Fidelity INSURANCE

Annual Report and Financial Statements

31 December 2019

Motor Commercial

The new Fidelity Motor Commercial Insurance Cover has additional benefits such as:

- Tracking and recovery
- Excess protection / waiver
- Monthly loan repayment
- Personal accident cover for driver and turn boy
- Goods in transit / Carriers lability
- Political violence and terrorism (PVTR)

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

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Annual Report and Financial Statements

31 December 2019

CONTRACTORS' ALL RISKS

Service is our DNA

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Corporate Information

Corporate Information

Directors

R. Kemoli	-	Chairman
M. Koech	-	Managing Director
A.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 and 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	-	Senior Underwriter
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

Coulson Harney LLP
5th Floor, West Wing, ICEA Lion Centre
Riverside Park, Chiromo Road
P.O. Box 10643 - 00100
Nairobi, Kenya

Consulting Actuaries

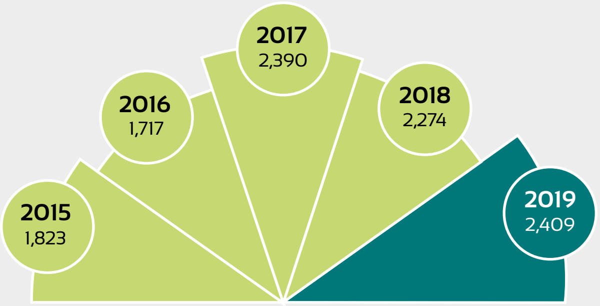
Kenbright Actuarial and Financial Services
Ground Floor ACK Garden House
1st Ngong Avenue, Upperhill
P.O. Box 28281 – 00200
Nairobi, Kenya

Bankers

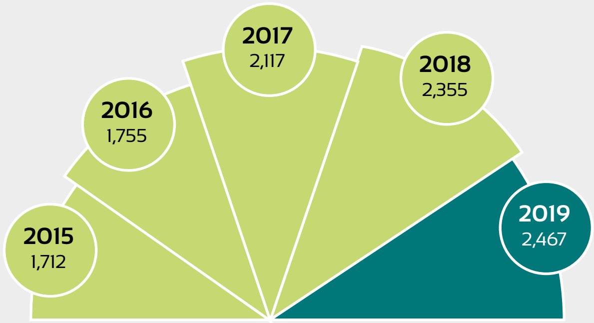
Spire Bank Limited
Mwalimu Towers
Hill Lane, Upper Hill
P.O. Box 52467 – 00200
Nairobi, Kenya

NCBA Bank Kenya PLC
Mara and Ragati Road, Upper Hill
P.O. Box 30437 - 00100
Nairobi, Kenya

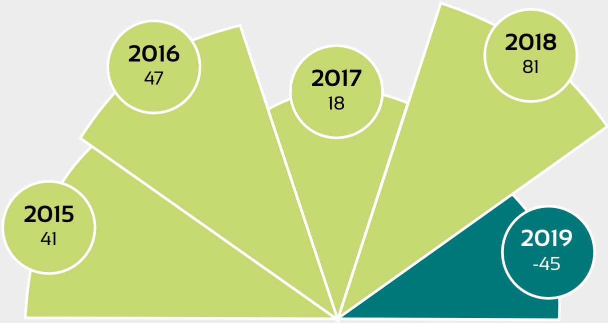
Five Year Financial Highlights



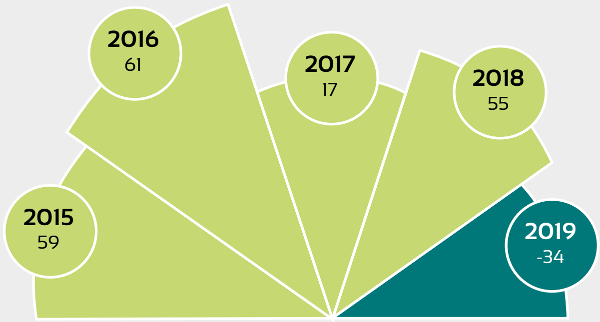
Gross Written Premium (in millions)



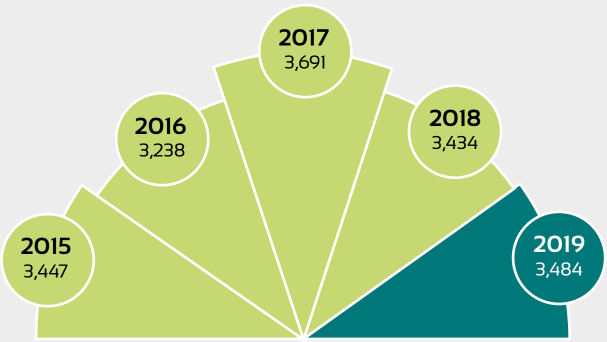
Gross Earned Premium (in millions)



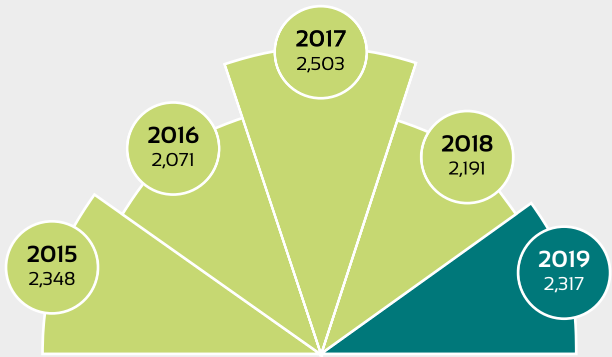
Profit Before Tax (in millions)



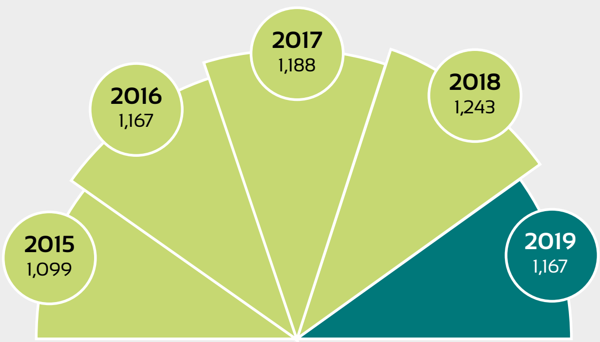
Profit After Tax (in millions)



Total Assets (in millions)



Total Liabilities (in millions)



Net Assets (in millions)

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

Fidelity @ A Glance

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
2.4bn	100	65,000+	7	1,200+

Chairman's Statement

Chairman's Statement

Introduction

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 2019.

Economic Overview

Kenyan GDP for 2019 is expected to grow lower than initially planned at a rate of about 5.6%- 5.8% supported by Government spending towards the Big Four Agenda and the pick-up in the private sector. The growth was weighed down by a slowdown in agricultural activities due to delayed rainfall in first half year of 2019 and decreased output in transport and electricity activities. The electricity sector was subdued by insufficient long rains in the two quarters, while the transport sector was subdued by the rise in prices of fuel.

Inflation faced some periodical pressure due to the rising food and fuel prices which is attributable to the delayed rainfall and rising oil prices. The Kenya Shilling remained rather stable against the U.S dollar in the period, supported by strong Central Bank reserve position.

On the global front, there was a slow-down in global growth as a result of negative effects of US and China trade conflicts, the uncertainties around United Kingdom's exits from the European Union and also tensions in the Middle East which pushed an upward pressure on the oil prices. The IMF has downgraded its growth forecast for the World economy in 2019 to 3% from earlier projections 3.3%.

Operating Environment

In the financial markets, equities market recorded mixed performance, with NASI and NSE 25 gaining by 18.5% and 15.5%, respectively, while NSE 20 declined by 6.3%. Interest rates remained low during the year as the Central Bank Monetary Policy Committee lowered CBK rate by 0.5% to 8.5%. On a positive note, the Government repealed the law of capping interest rates at 4.0% above the Central Bank Rate (CBR). Interest rate caps were introduced in Kenya in September 2016 with the enactment of the Banking (Amendment) Act, 2015, due to the high cost of borrowing but this move was noted to have curtailed credit availability to private sector growth.

The Insurance Industry

The Insurance industry grew by 5.8% driven largely by a higher growth in in long term business of 12% and a minimal growth of 1.6% in short term business. General Insurance business remains to be the largest contributor at 57% of total premiums. The statistics relaeased by the regulator shows motor class of business as a high risk since it registered more than half (53%) of incurred claims in year 2019 from a premium contribution of 34.7%.

The industry continued to operate under strong regulations with the regulator issuing various circulars during the year including a circular requiring all Insurance Companies to implement the International Financial Reporting Standard (IFRS) 9.

Performance Highlights

Gross written premium increased by 6% to Ksh. 2,409 million compared to Ksh. 2,274 million in 2018. The realised growth was marginal due to our deliberate decision to enhanced quality of underwriting process and application of stricter credit terms.

Our claims experience deteriorated by 20% due to poor performance in motor class of business which saw higher than normal liability judgement being awarded. Overall management expenses increased by 12% to Ksh. 564 million due to increase in bad debts provisions as a result of IFRS 9 adoption. Investment income

Chairman's Statement (contd)

grew by 71`% to Ksh. 184 Million due to our increase in allocation of investment in fixed income portfolio.

The Company realised a loss after tax of Ksh. 34 million compared to a profit of Ksh. 57 million in 2018 mainly as a result of the 20% increase in net claims payable and increase in bad debts provisions following IFRS 9 adoption. Measure to strengthen underwriting process, claims management and operational efficiencies have been put in place and a turnaround will be realized in year 2020.

Future Outlook

The Kenyan economy is expected to maintain the set momentum from recent acceleration in economic growth of above 5.5% in 2020 and beyond. The weather forecast is expected to be favourable and as such, agriculture will continue to drive growth coupled by the continued Government spending on the Big Four Agenda and infrastructure projects. Further, the repeal in the rate cap law is likely to be positive for the economic environment as credit conditions improves. We expect interest rates to remain largely unchanged over the next 12 months and the equity market to post a modest recovery following repeal of rate cap. There is however a growing concern over the Covid-19 pandemic which may affect the world economy negatively.

From the Company, we expect to realize a turn-around in profitability as result of implementation of various strategic activities focusing on proper risks pricing and selection, enhanced claims management and as well leveraging on technology for operational efficiency.

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

Tribute

I would like to sincerely thank all our clients, insurance intermediaries for the continued confidence they have in our Company and giving us the opportunity to serve them. I also wish to pay a tribute to management, staff and my fellow Directors for driving the Company's strategic objectives in year 2019. Once again, i look forward for your continued support in our Journey of driving Fidelity Shield to greatness.

Richard Kemoli FIoD, MBE
Chairman

12 March 2020

Corporate Governance Statement

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

Corporate Governance Statement (contd)

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

Corporate Governance Statement (contd)

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

12 March 2020

CSR Snapshots in 2019

1ST ROW: Mater Heart Run - 25th May, 2019.
2ND ROW (L - R): 1. SJAK/Fidelity Coach of the month for December, 2019 - **SALIM BABU,** *Western Stima F.C*
2. Fidelity/SJAK coach of the month of December, 2019 - **STEVEN POLACK,** *GOR MAHIA F.C*
3. SJAK/Fidelity Coach of the month for June, 2019 - **BERNARD MWALALA**

3RD ROW: Cerebral Palsy Walk – 29th June, 2019.

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, Senior Underwriter

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

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 2019, which disclose the state of financial affairs of the Company.

Principal Activities

The principal activity of the company is the transaction of general insurance business.

Results

	2019 Ksh' 000	2018 Ksh' 000
(Loss)/Profit before taxation	(44,656)	80,736
Taxation/(Charge)	10,908	(23,728)
(Loss)/Profit for the year	**(33,748)**	**57,008**

Dividend

The directors do not recommend payment of dividend in respect of the year ended 31 December 2019 (2018: Nil).

Directors

The directors who served the Company upto the date of this report are as listed on page 8.

Business Review

There was a muted growth in Gross earned premiums with an increase by 5% to Ksh. 2.5 Billion. The growth was limited by the deliberate long term decision to improve on business quality and enhance premium collections. Net claims payable increased by 18% from Ksh. 1.1 Billion to Ksh. 1.3 Billion due to significant increase in motor liability claims. Investment portfolio income increased by 71% following portfolio investment rebalancing with a favour of increasing fixed income portfolio investment. Management expenses increased by 12% to Ksh. 564 Million (2018: Ksh. 506 Million) driven largely by an increase in bad debts provisions following the adoption of IFRS 9.

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 to talent and staff capacity development, encouraging innovation and building an engaged workforce. A performance management system is in place and this has provided an objective framework for offering training, promotions and other rewards to all employees. Total number of staff at the end of the year was 100 (2018: 109).

Environmental matters

The Company is cognizant of and conscious about environmental matters. We operate and comply with the

Report of the Directors (contd)

provisions of the National Environmental Management Authority (NEMA) and the Occupational Safety and Health Act regulations.

Future outlook

The outlook for 2020 seems favourable with an expected improvement in economic conditions considering the interest rate caps have been done away with. We expect the macroeconomic variables like interest rates, inflation, exchange rates etc to remain stable. We expect the GDP to grow by at least 5% to 6% mainly due to the continued heavy infrastructure led investment by the government, continued foreign investment in the country and improving general economy. Of concern is the ballooning government debt and its budget deficit. There is also growing concern around the effects of COVID-19 both locally and globally. The pandemic is likely to disrupt the Kenyan economy through many ways including:

- Closing of businesses to adhere to social distancing may lead to job losses and wage reduction
- Increase in liquidity challenges
- Decline in key sectors including manufacturing, horticulture, transport, tourism & hospitality

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

James Mwando
Company Secretary
Nairobi, Kenya

12 March 2020

Fidelity INSURANCE

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

12 March 2020

Mathew Koech
Managing Director

12 March 2020

Report of the Consulting Actuary

I have conducted an actuarial valuation of the insurance liabilities of the insurer as at 31 December 2019.

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 2019 were adequate.

Ezekiel Macharia Mburu
Fellow of the Institute of Actuaries

12 March 2020

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 35 to 86, which comprise the statement of financial position as at 31 December 2019, 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 2019 and of its loss 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 Insurance contract liablities relating to determing claims incurred but not reported (IBNR) 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 28 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 assessed the appropriateness of the related disclosures in note 28 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.

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

Other Information

The directors are responsible for the other information, which comprises the Report of the Directors, Chairman's Statement and Report of Consulting Actuary which were obtained prior to the date of the auditor's report. The other information 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

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 26 to 27 is consistent with the financial statements.

Deloitte & Touche

Certified Public Accountants (Kenya) **31st March 2020**
Nairobi

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

SCHOOL PERSONAL ACCIDENT

Consistency 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 2019

	Notes	2019 Ksh' 000	2018 Ksh' 000
Gross earned premiums	5	**2,466,549**	**2,354,656**
Less: Reinsurance premiums ceded		(661,212)	(615,666)
Net earned premiums		**1,805,337**	**1,738,990**
Investment income	6	177,880	101,184
Commissions earned		128,327	127,920
Other income	7	5,725	5,914
Total investment and other income		**311,932**	**235,018**
Claims payable		(1,399,055)	(1,269,937)
Less: Amounts recoverable from reinsurers		83,436	173,719
Net claims payable	8	**(1,315,619)**	**(1,096,218)**
Operating and other expenses	9	(564,287)	(505,530)
Commissions payable		(282,019)	(291,524)
		(846,306)	(797,054)
(Loss)/profit before taxation		(44,656)	80,736
Taxation credit/(charge)	11	10,908	(23,728)
(Loss)/profit for the year		**(33,748)**	**57,008**
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss in subsequent periods:			
Loss on revaluation of land and buildings	14	-	(2,925)
Deferred tax on revaluation		-	878
Total		**-**	**(2,047)**
Total comprehensive (loss)/income		**(33,748)**	**54,961**

Statement of Financial Position

As at 31 December 2019

	Notes	2019 Ksh' 000	2018 Ksh' 000
SHAREHOLDERS' FUNDS			
Share capital	13	600,000	600,000
Revaluation reserve	14	106,980	106,980
Retained earnings	15	459,804	535,854
		1,166,784	**1,242,834**
REPRESENTED BY:			
Assets			
Property and equipment	16	278,707	285,717
Right-of-use assets	17 (a)	24,426	-
Intangible assets	18	10,646	18,340
Deferred taxation	31	59,099	34,790
Investment properties	19	1,015,882	1,015,882
Investment in the Kenya motor insurance pool		19,321	24,014
Equity investments at fair value through profit or loss	20	52,063	109,950
Mortgage loans	21	6,583	7,986
Receivables arising out of reinsurance arrangements		12,304	73,868
Receivables arising out of direct insurance arrangements	22	257,734	386,042
Reinsurers' share of insurance contract liabilities	23	379,320	374,797
Corporate tax recoverable	11(iii)	32,378	13,656
Other receivables	24	46,639	45,940
Deferred acquisition costs	25	53,487	60,394
Government securities held to amortised cost	26(i)	402,447	369,971
Government securities at fair value	26(ii)	490,749	218,568
Deposits with financial institutions	35	233,105	269,157
Cash and bank balances	35	108,888	131,759
Total assets		**3,483,778**	**3,440,831**
Liabilities			
Insurance contract liabilities	28	1,387,385	1,251,890
Unearned premiums	30	772,788	830,178
Payables arising from reinsurance arrangements		23,078	6,893
Lease liabilities	17(b)	36,928	-
Other payables	32	96,815	109,036
Total liabilities		**2,316,994**	**2,197,997**
Net assets		**1,166,784**	**1,242,834**

The financial statements on pages 35 to 86 were approved and authorised for issue by the board of directors on 12 March 2020 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 2019

	Notes	Share capital Shs' 000	Revaluation reserves Shs' 000	Retained earnings Shs' 000	Total Shs' 000
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		-	(2,047)	-	(2,047)
At 31 December 2018		**600,000**	**106,980**	**535,854**	**1,242,834**
Year ended 31 December 2019					
At 1 January 2019 - as previously reported		600,000	106,980	534,854	1,242,834
Day one adjustment on adoption of IFRS 9		-	-	(44,670)	(44,670)
Deferred tax on adoption on IFRS 9		-	-	13,401	13,401
Day one adjustment on adoption of IFRS 16				(11,033)	(11,033)
At 1 January 2019 - Restated		600,000	106,980	493,552	1,200,532
Other comprehensive income:					
Loss for the year		-	-	(33,748)	(33,748)
At 31 December 2019		**600,000**	**106,980**	**459,804**	**1,166,784**

Statement of Cash Flows

For The Year Ended 31 December 2019

	Notes	2019 Ksh' 000	2018 Ksh' 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	36	91,386	11,488
Interest received		106,396	70,433
Income tax paid	11(iii)	(18,722)	(3,547)
Net cash generated from operating activities		**179,060**	**78,374**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	16	(3,572)	(5,076)
Purchase of intangible assets	18	-	(1,030)
Purchase of quoted shares	20	(49,175)	(138,435)
Mortgage loans repaid	21	1,403	4,836
Purchase of treasury bills and treasury bonds	26(i)	(138,500)	(87,700)
Purchase of treasury bonds at fair value	26(ii)	(258,400)	(159,900)
Proceeds of disposal of property and equipment		708	3,706
Proceeds of disposal of quoted shares	20	100,088	116,513
Maturity of treasury bonds		117,700	82,200
Proceeds of sale of investment property		-	103,000
Net cash used in investing activities		**(229,748)**	**(81,886)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of the lease liabilities	17(b)	(8,235)	-
Net cash used in financing activities		**(8,235)**	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(58,923)	(3,512)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		400,916	404,428
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	35	**341,993**	**400,916**

Notes to the Financial Statements

For The Year Ended 31 December 2019

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 (IFRS)

i) Relevant standards and amendments to published standards effective for the year ended 31 December 2019 and adopted during the year

The following new and revised IFRSs were effective in the current year and the Company has adopted them with the initial application being 1 January 2019.

IFRS 9 Financial Instruments

The finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 ***Financial Instruments: Recognition and Measurement.*** The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. The carrying amount of an asset does not limit the estimation of probable future taxable profits.

- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The application of these amendments has had an impact on the Company's financial statements. The impact is assessed as follows:

Classification and measurement of financial assets and financial liabilities
The date of the initial application is 1 January 2019.

Initial recognition of financial assets
Under IFRS 9, on initial recognition, a financial asset is classified as measured at:
- Amortised cost;
- Fair value through other comprehensive income (FVOCI) which may include debt or equity instruments; or
- Fair value through profit and loss (FVTPL).

IFRS 9 eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The classification of financial assets under IFRS 9 is based on whether the financial assets are equity instruments, debt instruments held or derivative assets. Equity instruments and derivative assets are mandatorily categorised as financial assets at FVTPL. The classification and measurement of debt instruments is dependent on the business model in which the financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not accounted for separately. Instead, the hybrid financial instrument as a whole is assessed for classification.

A debt instrument is classified as a financial asset at amortised cost if it meets both of the following conditions (and is not designated as at FVTPL):
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI if it meets both of the following conditions (and is not designated as at FVTPL):
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the instrument may be irrevocably designated at FVOCI. In such an instance changes in the equity instrument's fair value are recorded in other comprehensive income (OCI). This election is made on an investment-by-investment basis

All debt instrument financial assets that were not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Company may irrevocably designate a debt instrument financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Transaction costs that are directly attributable to the acquisition of financial assets are expensed in profit or loss for financial assets initially classified at FVTPL. For financial assets not classified at

FVTPL, transaction costs are added to or deducted from the fair value at initial recognition.

IFRS 9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities. On initial recognition financial liabilities are measured at fair value plus or minus, in the case of financial liabilities not classified at FVTPL, transaction costs that are incremental and directly attributable to the issue of the financial liability. Transaction costs of financial liabilities carried at FVTPL are expensed in profit or loss.

Subsequent measurement of financial assets
The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Subsequent measurement of financial liabilities
IFRS 9 largely retains the requirements in IAS 39 for the measurement of financial liabilities with one exception. Fair value movements attributable to changes in the credit risk of a financial liability designated at FVTPL is recorded in other comprehensive income and not recycled to profit or loss. The balance of the fair value movement is recorded in profit or loss

IFRS 9 transition impact assessment
The directors of the company reviewed and assessed the company's existing financial assets as at 1 January 2019 based on the facts and circumstances that existed at that date and concluded that with the initial application of IFRS 9 the financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding

has had the following impact on the company's financial assets as regards their classification and measurement: The adoption of IFRS 9 has not resulted in any change in classification of financial assets of the company as illustrated in the table below.

Financial statement line item	Classification in terms of IAS 39	Measurement in terms of IAS 39	Classification and measurement in terms of IFRS 9	As at 31 December 2018 - IAS 39 Shs'000	As at 1 January 2019 - IFRS 9 Shs'000
Listed Equity investments	Financial assets at fair value through profit or	FVTPL	FVTPL	109,950	109,950
Government securities - Treasury Bonds	Held to maturity	Amortised cost	Amortised cost	287,033	287,004
Government securities- Treasury Bills	Held to maturity	Amortised cost	Amortised cost	82,938	82,938
Government securities- Treasury bonds	FVTPL	FVTPL	FVTPL	218,568	218,568
Mortgage loans	Loans and receivables	Amortised cost	Amortised cost	7,986	7,986
Receivables arising out of direct insurance arrangements	Receivables	Amortised cost	Amortised cost	386,042	342,721
Receivables arising out of reinsurance arrangements	Receivables	Amortised cost	Amortised cost	73,868	73,380
Other receivables	Receivables	Amortised cost	Amortised cost	45,940	45,839
Kenya Motor pool	Receivables	Amortised cost	Amortised cost	24,014	23,739
Bank balances & Bank deposits	Cash and Bank deposits	Amortised cost	Amortised cost	400,916	400,461

a) Impairment of financial instruments

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on: Government securities at amortized cost;

- Cash at bank;
- Deposits from financial institutions;
- Receivables arising from direct insurance and reinsurance arrangements;
- Lease recievables;
- Other receivables;
- and Due from motor pool.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition ***(except for a purchased or originated credit impaired financial asset),*** the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Given the Company has elected not to restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognised on the date of initial application of IFRS 9 (i.e. 1 January 2019), the directors have compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at 1 January 2019.

The result of the assessment is as follows:

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

Items existing as at 1 January 2019 that are subject to the impairment provisions of IFRS 9	Credit risk attributes at 1 January 2019	Cumulative additional loss allowance recognised on 1 January 2019 (Shs. '000)
Cash and bank balances	Assessed as low credit risk since all cash is held with selected banks and financial institutions.	-
Deposits with financial institutions		189
Government securities at amortised cost	Assessed as low credit risk since all government instruments are held with the Government of Kenya which is externally favourably rated.	29
Receivables arising out of direct insurance arrangements	Assessed as low credit risk since a significant portion of the retail insurance covers are sold on a cash and carry basis. Credit is extended to corporate clients to a maximum of 60 days with an option to cancel cover should indications of default appear. Historical credit defaults have been factored.	43,588
Receivables arising out of reinsurance arrangements	Assessed as low credit risk since reinsurance accounts are contractually cleared on a quarterly basis and incorporate premium payable and commissions and claims recoverable. The simplified approach has been applied.	488
Staff Loans	Assessed as low credit risk since all related parties are under the control of the same Group.	-
Rent & Other receivables	Incorporates different counterparties including staff, agents and others all of which are assessed independently. The simplified approach has been applied.	101
Due from motor pool	Incorporates amounts receivable from the Kenya Motor Pool Association. A significant portion of these are held with fund managers and with financial institutions. Internal credit ratings have been applied.	275
Total		**44,670**

The additional credit loss allowance of Shs. 44,670 million as at 1 January 2019 has been recognised against retained earnings. The additional loss allowance is charged against the respective asset as detailed in the referenced notes.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Company's exposure to credit risk in the financial statements

The application of IFRS 9 had no impact on the cash flows of the Company. Additionally, since there were no restatements, the application of IFRS 9 had no impact on basic and diluted earnings per share for the Company.

Impact of initial application of IFRS 16 Leases
In the current year, the Company has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the financial statements is described below

The date of initial application of IFRS 16 for the Company is 1 January 2019. The Company has applied IFRS 16 using the cumulative catch-up transition method, without restating the comparative information. The Company has recognized lease liabilities at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lease liabilities have been measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Company has recognised a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The Company has, on a lease-by-lease basis, measured the right-of-use asset at its carrying amount as if the Standard had been applied since the commencement date, but discounted using the Company's incremental borrowing rate at the date of initial application.

(a) Impact of the new definition of a lease
The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Company has carried out a review of all the lease contracts. The review has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Company.

i) Former operating leases
IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

a) Recognises right-of-use asset and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;

b) Recognises depreciation of right-of-use asset and interest on lease liabilities in profit or loss;

c) Separates the total amount of cash paid into a principal portion ***(presented within financing activities)*** and interest ***(presented within financing activities)*** in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use asset and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use asset is tested for impairment in accordance with IAS 36.

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Company's financial statements.

b) Impact on Lessor Accounting
IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

The Company is not a lessor in any lease arrangement therefore there is no impact on lessor accounting.

c) Financial impact of the initial application of IFRS 16
The weighted average lessees incremental borrowing rate applied to lease liabilities recognized in the statement of financial position on 1 January 2019 is 13%.

	2019 Ksh' 000
Impact on profit or loss	
Increase in depreciation of right-of-use asset	5,037
Increase in finance cost	4,669
Decrease in rent expense	(8,235)
Decrease in profit for the year	**1,471**

Impact on assets, liabilities and equity as at 1 January 2019

	As previously reported Sh' 000	IFRS 16 adjustments Sh' 000	After IFRS 16 adjustments Sh' 000
Right-of-use assets	-	29,463	29,463
Lease liabilities	-	(40,496)	(40,496)
Retained earnings	**-**	**(11,033)**	**(11,033)**

For tax purposes, the depreciation expense and finance cost in respect of the right-of-use asset and lease liabilities respectively have not been treated as tax allowable deductions. Under IFRS 16, lessees must present cash payments for the principal portion for a lease liability, as part of financing activities. Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by Sh. 8,235,000 (2018: Sh Nil).

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The Company has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The Company has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Company applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Company does not take account of any adjustments to the carrying amount of longterm interests required by IAS 28 *(i.e., adjustments to the carrying amount of longterm interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).*

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The Company has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

IAS 12 Income Taxes

The amendments clarify that the Company should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Company 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 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 Company does not remeasure its PHI in the joint operation.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement
The Company has adopted the amendments of IAS 19 for the first time in the current year. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income. The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Company will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

IFRIC 23 Uncertainty over Income Tax Treatments
The Company has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Company to:

- determine whether uncertain tax positions are assessed separately or as a Company; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the Company should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the Company should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

ii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2019*
At the date of authorisation of these financial statements, The Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and in some cases had not yet been adopted by the:

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 17-Insurance	1 January 2023, with earlier application permitted
Amendments to IAS 10 and IAS 28 *Sale or Contribution of Assets between an investor and its Associate or Joint Venture*	Yet to be set, however earlier application permitted
Amendments to IFRS 3 *Definition of a business*	1 January 2020, with earlier application permitted
Amendments to IAS 1 and IAS 8 - *Definition of material*	1 January 2020, with earlier application permitted
Conceptual Framework: *Amendments to References to the Conceptual Framework in IFRS standards*	1 January 2020, with earlier application permitted

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

IFRS 17 Insurance Contracts

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 2023. 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.

IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary ***(that has become an associate or a joint venture that is accounted for using the equity method)*** to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the financial statements in future periods should such transactions arise.

The Directors of the Company are currently assessing the impact of these amendments and plan to adopt the amendments on the required effective date if necessary.

Amendments to IFRS 3 *Definition of a business*

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The Directors of the Company are currently assessing the impact of these amendments and plan to adopt the amendments on the required effective date if necessary.

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.
The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

The Directors of the Company are currently assessing the impact of these amendments and plan to adopt the amendments on the required effective date if necessary.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to ***(the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018)*** or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

iii) Early adoption of standards

The Company did not early-adopt any new or amended standards in 2019.

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 as subsequently measured at either amortised cost or fair value on the basis of both the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortised cost if both of the following conditions are met (and is not designated as at FVTPL):
i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if both of the following conditions are met (and is not designated as at FVTPL):

i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's corporate bonds, mortgage loans, receivables, cash at bank, deposits with financial institutions and government securities are classified at amortised cost.

Recognition and de-recognition of financial instruments
Financial assets are recognised when the Company becomes a party to the contractual provisions of the asset. Initial recognition of financial asset is at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. 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.

Equity investments are carried at fair value. Gains and losses arising from changes in the fair value of equity investments are recognised in other comprehensive income. When equity investments are derecognised, the cumulative gain or loss previously recognised in other comprehensive income are transferred to retained earnings. Dividends on equity instruments are recognised in the proit on loss when the Company's right to receive payment is established.

Fair values of quoted investments in active markets are based on current bid prices.

Impairment of financial assets
The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:
- Financial assets that are determined to have low credit risk at the reporting date; and
- Financial assets where credit risk ***(i.e. the risk of default occurring over the expected life of the financial instrument)*** has not increased significantly since initial recognition.

i) Significant increase in credit risk
When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers quantitative and qualitative information, based on the Company's historical experience, credit assessment and including forward-looking information. The Company's assessment of a significant increase in credit risk from initial recognition consists of a primary and secondary risk drivers as follows:
- The primary risk driver aligns to the quantitative credit risk assessments performed, such as the credit score, credit rating, probability of default or arrears aging of a financial instrument; and
- The secondary risk assessment considers a broad range of qualitative risk factors based on a forward looking view such as economic and sector outlooks.

These primary and secondary risk drivers are included by the Company as part of the ongoing credit.

When making a quantitative assessment, the Company uses the change in the probability of default occurring over the expected life of the financial instrument. This requires a measurement of the probability of default at initial recognition and at the reporting date.

A rebuttable assumption is that the credit risk since initial recognition has increased significantly if a financial instrument is 30 days past due on any payments or is one payment in arrears. It is not anticipated that this assumption will be rebutted.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk. The ECL calculation of a financial instrument takes into account both the contractual and available behavioural repayment patterns over the relevant estimation period.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

ii) Write-off policy

The Company writes off a financial asset when there is information indicating that there is no reasonable expectation of recovery of the financial instrument, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of premium receivables, when the debtor has ceased transacting with the Company, whichever occurs sooner. A write off does not constitute a derecogntion per IFRS 9.Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

ii) Measurement and recognition of expected credit losses (ECL)

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

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.

Leases

The Company assesses whether a contract is or contains a lease at inception of the contract. The Company recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short term leases ***(defined as leases with a lease term of 12 months or less)*** and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprises of fixed lease payments (including the substance fixed payments), less any lease incentives.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

The Company re-measures the lease liability ***(and makes a corresponding adjustment to the related right-of-use asset)*** whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate ***(unless the lease payments change is due to a change in floating interest rate, in which case a revised discount rate is used).***
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

The right-of-use asset comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment loses.

Right-of-use asset is depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use asset is presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Operating expenses' in the statement of the profit or loss.

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.

Impairment of none financial assets
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.

Determination of Expected Credit loss (ECL) allowances

The Company applies judgment in determining whether a significant increase in credit risk took place since initial recognition of financial assets at amortised cost. Judgment was applied in identifying the qualitative and quantitative triggers and thresholds used to identify significant increases in credit risk since initial recognition of the financial assets. Depending on the availability of reasonable and supportable information without undue cost or effort, significant increases in credit risk is identified through increases in behaviour risk, arrears aging and portfolio assessments. The assessments are carried out on regular basis as part of the credit risk management activities of the Company;

The Company applies judgment in identifying default and credit-impaired financial assets. The Company considers the arrears category where the balance have been allocated to or whether the balance is in legal review, debt review or under administration. Financial assets are credit impaired when one or more events with a detrimental impact on the expected cash flows have taken place;

The calculation of the ECL balance is primarily influenced by the stage allocation of the balance and the risk parameters. The Company makes use of estimates of PDs (Probablity of Default), LGDs (Loss Given Default) and EADs (Exposure at Default) to calculate the ECL balance for financial assets at amortised cost. LGDs are derived from a default recovery time series model that takes recency of payments into account or through internally developed statistical models. EADs are determined with reference to expected amortisation schedules and taking into account credit conversion factors as applicable for undrawn or revolving facilities.

Models and assumptions used: The Company uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Determination of lease term and discount rate for lease liability

The company is required to compute the interest rate implicit in all leases. Since the rate cannot be readily available, management assumed a rate of 13% based on the current market lending rate.The company uses hinnsight in determining the lease term for contracts containing options to extend or terminate.

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.

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

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 2019	**Gross Liabilities Shs' 000**	**Reinsurance Share Shs' 000**	**Net Liabilities Shs' 000**	**Gross Liabilities Shs' 000**	**Reinsurance Share Shs' 000**	**Net Liabilities Shs' 000**
Motor	856,132	32,716	823,416	507,785	22,549	485,236
Fire	176,928	84,289	92,639	64,986	37,744	27,242
Personal Accident	(245)	(3,489)	3,244	6,551	3,538	3,013
Marine	66,745	28,962	37,783	14,025	3,223	10,802
Others	287,825	59,911	227,914	179,441	109,879	69,562
Total	**1,387,385**	**202,389**	**1,184,996**	**772,788**	**176,933**	**595,854**

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

31 December 2018	Claims Gross Liabilities Shs' 000	Claims Reinsurance Share Shs' 000	Claims Net Liabilities Shs' 000	UPR Gross Liabilities Shs' 000	UPR Reinsurance Share Shs' 000	UPR Net Liabilities Shs' 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	287,772	57,811	229,961	177,887	93,661	**84,225**
Total	**1,251,890**	**211,533**	**1,040,357**	**830,178**	**163,262**	**666,914**

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 2019	Changes in assumptions	Impact on gross liabilities Shs' 000	Impact on net liabilities Shs' 000	Impact on profit before tax Shs' 000
Average claim processing cost	10%	138,738	118,500	(4,466)
31 December 2018				
Average claim processing cost	10%	125,189	104,036	8,074

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

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:

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. 4,291,406, (2018: Ksh. 2,747,261).

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 2019, 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. 2019: Ksh. 2,603,165 (2018: Ksh. 5,498,000).

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.

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

At 31 December 2019, 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. 122,302.39 (2018: Ksh. 612,342.47) 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.

Maximum exposure to credit risk before collateral held.

Assets	External credit rating	12-month or lifetime ECL	Gross carrying amount Shs' 000	Loss allowance Shs' 000	Net carrying amount Shs'000
2019					
Fixed Deposits at amortised cost	B- to A+	12	233,184	(79)	233,105
Cash and Bank Balances at amortised cost	B- to A+	12	108,888	-	108,888
Other Receivables at amortised cost	None	12	46,763	(124)	46,639
Reinsurance receivables	B+ to AA	12	12,528	(224)	12,304
Mortgage loans	None	Lifetime	6,583	-	6,583
Government Securities held at amortised cost	AAA	Nil	402,487	(40)	402,447
Receivables under direct insurance arrangements	None	None	274,712	(16,978)	257,734
Kenya Motor pool	None	None	19,545	(224)	19,321
Total			**1,104,690**	**(17,669)**	**1,087,021**

Reconciliation of Loss Allowance Accounts

	Deposits with financial institutions Shs' 000	Government Securities held at amortised cost Shs' 000	Bank balances Shs' 000	Receivables arising out of Direct insurance Shs' 000	Receivables arising out of Reinsurance Shs' 000	Other receivables - Rental Debtors Shs' 000	Loans secured by mortgages on real property Shs' 000	Investment in the Kenya Motor pool Shs' 000	Total Shs' 000
31 December 2018									
At 1 January 2018 under IAS 39	269,157	369,971	131,759	386,042	73,868	19,553	7,986	24,014	1,494,025
Increase in loss allowance arising from new recognized in the year	–	–	–	–	–	–	–	–	–
At 31 December 2018 under IAS 39	**269,157**	**369,971**	**131,759**	**386,042**	**73,868**	**19,553**	**7,986**	**24,014**	**1,494,025**
31 December 2019									
At 1 January 2019 under IAS 39	269,157	369,971	131,759	386,042	73,868	19,553	7,986	24,014	1,494,025
Adjustment upon adoption of IFRS 9	(189)	(29)	-	(43,588)	(488)	(101)	-	275	(44,120)
At 1 January 2019 - As restated	268,968	369,942	131,759	342,454	73,380	19,452	7,986	24,289	1,449,905
(Increase)/decrease in loss allowance arising from new financial assets (recognised)/ derecognised in the year	(35,863)	32,505	(22,871)	(84,720)	(61,076)	9,973	(1,403)	(4,968)	110,651
At 31 December 2019 under IFRS 9	**233,105**	**402,447**	**108,888**	**257,734**	**12,304**	**29,425**	**6,583**	**19,321**	**1,560,556**

(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 2019	0-1 year Shs' 000	Over 1 year Shs' 000	Total Shs' 000
Outstanding claims provision	1,387,385	-	1,387,385
Payables arising from reinsurance arrangements	23,078	-	23,078
	1,410,463	**-**	**1,410,463**
31 December 2018			
Outstanding claims provision	1,251,890	-	1,251,890
Payables arising from reinsurance arrangements	6,893	-	6,893
	1,258,783	**-**	**1,258,783**

(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.

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

31 December 2019	Level 1 Shs' 000	Level 2 Shs' 000	Level 3 Shs' 000	Total Shs' 000
Equity instruments	52,063	-	-	52,063
Government securities	490,749	-	-	490,749
Investment property	-	-	1,015,882	1,015,882
31 December 2018				
Equity instruments	109,950	-	-	109,950
Government securities	218,568	-	-	218,568
Investment property	-	-	1,015,882	1,015,882

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's capital adequately ratio was 123%.

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

5. GROSS EARNED PREMIUMS	2019 Ksh' 000	2018 Ksh' 000
Motor	1,506,326	1,440,098
Fire	196,651	177,687
Marine	71,756	79,241
Personal accident	17,764	10,290
Theft	101,518	102,385
Workmen compensation	210,005	192,197
Engineering	74,984	87,272
Liability	45,892	46,526
Other	241,653	218,960
	2,466,549	**2,354,656**

6. INVESTMENT INCOME

	2019 Ksh' 000	2018 Ksh' 000
i) Investment income/(loss) from financial assets at fair value through profit or loss		
Fair value losses on equity investments (note 20)	(6,974)	(32,377)
Fair value gains on government securities (note 26(ii))	13,781	9,151
Loss on disposal of equity investments	(5,048)	(1,647)
Dividends from equity investments	8,533	7,275
	10,292	**17,598**
ii) Interest income from government securities		
Interest from government securities held at amortised cost	46,286	40,729
Interest from government securities at fair value through profit or loss	39,543	6,590
	85,829	**47,319**
iii) Income from investment properties		
Rental income from investment property	61,191	56,349
Loss on disposal of investment properties	-	(8,000)
Total investment income from property	**61,191**	**48,349**
iv) Other investment income		
Interest from deposits with financial institutions	19,801	21,713
Interest from mortgage loans	767	1,401
	20,568	**23,114**
Total investment income	**177,880**	**101,184**

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

	2019 Ksh' 000	2018 Ksh' 000
7. OTHER INCOME		
Kenya Motor Insurance Pool	2,174	195
Gain on disposal of assets	708	3,427
Other	2,843	2,292
	5,725	**5,914**
8. NET CLAIMS PAYABLE		
Claims payable by principal class of business:		
Motor	1,172,783	923,987
Fire	9,834	26,490
Marine	15,057	19,765
Workmen Compensation	53,248	84,618
Public Liability	14,831	247
Others	49,866	41,111
	1,315,619	**1,096,218**
9. OPERATING AND OTHER EXPENSES		
Staff costs (note 10)	256,258	250,885
Auditors' remuneration	4,500	4,575
Depreciation on property and equipment (note 16)	10,581	14,412
Amortisation on the on the right-of-use assets (note 17 (a))	5,037	-
Amortisation on intangible assets (note 18)	7,694	8,042
Impairment charge for doubtful receivables		
- Premium receivables (Note 22)	95,737	63,293
- Deposit held in chases bank under receivership	3,443	-
Operating leases	7,366	14,034
Interest on lease liabilities (note 17 (b))	4,669	-
Marketing and advertising	30,054	26,954
Finance and bank charges	4,870	5,804
Printing, stationery and insurance	8,520	9,078
Consultancy fees	20,668	16,065
Directors fees	6,810	7,388
Other expenses	98,080	85,000
Total expenses	**564,287**	**505,530**
10. STAFF COSTS		
Staff costs include the following:		
- Salaries and wages	214,032	206,595
- Retirement benefit costs – defined contribution plan	16,726	16,542
Other staff costs	25,500	27,748
	256,258	**250,885**

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

11. TAXATION

	2019 Ksh' 000	2018 Ksh' 000
i) Taxation (credit)/charge		
Current income tax	-	37,429
Prior year over provision – current tax	-	(11,349)
Deferred taxation credit (note 31)	(10,908)	(2,352)
	(10,908)	**23,728**
ii) Reconciliation of taxation (credit)/charge to expected tax based on accounting (loss)/profit		
(Loss)/profit before taxation	(44,656)	80,736
Tax calculated at a tax rate of 30%	(13,397)	24,221
Tax effect of income not subject to tax	(8,376)	(5,676)
Tax effect of expenses not deductible for tax purposes	10,865	16,532
Prior year over provision-current tax	-	(11,349)
Taxation (credit)/charge	**(10,908)**	**23,728**
iii) Corporate tax recoverable		
At 1 January	(13,656)	(36,189)
Charge for the year	-	37,429
Tax paid during the year	(18,722)	(3,547)
Prior year over provision-current tax	-	(11,349)
At 31 December	**(32,378)**	**(13,656)**

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 2019 (2018: Nil).

13. SHARE CAPITAL

	2019 Ksh' 000	2018 Ksh' 000
Share capital:	-	-
Authorised share capital		
10,000,000 ordinary shares of Shs 100 each	**1,000,000**	**1,000,000**
Issued and fully paid for:		
6,000,000 ordinary shares of Shs 100 each	600,000	600,000
Total share capital	**600,000**	**600,000**

14. REVALUATION RESERVE

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

	2019 Ksh' 000	2018 Ksh' 000
At 1 January	106,980	109,027
Net evaluation loss	-	(2,047)
At 31 December	**106,980**	**106,980**
Loss on revaluation of land and buildings	-	(2,925)
Deferred taxation	-	878
Net revaluation loss	**-**	**(2,047)**

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. 285,155,139 (2018: Shs 299,005,000) whose distribution is subject to restrictions imposed by regulation.

16. PROPERTY AND EQUIPMENT

	Buildings Shs' 000	Motor vehicles Shs' 000	Furniture & office equipment Shs' 000	Work in Progress Shs' 000	Total Shs' 000
COST/REVALUATION					
At 1 January 2018	286,061	12,638	163,322	-	462,021
Additions	-	1,200	3,876	-	5,076
Revaluation	(2,925)	-	-	-	(2,925)
At 31 December 2018	**283,136**	**13,838**	**167,198**	**-**	**464,172**
At 1 January 2019	283,136	13,838	167,198	-	464,172
Additions	-	-	3,572	-	3,572
Disposals	-	(1,100)	(619)	-	(1,719)
At 31 December 2019	**283,136**	**12,738**	**170,151**	**-**	**466,025**
DEPRECIATION					
At 1 January 2018	(10,944)	(11,525)	(141,574)	-	(164,043)
Charge for the year	(75)	(1,413)	(12,924)	-	(14,412)
At 31 December 2018	**(11,019)**	**(12,938)**	**(154,498)**	**-**	**(178,455)**

16. PROPERTY AND EQUIPMENT (contd)

	Buildings Shs' 000	Motor vehicles Shs' 000	Furniture & office equipment Shs' 000	Work in Progress Shs'000	Total Shs' 000
NET BOOK VALUE					
At 31 December 2019	272,117	600	5,990	-	278,707
At 31 December 2018	272,117	900	12,700	-	285,717

Land and buildings were valued on 31 December 2019 by Knight Frank Valuers Limited, registered professional valuers. The basis of valuation was current market value with existing use.

Land and buildings are carried at the fair value hierarchy level 3 in the fair value hierarchy.

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

	2019 Ksh' 000	2018 Ksh' 000
Cost	143,767	143,767
Accumulated depreciation	(31,274)	(27,680)
Net book value	**112,493**	**116,087**

17. LEASES

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

a) Right-of-use assets

The Company leases office space for its use. Information about the leases in which the Company is a lessee is presented below:

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

17. LEASES (contd)

	2019 Ksh' 000	2018 Ksh' 000
COST		
At 1 January as previously reported	-	-
Day one adjustment on adoption of IFRS 16	46,021	-
At 31 December	**46,021**	**-**
AMORTISATION		
At 1 January as previously reported	-	-
Day one adjustment on adoption of IFRS 16	(16,558)	-
Charge for the year	(5,037)	-
At 31 December	**(21,596)**	**-**
NET BOOK VALUE		
At 31 December	**24,426**	**-**
Analysed as:		
Non - current	32,171	-
Current	4,757	-
At 31 December	**36,928**	**-**
The movement in the lease liabilities is as follows:		
At 1 January as previously reported	-	-
Day one adjustment on adoption of IFRS 16	40,494	-
Payment of lease liabilities	(8,235)	-
Interest on lease liabilities	4,669	-
At 31 December	**36,928**	**-**
Lease liabilities maturity analysis		
Year 1	8,886	-
Year 2	9,494	-
Year 3	10,179	-
Year 4	10,885	-
Year 5	9,909	-
	49,353	**-**

The Company does not face a significant liquidity risk with regards to its lease liabilities. Lease liabilities are monitored within the company's treasury function. All lease obligations are denominated in Kenya Shillings.

The contractual amounts disclosed in the maturity analyses as required by IFRS 16 paragraph 39(a) and (b) are the contractual undiscounted cash flows i.e Gross lease liabilities.

18. INTANGIBLE ASSETS-COMPUTER SOFTWARE

INTANGIBLE ASSETS	2019 Ksh' 000	2018 Ksh' 000
COST		
At 1 January	40,617	39,587
Additions	-	1,030
At 31 December	**40,617**	**40,617**
DEPRECIATION		
At 1 January	22,277	14,235
Amortisation charge	7,694	8,042
At 31 December	**29,971**	**22,277**
NET BOOK VALUE		
At 31 December	**10,646**	**18,340**
19. INVESTMENT PROPERTIES		
At 1 January	1,015,882	1,126,882
Disposals	-	(111,000)
At 31 December	**1,015,882**	**1,015,882**

The Company's investment properties were valued as at 31 December 2019 by Knight Frank Valuers Limited, registered valuers. The basis of the valuation was open market value. Direct operating expenses attributable to management of the investment properties amounted to Shs. 6,345,966 (2018: Shs. 552,602).

The fair values arising from the open market valuation of investment property is categorised as level 3 in the fair value hierarchy.

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 Ksh' 000	2018 Ksh' 000
At 1 January	109,950	120,405
Additions	49,175	138,435
Disposals	(100,088)	(116,513)
Net fair value loss (note 6)	(6,974)	(32,377)
At 31 December	**52,063**	**109,950**

21. MORTGAGE LOANS

	2019 Ksh' 000	2018 Ksh' 000
At 1 January	7,986	12,822
Loan repayments	(1,403)	(4,836)
At 31 December	**6,583**	**7,986**
Maturity profile of mortgage loans		
Loans maturing:		
Within 1 year	-	-
In 1-5 years	-	562
In over 5 years	6,583	7,424
	6,583	**7,986**

22. RECEIVABLES ARISING OUT OF DIRECT INSURANCE ARRANGEMENTS

	2019 Ksh' 000	2018 Ksh' 000
Gross receivables	500,670	602,669
Provision for bad and doubtful debts	(242,936)	(216,627)
Net receivables	**257,734**	**386,042**
Movement in provision for bad and doubtful debts		
At 1 January	216,627	199,778
Day one adjustment on IFRS 9 adoption	43,588	-
Bad debts written off	(113,016)	(46,444)
Impairment charge during the year (Note 9)	95,737	63,293
At 31 December	**242,936**	**216,627**

23. REINSURERS' SHARE OF INSURANCE LIABILITIES

	2019 Ksh' 000	2018 Ksh' 000
Reinsurers' share of:		
- notified claims outstanding (note 29)	191,687	183,964
- claims incurred but not reported (note 29)	10,700	27,569
- unearned premium (note 30)	176,933	163,264
	379,320	**374,797**

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.

24. OTHER RECEIVABLES

	2019 Ksh' 000	2018 Ksh' 000
Due from related parties (note 37(ii))	154	2,395
Prepayments	2,107	-
Utilities and rental deposit	3,059	3,059
Rent receivable	29,425	23,442
Others	11,894	17,044
	46,639	**45,940**

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

25. DEFERRED ACQUISITION COSTS

	2019 Ksh' 000	2018 Ksh' 000
At 1 January	60,394	60,168
Additions	(6,779)	18,647
Amortisation charge	(128)	(18,421)
At 31 December	**53,487**	**60,394**

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").

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

26. GOVERNMENT SECURITIES

	2019 Ksh' 000	2018 Ksh' 000
(i) Government securities held at amortised cost		
- Maturing within 1 year	10,030	113,239
- Maturing in 1-5 years	115,807	96,853
- Maturing after 5 years	276,610	159,879
	402,447	**369,971**
At 1 January	369,971	369,264
Additions	138,500	87,700
Amortization Charge	11,716	(4,793)
Maturities	(117,700)	(82,200)
Impairment Provision	(40)	-
At 31 December	**402,447**	**369,971**
(ii) Government securities at fair value through profit and loss		
- At 1 January	218,568	49,517
- Additions	258,400	159,900
- Fair value gain (note 6)	13,781	9,151
At 31 December	**490,749**	**218,568**

27. WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

	2019 %	2018 %
Mortgage loans	10	8.0
Government securities	12.1	6.1
Deposits with financial institutions	9.38	9.6

28. INSURANCE CONTRACT LIABILITIES

	2019	2018
Short term non-life insurance contracts		
- claims reported and claims handling expenses (note 29)	1,177,640	1,052,316
- claims incurred but not reported (note 29)	209,745	199,574
Total - short term	**1,387,385**	**1,251,890**

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

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

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 2019 and 2018 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. 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	2015 Shs'000	2016 Shs'000	2017 Shs'000	2018 Shs'000	2019 Shs'000	Total Shs'000
Cumulative incurred claims estimate:						
– at end of	936,989	718,660	1,046,519	1,128,590	1,042,034	**4,872,792**
– one year later	1,083,303	807,401	1,155,706	1,323,207	-	**4,369,617**
– two years	1,066,562	811,733	1,172,931	-	-	**3,051,226**
– three years	1,070,406	856,882	-	-	-	**1,927,288**
– four years	1,093,635	-	-	-	-	**1,093,635**
Current estimate of cumulative incurred claims	1,093,635	856,882	1,172,931	1,323,207	1,042,086	**5,488,741**
Less: cumulative payments to date	(1,027,633)	(756,694)	(1,027,357)	(1,097,533)	(553,653)	**(4,462,870)**
Liability in the statement of financial position	66,003	100,188	145,574	225,674	488,432	**1,025,870**
Liability in respect of prior years	-	-	-	-	-	**151,770**
IBNR						**209,745**
Total gross claims liability included in the statement of financial position						**1,387,385**

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

28. INSURANCE CONTRACT LIABILITIES (contd)

Accident year	2014 Shs'000	2015 Shs'000	2016 Shs'000	2017 Shs'000	2018 Shs'000	Total Shs'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	1,155,707	-	**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**
Current estimate of cumulative incurred claims	773,447	1,070,406	811,733	1,155,707	1,128,590	**4,939,883**
Less: cumulative payments to date	(738,607)	(1,000,403)	(691,738)	(938,401)	(663,724)	**(4,032,873)**
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**

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

29. MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

Short term insurance business

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
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 1 January	**1,251,890**	**(211,533)**	**1,040,357**	**1,460,347**	**(366,632)**	**1,093,715**
Cash paid for claims settled in year	(1,343,758)	111,130	(1,232,628)	(1,577,179)	345,131	(1,232,048)
Increase in liabilities						
- arising from current year claims	592,867	20,490	613,357	685,151	(47,090)	638,061
- arising from prior year claims	886,386	(122,474)	763,912	683,571	(142,942)	540,629
Total at 31 December	**1,387,385**	**(202,387)**	**1,184,998**	**1,251,890**	**(211,533)**	**1,040,357**
Notified claims	1,177,640	(191,687)	985,953	1,052,316	(183,964)	868,352
Incurred but not reported	209,745	(10,700)	199,045	199,574	(27,569)	172,005
Total at 31 December	**1,387,385**	**(202,387)**	**1,184,998**	**1,251,890**	**(211,533)**	**1,040,357**

30. 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:

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At 1 January	830,178	(163,263)	666,914	911,132	(224,969)	686,163
Change in the period (net)	(57,390)	(13,670)	(71,060)	(80,954)	61,705	(19,249)
At 31 December	**772,788**	**(176,933)**	**595,854**	**830,178**	**(163,264)**	**666,914**

31. DEFERRED TAXATION

Deferred tax is calculated using the enacted income tax rate of 30% (2018: 30%) The movement on the deferred income tax account is as follows:

	31 December 2019 Shs'000	31 December 2018 Shs'000
At 1 January	34,790	31,560
Income statement credit (note 11)	10,908	2,352
Credit to other comprehensive income	-	878
Effect of change of accounting policy for IFRS 9	13,401	-
At 31 December	**59,099**	**34,790**

Year ended 31 December 2019	1 January 2019 Shs'000	Credited to Equity Shs'000	Charged/ Credit to P/L Shs'000	31 December 2019 Shs'000
Property and equipment:				
- on historical cost basis	12,856	-	238	13,094
Property and equipment:				
- on revaluation surplus	(45,771)	-	-	(45,771)
Provisions	76,797	-	(2,528)	74,269
Lease Liability - IFRS 16	-	-	12,148	12,148
Unrealised exchange losses	18	-	200	218
Tax losses	-	-	12,076	12,076
Lease Liability - IFRS 16	-	-	(791)	(791)
Fair value gains on investment property	(9,110)	-	349	(8,761)
ROU Asset - IFRS 16	-	-	1,511	1,511
ROU Asset - IFRS 16	-	-	(12,295)	(12,295)
IFRS 9 day one adjustment	-	13,401	-	13,401
Net deferred tax asset	**34,790**	**13,401**	**10,908**	**59,099**

Year ended 31 December 2018	1 January 2018 Shs'000	Credited to P/L Shs'000	Charged to OCI Shs'000	31 December 2018 Shs'000
Property and equipment:				
- on historical cost basis	12,670	187	-	12,857
Property and equipment:				
- on revaluation surplus	(46,701)	52	878	(45,771)
Provisions	74,663	2,151	-	76,814
Tax losses	438	(438)		-
Fair value gains on investment property	(9,510)	400	-	(9,110)
Net deferred tax asset	**31,560**	**2,352**	**878**	**34,790**

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

32. OTHER PAYABLES

	2019 Ksh' 000	2018 Ksh' 000
Accrued expenses	46,848	35,152
Leave accrual	4,105	4,511
Rental deposits	15,576	20,245
Payroll liabilities	4,167	3,865
Sundry creditors	1,328	252
Stale cheques	1,265	335
Other liabilities	23,526	44,676
	96,815	**109,036**

33. CONTINGENT LIABILITIES

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. 7,929,814 (2018: Shs. 5,471,303) have been issued against the bank overdraft facility.

34. OPERATING LEASES

The Company as a Lessor

The maturity analysis of operating lease payments in which the Company is the lessor, relate to investment properties owned by the Company;

	2019 Ksh' 000
Later than 1 year and not later than 5 years	22,696
Later than 5 years	1,105
	23,801

The lease income on the operating leases as at 31 December 2019 was Shs. 61,191,000.

35. CASH AND CASH EQUIVALENTS

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

	2019 Shs'000	2018 Shs'000
Cash and bank balances	108,888	131,759
Deposits with financial institutions	233,105	269,157
	341,993	**400,916**

Deposits with financial institutions have an average maturity of 6 months (2018: 6 months). The effective interest rate on deposits was 9.4% per annum (2018: 10.3%).

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

36. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations:	2019 Ksh' 000	2018 Ksh' 000
Profit before tax	(44,656)	80,736
Adjustments for:		
Interest from investments in government securities (Note 6(ii))	(85,829)	(47,319)
Interest from bank deposits (Note 6(iv))	(19,801)	(21,713)
Interest from mortgage loans (Note 6(iv))	(767)	(1,401)
Depreciation (note 16)	10,581	14,412
Amortisation on intangible assets (note 18)	7,694	8,042
Amortisation on the right-of-use assets (note 17 (a))	5,037	-
Interest on lease liabilities (note 17 (b))	4,669	-
Loss on sale of investment property (note 19)	-	8,000
Gain on sale of equipment (note 7)	(708)	(3,427)
Change in fair value of quoted shares (note 20)	6,974	32,377
Amortisation of government securities (note 26 (i))	(11,716)	4,793
Unrealized fair value gains on government securities (note 26 (ii))	(13,781)	(9,151)
IFRS 9 Day 1 Impairment adjustment	(44,670)	-
Impairment provision for due from government securities (note 26 (i))	40	-
Changes in:		
Technical provisions	73,582	(72,608)
Payables arising from reinsurance arrangements	16,185	(15,649)
Deferred acquisition cost	6,907	(226)
Kenya Motor Insurance Pool	4,693	(195)
Other receivables	(699)	(12,267)
Receivables arising out of direct insurance	128,308	120,527
Receivables arising out of reinsurance business	61,564	(66,975)
Other payables	(12,221)	(6,468)
Cash generated from operations	**91,386**	**11,488**

Notes to the Financial Statements

For The Year Ended 31 December 2019 (contd)

37. 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.

	2019 Ksh' 000	2018 Ksh' 000
i. Transactions with related parties		
Gross earned premium:		
- Related parties – directors	786	670
- Related parties – other	2,355	2,655
ii. Outstanding balances with related parties		
Amounts due from related parties		
Loans advanced to staff	77	2,318
Southern Shield Holdings	77	77
	154	2,395
iii. Mortgage loans to directors and key management staff of the Company		
At 1 January	7,986	12,822
Loan repayments received	(1,403)	(4,836)
At 31 December	6,583	7,986
iv. Key management compensation		
Salaries and other short-term employment benefits	61,929	54,749
v. Directors' remuneration		
Directors' fees	6,810	7,388
Other remuneration (included in key management compensation above)	61,929	54,749
	68,739	62,137

38. 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 3.

39. CURRENCY

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

40. CURRENCY

Concerns are rapidly growing about the outbreak of a novel strain of coronavirus (COVID-19) that was first reported in China in December 2019. Since then the virus has spread to over 120 countries, including Kenya and the following impacts are likely to be experienced in the economy in the year 2020.

- Job losses and wage reduction as a result of businesses closing in order to observe social distancing.
- Delays in premium collections due to a potential increase in liquidity challenges.
- Decline in GDP due to reduced production from key sectors including manufacturing, horticulture, transport, tourism & hospitality.

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General Insurance Business Revenue Account For Year 2019

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	2019 Total
Gross written premium	79,769	25,755	172,978	42,528	289,317	799,347	648,323	198,161	20,221	100,927	31,833	2,409,159
UPR - January 2019	42,820	9,441	53,463	8,742	53,209	304,814	261,629	65,818	4,095	9,847	16,299	830,177
UPR - December 2019	47,605	8,277	56,709	5,378	66,331	311,123	196,662	53,975	6,551	9,257	10,919	772,787
Gross earned premium	**74,984**	**26,919**	**169,732**	**45,892**	**276,195**	**793,038**	**713,290**	**210,004**	**17,765**	**101,517**	**37,213**	**2,466,549**
Gross claims paid	23,638	3,686	34,010	4,595	31,087	547,626	510,313	77,610	9,594	19,442	1,958	1,263,559
At 31 December 2019	13,121	1,081	175,847	17,004	66,745	371,646	484,486	166,419	(245)	94,182	(2,902)	1,387,384
At 1 January 2019	15,786	3,626	175,633	8,516	70,039	274,584	438,743	186,961	1,493	76,329	180	1,251,890
Gross claims incurred	**20,973**	**1,141**	**34,224**	**13,083**	**27,793**	**644,688**	**556,056**	**57,068**	**7,856**	**37,295**	**(1,124)**	**1,399,053**
Net written premium	12,748	14,515	25,834	32,435	29,413	762,261	601,676	193,717	10,772	39,344	11,561	1,734,276
UPR - January 2019	5,077	6,128	23,579	3,949	12,809	291,301	246,000	64,392	2,884	6,487	4,309	666,915
UPR - December 2019	4,536	4,932	22,310	4,684	10,809	297,896	187,341	52,860	3,014	3,923	3,550	595,855
Net earned premium	**13,289**	**15,711**	**27,103**	**31,700**	**31,413**	**755,666**	**660,335**	**205,249**	**10,642**	**41,908**	**12,320**	**1,805,336**
Net claims paid	9,207	3,517	14,509	4,595	16,070	545,678	474,778	78,070	11,265	12,680	610	1,170,979
At 31 December 2019	4,645	(2,549)	95,188	16,094	37,783	376,188	447,228	161,649	3,245	52,863	(7,337)	1,184,997
At 1 January 2019	489	3,120	97,711	7,369	38,796	272,721	398,368	186,471	(320)	42,922	(7,289)	1,040,358
Net claims incurred	**13,363**	**(2,152)**	**11,986**	**13,320**	**15,057**	**649,145**	**523,638**	**53,248**	**14,830**	**22,621**	**562**	**1,315,618**
Commissions payable	14,650	4,706	31,764	4,859	31,903	76,636	60,439	37,246	3,726	13,247	2,844	282,020
Commissions receivable	(23,601)	(3,113)	(38,536)	(3,229)	(17,836)	(6,071)	(5,637)	(308)	(2,076)	(15,837)	(12,084)	(128,328)
Management Expenses	5,070	4,432	11,757	5,498	14,884	196,055	109,891	25,839	3,825	11,692	6,139	395,082
Total expenses	**9,482**	**3,873**	**16,971**	**20,448**	**44,008**	**915,765**	**688,331**	**116,025**	**20,305**	**31,723**	**(2,539)**	**1,864,392**
Net U/W Profit/(Loss)	**3,807**	**11,838**	**10,132**	**11,252**	**(12,595)**	**(160,099)**	**(27,996)**	**89,224**	**(9,663)**	**10,185**	**14,859**	**(59,056)**

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	2018 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**

Notes


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