Fidelity INSURANCE

Annual Report and Financial Statements

31st December 2018

Annual Report and Financial Statements

For the year ended
31st December 2018

CONTRACTORS' ALL RISKS

Service is our DNA

Insurance you can trust.

Fidelity INSURANCE

Tel: 254 709 988 000, 020 422 5000 Email: info@fidelityinsurance.co.ke

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Corporate Information

Corporate Information

DIRECTORS

R. Kemoli	-	Chairman
M. Koech	-	Managing Director
A. Kurji		
S. Shollei		
S. Merali		
R. Likami		
Tandala Investment Ltd.	-	J. Koskey (Alternate Director)

AUDIT, RISK AND COMPLIANCE COMMITTEE

S. Merali	-	Chairman
A. Kurji		
R. Likami		

FINANCE AND INVESTMENT COMMITTEE

S. Shollei	-	Chairman
R. Likami		
J. Koskey		

COMPENSATION & REMUNERATION COMMITTEE

S. Shollei	-	Chairman
J. Koskey		
S. Merali		
A. Kurji		

MANAGEMENT

M. Koech	-	Managing Director
R. Marisin	-	Head of Finance & Administration
N. Malesi	-	Business Development Manager
A. Andayi	-	Branch Manager - Eldoret, North Rift
A. Kiragu	-	Manager - Branches
M. Njoroge	-	Manager - Human Resources
J. Mboya	-	Manager - ICT
S. Kamau	-	Claims Manager
M. Kimeu	-	Underwriting Manager
D. Gitau	-	Branch Manager - Nairobi, CBD
N. Shariff	-	Branch Manager - Mombasa, Coast
T. Amina	-	Branch Manager - Nakuru
S. Kiano	-	Branch Manager - Thika
V. Mwau	-	Assistant Manager, Underwriting
D. Wainaina	-	Assistant Manager, Business Devt
J. Munene	-	Chief Accountant

Corporate Information (contd)

HEAD OFFICE

Fidelity Insurance Centre | Waridi Lane off Waiyaki Way
P O Box 47435 – 00100 Nairobi, Kenya

NAIROBI CBD BRANCH

Transnational Plaza, 8th Floor
Mama Ngina Street
P O Box 47435 – 00100 Nairobi, Kenya

UPCOUNTRY BRANCHES

Fidelity Shield Insurance House
P O Box 90103 Mombasa, Kenya

Zion Mall, 1st floor, Uganda Road
P O Box 7877 Eldoret, Kenya

Kenya Re Plaza, Oginga Odinga street
P O Box 2243 Kisumu, Kenya

WestSide Mall, 3rd Floor, Kenyatta Lane
P O Box 18622 – 20100 Nakuru, Kenya

Twin Oak Plaza, 4th Floor, Kwame Nkurumah Street
P O Box 6283 – 01000 Thika, Kenya

Corporate Information (contd)

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P O Box 40092 – 00100
Nairobi, Kenya

SECRETARY

Equatorial Secretaries & Registrars
Certified Public Secretaries
P O Box 47323 – 00100
Nairobi, Kenya

ADVOCATES

Bowman Law
5th Floor, West Wing, ICEA Lion Centre
Riverside Park, Chiromo Road
P O Box 10643 – 00100
Nairobi, Kenya

CONSULTING ACTUARIES

Kenbright Actuarial and Financial Services
Ground Floor ACK Garden House
1st Ngong Avenue, Upperhill
P O Box 28281 – 00200
Nairobi, Kenya

BANKERS

Spire Bank Limited
Mwalimu Towers
Hill Lane, Upper Hill
P O Box 52467 – 00200
Nairobi, Kenya

Commercial Bank of Africa
CBA Centre
Mara and Ragati Road, Upper Hill
P O Box 30437 – 00100
Nairobi, Kenya

Five Year Financial Highlights

Board of Directors

1ST ROW (L - R):
RICHARD KEMOLI, Chairman & Independent Non-Executive Director • **MATHEW KOECH**, Managing Director

2ND ROW (L - R):
ABDULALI KURJI, Non-Executive Director • **REBECCA LIKAMI**, Independent Non-Executive Director
JOSEPH KOSKEY, Non-Executive Director

3RD ROW (L - R):
SAM SHOLLEI, Independent Non-Executive Director • **SAMEER NAUSHAD MERALI**, Independent Non-Executive Director

Who We Are

At Fidelity, we provide insurance solutions that enable our customers to live free of fear of everyday uncertainties. We build strong relationships that inspire confidence and give peace of mind. We aim to create sustainable value for all our stakeholders: our customers, employees, shareholders and the communities in which we live and work.

Core Values

01

PROFESSIONALISM
We foster a culture that upholds high standards of service, delivered with reliability and consistency.

02

QUALITY
We continually review our operating processes and services to ensure they sustainably deliver quality that exceeds customers' expectations.

03

INTEGRITY
We establish processes that facilitate practice of good governance, honesty and transparency in our dealings with our customers.

04

FLEXIBILITY
We respond to the needs of our clients and align our processes, products, services and relationships towards giving our customers a delightful experience.

05

EFFICIENCY
We deploy and use resources in the most optimal manners and adopt efficient processes.

Gross Revenue	Employees	Clients	Branches	Agents
2.3bn	103	65,000+	7	1,200+

Chairman's Statement

Chairman's Statement

INRODUCTION

It is my pleasure once again to present, on behalf of the Board of Directors the Company Annual Report and Financial Statements for the year ended 31 December 2018

ECONOMIC OVERVIEW

Year 2018 was characterised by improving macroeconomic environment due to the recovery of agriculture sector following the 2016/17 drought, a resilient services sector with rising activity in ICT and tourism. Further, there was a recovery in manufacturing and construction sectors which was propelled by lower energy costs and improvement in investor confidence created through favourable political environment in the country.

Preliminary World Bank data suggest that GDP grew at the fastest rate of 6% since 2011. Inflation remained stable and well below the Central Bank of Kenya's upper limit of 7.5%, supported by low food and energy costs. The Kenya Shilling strengthened against the U.S dollar in the period, supported by receipts from agriculture, tourism and strong diaspora inflows.

OPERATING ENVIRONMENT

In the financial markets, there was a sharp fall in equities, with the Kenyan broad equity index falling 18% in the year. This was largely driven by foreign investors selling out of the local market. Interest rates remained low as the Central Bank Monetary Policy Committee lowered CBK rate by 1% to 9%, which in turn lowered returns on bank deposits and fixed income securities.

THE INSURANCE INDUSTRY

The Insurance industry realized a marginal growth of about 4% mainly driven by a continued higher growth in long term business of 5% and a minimal growth short term business. Insurance penetration continued to remain at a low rate of below 3% of GDP but various initiatives to boost penetrations are being rolled out by Insurance Regulatory Authority and the various market players.

The year saw the Industry operate through a strong regulatory framework specifically Risk Based Supervision (RBS) and implementation of Risk Based Capital (RBC) model. This model of supervision is expected to assist insurers to effectively manage their risks which includes exposures to credit risk, market fluctuations, insurance and other operational risks. This model is also expected to lead to consolidations in the industry in order to achieve statutory capital requirements.

PERFORMANCE HIGHLIGHTS

Gross Written Premium declined marginally by 5% to Ksh. 2,274 million compared to Ksh. 2,390 million in 2017. This was largely due to low economic activity coupled with the need to weed out unprofitable business and the application of stricter credit terms. On the positive side, our Net Earned premiums grew by 16% to Ksh 1,739 million due to the increase in realized income from the premium reserves from prior year.

Net claims payable increased by 16% by due to deteriorating loss ratio in the motor private class of business. Overall, management expenses reduced by 9% to Ksh 505 million signalling greater achievements in operational efficiency. The investments portfolio was affected by the slump in equity market performance but this was cushioned by increase in interest earned from a growing fixed income portfolio.

Despite the contraction in gross premium revenues, the Company delivered an underwriting profit of Ksh 95 million up from Ksh 8 million in 2017. Profit before tax improved to Ksh 82 million from Ksh 18 million in 2017 attributed to improved underwriting profit and decrease in expenses.

FUTURE OUTLOOK

The Kenyan economy is improving with the recent acceleration in economic growth expected to spill-over to year 2019 and beyond. The weather forecasts issued so far is favourable and as such, agriculture will continue to drive growth, while a stable exchange rate and relatively low input costs should support trade and manufacturing activities. The "interest rate-cap" law, for as long as it persists, will continue to weigh on credit creation activities consequently suppressing domestic demand.

We expect financial markets to witness stability with interest rates to remain largely unchanged over the next 12 months, while we expect the equity market to post a modest recovery.

As a Company, we will continue to invest in building our brand essence, innovation, expansion of distribution channels and improvements in customer experience. We will also re-align our strategies to support profitable growth through risks selections, claims management and as well aim to achieve better operational efficiency.

The Board is confident on the Company's positive growth and we look forward to better performance in year 2019 and beyond.

TRIBUTE

I would like to thank all our clients and insurance intermediaries for the continued confidence they have in our Company and for giving us the opportunity to serve them. I also wish to pay a tribute to management and staff for their support and service to the Company and finally, I particularly want to thank unreservedly my fellow Directors for their support and wise counsel throughout the year.

Richard Kemoli FIoD, MBE
Chairman

14 March 2019

Corporate governance is the process by which companies are directed, controlled and held to account. It is used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realising shareholders value while taking into account the interests of other stakeholders.

The Board is responsible for the Company's corporate governance practices and recognizes its responsibilities to shareholders and other stakeholders to uphold the highest standards in economic, social, environmental and ethical matters by ensuring that the Company conducts its business in accordance with best practice in corporate governance. Fidelity Shield Insurance continues to put in place mechanisms to fully comply with the provisions and principles of good corporate governance.

Board of Directors Composition and Operations

The Board consists of nine Directors, one of whom is executive and eight are non-executive. The Board is composed of Directors with a good mix of skills, experience and competencies in the relevant fields of expertise and is well placed to take the business forward. Two new Directors were made during the year.

The full Board meets at least four times a year. It is responsible for the strategic direction of the company, setting policy guidelines for management and ensuring competent management of the business. The Board is also responsible for establishing and maintaining the Company's overall internal control of financial, operational and compliance issues. The Directors are given appropriate and timely information on key activities of the business regularly and on request in order to carry out their roles. The Board has in place a Board Charter and a Work Plan. The Charter governs its operations in conformity with practices of good corporate governance. Among the provisions in this charter are:

- A formal induction programme for newly appointed directors and a training programme for all directors
- Tenure of directors
- Procedures for determining the remuneration of directors
- Board performance self-evaluation
- How to manage potential conflicts of interest in the Board.

The Work Plan has schedule of matters specifically reserved for the Board's attention to ensure it exercises full control over significant strategic, financial, operational and compliance matters.

The Board has delegated authority for conduct of day-to-day business to the Managing Director. The Board nonetheless retains responsibility for establishing and maintaining the Company's overall internal control of financial, operational and compliance issues and monitoring the performance of executive management.

Chairman versus Chief Executive

The roles of the Chairman and the Managing Director are clearly defined and separated. The Chairman is responsible for managing the Board while the Managing Director is responsible for running the business of the Company in accordance with instructions given by the Board.

Committees of the Board

The Board has in place three standing committees which meet regularly under the terms of reference set by the Board.

Audit and Governance Committee

The Board has in place an audit and governance committee which meets four times a year or as necessary. Its responsibilities includes review of financial information in particular half year and annual financial statements, compliance with accounting standards, liaison with the external auditors, remuneration of external auditors and maintaining oversight on internal control systems. The Committee is made up of the three non-executive directors namely Mr. Sameer Merali (Chairman), Abdulali Kurji and Mrs. Grace Kemei. The Managing Director, The Head of Finance and Administration, The Head of Internal Audit & Compliance and the Company Secretary attend meetings of the committee. External auditors also attend the meeting as required.

Finance and Investments Committee

The Board has in place a finance and investments committee which meets four times a year. Among its responsibilities are to receive and consider the company's annual budget, formulation of the company's investment policy and monitoring the overall financial performance of the company.

Nominations and Compensation Committee

The Board has in place a nominations and compensation committee which meets ones a year. Among its responsibilities are to review the leadership needs of the organization and recruitment of executive managers, approving policies on salary remunerations, bonuses, trainings and other staff benefits.

Risk management and Internal Controls Risk Management

The Board recognises that managing risks to ensure the optimal mix between risk and return is an integral part of achieving corporate goals. The Board has put in place procedures for identifying risks and implementing risk mitigation actions to ensure the risk of failure to achieve business objectives is reduced if not eliminated. In this regard the Board is aware, at any one time, of all the key risks facing the Company and ensures that risk mitigation procedures are in place. As a key risk management initiative the Company has put in place a comprehensive system of setting and implementing objectives, measuring performance against the objectives and implementing corrective action to ensure that objectives are achieved. A risk management and compliance function in place.

Internal Controls

The Board has a collective responsibility for the Company's systems of internal control and for reviewing their effectiveness. Executive directors have the responsibility for establishing and implementing appropriate systems and controls in the running of the business of the Company and providing assurance to the Board that they have done so. The system of internal control in place has defined procedures and operational and financial controls to ensure that assets are safeguarded, transactions are authorised and recorded properly, and that material errors and irregularities are either prevented or detected within a reasonable period of time. In reviewing the effectiveness of the systems of internal control and risk management, the Board takes into account the results of all the work carried out to audit and review the activities of the Company. The Board has reviewed the Company's system of internal control and is satisfied that the system is effective.

Conduct of Business

The Company's business is conducted within a developed control framework, underpinned by defined processes and objectives, policy statements, written procedures and control guidelines. The Board has established a management structure which clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated.

Performance Reporting

The Business performance of the Company is reported regularly to its management and the Board. Performance trends, forecasts as well as actual performance against budgets and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls also include segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

Ethical Standards

The Company has established clear ethical guidelines embedded in the values of the company. These values have been cascaded downward to staff in form of a code of ethics and in the employee's staff handbook. All employees must comply with these provisions. A statement to confirm compliance with the code of ethics is signed by every member of staff every year.

Health, Safety and Employee Welfare

The welfare of our clients, staff, contractors and members of the public is an essential principle for the Company, which strives to provide all employees with safe working conditions at work and a safe environment for our clients, contractors and members of the public. The Company maintains a policy of equal opportunity of employment for all qualified persons and strives to provide all employees with fair terms of employment.

Corporate Social Responsibility

Fidelity continues to seek opportunities to support the communities around which our business thrives. Focus is paid to four key areas; Sports, Health, Environment and Education. In this regard, for the last two years and looking into the coming years, we have partnered with the Sports Journalist Association of Kenya to recognize the efforts by football coaches in nurturing the talent in the various football clubs.

This is done through monthly awards given to the winning coach on any given month based on the votes gotten from the club members. This incentive gives the coaches the motivation they need to improve the game and take the trainings to higher levels which in turn translates to improved way of lives for the players, who sometimes get selected to international foreign teams due to their prowess.

We conduct our business with care for the environment by supporting activities that minimize the degradation of our natural heritage. The Company to do this, sets aside a proportion of its gross income to social responsibility issues. This, the company seeks to entrench in its system by having a Corporate Social Responsibility Policy.

The Company continues to support numerous other events and activities that aide social responsibility. It prides itself in the contribution it has made to support other CSR programs ranging from Cerebral Palsy Walk, the Mater Heart Run, the Lohana Golfing Society and many more.

The company will continue to pursue other opportunities especially on environmental conservation to participate in to counter the changing climatic conditions.

Richard Kemoli FIoD, MBE
Chairman

19th March 2018

CSR Snapshots in 2018

1ST ROW (L - R): Fidelity Insurance awards Best candidate KASNEB Exams November 2018
2ND ROW (L - R): Sponsorship of Varsity's League Rugby • Participating in The Mater Heart Run
SJAK/Fidelity Coach of the Month Awards
3RD ROW (L - R): Donation of Water Tank in Kaliang'ombe Primary School Rabai
Donation of Water Tank in Mbogoni Primary School Mazeras

Management Team

1ST ROW (L - R): **MATHEW KOECH**, Managing Director • **RICHARD MARISIN**, Head of Finance & Administration
NICHOLAS MALESI, Manager - Business Development & Marketing

2ND ROW (L - R): **ALEX Z. ANDAYI**, Branch Manager - Eldoret • **ANTHONY KIRAGU**, Manager - Branches
MERCY NJOROGE, Manager - Human Resource

3RD ROW (L - R): **JULIUS MBOYA**, Manager - ICT • **SAMMY KAMAU**, Manager - Claims
MAXWELL KIMEU, Manager - Underwriting

Management Team (contd)

1ST ROW (L - R): **DAVID GITAU**, Manager - Underwriting
NHAAMAN SHARIFF, Branch Manager - Mombasa

2ND ROW (L - R): **TERRY AMINA**, Branch Manager - Nakuru • **STEVEN KIANO**, Branch Manager - Thika
VETERIS MWAU, Assistant Manager - Underwriting

3RD ROW (L - R): **DIANA WAINAINA**, Assistant Manager - Business Development
JOHN MUNENE, Chief Accountant

Fidelity INSURANCE

Quality Management Systems (QMS)

ISO 9001:2015 CERTIFICATION

A Quality Management System enables an organization to achieve the goals and objectives set out in its policy and strategy. It provides consistency and satisfaction in terms of methods, materials, equipment among others, and interacts with all activities of the organisation, beginning with the identification of customer requirements and ending with their satisfaction, at every transaction interface.

In February 2015, we were awarded the ISO 9001:2008 certification. With the launch of the 2015 version in September 2015, we embarked on a journey to upgrade our QMS to the new edition of the standard and obtain certification. Training and awareness programs were conducted for both management and staff in an effort to enable them understand the requirements of the new standard. We carried a gap analysis after which we conducted two internal audits in readiness for the re-certification audit that was conducted on 5th March 2018. Having conformed to ISO 9001:2015 requirements, the company was awarded a re-certification on ISO 9001:2015.

Management is fully committed to the implementation of the QMS by providing direction to the integration of the QMS requirements into each business process. We have a Quality Policy in place and all the departments have established Quality Objectives which are in line with the Company's Vision and Strategic Plan. Customer satisfaction is core to our QMS. We strive to build and maintain good client relationship by providing a consistent and rewarding experience from our products and services. In line with the standard and to monitor our customers' perceptions of the degree to which their needs and expectations have been fulfilled, we shall be conducting a Customer Satisfaction Index on a regular basis.

Reports & Financials

Report of the Directors

The Board of Directors has pleasure in presenting their annual report together with the audited financial statements of Fidelity Shield Insurance Company Limited ("the Company") for the year ended 31 December 2018, which disclose the state of financial affairs of the Company.

PRINCIPAL ACTIVITIES

The principal activity of the company, Fidelity Shield Insurance Company Limited, is the transaction of general insurance business.

BUSINESS REVIEW

Gross earned premiums grew by 11% to 2.3 billion from 2.1 billion in 2017 mainly through enhanced partnerships with our business intermediaries. The net claims increased to 1.1 Billion due to poor performance in our motor private class of business. Our investment in equities portfolio declined due to the low performance equity market but this was however cushioned by the steady returns in our fixed income portfolio. Our expenses reduced by 9% to Ksh 505 Million signalling achievements in operating efficiencies.

	2018 Ksh '000	2017 Ksh '000
Profit before tax	80,736	17,748
Income Tax Charge	(23,728)	(496)
Profit for the year	**57,008**	**17,252**

DIVIDEND

The directors do not recommend a dividend in respect of the year ended 31 December 2018.

DIRECTORS

The current directors are as listed on page 10.

Operational risk

The Company is exposed to various risk which includes Insurance risks, credit, financial and capital risks. We have put in place a strong risk management process which enables us to carry out identification of key risks, quantification, effective monitoring and management of risks. Some of the key risk experienced includes pricing of insurance risks in a competitive market and the increasing level of fraudulent insurance claims especially under motor class. The move towards risk based capital regime by the Insurance regulatory Authority is also providing a positive improvement on risk management transformation journey.

Our people

Our people are important to the success of the Company. The Company is therefore committed in talents and staff capacity developments, encouraging innovation and building an engaged workforce. A performance management system is in place and this has provided an objective framework for offering trainings, promotions and other rewards to all employees. Total number of staff at the end of the year was 100.

Environmental matters

The Company is cognizant and conscious about environmental matters. We operate and comply with the National Environmental Management Authority (NEMA) and the Occupational Safety and Health Act regulations.

DIRECTORS' STATEMENT AS TO THE INFORMATION GIVEN TO THE AUDITORS

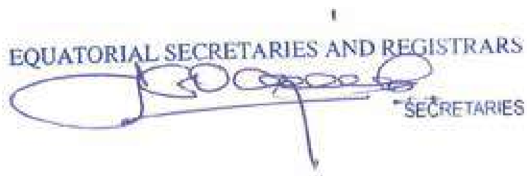
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance provisions of section 719 (2) of the Kenyan Companies Act, 2015 and subject to approval by the Commissioner of Insurance under Section 56(4) of the Kenyan Insurance Act. The Directors monitor the effectiveness, objectivity and independence of the auditors. The Directors also approve the annual audit engagement contract, which sets out the terms of the auditors appointment and the related fees.

BY ORDER OF THE BOARD



Equatorial Secretaries & Registrars
Company Secretary
Nairobi, Kenya

14 March 2019

Statement of Directors' Responsibilities

The Kenyan Companies Act, 2015, requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the 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 maintains proper accounting records that are sufficient to show and explain the transactions of the Company and disclose, with reasonable accuracy, the financial position of the Company. 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 error.

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

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

Having made an assessment of the Company's ability to continue as a going concern, the Directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Richard Kemoli
Chairman

14 March 2019

Mathew Koech
Managing Director

14 March 2019

Report of the Consulting Actuary

I have conducted an actuarial valuation of the insurance liabilities of the insurer as at 31 December 2018.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act and Insurance Regulations. These principles require prudent provision for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies. In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the Company's insurance liabilities and reserves as at 31 December 2018 were adequate.

Ezekiel Macharia Mburu
Fellow of the Institute of Actuaries

14 March 2019

Independent Auditors' Report to The Members of Fidelity Shield Insurance Company Limited

REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Fidelity Shield Insurance Company Limited set out on pages 33 to 76, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 other 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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.

Key Audit Matter

Significant judgement is required by the Directors in determining the technical liabilities and for the purposes of our audit, we identified the valuation of technical liabilities as representing a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the judgement and estimation uncertainty associated with determining the liabilities.

The determination of future contractual cash flows in relation to the liability for reported claims and claims incurred but not reported involves a significant estimation process. There are several sources of uncertainty that are considered in the estimate of the liability that the Company will ultimately pay for such claims.

Estimates of the liability for reported claims are determined on the basis of the best information available at the time the records for the year are closed. Claims incurred but not reported (IBNR) are determined on the basis of prevailing claims reported and settlement patterns. Further details on the process used to estimate IBNR are set out in note 27 to the financial statements.

The liabilities are calculated by the Company's appointed external Actuary.

How Our Audit Addressed This Key Audit Matter

We evaluated the appropriateness of the relevant controls directors' have implemented over the determination of insurance contract liabilities. Additionally, our procedures included challenging the directors on the suitability of the approach and methodology adopted by the actuaries to ensure these are consistent with the requirements of International Financial Reporting Standards (IFRS) and industry norms.

Procedures performed included:

- *Assessing the competence, capabilities and objectivity of the Company's actuaries;*
- *Evaluating the consistency of the approach and methodology adopted by the actuaries with IFRS and industry norms;*
- *Involving our in-house actuarial experts in evaluating judgements and models adopted in the determination of insurance contract liabilities;*
- *Reviewing the data used in the computations of reserves and emerging reserves for accuracy through a comparison to reported values, and*

We validated the appropriateness of the related disclosures in note 27 of the financial statements. Based on our procedures, we noted no material exceptions and consider the directors' key assumptions and methodology applied to be reasonable.

Other Information

The directors are responsible for the other information which comprises the report of the directors and chairman's statement which were obtained prior to the date of the auditor's report. The other information comprises the Annual Report but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and those Charged with Governance for the Financial Statements

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

In preparing the Company 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.

Auditors 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 skepticism 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 Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions

that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore 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 Legal and Regulatory Requirements

In our opinion the information given in the Report of the Directors on page 24 to 25 is consistent with the financial statements.

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi

27th March 2019

CPA Charles Munkonge Luo, Practising Certificate No. 2294
Signing Partner responsible for the independent audit

SCHOOL PERSONAL ACCIDENT

Flexibility is our DNA

Insurance you can trust.

Fidelity INSURANCE

Tel: 254 709 988 000, 020 422 5000 Email: info@fidelityinsurance.co.ke

Statement of Profit or Loss and Other Comprehensive Income

For The Year Ended 31 December 2018

	NOTES	2018 Ksh '000	2017 Ksh '000
Gross earned premiums	5	**2,354,656**	**2,116,702**
Less: reinsurance premiums ceded		(615,666)	(611,593)
Net earned premiums		**1,738,990**	**1,505,109**
Investment income	6	101,184	144,023
Commissions earned		127,920	138,959
Other income	7	5,914	2,889
Total investment and other income		**235,018**	**285,871**
Claims payable		(1,269,937)	(1,116,763)
Less: amounts recoverable from reinsurers		173,719	169,690
Net claims payable	8	**(1,096,218)**	**(947,073)**
Operating and other expenses	9	(505,530)	(553,709)
Commissions payable		(291,523)	(272,450)
		(797,053)	**(826,159)**
Profit before income tax		**80,736**	**17,748**
Income tax charge	11	(23,728)	(496)
Profit for the year		**57,008**	**17,252**
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss:			
(Loss)/gain on land and buildings revaluations	14	(2,925)	4,793
Deferred tax on revaluation (loss)/gain		878	(1,438)
Total		**(2,047)**	**(3,355)**
Total comprehensive income		**54,961**	**20,607**

Fidelity INSURANCE

Statement of Financial Position

For The Year Ended 31 December 2018

	Note	2018 KSH '000	2017 KSH '000
SHAREHOLDERS' FUNDS			
Share capital	13	600,000	600,000
Revaluation reserve	14	106,980	109,027
Retained earnings	15	535,854	478,846
		1,242,834	**1,187,873**
REPRESENTED BY:			
Assets			
Property and equipment	16	285,717	298,257
Intangible assets	17	18,340	25,352
Deferred tax asset	30	34,790	31,560
Investment properties	18	1,015,882	1,126,882
Investment in the Kenya Motor Insurance Pool		24,014	23,819
Equity investments at fair value through profit or loss	19	109,950	120,405
Mortgage loans	20	7,986	12,822
Receivables arising out of reinsurance arrangements		66,975	-
Receivables arising out of direct insurance arrangements	21	386,042	506,569
Reinsurers' share of insurance contract liabilities	22	374,797	591,600
Tax recoverable	11(iii)	13,656	36,189
Other receivables	23	45,940	33,673
Deferred acquisition costs	24	60,394	60,168
Government securities held to maturity	25(i)	369,971	369,264
Government securities at fair value	25(ii)	218,568	49,517
Deposits with financial institutions	34	269,157	282,356
Cash and bank balances	34	131,759	122,072
Total assets		**3,433,938**	**3,690,505**
Liabilities			
Insurance contract liabilities	27	1,251,890	1,460,347
Unearned premiums	29	830,178	911,132
Payables arising from reinsurance arrangements		-	15,649
Other payables	31(i)	109,036	115,504
Total liabilities		**2,191,104**	**2,502,632**
Net assets		**1,242,834**	**1,187,873**

The financial statements on pages 33 to 76 were approved and authorised for issue by the board of directors on 14 March 2019 and signed on its behalf by:

Richard Kemoli FIoD, MBE
Chairman

Abdulali Kurji
Director

Mathew Koech
Principal Officer

Statement of Changes in Equity

For The Year Ended 31 December 2018

	NOTES	Share capital Shs'000	Revaluation reserves Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2017					
At 1 January 2017		600,000	105,672	461,594	1,167,266
Profit for the year		-	-	17,252	17,252
Other comprehensive income					
Gains on revaluation of land and buildings, net of tax	14	-	3,355	-	3,355
At 31 December 2017		**600,000**	**109,027**	**478,846**	**1,187,873**
Year ended 31 December 2018					
At 1 January 2018		600,000	109,027	478,846	1,187,873
Profit for the year		-	-	57,008	57,008
Other comprehensive income					
Loss on revaluation of land and buildings, net of tax	14	-	(2,047)	-	(2,047)
At 31 December 2018		**600,000**	**106,980**	**535,854**	**1,242,834**

Statement of Cash Flows

For The Year Ended 31 December 2018

	NOTES	2018 KSH '000	2017 KSH '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	35	11,488	336,171
Interest received		70,433	51,280
Income tax paid	11(iii)	(3,547)	-
Net cash generated from operating activities		**78,374**	**387,451**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	16	(5,076)	(4,931)
Purchase of intangible assets	17	(1,030)	(12,702)
Purchase of investment property	18	-	(3,429)
Purchase of quoted shares	19	(138,435)	(159,450)
Loans repaid	20	4,836	13,418
Purchase of treasury bills and treasury bonds	25(i)	(87,700)	(164,446)
Purchase of treasury bonds at fair value	25(ii)	(159,900)	(48,142)
Proceeds of disposal of property and equipment		3,706	-
Proceeds of disposal of quoted shares		116,513	136,178
Maturity of treasury bonds		82,200	30,000
Proceeds of sale of investment property		103,000	-
Net cash (used in)/generated from investing activities		**(81,886)**	**(213,504)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans repaid	31(ii)	-	-
Net cash (used in) financing activities		**-**	**-**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(3,512)	173,947
CASH AND CASH EQUIVALENTS AT 1 JANUARY		404,428	230,481
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34	**400,916**	**404,428**

1. ACCOUNTING POLICIES

Statement of compliance
The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

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

Adoption of new and revised International Financial Reporting Standards

i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2018*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions clarify the following aspects:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

- A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

i) the original liability is derecognised;
ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments to the standard has had no impact on the Company's financial statements.

Amendments to IFRS 15 Revenue from Contracts with Customers	Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. The amendments to the standard has had no impact on the Company's financial statements.
IFRS 15 Revenue from Contracts with Customers	IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. The five steps in the model are as follows: • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognise revenue when (or as) the entity satisfies a performance obligation The application of these amendments has had no impact on the Company's financial statements.
Amendments to IAS 40 Transfers of Investment Property	The amendments to IAS 40 Transfers of Investments Property clarify the following aspects: • Transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments to IAS 40 Transfers of Investments Property clarify the following aspects: • An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. The amendments to the standard has had no impact on the Company's financial statements.
Annual Improvements to IFRS Standards 2014-2016 Cycle	The annual improvements to IFRSs 2014-2016 cycle include a number of amendments to various IFRSs, which are summarised below: The amendments to IAS 28 Investments in Associates and Joint Ventures clarify that the the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition.

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

The amendments to the standard has had no impact on the Company's financial statements.

ii) *New and amended standards in issue but not yet effective in the year ended 31 December 2018*

New standards and Amendments to standards	Effective for annual periods beginning on or after
IFRS 16 Leases	1 January 2019
* IFRS 9 Financial Instruments the Directors of the Company applied the deferral of IFRS 9 in the period	1 January 2021
IFRS 17 Insurance Contracts	1 January 2022
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019
Amendments to IAS 19	1 January 2019
Amendments to IFRS 9	1 January 2019

iii) *Relevant new and revised IFRSs in issue but not yet effective for the period ended 31 December 2018*

<u>IFRS 16 Leases</u>

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The entity's operating leases expenses are only rental for office space and parking slots. These will be assessed against requirements of IFRS 16 on 1 January 2019 as the Directors do not anticipate the rental expense to have a significant impact on amounts reported.

The Directors of the Company are assessing the impact of the application of IFRS 16 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

<u>IFRS 9 Financial Instruments Deferral</u>

IFRS 4 permits an entity meeting specified criteria to defer application of IFRS 9 to the earlier of:

- the date on which it applies IFRS 17; or
- accounting periods beginning on or after 1 January 2021.

An insurer may apply the temporary exemption from IFRS 9 if, and only if:

a) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated through profit or loss; and
b) its activities are predominantly connected with insurance, at its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date.

Key requirements of IFRS 9:
All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The Directors of the Company have applied the deferral of IFRS 9 to the date when IFRS 17 will become effective. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

<u>IFRIC 22 Foreign Currency Transactions and Advance Consideration</u>
The interpretation addresses foreign currency transactions or parts of transactions. The Interpretations Committee came to the following conclusion:

The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company financial statements.

<u>IFRIC 23 Uncertainty over Income Tax Treatments</u>
The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company financial statements

<u>IFRS 17 Insurance Contracts</u>
IFRS 17 *Insurance Contracts* sets out the requirements that an entity should apply in reporting information

about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

a) insurance contracts, including reinsurance contracts, it issues;
b) reinsurance contracts it holds; and
c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates.

The entity:

a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*.

The Company is assessing the potential impact on the financial statements arising from these changes.

<u>The amendments in Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</u>

If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company financial statements

Prepayment Features with Negative Compensation (Amendments to IFRS 9)
Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company financial statements

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The Directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company financial statements

Annual Improvements to IFRS Standards 2015-2017 Cycle
The Annual Improvements to IFRS Standards 2015-2018 cycle makes amendments to the following standards:

- IAS 12 Income Taxes - The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
- IAS 23 Borrowing Costs - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
- IFRS 11 Joint Arrangements - The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation. All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

iv) Early adoption of standards

The Company did not early adopt new or amended standards in 2018.

Significant accounting policies

The principal accounting policies adopted are set out below.

Basis of accounting

The financial statements are presented in Kenya Shilling and are prepared under the historical cost basis of accounting. The financial statements have been prepared in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

The principal accounting policies adopted, which remain unchanged from the previous year, are set out below:

Kenya Motor Insurance Pool

The Kenya Motor Insurance Pool balances represent the company's share of the surplus and net assets of the pool.

Results of the company's share of the two Kenya Motor Insurance Pools are accounted for in the statement of comprehensive income in accordance with the Pool's accounting year which runs from October of the previous year to September of the current year. As a result, the Pool's results for the 4th quarter of the company's accounting year are accounted for in the subsequent year.

Income recognition

Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations/lapses and less unearned premium. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date which relate to the unexpired terms of policies in force at the end of each reporting period, and are calculated using the 1/24th method on written premiums less reinsurance commissions and other acquisition costs.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Dividends receivable are recognised as income in the period in which the right to receive payment is established.

Rental income is recognised as income in the period in which it is earned.

Commissions receivable are recognised as income in the period in which they are earned. To achieve this, a proportion of reinsurance commissions receivable is deferred and recognised as income over the term of the policy.

Claims incurred

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 end of each reporting period, 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") at the end of each reporting period based on the company's experience but subject to the minimal percentage set by the Commissioner of Insurance. Outstanding claims are not discounted.

Reinsurance

The company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated statement of comprehensive income and statement of financial position as appropriate.

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. The impairment loss is recognized in profit or loss.

Ceded reinsurance arrangements do not relieve the company from its obligations to policyholders. The company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognized as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Commissions payable and deferred policy acquisition costs

A proportion of commissions payable is deferred and amortised over the period in which the related premiums are earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end. The deferred policy acquisition costs are subsequently amortised over the life of the contracts. All other costs are recognised as expenses when incurred.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in profit or loss.

Property and equipment

All property and equipment are initially recorded at cost. Buildings are subsequently carried at their revalued amounts based on valuations by external independent valuers, less accumulated depreciation. All other property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Any revaluation increase arising on the revaluation of such buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.

A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation
Freehold land is not depreciated. Depreciation is calculated on other property and equipment on the straight line basis to write down the cost of each asset, or the revalued amount to its residual value over its estimated useful life, using the following annual rates:

Motor vehicles	25%
Computer equipment	30%
Furniture, fittings and equipment	20%
Buildings	2.5%

Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The impairment loss is recognised in profit or loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

Investment properties
Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined annually by external independent valuers. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise, net of deferred tax.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

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

Financial instruments
A financial asset or liability is recognised when the company becomes party to the contractual provisions of the instrument.

Financial assets
Classification
The company classifies its financial assets into the following categories: financial assets at fair value

through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification adopted for a particular financial asset depends on the purpose for which the asset was acquired. Management determines the classification of its financial asset at initial recognition and re-evaluates this at every reporting date.

i) Financial assets at fair value through profit or loss ("FVTPL")
This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking or if so designated by management.

Investments in shares of other enterprises that give the company a residual interest in the assets of that enterprise after deducting all of its liabilities are classified as equity instruments. Investments in equity instruments quoted on the Nairobi Stock Exchange or other equity markets are stated at market values ruling as at the year-end and are classified as held for trading.

Their fair value is calculated by reference to the stock exchange quoted bid prices at the close of business on the end of each reporting period. Gains or losses on revaluation of equity instruments are dealt with in profit or loss.

ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. Fixed deposits and commercial paper are classified as originated loans. These are carried at amortised cost (i.e. cost plus accrued income), using the effective yield method.

iii) Held-to-maturity financial assets
Securities issued by the Government of Kenya are classified as held to maturity. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs, other than for an insignificant amount of held-to-maturity financial asset, the entire category would be reclassified as available-for-sale.

iv) Available-for-sale financial assets
This classification represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held-to-maturity.

The fair value gains/(losses) of amortised costs investments and originated loans are credited/(debited) to profit or loss.

Recognition of financial assets
Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are dealt with in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

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

Financial liabilities
Financial liabilities are classified as other financial liabilities.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

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

The impairment loss so recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the company as a lessee. All other leases are classified as operating leases.

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the term of the lease.

The company as lessor
Rental income from operating leases is recognised on the straight-line basis over the term of the relevant lease.

The company as lessee
Rentals payable under operating leases are charged to income on the straight-line basis over the term of the relevant lease.

Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

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

Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in fair value.

Revaluation surplus

The revaluation surplus represents the surplus on the revaluation of buildings and freehold land (included within property and equipment), net of deferred tax.

Any revaluation increase arising on the revaluation of such land and buildings is credited to other comprehensive income and accumulated in the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Movements in the revaluation reserve are shown in the statement of changes in equity.

Impairment of 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 and the impairment loss is recognised in profit or loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Retirement benefit obligations

The Company operates a defined contribution pension scheme for its employees. The scheme is administered independently by both ICEA Lion and Jubilee Insurance Company and is funded by contributions from both company and employees at rates that are determined triennially by certified actuaries. Currently, the employer contributes 10% while the employee contributes 10% of the employee's basic pay on the scheme.

The Company also contributes to the statutory defined contribution pension schemes, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute.

The Company's obligations to the retirement benefits schemes are charged to profit or loss as they fall due.

Dividends payable
Dividends payable on ordinary shares are charged to equity in the period in which they are declared.

Share capital
Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds.

Comparatives
Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE ACCOUNTING POLICIES

In the process of applying the entity's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the critical judgements and key assumptions concerning the future and other sources of estimation uncertainty that directors have made in applying the company's accounting policies:

The ultimate liability arising from claims made under insurance contracts
The main assumption underlying techniques applied in the estimation of this liability is that a company's past claims experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation

Held -to-maturity financial assets
The company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant

judgment. In making this judgment, the company evaluates its intention and ability to hold such assets to maturity. If the company fails to hold these financial assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The assets would therefore be measured at fair value not amortised cost.

Impairment losses
At each end of the 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. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Valuation of investment property
Investment property comprises of freehold land and buildings carried at fair value. Fair value is based on valuation performed by an independent valuation expert.

Property and equipment
Management makes estimates in determining the depreciation rates for property and equipment. The rates used are set out in the accounting policy for property and equipment.

These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

Provision for doubtful debts
Critical estimates are made by the directors in determining the recoverable amount of receivables.

3. RISK MANAGEMENT

Governance framework
The primary objective of the company's risk and financial management framework is to protect the company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognises the critical importance of having efficient and effective risk management systems in place. The company has a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to management.

Management of Insurance and financial risk
The company's activities expose it to a variety of risks. The company classifies the various risks it is exposed to into insurance risk and financial risk. Financial risks include credit risk, liquidity risk and market risk which includes the effect of changes in equity market prices, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets, identification and management of risks. It 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. The company has put in place investment policies which help manage liquidity and seek to maximise return within an acceptable level of interest rate risk.

(i) Insurance risk

Insurance risk in the company arises from:

(a) Fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;
(b) Unexpected claims arising from a single source;
(c) Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
(d) Inadequate reinsurance protection or other risk transfer techniques; and
(e) Inadequate reserves

(a), (b) and (c) can be classified as the core insurance risk,(d) relates to reinsurance planning, while (e) is about reserving.

Core insurance risk

This risk is managed through:

- Diversification across a large portfolio of insurance contracts;
- Careful selection guided by a conservative underwriting philosophy;
- Continuous monitoring of the business performance per class and per client and corrective action taken as deemed appropriate;
- A minimum of one review of each policy at renewal to determine whether the risk remains within the acceptable criteria;
- Having a business acceptance criteria which is reviewed from time to time based on the experience and other developments; and
- Having a mechanism of identifying, quantifying and accumulating exposures to contain them within the set underwriting limits.

Reinsurance planning

Reinsurance purchases are reviewed annually to verify that the levels of protection being sought reflect developments in exposure and risk appetite of the company. The basis of these purchase is underpinned by the company's experience, financial modelling by and exposure of the reinsurance broker.
The reinsurance is placed with providers who meet the company's counter party security requirements.

Claims reserving

The company's reserving policy is guided by the prudence concept. Estimates are made of the estimated cost of settling a claim based on the best available information on registration of a claim, and this is updated as and when additional information is obtained and annual reviews done to ensure that the reserves are adequate. Management is regularly provided with claims settlement reports to inform on the reserving performance.

Short-term insurance contracts

The Company principally issues the following types of general insurance contracts: Aviation, engineering, fire, liability, marine, motor, personal accident, theft workmen compensation and various miscellaneous general risk classes. The risks under these policies usually cover twelve months duration.

The risks on these contracts do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company.

The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g. earthquakes and flood damage).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the company's risk appetite as decided by management. The Board of Directors may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

The table below sets out the concentration of unearned premiums and claims liabilities by type of contract:

	Claims			UPR		
31 December 2018	**Gross Liabilities Ksh'000**	**Reinsurance Share Ksh'000**	**Net Liabilities Ksh'000**	**Gross Liabilities Ksh'000**	**Reinsurance Share Ksh'000**	**Net Liabilities Ksh'000**
Motor	713,327	42,238	671,089	566,443	29,142	**537,301**
Fire	179,259	78,428	100,831	62,904	33,196	**29,707**
Personal Accident	1,493	1,813	(320)	4,095	1,211	**2,884**
Marine	70,039	31,243	38,796	18,849	6,052	**12,797**
Others	287,773	57,811	229,961	177,887	93,661	**84,226**
Total	1,251,890	211,533	1,040,356	830,178	163,262	**666,915**

	Claims			UPR		
31 December 2017	**Gross Liabilities Ksh'000**	**Reinsurance Share Ksh'000**	**Net Liabilities Ksh'000**	**Gross Liabilities Ksh'000**	**Reinsurance Share Ksh'000**	**Net Liabilities Ksh'000**
Motor	758,989	42,371	716,618	567,208	26,398	**540,810**
Fire	348,795	241,321	107,474	81,521	48,582	**32,939**
Personal Accident	6,345	3,030	3,315	6,000	2,424	**3,576**
Marine	58,283	17,716	40,567	44,258	26,821	**17,437**
Others	287,935	62,194	225,741	212,145	120,743	**91,403**
Total	1,460,347	366,632	1,093,715	911,132	224,968	**686,164**

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

Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities
The general insurance claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

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

The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non–linear.

31 December 2018	Changes in assumptions	Impact on gross liabilities Ksh'000	Impact on net Liabilities Ksh'000	Impact on profit before tax Ksh'000
Average claim processing cost	10%	125,189	104,036	8,074
31 December 2017				
Average claim processing cost	10%	146,035	109,372	1,775

The uncertainty about the amount and timing of claims payments is typically resolved within one year and the claims development history is generally short, its reduction has no significant impact on the gross liabilities and profit before tax.

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

(ii) Financial risks

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risks, equity price risk and foreign exchange currency risk. The sensitivity analyses presented below are based on a change in one assumption while holding all other assumptions constant:

(i) Interest rate risk

The company is exposed to the risk that the level of interest income and in effect the cash flows will fluctuate due to changes in market interest rates. To manage this, the company ensures that the investment maturity profiles are well spread.

An increase/decrease of 5 percentage points in interest yields would result in an increase/(decrease) in profit before tax for the year by Ksh 2,747,261, (2017: Ksh 2,493,500).

(ii) Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

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

At 31 December 2018, if equity market indices had increased/decreased by 5%, with all other variables held constant, the profit before tax for the year would increase/decrease by Ksh 2018:Ksh 5,498,000 (2017: Ksh 6,020,000).

(iii) Foreign exchange currency risk

Foreign exchange currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The company's financial assets are primarily denominated in the same currencies as its insurance contract liabilities, which mitigate the foreign currency exchange rate risk. The currency risk is also effectively managed by ensuring that the transactions between the company and other parties are designated in the functional currencies of the individual companies.

At 31 December 2018, if the Kenya shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the profit before tax for the year would have been Ksh 612,342.47 (2017: Ksh 903,623) higher/lower, mainly as a result of US dollar denominated deposits with financial institutions in Kenya.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the company by failing to discharge a contractual obligation. The following policies and procedures are in place to mitigate the company's exposure to credit risk:

- Net exposure limits are set for each counterparty or group of counterparties i.e. limits are set for investments and cash deposits, and minimum credit ratings for investments that may be held.
- Reinsurance is placed with counterparties that have a good credit rating.
- Ongoing monitoring by the management credit committee.

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

31 December 2018	Fully performing Ksh'000	Past due Ksh'000	Impaired Ksh'000	Total Ksh'000
Receivable arising out of direct insurance arrangements	403,015	199,654	(216,627)	386,042
Deposits with financial institutions	269,157	-	-	269,157
Government securities held to maturity	369,971	-	-	369,971
Government securities at fair value	218,568	-	-	218,569
Receivable arising out of reinsurance arrangement	66,975	-	-	66,975
Other receivables	45,940	-	-	45,940
Cash and bank balances	131759	-	-	131,759
Mortgage loans	7,986	-	-	7,986
	1,513,571	**199,654**	**(216,627)**	**1,496,399**
31 December 2017				
Receivable arising out of direct insurance arrangements	171,220	335,349	199,778	706,347
Deposits with financial institutions	282,356	-	-	282,356
Government securities held to maturity	369,264	-	-	369,264
Government securities at fair value	49,517	-	-	49,517
Other receivables	33,673	-	-	33,673
Cash and bank balances	122,072	-	-	122,072
Mortgage loans	12,822	-	-	12,822
	1,040,924	**335,349**	**199,778**	**1,576,051**

With regard to receivables arising out of direct insurance arrangements, the debt that is past due and not impaired continues to be paid. The finance department is actively following this debt.

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has developed and put in place an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

At 31 December 2018	0-1 year Ksh'000	Over 1 year Ksh'000	Total Ksh'000
Outstanding claims provision	1,251,890	-	1,251,890
Payables arising from reinsurance arrangements	(66,975)	-	(66,975)
	1,184,915	**-**	**1,184,915**
At 31 December 2017			
Outstanding claims provision	1,460,347	-	1,460,347
Payables arising from reinsurance arrangements	15,649	-	15,649
	1,475,996	**-**	**1,475,996**

(iii) Fair value hierarchy

The company specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

a. Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi Securities Exchange.

b. Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

c. Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

	Level 1 Ksh'000	Level 2 Ksh'000	Level 3 Ksh'000	Total Ksh'000
31 December 2018				
Equity instruments	109,950	-	-	109,950
Government securities	218,568	-	-	218,568
Investment property	**-**	**1,015,882**	**-**	**1,015,882**
31 December 2017				
Equity instruments	120,405	-	-	120,405
Government securities	49,517			49,517
Investment property	**-**	**1,126,882**	**-**	**1,126,882**

4. CAPITAL RISK MANAGEMENT

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- Allocation of capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.
- Aligning the profile of assets and liabilities taking account of risks inherent in the business.
- Maintaining financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.
- Maintaining strong credit ratings and healthy capital ratios in order to support its business objectives and maximize shareholders value.

The operations of the company are also subject to regulatory requirements within Kenya. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

The Kenyan Insurance Act prescribes the minimum capital requirement for a general insurance Company as the higher of:

- Absolute minimum paid up capital of Kenya Shillings 600 million
- 20% of prior year's net earned premiums
- Risk Based Capital as determined by the Authority from time to time

During the year, the Company was adequately capitalized and met the required Capital Adequacy Ratio.

5. GROSS EARNED PREMIUMS

	2018 Ksh'000	2017 Ksh'000
Motor	1,440,098	1,172,647
Fire	177,687	240,013
Marine	79,241	89,009
Personal accident	10,290	25,839
Theft	102,385	109,495
Workmen compensation	192,197	194,674
Engineering	87,272	69,404
Liability	46,526	40,314
Other	218,960	175,307
	2,354,656	**2,116,702**

6. INVESTMENT INCOME

	2018 Ksh'000	2017 Ksh'000
(i) Investment income/(loss) from financial assets at fair value through profit or loss		
Fair value (losses)/gains on equity investments (note 19)	(32,377)	6,543
Fair value gains on government securities (note 25(ii))	9,151	1,375
Realized loss/gain on disposal of equity investments	(1,647)	7,504
Dividends from equity investments	7,275	6,599
	(17,598)	**22,021**
(ii) Investment income from financial assets at amortised cost		
Interest from government securities at amortised cost	47,319	33,470
	47,319	**33,470**
(iii) Income from investment property		
Rental income from investment property	56,349	69,035
Fair value gains on investment property	-	1,687
Loss on disposal of investment properties	(8,000)	-
Total investment income from property	**48,349**	**70,722**
(iv) Other investment income		
Interest from deposits with financial institutions	21,713	15,319
Interest from mortgage loans	1,401	2,491
	23,114	**17,810**
Total investment income	**101,184**	**144,023**

7. OTHER INCOME

	2018 Ksh'000	2017 Ksh'000
Kenya Motor Insurance Pool	195	1,707
Gain on disposal of equipment	3,427	-
Other	2,292	1,182
	5,914	**2,889**

8. NET CLAIMS PAYABLE

	2018 Ksh'000	2017 Ksh'000
Claims payable by principal class of business:		
Motor	923,987	753,407
Fire	26,490	29,417
Marine	19,765	26,755
Workmen Compensation	84,618	100,316
Public Liability	247	3,816
Others	41,111	33,362
	1,096,218	**947,073**

9. OPERATING AND OTHER EXPENSES

	2018 Ksh'000	2017 Ksh'000
Staff costs (note 10)	250,885	258,511
Auditors' remuneration	4,575	4,657
Depreciation (note 16)	14,412	18,797
Amortisation (note 17)	8,042	7,936
Impairment charge for doubtful receivables		
- Premium receivables (Note 21)	63,293	61,068
Impairment charge for rent receivable	-	9,286
Operating lease rentals - land and buildings	14,034	14,945
Marketing and advertising	26,954	38,309
Finance and bank charges	5,804	8,406
Printing, stationery and insurance	9,078	11,306
Consultancy fees	16,065	14,055
Directors' expenses	7,388	6,129
Other expenses	85,000	100,304
Total expenses	**505,530**	**553,709**

10. STAFF COSTS

	2018 Ksh'000	2017 Ksh'000
Staff costs include the following:		
- Salaries and wages	206,595	217,085
- Retirement benefit costs – defined contribution plan	16,542	16,988
Other staff costs	27,748	24,438
	250,885	**258,511**

11. TAXATION

	2018 Ksh'000	2017 Ksh'000
(i) Taxation charge/(credit)		
Current income tax	37,429	-
Deferred income tax expense/(credit) (note 30)	(2,352)	2,621
Prior year under (over) provision – deferred tax	-	(2,125)
Prior year over provision – current tax	(11,349)	-
	23,728	**496**
(ii) Reconciliation of taxation charge/(credit) to expected tax based on accounting loss		
Profit before tax	80,736	17,748
Tax calculated at a tax rate of 30%	24,221	5,324
Less: tax effect of income not subject to tax	(5,276)	(8,295)
Add: tax effect of expenses not deductible for tax purposes	16,132	5,592
Add/(Less): Over provision of deferred tax in prior year	-	(2,125)
Prior year over provision-current tax	(11,349)	-
Tax charge/(credit)	**23,728**	**496**
(iii) Corporate tax recoverable		
At 1 January	(36,189)	(36,189)
Charge for the year	37,429	-
Tax paid during the year	(3,547)	
Prior year over provision-current tax	(11,349)	-
At 31 December	**(13,656)**	**(36,189)**

12. DIVIDENDS

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. The directors do not propose dividends for the year ended 31 December 2018 (2017: Nil).

13. SHARE CAPITAL

The total number of authorized ordinary shares is 10,000,000 with a par value of Shs 100 per share. As at 31 December 2018, 6,000,000, (2017: 6,000,000) shares were in issue. All issued shares are fully paid.

14. REVALUATION RESERVE

The revaluation surplus represents solely the surplus on the revaluation of buildings and is non-distributable.

	2018 Ksh'000	2017 Ksh'000
At 1 January	109,027	105,672
Revaluation (loss)/gains – gross (note 16)	(2,925)	4,793
Deferred tax on revaluation gains (note 29)	878	(1,438)
At 31 December	**106,980**	**109,027**
Revaluation gains – gross (note 16)	(2,925)	4,793
Deferred taxation	878	(1,438)
Net revaluation gain	**(2,047)**	**3,355**

15. RETAINED EARNINGS

The retained earnings balance represents the amount available for dividend distribution to the shareholders of the company, except for cumulative fair value gains on the company's investment properties of Kshs 299,005,000 (2017: Shs 539,118,000) whose distribution is subject to restrictions imposed by regulation.

16. PROPERTY AND EQUIPMENT

	Land & buildings Ksh'000	Furniture & equipment Ksh'000	Motor vehicles Ksh'000	Total Ksh'000
At 1 January 2017				
Opening net book amount	274,034	30,511	2,785	307,330
Additions	-	4,931	-	4,931
Fair value gains on revaluation	4,793	-	-	4,793
Depreciation charge	(3,710)	(13,694)	(1,393)	(18,797)
Net book amount	**275,117**	**21,748**	**1,392**	**298,257**
At 31 December 2017				
Cost or valuation	286,061	163,322	12,917	462,300
Accumulated depreciation	(10,944)	(141,574)	(11,525)	(164,043)
Net book amount	**275,117**	**21,748**	**1,392**	**298,257**
At 1 January 2018				
Opening net book amount	275,117	21,748	1,392	298,257
Disposal	-	3,876	1,200	5,076
Additions	-	-	(279)	(279)
Fair value gains on revaluation	(2,925)	-	-	(2,925)
Depreciation charge	(75)	(12,924)	(1,413)	(14,412)
Net book amount	**272,117**	**12,700**	**900**	**285,717**
At 31 December 2018				
Cost or valuation	283,136	166,871	14,117	464,124
Disposal	-	-	(279)	(279)
Accumulated depreciation	(11,019)	(154,171)	(12,938)	(178,128)
Net book amount	**272,117**	**12,700**	**900**	**285,717**

Land and buildings were valued on 31 December 2018 by Knight Frank Valuers Limited. The basis of valuation was current market value with existing use.

Land and buildings are carried at the fair value hierarchy level 2 in the fair value hierarchy.

If the Land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2018 Ksh'000	2017 Ksh'000
Cost	143,767	143,767
Accumulated depreciation	(27,680)	(24,086)
Net book amount	**116,087**	**119,681**

17. INTANGIBLE ASSETS- COMPUTER SOFTWARE

	2018 Ksh'000	2017 Ksh'000
At 31 December		
At 1 January	25,352	20,586
Additions	1,030	12,702
Amortisation charge	(8,042)	(7,936)
Net book amount	**18,340**	**25,352**
At 31 December		
Cost	40,617	39,587
Accumulated amortisation	(22,277)	(14,235)
Net book amount	**18,340**	**25,352**

18. INVESTMENT PROPERTIES

	2018 Ksh'000	2017 Ksh'000
At 1 January	1,126,882	1,121,766
Additions	-	3,429
Disposals	(103,000)	-
Fair value gain/(loss)	(8,000)	1,687
At 31 December	**1,015,882**	**1,126,882**

The Company's investment properties were valued as at 31 December 2018 by Knight Frank Valuers Limited. The basis of the valuation was open market value. Direct operating expenses attributable to management of the investment properties amounted to Shs 4,736,973 (2017: Shs 552,602).

The fair values arising from the open market valuation of investment property is categorised as level 2 in the fair value hierarchy.

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 Ksh'000	2017 Ksh'000
At 1 January	120,405	90,590
Additions	138,435	159,450
Disposals	(116,513)	(136,178)
Fair value (loss)/gain	(32,377)	6,543
At 31 December	**109,950**	**120,405**

20. MORTGAGE LOANS

	2018 Ksh'000	2017 Ksh'000
Mortgage loans:		
At 1 January	12,822	26,240
Loans advanced	-	-
Loan repayments	(4,836)	(13,418)
At 31 December	**7,986**	**12,822**
Maturity profile of mortgage loans:		
Loans maturing:		
- Within 1 year	-	3,299
- In 1-5 years	562	1,337
- In over 5 years	7,424	8,186
	7,986	**12,822**

21. RECEIVABLES ARISING OUT OF DIRECT INSURANCE ARRANGEMENT

	2018 Ksh'000	2017 Ksh'000
Gross receivables	602,669	706,347
Provision for bad and doubtful debts	(216,627)	(199,778)
Net receivables	**386,042**	**506,569**
Movement in provision for bad and doubtful debts:		
At 1 January	199,778	226,049
Bad debts written off	(46,444)	(87,339)
Impairment charge during the year (Note 9)	63,293	61,068
At 31 December	**216,627**	**199,778**

22. REINSURERS' SHARE OF INSURANCE LIABILITIES

	2018 Ksh'000	2017 Ksh'000
Reinsurers' share of:		
- notified claims outstanding (note 28)	183,964	324,930
- claims incurred but not reported (note 28)	27,569	41,702
- unearned premium (note 29)	163,264	224,968
	374,797	**591,600**

Amounts due from reinsurers in respect of claims already paid by the Company on contracts that are reinsured are included in receivables arising out of reinsurance arrangements in the statement of financial position.

23. OTHER RECEIVABLES

	2018 Ksh'000	2017 Ksh'000
Due from related parties (note 36(ii)	2,395	4,195
Prepayments	-	289
Utilities and rental deposit	3,059	2,996
Rent receivable	23,442	23,110
Others	17,044	3,083
	45,940	**33,673**

All other receivables are classified as current assets except utilities and rental deposit which are classified as noncurrent assets.

24. DEFERRED ACQUISITION COSTS

	2018 Ksh'000	2017 Ksh'000
At 1 January	60,168	46,336
Movement in the year	18,647	30,348
Amortization charge	(18,421)	(16,516)
At 31 December	**60,394**	**60,168**

As disclosed in Note 1, the Company's policy is to recognise the proportion of acquisition costs that relate to policies that are in force at year end ("deferred acquisition costs").

25. GOVERNMENT SECURITIES

	2018 Ksh'000	2017 Ksh'000
(i) Government securities held to maturity		
- Maturing within 1 year	113,239	81,972
- Maturing in 1-5 years	96,853	128,032
- Maturing after 5 years	159,879	159,260
	369,971	**369,264**
At 1 January	369,264	234,751
Additions	87,700	164,446
Amortization Charge	(4,793)	67
Maturities	(82,200)	(30,000)
At 31 December	**369,971**	**369,264**
(ii) Government securities at fair value through profit and loss		
At 1 January	49,517	-
Additions	159,900	48,142
Fair value gain (note 6)	9,151	1,375
At 31 December	**218,568**	**49,517**

26. WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

The following table summarises the weighted average effective interest rates at year end on the principal interest-bearing investments:

	2018 %	2017 %
Mortgage loans	8.0	8.0
Government securities	6.1	8.5
Deposits with financial institutions	9.6	10

27. INSURANCE CONTRACT LIABILITIES

	2018 Ksh'000	2017 Ksh'000
Short term non-life insurance contracts		
- claims reported and claims handling expenses (note 28)	1,052,316	1,259,072
- claims incurred but not reported (note 28)	199,574	201,275
Total – short term	**1,251,890**	**1,460,347**

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

Short term non-life insurance contracts

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2018 and 2017 are not material.

The Company uses historical experience to estimate the ultimate cost of reported claims and the IBNR provision. 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 claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims.

27. INSURANCE CONTRACT LIABILITIES (contd)

The table below illustrates how the Company's estimate of total claims outstanding for each accident year has changed at successive year ends.

Accident year	2014 KSh'000	2015 KSh'000	2016 KSh'000	2017 KSh'000	2018 KSh'000	Total KSh'000
Cumulative incurred claims estimate:						
– at end of	660,481	936,989	718,660	1,046,519	1,128,590	**4,491,239**
– one year later	770,787	1,083,303	807,401	1,155,706	-	**3,817,197**
– two years	771,147	1,066,562	811,733	-	-	**2,649,442**
– three years	764,542	1,070,406	-	-	-	**1,834,948**
– four years	773,447	-	-	-	-	**773,447**
Current estimate of cumulative incurred claims	773,447	1,070,406	811,732	1,155,706	1,128,590	**4,939,881**
Less: cumulative payments to date	(738,607)	(1,000,403)	(691,738)	(938,401)	(664,934)	**(4,034,083)**
Liability in the statement of financial position	36,051	70,002	119,995	217,306	463,656	**907,010**
Liability in respect of prior years	-	-	-	-	-	**145,306**
IBNR						**199,574**
Total gross claims liability included in the statement of financial position						**1,251,890**

27. INSURANCE CONTRACT LIABILITIES (contd)

Accident year	2013 KSh'000	2014 KSh'000	2015 KSh'000	2016 KSh'000	2017 KSh'000	Total KSh'000
Cumulative incurred claims estimate:						
– at end of	520,120	660,481	936,989	718,660	1,046,519	**3,882,769**
– one year later	588,605	770,787	1,083,303	807,401	-	**3,250,096**
– two years	640,475	771,147	1,066,562	-	-	**2,478,184**
– three years	659,230	764,542	-	-	-	**1,423,772**
– four years	-	-	-	-	-	**662,403**
Current estimate of cumulative incurred claims	662,403	764,542	1,066,562	807,401	1,046,519	**4,347,427**
Less: cumulative payments to date	(599,218)	(715,957)	(812,244)	(608,893)	(497,194)	**(3,233,506)**
Liability in the statement of financial position	63,185	48,585	254,319	198,508	549,325	**1,113,921**
Liability in respect of prior years	-	-	-	-	-	**145,151**
IBNR						**201,275**
Total gross claims liability included in the statement of financial position						**1,460,347**

28. MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Short term insurance business

	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Notified claims	1,259,072	(324,930)	934,142	1,127,802	(298,628)	829,174
Incurred but not reported	201,275	(41,702)	159,573	201,247	(36,114)	165,133
Total at 1 January	**1,460,347**	**(366,632)**	**1,093,715**	**1,329,049**	**(334,742)**	**994,307**
Cash paid for claims settled in year	(1,577,179)	345,131	(1,232,048)	(1,038,712)	137,820	(900,892)
Increase in liabilities						
- arising from current year claims	685,151	(47,090)	638,061	665,585	(97,707)	567,878
- arising from prior year claims	683,571	(142,942)	540,629	504,425	(72,003)	432,422
Total at 31 December	**1,251,890**	**(211,533)**	**1,040,357**	**1,460,347**	**(366,632)**	**1,093,715**
Notified claims	1,052,316	(183,964)	868,352	1,259,072	(324,930)	934,142
Incurred but not reported	199,574	(27,569)	172,005	201,275	(41,702)	159,573
Total at 31 December	**1,251,890**	**(211,533)**	**1,040,357**	**1,460,347**	**(366,632)**	**1,093,715**

29. PROVISIONS FOR UNEARNED PREMIUMS

The unearned premium provision represents the liability for short term business contracts where the Company's obligations are not expired at the year end. Movements in the reserves are shown below:

	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At 1 January	911,132	(224,969)	686,163	638,219	(139,511)	498,708
Change in the period (net)	(80,954)	61,705	(19,249)	272,913	(85,457)	187,456
At 31 December	**830,178**	**(163,264)**	**666,914**	**911,132**	**(224,968)**	**686,164**

30. DEFERRED INCOME TAX

Deferred tax is calculated using the enacted income tax rate of 30% (2017: 30%) The movement on the deferred income tax account is as follows:

	31 December 2018 KSh'000	31 December 2017 KSh'000
At 1 January	31,560	33,494
Income statement (charge)/credit (note 11)	2,352	(2,621)
Charge to Other Comprehensive Income	878	(1,438)
Over provision of deferred tax in prior year	-	2,125
At 31 December	**34,790**	**31,560**

	1 January 2018 KSh'000	Charged to P/L KSh'000	Charged to OCI KSh'000	31 December 2018 KSh'000
Year ended 31 December 2018				
Property and equipment:				
- on historical cost basis	12,670	186	-	12,856
Property and equipment:				
- on revaluation surplus	(46,701)	52	878	(45,771)
Provisions	74,663	2,152	-	76,815
Tax losses	438	(438)		-
Fair value gains on investment property	(9,510)	400	-	(9,110)
Net deferred tax asset/(liability)	**31,560**	**2,352**	**878**	**34,790**

	1 January 2018 KSh'000	Charged to P/L KSh'000	Charged to OCI KSh'000	31 December 2018 KSh'000
Year ended 31 December 2017				
Property and equipment:				
- on historical cost basis	9,491	3,179	-	12,670
Property and equipment:				
- on revaluation surplus	(45,288)	25	(1,438)	(46,701)
Provisions	78,717	(4,054)	-	74,663
Tax losses	-	438		438
Fair value gains on investment property	(9,426)	(84)	-	(9,510)
Net deferred tax asset/(liability)	**33,494**	**(496)**	**(1,438)**	**31,560**

31. OTHER PAYABLES

	2018 Ksh'000	2017 Ksh'000
Accrued expenses	35,152	45,606
Leave accrual	4,511	5,946
Rental deposits	20,245	20,245
Payroll liabilities	3,865	4,386
Sundry creditors	252	8,172
Stale cheques	335	1,303
Other liabilities	44,676	29,846
	109,036	**115,504**

32. CONTINGENT LIABILITIES

I. Guarantees and bid bonds

The Company renewed an overdraft bank loan facility for Shs 50,000,000 which is secured by a charge over property title. Bank guarantees for Shs 5,471,303 (2017: Shs 2,707,964) have been issued against the bank overdraft facility.

33. COMMITMENTS

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2018 Ksh'000	2017 Ksh'000
Later than 1 year and not later than 5 years	21,857	2 1,206
Later than 5 years	1,227	3,717
	23,084	**24,923**

34. CASH AND CASH EQUIVALENTS

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

	2018 Ksh'000	2017 Ksh'000
Cash and bank balances	131,759	122,072
Deposits with financial institutions	269,157	282,356
	400,916	**404,428**

Deposits with financial institutions have an average maturity of 6 months (2017: 6 months). The effective interest rate on deposits was 10% per annum (2017: 10.3%).

35. NOTES TO THE STATEMENT OF CASH FLOWS

	2018 Ksh'000	2017 Ksh'000
Reconciliation of profit before tax to cash generated from operations:		
Profit before tax	80,736	17,748
Adjustments for:		
Interest from investments in government securities (Note 6(ii))	(47,319)	(33,470)
Interest from bank deposits (Note 6(iv))	(21,713)	(15,319)
Interest from mortgage loans (Note 6(iv))	(1,401)	(2,491)
Depreciation (note 16)	14,412	18,797
Amortisation charge (note 17)	8,042	7,936
Loss on sale of investment property (note 7)	8,000	-
Gain on sale of equipment	(3,427)	-
Change in fair value of investment property (note 18)	-	(1,687)
Change in fair value of quoted shares (note 19)	32,377	(6,543)
Amortisation of government securities (note 25 (i))	4,793	(67)
Unrealized fair value gains on government securities (note 25 (ii))	(9,151)	(1,375)
Change in fair value of investment in Kenya Motor Insurance Pool	(195)	(1,707)
Changes in:		
Technical provisions	(72,608)	286,863
Payables arising from reinsurance arrangements	(15,649)	15,649
Deferred acquisition cost	(226)	(13,832)
Other receivables	(12,267)	1,999
Receivables arising out of direct insurance	120,527	51,001
Receivables arising out of reinsurance business	(66,975)	410
Other payables	(6,468)	12,259
Cash generated from operations	**11,488**	**336,171**

36. RELATED PARTY TRANSACTIONS

The Company is related to other Companies through common shareholdings or common directorships.

In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered to major clients.

	2018 Ksh'000	2017 Ksh'000
(i) Transactions with related parties		
Gross earned premium:		
- Related parties – directors	670	4,788
- Related parties – other	2,655	2,579
(iii) Outstanding balances with related parties		
Amounts due from related parties		
Loans advanced to staff	2,318	4,118
Amount due to related parties		
Southern Shield Holdings	77	77
	2,395	**4,195**
(iv) Mortgage loans to directors and key management staff of the Company		
At 1 January	12,822	26,240
Loans advanced during the period	-	-
Loan repayments received	(4,836)	(13,418)
At 31 December	**7,986**	**12,822**
(v) Key management compensation		
Salaries and other short-term employment benefits	**54,749**	**54,749**
(vi) Directors' remuneration		
Directors' fees	7,389	6,129
Other remuneration (included in key management compensation above)	54,749	54,749
	62,138	**60,878**

37. INCORPORATION

The company is domiciled in Kenya where it is incorporated as a private company limited by shares under the Kenyan Companies Act. The address of the registered office is set out on page 7.

38. CURRENCY

The financial statements are presented in Kenya Shillings (Ksh'000).

39. EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the reporting date and the date of this report that require disclosure.

General Insurance Business Revenue Account for Year 2018

Class of insurance Business	Engineering	Fire Domestic	Fire Industrial	Liability	Marine and Aviation	Motor Private	Motor Comm	Workmen's Compens-ation	Personal Accident	Theft	Miscellan-eous	2016 Total
Gross written premium	63,186	29,074	129,996	31,386	235,668	708,957	730,376	196,013	8,384	95,771	44,891	2,273,702
UPR- January 2018	66,907	10,919	70,602	23,883	68,666	252,477	314,731	62,003	6,000	16,461	18,483	911,132
UPR- December 2018	42,820	9,441	53,463	8,742	53,209	304,814	261,629	65,818	4,095	9,848	16,299	830,178
Gross earned premium	**87,273**	**30,552**	**147,135**	**46,527**	**251,125**	**656,620**	**783,478**	**192,198**	**10,289**	**102,384**	**47,075**	**2,354,656**
Gross claims paid	52,946	6,819	219,750	7,523	30,730	462,094	569,368	89,041	8,454	31,294	375	1,478,394
At 31 December 2018	15,786	3,626	175,633	8,516	70,039	274,584	438,743	186,961	1,493	76,329	180	1,251,890
At 1 January 2018	25,901	4,924	343,870	4,315	61,532	238,593	520,395	194,587	6,345	60,348	(463)	1,460,347
Gross claims incurred	**42,831**	**5,521**	**51,513**	**11,724**	**39,237**	**498,085**	**487,716**	**81,415**	**3,602**	**47,275**	**1,018**	**1,269,937**
Net written premium	9,607	16,078	27,549	25,354	31,741	671,278	686,067	191,277	8,961	39,867	11,962	1,719,741
UPR- January 2018	6,092	7,170	25,769	9,603	17,440	241,486	299,324	60,644	3,576	10,462	4,597	686,163
UPR- December 2018	5,077	6,128	23,579	3,949	12,809	291,301	246,000	64,392	2,884	6,487	4,308	666,914
Net earned premium	**10,622**	**17,120**	**29,739**	**31,008**	**36,372**	**621,463**	**739,391**	**187,529**	**9,653**	**43,842**	**12,251**	**1,738,990**
Net claims paid	4,911	5,547	27,584	7,523	21,536	448,453	521,063	91,886	3,883	16,958	232	1,149,576
At 31 December 2018	489	3,120	97,711	7,369	38,796	272,721	398,368	186,471	(320)	42,922	(7,289)	1,040,357
At 1 January 2018	(669)	3,462	104,011	2,934	40,567	248,780	467,838	193,738	3,315	37,548	(7,809)	1,093,715
Net claims incurred	**6,069**	**5,205**	**21,284**	**11,958**	**19,765**	**472,394**	**451,593**	**84,619**	**248**	**22,332**	**752**	**1,096,218**
Commissions payable	17,873	5,870	29,037	8,238	31,991	64,982	76,806	38,010	1,893	12,309	4514	291,523
Commissions receivable	(25,672)	(4,154)	(35,026)	(2,376)	(17,058)	(5,597)	(6,488)	(268)	(117)	(15,613)	(15,551)	(127,920)
Management Expenses	5,053	5,754	11,600	6,700	16,936	170,099	118,425	26,666	2,960	12,733	7,624	384,550
Total expenses	**3,323**	**12,675**	**26,895**	**24,520**	**51,634**	**701,878**	**640,336**	**149,027**	**4,984**	**31,761**	**(2,661)**	**1,644,372**
Net U/W Profit/(Loss)	**7,299**	**4,445**	**2,844**	**6,488**	**(15,262)**	**(80,415)**	**99,055**	**38,502**	**4,669**	**12,081**	**14,912**	**94,618**

General Insurance Business Revenue Account for Year 2017

Class of insurance Business	Engineering	Fire Domestic	Fire Industrial	Liability	Marine and Aviation	Motor Private	Motor Comm	Workmen's Compens-ation	Personal Accident	Theft	Miscellan-eous	2017 Total
Gross written premium	103,936	30,568	195,468	50,133	276,425	527,095	830,265	201,368	20,398	110,511	43,448	2,389,615
UPR- January 2018	32,376	11,926	83,572	14,064	19,416	177,454	205,041	55,309	11,441	15,445	12,175	638,219
UPR- December 2018	66,907	10,919	70,602	23,883	68,666	252,477	314,732	62,003	6,000	16,461	18,481	911,132
Gross earned premium	**69,404**	**31,575**	**208,438**	**40,314**	**227,175**	**452,072**	**720,574**	**194,674**	**25,839**	**109,495**	**37,142**	**2,116,702**
Gross claims paid	24,308	8,234	57,534	8,527	39,752	267,911	425,910	95,902	10,845	45,706	836	985,465
At 31 December 2018	25,901	4,924	343,871	4,315	61,532	238,593	520,395	194,587	6,345	60,348	(464)	1,460,347
At 1 January 2018	17,611	8,607	328,837	11,572	48,086	239,877	410,145	189,256	8,554	73,694	(7,191)	1,329,049
Gross claims incurred	**32,598**	**4,551**	**72,568**	**1,270**	**53,198**	**266,627**	**536,160**	**101,233**	**8,636**	**32,360**	**7,563**	**1,116,764**
Net written premium	12,602	18,842	34,542	30,834	43,548	500,556	780,966	196,449	12,598	54,578	7,049	1,692,564
UPR- January 2018	3,524	8,054	27,392	4,852	13,493	171,434	196,434	54,281	5,363	10,535	3,347	498,708
UPR- December 2018	6,093	7,171	25,768	9,603	17,440	241,486	299,324	60,644	3,576	10,462	4,597	686,164
Net earned premium	**10,033**	**19,725**	**36,166**	**26,083**	**39,601**	**430,504**	**678,076**	**190,086**	**14,385**	**54,651**	**5,799**	**1,505,109**
Net claims paid	3,984	7,746	26,083	8,527	16,879	260,927	403,563	87,594	3,710	27,994	659	847,666
At 31 December 2018	(669)	3,462	104,011	2,934	40,567	248,780	467,838	193,738	3,315	37,548	(7,809)	1,093,715
At 1 January 2018	(123)	6,801	105,084	11,346	30,697	249,656	378,045	181,015	3,209	37,440	(8,863)	994,308
Net claims incurred	**3,438**	**4,407**	**25,010**	**115**	**26,749**	**260,051**	**493,355**	**100,317**	**3,816**	**28,102**	**1,713**	**947,073**
Commissions payable	16,017	6,105	44,529	7,270	15,861	46,961	72,572	39,359	5,437	12,160	6,178	272,450
Commissions receivable	(18,894)	(3,184)	(51,465)	(2,315)	(24,580)	(2,830)	(6,408)	(196)	(3,193)	(13,983)	(11,910)	(138,958)
Management Expenses	18,129	5,332	34,094	8,744	48,214	91,937	144,816	35,123	3,558	19,275	7,578	416,800
Total expenses	**18,690**	**12,660**	**52,168**	**13,814**	**66,244**	**396,119**	**704,335**	**174,603**	**9,618**	**45,554**	**3,559**	**1,497,365**
Net U/W Profit/(Loss)	**(8,657)**	**7,065**	**(16,002)**	**12,269**	**(26,643)**	**34,385**	**(26,259)**	**15,483**	**4,767**	**9,097**	**2,240**	**7,744**

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