. 236,109,000 (2018: profit KES. 83,444,000).

As at 31 December 2019, the net asset position of the company was KES. 733,070,000 (2018: KES. 985,608,000).

Key performance indicators	2019 KES'000/%	2018 KES'000/%
Gross written premiums	1,480,964	1,307,287
(Loss)/profit for the year	(253,163)	45,357
Claims ratio	70%	41%
Commission ratio	12%	11%
Expense ratio	48%	46%

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 and other factors such as the impact of the recent coronavirus outbreak. Whilst at this stage it is too early to predict the full potential impact of this outbreak on the company operations, the directors continue to monitor this situation closely with a view to assessing and mitigating its impact on the company. The company has also made certain investments that were commissioned subsequent to the year end and the performance of the same may also be affected as disclosed in Note 14, by this pandemic.

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.

SHARE CAPITAL

The issued and paid up share capital of the company was increased on 25 September 2019 from Shs. 325,000,000 to Shs. 381,982,000 by the issuance of 387,920 ordinary shares of Shs. 100 each and bonus shares amounting to KES. 18,189,473 in the ratio of 20:1 to existing shareholders.

REPORT OF THE DIRECTORS (CONTINUED)

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2018: Shs. 30,000,000).

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

PKF Kenya, a partnership, was on 10 March 2020 converted to PKF Kenya LLP, a Limited Liability Partnership under the Limited Liability Partnership Act, 2011. The company's auditor, PKF Kenya LLP, 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

EMU REGISTRARS
..........Secretaries
COMPANY SECRETARY
NAIROBI
..........Date

16 March 2020

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.

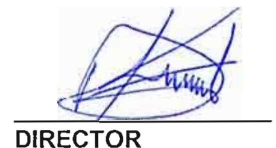
The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31 December 2019 and of the company's financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards and 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 16 March 2020 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 60, which comprise the statement of financial position as at 31 December 2019, 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 2019 and of its financial performance and cash flows for the year 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.

Expected credit loss provision on receivables

The directors exercise significant judgement in making provisions for receivables arising out of direct insurance arrangements and reinsurance arrangements based on various risk categories and classifications in Note 1(h) and Notes 20(a) and 20(b) to the financial statements as well as the level of expected credit loss necessary for each category of receivables which is based on the company's past experience and relevant consideration of forward looking factors. Because of the significance of these judgements and the quantum of the receivables from direct insurance arrangements and reinsurance arrangements, the audit of the expected credit loss provisions is a key audit matter.

Kalamu House • Grevillea Grove • Westlands • P O Box 14077 - 00800 • Nairobi • Kenya
Tel +254 20 4270000 • Mobile +254 732 144000 • Email pkfnbi@ke.pkfea.com • www.pkfea.com

PKF Kenya, a partnership carrying on business under BN registration no. 309855 was on 10 March 2020 converted to PKF Kenya LLP (LLP-8519PL), a limited liability patnership under Limited Liability Partnership Act, 2011.

Partners: R. Shah, A. Shah, A. Vadher, P. Shah, R. Mirchandani*, D. Kabeberi, C. Oguttu***, A.Chaudhry, K. Shah**, M. Mburugu, G. Santokh, D. Shah, S. Alibhai, L. Abreu, P. Kuria, N. Shah, J. Shah, E. Njuguna, P. Kahi, A. Chandria, M. Kimundu, S. Chheda**, M. Bhavsar, C. Mukuru, K. Bharadva (*Indian, **British, ***Ugandan)

PKF Kenya LLP and its associates are member firms of the PKF International Limited family of legally independent firms and do not accept any responsibility or liability for the actions or inactions of any other individual member or correspondent firm or firms

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

Key Audit Matters (continued)

Expected credit loss provision on receivables (continued)

Our audit procedures included testing the model that was prepared by the management in determining the Loss Given Default (LGD) as well as the Probability of Default (PD) and ensuring consistency with the prior experience as well as forward looking factors to form our own assessment as to whether the factors generated were reliable as these form the basis of the expected credit loss provision.

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 27 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.

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, company information, statement of directors responsibilities and the general insurance 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.

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

Other information (continued)

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 have no realistic alternative but to do so.

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.

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)

- 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.

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.

PKF Kenya LLP

Certified Public Accountants
Nairobi

31 March 2020

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

247/20

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2019 KES'000	2018 KES'000 Restated*
Gross written premiums	4(a)	1,480,964	1,307,287
Change in gross UPR		(97,912)	2,327
Gross earned premiums	4(a)	1,383,052	1,309,614
Less: reinsurance premium ceded	4(b)	(276,223)	(333,093)
Net earned premiums		**1,106,829**	**976,521**
Investment income	5(a)	104,398	87,260
Other operating income	5(b)	1,962	4,538
Commissions earned		54,868	46,423
Net income		**1,268,057**	**1,114,742**
Claims payable	6	1,035,094	615,066
Less: amounts recoverable from reinsurers	6	(255,215)	(211,283)
Net claims payable	6	**779,879**	**403,784**
Commissions payable		183,699	155,784
Operating and other expenses	7	530,554	465,567
Finance costs		10,034	6,163
Total commission and expenses		**724,287**	**627,514**
(Loss)/profit before tax		**(236,109)**	**83,444**
Tax (charge)	10	(17,054)	(38,087)
(Loss)/profit for the year		**(253,163)**	**45,357**
Total comprehensive income for the year		**(253,163)**	**45,357**
Proposed dividend for the year		**-**	**30,000**

The notes on pages 13 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8.

*** - refer to note 39**

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2019 KES'000	2018 KES'000 Restated*
CAPITAL EMPLOYED			
Share capital	23	381,982	325,000
Shareholder's contribution pending allotment	24	235,368	252,560
Share premium		5,712	5,712
Revenue reserve		110,008	372,336
Proposed dividend	39	-	30,000
Shareholders' funds		733,070	985,608
REPRESENTED BY:			
Assets			
Property and equipment	11	30,620	33,192
Intangible assets	12	13,912	24,131
Investment properties	13	843,850	843,850
Investment in unquoted equity shares	14	177,009	113,089
Deferred tax	15	-	13,522
Government securities - 'Amortised cost'	16	238,076	239,569
Quoted equity investments at fair value through profit or loss	17	38,412	40,976
Deferred acquisition costs	18	52,763	50,493
Reinsurers' share of insurance contract liabilities	19	500,695	366,104
Receivables arising out of direct insurance arrangements	20 (a)	427,331	398,807
Receivables arising out of reinsurance arrangements	20 (b)	173,844	179,335
Other receivables	21	32,078	39,387
Deposits with financial institutions	22	93,514	122,735
Right-of use assets	25	95,436	-
Cash and bank balances	34	17,621	12,250
Tax recoverable		44,503	-
Total assets		2,779,664	2,477,439
Liabilities			
Lease liabilities	26	112,287	-
Insurance contract liabilities	27	1,058,215	691,166
Unearned premium reserve	29	575,474	477,562
Other payables	30	111,606	100,670
Payables arising out of reinsurance arrangements	31	114,413	153,997
Borrowings	32	74,599	49,599
Tax payable		-	18,837
Total liabilities		2,046,594	1,491,831
Net assets		733,070	985,608

The financial statements on pages 9 to 60 were approved and authorised for issue by the Board of Directors on 16 March 2020 and were signed on its behalf by:

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

The notes on pages 13 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8.

*** - refer to note 39**

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 2018								
At start of year - as previously stated		325,000	221,605	5,712	(477)	429,324	-	981,164
Transition adjustments:								
- Changes on initial application of IFRS 9		-	-	-	-	(57,839)	-	(57,839)
At start of year - as restated		325,000	221,605	5,712	(477)	371,485	-	923,325
Total comprehensive income for the year		-	-	-	-	45,357	-	45,357
Transfer to revenue reserve		-	-	-	477	(477)	-	-
Additional funds received	24	-	30,955	-	-	-	-	30,955
Dividend paid - 2017		-	-	-	-	(14,029)	-	(14,029)
Dividend proposed for 2018		-	-	-	-	(30,000)	30,000	-
At end of year		325,000	252,560	5,712	-	372,336	30,000	985,608
Year ended 31 December 2019								
At start of year - as previously stated		325,000	252,560	5,712	-	450,126	30,000	1,063,398
Transition adjustments:								
- Changes on initial application of IFRS 16		-	-	-	-	(8,241)	-	(8,241)
- Changes on initial application of IFRS 9		-	-	-	-	(77,790)	-	(77,790)
At start of year - as restated		325,000	252,560	5,712	-	364,095	30,000	977,367
Total comprehensive income for the year		-	-	-	-	(253,163)	-	(253,163)
Additional funds received	24	-	21,600	-	-	-	-	21,600
Shares allotted in the year	24	38,792	(38,792)	-	-	-	-	-
Bonus shares		18,190	-	-	-	-	(18,190)	-
Dividend paid - 2018		-	-	-	-	(924)	(11,810)	(12,734)
At end of year		381,982	235,368	5,712	-	110,008	-	733,070

The notes on pages 13 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8.

*** - refer to note 39**

STATEMENT OF CASH FLOWS

	Notes	2019 KES'000	2018 KES'000
Operating activities			
Cash generated from operations	33	67,484	94,263
Tax paid		(63,340)	(9,266)
Net cash from operations		4,144	84,997
Investing activities			
Dividend received	5(a)	1,283	436
Interest from Government securities	5(a)	23,010	23,891
Interest on deposits with financial institutions	5(a)	11,048	11,072
Purchase of property and equipment	11	(8,103)	(14,094)
Purchase of intangible assets	12	-	(6,898)
Proceeds from disposal of property and equipment		478	-
Purchase unquoted equity investments	14	(63,920)	(54,086)
Purchase of quoted equity investments	17	-	(55,328)
Proceeds from disposal of quoted equity investments	17	-	25,328
Purchase of Government securities	16	(151,200)	(152,700)
Proceeds from maturity of Government securities	16	152,700	126,391
Net cash (used in) investing activities		(34,704)	(95,988)
Financing activities			
Proceeds from contributions pending allotment	24	21,600	30,955
Net movement in borrowings	32	25,000	3,541
Interest paid on borrowings		(10,034)	(6,163)
Lease liabilities paid during the year	26	(17,115)	-
Dividends paid during the year		(12,740)	(13,378)
Net cash from financing activities		6,711	14,955
(Decrease)/increase in cash and cash equivalents		(23,850)	3,965
Movement in cash and cash equivalents			
At start of year		134,985	131,020
(Decrease)/increase		(23,850)	3,965
At end of year	34	111,135	134,985

The notes on pages 13 to 60 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8.

NOTES

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 value in use in IAS 36 - Impairment of assets.

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 and other comprehensive income. The financial position of the company is set out in the statement of financial position. Disclosures in respect of principal risks and uncertainties are included in the report of the directors and disclosures in respect of risk management are set out in Note 2.

During the year ended 31 December 2019, the company made a loss of Shs. 253,163,000. In assessing the company's ability to continue as a going concern, the directors have prepared projected cash flows covering a period of not less than 12 months from the date of approval of these financial statements incorporating the effects of certain initiatives which include measures to underwrite more profitable business and has assets that can be leveraged to obtain additional borrowing facilities to bridge any cash flows, should the need arise.

On the basis of this cash flow information, the directors are of the opinion that the company has realistic positive future business prospects and therefore consider it appropriate to prepare the financial statements on a going concern basis which assumes that the company will be in operational existence for the foreseeable future.

New standards, amendments and interpretations adopted by the company

All new and amended standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2019 have been adopted by the company. Of those, the following has had an effect on the company's financial statements:

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

New and amended standards adopted by the company (continued)

International Financial Reporting Standard 16 (IFRS 16): Leases

From 1 January 2019, to comply with IFRS 16, Leases, which replaced IAS 17, Leases, the company now recognises lease liabilities relating to leases under which the company is the lessee that had previously been classified as operating leases (other than leases with less than 12 months to run from 1 January 2019 and leases of low value items). Such liabilities have been measured at 1 January 2019 at the present value of the remaining lease payments discounted using the company's incremental borrowing rate as at 1 January 2019. Corresponding right-of-use assets have been recognised, measured as if the company's new accounting policy (see Note 1(i)) had been applied since the commencement of each lease but discounted using the company's incremental borrowing rate as at 1 January 2019. The difference between the lease liabilities and right-of-use assets at 1 January 2019 has been recognised as an adjustment to retained earnings at that date.

As permitted by the transition provisions in the new standard, comparative amounts have not been restated. The company's accounting policy for leases under which the company was lessee was, up to 31 December 2018, as follows:

> Leases of property and equipment including hire purchase contracts where the company assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease Property and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.
>
> 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 the profit or loss on a straight-line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

The measurement of assets and liabilities that were recognised as finance leases under the previous accounting policy has continued unchanged. Right-of-use assets and lease liabilities in respect of operating leases (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) in force at 1 January 2019 have been recognised in accordance with the transition requirements of IFRS 16, as described above.

The resulting adjustment passed at 1 January 2019 as a result of applying IFRS 16, was as follows:

	KES'000
Lease liabilities	77,079
Right-of-use assets	(65,306)
Deferred tax	(3,532)
Net adjustment to retained earnings at 1 January 2019	8,241

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New and amended standards adopted by the company (continued)

International Financial Reporting Standards 9 (IFRS 9): Financial Instruments

IFRS 9 requires all financial assets to be measured at fair value on initial recognition and subsequently at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" (ECL) model based on the concept of providing for expected losses at the inception of a contract; this will require judgement in quantifying the impact of forecast economic factors. For financial assets for which there has not been a significant increase in credit risk since initial recognition, the loss allowance should represent ECLs that would result from probable default events within 12 months from the reporting date (12-month ECLs). For financial assets for which there has been a significant increase in credit risk, the loss allowance should represent lifetime ECLs. A simplified approach is allowed for receivables and lease receivables, whereby lifetime ECLs can be recognised from inception.

The company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The company did not early adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the company elected not to restate comparative figures. Therefore the adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in opening retained earnings.

Consequently, for notes and disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes and disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the company. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in note 1(a) (i) and note 2.

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

New and amended standards adopted by the company (continued)

IFRS 9: Financial instruments (continued)

	IAS 39		IFRS 9	
Financial assets	**Measurement category**	**Carrying amount KES'000**	**Measurement category**	**Carrying amount KES'000**
Cash and bank balances	Loans and receivables	19,300	Amortised cost	18,715
Deposits with financial institutions	Loans and receivables	111,720	Amortised cost	106,664
Other receivables	Loans and receivables	32,739	Amortised cost	32,725
Receivable out of direct insurance and reinsurance arrangements	Loans and receivables	580,594	Amortised cost	441,216
Other financial assets:				
- Investment in unquoted equity shares	FVTPL (Held for trading)	59,003	FVTPL	59,003
- Quoted equity investments at fair value through profit or loss	FVTPL (Held for trading)	25,764	FVTPL	25,764
- Government securities - 'Amortised cost'	Amortised cost	214,390	Amortised cost	213,055
		1,043,510		897,142

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. For more detailed information regarding the new classification requirements of IFRS 9, refer to note 1(a)(i).

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 Carrying amount 31-Dec-17 Shs.	Re-measurement Shs.	IFRS 9 Carrying amount 01-Jan-18 Shs.
Amortised cost:			
Cash and cash equivalents			
Balance under IAS 39	19,300	-	19,300
Remeasurement: ECL allowance	-	(585)	(585)
	19,300	(585)	18,715
Deposits with financial institutions			
Balance under IAS 39	111,720	-	111,720
Remeasurement: ECL allowance	-	(5,056)	(5,056)
	111,720	(5,056)	106,664
Receivable out of direct insurance and reinsurance arrangements			
Balance under IAS 39	580,594	-	580,594
Remeasurement: ECL allowance	-	(139,378)	(139,378)
	580,594	(139,378)	441,216
Other receivable			
Balance under IAS 39	32,739	-	32,739
Remeasurement: ECL allowance	-	(14)	(14)
	32,739	(14)	32,725
Government securities - 'Amortised cost'			
Balance under IAS 39	214,390	-	214,390
Remeasurement: ECL allowance	-	(1,335)	(1,335)
	214,390	(1,335)	213,055
Fair value through profit or loss:			
Investment in unquoted equity shares			
Balance under IAS 39	59,003	-	59,003
Remeasurement: ECL allowance	-	-	-
Quoted equity investments			
Balance under IAS 39	25,764	-	25,764
Remeasurement: ECL allowance	-	-	-
	84,767	-	84,767
Balance under IFRS 9 - carrying amount	**1,043,510**	**(146,368)**	**897,142**

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

New and amended standards adopted by the company (continued)

IFRS 9: Financial Instruments (continued)

(iii) Significant and material impacts

- Total provision for impairment of trade and receivables amounted to Shs. 139,378,000 as at 1 January 2018.
- Total provision for impairment of cash and cash equivalents amounted to Shs. 585,000.
- Total provision for impairment of Government securities amounted to Shs. 1,335,000.
- Total provision for impairment of deposits held with financial institutions amounted to Shs. 5,056,000.
- Total provision for impairment of other receivables amounted to Shs. 14,000.
- Overall decrease in equity due to adoption of IFRS 9 is Shs. 146,368,000.

Other standards and amendments

The following, which became effective from 1 January 2019, have been adopted but have not had a significant impact on the company's financial statements.

- 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.
- 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 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amostised cost classification.
- 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.

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 IFRS 3 'Definition of a Business' (issued in October 2018) applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued in September 2014) applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

- Amendments to IAS 1 and IAS 8 'Definition of Material' (issued in October 2018) applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

- IFRS 17 'Insurance Contracts' (issued May 2017) effective for annual periods beginning on or after 1 January 2023 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; and
  - 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 2023, with comparative figures required. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. 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. 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.

The directors expect that the future adoption of IFRS17 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.

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)).

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.

Dividend income

Dividend income for financial instruments measured at fair value through other comprehensive income and fair value through profit or loss equities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

Rental income

Rental income from operating leases is recognized on a straight-line basis over the period of the lease.

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 vehicles	25
Computer equipment	20
Furniture, fittings and office equipment	12.5

NOTES (CONTINUED)

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

d) **Property and equipment (continued)**

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 (loss)/profit before tax.

e) **Investment properties**

Investment property is property held to earn rentals or for capital appreciation or both. Investment property, which can include right-of-use assets, is initially recognized at cost including the transaction costs. Subsequently, investment property is carried at fair value representing the open market value at the reporting date determined by annual valuations carried out by external registered valuers/directors (Level 3). Gains or losses arising from changes in the fair value are included in determining the profit or loss for the year to which they relate.

Subsequent expenditure on investment property where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other expenditure is recognised as an expense in the year which it is incurred.

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.

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) **Impairment of non-financial assets and intangible assets**

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually.

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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

h) **Financial instruments**

Financial instruments are recognised when, and only when, the company becomes party to the contractual provisions of the instrument. All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

h) **Financial instruments (continued)**

- Financial assets

The company classifies its financial assets into the following categories:

i) **Amortised cost:**
Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding and are not designated at Fair Value Through Profit or Loss (FVTPL), are classified and measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured.

ii) **Fair Value Through Other Comprehensive Income (FVTOCI)**:
Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are classified and measured at fair value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

iii) **Fair Value Through Profit or Loss (FVTPL)**:
Financial assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measure at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement.

Notwithstanding the above, the company may:
- on initial recognition of an equity investment that is not held for trading, irrevocably elect to classify and measure it at fair value through other comprehensive income.
- on initial recognition of a debt instrument, irrevocably designate it as classified and measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

At initial recognition of a financial asset, the company determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The company reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the company has not identified a change in its business models.

Derecognition/write off

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired, when the company has transferred substantially all risks and rewards of ownership, or when the company has no reasonable expectations of recovering the asset.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Financial instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

h) **Financial instruments (continued)**

- ***Financial assets (continued)***

Impairment

The company recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comphrensive income (FVTOCI):

- Receivables arising out of direct insurance arrangements
- Receivables arising out of reinsurance arrangements
- Government securities
- Deposits with financial institutions
- Cash and bank balances
- Quoted shares
- Unquoted shares

No impairment loss is recognised on investments measured at fair value through profit and loss (FVTPL).

The loss allowance is measured at an amount equal to the lifetime expected credit losses for receivables and for financial instruments for which:

- the credit risk has increased significantly since initial recognition; or
- there is observable evidence of impairment (a credit-impaired financial asset).

If, at the reporting date, the credit risk on a financial asset other than a receivable arising from direct insurance arrangements or reinsurance arrangements has not increased significantly since initial recognition, the loss allowance is measured for that financial instrument at an amount equal to 12-month expected credit losses. All changes in the loss allowance are recognised in profit or loss as impairment gains or losses.

Lifetime expected credit losses represent the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses represent the portion of lifetime expected credit losses that result from default events on a financial asset that are possible within 12 months after the reporting date.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

All financial assets are classified as non-current except those that are held for trading, those with maturities of less than 12 months from the reporting date, those which management has the express intention of holding for less than 12 months from the reporting date or those that are required to be sold to raise operating capital, in which case they are classified as current assets.

- ***Financial liabilities***

Financial liabilities that are held for trading (including derivatives), financial guarantee contracts, or commitments to provide a loan at a below-market interest rate are classified and measured at fair value through profit or loss. The company may also, on initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

- All other financial liabilities are classified and measured at amortised cost.

- All financial liabilities are classified as non-current except those held for trading, those expected to be settled in the company's normal operating cycle, those payable or expected to be paid within 12 months of the reporting date and those which the company does not have an unconditional right to defer settlement for at least 12 months after the reporting date.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

h) **Financial instruments (continued)**

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.

i) **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.

j) **Accounting for leases**

The company as lessee

On the commencement date of each lease (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) the company recognises a right-of-use asset and a lease liability.

The lease liability is measured at the present value of the lease payments that are not paid on that date. The lease payments include fixed payments, variable payments that depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the exercise price of a purchase option if the company is reasonably certain to exercise that option. The lease payments are discounted at the interest rate implicit in the lease. If that rate cannot be readily determined, the company's incremental borrowing rate is used.

For leases that contain non-lease components, the company allocates the consideration payable to the lease and non-lease components based on their relative stand-alone components.

The right-of-use asset is initially measured at cost comprising the initial measurement of the lease liability, any lease payments made on or before the commencement date, any initial direct costs incurred, and an estimate of the costs of restoring the underlying asset to the condition required under the terms of the lease.

Subsequently the lease liability is measured at amortised cost, subject to remeasurement to reflect any reassessment, lease modifications, or revised fixed lease payments.

Leasehold land and buildings are subsequently carried at revalued amounts, based on annual/triennial valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the company at the end of the lease term, the estimated useful life would not exceed the lease term.

Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases are recognised in profit or loss. Annually, the difference between the depreciation charge based on the revalued carrying amount of the asset recognised in profit or loss and depreciation based on the asset's original cost (excess depreciation) is transferred from the retained earnings to revaluation surplus reserve.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

j) **Accounting for leases (continued)**

The company as lessee(continued)

For leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value, the total lease payments are recognised in profit or loss on a straight-line basis over the lease period.

The above accounting policy has been applied from 1 January 2019. Note 1(a) sets out the equivalent policy applied in the previous year and the impact of the change in accounting policy.

The company as lessor

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. All other leases are classified as operating leases. Payments received under operating leases are recognised as income in the profit or loss on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Assets leased to third parties under operating leases are included in property and equipment in the statement of financial position.

k) **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.

l) **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.

1. **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

m) **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.

n) **Share capital**

Ordinary shares are classified as equity.

o) **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 39.

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.

The directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The assumptions and judgements set-out below do not consider the full potential impact of the recent coronavirus outbreak as it is too early at this stage to predict the full potential impact of this on the financial statements of the Company.

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 28 contains further details on this process.

b) **Measurement of expected credit losses (ECL)**

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumption about future economic conditions and credit behaviour.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing companys of similar financial assets for the purposes of measuring ECL.

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs are based primarily on the product of the instrument's Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD).

The ECL model applied for financial assets other than trade receivables and contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

2. **Critical accounting estimates and judgments (continued)**

b) **Measurement of expected credit losses (ECL) (continued)**

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.
- When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Assessment of significant increase in credit risk: The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. IFRS 9 however includes rebuttable presumptions that contractual payments are overdue by more than 30 days will represent a significant increase in credit risk (stage 2) and contractual payments that are more than 90 days overdue will represent credit impairment (stage 3). The company uses these guidelines in determining the staging of its assets unless there is persuasive evidence available to rebut these presumptions.

For trade receivables arising out of direct insurance arrangements, the company has applied the simplified model under IFRS 9 where lifetime expected credit loss allowance is recognised on the basis of a provisioning matrix.

c) **Useful lives and residual values of property and equipment, intangible assets and right-of-use assets**

Management reviews the useful lives and residual values of the items of property and equipment, intangible assets and right-of-use assets on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

d) **Accounting for leases under IFRS 16**

Management has made various judgements and estimates under IFRS 16 as detailed below:

Incremental borrowing rate: To determine the incremental borrowing rate, the company:
- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g term, country, currency and security.

Lease term/period: In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of office space, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the company is typically reasonably certain to extend (or not terminate).
- Otherwise, the company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

NOTES (CONTINUED)

2. **Critical accounting estimates and judgments (continued)**

d) **Accounting for leases under IFRS 16 (continued)**

Most extension options in office leases have not been included in the lease liability, because the company could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

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.

i) **Frequency and severity of claims**

The frequency and severity of claims can be affected by several factors. The most significant are the 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.

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

3.1 **Insurance risk (continued)**

i) **Frequency and severity of claims (continued)**

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 2019

		Maximum insured loss KES '000		
		KES 0 - KES 15m - KES'000	**KES 15- KES 250m KES'000**	**Total KES'000**
Engineering	Gross	1,490	-	1,490
	Net	345	-	345
Fire domestic	Gross	320	-	320
	Net	99	-	99
Fire industrial	Gross	-	56,783	56,783
	Net	-	21,245	21,245
Liability	Gross	-	15,632	15,632
	Net	467	-	467
Marine	Gross	-	-	-
	Net	-	-	-
Motor private	Gross	567,898	-	567,898
	Net	354,568	-	354,568
Motor commercial	Gross	254,987	-	254,987
	Net	-	78,657	78,657
Personal accident	Gross	1,126	-	1,126
	Net	94	-	94
Medical	Gross	-	46,876	46,876
	Net	13,876	-	13,876
Theft	Gross	6,898	-	6,898
	Net	3,342	-	3,342
WCA	Gross	18,787	-	18,787
	Net	7,657	-	7,657
Miscellaneous	Gross	32	-	32
	Net	-	-	-
Total	**Gross**	**851,538**	**119,291**	**970,829**
	Net	**380,448**	**99,902**	**480,350**

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

NOTES (CONTINUED)

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**

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
Tuesday, 31 December 2019			
Average claim cost (KES)	27,813	12,678	15,135
Average number of claims	37,216	37,216	37,216
Monday, 31 December 2018			
Average claim cost (KES)	19,031	8,239	10,792
Average number of claims	32,320	32,320	32,320

Tuesday, 31 December 2019	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity*
Average claim cost (KES)	+/-10%	+/- 47,162	+/- 47,162	+/- 47,162	+/- 191,374
Average number of claims	+/-10%	+/- 615	+/- 615	-/+ 615	-/+ 785
Monday, 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

* 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 2019 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

	2015 KES'000	2016 KES'000	2017 KES'000	2018 KES'000	2019 KES'000	Total KES'000
Claims Outstanding as at the end of year:	23,098	81,060	53,312	155,053	301,466	613,989
Accident Year	126,573	174,011	105,856	232,580	301,466	940,485
One year later	82,727	134,892	72,504	155,053	-	445,177
Two years later	54,070	104,567	53,312	-	-	211,950
Three years later	35,340	81,060	-	-	-	116,400
Four years later	23,098	-	-	-	-	23,098
Five years later	-	-	-	-	-	-
Total claims liability	23,098	81,060	53,312	155,053	301,466	613,989
Outstanding Claims for Accident Year 2014 & prior						142,332
Outstanding Claims for Medical Class (as at 31 Dec 2019)						98,733
Incurred But Not Reported Claims						203,161
Total Gross Claims Liabilities						1,058,215

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	**2019 KES'000**	**2018 KES'000**
Armotised cost:		
- Government securities – treasury bonds	88,000	86,869
- Government securities – treasury bills	150,076	152,700
Fair value through profit or loss:		
- Quoted equity investments	38,412	40,976
- Investment in unquoted shares	177,009	113,089
Receivables from direct insurance contracts	427,331	398,807
Reinsurance share of insurance liabilities and reserves	500,695	366,104
Receivables arising out of reinsurance arrangements	173,844	179,335
Other receivables (excluding non-financial assets)	32,078	39,387
Cash and bank balances	17,621	12,250
Deposits with financial institutions	93,514	122,735
Total	1,698,580	1,512,252
Short – term insurance liabilities		
Insurance contracts	1,058,215	691,166
Provisions for unearned premiums and unexpired risks	575,474	477,562
Payables arising from reinsurance arrangements	114,413	153,997
Total	1,748,102	1,322,725

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 (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:

	2019	**2018**
Net short term insurance liabilities - property risk	0.30 years	0.25 years
Net short term insurance liabilities - casualty risk	0.06 years	0.05 years
Financial assets (excluding equity securities)	1 year	1 year

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 2019:

	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	177,009	177,009	-	-	-	-
Investments in Government securities	238,076	-	151,200	-	-	86,876
Held for trading						
- Quoted equity investments	38,412	38,412	-	-	-	-
Receivables from direct insurance contracts	427,331	-	366,081	61,250	-	-
Receivables arising out of reinsurance arrangements	173,844		173,844			
Reinsurance share of insurance liabilities and reserves	500,695	-	500,695	-	-	-
Other receivables	32,078	-	32,078	-	-	-
Cash and bank balances	17,621	-	17,621	-	-	-
Deposits with financial institutions	93,514	-	93,514	-	-	-
	1,698,580	215,421	1,335,034	61,250	-	86,876
Short term insurance liabilities:						
Insurance contracts	1,058,215	-	817,756	102,940	44,579	92,940
Payables arising out of reinsurance contracts	114,413	-	114,413	-	-	-
	1,172,628	-	932,169	102,940	44,579	92,940
Difference in contractual cash flows	525,952	215,421	402,864	(41,690)	(44,579)	(6,064)

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 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	113,089	113,089	-	-	-	-
Investments in Government securities	239,569	-	152,700	-	-	86,869
Available for sale:						
- Quoted equity investments	40,976	40,976	-	-	-	-
Receivables from direct insurance contracts	398,807	-	339,493	59,314	-	-
Reinsurance share of insurance liabilities and reserves	366,104	-	366,104	-	-	-
Receivables arising out of reinsurance arrangements	179,335		179,335			
Other receivables	39,387	-	39,387	-	-	-
Cash and bank balances	12,250	-	12,250	-	-	-
Deposits with financial institutions	122,735	-	122,735	-	-	-
	1,512,252	154,065	1,212,004	59,314	-	86,869
Short term insurance liabilities:						
Insurance contracts	691,166	-	483,816	82,940	41,470	82,940
Payables arising out of reinsurance contracts	153,997	-	153,997	-	-	-
	845,163	-	637,813	-	-	-
Difference in contractual cash flows	667,089	154,065	574,190	(23,626)	(41,470)	3,929

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
		2019	2019	2018	2018
		KES'000	KES'000	KES'000	KES'000
Treasury bills	2%	195	136	191	134
Treasury bonds	2%	214	150	210	147
Deposits with financial institutions	2%	233	163	228	160
Borrowings	4%	169	119	165	116

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 fair value through profit or loss. 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 20% (2018: 40%) 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. 2,688,840 (2018: KES. 2,868,320).

Unquoted equity securities represent 80% (2018: 60%) 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. 12,390,630 (2018: KES. 7,916,230).

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;
- amounts due from insurance intermediaries;
- deposits with financial institutions;
- cash and bank balances; 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	2019 KES'000	2018 KES'000
Investments in Government securities	238,076	239,569
Receivables from direct insurance contracts	427,331	398,807
Reinsurance share of insurance liabilities and reserves	500,695	366,104
Other receivables (excluding non-financial assets)	32,078	39,387
Bank balances	17,621	12,250
Receivables arising out of reinsurance arrangements	173,844	179,335
Deposits with financial institutions	93,514	122,735
	1,483,159	1,358,187

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
2019	427,331	100,809	41,717	126,797	158,008
2018	398,807	93,554	38,715	117,671	148,867

As at 31 December 2019, 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 KES 67 million (2018: KES 61 million) were specifically impaired and fully provided for. A general provision amounting to KES 25 million (2018: KES 27 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 2019	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	740,751	126,986	63,493	126,986	1,058,215
Payables arising out of reinsurance arrangements	114,413	-	-	-	114,413
Other payables	111,606	-	-	-	111,606
Borrowings	74,599	-	-	-	74,599
Total financial liabilities	1,041,369	126,986	63,493	126,986	1,358,833

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	806,919	82,940	41,470	82,940	1,014,269

3.3 **Capital management**

The company's objectives when managing capital, which is a broader concept than the 'shareholders' funds' on the financial position are to:

- to comply with the capital requirements as set out in the Kenyan Insurance Act;
- to comply with regulatory solvency requirements as set out in the Kenyan Insurance Act;
- to safeguard the company's ability to continue as a going concern, so that it can continue to
- provide returns to shareholders and benefits for other stakeholders;
- to maintain a strong asset base to support the development of business;
- to maintain an optimal capital structure to reduce the cost of capital; and

  to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

The insurance capital requirements regulations 2015 under Section 180 of the Insurance Act require that a company, should maintain risk based capital determined by its size and risk profile. Such a Company should achieve the prescribed capital requirement and maintain a capital adequacy ratio which shall at all times be atleast 100%. The capital adequacy status of the company as at the reporting date is as follows:

3. Management of insurance and financial risk (continued)

3.3 Capital management (continued)

	2019 KES'000	2018 KES'000
Tier-1 Capital	491,990	735,536
Tier-2 Capital	241,080	301,704
Deductions	97,295	172,975
Total Capital Available (TCA)	**635,775**	**864,265**
Absolute Amount Minimum 1	600,000	600,000
Volume of Business Minimum 2	221,366	178,701
Risk Based Capital Minimum	618,768	524,682
Minimum Required Capital	**618,768**	**600,000**
Capital Adequacy Ratio	**103%**	**144%**

4 (a). Gross written premiums

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

	2019 KES'000	2018 KES'000
Fire	141,637	109,025
Motor	707,494	689,746
Engineering	25,005	10,853
Liabilities	20,553	15,016
Marine	4,207	4,806
Group Personal Accident (GPA)	56,804	84,734
Medical	410,070	278,726
Theft	35,365	39,369
Workmen's compensation.	76,930	71,629
Miscellaneous	2,899	3,383
Gross written premiums	1,480,964	1,307,287
Change in unearned premium reserve	(97,912)	2,327
	1,383,052	1,309,614

4 (b). Reinsurance premiums ceded

	2019 KES'000	2018 KES'000
Fire	54,862	84,806
Motor	52,989	85,562
Engineering	12,375	9,106
Liabilities	2,737	5,115
Marine	2,511	6,016
Group Personal Accident (GPA)	6,729	19,611
Medical	164,028	111,491
Theft	2,591	5,020
Workmen's compensation	6,778	9,934
Miscellaneous	1,173	2,561
Gross reinsurance premiums ceded	306,772	339,223
Change in unearned premium reserve (note 29)	(30,549)	(6,130)
	276,223	333,093

Section 29(1) of the Insurance Act requires all registered underwriters to have in place appropriate 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

	2019 KES'000	2018 KES'000
Interest from Government securities	23,010	23,891
Interest from bank deposits and current accounts	11,048	11,072
Gain on disposal of quoted shares	-	2,133
Rental income from investment properties	71,492	66,267
Interest on staff and mortgage loans	129	382
Dividend income from quoted equity investments	1,283	436
(Loss) on valuation of quoted shares	(2,564)	(16,921)
	104,398	87,260

5. (b) Other operating income

	2019 KES'000	2018 KES'000
Medical fund management fee and tender fees	1,780	4,298
Bad debts recoveries	-	318
Gain on disposal of property and equipment	195	-
Foreign exchange (loss)	(13)	(78)
	1,962	4,538

6. Net claims incurred

Net claims incurred by principal class of business:

	2019 KES'000	2018 KES'000
Fire	27,881	29,492
Motor	663,735	362,066
Engineering	13,436	416
Liabilities	30,010	6,598
Marine	-	(100)
Group Personal Accident (GPA)	5,107	17,719
Medical	276,754	189,872
Theft	3,934	3,166
Workmen's compensation.	14,185	5,776
Miscellaneous	51	62
	1,035,094	615,066
Reinsurance share of incurred liabilities	(255,215)	(211,283)
	779,879	403,783

NOTES (CONTINUED)

7. Operating and other expenses

	2019 KES'000	2018 KES'000
Staff costs (Note 8)	220,618	232,672
Directors' remuneration	4,380	4,290
Expected credit loss	13,977	19,951
Bank charges	3,461	3,827
Low value leases	5,783	34,968
Depreciation on right-of-use assets	22,193	-
Lease liabilities interest	13,604	-
Amortisation of intangible assets (Note 12)	10,219	12,361
Stationery	34,231	19,591
Marketing	77,591	50,981
Depreciation on equipment (Note 11)	10,392	10,377
Auditors' remuneration	1,711	1,606
Stamp duty	697	262
Premium tax	14,435	13,065
Repairs and maintenance expenditure	6,329	5,006
Donations and social responsibility	43	50
Licenses	10,536	4,036
Motor vehicles expenses	594	802
Motor vehicles insurance certificates	3,343	3,675
Office expenses	20,749	22,583
Policyholders compensation fund	3,609	3,266
Professional and legal fees	22,591	11,009
Telephone and postage	17,739	9,399
Miscellaneous expenses	1,403	15
Investment properties expenses	10,326	1,775
	530,554	465,567

8. Staff costs

	2019 KES'000	2018 KES'000
Salaries and wages	176,659	188,241
Staff medical covers	15,413	16,759
Staff welfare	19,215	19,467
Retirement benefit costs - defined contribution scheme	9,331	8,205
	220,618	232,672

The average number of persons employed during the period, by category, were:	2019 Number	2018 Number
- Underwriting	21	26
- Marketing	40	39
- Claims	9	8
- Management, administration and finance	52	43
Total	122	116

9. (Loss)/profit before tax

The (loss)/profit before tax is arrived at after charging:	2019 KES'000	2018 KES'000
Staff costs (note 8)	220,618	232,672
Depreciation (Note 11)	10,392	10,377
Amortisation of intangible assets (Note 12)	10,219	12,361
Directors' remuneration	4,380	4,290
Auditors' remuneration	1,711	1,606

NOTES (CONTINUED)

10. **Tax**	**2019 KES'000**	**2018 KES'000**
Current tax	-	40,291
Deferred tax charge/(credit) (Note 15)	17,054	(2,204)
Tax charge	17,054	38,087

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

	2019 KES'000	2018 KES'000
(Loss)/profit before tax	(236,109)	83,444
Tax calculated at the rate of 30% (2018: 30%)	(70,833)	25,033
Tax effect of:		
- expenses not deductible for tax purposes	3,262	14,199
- Non-taxable income	(3,392)	(1,145)
- Deferred tax not recognised (Note 15)	111,354	-
- Impairment provisons - IFRS 9 transition adjustment	(23,337)	-
Tax charge	17,054	38,087

11. **Property and equipment**

Year ended 31 December 2019	**Motor vehicles KES'000**	**Computer equipment KES'000**	**Furniture and fittings KES'000**	**Total KES'000**
Cost				
At start of year	2,504	27,340	86,373	116,217
Additions	119	2,104	5,880	8,103
Disposals	-	(1,814)	(245)	(2,059)
At end of year	2,623	27,630	92,008	122,261
Accumulated depreciation				
At start of year	2,504	24,183	56,338	83,025
On disposal	-	(1,619)	(157)	(1,776)
Charge for the year	25	1,736	8,631	10,392
At end of year	2,529	24,300	64,812	91,641
Net book value	94	3,330	27,196	30,620
Year ended 31 December 2018				
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
Accumulated 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

12. Intangible assets

Year ended 31 December 2019	Computer software KES'000	Work - in - progress KES'000	Total KES KES'000
Cost			
At start and end of year	96,421	209	96,631
Amortisation			
At start of year	72,500	-	72,500
Charge for the year	10,219	-	10,219
At end of year	82,719	-	82,719
Net book value	13,702	209	13,912

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

13. Investment properties

	2019 KES'000	2018 KES'000
At start and 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	2019 Totals KES'000	2018 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)**	**2019 KES'000**	**2018 KES'000**
Rental income derived from investment properties (Note 5(a))	71,492	66,267
Direct operating expenses (including repairs and maintenance) generating rental income (included in other operating and administrative expense)	10,326	1,775

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 2019. 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.

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**	**2019 KES'000**	**2018 KES'000**
Investment in unquoted equity shares	177,009	113,089

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. Additional 1,080 shares were acquired in 2019. The investment comprises a parking lot located in the Central Business District in Nairobi and was commissioned in March 2020. In the opinion of the directors, the carrying value approximates to its fair value.

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

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% (2018: 30%). The movement on the deferred income tax account is as follows:

	2019 KES'000	2018 KES'000
At start of year	13,522	11,318
Credit to retained earnings (Note 1a)	3,532	-
(Charge)/credit to profit or loss (Note 10)	(17,054)	2,204
	-	13,522

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

	At start of year KES'000	(Credit) to equity KES'000	Charge/ (credit) to profit or loss KES'000	At end of year KES'000
Deferred tax asset				
property and equipment	1,892	-	1,929	3,821
Leave pay provision	1,051	-	-	1,051
Allowance for doubtful debts	26,559	-	(26,559)	-
Provision for credit loss	-	-	54,089	54,089
Tax losses carried forward	-	-	63,318	63,318
Lease liabilities	-	23,124	10,562	33,686
	29,502	23,124	103,339	155,965
Deferred tax (liabilities)				
Revaluation of investment properties	(15,980)	-	-	(15,980)
Right of use assets	-	(19,592)	(9,039)	(28,631)
	(15,980)	(19,592)	(9,039)	(44,611)
Net deferred tax asset	13,522	3,532	94,300	111,354
Deferred tax asset not recognised	-	-	(111,354)	(111,354)
	13,522	3,532	(17,054)	-

16. **Investments in Government securities**

	2019 KES'000	2018 KES'000
Armotised cost financial assets		
Treasury bonds	88,000	88,000
Treasury bills	151,200	152,700
Expected credit loss	(1,124)	(1,131)
	238,076	239,569
Treasury bills and bonds maturing:		
Within 1 year	151,200	152,700
Maturing within 2 to 5 years	88,000	88,000
Expected credit loss	(1,124)	(1,131)
	238,076	239,569

Treasury bonds and bills are debt securities issued by the Government of Kenya and are classified as held to maturity. The effective interest rate realised on these securities for the year ended 31 December 2019 was 11% (2018: 10.84%).

Included in Government securities are treasury bonds and treasury bills with Central Bank of Kenya amounting to KES. 182.7 million (2018 : KES. 183 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.

NOTES (CONTINUED)

17. **Quoted equity investments**

	2019 KES'000	2018 KES'000
At fair value through profit or loss		
At start of year	40,976	25,764
Purchased during the year - cost	-	55,328
Fair value loss	(2,564)	(16,921)
Gain on available for sale financial assets (Note 5(a))	-	2,133
Disposal	-	(25,328)
At end of year	38,412	40,976

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**

	2019	2018
At start of year	50,493	43,720
Expenses deferred	55,312	54,667
Amortisation	(53,042)	(47,895)
At end of year	52,763	50,493

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**

	2019 KES'000	2018 KES'000
Reinsurers' share of:		
- Outstanding claims (Note 28)	338,257	251,915
- claims incurred but not reported (Note 28)	62,910	45,209
	401,167	297,124
- Unearned premium (Note 29)	99,528	68,980
	500,695	366,104

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

	2019	2018
Gross receivables arising out of direct insurance arrangements	595,312	556,072
Allowance for bad and doubtful debts	-	-
Expected credit loss	(167,981)	(157,265)
Net receivables arising out of direct insurance arrangements	427,331	398,807

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

	2019	2018
At start of year	157,265	88,846
Reversal of provisions	-	(88,528)
Write back/recoveries (Note 5(b))	-	(318)
Charge for the year	10,716	157,265
At end of year	167,981	157,265

NOTES (CONTINUED)

20. b) Receivables arising out of reinsurance arrangements

	2019 KES'000	2018 KES'000
At start of year	179,335	142,002
Payments from reinsurer	(183,174)	(57,108)
Claims recoverable	177,805	95,653
Expected credit loss	(1,334)	(1,212)
At end of year	173,844	179,335

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

21. Other receivables

	2019 KES'000	2018 KES'000
Interest receivable	1,946	1,009
Staff loans and advances	2,261	3,317
Prepayment	10,304	9,568
Rental deposits	11,811	11,671
Other receivables and deposits with various institutions	5,761	13,829
Expected credit loss	(5)	(7)
	32,078	39,387

Staff loans are unsecured and their weighted average effective interest rate is 8% (2018: 8%)

22. Deposits with financial institutions

	2019 KES'000	2018 KES'000
Deposits with commercial banks	102,952	129,215
Expected credit loss	(9,438)	(6,480)
	93,514	122,735

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 2019 was 8.6% (2018: 9.4%).

23. Share capital

	2019 KES'000	2018 KES'000
Authorised capital:		
8,000,000 (2018: 8,000,000) ordinary shares of KES. 100 each	800,000	800,000
Issued and fully paid capital:		
3,819,823 (2018: 3,250,000) ordinary shares of KES. 100 each	381,982	325,000

The movement in share capital is as shown below:

	Number of Shares		Share capital		Share premium		Share capital	
	2019 KES'000	2018 KES'000	2019 KES'000	2018 KES'000	2019 KES'000	2018 KES'000	2019 KES'000	2018 KES'000
At start and end of year	3,820	3,250	381,982	325,000	5,712	5,712	325,000	325,000

The issued and paid up share capital of the company was increased on 25 September 2019 from Shs. 325,000,000 to Shs. 381,982,000 by the issuance of 387,920 ordinary shares of Shs. 100 each and bonus shares amounting to KES. 18,189,473 (2018: Nil) in the ratio of 20:1 (2018: Nil) to existing shareholders.

24. Shareholders' contribution pending allotment

	2019 KES'000	2018 KES'000
At start of year	252,560	221,605
Additional share capital	21,600	30,955
Shares allotted in the year	(38,792)	-
	235,368	252,560

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. Right-of use assets

Year ended 31 December 2019	**Buildings KES'000**
At start of year	-
Transferred from prepaid operating lease rentals (see below)	-
Effect of change in accounting policy (Note 1(a))	65,306
	65,306
Additions	52,323
Depreciation charge for the year	(22,193)
At end of year	95,436

The company leases various offices. The leases of offices are typically for periods of between 4 and 6 years, with no options to renew. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

In the statement of cash flows, the amount for payments for right-of-use assets represents:	**2019 KES'000**
Additions, as above	52,323
Less: amounts financed through lease liabilities	-
	52,323

For information on the related lease liabilities, see Note 26.

26. Lease liabilities

	2019 KES'000
Lease liabilities	112,287

26. **Lease liabilities (continued)**

Reconciliation of lease liabilities:	**2019 KES'000**
At start of year	-
Transition adjustment (Note 1(a))	77,079
Additions	52,323
Interest charged to profit or loss	13,604
Cash flows:	
- Operating activities (interest paid)	(13,604)
- Payments under leases	(17,115)
At end of year	112,287

The leases expiring within one year are subject to review at various dates during the next financial year.

The exposure of the company's leases to interest rate changes and the contractual repricing dates at the reporting date are as follows:

	2019 KES'000
6 months or less	13,271
6 - 12 months	9,950
1 - 5 years	89,066
	112,287

Weighted average effective interest rates at the reporting date was 13%.

The carrying amounts of the company's lease liabilities are denominated in Kenya shillings.

Maturity based on the repayment structure of lease liabilities is as follows:

Gross lease liabilities - minimum lease payments	**2019 KES'000**
Not later than 1 year	36,493
Later than 1 year and not later than 5 years	110,567
Total gross lease	147,060
Future interest expense on leases liabilities	34,773
Present value of lease liabilities	112,287
Present value of lease liabilities - minimum lease payments	
Not later than 1 year	23,221
Later than 1 year and not later than 5 years	89,066
	112,287

27. **Insurance contract liabilities**

	2019 KES'000	**2018 KES'000**
Short term non-life insurance contracts:		
- claims reported and claims handling expenses	855,054	540,144
- claims incurred but not reported (IBNR)	203,161	151,022
	1,058,215	691,166

Movements in insurance liabilities and reinsurance assets are shown in note 28.

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 2019 and 2018 were not material. The computation of IBNR in Kenya is as per the prescribed actuarial valuation methodologies.

27. Insurance contract liabilities (continued)

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.

28. Movements in insurance liabilities and reinsurance assets

	2019			2018		
	Gross KES'000	Reinsurance KES'000	Net KES'000	Gross KES'000	Reinsurance KES'000	Net KES'000
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
At start of year	691,166	(297,124)	394,042	603,346	(221,275)	382,071
Less:- claims settled in the year	(702,121)	113,067	(589,054)	(580,482)	137,223	(443,259)
Add:-increase in liabilities during the year	866,009	(154,201)	711,808	517,280	(167,863)	349,417
At end of year	855,054	(338,257)	516,797	540,144	(251,915)	288,229
Notified claims	855,054	(338,257)	516,797	540,144	(251,915)	288,229
Incurred but not reported	203,161	(62,910)	140,251	151,022	(45,209)	105,813
	1,058,215	(401,167)	657,048	691,166	(297,124)	394,042

29. Provision for unearned premiums and unexpired risks

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

	2019			2018		
	Gross KES'000	Reinsurance KES'000	Net KES'000	Gross KES'000	Reinsurance KES'000	Net KES'000
At start of year	477,562	(68,980)	408,582	479,889	(62,849)	417,040
Written during the year	575,474	(99,528)	475,946	477,562	(68,980)	408,582
Earned during the year	(477,562)	68,980	(408,582)	(479,889)	62,849	(417,040)
Change in unearned premium reserve expensed (Note 4)	(97,912)	30,549	(67,364)	2,327	6,130	8,458
At end of year	575,474	(99,528)	475,946	477,562	(68,980)	408,582

30. Other payables

	2019 KES'000	2018 KES'000
Leave accrual	3,505	3,505
Customer's rent deposit	26,756	26,684
Commissions payable	20,416	26,469
Trade creditors	42,766	25,199
Dividend payable	2,607	3,937
Other payables*	15,556	14,876
	111,606	100,670

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

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

31. **Payables arising out of reinsurance arrangements**	**2019 KES'000**	**2018 KES'000**
Amounts due to reinsurers	114,413	153,997

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

32. **Borrowings**	**2019 KES'000**	**2018 KES'000**
Overdraft facility/term loan:		
Due within one year	74,599	49,599
Due after one year	-	-
	74,599	49,599

33. **Cash from operations**

Reconciliation of (loss)/profit before tax to cash from operations:	**2019 KES'000**	**2018 KES'000**
(Loss)/profit before tax	(236,109)	83,444
Adjustments for:		
Dividend income from quoted equity investments (Note 5(a))	(1,283)	(436)
Interest from Government securities (Note 5(a))	(23,010)	(23,891)
Interest on deposits with financial institutions (Note 5(a))	(11,048)	(11,072)
Gain on disposal of quoted equity (Note 5(a))	-	(2,133)
Loss on valuation of quoted shares (Note 5(a))	2,564	16,921
(Gain) on disposal of property and equipment (Note 5(b))	(195)	-
IFRS 9 provisions	-	13,247
Depreciation on right-of-use assets (Note 25)	22,193	-
Depreciation on property and equipment (Note 11)	10,392	10,377
Amortization of intangible assets (Note 12)	10,219	12,361
Finance costs	10,034	6,163
Adjusted (loss)/profit before working capital changes	(216,243)	104,981
Changes in working capital		
- increase/(decrease) in provision for unearned premium reserve	97,912	(2,327)
- (increase)/decrease in net receivables arising out of reinsurance arrangements	(34,093)	47,473
- increase in insurance contract liabilities	232,457	4,565
- (increase) in receivables arising out of direct insurance arrangements	(28,524)	(28,952)
- increase/(decrease) in other payables	10,936	(18,050)
- decrease/(increase) in other receivables	7,309	(6,655)
- (increase) in deferred acquisition costs	(2,271)	(6,773)
Cash from operations	67,484	94,263
Reconciliation on liabilities arising from financing activities:		
At start of year	(49,599)	(46,058)
Interest charged during the year	10,034	6,163
Interest paid	(10,034)	(6,163)
Repayments and transfers into account	324,330	365,789
Proceeds from bank and transfers from account	(349,330)	(369,330)
	(74,599)	(49,599)

34. Cash and bank balances

	2019 KES'000	2018 KES'000
Cash at bank and in hand	18,034	12,474
Expected credit loss	(413)	(224)
	17,621	12,250

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

	2019 KES'000	2018 KES'000
Cash at bank and in hand	17,621	12,250
Deposits with financial institutions maturing within 90 days (Note 22)	93,514	122,735
	111,135	134,985

35. Related parties

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.

	2019 KES'000	2018 KES'000
a) **Transactions with related parties**		
Sale of insurance contracts	651,624	575,206
Claims paid	455,441	270,629
Rent paid	20,237	19,515
b) **Outstanding balances with related parties:**		
Receivables arising out of direct insurance arrangements	141,019	154,290
Insurance contract liabilities	391,540	255,731
c) **Loans to related parties**		
Key management	2,065	3,081
d) **Key management compensation:**		
Short term employee benefits: - key management compensation	43,959	44,431
e) Shareholder contribution pending allotment	235,368	252,560
f) Directors' fees	4,380	4,290
g) Investment in unquoted equity shares	177,009	59,003

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.

36. **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.

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	
	2019	2018	2019	2018
	KES'000	KES'000	KES'000	KES'000
Financial assets:				
Investments in Government securities- treasury bonds	98,025	100,134	88,000	88,000

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.

2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Unquoted equity investments	-	177,009	-	177,009
Quoted equity investments – available for sale	38,412	-	-	38,412
Investment properties (Note 13)	-	-	843,850	843,850

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
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.

37. **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 2019	**Within 12 months**	**After 12 months**	**Total**
Assets	**KES'000**	**KES'000**	**KES'000**
Property and equipment	-	30,620	30,620
Intangible assets	-	13,912	13,912
Investment properties	-	843,850	843,850
Investment in unquoted equity shares	-	177,009	177,009
Deferred tax	-	-	-
Government securities - 'Amortised cost'	150,076	88,000	238,076
Quoted equity investments at fair value through profit or loss	-	38,412	38,412
Deferred acquisition costs	52,763	-	52,763
Reinsurers' share of insurance contract liabilities	500,695	-	500,695
Receivables arising out of direct insurance arrangements	427,331	-	427,331
Receivables arising out of reinsurance arrangements	173,844	-	173,844
Other receivables	32,078	-	32,078
Deposits with financial institutions	93,514	-	93,514
Right-of use assets	-	95,436	95,436
Cash and bank balances	17,621	-	17,621
Tax recoverable	44,503	-	44,503
	1,492,424	1,287,239	2,779,664
Liabilities			
Lease liabilities	-	112,287	112,287
Insurance contract liabilities	645,511	412,704	1,058,215
Provisions for unearned premiums and unexpired risks	575,474	-	575,474
Other payables	111,606	-	111,606
Payables arising out of reinsurance arrangements	114,413	-	114,413
Borrowings	74,599	-	74,599
Tax payable	-	-	-
	1,521,603	524,991	2,046,594
Net assets	(29,179)	762,248	733,070

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

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	**Within 12 months**	**After 12 months**	**Total**
Assets	**KES'000**	**KES'000**	**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 - 'Amortised cost'	151,569	88,000	239,569
Quoted equity investments at fair value through profit or loss	-	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	398,807	-	398,807
Receivables arising out of reinsurance arrangements	179,335	-	179,335
Other receivables	39,387	-	39,387
Deposits with financial institutions	122,735	-	122,735
Cash and bank balances	12,250	-	12,250
	1,320,678	1,156,760	2,477,439
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	98,402	887,205	985,608

38. **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:

	2019	**2018**
	KES'000	**KES'000**
Not later than 1 year	23,221	2,720
Later than 1 year and not later than 5 years	84,253	89,781
Later than 5 years	4,813	-
	112,287	92,501

38. **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:

	2019 KES'000	2018 KES'000
Not later than 1 year	28,598	7,124
Later than 1 year and not later than 5 years	22,273	53,294
Later than 5 years	-	22,344
	50,871	82,762

39. **Prior year adjustment**

Comparative figures have been adjusted to recognize expected credit loss provision on financial assets following adoption of IFRS 9.

40. **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 (loss)/profits of the company.

41. **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

2019 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	25,005	14,532	127,105	20,553	4,207	408,541	298,953	56,804	410,070	35,365	76,930	2,899	1,480,964
Change in gross unearned premiums	(7,878)	(1,141)	(11,831)	(8,356)	962	(23,218)	14,586	707	(54,741)	(59)	(6,908)	(34)	(97,912)
Gross premiums earned	17,127	13,391	115,274	12,197	5,169	385,323	313,539	57,511	355,329	35,306	70,022	2,865	1,383,052
Less: reinsurers premiums ceded	(7,318)	(4,121)	(47,374)	(1,297)	(3,515)	(28,362)	(24,368)	(7,025)	(142,132)	(2,579)	(6,778)	(1,355)	(276,223)
Net premiums earned	9,809	9,270	67,900	10,900	1,654	356,961	289,171	50,486	213,197	32,727	63,244	1,510	1,106,829
Gross claims incurred	13,436	1,701	26,180	30,010	-	436,089	227,646	5,107	276,754	3,934	14,185	51	1,035,094
Less: reinsurance recoverable	(120)	(16)	(5,080)	(16,996)	-	(34,471)	(86,136)	402	(110,701)	(2,172)	74	-	(255,215)
Net claims incurred	13,316	1,685	21,100	13,014	-	401,618	141,510	5,509	166,052	1,761	14,260	51	779,879
Commissions earned	(2,459)	(662)	(12,596)	(239)	(730)	-	23	78	(37,726)	(42)	(134)	(380)	(54,868)
Commissions payable	3,877	2,581	28,470	3,363	893	40,173	30,966	11,386	39,660	7,056	14,989	286	183,699
Expenses of management	10,952	6,365	55,671	9,002	1,843	178,938	130,939	24,880	61,511	15,490	33,695	1,270	530,554
Total expenses and commissions	12,371	8,283	71,545	12,125	2,005	219,111	161,928	36,344	63,444	22,504	48,550	1,175	659,385
Underwriting profit/(loss)	(15,878)	(698)	(24,745)	(14,239)	(351)	(263,768)	(14,267)	8,633	(16,299)	8,462	434	284	(332,435)

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT (CONTINUED)

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