PKF

PACIS INSURANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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COMPANY INFORMATION

BOARD OF DIRECTORS	:	Dr. Samuel Kiruthu
	:	James Ngunjiri (Resigned on 31 May 2020)
	:	Rt. Rev. James Wainaina
	:	Rev. Fr. Simon Ngángá
	:	Very Rev. Fr. Daniel K. Rono
	:	Angelica Kamuyu (Resigned on 8 June 2020)
	:	Charles Kanjama
	:	Ewart Salins
	:	Brian Omwenga
	:	Mirriam Wambui
	:	Mary Theresa Onyango
	:	Jean Moegi (Ag. Principal Officer)
REGISTERED OFFICE	:	Centenary House, 2nd Floor
	:	Off Ring Road, Westlands
	:	P.O. Box 1870, 00200
	:	NAIROBI
PRINCIPAL PLACE OF BUSINESS	:	Pacis Center, 4th Floor
	:	Off Waiyaki Way, 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
	:	NCBA 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 2020 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 year, the company reported net earned premiums of KES. 1,103,738,000 (2019: KES. 1,106,829,000). The premiums underwritten in the period were mainly for motor commercial, motor private and medical classes.

The company reported a profit before tax of KES. 40,537,000 (2019: loss of KES. 236,109,000).

As at 31 December 2020, the net asset position of the company was KES. 896,982,000 (2019: KES. 733,070,000).

KEY PERFOMANCE INDICATORS	2020 KES'000/%	2019 KES'000/%
Gross written premiums	1,445,893	1,480,964
Profit/(loss) for the year	130,593	(253,163)
Claims ratio	50%	70%
Commission ratio	10%	12%
Expense ratio	43%	48%

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 coronavirus outbreak. The directors continue to monitor this situation closely with a view to assessing and mitigating its impact on the company.

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.

REPORT OF THE DIRECTORS (CONTINUED)

DIVIDEND

The directors do not recommend the declaration of a dividend for the year (2019: Nil).

DIRECTORS

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

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

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

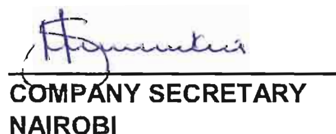
With respect to each director at the time this report was approved:

(a) there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and
(b) the person has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

TERMS OF APPOINTMENT OF THE AUDITOR

The company's auditor, PKF Kenya 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



COMPANY SECRETARY
NAIROBI

29th March 2021

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 2020 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 29 March 2021 and signed on its behalf by:

DIRECTOR

DIRECTOR

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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 58, which comprise the statement of financial position as at 31 December 2020, 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 financial position as at 31 December 2020 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.

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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 the Limited Liability Partnership Act, 2011.

Partners: 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. Mukunu, 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

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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 28 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.

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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 year 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 **2021**

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

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2020 KES'000	2019 KES'000
Gross written premiums	4(a)	1,445,893	1,480,964
Change in gross UPR		(75,593)	(97,912)
Gross earned premiums	4(a)	1,370,300	1,383,052
Less: reinsurance premium ceded	4(b)	(266,561)	(276,223)
Net earned premiums		**1,103,738**	**1,106,829**
Investment income	5(a)	73,582	104,398
Other operating income	5(b)	1,151	1,962
Commissions earned		67,674	54,868
Net income		**1,246,145**	**1,268,057**
Claims payable	6	788,972	1,035,094
Less: amounts recoverable from reinsurers	6	(232,864)	(255,215)
Net claims payable	6	**556,108**	**779,879**
Commissions payable		173,607	183,699
Operating and other expenses	7	443,374	516,577
Expected credit loss		25,741	13,977
Finance costs		6,778	10,034
Total commission and expenses		**649,500**	**724,287**
Profit/(loss) before tax		**40,537**	**(236,109)**
Tax credit/(charge)	10	90,056	(17,054)
Profit/(loss) for the year		**130,593**	**(253,163)**
Total comprehensive income for the year		**130,593**	**(253,163)**
Proposed dividend for the year		-	-

The notes on pages 13 to 58 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2020 KES'000	2019 KES'000
CAPITAL EMPLOYED			
Share capital	24	381,982	381,982
Shareholder's contribution pending allotment	25	268,687	235,368
Share premium	24	5,712	5,712
Revenue reserve		240,601	110,008
Shareholders' funds		896,982	733,070
REPRESENTED BY:			
Assets			
Property and equipment	11	86,804	30,620
Intangible assets	12	5,118	13,912
Investment properties	13	787,474	843,850
Investment in unquoted equity shares	14	-	177,009
Deferred tax	15	90,056	-
Government securities - 'Amortised cost'	16	248,029	238,076
Quoted equity investments at fair value through profit or loss	17	27,202	38,412
Deferred acquisition costs	18	64,277	52,763
Reinsurers' share of insurance contract liabilities	19	426,081	500,695
Receivables arising out of direct insurance arrangements	20 (a)	499,163	451,043
Receivables arising out of reinsurance arrangements	20 (b)	373,117	173,844
Receivable from related party	21	212,849	-
Other receivables	22	37,225	32,078
Deposits with financial institutions	23	68,107	93,514
Right-of use assets	26	63,229	95,436
Cash and bank balances	35	293	17,621
Tax recoverable		44,628	44,503
Total assets		3,033,652	2,803,376
Liabilities			
Lease liabilities	27	78,243	112,287
Insurance contract liabilities	28	1,059,275	1,058,215
Unearned premium reserve	30	651,068	575,474
Other payables	31	183,749	135,318
Payables arising out of reinsurance arrangements	32	89,737	114,413
Borrowings	33	74,599	74,599
Total liabilities		2,136,671	2,070,306
Net assets		896,982	733,070

The financial statements on pages 9 to 58 were approved and authorised for issue by the Board of Directors on 29 March 2021 and were signed on its behalf by:

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

The notes on pages 13 to 58 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8.

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital KES'000	Shareholders contribution pending allotment KES'000	Share premium KES'000	Revenue reserve KES'000	Proposed dividends KES'000	Total KES'000
Year ended 31 December 2019							
At start of year		325,000	252,560	5,712	364,095	30,000	977,367
Total comprehensive (loss) for the year		-	-	-	(253,163)	-	(253,163)
Additional funds received	25	-	21,600	-	-	-	21,600
Shares allotted in the year	25	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
Year ended 31 December 2020							
At start of year		381,982 0	235,368	5,712	110,008	-	733,070
Total comprehensive income for the year		-	-	-	130,593	-	130,593
Additional funds received	25	-	33,319	-	-	-	33,319
At end of year		381,982	268,687	5,712	240,601	-	896,982

The notes on pages 13 to 58 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 8.

STATEMENT OF CASH FLOWS

	Notes	2020 KES'000	2019 KES'000
Operating activities			
Cash generated from operations	34	3,070	95,065
Tax paid		(123)	(63,340)
Net cash from operations		2,947	31,725
Investing activities			
Dividend received	5(a)	1,093	1,283
Interest from Government securities	5(a)	22,049	23,010
Interest on deposits with financial institutions	5(a)	10,098	11,048
Purchase of property and equipment	11	(12,649)	(8,103)
Purchase of intangible assets	12	(313)	-
Proceeds from disposal of property and equipment		63	478
Purchase unquoted equity investments		(54,086)	(63,920)
Purchase of Government securities		(50,000)	(41,507)
Proceeds from maturity of Government securities		41,500	148,574
Net cash (used in) investing activities		(42,244)	70,863
Financing activities			
Proceeds from contributions pending allotment	25	33,319	21,600
Net movement in borrowings	33	-	25,000
Interest paid on borrowings		(6,778)	(10,034)
Interest paid on lease liabilities	27	(11,444)	(13,604)
Lease liabilities paid during the year	27	(17,602)	(17,115)
Dividends paid during the year		-	(12,734)
Net cash (used in) financing activities		(2,504)	(6,887)
(Decrease)/increase in cash and cash equivalents		(41,802)	95,701
Movement in cash and cash equivalents			
At start of year		156,087	60,386
(Decrease)/increase		(41,802)	95,701
At end of year	35	114,285	156,087

The notes on pages 13 to 58 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 3.

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

New standards, amendments and interpretations adopted by the company

The company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

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

New standards, amendments and interpretations adopted by the company (continued)

Conceptual Framework for Financial Reporting issued on 29 March 2018
The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the company.

Amendments to IAS 1 and IAS 8 Definition of Material (issued in October 2018)
The amendments, 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.

Amendments to IFRS 3: Definition of a Business (issued in October 2018)
The amendments, 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 an asset acquisition. These amendments had no impact on the financial statements of the company, but may impact future periods should the company enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform (issued in September 2019)
The amendments, applicable to annual periods beginning on or after 1 January 2020, provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the company as it does not have any interest rate hedge relationships.

Amendments to IFRS 16 Covid-19 Related Rent Concessions (issued on 28 May 2020)
The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the company.

New standards, amendments and interpretations issued but not effective

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

- Amendments to IAS 1 'Classification of Liabilities as Current or Non-current (issued in January 2020), effective for annual periods beginning or after 1 January 2023, clarify a criterion for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement for at least 12 months after the reporting date.

- Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022 prohibit entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

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

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

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

- Amendments to IAS 37 'Onerous Contracts – Costs of Fulfilling a Contract' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022, specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards 'Subsidiary as a first-time adopter' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted, permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

- Amendments to IFRS 3 Business Combinations - The amendments added an exception to the the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. The amendments also clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

- Amendment to IFRS 9 Financial Instruments 'Fees in the '10 per cent' test for derecognition of financial liabilities' (issued in May 2020), effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted, clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- 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.

- IFRS 17 'Insurance Contracts' (issued in 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 issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those 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);

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

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

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

- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period;

- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;

- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;

- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the statement of financial position; 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.

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

NOTES (CONTINUED)

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

b) **Insurance contracts (continued)**

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.

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.

NOTES (CONTINUED)

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

b) **Insurance contracts (continued)**

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 (h)).

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.

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

c) **Other income (continued)**

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 accumulated 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 year 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

Buildings are depreciated over the remaining lease period.

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

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.

An item of property, plant and equipment is derecognised upon disposal or when no future future economic benefits are expected from its use or disposal. 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.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefits are expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition

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

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 carrying amount of an asset or a cash generating unit (CGU) exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In this case, management determines the recoverable amount of the CGU to which the asset belongs.

A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of cash inflows from other assets or groups of assets.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation surplus taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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

h) **Financial instruments**

Financial instruments are recognised when, and only when, the group becomes party to the contractual provisions of the instrument.

- Financial assets

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale.

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 measured and recognised.

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 measured 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 statement of profit or loss and other comprehensive income.

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.

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

h) **Financial instruments (continued)**

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

Derecognition/write off (continued)

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.

Impairment

Debt instruments that are subsequently measured at amortised cost or at impairment assessment. No impairment loss is recognised on investments measured at FVTPL.

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.

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

h) **Financial instruments (continued)**

- ***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 recognised initially at fair value and, in the case of loans and and borrowings and payables, net of directly attributable transaction costs.
- 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.

Derecognition

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

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a currently enforceable legal right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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 assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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.

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

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

The company as lessee(continued)

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.

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 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 company and its employees also contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The company's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

ii) Other entitlements

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

NOTES (CONTINUED)

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

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 amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the reporting date. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the carry forward of unused tax credits and tax credits and unused tax losses 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.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The company offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

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.

2. Significant accounting judgements, estimates and assumptions

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other relevant factors. Such estimates and assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

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.

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 29 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.

- 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.

NOTES (CONTINUED)

2. **Significant accounting judgements, estimates and assumptions (continued)**

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

- 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 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.

The carrying amounts of the company's financial assets that are subject to impairment assessment are disclosed in note 3.

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

Management reviews the useful lives, depreciation methods 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. The carrying amounts of property and equipment, intangible assets and right-of-use assets are disclosed in notes 11, 12 and 26, respectively.

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.

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.

2. **Significant accounting judgements, estimates and assumptions (continued)**

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

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.

The carrying amounts of lease liabilities and right-of-use assets are disclosed in notes 26 and 27, respectively.

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 2020

		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 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**

iii) **Sensitivities**

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

3. Management of insurance and financial risk (continued)

3.1 Insurance risk (continued)

iii) Sensitivities (continued)

The assumptions are as follows:

	Insurance contract liabilities	Re-insurance liabilities	Net
31 December 2020			
Average claim cost (KES)	27,813	12,678	15,135
Average number of claims	37,216	37,216	37,216
31 December 2019			
Average claim cost (KES)	27,813	12,678	15,135
Average number of claims	37,216	37,216	37,216

31 December 2020	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
31 December 2019					
Average claim cost (KES)	+/-10%	+/- 47,162	+/- 47,162	+/- 47,162	+/- 191,374
Average number of claims	+/-10%	+/- 615	+/- 615	-/+ 615	-/+ 785

* 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 2020 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

	2016 KES'000	2017 KES'000	2018 KES'000	2019 KES'000	2020 KES'000	Total KES'000
Claims Outstanding as at the end of year:	23,098	78,060	62,300	195,053	272,467	630,978
Accident Year	126,573	167,571	120,314	302,332	272,467	989,256
One year later	82,727	129,900	84,728	195,053	-	492,408
Two years later	54,070	100,697	62,300	-	-	217,068
Three years later	35,340	78,060	-	-	-	113,400
Four years later	23,098	-	-	-	-	23,098
Five years later	-	-	-	-	-	-
Total claims liability	23,098	78,060	62,300	195,053	272,467	630,978

Outstanding Claims for Accident Year 2015 & prior	142,332
Outstanding Claims for Medical Class (as at 31 Dec 2020)	78,999
Incurred But Not Reported Claims	206,966
Total Gross Claims Liabilities	1,059,275

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;

	2020	2019
Financial assets	**KES'000**	**KES'000**
Armotised cost:		
- Government securities – treasury bonds	88,000	85,376
- Government securities – treasury bills	160,029	152,700
Fair value through profit or loss:		
- Quoted equity investments	27,202	38,412
- Investment in unquoted shares	-	177,009
Receivables from direct insurance contracts	499,163	451,043
Reinsurance share of insurance liabilities and reserves	426,081	500,695
Receivables arising out of reinsurance arrangements	373,117	173,844
Receivable from related party	212,849	-
Other receivables (excluding non-financial assets)	37,225	32,078
Cash and bank balances	293	17,621
Deposits with financial institutions	68,107	93,514
Total	1,892,066	1,722,292
Short – term insurance liabilities		
Insurance contracts	1,059,275	1,058,215
Provisions for unearned premiums and unexpired risks	651,068	575,474
Payables arising from reinsurance arrangements	89,737	114,413
Total	1,800,080	1,748,102

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:

	2020	2019
Net short term insurance liabilities - property risk	0.30 years	0.30 years
Net short term insurance liabilities - casualty risk	0.06 years	0.06 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 2020:

	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						
Armotised cost:						
- Investments in Government securities	248,029	-	161,200	-	-	86,829
Fair value through profit or loss:						
- Quoted equity investments	27,202	27,202	-	-	-	-
Receivables from direct insurance contracts	499,163	-	432,263	66,900	-	-
Receivables arising out of reinsurance arrangements	373,117		373,117			
Reinsurance share of insurance liabilities and reserves	426,081	-	426,081	-	-	-
Receivable from related party	212,849	-	141,899	70,950	-	-
Other receivables	37,225	-	37,225	-	-	-
Cash and bank balances	293	-	293	-	-	-
Deposits with financial institutions	68,107	-	68,107	-	-	-
	1,892,066	27,202	1,640,186	137,850	-	86,829
Short term insurance liabilities:						
Insurance contracts	1,059,275	-	811,814	110,940	45,566	90,955
Payables arising out of reinsurance contracts	89,737	-	89,737	-	-	-
	1,149,012	-	901,551	110,940	45,566	90,955
Difference in contractual cash flows	743,054	27,202	738,634	26,910	(45,566)	(4,126)

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						
Investments in Government securities	238,076	-	151,200	-	-	86,876
Fair value through profit or loss:						
- Quoted equity investments	38,412	38,412	-	-	-	-
- Investment in unquoted shares	177,009	177,009	-	-	-	-
Receivables from direct insurance contracts	451,043	-	389,793	61,250	-	-
Reinsurance share of insurance liabilities and reserves	500,695	-	500,695	-	-	-
Receivables arising out of reinsurance arrangements	173,844		173,844			
Other receivables	32,078	-	32,078	-	-	-
Cash and bank balances	17,621	-	17,621	-	-	-
Deposits with financial institutions	93,514	-	93,514	-	-	-
	1,722,292	215,421	1,358,745	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	-	-	-
Difference in contractual cash flows	549,664	215,421	426,576	(41,690)	(44,579)	(6,064)

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
		2020 KES'000	2020 KES'000	2019 KES'000	2019 KES'000
Treasury bills	2%	2,010	1,407	2,512	1,759
Treasury bonds	2%	1,665	499	1,581	1,107
Deposits with financial institutions	2%	2,244	1,571	2,244	1,571
Borrowings	4%	1,043	730	1,544	1,081

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 100% (2019: 18%) 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. 2,040,150 (2019: KES. 2,688,840).

Unquoted equity securities represent Nil (2019: 82%) 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. Nil (2019: KES. 12,390,630).

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	**2020 KES'000**	**2019 KES'000**
Investments in Government securities	248,029	238,076
Receivables from direct insurance contracts	499,163	451,043
Reinsurance share of insurance liabilities and reserves	426,081	500,695
Receivable from related party	212,849	-
Other receivables (excluding non-financial assets)	37,225	32,078
Bank balances	293	17,621
Receivables arising out of reinsurance arrangements	373,117	173,844
Deposits with financial institutions	68,107	93,514
	1,864,864	1,506,871

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:

		Neither past due	**Past due but not impaired**		
	Net	**nor impaired**	**60-90 days**	**90-180 days**	**180-365 days**
	KES'000	**KES'000**	**KES'000**	**KES'000**	**KES'000**
2020	499,163	113,504	30,089	80,079	275,491
2019	451,043	100,809	41,717	126,797	181,720

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.

NOTES (CONTINUED)

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

3.2 **Financial risk (continued)**

d) **Liquidity risk (continued)**

As at 31 December 2020	**0-1 year**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
	KES'000	**KES'000**	**KES'000**	**KES'000**	**KES'000**
Liabilities					
Insurance contract liabilities	741,492	127,113	63,556	127,113	1,059,275
Payables arising out of reinsurance arrangements	89,737	-	-	-	89,737
Other payables	183,749	-	-	-	183,749
Borrowings	74,599	-	-	-	74,599
Total financial liabilities	1,089,577	127,113	63,556	127,113	1,407,360

As at 31 December 2019					
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

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:

NOTES (CONTINUED)

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

3.3 **Capital management (continued)**

	2020 KES'000	2019 KES'000
Tier-1 Capital	628,295	497,702
Tier-2 Capital	268,687	235,368
Deductions	246,255	97,295
Total Capital Available (TCA)	**650,727**	**635,775**
Absolute Amount Minimum 1	600,000	600,000
Volume of Business Minimum 2	220,746	221,366
Risk Based Capital Minimum	609,188	618,768
Minimum Required Capital	**609,188**	**618,768**
Capital Adequacy Ratio	**107%**	**103%**

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

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

	2020 KES'000	2019 KES'000
Fire	119,856	141,637
Motor	668,311	707,494
Engineering	32,938	25,005
Liabilities	27,313	20,553
Marine	2,968	4,207
Group Personal Accident (GPA)	30,277	56,804
Medical	449,553	410,070
Theft	38,837	35,365
Workmen's compensation.	73,703	76,930
Miscellaneous	2,137	2,899
Gross written premiums	1,445,893	1,480,964
Change in unearned premium reserve	(75,593)	(97,912)
	1,370,300	1,383,052

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

	2020	2019
Fire	37,317	54,862
Motor	16,633	52,989
Engineering	11,414	12,375
Liabilities	320	2,737
Marine	-	2,511
Group Personal Accident (GPA)	5,785	6,729
Medical	174,554	164,028
Theft	10,037	2,591
Workmen's compensation	5,559	6,778
Miscellaneous	1,031	1,173
Gross reinsurance premiums ceded	262,649	306,772
Change in unearned premium reserve (note 30)	3,912	(30,549)
	266,561	276,223

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.

5. (a) Investment income

	2020 KES'000	2019 KES'000
Interest from Government securities	22,049	23,010
Interest from bank deposits and current accounts	10,098	11,048
Rental income from investment properties	51,504	71,492
Interest on staff and mortgage loans	46	129
Dividend income from quoted equity investments	1,093	1,283
(Loss) on valuation of quoted shares	(11,209)	(2,564)
	73,582	104,398

5. (b) Other operating income

	2020 KES'000	2019 KES'000
Medical fund management fee and tender fees	1,275	1,780
(Loss)/gain on disposal of property and equipment	(45)	195
Foreign exchange (loss)	(79)	(13)
	1,151	1,962

6. Net claims incurred

Net claims incurred by principal class of business:

	2020 KES'000	2019 KES'000
Fire	28,163	27,881
Motor	406,178	663,735
Engineering	17,655	13,436
Liabilities	6,058	30,010
Marine	-	-
Group Personal Accident (GPA)	9,687	5,107
Medical	286,274	276,754
Theft	17,216	3,934
Workmen's compensation	17,741	14,185
Miscellaneous	-	51
	788,972	1,035,094
Reinsurance share of incurred liabilities	(232,864)	(255,215)
	556,108	779,879

NOTES (CONTINUED)

7. Operating and other expenses

	2020 KES'000	2019 KES'000
Staff costs (Note 8)	198,299	220,618
Directors' remuneration	6,105	4,380
Bank charges	4,844	3,461
Low value leases	2,439	5,783
Depreciation on right-of-use assets (Note 26)	20,432	22,193
Lease liabilities interest (Note 27)	11,444	13,604
Amortisation of intangible assets (Note 12)	9,107	10,219
Stationery	23,269	34,231
Marketing	68,393	77,591
Depreciation on equipment (Note 11)	12,733	10,392
Auditors' remuneration	3,600	1,711
Stamp duty	301	697
Premium tax	14,209	14,435
Repairs and maintenance expenditure	5,689	6,329
Donations and social responsibility	950	43
Licenses	11,786	10,536
Motor vehicles expenses	197	594
Motor vehicles insurance certificates	3,769	3,343
Office expenses	11,866	20,749
Policyholders compensation fund	3,481	3,609
Professional and legal fees	13,611	22,591
Telephone and postage	15,355	17,739
Miscellaneous expenses	716	1,403
Investment properties expenses	778	10,326
	443,374	516,577

8. Staff costs

	2020 KES'000	2019 KES'000
Salaries and wages	161,353	176,659
Staff medical covers	14,861	15,413
Staff welfare	14,468	19,215
Retirement benefit costs - defined contribution scheme	7,617	9,331
	198,299	220,618

The average number of persons employed during the period, by category, were:	2020 Number	2019 Number
- Underwriting	19	21
- Marketing	38	40
- Claims	8	9
- Management, administration and finance	45	52
Total	110	122

9. Profit/(loss) before tax

The profit/(loss) before tax is arrived at after charging:	2020 KES'000	2019 KES'000
Staff costs (note 8)	198,299	220,618
Depreciation on equipment (Note 11)	12,733	10,392
Amortisation of intangible assets (Note 12)	9,107	10,219
Directors' remuneration	6,105	4,380
Auditors' remuneration	3,600	1,711

NOTES (CONTINUED)

10. Tax

	2020 KES'000	2019 KES'000
Current tax	-	-
Deferred tax (credit)/charge (Note 15)	(90,056)	17,054
Tax charge	(90,056)	17,054

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

	2020 KES'000	2019 KES'000
Profit/(loss) before tax	40,537	(236,109)
Tax calculated at the rate of 25% (2019: 30%)	10,134	(70,833)
Tax effect of:		
- Expenses not deductible for tax purposes	8,128	3,262
- Non-taxable income	(514)	(3,392)
- Effect of change in tax rates	3,550	-
- Deferred tax not recognised (Note 15)	(111,354)	111,354
- Impairment provisons - Expected credit loss	-	(23,337)
Tax (credit)/charge	(90,056)	17,054

11. Property and equipment

Year ended 31 December 2020	Buildings KES'000	Motor vehicles KES'000	Computer equipment KES'000	Furniture and fittings KES'000	Total KES'000
Cost					
At start of year	-	2,623	27,630	92,008	122,261
Additions	-	131	3,370	9,148	12,649
Transfer from investment property (Note 13)	56,376	-	-	-	56,376
Disposals	-	(2,623)	(389)	(285)	(3,297)
At end of year	56,376	131	30,611	100,871	187,989
Accumulated depreciation					
At start of year	-	2,529	24,300	64,812	91,641
On disposal	-	(2,533)	(389)	(267)	(3,189)
Charge for the year	1,708	24	2,069	8,932	12,733
At end of year	1,708	20	25,980	73,477	101,185
Net book value	54,668	111	4,631	27,394	86,804

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	-	3,330	27,196	30,620

NOTES (CONTINUED)

12. **Intangible assets**

Year ended 31 December 2020	**Computer software KES'000**	**Work - in - progress KES'000**	**Total KES KES'000**
Cost			
At start of year	96,421	209	96,631
Additions	-	313	313
Transfer on capitalization	522	(522)	-
At end of year	96,944	-	96,944
Amortisation			
At start of year	82,719	-	82,719
Charge for the year	9,107	-	9,107
At end of year	91,826	-	91,826
Net book value	5,118	-	5,118

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

13. **Investment properties**

	2020 KES'000	**2019 KES'000**
At start of year	843,850	843,850
Transfer to property and equipment (Note 11)	(56,376)	-
At end of year	787,474	843,850

The company's investment properties consist of the following:

Property description	**Type**	**Land KES'000**	**Developments KES'000**	**2020 Totals KES'000**	**2019 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
Transfer to property and equipment (Note 11)		-	(56,376)	(56,376)	-
		323,850	463,624	787,474	843,850

NOTES (CONTINUED)

13. **Investment properties (continued)**	**2020 KES'000**	**2019 KES'000**
Rental income derived from investment properties (Note 5(a))	51,504	71,492
Direct operating expenses (including repairs and maintenance) generating rental income (included in other operating and administrative expense)	778	10,326

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 2020. 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**	**2020 KES'000**	**2019 KES'000**
Investment in unquoted equity shares	-	177,009

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 and 2,163 shares were acquired in 2019 and 2020 respectively. The investment comprised of a parking lot located in the Central Business District in Nairobi and was commissioned in March 2020.

On 31 December 2020, the investment in unquoted equity shares was disposed to Archdiocese of Nairobi at cost.

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

NOTES (CONTINUED)

15. Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2019: 30%). The movement on the deferred income tax account is as follows:

	2020 KES'000	2019 KES'000
At start of year	-	17,054
(Charge) to profit or loss (Note 10)	90,056	(17,054)
	90,056	-

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

	At start of year KES'000	Charge/ (credit) to profit or loss KES'000	At end of year KES'000
Deferred tax asset			
Property and equipment	3,821	3,106	6,927
Leave pay provision	1,051	(152)	899
Provision for credit loss	54,089	7,722	61,811
Tax losses carried forward	63,318	(31,423)	31,895
Lease liabilities	33,686	(10,213)	23,473
	155,965	(30,960)	125,005
Deferred tax (liabilities)			
Revaluation of investment properties	(15,980)	-	(15,980)
Right of use assets	(28,631)	9,662	(18,969)
	(44,611)	9,662	(34,949)
Net deferred tax asset	111,354	(21,298)	90,056
Deferred tax asset not recognised	(111,354)	111,354	-
	-	90,056	90,056

16. Investments in Government securities

	2020 KES'000	2019 KES'000
Armotised cost financial assets		
Treasury bonds	88,000	88,000
Treasury bills	161,200	151,200
Expected credit loss	(1,171)	(1,124)
	248,029	238,076
Treasury bills and bonds maturing:		
Within 91 days (Note 35)	111,200	109,700
Within 91 days to 1 year	50,000	41,500
Maturing within 2 to 5 years	88,000	88,000
Expected credit loss	(1,171)	(1,124)
	248,029	238,076

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 2020 was 11% (2019: 11%).

Included in Government securities are treasury bonds and treasury bills with Central Bank of Kenya amounting to KES. 182.7 million (2019 : KES. 182.7 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**

At fair value through profit or loss	**2020 KES'000**	**2019 KES'000**
At start of year	38,412	40,976
Fair value (loss)	(11,209)	(2,564)
At end of year	27,202	38,412

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**

	2020 KES'000	**2019 KES'000**
At start of year	52,763	50,493
Expenses deferred	65,487	55,312
Amortisation	(53,973)	(53,042)
At end of year	64,277	52,763

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**

Reinsurers' share of:	**2020 KES'000**	**2019 KES'000**
- Outstanding claims (Note 29)	275,732	338,257
- claims incurred but not reported (Note 29)	54,732	62,910
	330,465	401,167
- Unearned premium (Note 30)	95,616	99,528
	426,081	500,695

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

	2020	2019
Gross receivables arising out of direct insurance arrangements	665,244	619,024
Expected credit loss	(166,081)	(167,981)
Net receivables arising out of direct insurance arrangements	499,163	451,043

The movement in expected credit loss is as shown below:

	2020	2019
At start of year	167,981	157,265
Charge for the year	(1,900)	10,716
At end of year	166,081	167,981

NOTES (CONTINUED)

20. b) **Receivables arising out of reinsurance arrangements**	**2020 KES'000**	**2019 KES'000**
At start of year	173,844	179,335
Payments from reinsurer	-	(183,174)
Claims recoverable	210,524	179,017
Expected credit loss	(11,251)	(1,334)
At end of year	373,117	173,844

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

21. **Receivable from related party**	**2020 KES'000**	**2019 KES'000**
Receivable from sale of unquoted shares (Note 36)	231,095	-
Expected credit loss	(18,246)	-
	212,849	-

In the opinion of the directors, the carrying amounts of receivable from related party approximate to their fair value.

22. **Other receivables**		
Interest receivable	11,176	1,946
Staff loans and advances	2,105	2,261
Prepayment	2,226	10,304
Rental deposits	10,262	11,811
Other receivables and deposits with various institutions	11,460	5,761
Expected credit loss	(4)	(5)
	37,225	32,078

Staff loans are unsecured and their weighted average effective interest rate is 8% (2019: 8%)

23. **Deposits with financial institutions**	**2020 KES'000**	**2019 KES'000**
Deposits with commercial banks	41,096	52,452
Deposits with related party (Note 36)	36,000	50,500
Expected credit loss	(8,989)	(9,438)
	68,107	93,514

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 2020 was 8.6% (2019: 8.6%).

Included in deposits with financial institutions are deposit with Bank of Africa amounting to KES. 20 Million (2019 : KES. 10 Million) which are under lien as a security for an overdraft facility the company has entered with the bank.

24. **Share capital**	**2020 KES'000**	**2019 KES'000**
Authorised capital:		
8,000,000 (2019: 8,000,000) ordinary shares of KES. 100 each	800,000	800,000
Issued and fully paid capital:		
3,819,823 (2019: 3,819,823) ordinary shares of KES. 100 each	381,982	381,982

24. **Share capital (continued)**

The movement in share capital is as shown below:

	Number of Shares		Share premium		Share capital	
	2020 KES'000	2019 KES'000	2020 KES'000	2019 KES'000	2020 KES'000	2019 KES'000
At start and end of year	3,820	3,820	5,712	5,712	381,982	381,982

25. **Shareholders' contribution pending allotment**

	2020 KES'000	2019 KES'000
At start of year	235,368	252,560
Additional share capital	33,319	21,600
Shares allotted in the year	-	(38,792)
	268,687	235,368

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 Companies and share certificate issued to the shareholder.

26. **Right-of use assets**

	Buildings 2020 KES'000	Buildings 2019 KES'000
At start of year	95,436	-
Effect of change in accounting policy	-	65,306
	95,436	65,306
Additions	-	52,323
Reversal of right-of use asset on lease cancellation	(11,775)	-
Depreciation charge for the year	(20,432)	(22,193)
At end of year	63,229	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:	2020 KES'000	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 27.

27. **Lease liabilities**

	2020 KES'000	2020 KES'000
Lease liabilities	78,243	112,287

NOTES (CONTINUED)

27. **Lease liabilities (continued)**

Reconciliation of lease liabilities:	2020 KES'000	2019 KES'000
At start of year	112,287	-
Transition adjustment	-	77,079
Additions	-	52,323
Interest charged to profit or loss	11,444	13,604
Reversal of lease liability on lease cancellation	(16,442)	-
Cash flows:		
- Operating activities (interest paid)	(11,444)	(13,604)
- Payments under leases	(17,602)	(17,115)
At end of year	78,243	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:

	2020 KES'000	2019 KES'000
6 months or less	12,340	13,271
6 - 12 months	9,055	9,950
1 - 5 years	56,848	89,066
	78,243	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	2020 KES'000	2019 KES'000
Not later than 1 year	30,332	36,493
Later than 1 year and not later than 5 years	68,265	110,567
Total gross lease	98,597	147,060
Future interest expense on leases liabilities	20,354	34,773
Present value of lease liabilities	78,243	112,287
Present value of lease liabilities - minimum lease payments		
Not later than 1 year	21,395	23,221
Later than 1 year and not later than 5 years	56,848	89,066
	78,243	112,287

28. **Insurance contract liabilities**

	2020 KES'000	2019 KES'000
Short term non-life insurance contracts:		
- claims reported and claims handling expenses	852,309	855,054
- claims incurred but not reported (IBNR)	206,966	203,161
	1,059,275	1,058,215

Movements in insurance liabilities and reinsurance assets are shown in note 29.

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 2020 and 2019 were not material. The computation of IBNR in Kenya is as per the prescribed actuarial valuation methodologies.

28. **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.

29. **Movements in insurance liabilities and reinsurance assets**

	2020			2019		
	Gross KES'000	Reinsurance KES'000	Net KES'000	Gross KES'000	Reinsurance KES'000	Net KES'000
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
At start of year	1,058,215	(401,167)	657,048	691,166	(297,124)	394,042
Less: claims settled in the year	(830,579)	232,097	(598,481)	(702,121)	113,067	(589,054)
Add: increase in liabilities during the year	624,673	(106,662)	518,010	866,009	(154,201)	711,808
At end of year	852,309	(275,732)	576,576	855,054	(338,257)	516,797
Notified claims	852,309	(275,732)	576,576	855,054	(338,257)	516,797
Incurred but not reported	206,966	(54,732)	152,234	203,161	(62,910)	140,251
	1,059,275	(330,464)	728,811	1,058,215	(401,167)	657,048

30. **Provision for unearned premiums and unexpired risks**

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

	2020			2019		
	Gross KES'000	Reinsurance KES'000	Net KES'000	Gross KES'000	Reinsurance KES'000	Net KES'000
At start of year	575,474	(99,528)	475,946	477,562	(68,980)	408,582
Written during the year	651,068	(95,616)	555,451	575,474	(99,528)	475,946
Earned during the year	(575,474)	99,528	(475,946)	(477,562)	68,980	(408,582)
Change in unearned premium reserve expensed (Note 4)	(75,593)	(3,912)	(79,505)	(97,912)	30,549	(67,364)
At end of year	651,068	(95,616)	555,451	575,474	(99,528)	475,946

31. **Other payables**

	2020 KES'000	2019 KES'000
Leave accrual	2,996	3,505
Customer's rent deposit	26,756	26,756
Commissions payable	21,764	20,416
Trade creditors	98,251	66,478
Dividend payable	1,120	2,607
Other payables*	32,861	15,556
	183,749	135,318

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

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

NOTES (CONTINUED)

32. **Payables arising out of reinsurance arrangements**	**2020 KES'000**	**2019 KES'000**
Amounts due to reinsurers	89,737	114,413

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

33. **Borrowings**	**2020 KES'000**	**2019 KES'000**
Overdraft facility/term loan:		
Due within one year	74,599	74,599

The borrowings are secured by the following:

i) First legal charge over villa number A3 erected on property reference number 6863/82 registered in the name of the borrower for the sum of Shs. 75,000,000.
ii) Pledged deposits Shs. 20,000,000 held in the name of the borrower for the duration of the facility.
iii) Fire insurance cover over villa number A3 erected on property reference number 6863/82 from an insurer approved by the bank with the interest of bank duly noted on policy.

The interest rate for the overdarft facility is 13% (2019: 13%).

34. **Cash from operations**

Reconciliation of profit/(loss) before tax to cash from operations:	**2020 KES'000**	**2019 KES'000**
Profit/(loss) before tax	40,537	(236,109)
Adjustments for:		
Dividend income from quoted equity investments (Note 5(a))	(1,093)	(1,283)
Interest from Government securities (Note 5(a))	(22,049)	(23,010)
Interest on deposits with financial institutions (Note 5(a))	(10,098)	(11,048)
Loss on valuation of quoted shares (Note 5(a))	11,209	2,564
Expected credit loss	25,741	13,977
Loss/(gain) on disposal of property and equipment (Note 5(b))	45	(195)
Depreciation on right-of-use assets (Note 26)	20,432	22,193
Depreciation on property and equipment (Note 11)	12,733	10,392
Amortization of intangible assets (Note 12)	9,107	10,219
Lease liabilities interest (Note 27)	11,444	13,604
Reversal of lease liability and right-of-use assets	(4,667)	-
Finance costs	6,778	10,034
Adjusted profit/(loss) before working capital changes	100,118	(188,662)
Changes in working capital:		
- increase in provision for unearned premium reserve	75,593	97,912
- (increase) in net receivables arising out of reinsurance arrangements	(233;866)	(34,093)
- increase in insurance contract liabilities	75,673	232,457
- (increase) in receivables arising out of direct insurance arrangements	(46,220)	(28,524)
- increase in other payables	48,431	10,936
- (increase)/decrease in other receivables	(5,146)	7,309
- (increase) in deferred acquisition costs	(11,514)	(2,271)
Cash from operations	3,070	95,065
Reconciliation on liabilities arising from financing activities:		
At start of year	(74,599)	(49,599)
Interest charged during the year	6,778	10,034
Interest paid	(6,778)	(10,034)
Repayments and transfers into account	264,521	324,330
Proceeds from bank and transfers from account	(264,521)	(349,330)
	(74,599)	(74,599)

NOTES (CONTINUED)

35. Cash and bank balances

	2020 KES'000	2019 KES'000
Cash at bank and in hand	587	18,034
Expected credit loss	(294)	(413)
	293	17,621

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

	2020 KES'000	2019 KES'000
Cash at bank and in hand	587	18,034
Bank overdraft (Note 33)	(74,599)	(74,599)
Investments in Government securities maturing within 91 days (Note 16)	111,200	109,700
Deposits with financial institutions maturing within 90 days (Note 23)	77,096	102,952
	114,285	156,087

36. 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 and other transactions to the various Catholic Church Archdioceses, Dioceses, the Catholic Missionary Priests, and the Association of the Catholic Nuns together with affiliated institutions.

	2020 KES'000	2019 KES'000
a) **Transactions with related parties**		
Sale of insurance contracts	636,193	651,624
Claims paid	347,148	455,441
Interest from bank deposits and current accounts	4,167	2,143
Sale of unquoted shares	231,098	-
Depreciation on right-of-use assets	9,183	13,860
Lease liabilities interest	5,670	7,711
b) **Outstanding balances with related parties:**		
Receivables arising out of direct insurance arrangements	164,724	141,019
Receivable from sale of unquoted shares (Note 21)	231,095	-
Insurance contract liabilities	391,932	391,540
Right-of-use assets	33,666	54,624
Lease liabilities	39,688	63,242
c) **Loans to related parties**		
Key management	1,388	2,065
d) **Key management compensation:**		
Short term employee benefits:		
- key management compensation	36,946	43,959
e) Shareholder contribution pending allotment	268,687	235,368

36. **Related parties (continued)**	**2020 KES'000**	**2019 KES'000**
f) Directors' fees	6,105	4,380
g) Investment in unquoted equity shares	-	177,009
h) Deposits with financial institutions (Note 23)	36,000	50,500

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.

37. **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**	
	2020 KES'000	**2019 KES'000**	**2020 KES'000**	**2019 KES'000**
Financial assets:				
Investments in Government securities- treasury bonds	88,000	88,000	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.

2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Quoted equity investments	27,202	-	-	27,202
Investment properties (Note 13)	-	-	787,474	787,474

37. Fair value of financial instruments (continued)

b) Fair value hierarchy (continued)

2019	Level 1	Level 2	Level 3	Total
Unquoted equity investments	-	177,009	-	177,009
Quoted equity investments	38,412	-	-	38,412
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.

38. 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 2020 Assets	Within 12 months KES'000	After 12 months KES'000	Total KES'000
Property and equipment	-	86,804	86,804
Intangible assets	-	5,118	5,118
Investment properties	-	787,474	787,474
Government securities - 'Amortised cost'	160,029	88,000	248,029
Quoted equity investments at fair value through profit or loss	-	27,202	27,202
Deferred acquisition costs	64,277	-	64,277
Reinsurers' share of insurance contract liabilities	426,081	-	426,081
Receivables arising out of direct insurance arrangements	499,163	-	499,163
Receivables arising out of reinsurance arrangements	373,117	-	373,117
Receivable from related party	135,817	77,032	212,849
Other receivables	37,225	-	37,225
Deposits with financial institutions	68,107	-	68,107
Right-of use assets	-	63,229	63,229
Cash and bank balances	293	-	293
Tax recoverable	44,628	-	44,628
	1,808,736	1,224,915	2,943,596
Liabilities			
Lease liabilities	-	78,243	78,243
Insurance contract liabilities	646,158	413,117	1,059,275
Provisions for unearned premiums and unexpired risks	651,068	-	651,068
Other payables	183,749	-	183,749
Payables arising out of reinsurance arrangements	89,737	-	89,737
Borrowings	74,599	-	74,599
	1,645,310	491,360	2,136,671
Net assets	163,426	733,555	806,925

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

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
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
	1,492,425	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
	1,521,603	524,991	2,046,594
Net assets	(29,178)	762,248	733,070

39. **Operating leases**

Operating lease commitments - the company as a lessor

The company has entered into operating leases on its investment property portfolio consisting of certain office buildings (see Note 13). These leases have terms of between 5 and 6 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income recognised by the company during the year is KES 51,504,000 (2019: KES 71,492,000).

The future minimum lease payments receivable under non-cancellable operating leases as at 31 December are as follows:

	2020	**2019**
	KES'000	**KES'000**
Not later than 1 year	42,702	51,504
Later than 1 year and not later than 5 years	36,681	68,570
Later than 5 years	-	4,813
	79,383	124,887

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

2020 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	32,938	12,889	106,968	27,313	2,968	402,491	265,820	30,277	449,553	38,837	73,703	2,137	1,445,893
Change in gross unearned premiums	(3,486)	274	1,066	11,598	38	(69,028)	(20,742)	8,963	(4,959)	265	(618)	1,037	(75,593)
Gross premiums earned	29,451	13,163	108,034	38,911	3,006	333,464	245,078	39,239	444,593	39,103	73,085	3,174	1,370,300
Less: reinsurers premiums ceded	(11,879)	(4,386)	(30,850)	(1,353)	-	(10,087)	(8,404)	(4,960)	(176,966)	(10,678)	(5,352)	(1,645)	(266,561)
Net premiums earned	17,572	8,777	77,184	37,558	3,006	323,377	236,674	34,279	267,627	28,425	67,733	1,529	1,103,738
Gross claims incurred	17,655	2,511	25,652	6,058	-	291,689	114,489	9,687	286,274	17,216	17,741	-	788,972
Less: reinsurance recoverable	(8,370)	(963)	(17,001)	(1,994)	-	(41,177)	(39,981)	(911)	(114,510)	(6,283)	(1,677)	-	(232,864)
Net claims incurred	9,285	1,548	8,652	4,064	-	250,512	74,508	8,776	171,764	10,933	16,065	-	556,108
Commissions earned	(4,455)	(1,273)	(18,041)	(728)	(228)	(44)	-	(270)	(41,229)	(791)	(264)	(351)	(67,674)
Commissions payable	6,802	2,579	28,160	4,507	660	32,889	24,180	7,656	43,026	7,150	15,711	288	173,607
Expenses of management	12,783	5,002	51,457	18,075	1,152	125,590	116,366	11,750	82,433	15,073	28,604	830	469,115
Total expenses and commissions	15,130	6,309	61,577	21,853	1,583	158,435	140,545	19,136	84,230	21,432	44,051	767	575,048
Underwriting profit/(loss)	(6,843)	920	6,955	11,641	1,423	(85,570)	21,621	6,367	11,633	(3,940)	7,617	762	(27,418)