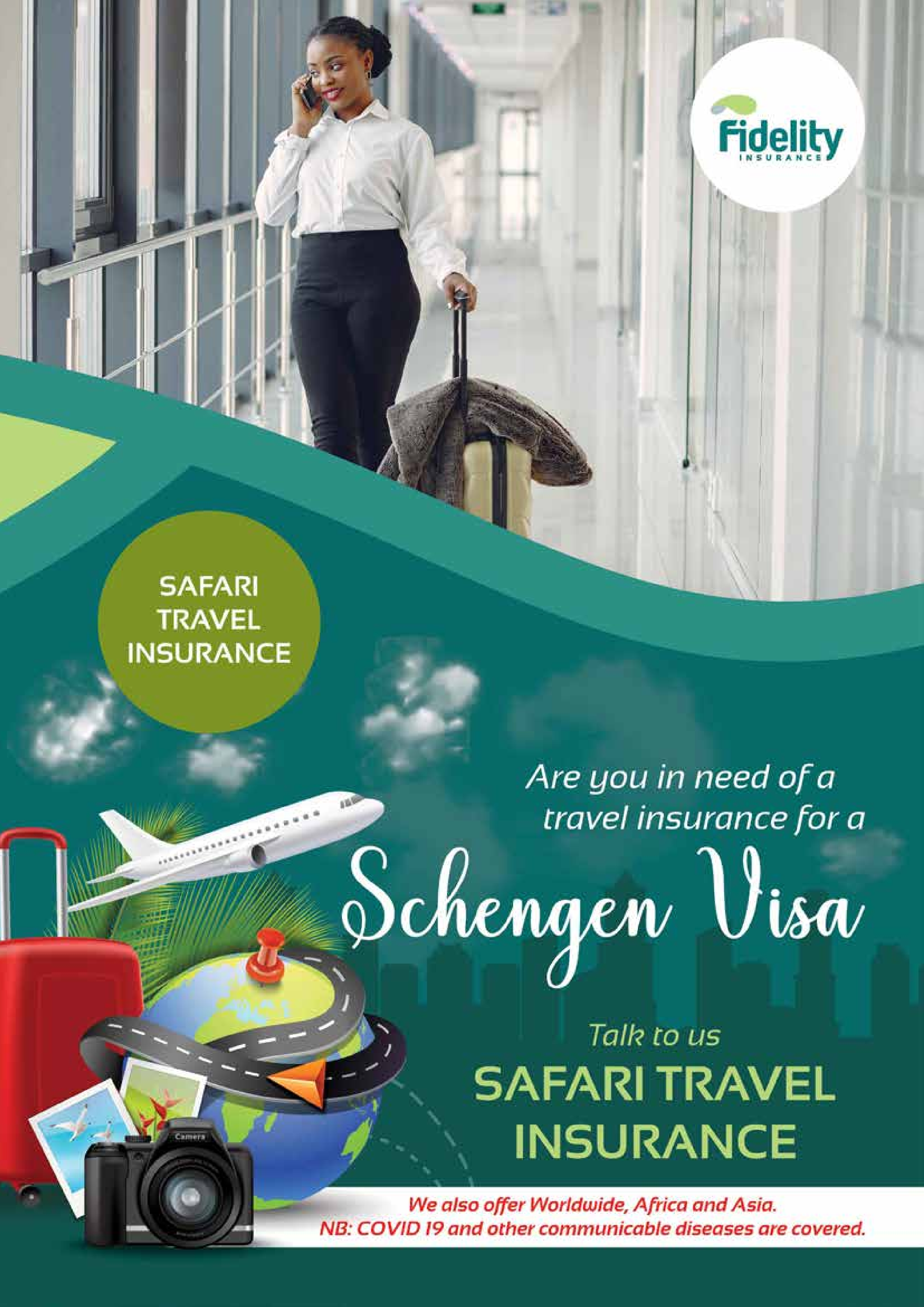
Annual Report and Financial Statements

For the year ended 31 December, 2022

Fidelity
INSURANCE



Fidelity
INSURANCE
SAFARI
TRAVEL
INSURANCE
Are you in need of a
travel insurance for a
Schengen Visa
Talk to us
SAFARI TRAVEL
INSURANCE
We also offer Worldwide, Africa and Asia.
NB: COVID 19 and other communicable diseases are covered.
Camera

2022

ANNUAL REPORT & FINANCIAL STATEMENTS

Your SME needs Insurance Cover

Why BiznaSure?

BiznaSure Insurance protects your business against a broad spectrum of risks.

This cover secures your business against financial, legal and reputational damage. It contains flexible insurance package with multiple options giving your business a cost-effective solution for all its risks

COVER OPTIONS

Property
Damage or loss to your property at the business location.

Business Interruption
Loss of income and other additional costs caused by the interruption to your business following an insured loss under the Property section.

Glass & Signages
Breakage of internal and external glass and signs.

All Risks
Widest cover for portable items such as tools, equipment and electronic devices.

Computer and Electronic
Damage and breakdown to computer systems and electronic equipment including cover for business interruption.

Money
Theft or loss of Damage and money.

Machinery Breakdown
Damage to plant and machinery caused by breakdown.

Liability
Legal liability to pay compensation for third party property damage or personal injury.

Theft
Theft of stock, materials and general contents.

Employee Dishonesty
Loss of property due to employee fraud.

Workmen Compensation (WIBA)
Covers accidental death or injury to employees whilst in course of duty.

Transits
Damage or loss of goods while on Transit.

Director's & Officers
cover for the personal liability of Directors and Officers arising due to wrongful acts in their managerial capacity.

Cyber-Liability
covers financial losses that result from data breaches and other cyber events.

Deterioration of Stock
cover for goods lost or damaged due to failure of cold storage/refrigeratio n equipment.

Political violence
Cover for loss or damage to property and loss of business arising from political violence, insurrection, mutiny, war and terrorism.

Regulated by Insurance Regulatory Authority.

Underwritten by Fidelity INSURANCE

Contact Latif Wekesa on latif.wekesa@minet.co.ke 0725866845 or
Denis Munene on denis.munene@minet.co.ke 0722911261 or
retailsales@minet.co.ke

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GOLFERS POLICY

Teamwork is our DNA

Insurance you can trust.

Fidelity INSURANCE

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

CORPORATE INFORMATION

Corporate Information

Board of Directors	S. Shollei	-	Chairman
	N. Kamere	-	Appointed on 6 April 2022
	M. Koech	-	Retired on 30 June 2022
	A. Kurji		
	L. Kibet		
	S. Merali		
	R. Likami	-	Retired on 30 June 2022
	S. Shollei	-	Chairman until 5 April 2022
	Tandala Investment Limited	-	J. Koskey (Alternate Director)
	K. Kangogo	-	Appointed on 11 March 2022
	G. Akinyi	-	Appointed on 6 April 2022
Board Audit, Risk & Compliance Committee	L. Kibet	-	Chairman
	A. Kurji		
	G. Akinyi		
	K. Kangogo		
Board Finance & Investments Committee	J. Koskey	-	Chairman
	S. Merali		
	G. Akinyi		
	N. Kamere		
	K. Kangogo		
Board Nomination & Compensation Committee	N. Kamere	-	Chairman
	J. Koskey		
	A. Kurji		
	S. Merali		
Management	R. Marisin	-	Acting Managing Director
	A. Kiragu	-	Head of Operations
	M. Njoroge	-	Manager - Human Resources
	D. Wainaina	-	Underwriting Manager
	S. Kamau	-	Claims Manager
	M. Chweya	-	Acting Manager - ICT
	A. Andayi	-	Branch Manager - North Rift
	D. Gitau	-	Branch Manager - CBD
	N. Shariff	-	Branch Manager - Coast
	T. Amina	-	Branch Manager - Nakuru
	S. Kiano	-	Branch Manager - Thika
	J. Munene	-	Chief Accountant
	S. Chirchir	-	Branch Manager - Kisumu

Corporate Information (contd)

Registered Office

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

Branches

Head Office Branch
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

Mombasa Branch
Mombasa Trade Centre, 8th floor, Nkrumah Road
P O Box 90103
Mombasa, Kenya

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

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

Nakuru Branch
WestSide Mall, 3rd Floor.
Kenyatta Lane
P O Box 18622-20100
Nakuru, Kenya

Thika Branch
Twin Oak Plaza, 4th Floor.
Kwame Nkrumah Street
P O Box 6283-01000
Thika, Kenya

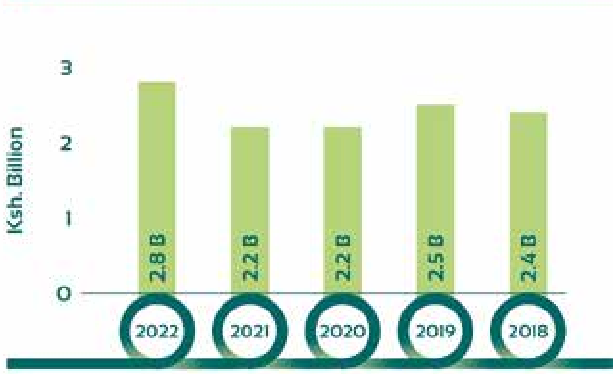
Corporate Information (contd)

Company Secretary	ESR Kenya LLP Certified Public Secretaries (Kenya) P O Box 47323-00100 Nairobi, Kenya
Independent Auditor	PricewaterhouseCoopers LLP P O Box 43963, 00100 PwC Tower, Waiyaki Way, Westlands Nairobi
Principal Advocate	Coulson Harney LLP 5th Floor, West Wing, ICEA Lion Centre Riverside Park, Chiromo Road P O Box 10643 – 00100 Nairobi, Kenya
Consulting Actuary	Kenbright Actuarial and Financial Services Ground Floor ACK Garden House Upper Hill, 1st Ngong Avenue P O Box 28281 – 00200 Nairobi, Kenya
Principal Banker	NCBA Bank Kenya PLC Mara and Ragati Road, Upper Hill P O Box 30437 – 00100 Nairobi, Kenya

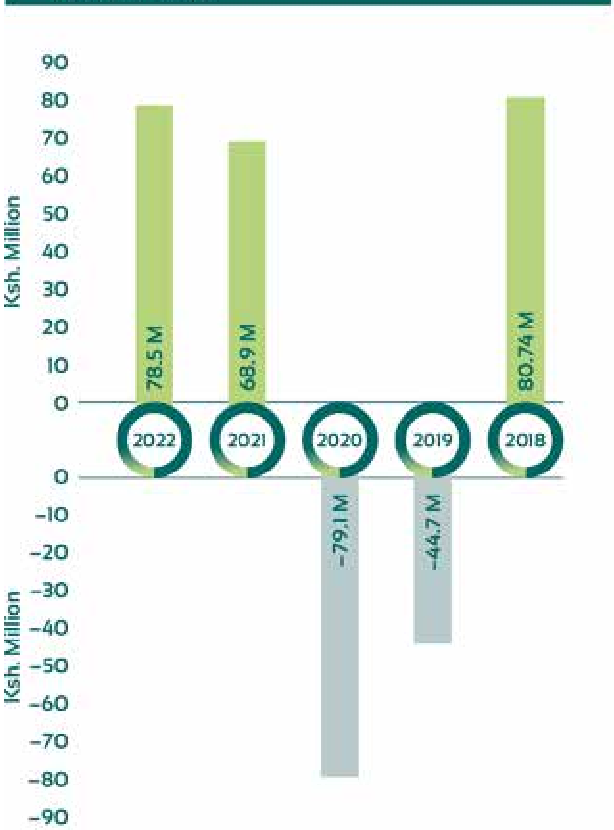
Five Year Financial Highlights

Gross Written Premium (Ksh. Billion)

Gross Earned Premium (Ksh. Billion)



Profit Before Tax (Ksh. Million)



Total Assets (Ksh. Billion)

Net Assets (Ksh. Billion)

Board of Directors

S. Shollei
Chairman
Non-Executive Director

A. Kurji
Non-Executive Director

L. Kibet
Independent &
Non-Executive Director

S. Merali
Non-Executive Director

J. Koskey
Non-Executive Director

K. Kangogo
Appointed on 11th March 2022
Non-Independent Non-Executive Director

G. Akinyi
Appointed on 6th April 2022
Independent & Non-Executive Director

N. Kamere
Appointed on 6th April 2022
Independent & Non-Executive Director

M. Koech
Retired on
30th June 2022

R. Likami
Retired on
30th June 2022

Fidelity @ A Glance

OUR VISION
Safeguarding livelihoods.

OUR MISSION
Sustainably providing financial security and growth to our stakeholders.

OUR TAGLINE
Insurance you can trust.

OUR PROMISE

- We shield you from uncertainty
- We remove complexity and jargon from insurance
- We give you freedom to grow

WE ARE VALUE STATEMENTS

E – Efficient

We deploy and use resources in the most optimal manner. We adopt efficient processes and train our people to consider efficiency in day-to-day transactions as well as in long term planning.

P – Professional

We foster a culture that upholds high standards of service, delivered with reliability, integrity, respect, and consistency. We also ensure that the structures and processes in place facilitate the practice of good governance, accountability, and transparency in all dealings with stakeholders. We comply with the laws and regulations of the country.

I – Innovative

We continually review and update our operating processes, products, and services to ensure they sustainably deliver quality that exceeds customer expectations. We align our processes, products, services, and relationships in respond to the needs of our clients.

C – Collaborative

We ensure a conducive working environment that will attract, motivate, and retain high calibre staff that commit to give customers a delightful experience. Teamwork within the company and with our external partners is not just important, it is vital to us.

PROFESSIONAL INDEMNITY

Consistency is our DNA

Insurance you can trust.

Fidelity INSURANCE

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

MOTOR INSURANCE • WIBA • INDUSTRIAL ALL RISKS • PERSONAL ACCIDENT • DOMESTIC PACKAGE

CHAIRMAN'S STATEMENT

Chairman's Statement

Introduction

I am delighted to present, on behalf of the Board of Directors the Company's Annual Report and Financial Statements for the year ended 31 December 2022.

Economic overview

Despite the rebound of Kenya's economy from the pandemic, the year 2022 proved to be a tough year due to the persistent supply chain disruptions which were worsened by the Russia-Ukraine conflict and uncertainty surrounding the general elections of 9 August 2022. Furthermore, the country also faced the worst drought in 40 years, depreciation of Kenya shilling and soaring of commodity prices like wheat, maize floor and fuel which prompted the Government to stabilize the prices through Government subsidies.

Taking into consideration the adverse impacts of macro-economic factors, drought conditions and other external pressures, the National Treasury projects the economy to grow at a slower rate of 5.5% in 2022 compared to the 7.5% growth recorded in 2021. Additionally, recent surveys by the Monetary Policy Committee and IMF Mission to Kenya revealed a general optimism on economic growth prospect consistent with the National Treasury projections mainly driven by accommodation and food service activities, wholesale and retail trade.

Operating environment

Data from KNBS indicates that the overall inflation for the year averaged at 7.6% up from 6.1% in 2021. The rise in inflation was largely due to increase in prices of commodities under food and transport indexes due to the high fuel, the erratic weather conditions, and increased costs of agricultural inputs which affected agricultural production. Monetary Policy Committee (MPC) adjusted the Central Bank Rate (CBR) during the year from 7.00% to 8.75% in a bid to anchor inflation with Government's target range of 2.5% - 7.5%.

The yields on the government securities registered an upward trajectory during the year, with the yields on the 364-day, 182-day and 91-day papers increasing to 9.9%, 9.4% and 8.6%, respectively. On the converse, the equities market was on a downward trajectory with NASI, and NSE 25 indices declining by 23.7%, and 16.6% respectively driven by losses recorded by large cap stocks such as Safaricom and some banking stocks.

The Kenyan shilling hit historic lows in 2022, hiking the cost of servicing foreign debt and inflating the cost of living making. By December 2022, the currency had depreciated by 8.9% against the dollar to exchange at Kes 123.26 from Kes 113.14 in January. The performance was worsened by the Russia and Ukraine conflict that triggered global oil inflationary pressures and demand for the dollar from importers and manufacturers.

The insurance industry

The General Insurance sector registered a growth of 11% by end of third quarter 2022 largely boosted by growth in Fire industrial, Engineering and Aviation classes of business. Motor insurance and medical insurance classes maintained a leading position with combined contribution of 62% of the gross premium income but on the flipside, the same classes accounted for 90% of total incurred claims by end of the quarter. The measures put in place by most of the market players to overcome the main challenges of fraud and price undercutting seems to be bearing fruits as depicted by the notable reduction in underwriting losses.

Performance highlights

Despite the tough economic pressure in 2022, we closed the year with an impressive 36% growth in gross written premium to Kes. 3,095 million from Kes. 2,281 million in 2021. This performance was achieved through a robust focus of enhancing our customer experience and development of long-term relationships with our intermediaries. Moving forward, we are determined to sustain this momentum with a view of increasing our market share to 2.5% within the next two years. Our total assets also increased by 15% driven by organic growth thus enabling the Company to close the year with capital adequacy ratio above minimum regulatory requirement.

Chairman's Statement (contd)

The gross claims incurred deteriorated by 27% due to increased business volumes and a general poor performance of motor commercial class of business following crystallization of most of the long-tailed claim liabilities. To enhance business sustainability, we have put in place strategies of enhancing business portfolio mix and with a view of de-risking motor business exposures. To this end, we have increased the rates for motor business in line with risk exposures and implemented strategies aimed at efficient claims management and curbing claims leakages. Overall management expenses increased marginally by 2% to Kes 420 million from Kes 412 million on back improved efficiency, deliberate move to cut down nonvalue adding expenditures and proactive management of credit risks which resulted in reduction on premium debtors' impairment costs.

Investment and other income increased by 29% to Kes 186 million largely driven by growth in interest income because of positive push to increase fixed income assets investments. Total fixed income assets grew by 37% to Kes 1.6 billion and on the other hand, the Company made a deliberate move to divest from equity investments due to its market price volatility nature. Notably, there was a reduction in property rental income due to the new norm of organizations adopting working from home agenda and desire for office space optimization.

The Profit before tax improved to Kes 79 million from Kes 69 million in 2021 due to our proactive approach of ensuring liquidity, conservation of capital and cost containment. Additionally, our focus on exceptional customer experience and acceleration of the digitization journey enabled us to achieve efficiency and improve business productivity.

Future outlook
Kenya's medium term growth prospects remain positive with GDP projected to grow by 5.2% on average in 2023–24 notwithstanding current global and domestic shocks. Against the backdrop of persisted drought and inflationary pressures, the year 2023 started positively with cautious optimism that the new Government regime will provide an enabling business operating environment. We aspire to maintain our growth trajectory with clear fucus of re-balancing our portfolio towards non-motor business and introduction of other profitable lines of business.

The new strategic plan in place gives an opportunity to strengthen our competitiveness while responding to the operating environment dynamics. Our big initiative is to differentiate ourselves in the market by providing flagship products with strong potential for growth and key focus on meeting the day to day evolving needs of the customers. In this front, we shall use technology as an important tool within our distribution framework and ensure that our products are available on digital platforms. In a snapshot, our winning formular will be centred around tailored SME solutions, fast and transparent service delivery, strong brand positioning buoyed by establishment of satellite outlets, a highly productive intermediary model and an ecosystem solution driven by strategic partnerships.

Tribute
I acknowledge and appreciate our customers for the continued unwavering business support and most of all for trusting their business with us. I would also like to thank all employees for their strong commitment and dedication to deliver good results in the face of a challenging environment. Equally, I applaud my fellow Board Members for supporting me and collectively guiding management in running the business agenda for the year and ensuring business sustainability and resilience. Finally, I would like to sincerely thank Mr. Mathew Koech and Miss Rebecca Likami who retired as directors for their positive and selfless contribution to the Company.

Sam Shollei
Chairman

16 March 2023

Corporate Governance Statement

Fidelity Shield Insurance Company Limited views the application of good Corporate Governance practices as fundamentally key to achieving a healthy and sustainable return on investment for its shareholders, while fulfilling its social mandate to improve the quality of life for all stakeholders. The Directors therefore remain committed to the best principles of good Corporate Governance in running the operations of the Company. The Company ensures the compliance of all the rules, regulations, and laws in the conduct of its business. The Company is administered in pursuit of earning credibility in the market and increasing value for the stakeholders. The decision making and powers are exercised with integrity, responsibility, accountability, and transparency.

BOARD OF DIRECTORS

Composition of the board

The Company is led by an effective Board that provides strategic direction, oversight over Management and ensures that Management is creating value for all stakeholders.

The Insurance Regulatory Authority (IRA) has in place Guidelines on Corporate Governance for Insurers. These Guidelines set out the minimum requirements for insurers operating in Kenya. The Key requirements for a Board of an insurance company is at least five (5) members, at least a third of the Board members including the Board Chairman are required to be independent professionals and Minimum Recommended Board Committees-Audit, Investment, Risk Management, Asset Liability Management, Policy-holder Protection, Ethics and Nomination and Remuneration. The Board currently comprises of eight (8) members.

Though the overall responsibility of monitoring and controlling the operational and financial performance of the Company vests with the Board of Directors, the day-to-day management of the Company has been delegated to the Managing Director.

Role of the board

The Board's primary responsibility is that of fostering the business of the Company consistent with its fiduciary responsibility to the shareholders.

The Board of Directors meets at least quarterly and is chaired by a non-executive independent director.

Board committees

To effectively carry out its governance responsibilities, the Board has established several standing committees as listed below and delegated specific mandates to them. These committees operate under clearly articulated terms of reference which clarify their responsibilities and scope of authority. The committees have unrestricted access to any information within the Company and have unfettered access to the Company Secretary and independent professionals to enable them effectively to discharge their functions. All committees report to the Board at each Board meeting highlighting matters discussed at their respective meetings and recommended actions for Board approval in appropriate cases.

Notwithstanding the delegated authority to these committees, the Board remains fully responsible for the areas overseen by the committees and activities of the committees.

During the year, the Board met five (5) times to monitor business performance against the business plan and budget. The record of attendance at the Board meetings is set out below:

Corporate Governance Statement (contd)

Director	17.03.2022	12.05.2022	24.06.2022	28.07.2022	03.11.2022
A. Kurji	√	√	√	√	√
S. Shollei	√	√	√	√	√
S. Merali	√	√	√	√	√
J. Koskey	√	√	√	√	√
L. Kibet	√	√	√	√	√
K. Kangogo	NA	NA	√	√	√
N. Kamere	NA	NA	√	√	√
G. Akinyi	NA	NA	√	√	√
M. Koech	√	√	√	R	R
R. Likami	√	√	√	R	R
KEY: √ – Present	**NA – Exiting / New Director**		**R – Retired**	**X – Absent with apology**	

The mandates of the committees and their membership are summarized as follows:

(a) Board audit, risk & compliance committee

The Board Audit, Risk & Compliance Committee comprises four members namely the Chairman who is a non-independent and non-executive director and three other directors. On the audit front, its key objective is to assist the Board in providing an independent review of the effectiveness of the financial reporting process and internal control system of the Company. On the risk front, its key objective is to ensure that the Company has in place all the key elements of a sound risk management system. The Committee is mandated to set out the nature, role, responsibility and authority of the insurer's risk management function and systems and outline the scope of risk management work. It reviews the performance and findings of the Internal Audit, Risk and Compliance function and recommend appropriate remedial action at least quarterly.

The record of attendance at the Board Audit, Risk & Compliance Committee meetings is set out below:

Director	10.03.2022	13.09.2022	18.10.2022
L. Kibet	√	√	√
A. Kurji	√	√	√
R. Likami	√	R	R
M. Koech	√	R	R
K. Kangogo	NA	√	X
G. Akinyi	NA	√	√
KEY: √ – Present	**NA – Exiting / New Director**	**R – Retired**	**X – Absent with apology**

(b) Board finance and investment committee

The Board Finance and Investment Committee comprises five members. Its key objective is to assist the Board in providing overall guidance to the various Management Committees so that the overall investment strategies and objectives are achieved. This Committee reviews and makes recommendations on the

Corporate Governance Statement (contd)

financial and investment business of the Company. The Committee also provides guidelines and limits for the investment of the Company's funds.

The record of attendance at the Board Finance and Investment Committee meetings is set out below:

Director	10.03.2022	05.05.2022	21.07.2022	26.07.2022	19.10.2022	02.11.2022
J. Koskey	√	√	√	√	√	√
S. Merali	√	√	√	√	√	X
R. Likami	√	√	R	R	R	R
M. Koech	√	√	R	R	R	R
N. Kamere	NA	NA	√	√	√	√
K. Kangogo	NA	NA	√	√	√	√
G. Akinyi	NA	NA	√	√	√	√
KEY:	**√ – Present**	**NA – Exiting / New Director**		**R – Retired**	**X – Absent with apology**	

(c) Board compensation and remuneration committee

The board Compensation and Remuneration Committee comprises four members. Its key objective is to assist the Board in providing overall guidance to the various Management Committees so that the overall Human resources matters, and objectives are achieved. This Committee reviews and makes recommendations on matters salary reviews, bonus payments, staff recruitments and resignation and any dispute arising from Company's workforce.

The record of attendance at the Board Compensation and Remuneration Committee meetings is set out below:

Director	10.03.2022	18.03.2022	19.07.2022	28.10.2022
S. Shollei	NA	√	√	NA
J. Koskey	√	√	√	√
S. Merali	√	X	√	√
A. Kurji	X	√	√	√
M. Koech	√	√	R	R
R. Likami	√	NA	R	R
N. Kamere	NA	NA	√	√
KEY: √ – Present	**NA – Exiting / New Director**		**R – Retired**	**X – Absent with apology**

(d) Management committee

The Management Committee meets each month and comprises of the executive and senior staff. Its key objective is to monitor the implementation of overall strategy of the Company. The Committee reviews the performance of all departments each month and particularly financial performance and status of strategy execution.

CSR Snapshots for 2022

Golf sponsorship for fund raising-Women for cancer (w4c)

AKI Tree Planting

International day of persons living with disability

Mater Heart Run

Management Team

R. Marisin
Ag. Managing Director

A. Kiragu
Head of Operations

M. Njoroge
Manager - Human Resources

D. Wainaina
Underwriting Manager

S. Kamau
Claims Manager

M. Chweya
Ag. Manager - ICT

A. Andayi
Branch Manager - North Rift

Management Team (contd)

D. Gitau
Branch Manager - CBD

N. Shariff
Branch Manager - Coast

T. Amina
Branch Manager - Nakuru

S. Kiano
Branch Manager - Thika

S. Chirchir
Branch Manager - Kisumu

J. Munene
Chief Accountant

Quality Management Systems (QMS)

ISO 9001:2015 certification

FSIC adopted the Quality Management System in 2015 with an aim of meeting international standards in our processes. Ensuring optimization of resources and innovation of the systems through methods that constantly provide quality service that guarantee customer satisfaction while the Company meets its objectives.

As a result, the Company received her first prestigious ISO 9001:2008 certification in September 2015. The certification was later upgraded to the current version ISO 9001:2015 in March 2018 and received subsequent recertification in April 2021.

Two internal audits were conducted in the past year followed by an External Surveillance Audit in January 2023 as per the requirements of the ISO certification guidelines. The Auditor's findings were that FSIC has adhered to the ISO 9001:2015 requirements and recommended that we retain certification, noting there were nil major nor minor non-conformities. The next recertification is due in February 2024 after completing the 3year cycle.

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 2022, 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
Some of the Company's key performance indicators are:

Performance indicator	2022	2021
Gross written premiums (Kes million)	3,095	2,281
Net insurance premium revenue (Kes million)	1,809	1,381
Net claims payable (Kes million)	1,285	901
Profit before income tax (Kes million)	79	69
Total assets (Kes million)	4,461	3,872
Total equity (Kes million)	1,155	1,150

Dividend
The directors recommend payment of dividend in respect of the year ended 31 December 2022 of Kes 50 million (2021: Kes 50 million).

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

Business review
Despite lingering macro-economic pressure in 2022, our business grew significantly with overall gross written premium growing by 36% from Kes 2,281 million in 2021 to Kes. 3,095 million in the year. Net claims payable increased by 43% from Kes 901 million in 2021 to Kes 1,285 million in the year due to increased claims in the motor class of insurance.

Operational risk
The Company runs a robust risk management system which ensures that all unfavourable risk exposures are mitigated as soon as they are identified. The risk management framework involves regular risks identification, quantification, effective monitoring, and management process. Key risks which are continuously monitored by the board include insurance risks, credit, financial and capital risks. High loss ratios for the motor class of insurance have continued to pose challenges which is gradually being addressed by repricing the risk and proactive risk and claims management. 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 it has provided an objective framework for offering training, promotions, and other rewards to all employees. Total number of staff at year end was 80 (31 December 2021: 70).

Report of the Directors (contd)

Environmental matters

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

Climate change

The Company has reviewed its exposure to climate-related and other emerging business risks but has not identified any risks that could impact the financial performance or position of the Company at 31 December 2022.

Outlook

With Kenya's medium term growth prospects remaining positive notwithstanding current global and domestic shocks, we are keen to implement our robust strategy to increase our market penetration and improve the bottom line. We are also optimistic that the renewed energy and strategic drive will keep the Company performance strong and sustained over the coming years.

Statement as to disclosure to the company's auditor

The directors confirm that with respect to each director at the time of approval of this report:

(a) There was, as far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and

(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Terms of appointment of auditor

PricewaterhouseCoopers LLP continues in office in accordance with the Company's Articles of Association and Section 719 of the Companies Act, 2015.

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 auditor's appointment and the related fees.

By order of the Board

ESR KENYA LLP
SECRETARIES

ESR Kenya LLP
Nairobi, Kenya

16 March 2023

Statement of Directors' Responsibilities

The 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 the Company keep proper accounting records that: a) show and explain the transactions of the Company; (b) disclose, with reasonable accuracy, the financial position of the Company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

(i) Designing, implementing, and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
(ii) Selecting suitable accounting policies and then apply them consistently; and
(iii) Making judgements and accounting estimates that are reasonable in the circumstances.

Having assessed 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 responsibility.

Approved by the Board of Directors on 16 March 2023 and signed on its behalf by:

Sam Shollei
Chairman

Lawrence Kibet
Director

Statement of the Consulting Actuary

I have conducted an actuarial valuation of the insurance liabilities of Fidelity Shield Insurance Company Limited as at 31 December 2022.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act. 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 Fidelity Shield Insurance Company Limited's insurance liabilities were adequate as at 31 December 2022.

Ezekiel Macharia Mburu
Fellow of the Institute of Actuaries

16 March 2023
Nairobi

Independent Auditors' Report to Shareholders of Fidelity Shield Insurance Company Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Fidelity Shield Insurance Company Limited (the "Company") set out on pages 34 to 95 which comprise the statement of financial position at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year then ended and the notes to the financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of Fidelity Shield Insurance Company Limited as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key audit matters (contd)

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THIS KEY AUDIT MATTER
Determination of outstanding claims provisions *As disclosed in Note 28 of the financial statements, insurance contract liabilities comprise claims reported and claims handling expenses and claims incurred but not reported ("IBNR").* *The valuation of insurance contract liabilities involves significant judgements in estimating the expected future outflows in relation to the claims incurred but not reported. Specifically, the actuarial assumptions and methodologies involve judgement about future events. The valuation results are also dependent on the quality, integrity and accuracy of the data used.* *Claims incurred but not reported (IBNR) are determined by projecting ultimate claims losses based on current loss rates or claims experience. Changes in the assumptions and methodology can result in material impacts to the valuation of the IBNR reserve.*	• *Evaluated and tested controls around claims handling, settling, and reserving.* • *Tested a sample of claim payments and reserves to confirm the amounts recorded in the claims systems agree to the source data.* • *Checked the consistency of reserving methods year on year.* • *Tested the appropriateness of the methodology and assumptions used by the external actuary and management in estimation of reserves as at 31 December 2022 and performed reprojections for a sample of reserves to validate estimates.* • *Reconciled the claims data used by the appointed actuary to calculate reserves to the audited claims data.* • *Assessed the adequacy of disclosures in the financial statements.*

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, 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.

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

We communicate with the directors 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.

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other matters prescribed by the Companies Act, 2015

In our opinion the information given in the report of the directors on pages 26 and 27 is consistent with the financial statements.

CPA Kang'e Saiti, Practicing certificate Number 1652
Engagement partner responsible for the audit

For and on behalf of PricewaterhouseCoopers LLP
Certified Public Accountants
Nairobi

29 March 2023
Nairobi

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2022 Kes '000	2021 Kes '000
Gross earned premium	5	2,752,718	2,156,131
Insurance revenue ceded to reinsurers	5	(943,496)	(775,292)
Net insurance premium revenue		**1,809,222**	**1,380,839**
Interest income	6(a)	150,349	140,360
Other investment income	6(b)	33,738	(3,665)
Commission earned		122,905	116,578
Other income	7	2,573	7,877
Total interest, investment income and other income		**309,565**	**261,150**
Gross claims incurred	8	(1,460,680)	(1,146,013)
Claims recovered from reinsurers	8	175,425	244,669
Net claims payable	8	**(1,285,255)**	**(901,344)**
Operating and other expenses	9	(416,875)	(407,679)
Interest on lease liabilities		(3,096)	(3,937)
Commission expense		(335,012)	(260,106)
Total claims and other expenses		**(2,040,238)**	**(1,573,066)**
Profit before income tax		**78,549**	**68,923**
Income tax expense	11	(26,247)	(42,900)
Profit for the year		**52,302**	**26,023**
Other comprehensive income, net of tax			
Gain on revaluation of land and building, net of tax		2,353	6,793
Total comprehensive income		**54,655**	**32,816**

Statement of Financial Position

	Notes	At 31 Dec 2022 Kes '000	At 31 Dec 2021 Kes '000
ASSETS			
Property and equipment	16	221,117	220,137
Right-of-use assets	17(a)	25,099	27,123
Intangible assets	18	11,432	12,663
Deferred taxation	31	39,335	58,337
Investment properties	19	955,616	964,030
Due from the Kenya motor insurance pool		12,490	12,767
Equity investments at fair value through profit or loss	20	2,781	47,340
Mortgage loans	21	5,760	7,585
Receivables arising out of reinsurance arrangements		42,079	44,284
Receivables arising out of direct insurance arrangements	22	275,516	107,982
Reinsurers' share of insurance contract liabilities	23	634,958	579,143
Current income tax	11(iii)	36,026	27,487
Other receivables	24	44,512	43,243
Deferred acquisition costs	25(i)	125,152	91,986
Government securities at amortised cost	26(i)	936,575	574,382
Government securities at fair value through profit and loss	26(ii)	666,150	597,065
Deposits with financial institutions	35	253,265	211,695
Cash and bank balances	35	173,053	244,426
Total assets		**4,460,916**	**3,871,675**
LIABILITIES			
Insurance contract liabilities	28	2,062,695	1,772,973
Unearned premiums	30	1,096,921	754,819
Payables arising from reinsurance arrangements		12,477	21,890
Deferred reinsurance commission	25(ii)	33,365	36,642
Lease liability	17(b)	28,233	31,233
Other payables	32	72,667	104,215
Total liabilities		**3,306,358**	**2,721,772**
EQUITY			
Share capital	13	600,000	600,000
Reserves	14	106,516	104,163
Retained earnings	15	398,042	395,740
Proposed dividend	37	50,000	50,000
Total equity		**1,154,558**	**1,149,903**
Total liabilities and equity		**4,460,916**	**3,871,675**

The financial statements were approved by the board of directors on 16 March 2023 and were signed on its behalf by:

S. Shollei
Chairman

L. Kibet
Director

R. Marisin
Principal Officer

Statement of Changes in Equity

	Share Capital Kes '000 (Note 26)	Revaluation reserves Kes'000 (Note 27)	Retained earnings Kes'000 (Note 28)	Proposed Dividend Kes'000 (Note 37)	Total Kes'000
2021					
At start of year	600,000	97,370	419,717	-	1,117,087
Profit for the year	-	-	26,023	-	26,023
Other comprehensive income	-	6,793	-	-	6,793
Proposed dividend	-	-	(50,000)	50,000	-
At end of year	**600,000**	**104,163**	**395,740**	**50,000**	**1,149,903**
2022					
At start of year	600,000	104,163	395,740	50,000	1,149,903
Profit for the year	-	-	52,302	-	52,302
Other comprehensive income	-	2,353	-	-	2,353
Dividend paid	-	-	-	(50,000)	(50,000)
Proposed dividend	-		(50,000)	50,000	-
At end of year	**600,000**	**106,516**	**398,042**	**50,000**	**1,154,558**

Statement of Cash Flows

	Notes	2022 Kes '000	2021 Kes '000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	36	274,768	337,306
Interest received	6(a)	150,349	140,360
Purchase of quoted equities	20	(102,991)	(130,732)
Repayment of mortgage loans	21	1,825	649
Purchase of Government bonds at amortised cost	26	(384,000)	(186,200)
Purchase of Government bonds at fair value through profit or loss	26(ii)	(123,000)	(420,126)
Proceeds from disposal of quoted equities	20	129,912	115,155
Maturity of treasury bonds at amortised cost	26	35,000	20,350
Disposal of treasury bonds at fair value through profit or loss	26	71,000	280,653
Issue of mortgage loans		-	2,580
Repayment of interest portion of lease liabilities	17(b)	(3,096)	(3,937)
Income tax paid	11(iii)	(16,190)	(740)
Net cash from operating activities		**33,577**	**155,318**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment	16	(5,871)	(4,026)
Purchase of intangible assets	18	(2,710)	(11,985)
Proceeds of disposal of property and equipment		1,783	(79)
Net cash from investing activities		**(6,798)**	**(16,090)**
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of principal portion of lease liabilities	17(b)	(6,582)	(5,077)
Dividends paid		(50,000)	-
Net cash from financing activities		**(56,582)**	**(5,077)**
Cash and cash equivalents at start of year		456,121	321,970
(Decrease)/increase in cash and cash equivalents		(29,803)	134,151
Cash and cash equivalents at end of year	35	**426,318**	**456,121**

Notes to the Financial Statements

1. GENERAL INFORMATION

Fidelity Shield Insurance Company Limited, hereby referred to as the 'Company' is a limited liability company incorporated and domiciled in Kenya. The address of the registered office is Fidelity Insurance Centre, Waridi Lane off Waiyaki Way, Westlands, P O Box 47435 - 00100, Nairobi, Kenya.

The Company underwrites all general insurance business except the medical class.

For purposes of the Companies Act, 2015 reporting purposes, the balance sheet is represented by statement of financial position while the profit and loss account is represented by the statements of profit or loss and other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost basis unless otherwise stated.

The financial statements are presented in Kenya Shillings (Kes) rounded off to the nearest thousand (Kes '000), unless otherwise indicated.

Statement of compliance

The financial statements of Fidelity Shield Insurance Company Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and with the Companies Act, 2015.

The principal accounting policies applied in the preparation of these financial statements are set out below.

IFRSs and amendments effective for the first time for December 2022 year ends

Title	Key requirements	Effective date
IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.	1 April 2021
Amendments to IAS 37 Onerous Contracts—Cost of Fulfilling a Contract	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.	1 January 2022

Notes to the Financial Statements (contd)

Title	Key requirements	Effective date
Annual improvements cycle 2018 -2020	These amendments include minor changes to: • IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS. • IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. • IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives. IAS 41, 'Agriculture' has been amended to align the requirements for measuring fair value with those of IFRS 13. The amendment removes the requirement for entities to exclude cash flows for taxation when measuring fair value.	1 January 2022
Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.	1 January 2022
Amendment to IFRS 3, 'Business combinations' Asset or liability in a business combination clarity	The Board has updated IFRS 3, 'Business combinations', to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework. The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.	1 January 2022

Notes to the Financial Statements (contd)

IFRSs, interpretations and amendments issued but not effective
As at 31 December 2022, the following standards and interpretations had been issued but were not mandatory for annual reporting periods ending on 31 December 2022

IFRS 17 PRE-TRANSITION DISCLOSURES

IFRS 17, 'Insurance Contracts'
IFRS 17, 'Insurance contracts' is applicable for annual reporting periods commencing on 1 January 2023. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with direct participation features ("DPF"). The key objectives of IFRS 17 are comparable recognition and measurement of contracts in the scope of the standard, the recognition of insurance service results based on the services provided to the policyholder and provision of disclosures that will enable the users of the financial statements to assess the impact of these contracts on the financial position, financial results, and cash flows of the entity. The standard distinguishes between the sources of profit and quality of earnings between insurance service results and insurance finance income and expense (reflecting the time value of money and financial risk).

Structure and status of the Company implementation project
Both the Company's audit committee and the management provide oversight and governance over the implementation of the IFRS 17 project. The management includes senior management from various functions including finance, risk, information technology, operations, claims, and underwriting. Accounting policy papers, actuarial methodologies and disclosure requirements have been defined and are being implemented internally. The IFRS 17 implementation team remains up to date, and closely monitors, all technical developments from the IASB and industry to evaluate the effects of such developments. Where applicable, the policy and methodology papers are updated to reflect any changes in requirements.

The Company has made significant progress in the implementation of IFRS 17. However, the following still need to be finalized to complete the transition to IFRS 17. As such the impact on adoption of IFRS 17 reported in these financial statements may change once the implementation is completed.

- Completing any remaining system development and key controls required to implement IFRS 17.
- Produce and request business sign-off, as well as external audit sign-off of transition balances.
- Finalize the layout and disclosure of the IFRS 17 compliant annual financial statements.
- Finalize the management reporting and key performance measures.
- Continue engaging with the stakeholders through various training initiatives.
- Finalize and implement future financial and data governance processes and accountabilities.

Measurement model
Measurement is not carried out at the level of individual contracts, but on the basis of groups of contracts. To allocate individual insurance contracts to groups of contracts, an entity first needs to define portfolios which include contracts with similar risks that are managed together. These portfolios are to be subdivided into groups of contracts on the basis of profitability and annual cohorts. IFRS 17 consists of 3 measurement models:

- The general measurement model, also known as the building block approach, consists of the fulfilment cash flows and the contractual service margin.
- The variable fee approach is a mandatory modification of the general measurement model regarding the treatment of the contractual service margin in order to accommodate direct participating contracts.
- The premium allocation approach is a simplified approach for the measurement of the liability for remaining coverage an entity may choose to use when the premium allocation approach provides a

Notes to the Financial Statements (contd)

measurement which is not materially different from that under the general measurement model or if the coverage period of each contract in the group of insurance contracts is one year or less. Under the premium allocation approach, the liability for remaining coverage is measured as the amount of premiums received net of acquisition cash flows paid, less the net amount of premiums and acquisition cash flows that have been recognized in profit or loss over the expired portion of the coverage period based on the passage of time.

The measurement of the liability for incurred claims is identical under all three measurement models, apart from the determination of locked-in interest rates used for discounting. An explicit risk adjustment for non-financial risk is estimated separately from the other estimates for the liability for incurred claims. This risk adjustment represents compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk. The risk adjustment forms part of the fulfilment cash flows for a group of insurance contracts.

The Company applies the premium allocation approach (PAA) to all the insurance contracts that it issues and reinsurance contracts that it holds as the coverage period for motor, fire, marine, theft, personal accident, workmen's compensation and aviation is one year or less and so they automatically qualify for PAA. Engineering and miscellaneous classes include insurance contracts with coverage period greater than one year. However, there is no material difference in the measurement of the liability for remaining coverage between PAA and the general model, therefore, these qualify for PAA. Reinsurance contracts that operate on clean-cut or loss occurring basis have coverage period of one year or less and automatically qualifies for PAA. Currently the Company has six such contracts. Those operating on risk attaching basis have coverage period over one year but there is no material difference in the measurement of the asset for remaining coverage between PAA and general model, and therefore qualify for PAA.

Insurance revenue and insurance service expenses are recognized in the statement of comprehensive income based on the concept of services provided during the period. The standard requires losses to be recognized immediately on contracts that are expected to be onerous. For insurance contracts measured under the PAA, it is assumed that contracts are not onerous at initial recognition, unless facts and circumstances indicate otherwise. The Company's focus is to grow a profitable and sustainable business. However, motor private and motor commercial portfolios were assessed as being onerous on transition from both company and industry experience. The management has since set up measures such as pricing changes and expenses management to improve on this.

Accounting policy choices
The following table sets out the accounting policy choices adopted by the Company:

	IFRS 17 options	Adopted approach
Insurance acquisition cash flows	Provided that the coverage period of each contract in the group at initial recognition is no more than one year, IFRS 17 allows an accounting policy choice of either expensing the insurance acquisition cash flows when incurred or amortizing them over the contract's coverage period.	The Company capitalizes insurance acquisition cash flows from commissions for all its product lines and expenses all other expenses immediately when they are incurred.

Notes to the Financial Statements (contd)

	IFRS 17 options	Adopted approach
Liability for Remaining Coverage ("LRC") adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LRC, or where the time between providing each part of the services and the related premium due date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LRC.	The Company does not adjust the LRC for insurance contracts issued and the remaining coverage for reinsurance contracts held for the effect of the time value of money, because insurance premiums are due within the coverage period of contracts, which is one year or less and there is no significant financing component.
Liability for Incurred Claims ("LIC") adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is not required to adjust these amounts for the time value of money.	For some claims within the aviation and miscellaneous product lines, the incurred claims are expected to be paid out in less than one year. Hence, no adjustment is made for the time value of money. For all other lines of business, the LIC is adjusted for the time value of money since these typically have a settlement period of over one year.
Insurance finance income and expenses	IFRS 17 provides an accounting policy choice to recognize the impact of changes in discount rates and other financial variables in profit or loss or in OCI. The accounting policy choice (the PL or OCI option) is applied on a portfolio basis.	The Company will include all insurance finance income or expenses for the period in profit or loss.
Disaggregation of risk adjustment	An insurer is not required to include the entire change in the risk adjustment for non-financial risk in the insurance service result. Instead, it can choose to split the amount between the insurance service result and insurance finance income or expenses.	The Company will not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

Notes to the Financial Statements (contd)

Key judgements and estimates

Discount rates

The bottom-up approach was used to derive the discount rate. Under this approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium'). The risk-free rate was derived using Kenyan Government bonds yield available in the market denominated in the same currency as the products being measured. Management uses judgement to assess liquidity characteristics of the liability cash flows.

Risk adjustment

The cost of capital method will be used to derive the overall risk adjustment for non-financial risk. In the cost of capital method, the risk adjustment is determined by applying a cost rate to the present value of projected capital relating to non-financial risk. The cost rate is expected to be set at 5% per annum, representing the return required to compensate for the exposure to non-financial risk. The capital is determined at a 75% confidence level, and it is projected in line with the run-off of the business. The diversification benefit is included to reflect the diversification in contracts sold across geographies, because this reflects the compensation that the entity requires. The corresponding confidence level will be determined along with other remaining project items.

Transition

On the date of initial application, 1 January 2023, IFRS 17 should be applied retrospectively. Where the full retrospective approach is impracticable, IFRS 17 allows for alternative transition methods.

The Company has determined that reasonable and supportable information is available for all contracts in force at the transition date. In addition, as the contracts are eligible for the PAA, the Company has concluded that only current and prospective information was required to reflect circumstances at the transition date, which made the full retrospective application practicable and, hence, the only available option for insurance contracts issued by the Company.

Accordingly, the Company will:

- Identify, recognize and measure each group of insurance contracts and any assets for insurance acquisition cash flows as if IFRS 17 had always applied;
- Derecognize any existing balances that would not exist if IFRS 17 had always applied; and
- Recognize any resulting net difference in equity.

Impact on transition to IFRS 17

The Company has assessed the estimated impact that the initial application of IFRS 17 will have on its financial statements.

Impact on equity

Based on our assessments , adoption of IFRS 17 will result to a reduction of the company's total equity by Kes 52 million at 1 January 2023 and reduction of Kes 59 million at 1 January 2022. The Company computed tax based on IFRS 4 results awaiting guidance from the tax authority and the Insurance Regulatory Authority.

Notes to the Financial Statements (contd)

Change from IFRS 4	Impact on equity on transition to IFRS 17	
	01 January 2023	01 January 2022
Transition impact brought forward	Decrease by Kes 59 million	-
Impact of discounting of future cash flows when measuring liabilities for incurred claims.	Increase by Kes 8 million	Increase by Kes 25 million
Impact of including a risk adjustment for non-financial risk. This is not explicitly allowed for currently.	Decrease by Kes 12 million	Decrease by Kes 69 million
Recognition of onerous contracts at inception.	Decrease by Kes 4 million	Decrease by Kes 15 million
Reversal of losses on onerous contracts for expired risk.	Increase by Kes 15 million	-
Net impact	Decrease by Kes 52 million	Decrease by Kes 59 million

Impact on insurance contracts liabilities and insurance contract assets
The impact on insurance contract liabilities and insurance contract assets are expected to be as follows:

	01 January 2023	01 January 2022
Insurance contract liabilities		
Impact of discounting of future cash flows when measuring liabilities for incurred claims.	Decrease by Kes 10 million	Decrease by Kes 31 million
Impact of including a risk adjustment for non-financial risk. This is not explicitly allowed for currently.	Increase by Kes 14 million	Increase by Kes 87 million
Recognition of onerous contracts at inception given that level of aggregation under IFRS 17 is more granular	Increase by Kes 4 million	Increase by Kes 15 million
Reversal of losses	Decrease by Kes 15 million	-
Total impact	Decrease by Kes 7 million	Increase by Kes 71 million

Notes to the Financial Statements (contd)

Impact on reinsurance contract assets and reinsurance contract liabilities
Reinsurance contract assets and reinsurance contract liabilities are expected to change as follows:

	01 January 2023	01 January 2022
Reinsurance contract assets		
Impact of discounting of future cash flows when measuring asset for incurred claims.	Decrease by Kes 2 million	Decrease by Kes 6 million
Impact of including a risk adjustment for non-financial risk. This is not explicitly allowed for currently.	Increase by Kes 2 million	Increase by Kes 18 million
Total impact	Nil	Increase by Kes 12 million

Impact on the statement of comprehensive income
The company estimates profit after tax for 2022 to increase by Kes 7.7 million as follows:

	31 December 2022
Profit after tax under IFRS 4	**52,302**
Impact of discounting of future cash flows when measuring liabilities for incurred claims.	8,867
Impact of including a risk adjustment for non- financial risk. This is not explicitly allowed for currently.	(12,158)
Recognition of onerous contracts and reversal of losses	10,942
Profit after tax under IFRS 17	**59,953**

Impact on presentation and disclosures on transition to IFRS 17
In the statement of financial position, deferred acquisition costs and insurance related receivables will no longer be presented separately but as part of the insurance liabilities. This change in presentation will lead to a reduction in total assets, offset by a reduction in total liabilities.

The amounts presented in the statement of financial performance (statement of profit or loss and other comprehensive income) need to be disaggregated into an insurance service result, consisting of the insurance revenue and the insurance service expenses, and insurance finance income and expenses. Income or expenses from reinsurance contracts held need to be presented separately from the expenses or income from insurance contracts issued.

Notes to the Financial Statements (contd)

The presentation of the income statement will change as follows:

	Year 200X
Insurance service revenue	X
Insurance service expenses	X
Net gain/expense from reinsurance contracts held	X
Insurance service result	XX
Interest income	X
Net investment income	XX
Finance expenses from insurance contracts issued	X
Finance income from reinsurance contracts issued	X
Net insurance finance expenses	XX
Net insurance and investment result	XX
Other investment income	X
Other operating expenses	X
Profit/(loss) for the year before tax	XX

IFRS 17 has introduced additional disclosures which would need to be provided. The Company will be required to provide disaggregated qualitative and quantitative information about:

- Amounts recognized in its financial statements from insurance contracts issued and reinsurance contracts held within the scope of IFRS 17;
- Significant judgements, and changes in those judgements, when applying the standard; and
- The nature and extent of the risks from contracts within the scope of the standard.

Title	Key requirements	Effective date
Amendment to IAS 1, 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. A number of requirements are required to be met in conjunction with this amendment.	1 January 2023
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	The amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	1 January 2023
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.	1 January 2023

Except IFRS 17 whose impacts have been disclosed, the rest of the expected standards and interpretations are not expected to have a significant impact on the entity.

Notes to the Financial Statements (contd)

(a) Foreign currency translation

Transactions and balances

Transactions in foreign currencies during the year are translated into Kenya Shillings at rates ruling at the transaction dates. Monetary assets and liabilities which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at the end of the reporting period. The resulting differences from conversion and translation are dealt with in the profit or loss for the year in which they arise.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

(b) Insurance contracts

Short-term insurance contracts

The Company issues contracts which transfer insurance risk. Insurance contracts are those contracts which transfer significant insurance risk at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expired. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

The Company issues only short-term insurance contracts.

Short-term insurance contracts are mainly in respect of motor business, but the Company also sells fire and allied perils, marine, engineering, and other miscellaneous insurance contracts. These contracts protect the Company's customers from damage suffered to property or goods, value of property and equipment lost, losses and expenses incurred during sickness and loss of earnings resulting from the occurrence of the insured events. The main classes of business that the Company underwrites are:

- Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third-party risks but exclusive of transit risks.
- Personal Accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class or becoming incapacitated in consequence of disease or of disease of a specified class.
- Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm, and other occurrences customarily included among the risks insured against in the fire insurance business.
- Marine insurance business means the business of affecting and carrying out contracts of insurance against loss of consignment of goods during transit.
- Burglary insurance business relates to contracts of insurance against loss due to theft involving actual break in or break out.
- Medical insurance means the business of affecting and carrying out contracts of insurance against costs of otherwise non-recoverable medical and surgical expenses necessarily and reasonably incurred by a member as a direct result of sustaining accidental bodily injury and/or illness and/or disease within the period of insurance subject to the policy provisions/ terms, exclusions, and conditions.

Notes to the Financial Statements (contd)

Reinsurance contracts
Contracts entered by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued, that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Insurance contracts entered by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts, provided there is significant transfer of insurance risk.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time.

The recoverability of reinsurance recoverable is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred in profit or loss reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized in profit or loss when due.

Receivables and payables related to insurance contracts
Receivables and payables are recognized when due. These include amounts due to and from agents, brokers and insurance contract holders

Impairment of insurance and reinsurance receivables
The Company has determined the insurance receivables to be under the scope of IFRS 9 and has applied the provisions of IFRS 9 for their accounting.

Premium revenue recognition
For short-term insurance business, Premium income is recognized on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium.

Unearned premiums represent the proportion of the premiums written in periods up to the accounting date that relates to the unexpired terms of policies in force at the reporting date. The Company uses 1/365th method for the determination of unearned premium reserve. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims expenses and outstanding claims provisions
Outstanding claims provisions are based on the ultimate costs of all claims incurred but not settled at the end of financial reporting period, whether reported or incurred but not reported (IBNR). Notified claims are only recognized when the Company considers that it has a contractual liability to settle the claims. IBNR has been provided for on an actuarial method which consists of the projection of incurred but not reported claims based on the claims reporting delay pattern for the Company for less than 10 years. Claims expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties.

There are often delays between the occurrence of the insured event and the time it is actually reported to the Company, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the end of the financial reporting period. Following the identification and notification of the insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of

Notes to the Financial Statements (contd)

the claim. Outstanding claims provisions are not discounted and exclude any allowances for expected future recoveries. Recoveries represent claims recoverable from third party insurers. Recoveries are accounted for as and when the right to be received is established. However, non-insurance assets that have been acquired by exercising rights to sell, salvage or subrogate under the terms of the insurance contracts are included when providing for outstanding claims. The liability is not discounted due to the fact that the exact timing and actual amount to be paid cannot be determined.

Incurred but not reported claims (IBNR)
The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variation between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience as provided by the Insurance Regulatory Authorities in their respective jurisdictions, which assumes that the development pattern of the current claims will be consistent with past experience.

Provision is calculated gross of any reinsurance recoveries.

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

Commissions payable and deferred acquisition costs
The liability for commissions' payable is recognized at the inception date of the insurance contract/ endorsement. Commissions payable relating to unearned premium is recognized and released to profit or loss as and when the premiums are earned.

(c) Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments.

Financial instruments are initially recognised on the trade date measured at their fair value.

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

Measurement categories
The Company classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms. The categories include the following:

Notes to the Financial Statements (contd)

- Amortised cost
- Fair value through profit and loss (FVPL)

Debt instruments measured at amortised cost

Debt instruments are held at amortised cost if both of the following conditions are met:

- The instruments are held within a business model with the objective of holding the instrument to collect the contractual cash flows
- The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise. The Company considers the timing, amount and volatility of cash flow requirements to support insurance liability portfolios in determining the business model for the assets as well as the potential to maximise return for shareholders and future business development. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios that is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of asset sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Solely Payments of Principal and Interest (SPPI) test

As a second step of its classification process the Company assesses the contractual terms to identify whether they meet the SPPI test.

Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a debt arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Notes to the Financial Statements (contd)

Subsequent measurement

Debt instruments at amortised cost
After initial measurement, debt instruments are measured at amortised cost, using the effective interest rate (EIR) method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. ECLs are recognised in profit or loss as per ECL model/approach.

Reclassification of financial assets and liabilities
The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes off, or terminates a business line.

Derecognition

Derecognition other than for substantial modification
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; Or
- The Company has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either: (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

The Company considers control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Company has neither transferred nor retained substantially all of the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

Derecognition due to substantial modification of terms and conditions
The Company derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new instrument, with the difference recognised as derecognition gain or loss. In the case of debt instruments at amortised cost, the newly recognised loans are classified as Stage 1 for ECL measurement purposes.

When assessing whether or not to derecognise an instrument, amongst others, the Company considers the following factors:

- Change in currency of the debt instrument
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

Notes to the Financial Statements (contd)

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss.

Financial liabilities

Initial recognition and measurement

The Company's holding in financial liabilities represents mainly lease liability, amounts due to related parties and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss such as derivatives, financial liabilities held for trading (e.g., short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair values of the financial liability that is attributable to changes in the credit risk of that liability) and partially profit or loss (the remaining amount of change in the fair value of the liability).
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Company recognises any expense incurred on the financial liability.

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

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the appropriate effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company considers a financial asset to be in default (credit impaired) when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts. This information might be winding up of a company, company experiencing financial difficulties like under receivership etc. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Notes to the Financial Statements (contd)

The calculation of ECLs

The Company calculates ECLs based on scenarios to measure the expected cash shortfalls, discounted at an appropriate EIR. A cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. It is estimated with consideration of economic scenarios and forward-looking information.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and accrued interest from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive. It is usually expressed as a percentage of the EAD.

The Company allocates its assets subject to ECL calculations to one of these categories, determined as follows:

- 12m ECL (stage 1) - The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an appropriate EIR. This calculation is made for each of the four scenarios, as explained above.
- LTECL (stage 2)- This is recorded when an instrument has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected losses are discounted by an appropriate EIR. The Company identifies a significant increase in credit risk where exposures have a regulatory risk rating of 'watch', or an exposure is greater than 30 days past due – this is in line with the IFRS 9 "30 Days past Due (DPD) rebuttable presumption.
- Impairment (stage 3)- For debt instruments considered credit-impaired, the Company recognises the lifetime expected credit losses for these instruments. The method is similar to that for LTECL assets, with the PD set at 100%.

Forward looking information

In its ECL models, the Company relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Central Bank base rates

Write-offs

Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

Notes to the Financial Statements (contd)

Any subsequent recoveries are credited to credit loss expense. There were no write-offs over the periods reported in these financial statements.

Recognition of interest income

The effective interest rate method

Under IFRS 9, interest income is recorded using the effective interest rate (EIR) method for all financial assets measured at amortised cost. Similarly, interest income on interest bearing financial assets measured at FVPL under IFRS 9 is also recorded using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on acquisition of the financial asset as well as fees and costs that are an integral part of the EIR. The Company recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the debt instrument.

If expectations of fixed rate financial asset's cash flows are revised for reasons other than credit risk, and the changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference to the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset in the balance sheet with a corresponding increase or decrease in interest income.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

Interest and similar income

Interest income comprises amounts calculated using both the effective interest method and other methods. These are disclosed separately on the face of the statement of profit or loss and other comprehensive income.

In its Interest income calculated using the effective interest method the Company only includes interest on financial instruments at amortised cost or FVPL.

The Company calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expenses will not be offset in the profit or loss unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

(d) Ordinary Share Capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Notes to the Financial Statements (contd)

(e) Investment in the Kenya Motor Insurance Pool

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

(f) Dividends

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting date are dealt with as a non-adjusting event after the reporting date.

(g) 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.

Notes to the Financial Statements (contd)

(h) Investment properties

Properties held to earn rentals or capital appreciation or both and not occupied by the Company are classified as investment properties. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. After initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise. Valuation is done after every two to three years given that there are no conditions or circumstances that indicate the value of the building does not reflect the fair value. Fair values are determined based on the evaluation performed by an accredited external, independent valuer.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers made to or from investment properties are only made when there is a change in use evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use. When the Company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in profit or loss.

(i) Intangible assets

Intangible assets represent computer software costs, which is stated at cost less accumulated amortization and any impairment losses whenever there is an indication that the intangible asset may be impaired. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. If the expected useful life of the asset is different from previous estimates, the amortisation period is changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method is changed to reflect the changed pattern. Such changes are accounted for as changes in accounting estimates in the estimated useful life of the intangible assets is four years. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized. Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. The carrying amounts of the intangible assets are disclosed in note 18.

Notes to the Financial Statements (contd)

(j) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the reduction is recognised as an impairment loss in the profit or loss. The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased.

(k) Impairment of non-financial assets

If any such indication exists, the Company estimates the recoverable amount of that asset. The Company reverses an impairment loss recognised in prior periods for an asset other than goodwill if only there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. That increase is a reversal of an impairment loss. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognized as income immediately.

(l) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of twelve months or less. For the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits.

(m) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Notes to the Financial Statements (contd)

(n) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax

Deferred income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the 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 income 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 are utilised, such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill. 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. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred income tax for the year

Current and deferred income tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income.

(o) Revenue recognition

Premiums

This has been disclosed under section 2(b).

Other revenues

Other revenues are recognized on the following bases:

- Fees and commission income – on the accrual basis in accordance with the substance of the relevant agreements.
- Interest income – it is recognized using the effective interest method as it accrues.
- Dividend income – when the shareholder's right to receive payment is established.
- Rental income – it is recognized as income on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in

Notes to the Financial Statements (contd)

negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(p) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, an estimate of costs to be incurred to restore the underlying asset back to its original state; and lease payments made at or before the commencement date less any lease incentives received. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification that is not accounted for as a separate lease.

The lease payments are remeasured when there is a change in the lease term, future lease payments resulting from a change in an index or rate used to determine such lease payments, the amounts expected to be payable under the residual value guarantees or a change in the assessment of an option to purchase the underlying asset.

Notes to the Financial Statements (contd)

Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor
Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in investment and other income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(q) Retirement benefit obligations
The Company operates a defined contribution pension scheme for all eligible employees. The scheme is administered by Roberts Insurance Brokers Limited and is funded by contributions from both the company and employees.

The Company contributes to the statutory National Social Security Fund in the respective countries. Contributions to these schemes are determined by local statute. The Company's obligations to retirement benefits are charged to the profit or loss in the year to which they relate.

Employee obligations
The estimate monetary liability for employees accrued annual leave at the end of the reporting period is charged to profit or loss in the year to which it relates.

(r) Fair value measurement
The Company measures financial instruments, such as equity instrument and government securities measured at fair value through profit and loss and non-financial assets such as investment properties at fair value at each reporting date.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Notes to the Financial Statements (contd)

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgments, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgments by the Company. Management considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 Valuation of insurance contract liabilities

The uncertainty inherent in the financial statements of the Company arises mainly in respect of insurance liabilities, which include outstanding claims provision (including IBNR). In addition to the inherent uncertainty when estimating liabilities, there is also uncertainty as regards the eventual outcome of claims. As a result, the Company applies estimation techniques to determine the appropriate provisions.

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

Notes to the Financial Statements (contd)

numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example: once–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.

Judgment 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. The carrying amounts of the insurance contract liabilities are disclosed in note 28.

3.2 Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across relevant financial assets requires judgement, in particular, for the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by the outcome of modelled ECL scenarios and the relevant inputs used.
Further disclosures relating to impairment of financial assets are also provided in Note 4.
The carrying amounts of the financial assets are disclosed in Note 4.

The Company adopts multiple techniques to estimate the required level of provisions, thereby setting a range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and risks involved. The carrying amounts of the liability arising from claims made under insurance contracts are disclosed in Note 8.

3.3 Income tax

The Company is subjected to numerous taxes and levies by various government regulatory bodies. As a rule of thumb, the Company recognizes liabilities for the anticipated tax/levies payable with utmost care and diligence usually by engaging tax consultants to perform tax health check, and generally by consulting the Company's tax consultants. However, significant judgment is usually required in the interpretation and applicability of those taxes/levies which may result in differences between actual and recognized liabilities. Should it come to the attention of management, such differences are recognized in income and liabilities in the period in which such differences are determined.

3.4 Useful lives and residual values of property, equipment and intangible assets

Determining the carrying amounts of property and equipment requires the estimation of the useful lives and residual values of these assets which carry a degree of uncertainty. The directors have used historical information relating to the relevant industries in which the Company's entities operate in order to best determine the useful lives and residual values of property and equipment. The carrying amounts of property and equipment are disclosed in Note 16.

3.5 Recoverable amount on insurance and other receivables

In preparing these financial statements, the directors have made estimates of the recoverable amounts of insurance and other receivables and impaired those receivables where the carrying amounts exceeded recoverable amounts. The estimation of recoverable amounts involves an assessment of the financial condition of the debtors concerned and estimate of the timing and the extent of cash flows likely to be received by the Company. Management uses estimates based on historical loss experience for each individual receivable on a customer-by-customer basis when estimating the amount of future cash flows.

3.6 Recognition of deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that is probable that taxable profit will be available against which losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Notes to the Financial Statements (contd)

4. MANAGEMENT OF INSURANCE AND FINANCIAL RISKS

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

4.1 Insurance risk

Insurance risk is transferred when the Company agrees to compensate a policyholder if a specified uncertain future event (other than a change in a financial variable) adversely affects the policyholder. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

The main risk that the Company faces under its insurance contracts is that actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This may occur if the frequency or severity of claims and benefits are greater than estimated.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy so as to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, accumulation of risk and type of industry covered.

Insurance liabilities

The frequency and severity of claims can be affected by several factors. The most significant claims result from accident, liability claims awarded by the Court, fire and allied perils and their consequences. Inflation is also a significant factor due to the long period typically required to settle some claims.

The Company's underwriting strategy attempts to ensure that the underwritten risks are well diversified in type, amount of risk and industry. The Company has underwriting limits by type of risks and by industry. Performance of individual insurance policies is reviewed by management and the Company reserves the right not to renew individual policies. It can impose deductibles and has the right to reject the payment of a fraudulent claim. Where relevant, the Company may sue third parties for payment of some or all liabilities (subrogation). Claims development and provisioning levels are closely monitored.

The reinsurance arrangements of the Company include proportional, excess-of-loss and catastrophe coverage and as such, the maximum loss that the Company may suffer in any one year is pre-determined.

Frequency and severity of claims

A key risk, related to pricing and provisioning, that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits will vary from year to year from the level established based on past experience. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these

Notes to the Financial Statements (contd)

categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Company also manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. Underwriting limits are in place to enforce appropriate risk selection criteria. The reinsurance arrangements include excess, surplus and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer total net insurance losses of more than set limits per class of business in any one year.

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

Sources of uncertainty in the estimation of future claim payments
The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be a different from the original liability established.

The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period.

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. The main assumption underlying this technique is that the Company's past claims development experience be used to project future claims development and hence ultimate claim costs.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, 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.

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

Management of insurance risk
The risk under any one insurance contract arises from the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under

Notes to the Financial Statements (contd)

its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

(a) Fluctuations in the timing, frequency and severity of claims and claims settlements
(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.

This risk is managed through:

- Diversification across a large portfolio of insurance contracts;
- Careful selection of insurable risks 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 business acceptance criteria which is reviewed from time to time based on the experience and other developments; and
- Having a mechanism of identifying, quantifying and accumulating exposures to contain them within the set underwriting limits.

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

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

Notes to the Financial Statements (contd)

Concentration of insurance risk

The following table discloses the concentration of outstanding claims by class of business, gross and net reinsurance.

Concentration of insurance risk by class of business

2022

Class of bsiness	No. of claims	Gross liabilities Kes'000	Reinsurance share Kes'000	Gross IBNR Kes'000	Ri Share IBNR Kes'000	Net Kes'000
Motor	4168	978,328	(25,235)	154,385	(5,050)	1,102,428
Marine	169	55,356	(23,407)	7,053	(3,557)	35,445
Fire	108	188,457	(91,021)	1,660	(4,063)	95,033
Aviation	1	500	(475.00)	-	-	25
Theft	201	147,150	(91,700)	2,316	(1,304)	56,462
Workmen's	1263	164,128	(23,737)	168,579	(1,686)	307,284
Engineering	70	102,366	(104,199)	11,460	(7,128)	2,499
Others	77	67,935	(12,287)	13,022	(5,272)	63,398
Totals	**6,057**	**1,704,220**	**(372,061)**	**358,475**	**(28,060)**	**1,662,574**

2021

Class of bsiness	No. of claims	Gross liabilities Kes'000	Reinsurance share Kes'000	Gross IBNR Kes'000	Ri Share IBNR Kes'000	Net Kes'000
Motor	3,471	836,195	36,565	149,941	5,160	944,413
Marine	156	89,266	49,962	4,586	2,591	41,299
Fire	95	196,063	93,450	1,420	3,875	100,158
Aviation	1	500	475	-	-	25
Theft	203	108,195	65,113	2,346	1,337	44,091
Workmen's	1,125	131,292	11,555	140,648	1,406	258,978
Engineering	49	78,734	81,788	3,435	131	250
Others	71	26,529	8,884	3,822	856	20,612
Totals		**1,466,774**	**347,792**	**306,198**	**15,356**	**1,409,826**

If the average claims settlement cost were to increase/ decrease by 10% with all other variables held constant, the effect on the gross outstanding IBNR claims and the profit or loss would be Kes. 35,847,492 (2021: Kes. 30,619,892).

Notes to the Financial Statements (contd)

Maximum insurance loss

Year ended 31 December 2022		Maximum insured loss				
Class of business		Kes 0 – Kes 15m Kes '000	Kes 15m - Kes 250m Kes '000	Kes 250m - Kes 1000m Kes '000	Kes 1000m + Kes '000	Total Kes'000
Motor	Gross	57,965,325	368,135,784	271,735,644	333,613,520	1,031,450,273
	Net	43,809,460	281,732,485	185,825,066	199,172,112	710,539,123
Fire	Gross	282,689	2,924,466	6,639,094	2,790,970	12,637,219
	Net	254,817	1,198,144	690,000	30,000	2,172,961
Personal accident	Gross	160,621	2,026,593	1,183,338	-	3,370,552
	Net	173,264	1,304,189	375,353	-	1,852,806
Miscellaneous	Gross	525,988	877,612	-	-	1,403,600
	Net	256,737	221,268	-	-	478,005
Total	**Gross**	**58,934,623**	**373,964,454**	**279,558,077**	**336,404,490**	**1,048,861,644**
	Net	**44,494,279**	**284,456,086**	**186,890,419**	**199,202,112**	**715,042,896**

Year ended 31 December 2021		Maximum insured loss				
Class of business		Kes 0 – Kes 15m Kes '000	Kes 15m - Kes 250m Kes '000	Kes 250m - Kes 1000m Kes '000	Kes 1000m + Kes '000	Total Kes'000
Motor	Gross	49,348,763	659,842	-	-	50,008,605
	Net	37,658,152	400,596	-	-	38,058,748
Fire	Gross	5,618,188	46,082,973	67,050,510	155,427,771	274,179,442
	Net	5,032,871	19,445,482	4,715,430	957,641	30,151,424
Personal accident	Gross	3,740,955	17,010,255	5,051,839	-	25,803,049
	Net	3,611,765	8,362,080	1,765,328	-	13,739,173
Miscellaneous	Gross	11,605,256	27,285,852	34,838,832	15,671,458,176	15,745,188,116
	Net	9,791,135	10,599,565	2,083,505	813,499	23,287,704
Total	**Gross**	**70,313,162**	**91,038,921**	**106,941,181**	**15,826,885,947**	**16,095,179,212**
	Net	**56,093,922**	**38,807,723**	**8,564,262**	**1,771,140**	**105,237,047**

Notes to the Financial Statements (contd)

4.2 Financial risk

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk. To manage credit risk, the Company only do business with approved counterparties within the granted limits and avoid intended &/or unintended concentrations in any one counterparty group, industry, region, product amongst others. The Company manage and control market risk exposures to be within acceptable limits, while optimizing the return on risks of market risk assets. To manage liquidity risk, the Company maintains available funding in a manner that provides a sufficient level of liquidity under various market stressed scenarios, while at the same time ensuring an adequate balance between the need to hold liquid assets, and maximization of returns on surplus funds

Market risk

Interest rate risk

Interest rate risk is the risk that the future profitability and/or cash flows of financial instruments will fluctuate because of changes in the market interest rates. The company is not exposed to interest rates risk because all its financial instruments are held at fixed interest rates.

Equity price risk

The Company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as equity instruments at FVPL. Exposure to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Quoted Investments held are listed and traded on the Nairobi Securities Exchange.

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

Investment management meetings are held monthly. At these meetings, senior managers meet to discuss investment return and concentration of the equity investments. The table below shows the concentration of equities by industry:

	2022			**2021**		
	Cost Kes' 0000	**Market Value Kes' 000**	**%**	**Cost Kes' 0000**	**Market Value Kes' 000**	**%**
Banking	-	-	-	42,996	43,655	92%
Manufacturing & allied	3,355	2,781	100%	3,738	3,685	8%
	3,355	**2,781**	**100%**	**46,734**	**47,340**	**100%**

Notes to the Financial Statements (contd)

Listed equity securities represent 100% (2021: 100%) of total equity investments. A 10-percentage point increase or decrease represents management's assessment of the reasonably possible change in stock exchange indices. If equity securities price had been 10 percentage points higher or lower, the profit and loss before tax would increase or decrease by Kes 0.28 million (2021: Kes.4.7 million).

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

On 31 December 2022, if the Kenya shilling had weakened/strengthened by 5% against the US Dollar with all other variables held constant, the profit before income tax for the year would have been Kes 1,074,276 (2021: Kes 239,924) higher/lower, mainly as a result of US Dollar denominated deposits with financial institutions in Kenya. The only asset held in USD is cash at bank.

Credit risk

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

- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders;
- Amounts due from insurance intermediaries;
- Cash and cash equivalents (including fixed deposits);
- Government securities;
- Due from Kenya Insurance Motor Pool;
- Other receivables; and
- Mortgage loans.

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

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on annual basis by reviewing their financial strength prior to finalisation of any contract.

In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral. Maximum exposure to credit risk is represented by the carrying amounts of receivables in the Statement of Financial Position.

Notes to the Financial Statements (contd)

Receivables from insurance and reinsurance contracts include loans receivables, receivables arising from direct insurance and reinsurance contracts.

Deposits include deposits with financial institutions.

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.

Management makes regular reviews to assess the degree of compliance with the Company's procedures on credit. Exposures to individual policyholders are collected within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the management.

With regard to credit exposure arising out of deposits with financial institutions, the Company has policies in place to ensure that it only deals with financial institutions which have a strong credit rating.

The maximum exposure of the Company to credit risk (financial instruments subject to impairment) as at the balance sheet date is as follows:

31 December 2022	**31 December 2022 Kes '000**	**31 December 2021 Kes '000**
Government securities at amortised cost	936,575	574,382
Receivables arising out of reinsurance arrangements	42,079	44,284
Receivables arising out of direct insurance arrangements	275,516	107,982
Deposits with financial Institutions	253,265	211,695
Cash and bank balances	173,053	244,426
Mortgage loans	5,760	7,585
Due from Kenya Insurance Motor Pool	12,490	12,767
Other receivables	44,512	43,243
Exposure to credit risk	**1,743,250**	**1,246,364**

No collateral is held for any of the above assets other than the staff mortgage loans. Properties in relation to staff mortgage loans are charged to the Company as collateral.

Notes to the Financial Statements (contd)

The financial assets alongside the Expected credit loss allowance are as below:

As of 31 December 2022: Financial assets	**Measurement category**	**Exposure at default (EAD) Kes'000**	**Expected credit loss (ECL) Kes'000**	**Carrying amount Kes '000 Kes'000**
Deposits with financial institutions	Amortised costs	253,300	(35)	253,265
Government securities at amortised cost	Amortised costs	936,770	(195)	936,575
Other receivables	Amortised costs	44,702	(190)	44,512
Receivables arising out of direct insurance arrangements	Amortised costs	517,427	(241,911)	275,516
Receivables arising out of reinsurance arrangements	Amortised costs	49,131	(7,052)	42,079
Cash and bank balances	Amortised cost	173,053	-	173,053
Mortgage loans	Amortised cost	5,760	-	5,760
Due from the Kenya Motor Insurance Pool	Amortised cost	12,635	(145)	12,490
		1,992,778	**(249,528)**	**1,743,250**

As of 31 December 2021: Financial assets	**Measurement category**	**Exposure at default (EAD) Kes'000**	**Expected credit loss (ECL) Kes'000**	**Carrying amount Kes '000 Kes'000**
Deposits with financial institutions	Amortised costs	211,724	(29)	211,695
Government securities at amortised cost	Amortised costs	574,483	(101)	574,382
Other receivables	Amortised costs	43,374	(131)	43,243
Receivables arising out of direct insurance arrangements	Amortised costs	366,646	(258,664)	107,982
Receivables arising out of reinsurance arrangements	Amortised costs	55,552	(11,268)	44,284
Cash and bank balances	Amortised cost	244,426	-	244,426
Mortgage loans	Amortised cost	7,585	-	7,585
Due from the Kenya Motor Insurance Pool	Amortised cost	12,915	(148)	12,767
		1,516,705	**(270,341)**	**1,246,364**

Notes to the Financial Statements (contd)

Reconciliation of expected credit losses for financial assets measured at amortised cost for the year

As at 31st Dec 2022 **Financial Assets**	**ECL as at 1 January 2022 Kes '000**	**Charge through P&L Kes '000**	**ECL as at 31 December 2022 Kes '000**
Deposits with financial institutions	29	6	35
Government securities at amortised cost	101	94	195
Other receivables	131	59	190
Receivables arising out of direct insurance arrangements	258,664	(16,753)	241,911
Receivables arising out of reinsurance arrangements	11,268	(4,216)	7,052
Due from Kenya Insurance Motor pool	148	(3)	145
Cash and bank balances	-	-	-
Mortgage loans	-	-	-
	270,341	**(20,813)**	**249,528**

As at 31st Dec 2021 **Financial Assets**	**ECL at 1 January 2022 Kes '000**	**Charge through P&L Kes '000**	**ECL at 31 December 2022 Kes '000**
Deposits with financial institutions	37	(8)	29
Government securities at amortised cost	86	15	101
Other receivables	144	(13)	131
Receivables arising out of direct insurance arrangements	229,086	29,578	258,664
Receivables arising out of reinsurance arrangements	10,343	925	11,268
Due from Kenya Insurance Motor pool	209	(61)	148
Cash and bank balances	-	-	-
Mortgage loans	-	-	-
	239,905	**30,436**	**270,341**

Notes to the Financial Statements (contd)

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the Company is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand. The following table provides an analysis of financial assets and liabilities of the company into relevant maturity based on the remaining periods to maturity. The amounts disclosed in the table below are contractual undiscounted cashflows. The balances due within twelve months equal their carrying amounts as the impact of discounting is not significant.

31 Dec 2022 **Financial assets**	**0 to 6 months** **Kes '000**	**6-12 months** **Kes '000**	**1-5 years** **Kes '000**	**over 5 years** **Kes '000**	**No maturity** **Kes '000**	**Total** **Kes '000**
Equity instruments at fair value through profit or loss	-	-	-	-	2,781	2,781
Reinsurance assets (share of insurance liabilities)	-	634,959	-	-	-	634,959
Receivables arising out of direct insurance receivables	159,894	72,110	43,512	-	-	275,516
Government securities at amortised cost	-	-	77,341	1,174,654	-	1,251,995
Government securities at FVPL	-	666,150	-	-	-	666,150
Deposits with financial institutions	253,265	-	-	-	-	253,265
Due from Kenya Insurance Motor Pool	-	12,490	-	-	-	12,490
Mortgage loans	-	-	5,760	-	-	5,760
Receivables arising out of reinsurance arrangements	-	42,079	-	-	-	42,079
Other receivables	-	44,512	-	-	-	44,512
Cash and bank balances	173,053	-	-	-	-	173,053
Total	**586,212**	**1,472,300**	**126,613**	**1,174,654**	**2,781**	**3,359,779**
Payables arising out of reinsurance arrangements	-	12,477	-	-	-	12,477
Lease liability	-	9,585	21,770	-	-	31,355
Other payables	72,666	-	-	-	-	72,666
Insurance contract liabilities	-	2,062,695	-	-	-	2,062,695
Total	**72,666**	**2,084,757**	**21,770**	**-**	**-**	**2,179,193**
Liquidity surplus/(gap)	**513,546**	**(612,457)**	**104,843**	**1,174,654**	**2,781**	**1,183,367**

Notes to the Financial Statements (contd)

31 Dec 2021 **Financial assets**	**0 to 6 months Kes '000**	**6-12 months Kes '000**	**1-5 years Kes '000**	**over 5 years Kes '000**	**No maturity Kes '000**	**Total Kes '000**
Equity instruments at fair value through profit or loss	-	-	-	-	47,340	47,340
Reinsurance assets (share of insurance liabilities)	-	579,143	-	-	-	579,143
Receivables arising out of direct insurance receivables	47,091	21,237	39,654	-	-	107,982
Government securities at amortised cost	-	40,763	75,851	640,875	-	757,489
Government securities at FVPL	-	597,065	-	-	-	597,065
Deposits with financial institutions	211,695	-	-	-	-	211,695
Due from Kenya Insurance Motor Pool	-	12,767	-	-	-	12,767
Mortgage loans	-		7,585	-	-	7,585
Receivables arising out of reinsurance arrangements	-	44,284	-			44,284
Other receivables	-	43,243	-	-	-	43,243
Cash and bank balances	244,426	-	-	-	-	244,426
Total	**503,212**	**1,338,502**	**123,090**	**640,875**	**47,340**	**2,653,019**
Payables arising out of reinsurance arrangements	-	21,890	-	-	-	21,890
Lease liability	-	9,585	29,824	-	-	39,409
Other payables	80,863	-	-	22,351	-	103,214
Insurance contract liabilities	-	1,772,973	-	-	-	1,772,973
Total	**80,863**	**1,804,448**	**29,824**	**22,351**	**-**	**1,937,486**
Liquidity surplus/(gap)	**422,349**	**(465,946)**	**93,266**	**618,524**	**47,340**	**715,533**

Notes to the Financial Statements (contd)

4.3 Capital risk

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

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business.
- to maintain financial strength to support new business growth.
- to satisfy the requirements of its policyholders, regulators, and rating agencies.
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- to allocate capital efficiently to support growth.
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

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

The Company has a number of sources of capital available to it and seeks to optimise its debt-to-equity structure in order to ensure that it can consistently maximise returns to shareholders. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The Company manages as capital all items that are eligible to be treated as capital for regulatory purposes.

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

The capital adequacy ratio based on the Risk Based Capital Model is as follows:

	2022 Kes '000	2021 Kes '000
Total Capital Available (TCA)	980,320	925,841
Minimum Required Capital (MRC)	668,628	600,000
Capital Adequacy Ratio (CAR)	**147%**	**154%**

Notes to the Financial Statements (contd)

5. GROSS EARNED PREMIUMS

Premium earned by principal class of business:

	2022			2021		
	Gross Kes '000	Reinsurance Kes '000	Net Kes '000	Gross Kes '000	Reinsurance Kes '000	Net Kes '000
Motor	1,317,117	(80,894)	1,236,223	949,482	(50,540)	898,942
Fire	198,452	(167,203)	31,249	183,173	(150,838)	32,335
Marine	91,681	(70,090)	21,591	67,763	(48,043)	19,720
Personal accident	15,359	(2,716)	12,643	17,514	(4,259)	13,255
Theft	52,758	(24,003)	28,755	59,133	(29,313)	29,820
Workmen	468,055	(33,525)	434,530	397,111	(50,157)	346,954
Engineering	104,532	(96,842)	7,690	55,319	(46,142)	9,177
Liability	44,099	(11,757)	32,342	33,176	(6,089)	27,087
Aviation	447,516	(447,508)	8	375,758	(375,750)	8
Miscellaneous	13,149	(8,958)	4,191	17,702	(14,161)	3,541
Total	**2,752,718**	**(943,496)**	**1,809,222**	**2,156,131**	**(775,292)**	**1,380,839**

6. (a) INTEREST INCOME

	2022 Kes '000	2021 Kes '000
Interest from Government securities at amortised cost	98,610	67,274
Interest from Government securities at fair value through profit or loss	31,987	61,286
Interest from deposits with financial institutions	19,012	10,935
Interest from mortgage loans	740	865
	150,349	**140,360**

(b) OTHER INVESTMENT INCOME

	2022 Kes '000	2021 Kes '000
Fair value losses on equity investments (note 20)	(17,638)	(2,518)
Fair value gains on Government securities (note 26(ii))	17,085	1,306
Loss on disposal of equity investments	(7,914)	(1,771)
Dividends from equity investments	4,469	1,082
Rental income from investment property	46,150	67,089
Fair value loss on investment property	(8,414)	(68,853)
	33,738	**(3,665)**

Notes to the Financial Statements (contd)

7. OTHER INCOME

	2022 Kes '000	2021 Kes '000
Kenya Motor Insurance Pool	-	1,121
Gain on disposal of assets	1,777	4,046
Other	796	2,710
	2,573	**7,877**

8. CLAIMS PAYABLE

Claims payable by class of business:

	2022			2021		
	Gross Kes '000	Reinsurance Kes '000	Net Kes '000	Gross Kes '000	Reinsurance Kes '000	Net Kes '000
Motor	1,113,926	(26,645)	1,087,281	738,708	(35,169)	703,539
Fire	20,954	(16,124)	4,830	57,952	(39,602)	18,350
Marine	77,922	(24,260)	53,662	67,493	(55,198)	12,295
Workmen	109,087	(19,492)	89,595	124,695	(7,250)	117,445
Liability	2,115	(768)	1,347	6,428	81	6,509
Others	136,676	(88,136)	48,540	150,737	(107,532)	43,205
Total	**1,460,680**	**(175,425)**	**1,285,255**	**1,146,013**	**(244,670)**	**901,343**

Notes to the Financial Statements (contd)

9. OPERATING AND OTHER EXPENSES

	2022 Kes '000	2021 Kes '000
Staff costs (note 10)	223,889	211,711
Auditors' remuneration	5,040	4,800
Depreciation on property and equipment (note 16)	7,645	7,287
Amortisation on the right-of-use assets (note 17 (a))	6,880	6,644
Amortisation of intangible assets (note 18)	3,941	6,097
Expected credit losses on financial assets (Note 4.2)	(20,813)	30,436
Operating leases	6,721	2,684
Marketing and advertising	32,130	20,251
Finance and bank charges	5,367	4,879
Printing, stationery and insurance	5,924	5,768
Consultancy fees	17,685	15,902
Director's fees	11,528	6,922
Underwriting and claims expenses	58,025	38,609
ICT expenses	28,477	23,279
Other expenses	24,436	22,410
	416,875	**407,679**

10. STAFF COSTS

	2022 Kes '000	2021 Kes '000
Staff costs include the following:		
- Salaries and wages	184,942	187,132
- Retirement benefit costs – defined contribution plan	13,023	5,950
Medical & other Staff Insurances	10,094	9,435
Training & subscriptions	8,110	3,137
Staff welfare	7,720	6,057
	223,889	**211,711**

Notes to the Financial Statements (contd)

11. INCOME TAX EXPENSE

(i) Taxation charge / (credit)

	2022 Kes '000	2021 Kes '000
Current income tax	7,651	9,121
Deferred income tax (Note 31)	18,596	33,779
	26,247	**42,900**

(ii) Reconciliation of taxation charge to the expected tax based on accounting profit:

	2022 Kes '000	2021 Kes '000
Profit before income tax	78,549	68,923
Tax calculated at a tax rate of 30%	23,565	20,677
Tax effect of income not subject to tax	(13,191)	(9,679)
Tax effect of expenses not deductible for tax purposes	18,221	32,866
Over provision of deferred tax in prior year	(1)	(964)
Over provision of current tax in prior year	(2,347)	-
Income tax expense	**26,247**	**42,900**

Income not subject to tax mainly relates to interest on infrastructure bonds which do not attract income tax charge. Expenses not deductible for tax purposes mainly relate to unrealised losses on valuation of investment properties.

(iii) Current income tax

	2022 Kes '000	2021 Kes '000
At 1 January	(27,487)	(35,868)
Charge for the year	7,651	9,121
Tax paid during the year	(16,190)	(740)
At 31 December	**(36,026)**	**(27,487)**

Notes to the Financial Statements (contd)

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 proposed dividends for the year ended 31 December 2022 Kes. 50 million, (2021: Kes 50 million).

13. SHARE CAPITAL

	2022 Kes'000	2021 Kes'000
Share capital:		
Authorised share capital		
10,000,000 ordinary shares of Kes 100 each	1,000,000	1,000,000
Issued and fully paid for:		
6,000,000 ordinary shares of Kes 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.

	2022 Kes'000	2021 Kes'000
At 1 January	104,163	97,370
Revaluation gain on revaluation of buildings, net of tax	2,353	6,793
At 31 December	**106,516**	**104,163**

15. RETAINED EARNINGS

The retained earnings represent 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 Kes. 315 million (2021: Kes 327 million) whose distribution is subject to restrictions imposed by regulation.

	2022 Kes'000	2021 Kes'000
Retained earnings at end of year	398,041	395,740
Cumulative fair value gain on property	(315,049)	(327,109)
Retained earnings available for distribution	**82,992**	**68,631**

Notes to the Financial Statements (contd)

16. PROPERTY AND EQUIPMENT

	Buildings Kes '000	Motor vehicles Kes '000	Furniture & office equipment Kes '000	Total Kes '000
Cost/valuation				
At 1 January 2021	243,136	12,738	172,861	428,735
Additions	-	-	4,026	4,026
Disposals	-	-	(647)	(647)
Transfer to investment properties	(17,000)	-	-	(17,000)
Fair value gain	3,221	-	-	3,221
At 31 December 2021	**229,357**	**12,738**	**176,240**	**418,335**
At 1 January 2022	229,357	12,738	176,240	418,335
Additions	-	-	5,871	5,871
Disposals	-	-	(865)	(865)
Fair value gain	2,760	-	-	2,760
At 31 December 2022	**232,117**	**12,738**	**181,246**	**426,101**
Depreciation				
At 1 January 2021	(7,786)	(12,438)	(167,948)	(188,172)
Charge for the year	(3,368)	(300)	(3,619)	(7,287)
Eliminated on disposals	(3,233)	-	494	(2,739)
At 31 December 2021	**(14,387)**	**(12,738)**	**(171,073)**	**(198,198)**
At 1 January 2022	(14,387)	(12,738)	(171,073)	(198,198)
Charge for the year	(3,703)	-	(3,942)	(7,645)
Eliminated on disposals	-	-	859	859
At 31 December 2022	**(18,090)**	**(12,738)**	**(174,156)**	**(204,984)**
Net book value				
At 31 December 2021	214,970	-	5,167	220,137
At 31 December 2022	214,027	-	7,090	221,117

Notes to the Financial Statements (contd)

Buildings were valued on 31 December 2022 by Regent 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:

	2022 Kes'000	2021 Kes'000
Cost	143,767	143,767
Accumulated depreciation	(42,057)	(38,463)
Net book value	**101,710**	**105,304**

17. LEASES

(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:

Cost	2022 Kes'000	2021 Kes'000
At 1 January	40,645	41,563
Additions	7,477	21,534
Disposal	(9,265)	(22,452)
At 31 December	**38,857**	**40,645**
Amortization		
At 1 January	(13,522)	(20,776)
Charge for the year	(6,880)	(6,644)
Eliminated on disposal of lease	6,644	13,898
At 31 December	**(13,758)**	**(13,522)**
Carrying amount at 31 December	**25,099**	**27,123**

Notes to the Financial Statements (contd)

(b) Lease liabilities

	2022 Kes'000	2021 Kes'000
Analyzed as:		
Non - current	21,762	21,648
Current	6,471	9,585
At 31 December	**28,233**	**31,233**
The movement in the lease liabilities is as follows:		
At 1 January	31,233	30,523
Additions	7,477	5,787
Disposal	(3,895)	-
Interest on the lease liabilities	3,096	3,937
Payment of lease liabilities	(9,678)	(9,014)
At 31 December	**28,233**	**31,233**
In the statement of cashflows:		
Payment of the principal portion of lease liabilities	6,582	5,077
Payment of the interest portion of the lease liabilities	3,096	3,937
Lease liabilities maturity analysis (undiscounted cashflows)		
Year 1	6,471	9,585
Year 2	7,111	9,961
Year 3	8,106	9,502
Year 4	3,317	7,449
Year 5	1,237	2,912
	26,242	**39,409**

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 are the contractual undiscounted cash flows i.e., Gross lease liabilities.

Notes to the Financial Statements (contd)

18. INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2022 Kes'000	2021 Kes'000
Cost		
At 1 January	57,381	45,396
Additions	2,710	11,985
At 31 December	60,091	57,381
Depreciation		
At 1 January	44,718	38,621
Amortisation charge	3,941	6,097
At 31 December	48,659	44,718
Net book value		
At 31 December	11,432	12,663

19. INVESTMENT PROPERTIES

	2022 Kes'000	2021 Kes'000
At 1 January	964,030	1,015,882
Transfer from property & equipment (note 16)	-	17,000
Fair value loss	(8,414)	(68,852)
At 31 December	**955,616**	**964,030**

The Company's investment properties were last valued as at 31 December 2022 by Regent Valuers International (K) Limited, registered valuers on open market value basis. Direct operating expenses attributable to management of the investment properties amounted to Kes 4.1 million (2021: Kes 3.9 million).

The fair values arising from the open market valuation of investment properties is categorised as level 3 in the fair value hierarchy. A portion of the building which is accounted for as property and equipment in line with IAS 16 is owner occupied. This has been disclosed in note 16 of the financial statements.

The effects of changes in the gross annual rent yield have the following effect on the fair value of the properties.

	% change	31 Dec 2022 Kes '000	31 Dec 2021 Kes '000
Gross annual rental	+/-5%	2,308	3,161
Rate of return	+/-5%	2,293	3,181

Notes to the Financial Statements (contd)

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	2022 Kes '000	2021 Kes '000
At 1 January	47,340	34,281
Additions	102,991	130,732
Disposals	(129,912)	(115,155)
Net fair value loss	(17,638)	(2,518)
At 31 December	**2,781**	**47,340**
21. MORTGAGE LOANS		
At 1 January	7,585	5,654
Loans advanced in the year	-	2,580
Loan repayments	(1,825)	(649)
At 31 December	**5,760**	**7,585**
Maturity profile of mortgage loans:		
Loans maturing:		
Within 1 year	1,027	1,490
In 1-5 years	4,733	6,095
	5,760	**7,585**
The mortgage loans are secured by title deeds.		
22. RECEIVABLES ARISING OUT OF DIRECT INSURANCE ARRANGEMENTS		
Gross receivables	517,427	366,646
Provision for impairment losses	(241,911)	(258,664)
Net receivables	**275,516**	**107,982**
Movement in provision for impairment losses:		
At 1 January	258,664	229,086
Impairment (credit)/charge during the year (Note 4.2)	(16,753)	29,578
At 31 December	**241,911**	**258,664**

Notes to the Financial Statements (contd)

23. REINSURERS' SHARE OF INSURANCE LIABILITIES

	2022 Kes'000	2021 Kes'000
Reinsurers' share of:		
- notified claims outstanding (note 29)	372,061	347,792
- claims incurred but not reported (note 29)	28,059	15,356
- unearned premium (note 30)	234,838	215,995
	634,958	**579,143**

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

	2022		
	Gross carrying amounts Kes '000	Loss allowance Kes '000	Net carrying amounts Kes '000
Due from related parties (note 38(ii))	96	-	96
Prepayments	9,359	-	9,359
Utilities and rental deposit	3,069	-	3,069
Rent receivable	30,340	(190)	30,150
Other receivables	1,838	-	1,838
	44,702	**(190)**	**44,512**
Due from related parties (note 38(ii))	107	-	107
Prepayments	10	-	10
Utilities and rental deposit	3,069	-	3,069
Rent receivable	36,665	(131)	36,534
Other receivables	3,523	-	3,523
	43,374	**(131)**	**43,243**

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

25. (i) DEFERRED ACQUISITION COSTS ON INSURANCE COMMISSION

	2022 Kes'000	2021 Kes'000
At 1 January	91,986	70,491
Movement in the year	33,166	21,495
At 31 December	**125,152**	**91,986**

Notes to the Financial Statements (contd)

25. (ii) DEFERRED ACQUISITION COSTS ON REINSURANCE COMMISSION	2022 Kes'000	2021 Kes'000
At 1 January	36,642	31,876
Movement in the year	(3,277)	4,766
At 31 December	**33,365**	**36,642**

26. GOVERNMENT SECURITIES	2022 Kes'000	2021 Kes'000
(i) Government securities held at amortised cost		
- Maturing within 1 year	-	40,764
- Maturing in 1-5 years	70,310	75,851
- Maturing after 5 years	866,265	457,767
	936,575	**574,382**
At 1 January	574,382	431,172
Additions	384,000	186,200
Amortisation	13,287	(22,582)
Maturities	(35,000)	(20,350)
Impairment provision in the year	(94)	(58)
At 31 December	**936,575**	**574,382**
(ii) Government securities at fair value through profit and loss		
At 1 January	597,065	456,286
Additions	123,000	420,126
Maturities	(71,000)	(280,653)
Fair value gain (note 6)	17,085	1,306
At 31 December	**666,150**	**597,065**

Notes to the Financial Statements (contd)

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:

	2022 %	2021 %
Mortgage loans	10	10
Government securities	13	12.5
Deposits with financial institutions	10	9.8

28. INSURANCE CONTRACT LIABILITIES

	2022 Kes '000	2021 Kes '000
- claims reported and claims handling expenses (note 29)	1,704,220	1,466,774
- claims incurred but not reported (note 29)	358,475	306,199
Total	**2,062,695**	**1,772,973**

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

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 2022 and 2021 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.

Notes to the Financial Statements (contd)

29. MOVEMENTS IN INSURANCE LIABILITIES AND REINSURANCE ASSETS

	2022			2021		
	Gross Kes '000	Reinsurance Kes '000	Net Kes '000	Gross Kes '000	Reinsurance Kes '000	Net Kes '000
Notified claims	1,466,774	(347,792)	1,118,981	1,386,012	(289,573)	1,096,439
Incurred but not reported	306,199	(15,356)	290,843	211,968	(5,411)	206,557
Total at 1 January	1,772,973	(363,148)	1,409,824	1,597,980	(294,984)	1,302,996
Cash paid for claims settled in year	(1,226,585)	144,487	(1,082,098)	(1,013,228)	184,819	(828,409)
Increase in liabilities						
- arising from current year claims	687,427	29,325	716,752	554,779	(126,569)	428,210
- arising from prior year claims	828,880	(210,784)	618,096	633,442	(126,415)	507,027
Total at 31 December	**2,062,695**	**(400,120)**	**1,662,574**	**1,772,973**	**(363,149)**	**1,409,824**
Notified claims	1,704,219	(372,061)	1,332,159	1,466,774	(347,793)	1,118,981
Incurred but not reported	358,475	(28,059)	330,415	306,199	(15,356)	290,843
Total at 31 December	**2,062,695**	**(400,120)**	**1,662,574**	**1,772,973**	**(363,149)**	**1,409,824**

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:

	2022			2021		
	Gross Kes '000	Reinsurance Kes '000	Net Kes '000	Gross Kes '000	Reinsurance Kes '000	Net Kes '000
At 1 January	754,819	(215,995)	538,824	629,622	(181,235)	448,387
Net change in the year	342,102	(18,843)	323,259	125,197	(34,760)	90,437
At 31 December	**1,096,921**	**(234,838)**	**862,083**	**754,819**	**(215,995)**	**538,824**

Notes to the Financial Statements (contd)

31. DEFERRED INCOME TAX

Deferred tax is calculated using the enacted income tax rate of 30% (2021: 30%). The movement in the deferred tax asset account is as follows:

	2022 Kes '000	2021 Kes '000
At 1 January	58,337	88,546
Charge to profit or loss (note 11)	(18,596)	(33,779)
Credit to other comprehensive income	(406)	3,570
At 31 December	**39,335**	**58,337**

The net deferred tax asset is made up of the following temporary differences:

	1 January 2022 Kes '000	Credited to profit or loss Kes '000	Charged to OCI Kes '000	31 December 2022 Kes '000
Year ended 31 December 2022				
Property and equipment - historical cost basis	12,767	(1,661)	-	11,106
Property and equipment - revaluation surplus	(41,614)	-	(406)	(42,020)
Provisions	94,448	(16,292)	-	78,156
Other deductible differences	(7,264)	(643)	-	(7,907)
Net deferred income tax asset	**58,337**	**(18,596)**	**(406)**	**39,335**

Notes to the Financial Statements (contd)

	1 January 2021 Kes '000	Credited to profit or loss Kes '000	Charged to OCI Kes '000	31 December 2021 Kes '000
Year ended 31 December 2021				
Property and equipment – historical cost	13,280	(513)	-	12,767
Property and equipment - revaluation surplus	(45,184)	-	3,570	(41,614)
Provisions	75,570	18,878	-	94,448
Tax losses	50,467	(51,427)	-	(960)
Other deductible differences	(5,587)	(717)	-	(6,304)
Net deferred income tax asset	**88,546**	**(33,779)**	**3,570**	**58,337**

32. OTHER PAYABLES

	2022 Kes '000	2021 Kes '000
Accrued expenses	8,903	41,794
Accrued leave	4,184	2,665
Rental deposits	22,612	22,612
Payroll liabilities	3,981	3,887
Sundry creditors	(63)	2,006
Other liabilities	33,050	31,251
	72,667	**104,215**

33. CONTINGENT LIABILITIES

The company is subject to litigation arising in the normal course of insurance business. The directors, based on the legal advice, are of the opinion that this litigation will not have a material effect on these financial statements.

Notes to the Financial Statements (contd)

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.

	2022 Kes '000	2021 Kes '000
Year 1	47,125	54,057
Year 2	49,786	54,810
Year 3	44,139	42,402
Year 4	16,815	45,582
Year 5	1,906	-
	159,771	**196,851**

The lease income on the operating leases as at 31 December 2022 was Kes 46 million (2021: Kes 67 million).

35. CASH AND CASH EQUIVALENTS

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

	2022 Kes '000	2021 Kes '000
Cash and bank balances	173,053	244,426
Deposits with financial institutions	253,265	211,695
	426,318	**456,121**

Deposits with financial institutions have an average maturity of 3 months (2021: 3 months). The effective interest rate on deposits was 10% per annum (2021: 9.8%).

Notes to the Financial Statements (contd)

36. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of loss before taxation to cash (used in)/generated from operations:

	2022 Kes '000	2021 Kes '000
Profit before income tax	**78,549**	**68,923**
Adjustments for:		
Interest on Government securities, deposits with financial institutions and mortgage loans (Note 6(a)	(150,349)	(140,360)
Depreciation of property and equipment (note 16)	7,645	7,287
Amortisation charge on intangible assets (note 18)	3,941	6,097
Amortisation of the right-of-use assets (note 17 (a))	6,880	6,644
Interest on lease liabilities (note 17 (b))	3,096	3,937
Gain on disposal of leases	(1,274)	2
Gain on sale of equipment (note 7)	(1,777)	(4,046)
Change in fair value of quoted shares (note 20)	17,638	2,518
Amortisation of Government securities at amortised cost (note 26 (i))	(13,287)	22,582
Unrealized fair value gains on Government securities at fair value through P&L (note 26 (ii))	(17,085)	(1,306)
Change in fair value of investment property (Note 19)	8,414	68,852
Impairment provision on Government securities (note 26 (i)	94	58
Changes in:		
Insurance contract liabilities, unearned premiums and reinsurer's share of insurance contract liabilities	576,009	191,714
Payables arising from reinsurance arrangements	(9,413)	21,890
Deferred acquisition cost	(33,166)	(16,729)
Due from Kenya Motor Insurance Pool	277	5,247
Other receivables	(1,269)	43,041
Receivables arising out of direct insurance	(167,534)	24,627
Receivables arising out of reinsurance arrangements	2,205	3,201
Other payables	(31,549)	22,417
Deferred reinsurance commissions	(3,277)	710
Cash generated from operations	**274,768**	**337,306**

Notes to the Financial Statements (contd)

37. DIVIDENDS

The directors propose payment of the first and final dividends of Kes 12 (2021: Kes 12) per share amounting to Kes 50 million (2021: Kes 50 million). The proposed dividend is not payable until ratified at the annual general meeting. Payment of dividends is subjected to applicable withholding tax under Kenya Income tax act.

38. 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.

	2022 Kes '000	2021 Kes '000
(i) Transactions with related parties		
Gross earned premium:		
- Related parties – directors	371	378
- Related parties – other	10,418	919
	10,789	**1,297**
(ii) Outstanding balances with related parties		
Amounts due from related parties (note 24)		
Loans advanced to staff	19	30
Southern Shield Holdings	77	77
	96	**107**
(iii) Mortgage loans to directors and key management staff of the Company		
At 1 January	7,584	5,654
Additions	-	2,579
Loan repayments received	(1,825)	(649)
At 31 December	**5,759**	**7,584**
(iv) Key management compensation		
Salaries and other short-term employment benefits	43,209	45,999
(v) Directors' remuneration		
Directors' fees	10,392	6,883
Other remuneration (included in key management compensation above)	43,209	45,999
	53,601	**52,882**

Notes to the Financial Statements (contd)

39. CURRENCY

The financial statements are presented in Kenya Shillings (Kes'000), which is the Company's Functional Currency.

40. EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the reporting date and the date of this report that require disclosure or adjustment to the financial results and position at 31 December 2022.

Supplemental Information

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT FOR YEAR 2022

Class of insurance Business	Enginee-ring	FIre Domestic	Fire Industrial	Liability	Marine & Aviation	Motor Private	Motor Comm	Workmen's Compens-tion	Personal Accident	Theft	Miscella-neous	2022 Total
Gross written premium	101,344	27,525	165,344	28,581	589,261	1,071,989	539,714	486,848	16,098	54,671	13,445	3,094,820
UPR- January 2022	37,019	6,500	59,350	3,483	101,907	289,715	133,951	105,525	4,078	4,564	8,727	754,819
UPR- December 2022	33,831	9,865	50,401	2,618	137,319	507,986	210,265	124,318	4,817	6,477	9,024	1,096,921
Gross earned premium	**104,532**	**24,160**	**174,293**	**29,446**	**553,849**	**853,718**	**463,400**	**468,055**	**15,359**	**52,758**	**13,148**	**2,752,718**
Gross claims paid	11,932	6,843	21,478	1,109	75,603	615,091	352,259	48,321	4,443	33,404	477	1,170,960
At 31 December 2022	113,826	2,467	187,649	37,887	96,671	555,182	577,533	332,708	2,782	149,466	6,524	2,062,695
At 1 January 2022	82,169	3,679	193,805	29,896	94,351	484,549	501,588	271,940	1,209	110,541	(754)	1,772,973
Gross claims incurred	**43,589**	**5,631**	**15,322**	**9,100**	**77,923**	**685,724**	**428,204**	**109,089**	**6,016**	**72,329**	**7,755**	**1,460,682**
Net written premium	10,589	11,450	20,157	14,894	43,968	1,023,894	498,320	461,139	14,680	29,214	4,176	2,132,481
UPR- January 2022	2,382	3,557	20,119	2,048	9,091	278,761	129,039	88,107	1,842	1,243	2,635	538,824
UPR- December 2022	5,281	4,047	19,986	(693)	16,752	490,343	203,448	114,716	3,878	1,703	2,622	862,083
Net earned premium	**7,690**	**10,960**	**20,290**	**17,635**	**36,307**	**812,312**	**423,911**	**434,530**	**12,644**	**28,754**	**4,189**	**1,809,222**
Net claims paid	2,542	2,878	7,078	1,109	28,253	611,458	317,807	41,289	4,242	15,405	445	1,032,506
At 31 December 2022	2,498	(1,500)	96,533	30,516	66,732	557,805	544,623	307,284	5,587	56,462	(3,966)	1,662,574
At 1 January 2022	250	(223)	100,382	22,648	41,324	479,302	465,111	258,978	4,583	44,090	(6,621)	1,409,824
Net claims incurred	**4,790**	**1,601**	**3,229**	**8,977**	**53,661**	**689,961**	**397,319**	**89,595**	**5,246**	**27,777**	**3,100**	**1,285,256**
Commissions payable	10,825	4,769	28,989	4,821	27,417	89,843	45,985	113,456	1,514	6,008	1,385	335,012
Commissions receivable	(13,734)	(3,365)	(37,631)	(2,178)	(27,426)	(4,826)	(2,562)	(11,908)	(679)	(5,911)	(12,685)	(122,905)
Management Expenses	4,857	3,295	7,129	3,291	11,388	210,270	73,794	43,638	2,834	8,441	3,689	372,626
Total expenses	**6,738**	**6,300**	**1,716**	**14,911**	**65,040**	**985,248**	**514,536**	**234,781**	**8,915**	**36,315**	**(4,511)**	**1,869,989**
Net U/W profit/(loss)	**952**	**4,660**	**18,574**	**2,724**	**(28,733)**	**(172,936)**	**(90,625)**	**199,749**	**3,729**	**(7,561)**	**8,700**	**(60,767)**

Supplemental Information

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT FOR YEAR 2021

Class of insurance Business	Engineering	Fire Domestic	Fire Industrial	Liability	Marine & Aviation	Motor Private	Motor Comm	Workmen's Compensation	Personal Accident	Theft	Miscellaneous	2022 Total
Gross written premium	48,381	22,436	166,521	34,983	451,723	595,807	408,809	459,425	11,199	60,291	21,752	2,281,327
UPR- January 2022	43,956	6,953	53,113	1,677	93,705	236,425	132,107	43,212	10,392	3,406	4,678	629,624
UPR- December 2022	37,019	6,500	59,350	3,484	101,907	289,715	133,951	105,525	4,078	4,564	8,727	754,820
Gross earned premium	**55,318**	**22,889**	**160,284**	**33,176**	**443,521**	**542,517**	**406,965**	**397,112**	**17,513**	**59,133**	**17,703**	**2,156,131**
Gross claims paid	82,146	2,615	60,179	12,743	24,023	434,006	277,243	45,212	7,368	25,288	197	971,020
At 31 December 2022	82,169	3,678	193,805	29,896	94,351	484,549	501,588	271,940	1,209	110,541	(754)	1,772,972
At 1 January 2022	84,281	1,262	201,064	14,711	50,381	413,781	544,897	192,457	2,149	93,556	(560)	1,597,979
Gross claims incurred	**80,034**	**5,031**	**52,920**	**27,928**	**67,993**	**504,774**	**233,934**	**124,695**	**6,428**	**42,273**	**3**	**1,146,013**
Net written premium	8,119	10,811	18,903	27,894	19,114	566,105	385,906	393,058	7,002	29,936	4,430	1,471,278
UPR- January 2022	3,439	4,348	21,949	1,241	9,704	228,714	126,018	42,003	8,095	1,127	1,749	448,387
UPR- December 2022	2,382	3,557	20,119	2,049	9,091	278,761	129,039	88,107	1,842	1,243	2,635	538,825
Net earned premium	**9,176**	**11,602**	**20,733**	**27,086**	**19,727**	**516,058**	**382,885**	**346,954**	**13,255**	**29,820**	**3,544**	**1,380,840**
Net claims paid	6,632	1,845	16,179	12,743	8,552	426,531	255,341	44,265	7,294	14,937	197	794,516
At 31 December 2022	250	(223)	100,382	22,649	41,324	479,302	465,111	258,978	4,583	44,090	(6,621)	1,409,825
At 1 January 2022	4,232	(2,379)	102,211	13,914	37,555	418,249	504,497	185,799	5,367	40,114	(6,563)	1,302,996
Net claims incurred	**2,650**	**4,001**	**14,350**	**21,478**	**12,321**	**487,584**	**215,955**	**117,444**	**6,510**	**18,913**	**139**	**901,345**
Commissions payable	11,049	4,360	27,797	5,853	18,105	52,488	39,161	90,385	2,949	6,556	1,403	260,106
Commissions receivable	(12,686)	(3,441)	(36,540)	(1,456)	(22,865)	(3,045)	(2,591)	(11,151)	(1,176)	(7,498)	(14,129)	(116,578)
Management Expenses	5,193	3,479	9,903	5,380	18,238	161,782	64,782	39,596	3,275	8,747	4,123	324,498
Total expenses	**6,206**	**8,399**	**15,510**	**31,255**	**25,799**	**698,809**	**317,307**	**236,274**	**11,558**	**26,718**	**(8,464)**	**1,369,371**
Net U/W profit/(loss)	**2,970**	**3,203**	**5,223**	**(4,169)**	**(6,072)**	**(182,751)**	**65,578**	**110,680**	**1,697**	**3,102**	**12,008**	**11,469**

Notes

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