Contents

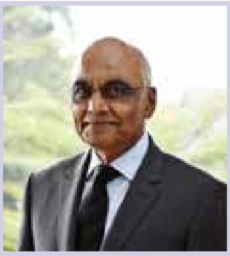
COMPANY INFORMATION

BOARD OF DIRECTORS	: Mr. R.C. Kantaria	Chairman
	: Mrs. R. Thatthi	Managing Director/Principal Officer
	: Mr. S.K. Shah	
	: Mr. A.R. Kantaria	Alternate Mr. V. Kantaria appointed on 1st November 2019
	: Mr. S.O.J. Mainda	
	: Mr. P.T. Warutere	
	: Mr. S. Oueslati	Alternate Mr. F. Jiwa appointed on 16th August 2019
	: Mr. B. Yohannes	Alternate Mr. V.S.P. Shah appointed on 16th August 2019
COMPANY SECRETARY	: Mr. N.P. Kothari, FCPS (Kenya)	
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	: L.R. No. 209/2259/1 : Tausi Court, Tausi Road : Off Muthithi Road, Westlands : P.O. Box 28889, 00200 : NAIROBI : Tel: 3746602/3/17 : Mobile: 0729145888/0735145020	
INDEPENDENT AUDITOR	: PKF Kenya : Certified Public Accountants : P.O. Box 14077, 00800 : NAIROBI	
ACTUARIES	: Zamara Actuaries : P.O. Box 52439, 00200 : NAIROBI	
PRINCIPAL BANKER	: Prime Bank Limited : P. O. Box 43825,00100 : NAIROBI	
LEGAL ADVISORS	: Mandla & Sehmi Advocates LLP : P.O. Box 48642, 00100 : NAIROBI	: Macharia, Mwangi & Njeru Advocates : P.O. Box 10627, 00100 : NAIROBI
	: Wanja & Kibe Advocates : P.O. Box 1382, 80100 : MOMBASA	: Daly & Inamdar Advocates : P.O. Box 80483, 80100 : MOMBASA
	: Muchui & Company Advocates : P.O. Box 61901, 00200 : NAIROBI	: Mucheru Law LLP Advocates : P.O. Box 7769, 00200 : NAIROBI

BOARD OF DIRECTORS

Rasik Kantaria

Mr. Rasik Kantaria joined the Tausi Board in 1993 and was elected Chairman in March 2006. A Bachelor of Science (Economics) graduate, Mr. Kantaria is also the Chairman of Prime Bank Limited, Leisure Lodge Beach and Golf Resort and First Merchant Bank, Malawi. He is a Director of Deposit Protection Fund Board of Kenya.



Shantilah Shah

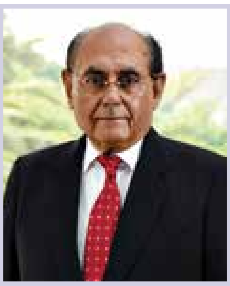
Mr. Shantilal Shah joined the Tausi Board in May 2005 and chairs the Audit Board Committee of the Company. A Bachelor of Commerce (Honours) graduate, Mr. Shantilal Shah is an FCA(Chartered Accountant, UK), an FCPA (Certified Public Accountant, Kenya) and a CPS (Certified Public Secretary, Kenya). He is also a Director of Prime Bank Limited.

Biniam Yohannes

Mr. Biniam Yohannes joined the Tausi Board of Directors on 13th December 2018. He has over 18 years of experience in private equity, investment banking and emerging markets. He is the Managing Director of Catalyst Principal Partners, a private equity fund that invests across eastern Africa. Mr. Yohannes previously worked as a Vice President at Goldman Sachs focused on the infrastructure, technology, media, telecom and project finance sectors. He holds a Bachelor of Arts in Mathematics from Saint Anselm College, a Bachelor of Engineering and Masters of Engineering Management from Dartmouth College.

Skander K. Oueslati

Mr. Skander K. Oueslati joined Tausi Assurance Board on 13th December 2018. He holds a Masters degree from Massachusetts Institute of Technology, USA, and Engineering degrees from France's Ecole Polytechnique and Ecole Nationale des Ponts et Chaussées. Prior to joining AfricInvest Group as a Senior Partner to oversee investments in Africa, he worked for BMCE Bank International in London and the International Finance Corporation in Washington DC, USA. Mr. Oueslati has extensive investment management experience as well as board experience, the latest being his nomination to the board of Prime Bank Limited, Kenya.

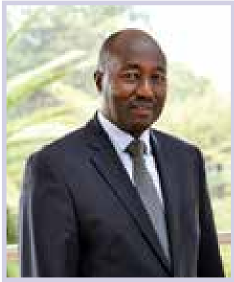


Nalin Kothari

Mr. Kothari having been in private practice for many years, has wide and varied exposure and experience in company law and company secretarial practice in Kenya. He has been the Company Secretary to a number of public companies including listed companies, private companies, multinationals overseas branches, charitable trusts and pension and provident schemes. He has given briefs in training programmes of client companies. He has been registrar for a number of listed companies and Bond issues. He has also provided company secretarial services for companies in Uganda and Tanzania. He is a Fellow of the Certified Public Secretaries, Kenya and a Fellow of the Institute of Chartered Secretaries and Administrators, UK. He holds a degree in law. He is the founder member of the Council of Institute of Certified Public Secretaries of Kenya and was appointed one of the first members of the Registration Board of Certified Public Secretaries.

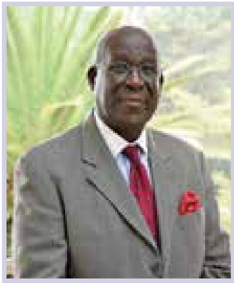
Amar Kantaria

Mr. Amar Kantaria joined the Tausi Board in June 2007 and chairs the Asset/Liability Board committee of the Company. A Bachelor of Arts (Honours)graduate, Mr. Amar Kantaria has an MBA in International Management. He is currently the Executive Director of Prime Bank Limited. Mr. Kantaria is also a Director of Kenya Community Development Fund and Treasurer of the Rotary Club Nairobi.



P. T. Warutere

Mr. P. T. Warutere joined the Tausi Board in March 2017. He is a development economist with over 30 years of experience in strategic communications and governance. He holds a Master of Philosophy degree in Business Administration from Maastricht School of Management in Netherlands, a Master of Economics and Social Studies degree from University of Manchester in UK, and a Bachelor of Education degree in Economics and Business Studies from University of Nairobi. He has worked in senior positions in several organizations, more recently at the World Bank Group. He is also an accomplished editor and writer on development issues. Mr. Warutere is also a director of Mashariki Communications and Mashariki Knowledge Academy.



Dr. Steve O. J. Mainda

Dr. Steve O. J. Mainda holds a Doctorate (Honoris Causa) from the University of East Africa. He also holds a Masters degree in Management from Princeton University, a Diploma in Management from Cambridge University and a Diploma in Education from University of East Africa, Makerere College. He is a member of the Chartered Institute of Insurance of London and a Fellow of the Insitute of Directors of London. Dr. Mainda has a wealth of experience in finance, Insurance, strategic management and education. He is currently the Group Chairman of Housing Finance Group of Companies and also the Chairman of Continental Reinsurance Company. He also sits on the Boards of several companies in East Africa. He has vast public and private sector management and leadership experience gained through assignments both locally and internationally. In recognition of his distinguished service, he was awarded "Elder of Burning Spear (EBS)" by the retired President Mwai Kibaki. Dr. Mainda served as the Chairman of Insurance Regulatory Authority for many years.

Mrs. Rita Thatthi

Mrs. Rita Thatthi joined the Tausi Board in 2007 as the CEO and Principal Officer. She holds a Bachelors degree in Commerce (Accounting Option) from the University of Nairobi and is an Associate member of the Chartered Insurance Institute of England. She has worked in the Insurance industry for over 30 years, having started her career in 1983. She worked with Kenindia Assurance Company Ltd and Corporate Insurance Co. Ltd prior to joining Tausi Assurance Co. Ltd. Rita was appointed Managing Director at Tausi on 10th February 2015.

CHAIRMAN'S STATEMENT

It is my pleasure to present the Annual Report and Financial Statements for Tausi Assurance Company Ltd, for the year 2019.

Despite a difficult year for the business community, I am happy to report that the Company continued to make profits that were similar to the year 2018; Ksh. 332M before tax in 2019 compared to Ksh 330M the previous year. This is a reflection of the quality of business underwritten and competent management practices. The strategy to maintain profitability has led to sustained underwriting profits in our core business in spite of the market facing great challenges.

The sustained profitability through underwriting profits, stable investment income and consistent internal capital generation has led to a high Risk Based Capital ratio of 265% at the end of 2019, which is up from 231% in 2018. This places the Company well above the statutory capital requirement of 200%.

The Company has completed its 3rd year of the 5-year Strategic Plan, which runs from 2017 to 2021 with satisfactory results. The Shareholders fund increased from Ksh. 1.4B in 2018 to Ksh.1.7B in 2019 and the return on equity stood at 18.3% in 2019 compared to 18.9% in 2018. A dividend of Ksh.13 per share was declared and distributed in keeping with the dividend policy.

We attained a Global Credit Rating of A (KE) : **POSITIVE OUTLOOK** for the year 2019/2020; which is the 4th year of an **A rating**.

Tausi embraces good corporate governance practices because it is a core part of our ethos. We present ourselves as trusted partners to our stakeholders. This is what we are known for. At the board level, we gave created structures to ensure our operations are transparent, that we adhere to all laws and regulations of the Country and that our work is guided by a clear focus on the end goal: creating shareholder value, ethically. We shall always strive to be a model of corporate citizen.

We also have an all rounded board that is diverse in experience, age and profession. During the year, two new directors joined the board ; Mr Skander Oueslati and Mr.Biniam Yohannes. They collectively bring a wealth of experience and knowledge drawn from their various disciplines to highly enrich the team. We welcome them on board.

In conclusion, we have gone through a difficult year in 2019 but I believe the future is full of promise. We are now well positioned to carve a niche for ourselves in the insurance sector, with the ultimate goal of enhancing shareholder value through a focus on excellent customer service.

I wish to thank the IRA and other business partners for their assistance throughout the year. I record my sincere appreciation to all my fellow Directors for their unfettered cooperation and support throughout the year and the Management and staff for their dedicated service. I thank all the Shareholders for their support during the year. Most of all I record my gratitude to our esteemed clients, agents and brokers for the confidence they have shown in us.

RASIK KANTARIA

CORPORATE GOVERNANCE

Tausi Assurance Company Limited is committed to the principles of Corporate Governance and high standards of business ethics. The Board of Directors is accountable to the shareholders for ensuring that the Company complies with the law and effective Corporate Governance for long term success of the Company's business.

BOARD OF DIRECTORS

The Board consists of seven non-executive Directors and the Managing Director. One third of these are independent. The Board brings together a wealth of experience, skills and independence and the Board's diverse experience contributes significant value.

BOARD MEETINGS

The Board of Directors meets at least four times in a year and on other occasions to deal with specific matters. The Directors are provided with all the necessary information in advance in respect of the items to be discussed at all meetings.

The Directors have access to any information of the Company and are provided with all the information needed to carry out their duties and responsibilities fully and effectively. The Directors are entitled to seek independent professional advice concerning the affairs of the Company. All Directors are required to declare any conflict of interest in respect of any matter before the Board.

PRIMARY RESPONSIBILITIES OF THE BOARD

The Board is responsible for establishing long-term goals of the Company and ensuring strategic objectives and plans are established to achieve those goals. It ensures that the management structures are in place to achieve these objectives. They guide the implementation of strategic decisions and actions in addition to advising the management as appropriate.

The Board is also responsible for policy decisions, review and adoption of the annual budgets, review of financial performance of the Company and monitoring the Company's performance and results on a monthly basis. It ensures the preparation of quarterly financial statements and annual financial statements with disclosures of information.

Further, the Board is responsible for the management of risk, overseeing implementation of adequate control systems and relevant compliance with the law, regulations, corporate governance, accounting and auditing standards. It is also responsible for ensuring that the Company remains viable, sustainable and competitive while maintaining and increasing shareholder value.

BOARD COMMITTEES

The Board has constituted various Board Committees listed hereunder to assist the Board in the discharge of its responsibilities including monitoring key activities in the Company. The essential function of the Committees is to deliberate in accordance with their terms of reference and make recommendations to the Board and seek directions from the Board. The Board, following deliberations on the recommendations of various Committees, gives direction for implementation or otherwise.

BOARD AUDIT COMMITTEE

The Committee is responsible for reviewing the effectiveness and reliability of management information systems, internal control systems and the efficiency and effectiveness of both external and internal audit. It ensures the efficient functioning of the internal audit department and reviews its reports. The Committee is also responsible for overseeing preparation of financial statements, financial reporting and disclosure processes. The Committee is further responsible for reviewing annual financial statements with external auditors as necessary before they are approved by the Board.

The Committee ensures the independence of the external auditors and reviews their reports. It also sets out to the external auditors the scope, nature and priorities of external audit.

BOARD RISK MANAGEMENT AND ETHICS COMMITTEE

The Committee is responsible for ensuring the effective operation of the risk management system and ethics in the company by performance of specialized analysis and quality reviews. It reports on details of risk exposures and actions being taken to manage the exposures. It also advises on Risk Management decisions in relation to Strategic and Operational matters like Corporate Strategy, mergers and acquisitions and related matters. In addition, the Committee addresses protection matters of policyholders including review of the status of policyholders' complaints. It also deals with compliance concerns and supervising and monitoring matters reported on ethical violations and potential breaches or violations of the same.

BOARD ASSET LIABILITY AND INVESTMENT COMMITTEE

The Investment, Asset and Liability Committee is responsible for investments of assets in accordance with the Company's investment policy and the requirements of the Insurance Act. It is also responsible for the management of assets and liabilities to achieve the Company's financial objectives and for formulating the framework that ensures the Company's adherance to the solvency requirements, meets its cash flow needs and capital requirements. It is further responsible for setting the Company's risk or reward objectives.

BOARD CORPORATE GOVERNANCE, NOMINATION, REMUNERATION AND HUMAN RESOURCE COMMITTEE

The Committee is responsible for addressing corporate governance matters in the Company and the manner in which the Board of Directors and the Senior Management oversee the Company's business. Corporate governance includes corporate discipline, transparency, independence, accountability, fairness, probity, ethics and corporate social responsibility.

It is also responsible for determining, with agreed terms

CORPORATE GOVERNANCE (CONT'D)

of reference, the Company's policy on nomination to the Board, procedures and specific remuneration packages and any remuneration for the Principal Officer and the Executive Director. It is further responsible for the scrutiny and evaluation of declarations made by the Directors before their appointment or reappointment or election of Directors by Shareholders. The Committee ensures succession planning, Board continuity, and also assesses annual evaluation of the Board. It is responsible for the recruitment of persons in control functions and senior management positions. It's responsibilities include overseeing the implementation of the human resource policy.

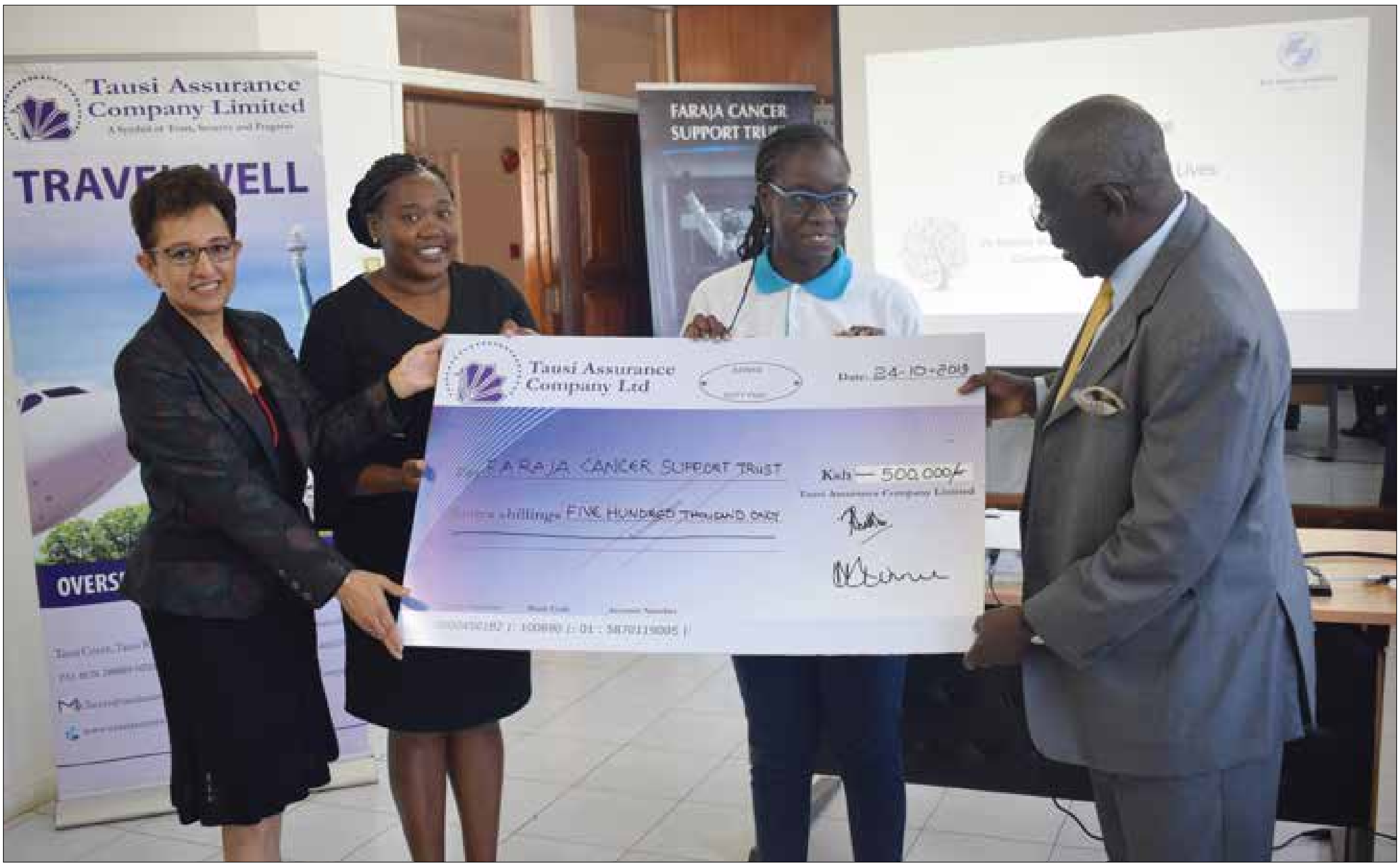
RELATIONS WITH SHAREHOLDERS

The Board's primary role is to promote the success of the Company and in that process, interests of shareholders. The Board is accountable to shareholders for the performance and activities of the Company. Communication with its shareholders in respect of the Company's business activities is through General Meetings, the Annual Report and Financial Statements and yearly publication of results made in the press.

CORPORATE SOCIAL RESPONSIBILITY

The Board is conscious of the Company's social responsibility and has ensured that the community at large and the environment benefit from funds that have been donated to various worthy causes. The Company's staff have also participated in CSR activities. Some of the activities or projects that the Company supported in 2019 are listed below:

(a) Hindu Council of Kenya.
(b) Donation of food for Kenyans affected by drought through the Rotary Disaster Relief Fund.
(c) Donation to Jaipur foot trust for fitting artificial limbs to amputees.
(d) Rhino Ark Kenya Charitable Trust.
(e) Sponsorship towards Mater Heart Run Fund.
(f) Sponsorship towards celebrating 30 years of Jain Social Group
(g) Funds to Faraja Cancer Support Trust and cancer patients.
(h) Sponsorship to the needy for eye operations at Lions Sight First Hospital.
(i) Donation for the construction of Kanaani Primary School through Amara Charitable Trust.
(j) Planning and sponsoring the Tausi Parklands Marathon.
(k) Donation for fostering of orphaned elephants through David Sheldrick Wildlife Trust.



Tausi Assurance Director, Dr. S.O.J. Mainda (right), Managing Director, Mrs. Rita Thatthi(Left) and Assistant General Manager, Ms. Winnie Muoki(2nd Left) presenting a cheque to Faraja Cancer Support Trust.

REPORT OF THE DIRECTORS

The directors hereby submit their report and the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The company underwrites all classes of general insurance business as defined by Section 31 of the Kenyan Insurance Act (cap 487) Laws of Kenya with the exception of aviation.

RESULTS

	2019 Shs	2018 Shs
Profit before tax	332,206,051	330,581,164
Tax (charge)	(59,587,827)	(77,853,938)
Profit for the year	272,618,224	252,727,226

BUSINESS REVIEW

During the year, the company's net earned premiums increased from Shs. 801,800,646 to Shs. 840,666,919. This was mainly attributed to increase in the client's retention capacity for various classes of business under reinsurance programme, increase in the volume of business sourced by brokers and agents as well as increase in the value of sum insured for various policies. The profit before tax increased from Shs. 330,581,164 to Shs. 332,206,051 reflecting the effects of increased premium income but higher claims.
As at 31 December 2019, the net asset position of the company was Shs. 1,752,539,854 compared to Shs. 1,488,851,496 as at 31 December 2018.

Key performance indicators	2019 Shs	2018 Shs
Gross premiums written	1,203,619,652	1,174,177,323
Gross earned premiums	1,204,121,8 42	1,158,666,849
Less: reinsurance premium ceded	(363,454,923)	(356,866,203)
Net earned premiums	840,666,919	801,800,646
Investment and other income	217,985,699	191,579,342
Fair value gain/(loss) on quoted shares	3,838,604	(24,239,441)
Commissions earned	119,044,163	120,259,997
Net income	1,181,535,385	1,089,400,544
Profit for the year	**272,618,224**	**252,727,226**

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on the overall performance of the company. The company's strategic focus is to enhance revenue growth whilst maintaining profit margins, the success of which remains dependent on overall market conditions, innovativeness to sustain market share and other factors such as the impact of the recent coronavirus outbreak. Whilst at this stage it is too early to predict the full potential impact of this outbreak on the company operations, the directors continue to monitor this situation closely with a view to assessing and mitigating its impact on the Company.

In addition to the business risks discussed above, the company's activities expose it to a number of financial and insurance risks which are described in detail in Note 3 to the financial statements.

REPORT OF THE DIRECTORS (cont'd)

DIVIDENDS

The Directors recommend payment of a final dividend of Shs. 5/- per share (Shs. 30,000,000/-), which in addition to the payment of an interim dividend of Shs. 8/- per share (Shs. 48,000,000/-) makes total dividend of Shs. 13/- per share (Shs. 78,000,000/-)

DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 3.

DIRECTORS INDEMNITIES

In line with sound governance practices, the Company maintains Directors' and Officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. The company has also granted indemnities to each of its Directors and the secretary to the extent permitted by law.

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

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

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

APPOINTMENT OF THE AUDITOR

PKF Kenya having expressed their willingness to continue in office, the Board of Directors recommends their appointment as auditors of the Company in accordance with Section 719 of the Kenyan Companies Act 2015.

The Report of Directors was approved by the Board of Directors on 13th March 2020 and signed on its behalf by the Secretary.

COMPANY SECRETARY
NAIROBI

13th March 2020

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; that disclose, with reasonable accuracy, the financial position of the company and that enable them to prepare financial statements of the company that comply with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
ii. Selecting and applying appropriate accounting policies; and
iii. Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31 December 2019 and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Having made an assessment of the company's ability to continues as a going concern, the directors are not aware of any material uncertainties related to events or condition that may cast doubt about the company's ability to continue as a going concern.

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

Approved by the board of directors on, 13th March, 2020 and signed on its behalf by:

DIRECTOR **DIRECTOR**

REPORT OF THE INDEPENDENT AUDITOR

Opinion

We have audited the financial statements of Tausi Assurance Company Limited set out on pages 13 to 54, which comprise the statement of financial position as at 31 December 2019, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of Tausi Assurance Company Limited's financial position as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

This section of the audit report is intended to describe the matters communicated with those charged with governance that we have determined, in our professional judgment, were of most significance in the audit of the financial statements. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Insurance contract liabilities

The directors exercise significant judgement in estimation of outstanding reported claims and Incurred But Not Reported (IBNR) claims. Accounting policy 1(b), to the financial statements describes the basis for such provisions and Note 23 to the financial statements sets out the disclosures in respect of these provisions .

Such provisions are based on multiple sources of information including models developed that rely on historical experience of claims. Because of the complexity of such models, the degree of judgement and estimation involved and the quantum of these provisions, the audit of insurance contract liabilities is a key audit matter.

Our audit procedures included testing the key controls over the claims recording procedures, including controls over the completeness and accuracy of the data that supports the models used in estimating the insurance contract liabilities. We tested the completeness of the claims registers including the quantification of claims outstanding at the reporting date. We tested the completeness of the data used by management in its models to estimate the IBNR claims provision. We reperformed, on a sample basis, management's model. In testing the reasonability of the estimates and assumptions used by management, we reviewed the historical experience of claims incurred against provisions recognised . We also reviewed the trend in claims over the recent past, including our knowledge of the industry, to determine overall reasonability of the provisions recognised.

Information technology (IT) systems and controls over financial reporting

The company is reliant on IT systems, with respect to its underwriting function. There is a risk that the controls around the IT systems may not be designed and operating effectively which could have a material impact on amounts reported. Therefore this represented a key audit matter.

Our audit procedures involved testing the overall design and operational effectiveness of controls over information systems that are critical to financial reporting. We applied judgement to the deficiencies that were observed that affected application and databases within the scope of our audit and performed additional controls and substantive procedures to determine the reliance placed on the completeness and accuracy of the system generated information.

REPORT OF THE INDEPENDENT AUDITOR (Cont'd)

Provisions made in respect of direct insurance arrangements and reinsurance arrangements

The directors exercise significant judgement in making provisions for receivables arising out of direct insurance arrangements and reinsurance arrangements based on various risk categories and classifications in Note 3.2(b) to the financial statements as well as the level of expected credit loss necessary for each category of receivables which is based on the company's past experience, industry standards and relevant consideration of forward looking factors. Because of the significance of these judgements and the quantum of the receivables from direct insurance arrangements and reinsurance arrangements, the audit of the impairment provisions is a key audit matter.

IFRS 9 implementation

Our audit procedures included testing the model used by the management in classifying the receivables into their respective credit grades and stages of performance which included understanding the classification criteria and reviewing this for consistency with the prior experience, industry experience as well as forward looking factors. We tested the model that was prepared by the management in determining the Loss Given Default (LGD) as well as the Probability of Default (PD) to form our own assessment as to whether the factors generated were reliable as these form the basis of the impairment provisions.

Other information

The directors are responsible for the other information. The other information comprises the report of the directors, statement of directors' responsibilities and the general insurance business revenue account but does not include the financial statements and our auditor's report thereon.

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

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

When we read the other reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

REPORT OF THE INDEPENDENT AUDITOR (Cont'd)

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

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

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

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

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

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

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

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

Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on pages 7 and 8 is consistent with the financial statements.

PKF Kenya

Certified Public Accountants
NAIROBI

20th March, 2020

CPA Jalpesh Vershi Shah - P/No. 1219.
Signing partner responsible for the independent audit

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2019 Shs	2018 Shs
Gross premiums written		1,203,619,652	1,174,177,323
Gross earned premiums	4	1,204,121,842	1,158,666,849
Less: reinsurance premium ceded	4	(363,454,923)	(356,866,203)
Net earned premiums	4	**840,666,919**	**801,800,646**
Investment and other income	5	217,985,699	191,579,342
Fair value adjustments	5	3,838,604	(24,239,441)
Commissions earned		119,044,163	120,259,997
Net income		**1,181,535,385**	**1,089,400,544**
Claims payable	6	(356,956,743)	(328,361,738)
Less: amounts recoverable from reinsurers	6	56,852,921	109,236
Net claims payable	6	(300,103,822)	(219,125,188)
Operating and other expenses	7	(339,352,507)	(338,717,568)
Commissions payable		(209,873,005)	(200,976,624)
Total operating and commission expenses		**(549,225,512)**	**(539,694,192)**
Profit before tax		332,206,051	330,581,164
Income Tax Charge	9	(59,587,827)	(77 , 853,938)
Profit for the year		**272,618,224**	**252,727.12**
Other comprehensive income:			
Items that shall not be reclassified subsequently to profit or loss:			
Surplus on revaluation of property, plant and equipment and right of use asset	12	24,974,246	-
Deferred income tax on surplus on revaluation of property, plant and equipment and right of use asset	26	(7,492,274)	-
Items that may be reclassified subsequently to profit or loss when specific conditions are met:			
Changes in fair value of Government securities - Fair value through other comprehensive income	18(b)	(1,333,053)	3,553,321
Changes in fair value of quoted shares - Fair value through other comprehensive income	20(b)	22,921,215	(11,828,017)
Total other comprehensive income		**39,070,134**	**(8,274,696)**
Total comprehensive income for the year attributable to shareholders of the company		**311,688,358**	**244,452,530**
Dividend - interim paid during the year	31	48,000,000	72,000,000
- final proposed for the year	31	30,000,000	-
		78,000,000	72,000,000
Earnings per share	32	45.44	42.12

The notes on pages 17 to 54 form an integral part of these financial statements.
Report of the independent auditor - pages 10 to 12.

STATEMENT OF FINANCIAL POSITION

	Note	2019 Shs	2018 Shs
		As at 31 December	
CAPITAL EMPLOYED			
Share capital	10	600,000,000	600,000,000
Revaluation reserves	11	191,592,954	171,009,140
Fair value reserve - Fair value through other comprehensive income		20,821,121	(767,041)
Retained earnings		910,125,779	718,609,397
Proposed dividend		30,000,000	-
Shareholders' funds		1,752,539,854	1,488,851,496
REPRESENTED BY			
Assets			
Property, plant and equipment	12	251,361,277	321,440,575
Intangible assets	13	4,708,638	1,347,183
Right of use asset	14	92,500,000	-
Mortgage and other loans	15	81,297,827	133,700,668
Receivables arising out of reinsurance arrangements		11,580,008	5,296,534
Receivables arising out of direct insurance arrangements		65,927,350	77,431,194
Reinsurers' share of insurance contract liabilities	16	283,107,940	258,762,569
Other receivables	17	75,828,329	75,794,058
Government securities - 'Amortised cost'	18(a)	863,235,037	856,820,427
Government securities - Fair value through other comprehensive income	18(b)	581,587,368	299,777,079
Commercial paper	19	-	7,012,479
Quoted shares at fair value through profit or loss	20(a)	108,814,959	116,882,605
Quoted shares - Fair value through other comprehensive income	20(b)	116,679,240	83,804,928
Deposits with financial institutions	22(b)	390,406,240	371,860,649
Cash and bank balances	22(a)	37,567,114	41,804,656
Tax recoverable		28,098,309	-
Total assets		2,992,699,636	2,651,735,604
Liabilities			
Insurance contract liabilities	23	719,122,347	625,442,732
Payables arising out of reinsurance arrangements		80,525,641	95,342,084
Unearned premium reserve	25	319,442,531	318,961,090
Deferred tax	26	68,229,886	62,545,389
Other payables	27	52,839,377	52,829,889
Tax payable		-	7,762,924
Total liabilities		1,240,159,782	1,162,884,108
Net assets		1,752,539,854	1,488,851,496

The financial statements on pages 13 to 54 were approved and authorised for issue by the Board of Directors on 13th March 2020 and were signed on its behalf by:

Director **Director** **Director**

The notes on pages 17 to 54 form an integral part of these financial statements.
Report of the independent auditor - pages 10 to 12.

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs	Fair value reserve Shs	Revaluation reserve Shs	Retained earnings Shs	Proposed divided Shs	Total Shs
Year ended 31 December 2018							
At start of the year		600,000,000	7,507,655	174,110,982	534,780,329	-	1,316,398,966
Profit for the year		-	-	-	252,727,226	-	252,727,226
Other comprehensive income:							-
Change in fair value of Government securities - 'Fair value through other comprehensive income'	18(b)	-	3,553,321	-	-	-	3,553,321
Change in fair value of quoted shares - 'Fair value through other comprehensive income'	20(b)	-	(11,828,017)	-	-	-	(11,828,017)
Transfer of excess depreciation	11	-	-	(4,431,203)	4,431,203	-	-
Deferred income tax on transfer of excess depreciation	11	-	-	1,329,361	(1,329,361)	-	-
Total comprehensive income for the year		**-**	**(8,274,696)**	**(3,101,842)**	**255,829,068**	**-**	**244,452,530**
Transactions with owners:							
Dividend:							
- interim for 2018 (paid)	31	-	-	-	(72,000,000)	-	(72,000,000)
At end of year 2018		600,000,000	(767,041)	171,009,140	718,609,397	-	1,488,851,496
Year ended 31 December 2019							
At start of the year		600,000,000	(767,041)	171,009,140	718,609,397	-	1,488,851,496
Profit for the year		-	-	-	272,618,224	-	272,618,224
Other comprehensive income:							
Change in fair value of Government securities - Fair value through other comprehensive income	18(b)	-	(1,333,053)	-	-	-	(1,333,053)
Change in fair value of quoted shares - Fair value through other comprehensive income	20(b)	-	22,921,215	-	-	-	22,921,215
Surplus on revaluation of property plant and equipment	11	-	-	24,974,246	-	-	24,974,246
Deferred tax on surplus on revaluation of property plant and equipment	11	-	-	(7,492,274)	-	-	(7,492,274)
Transfer of excess depreciation	11	-	-	4,431,203	(4,431,203)	-	-
Deferred income tax on transfer of excess depreciation	11	-	-	(1,329,361)	1,329,361	-	-
Total comprehensive income for the year		**-**	**21,588,162**	**20,583,814**	**269,516,382**	**-**	**311,688,358**
Transactions with owners:							
Dividend:							
- Interim for 2019 (paid)	31	-	-	-	(48,000,000)	-	(48,000,000)
- Final for 2019 (proposed)		-	-	-	(30,000,000)	30,000,000	(30,000,000)
At end of year		**600,000,000**	**20,821,121**	**191,592,954**	**910,125,779**	**30,000,000**	**1,752,539,854**

The notes on pages 17 to 54 form an integral part of these financial statements.
Report of the independent auditor - pages 10 to 12.

STATEMENT OF CASH FLOWS

	Note	As at 31 December 2019 Shs	2018 Shs
Operating activities			
Cash from operations	29	397,623,866	331,945,599
Tax paid		(97,256,837)	(56,823,187)
Net cash from operations		300,367,029	275,122,412
Investing activities			
Purchase of property, plant and equipment	12	(9,924,861)	(12,361,842)
Purchase of intangible assets	13	(4,773,876)	-
Proceeds from disposal of property, plant and equipment		540,000	900,000
Movement in mortgage and other loans		52,363,803	14,504,029
Movement of Government securities - 'Amortised Cost'		(7,099,912)	21,894,311
Purchase of Government securities - fair value through other comprehensive income	18(b)	(290,842,910)	(206,296,152)
Maturity of Government securities - fair value through other comprehensive income	18(b)	12,500,000	11,400,000
Placement of fixed deposits maturing in over 90 days	22(b)	(228,528,157)	(85,430,027)
Redemption of commercial paper	19	7,075,000	7,075,000
Proceeds from disposal of quoted shares at fair value through profit or loss			
Purchase of quoted shares - fair value through other	20(a)	11,906,250	99,870
comprehensive income	20(b)	(9,953,097)	-
Net cash (used in) investing activities		(466,737,760)	(248,214,811)
Financing activities			
Dividend paid	31	(48,000,000)	(72,000,000)
Net cash (used in) financing activities		(48,000,000)	(72,000,000)
Increase/(Decrease) in cash and cash equivalents		(214,370,731)	(45,092,399)
Movement in cash and cash equivalents			
At start of year		340,723,806	385,816,205
Increase/(Decrease)		(214,370,731)	(45,092,399)
At end of year	22	126,353,075	340,723,806

The notes on pages 17 to 54 form an integral part of these financial statements.
Report of the independent auditor - pages 10 to 12.

NOTES

1. Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into consideration when pricing the asset or liability at the measurement date. For measurement and/ or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

These financial statements comply with the requirements of the Kenyan Companies Act, 2015. The statement of profit or loss and other comprehensive income represents the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

Going concern

The financial performance of the company is set out in the report of the directors and in the statement of profit or loss and the other comprehensive income. The financial position of the company is set out in the statement of financial position. Disclosures in respect of risk management are set out in Note 3.

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

New standards, amendments and interpretations adopted by the company

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

NOTES (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

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

International Financial Reporting Standard 16 (IFRS 16): Leases

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

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

- Leases of property, plant and equipment including hire purchase contracts where the company assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are recognised as a liability at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The interest rate implicit in the lease is used as the discount factor in determining the present value. Each lease Property, plant and equipment acquired under finance leases are capitalised and depreciated over the estimated useful life of the asset.

  Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

The measurement of assets and liabilities that were recognised as finance leases under the previous accounting policy has continued unchanged but the assets have been reclassified from property and equipment to Right-of-use assets (see Notes 14) Right-of-use assets leases (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) in force at 1 January 2019 have not been recognised in accordance with the transition requirements of IFRS 16, as they are not material.

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

	Shs.
Right-of-use assets	**92,500,000**

Other standards and amendments
The following, which became effective from 1 January 2019, have been adopted but have not had a significant impact on the company's financial statements.
- Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.

NOTES (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

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

Other standards and amendments (continued)

- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.
- Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.
- Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amostised cost classification.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

New standards, amendments and interpretations issued but not effective

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

- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued in September 2014) applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.
- IFRS 17 'Insurance Contracts' (issued in May 2017) effective for annual periods beginning on or after 1 January 2021 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.
- Amendments to IFRS 3 'Definition of a Business' (issued in October 2018) applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.
- Amendments to IAS 1 and IAS 8 'Definition of Material' (issued in October 2018) applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

The directors expect that the future adoption of IFRS 17 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other standards and interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates.

NOTES (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Insurance contracts

The company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance and investment contracts contain a discretionary participation feature (DPF).
This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

i) That are likely to be a significant portion of the total contractual benefits;
ii) Whose amount or timing is contractually at the discretion of the company; and
iii) That are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract;
  - realised and/or unrealised investment returns on a specified pool of assets held by the company; or
  - the profit or loss of the company, fund or other entity that issues the contract.

Local statutory regulations and the terms and conditions of these contracts set out the basis for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the Company may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the eligible surplus must be attributed to contract holders as a group (which can include future contract holders); the amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the relevant local appointed actuary.

Recognition and measurement
The company issues contracts that transfer insurance risk. As a general guideline, the company defines a significant insurance risk as the possibility of having to pay claims on the occurrence of an insured event.

Premium income
Premium income is recognised on assumption of risks, and includes estimates of premiums due but not yet received, less an allowance for cancellations, and less unearned premium. Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned premium liability. Unearned premiums are computed based on the 1/365th method. Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims
Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date.

NOTES (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Insurance contracts (continued)

Claims (continued)

Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed and include provisions for claims incurred but not reported ("IBNR"). Outstanding claims are not discounted.

Liability adequacy test
At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used.

Commissions
Commissions payable are recognised in the period in which the related premiums are written. Commissions receivable are recognised in income in the period in which the related premiums ceded.

Reinsurance contracts held
Contracts entered into by the company with reinsurers under which the company is compensated for losses on one or more contracts issued by the company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The company assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss. The company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets (Note 1 (e)).

Receivables and payables related to insurance contracts
Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivables are impaired, the company reduces the carrying amount of the insurance receivables accordingly and recognises that impairment loss in profit or loss. The company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

Salvage and subrogation reimbursements
Some insurance contracts permit the company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

NOTES (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Insurance contracts (continued)

Salvage and subrogation reimbursements (continued)

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

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

c) Other income

Interest income and expenses
Interest income and expenses for all interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss and fair value through other comprehensive income, are recognised in profit or loss using the effective interest rate method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

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

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

d) Property, plant and equipment

All property, plant and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.
Buildings are subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation are credited to a revaluation reserve in equity through the statement of other comprehensive income. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

NOTES (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Property, plant and equipment (continued)

Depreciation is calculated on a reducing balance basis to write down the cost of each asset, to its residual value over its estimated useful life using the following annual rates:

	Rate %	
Buildings	2	(Straight line basis)
Motor vehicles	25	
Furniture and fittings	12.5	
Computer equipment	30	

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each financial reporting date.

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

e) Financial instruments

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

- Financial assets

The company classifies its financial assets into the following categories:

i) Amortised cost:

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

ii) Fair Value Through Other Comprehensive Income (FVTOCI):

Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are classified and measured at value through other comprehensive income (FVTOCI).

Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

iii) Fair Value Through Profit or Loss (FVTPL):

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

NOTES (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments (continued)

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

iii) Fair Value Through Profit or Loss (FVTPL): (continued)

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

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

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

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

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

Impairment
The company recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comphrensive income (FVTOCI):
- Receivables arising out of direct insurance arrangements
- Receivables arising out of reinsurance arrangements
- Mortgage and other loans
- Government securities
- Commercial paper
- Deposits with financial institutions
- Cash and bank balances
- Quoted shares
- Other receivables

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

NOTES (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments (continued)

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

Impairment (continued)

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

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

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

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

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

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

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

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

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

  Offsetting financial instruments
  Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

NOTES (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Intangible assets - Computer software

Computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software is amortised over its estimated useful life which is estimated to be at five years.

g) Impairment of non-financial assets and intangible assets

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

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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

h) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

i) Accounting for leases

The company as lessee

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

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

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

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

NOTES (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Accounting for leases (continued)

The company as lessee (continued)

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

Leasehold land is subsequently carried at revalued amounts, based on annual/triennial valuations by external independent valuers, less accumulated depreciation and accumulated impairment losses. All other right-of-use assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. If ownership of the underlying asset is not expected to pass to the company at the end of the lease term, the estimated useful life would not exceed the lease term.

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

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

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

The company as lessor

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

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

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

j) Employee benefits

i) Retirement benefit obligations

The company operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered funds, which are funded from contributions from both the company and employees. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

NOTES (Continued)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Employee benefits (continued)

i) Retirement benefit obligations (continued)

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

ii) Other entitlements

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

k) Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income, in which case, the tax is also recognised in other comprehensive income.

Current tax
Current tax is provided on the results for the year, adjusted in accordance with tax legislation.

Deferred tax
Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

l) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

m) Share capital

Ordinary shares are classified as equity.

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

NOTES (Continued)

2. Critical accounting estimates and judgments

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continuously evaluated and based on historical experience and other factors, expectations of future events that are believed to be reasonable under the circumstances.

a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the company will ultimately pay for such claims.

Judgement is also applied in the estimation of future contractual cash flows in relation to reported losses and losses incurred but not yet reported. Case estimates are computed on the basis of the best information available at the time the records for the year are closed. Note 23 contains further details on this process.

b) Measurement of expected credit losses (ECL):

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

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:
- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing companys of similar financial assets for the purposes of measuring ECL.

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

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

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

- **Stage 1** - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.

- **Stage 2** - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses.

NOTES (Continued)

2. Critical accounting estimates and judgments (continued)

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

- **Stage 3** -When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

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

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

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

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

- **Accounting for leases under IFRS 16**

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

Incremental borrowing rate:

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

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

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

NOTES (Continued)

2. Critical accounting estimates and judgments (continued)

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

- Accounting for leases under IFRS 16 (continued)

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

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

3. Management of insurance and financial risk

3.1 Insurance risk

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

The company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the company manages them.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

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

i) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for the damage suffered as a result of exposure to asbestos, and the increase in the number of cases coming to court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period typically required to settle these cases.

The company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

NOTES (Continued)

3. Management of insurance and financial risk (continued)

3.1 Insurance risk (continued)

ii) Sources of uncertainty in the estimation of future benefit payments and premium receipts

Claims on casualty contracts/general risks are payable on a claims-occurrence basis. The company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time, and a larger element of the claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability covers) or members of the public (for public liability covers). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

3.2 Financial risk

The company is exposed to financial risk through its financial assets and financial liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important types of risk are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate risk, equity price risk and other price 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 credit risk.

The company manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

a) Market risk

i) Foreign exchange risk

The company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar on cash and bank balances.

The assets denominated in US dollar at year end totalled Shs. 312,131 (2018: Shs. 810,809) representing 0.01% (2018: 0.03%) of total assets. At 31 December 2019, if the Kenya Shilling had weakened/strengthened by 10% against the US dollar with all other variables held constant, the effect on the post tax profit for the year would be Shs. 21,849 (2018: Shs. 56,757).

ii) Price risk

The company is exposed to equity securities price risk because of investments in quoted shares and treasury bonds classified either as at fair value through profit or loss or fair value through other comprehensive income. The company is not exposed to commodity price risk. To manage its price risk arising from investments in equity the company diversifies its portfolio on several counters. Diversification of the portfolio is done in accordance with limits set by the company and guidelines per the Kenyan Insurance Act. All quoted shares and treasury bonds held by the company are traded on the Nairobi Securities Exchange (NSE).

NOTES (Continued)

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

a) Market risk (continued)

ii) Price risk (continued)

The table below summarises the impact of increases/decreases of the NSE index on the company's post-tax profit for the year and on other comprehensive income. The analysis is based on the assumption that the equity indexes had increased by 5% with all other variables held constant and all the company's equity instruments moved according to the historical correlation with the index:

	Impact on profit		Impact on other	
Index	**2019 Shs**	**2018 Shs**	**2019 Shs**	**2018 Shs**
Increase	5,440,748	5,844,130	5,833,962	4,190,246

iii) Cash flow and interest rate risk

Fixed interest rate financial instruments expose the company to fair value interest rate risk. Variable interest rate financial instruments expose the company to cash flow interest rate risk.

The company's fixed interest rate financial instruments are government securities, deposits with financial institutions and commercial papers.

No limits are placed on the ratio of variable rate financial instruments to fixed rate financial instruments. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

The government securities, deposits with financial institutions, commercial paper and loans at year end totalled Shs. 1,916,526,472 (2018: Shs. 1,669,171,302) representing a significant portion of total assets. At the reporting date, if the interest rates had been 5 basis points higher/lower with all other variables held constant, the effect on the post tax profit for the year would have been an increase/decrease by Shs. 67,078,427 (2018: Shs. 58,420,996).

b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal information in accordance with limits set by the management.
The utilisation of credit limits is regularly monitored.

In assessing whether the credit risk on a financial asset has increased significantly, the company compares the risk of default occurring on the financial asset as at the reporting date with the risk of default occurring on that financial asset as at the date of initial recognition. In doing so, the company considers reasonable and supportable information that is indicative of significant increases in credit risk since initial recognition and that is available without undue cost or effort. There is a rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

NOTES (Continued)

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

b) Credit risk (continued)

For these purpose default is defined as having occurred if the debtor is in breach of contractual obligations, or if information is available internally or externally that suggests that the debtor is unlikely to be able to meet its obligations. However, there is a rebuttable assumption that that default does not occur later than when a financial asset is 90 days past due.

If the company does not have reasonable and supportable information to identify significant increases in credit risk and/or to measure lifetime credit losses when there has been a significant increase in credit risk on an individual instrument basis, lifetime expected credit losses are recognised on a collective basis. For such purposes, the company's financial assets on the basis of shared credit risk characteristics, such as:
- type of instrument;
- industry in which the debtor operates; and
- nature of collateral.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired include observable data about the following events:
- significant financial difficulty of the debtor
- a breach of contract
- it is probable that the debtor will enter bankruptcy
- the disappearance of an active market for the financial asset because of financial difficulties.

The gross carrying amount of financial assets with exposure to credit risk at the balance sheet date was as follows:

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses (see note below)	Total
As at 31 December 2019	**Shs**	**Shs**	**Shs**
Receivables arising out of direct insurance arrangements	-	70,337,038	70,337,038
Receivables arising out of reinsurance arrangements	-	12,040,275	12,040,275
Mortgage and other loans	81,297,827	-	81,297,827
Government securities - 'Amortised Cost'	863,235,037	-	863,235,037
Government securities - Fair value through other comprehensive income	581,587,368	-	581,587,368
Other Receivables	75,828,329	-	75,828,329
Deposits with financial institutions	390,406,240	-	390,406,240
Cash and bank balances	37,567,114	-	37,567,114
Gross carrying amount	2,029,921,915	82,377,313	2,112,299,228
Loss allowance	14,700,400	4,869,955	19,570,355
Exposure to credit risk	2,044,622,315	87,247,268	2,131,869,583

NOTES (Continued)

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

b) Credit risk (continued)

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses (see note below)	Total
As at 31 December 2018	**Shs**	**Shs**	**Shs**
Receivables arising out of direct insurance arrangements	-	85,197,555	85,197,555
Receivables arising out of reinsurance arrangements	-	7,432,526	7,432,526
Mortgage and other loans	133,700,668	-	133,700,668
Government securities - 'Amortised Cost'	856,820,427	-	856,820,427
Government securities - fair value through other comprehensive income	299,777,079	-	299,777,079
Commercial paper	7,012,479	-	7,012,479
Other receivables	75,794,058	-	75,794,058
Deposits with financial institutions	371,860,649	-	371,860,649
Cash and bank balances	41,804,656	-	41,804,656
Gross carrying amount	1,786,770,016	92,630,081	1,879,400,097
Loss allowance	12,835,502	9,902,353	22,737,855
Exposure to credit risk	1,799,605,518	102,532,434	1,902,137,952

Financial assets for which the loss allowance has been measured at an amount equal to lifetime expected credit losses have been analysed above based on their credit risk ratings as follows:

a) financial assets for which credit risk has increased significantly since initial recognition but that are not credit impaired;
b) financial assets that are credit impaired at the reporting date;
c) trade receivables, contract assets and lease receivables for which the loss allowance is always measured at an amount equal to lifetime expected credit losses, based, as a practical expedient, on provision matrices.

The age analysis of receivables arising out of direct insurance arrangements and out of reinsurance arrangements at the end of each year was as follows:

	Receivables arising out of direct Insurance arrangements		Receivables arising out of reinsurance arrangements	
	2019	**2018**	**2019**	**2018**
	Shs	**Shs**	**Shs**	**Shs**
0 to 30 days past	7,644,397	18,739,689	7,148,888	1,534,910
31 to 60 days past	29,468,956	29,107,482	618,164	487,951
61 to 90 days past	22,023,441	17,409,728	1,462,926	595,674
Over 90 days past	11,200,244	19,940,656	2,810,297	4,813,991
IFRS 9 Provision	(4,409,688)	(7,766,361)	(460,267)	(2,135,992)
	65,927,350	77,431,194	11,580,008	5,296,534

NOTES (Continued)

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

b) Credit risk (continued)

The changes in the loss allowance during the year were as follows:

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses (see note below)	Total
Year ended 31 December 2019	**Shs**	**Shs**	**Shs**
At start of year	12,835,502	9,902,353	22,737,855
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	1,864,898	(5,032,398)	(3,167,500)
At end of year	14,700,400	4,869,955	19,570,355

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses (see note below)	Total
Year ended 31 December 2018	**Shs**	**Shs**	**Shs**
At start of year	11,862,733	5,705,087	17,567,820
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	972,769	4,197,266	5,170,035
At end of year	12,835,502	9,902,353	22,737,855

The loss allowances at the end of each year relate to the following;

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses (see note below)	Total
As at 31 December 2019	**Shs**	**Shs**	**Shs**
Receivables arising out of direct insurance	-	4,409,688	4,409,688
Receivables arising out of reinsurance	-	460,267	460,267
Mortgage and other loans	39,038	-	39,038
Government securities - 'Amortised Cost'	792,497	-	792,497
Government securities - fair value through other comprehensive income	506,893	-	506,893
Other receivables	1,024,067	-	1,024,067
Deposits with financial institutions	11,241,577	-	11,241,577
Cash and bank balances	1,096,328	-	1,096,328
Total	14,700,400	4,869,955	19,570,355

NOTES (Continued)

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

b) Credit risk (continued)

Basis for measurement of loss allowance	12-month expected credit losses	Lifetime expected credit losses (see note below)	Total
As at 31st December 2018	**Shs**	**Shs**	**Shs**
Receivables arising out of direct insurance arrangements	-	7,766,361	7,766,361
Receivables arising out of reinsurance arrangements	-	2,135,992	2,135,992
Government securities - 'Amortised Cost'	107,195	-	107,195
Government securities - fair value through other comprehensive income	26,623	-	26,623
Commercial paper	213,156	-	213,156
Deposits with financial institutions	11,224,392	-	11,224,392
Cash and bank balances	1,264,136	-	1,264,136
Total	12,835,502	9,902,353	22,737,855

The company does not hold any collateral against the past due or impaired receivables. The management continues to actively follow up past due receivables.

c) Liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. The company is exposed to daily calls on its available cash for claims settlement and other expenses. The company does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. On large claims arrangements are in place to obtain cash calls from reinsurers.

The table below presents the undiscounted cash flows payable by the company under financial liabilities by remaining contractual maturities (other than insurance contract liabilities which are based on expected maturities) at the reporting date. All figures are in Kenya Shillings.

As at 31 December 2019	Up to 3 months Shs	4 - 12 months Shs	1 - 5 years Shs	Total Shs
Liabilities				
Insurance contract liabilities	71,912,235	151,015,693	496,194,419	719,122,347
Creditors arising from reinsurance arrangements	80,525,641	-	-	80,525,641
Other payables	35,390,196	-	-	35,390,196
Total financial liabilities	187,828,072	151,015,693	496,194,419	835,038,184

NOTES (Continued)

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

c) Liquidity risk (continued)

As at 31 December 2018	Up to 3 months Shs	4 - 12 months Shs	1 - 5 years Shs	Total Shs
Liabilities				
Insurance contract liabilities	62,544,273	131,342,974	431,555,485	625,442,732
Creditors arising from reinsurance arrangements	95,342,084	-	-	95,342,084
Other payables	35,392,095	-	-	35,392,095
Total financial liabilities	193,278,452	131,342,974	431,555,485	756,176,911

d) Financial assets measured at fair value

The following table presents the company's assets that are measured at fair value at 31 December 2019 and 31 December 2018:

As at 31 December 2019	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
Assets				
Financial assets				
Quoted shares at fair value through profit or loss	108,814,959	-	-	108,814,959
Quoted shares - Fair value through other comprehensive income	116,679,240	-	-	116,679,240
Government securities - Fair value through other comprehensive income	581,587,368	-	-	581,587,368
	807,081,567	-	-	807,081,567

As at 31 December 2018	Level 1 Shs	Level 2 Shs	Level 3 Shs	Total Shs
Assets				
Financial assets				
Quoted shares at fair value through profit or loss	116,882,605	-	-	116,882,605
Quoted shares - Fair value through other comprehensive income	83,804,928	-	-	83,804,928
Government securities - Fair value through other comprehensive income	299,777,079	-	-	299,777,079
	500,464,612	-	-	500,464,612

NOTES (Continued)

3. Management of Insurance and Financial risk (Continued)

3.2 Financial risk (continued)

e) Financial risk assets by category

	Financial assets at fair value through profit or loss upon initial recognition Shs	Amortised cost Shs	Fair Value through other comprehensive income Shs	Total Shs
As at 31 December 2019				
Quoted shares	108,814,959	-	116,679,240	225,494,199
Government securities	-	863,235,037	581,587,368	1,444,822,405
Mortgage and other loans	-	81,297,827	-	81,297,827
Receivables arising out of reinsurance arrangements	-	11,580,008	-	11,580,008
Reinsurers share of insurance contract liabilities	-	283,107,940	-	283,107,940
Receivables arising out of direct insurance arrangements	-	65,927,350	-	65,927,350
Other receivables	-	75,828,329	-	75,828,329
Deposits with financial institutions	-	390,406,240	-	390,406,240
Tax recoverable	-	28,098,309	-	28,098,309
Cash and cash equivalents	-	37,567,114	-	37,567,114
	108,814,959	1,837,048,154	698,266,608	2,644,129,721
As at 31 December 2018				
Quoted shares	116,882,605	-	83,804,928	200,687,533
Government securities	-	856,820,427	299,777,079	1,156,597,506
Commercial paper	-	7,012,479	-	7,012,479
Mortgage and other loans	-	133,700,668	-	133,700,668
Receivables arising out of reinsurance arrangements	-	5,296,534	-	5,296,534
Reinsurers share of insurance contract liabilities	-	258,762,569	-	258,762,569
Receivables arising out of direct insurance arrangements	-	77,431,194	-	77,431,194
Other receivables	-	75,794,058	-	75,794,058
Deposits with financial institutions	-	371,860,649	-	371,860,649
Cash and cash equivalents	-	41,804,656	-	41,804,656
	116,882,605	1,828,483,234	383,582,007	2,328,947,846

f) Financial liabilities by category

	As at 31 December 2019			As at 31 December 2018		
	Financial liabilities at fair value through profit or loss Shs	Financial liabilities at amortised cost Shs	Total Shs	Financial liabilities at fair value through profit or loss Shs	Financial liabilities at amortised cost Shs	Total Shs
Insurance contract liabilities	-	719,122,347	719,122,347	-	625,442,732	625,442,732
Payables arising out of reinsurance arrangements	-	80,525,641	80,525,641	-	95,342,084	95,342,084
Other payables	-	52,839,377	52,839,377	-	52,829,889	52,829,889
Tax payable	-	-	-	-	7,762,924	7,762,924
	-	852,487,365	852,487,365	-	773,614,705	773,614,705

NOTES (Continued)

3. Management of insurance and financial risk (continued)

3.2 Financial risk (continued)

g) Capital management

Internally imposed capital requirements

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

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

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

	2019 Shs	2018 Shs
Tier-1 Capital	1,510,125,779	1,318,609,397
Tier-2 Capital	212,414,075	170,245,099
Deductions	134,996,553	100,568,939
Total Capital Available (TCA)	1,587,543,301	1,388,285,557
Absolute Amount Minimum 1	600,000,000	600,000,000
Volume of Business Minimum 2	160,360,129	148,797,115
Risk Based Capital Minimum	253,161,575	260,870,009
Minimum Required Capital	**600,000,000**	**600,000,000**
Capital Adequacy Ratio	**265%**	**231%**

4. Gross Earned Premiums

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

Year ended 31 December 2019	Gross Shs	Reinsurance Shs	Net Shs
Fire	328,996,838	(232,416,001)	96,580,837
Motor	307,554,683	(7,505,145)	300,049,538
Workmen's compensation	179,234,016	(7,149,385)	172,084,631
Marine	142,539,928	(42,867,595)	99,672,333
Theft	110,689,879	(8,668,261)	102,021,618
Engineering	63,405,279	(47,523,207)	15,882,072
Public liability	22,493,153	(4,122,204)	18,370,949
Personal accident	13,593,177	(2,743,597)	10,849,580
Others	35,614,889	(10,459,528)	25,155,361
	1,204,121,842	(363,454,923)	840,666,919

NOTES (Continued)

4. Gross earned premiums (continued)

Year ended 31 December 2018	Gross Shs	Reinsurance Shs	Net Shs
Fire	325,371,660	(234,939,347)	90,432,313
Motor	264,226,498	(2,618,968)	261,607,530
Workmen's compensation	175,164,214	(3,919,173)	171,245,041
Marine	147,642,201	(42,130,058)	105,512,143
Theft	114,905,031	(8,163,102)	106,741,929
Engineering	65,044,023	(47,884,164)	17,159,859
Public liability	17,623,203	(1,526,120)	16,097,083
Personal accident	14,003,443	(1,470,442)	12,533,001
Others	34,686,576	(14,214,829)	20,471,747
	1,158,666,849	(356,866,203)	801,800,646

5. Investment and other income

	2019 Shs	2018 Shs
Interest from Government securities	157,734,228	133,308,608
Interest from corporate bond	510,829	1,395,806
Interest from bank deposits and current accounts	28,318,498	23,092,680
Interest on staff and mortgage loans	11,779,597	17,362,511
Foreign exchange (loss)	-	(278,928)
Rental income	5,452,688	5,130,096
Gain on sale of quoted shares	2,468,750	44,540
Dividend income	11,323,147	9,900,708
Miscellaneous income	24,817	1,428,907
Gain on disposal of property, plant and equipment	373,145	194,414
Fair value gain/(loss) on quoted shares at fair value through profit or loss (Note 20(a))	3,838,604	(24,239,441)
	221,824,303	167,339,901

6. Claims payable

The claims of the company can be analysed between the principal classes of business as follows:

Year ended 31 December 2019	Gross Shs	Reinsurance Shs	Net Shs
Motor	140,035,366	(1,875,043)	138,160,323
Fire	51,850,108	(27,695,291)	24,154,817
Workmen's compensation	49,011,453	(376,408)	48,635,045
Marine	29,156,302	(9,050,687)	20,105,615
Theft	36,767,757	(126,067)	36,641,690
Engineering	38,347,194	(16,603,825)	21,743,369
Public liability	10,349,534	(661,523)	9,688,011
Personal accident	12,747	(40,213)	(27,466)
Others	1,426,282	(423,864)	1,002,418
	356,956,743	(56,852,921)	300,103,822

NOTES (Continued)

6. Claims payable (continued)

Year ended 31 December 2018	Gross Shs	Reinsurance Shs	Net Shs
Motor	92,525,549	(204,634)	92,320,915
Fire	94,284,767	(56,456,139)	37,828,628
Workmen's compensation	41,061,002	(5,051,727)	36,009,275
Marine	28,078,029	(18,821,824)	9,256,205
Theft	32,348,510	(227,480)	32,121,030
Engineering	35,167,654	(28,058,823)	7,108,831
Public liability	(907,670)	-	(907,670)
Personal accident	94,535	-	94,535
Others	5,709,362	(415,923)	5,293,439
	8,361,738	(109,236,550)	219,125,188

7. Operating and other expenses

	2019 Shs	2018 Shs
Depreciation on property, plant and equipment (Note 12)	12,311,550	11,025,454
Amortisation of intangible assets (Note 13)	1,412,421	620,070
Auditors' remuneration	3,039,954	2,307,934
Directors' remuneration		
- Fees to executives	3,300,000	3,330,740
- Other fees	2,880,000	2,560,000
Repairs and maintenance	2,511,777	2,147,006
Other operating expenses	162,466,353	157,882,470
Staff costs (Note 8)	151,430,452	158,843,894
	339,352,507	338,717,568

8. Staff costs

	2019 Shs	2018 Shs
Salaries and wages	135,632,715	141,466,306
National Social Security Fund	157,400	150,600
Retirement benefit costs - defined contribution scheme	7,048,927	6,706,099
Other staff costs	8,591,410	10,520,889
	151,430,452	158,843,894

The average number of persons employed during the year, by category, were:	2019 Number	2018 Number
- Underwriting	13	12
- Claims	19	19
- Management, administration and finance	33	33
Total	65	64

9. Tax

	2019 Shs	2018 Shs
Current tax	61,395,604	77,964,548
Deferred tax (credit) (Note 26)	(1,807,777)	(110,610)
Tax charge	59,587,827	77,853,938

NOTES (Continued)

9. Tax (continued)

	2019 Shs	2018 Shs
The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic rate as follows:		
Profit before tax	332,206,051	330,581,164
Tax calculated at the rate of 30% (2018: 30%)	99,661,815	99,174,349
Tax effect of:		
- expenses not deductible for tax purposes	3,538,812	3,269,783
- Impairment provisons - IFRS 9 transition adjustment	-	1,551,011
- underprovision in prior year	(2,784,043)	-
- income not subject to tax	(40,828,757)	(26,141,205)
Tax charge	59,587,827	77,853,938

10. Authorised, issued and fully paid:

	2019 Shs	2018 Shs
6,000,000 (2018: 6,000,000) ordinary shares of Shs. 100 each	600,000,000	600,000,000

11. Revaluation reserve

	2019 Shs	2018 Shs
Right of use asset	63,626,089	61,004,275
Buildings	127,966,865	110,004,865
	191,592,954	171,009,140

The movement on the reserve is as follows:

	2019 Shs	2018 Shs
Right of use asset		
At start of year	61,004,275	61,852,117
Revaluation surplus	2,534,246	-
Deferred tax on revaluation surplus	(760,274)	-
Transfer of excess depreciation	1,211,203	(1,211,203)
Deferred tax on excess depreciation transfer	(363,361)	363,361
At end of year	63,626,089	61,004,275

	2019 Shs	2018 Shs
Buildings		
At start of year	110,004,865	112,258,865
Revaluation surplus	22,440,000	-
Deferred tax on revaluation surplus	(6,732,000)	-
Transfer of excess depreciation	3,220,000	(3,220,000)
Deferred tax on excess depreciation transfer	(966,000)	966,000
At end of year	127,966,865	110,004,865

The revaluation reserve is not distributable.

NOTES (Continued)

12. Property, plant and equipment

Year ended 31 December 2019	Leasehold land Shs	Buildings Shs	Motor vehicles Shs	Furniture and fittings Shs	Computer equipment Shs	Total Shs
Cost/valuation						
At start of year	92,500,000	211,000,000	4,279,524	40,238,898	39,188,527	387,206,949
Additions	-	-	4,395,400	1,035,659	4,493,802	9,924,861
Disposal	-	-	(1,250,000)	-	-	(1,250,000)
Reversal on revaluation	(2,534,246)	(8,440,000)	-	-	-	(10,974,246)
Surplus on revaluation	2,534,246	22,440,000	-	-	-	24,974,246
Transfer to right-of-use asset	(92,500,000)	-	-	-	-	(92,500,000)
At end of year	-	225,000,000	7,424,924	41,274,557	43,682,329	317,381,810
Accumulated depreciation						
At start of year	1,267,123	4,220,000	2,008,280	25,238,589	33,032,382	65,766,374
Disposal	-	-	(1,083,145)	-	-	(1,083,145)
Charge for the year	1,267,123	4,220,000	1,624,947	2,004,496	3,194,984	12,311,550
Reversal on revaluation	(2,534,246)	(8,440,000)	-	-	-	(10,974,246)
At end of year	-	-	2,550,082	27,243,085	36,227,366	66,020,533
Net book value	-	225,000,000	4,874,842	14,031,472	7,454,963	251,361,277

Leasehold land and buildings were professionally valued by R.R. Oswald & Company Limited on the basis of current open market value on 28 December 2019. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred tax was credited to the revaluation reserve in shareholder's equity, through the statement of comprehensive income.

The fair valuation of property, plant and equipment is considered to represent a level 3 valuation based on significant non-observable inputs being the location and condition of the assets and replacement costs. Management does not expect there to be a material sensitivity to the fair values arising from the non-observable inputs.

NOTES (Continued)

12. Property, plant and equipment (continued)

Year ended 31 December 2018	Leasehold land Shs	Buildings Shs	Motor vehicles Shs	Furniture and fittings Shs	Computer equipment Shs	Total Shs
Cost/valuation						
At start of year	92,500,000	211,000,000	3,737,434	34,357,889	35,479,784	377,075,107
Additions	-	-	2,772,090	5,881,009	3,708,743	12,361,842
Disposal	-	-	(2,230,000)	-	-	(2,230,000)
At end of year	92,500,000	211,000,000	4,279,524	40,238,898	39,188,527	387,206,949
Accumulated depreciation						
At start of year	-	-	2,775,612	23,095,688	30,394,034	56,265,334
Disposal	-	-	(1,524,414)	-	-	(1,524,414)
Charge for the year	1,267,123	4,220,000	757,082	2,142,901	2,638,348	11,025,454
At end of year	1,267,123	4,220,000	2,008,280	25,238,589	33,032,382	65,766,374
Net book value	91,232,877	206,780,000	2,271,244	15,000,309	6,156,145	321,440,575

If leasehold land and buildings were stated on the historical cost basis, the carrying values would be as follows:

Year ended 31 December 2019	Leasehold land Shs	Buildings Shs	Total Shs
Cost	5,000,000	50,000,000	55,000,000
Accumulated depreciation	(1,039,180)	(18,000,000)	(19,039,180)
	3,960,820	32,000,000	35,960,820
Year ended 31 December 2018			
Cost	5,000,000	50,000,000	55,000,000
Accumulated depreciation	(983,260)	(17,000,000)	(17,983,260)
	4,016,740	33,000,000	37,016,740

NOTES (Continued)

13. Intangible asset - software

	2019 Shs	2018 Shs
Cost		
At start of year	24,766,790	24,766,790
Additions	4,773,876	-
At end of year	29,540,666	24,766,790
Amortisation		
At start of year	23,419,607	22,799,537
Charge for the year	1,412,421	620,070
At end of year	24,832,028	23,419,607
Net book value	4,708,638	1,347,183

14. Right-of use assets

	Leasehold land Shs
Cost	
At start of year	-
Transferred from property, plant and equipment (Note 12)	92,500,000
At end of year	92,500,000
Accumulated depreciation	
At start of year	-
Transferred from property and equipment (Note 12)	-
Charge for the year	-
At end of year	-
Carrying amount	92,500,000

The company lease on leasehold land is for a period of 99 years, with options to renew. The lease does not contain any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

15. Mortgage and other loans

	2019 Shs	2018 Shs
Mortgage loans		
At start of year	126,751,812	139,354,334
Amount advanced	11,500,000	17,500,000
Repayment	(61,830,167)	(30,102,522)
IFRS 9 provision	(39,038)	-
At end of year	76,382,607	126,751,812
Other loans		
At start of year	6,948,856	8,850,363
Amount advanced	-	2,157,500
Repayment	(2,033,636)	(4,059,007)
At end of year	4,915,220	6,948,856
Total mortgage and other loans	81,297,827	133,700,668

NOTES (Continued)

16. Reinsurers' share of insurance contract liabilities

	2019 Shs	2018 Shs
Reinsurers' share of:		
- unearned premium (Note 25)	84,436,042	83,452,410
- notified claims outstanding (Note 24)	178,779,017	141,270,670
- claims incurred but not reported (Note 24)	19,892,881	34,039,489
	283,107,940	258,762,569

17. Other receivables

	2019 Shs	2018 Shs
Deposits	9,992,775	9,987,775
Sundry debtors	2,509,468	1,865,101
Deferred commission	53,293,141	53,297,402
Prepayments	11,057,012	10,643,780
IFRS 9 provision	(1,024,067)	-
	75,828,329	75,794,058

18. Government securities

a) At amortised cost

	2019 Shs	2018 Shs
Treasury bills and bonds maturing:		
Less than 90 days from the reporting date (Note 22)	-	-
Between 1 and 5 years of the reporting date	228,278,624	159,248,663
After 5 years of the reporting date	635,748,910	697,678,959
IFRS 9 Provision	(792,497)	(107,195)
	863,235,037	856,820,427

Treasury bonds whose face value is Shs.164,000,000 (2018: Shs. 144,000,000) are held under lien in favour of the Commissioner of Insurance in accordance with Section 32 of the Kenyan Insurance Act.

b) Fair value through other comprehensive income

	2019 Shs	2018 Shs
Treasury bills and bonds maturing:		
Between 1 and 5 years of the reporting date	253,090,659	12,603,975
After 5 years of the reporting date	329,003,602	287,199,727
IFRS 9 Provision	(506,893)	(26,623)
	581,587,368	299,777,079

The movement in government securities - 'Fair value through other comprehensive income' is analysed as follows:

	2019 Shs	2018 Shs
At start of year	299,777,079	99,060,672
Matured during the year	(12,500,000)	(11,400,000)
Loss on maturity of government securities - Fair value through other comprehensive income	(103,975)	-
Additions	290,842,910	206,296,152
Accrued interest movement	5,384,677	2,293,557
IFRS 9 Provision	(480,270)	(26,623)
Fair value (loss)/gain	(1,333,053)	3,553,321
At end of year	581,587,368	299,777,079

NOTES (Continued)

19. Commercial paper

	2019 Shs	2018 Shs
At start of year	7,012,479	14,446,411
Matured during the year	(7,075,000)	(7,075,000)
Accrued interest movement	(150,635)	(145,776)
IFRS 9 Provision	213,156	(213,156)
At end of year	-	7,012,479

20. Quoted shares

	2019 Shs	2018 Shs
a) At fair value through profit or loss		
At start of year	116,882,605	141,221,916
Additions	-	-
Disposals	(11,906,250)	(99,870)
Fair value gain/(loss)	3,838,604	(24,239,441)
At end of year	108,814,959	116,882,605
b) Fair value through other comprehensive income		
At start of year	83,804,928	95,632,945
Disposals		
Additions	9,953,097	-
Fair value gain/(loss)	22,921,215	(11,828,017)
At end of year	116,679,240	83,804,928

21. Weighted average effective interest rates

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

	2019 %	2018 %
Government securities	10.92	11.53
Deposits with financial institutions	7.25	6.21
Commercial paper	9.63	19.90
Mortgage and other loans	14.49	12.99

22. Cash and bank balances

	2019 Shs	2018 Shs
a) Cash at bank and in hand		
Cash at bank and in hand	38,663,442	43,068,792
IFRS 9 Provision	(1,096,328)	(1,264,136)
	37,567,114	41,804,656
b) Deposits with financial institutions maturing:		
Below three months from the reporting date	87,689,633	297,655,014
After three months from the reporting date	313,958,184	85,430,027
IFRS 9 Provision	(11,241,577)	(11,224,392)
	390,406,240	371,860,649

NOTES (Continued)

22. Cash and bank balances (continued)

	2019 Shs	2018 Shs
For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the following:		
Deposits with financial institutions maturing in below three months from the reporting date	87,689,633	297,655,014
Cash at bank and in hand	38,663,442	43,068,792
	126,353,075	340,723,806

23. Insurance contract liabilities

	2019 Shs	2018 Shs
Short term non-life insurance contracts:		
- claims reported and claims handling expenses	609,048,202	501,577,986
- claims incurred but not reported (IBNR)	110,074,145	123,864,746
Total gross insurance liabilities (Note 24)	719,122,347	625,442,732

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2019 and 2018 are not material.

The company uses chain-ladder techniques to estimate the ultimate cost of claims and the IBNR provision. Chain ladder techniques are used as they are an appropriate technique for mature classes of business that have a relatively stable development pattern. This involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not fully developed to produce an estimated ultimate claims cost for each accident year.

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

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

Accident year	2015 and Prior years Shs	2016 Shs	2017 Shs	2018 Shs	2019 Shs	Total Shs
Estimate of ultimate claims costs:						
At end of accident year	2,991,455,646	324,529,719	419,077,350	340,262,914	464,073,859	4,539,399,488
One year later	6,454,244	27,158,743	(58,867,618)	3,108,601	-	(22,146,030)
Two years later	(27,254,929)	5,265,037	(5,376,183)	-	-	(27,366,075)
Three years later	(11,232,065)	(46,355,142)	(2,591,010)	-	-	-
Four years later	(46,355,142)	-	-	-	-	(46,355,142)
Current estimate of cumulative claims	2,913,067,754	354,362,489	354,833,549	343,371,515	464,073,859	4,429,709,166
Less: cumulative payments to date	2,760,745,174	324,250,805	293,858,035	269,041,684	172,765,266	3,820,660,964
Liability	152,322,580	30,111,684	60,975,514	74,329,831	291,308,593	609,048,202
Provision for incurred but not yet reported claims (IBNR)						110,074,145
Total gross claims liability included in the statement of financial position						719,122,347

NOTES (Continued)

24. Movements in reinsurance liabilities and assets

	2019 Gross Shs	2019 Reinsurance Shs	2019 Net Shs	2018 Gross Shs	2018 Reinsurance Shs	2018 Net Shs
Notified claims	501,577,986	141,270,670	360,307,316	638,272,699	226,235,758	412,036,941
Incurred But Not Reported	123,864,746	34,039,489	89,825,257	126,348,261	35,359,205	90,989,056
At start of year	625,442,732	175,310,159	450,132,573	764,620,960	261,594,963	503,025,997
Cash paid for claims settled in year	(286,638,867)	(56,852,921)	(229,785,946)	(381,255,162)	(109,236,550)	(272,018,612)
Increase in liabilities:						
- arising from current year claims	456,831,960	129,329,128	256,514,238	339,759,794	83,245,556	256,514,238
- arising from prior year claims	(76,513,478)	(49,114,468)	(27,399,010)	(97,682,860)	(60,293,810)	(37,389,050)
At end of year	719,122,347	198,671,898	520,450,449	625,442,732	175,310,159	450,132,573
Notified claims	609,048,202	178,779,017	430,269,185	501,577,986	141,270,670	360,307,316
Incurred but not reported	110,074,145	19,892,881	90,181,264	123,864,746	34,039,489	89,825,257
	719,122,347	198,671,898	520,450,449	625,442,732	175,310,159	450,132,573

25. Unearned premium reserves

	2019 Gross Shs	2019 Reinsurance Shs	2019 Net Shs	2018 Gross Shs	2018 Reinsurance Shs	2018 Net Shs
At start of year	318,961,090	83,452,410	235,508,680	285,356,749	65,358,543	219,998,206
Increase/(decrease)	481,441	983,632	(502,192)	33,604,341	18,093,867	15,510,474
At end of year	319,442,531	84,436,042	235,006,488	318,961,090	83,452,410	235,508,680

NOTES (Continued)

26. Deferred tax

Deferred tax is calculated, in full, on all temporary timing differences under the liability method using a principal tax rate of 30% (2018: 30%). The movement on the deferred tax account is as follows:

	2019 Shs	2018 Shs
At start of year	62,545,389	62,655,999
Charge to other comprehensive income	7,492,274	-
(Credit)/charge to profit or loss	(1,807,777)	(110,610)
At end of year	68,229,886	62,545,389

Deferred tax liability in the statement of financial position and deferred tax charge to profit or loss and other comprehensive income are attributable to the following items:

	At start of year Shs	Charge to other Comprehensive Income Shs	(Credit) /charge to profit or loss Shs	At end of year Shs
Deferred tax liability				
Property, plant and equipment				
- historical cost	30,391	-	58,671	89,062
- revaluation	71,528,135	7,492,274	-	79,020,409
Provisions	(9,013,137)	-	(1,866,448)	(10,879,585)
Net deferred tax liability	62,545,389	7,492,274	(1,807,777)	68,229,886

27. Other payables

	2019 Shs	2018 Shs
Accrued expenses	11,572,038	9,424,498
Other liabilities	23,818,158	25,967,597
Deferred commissions	17,449,181	17,437,794
	52,839,377	52,829,889

28. Contingent liabilities

As is common with the insurance industry in general, the company is subject to litigation arising in the normal course of insurance business.

The directors are of the opinion that this litigation will not have a material effect on the financial position or profits of the company.

NOTES (Continued)

29. Cash from operations

	2019 Shs	2018 Shs
Reconciliation of profit before tax to cash from operations:		
Profit before tax	332,206,051	330,581,164
Adjustments for:		
Depreciation on property, plant and equipment (Note 12)	12,311,550	11,025,454
Amortisation of intangible assets (Note 13)	1,412,421	620,070
(Gain) on disposal of property, plant and equipment (Note 5)	(373,145)	(194,414)
IFRS 9 provisions	(3,167,500)	5,170,035
Fair value (gain)/loss on quoted shares through profit or loss (Note (20)(a)	(3,838,604)	24,239,441
Accrued Interest movement on Government securities - 'Available-for-sale'	(5,384,677)	(2,293,557)
Loss on maturity of - 'Available-for- sale' assets	103,975	-
Accrued Interest movement on Corporate Bond	150,635	145,776
Changes in working capital:		
- increase in receivables arising out of direct insurance arrangements	14,860,517	(445,422)
- (decrease) in receivables arising out of reinsurance arrangements	(4,607,749)	(3,585,221)
- (decrease)/increase in reinsurers share of insurance contract liabilities	(24,345,371)	68,190,937
- (decrease) in other receivables	(1,058,338)	(16,567,864)
- increase/(decrease) in insurance contract liabilities	93,679,615	(139,178,228)
- (decrease)/increase in payables arising out of reinsurance arrangements	(14,816,443)	37,992,083
- increase in unearned premium reserves	481,441	33,604,341
- increase/(decrease) in other payables	9,488	(17,358,996)
Cash from operations	397,623,866	331,945,599

30. Related party transactions

Related parties are defined as entities which are related to the company 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.

i) **Transactions with related parties**	2019 Shs	2018 Shs
Gross premiums written	67,854,389	74,413,120
Gross claims incurred	14,175,067	8,161,257
Commission paid	11,495,961	10,541,345
ii) Outstanding balances		
Outstanding premiums	14,809	2,113,490
Claims payable	12,482,875	10,229,345
Deposits with financial institutions	316,335,589	308,473,671
Current account balances	38,066,953	39,177,110
Staff Mortgage loans	32,303,011	22,838,687
Staff motor vehicle loans	4,915,220	6,948,856

NOTES (Continued)

30. Related party transactions (continued)

	2019 Shs	2018 Shs
iii) Directors' remuneration		
Fees for services as a director	2,880,000	2,560,000
Other emoluments	3,300,000	3,330,740
iv) Key management compensation		
Remuneration of senior management	68,419,561	79,711,659

31. Dividend

The directors propose a final dividend of Shs. 5 per share (2018: Nil) amounting to a total of Shs. 30,000,000 (2018: Nil).

During the year, an interim dividend of Shs. 8 per share (2018: Shs. 12 per share) amounting to a total of Shs. 48,000,000 (2018: Shs. 72,000,000) was paid.

The total dividend for the year is therefore Shs. 13 per share (2018: Shs. 12 per share) amounting to a total of Shs. 78,000,000 (2018: Shs. 72,000,000).

In accordance with the Kenyan Companies Act 2015, these financial statements reflect this dividend payable, which is accounted for in the shareholders' funds as an appropriation of retained profits in the year ended 31 December 2019.

Payment of dividend is subject to withholding tax at a rate of 0%, 5% or 10% depending on the tax status or residency of the shareholder.

32. Earnings per share

Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the year adjusted for the effect of the bonus shares issued if any.

	2019 Shs	2018 Shs
Net profit for the year attributable to shareholders	272,618,224	252,727,226
Adjusted weighted average number of ordinary shares in issue	6,000,000	6,000,000
Earnings per share - basic and diluted (Shs.)	45.44	42.12

There were no potentially dilutive shares outstanding as at 31st December 2019 and 2018.

NOTES (Continued)

GENERAL INSURANCE BUSINESS REVENUE ACCOUNT

Class of insurance business	Engineering Shs	Fire Domestic Shs	Fire Industrial Shs	Public Liability Shs	Marine Shs	Motor Private Shs	Motor Commercial Shs	Personal Accident Shs	Theft Shs	Workmen's' Compensation Shs	Medical Shs	Miscellaneous Shs	Dec 2019 Total Shs	Dec 2018 Total Shs
Gross premiums written	61,333,120	47,267,810	284,345,614	23,230,735	141,279,714	173,275,933	135,335,580	12,728,221	110,039,444	180,966,331	12,797,554	21,019,596	1,203,619,652	1,174,177,323
Change in net unearned premiums	2,072,159	(737,425)	(1,879,161)	(737,582)	1,260,214	1,467,075	(2,523,905)	864,956	650,435	(1,732,315)	(76,252)	1,873,991	502,190	(15,510,474)
Gross earned premiums	63,405,279	46,530,385	282,466,453	22,493,153	142,539,928	174,743,008	132,811,675	13,593,177	110,689,879	179,234,016	12,721,302	22,893,587	1,204,121,842	1,158,666,849
Less: premiums ceded to reinsurers	(47,523,207)	(12,522,158)	(219,893,843)	(4,122,204)	(42,867,595)	(3,144,699)	(4,360,446)	(2,743,597)	(8,668,261)	(7,149,385)	-	(10,459,528)	(363,454,923)	(356,866,203)
Net earned premiums	15,882,072	34,008,227	62,572,610	18,370,949	99,672,333	171,598,309	128,451,229	10,849,580	102,021,618	172,084,631	12,721,302	12,434,059	840,666,919	801,800,646
Gross claims paid	(24,324,360)	(18,253,951)	(36,677,219)	(4,367,351)	(24,825,416)	(74,498,231)	(42,596,384)	(134,304)	(26,273,982)	(30,532,745)	(3,653,746)	(501,178)	(286,638,867)	(381,255,162)
Changes in net outstanding claims	(14,022,834)	482,637	2,598,425	(5,982,183)	(4,330,886)	14,883,741	(37,824,492)	121,557	(10,493,775)	(18,478,708)	(766,176)	3,494,818	(70,317,876)	52,893,424
Less: reinsurance recoverable	16,603,825	758,804	26,936,487	661,523	9,050,687	1,863,649	11,394	40,213	126,067	376,408	-	423,864	56,852,921	109,236,550
Net claims incurred	(21,743,369)	(17,012,510)	(7,142,307)	(9,688,011)	(20,105,615)	(57,750,841)	(80,409,482)	27,466	(36,641,690)	(48,635,045)	(4,419,922)	3,417,504	(300,103,822)	(219,125,188)
Commissions receivable	15,885,242	3,184,902	83,453,282	648,482	12,443,072	(51,156)	211,983	181,477	55,164	80,441	-	2,951,275	119,044,163	120,259,997
Commissions payable	(13,354,634)	(9,128,055)	(65,076,583)	(4,426,882)	(24,832,843)	(17,143,611)	(13,111,802)	(2,685,880)	(21,128,213)	(35,370,417	(1,272,131)	(2,341,954)	(209,873,005)	(200,976,624)
Expenses of management	(5,446,232)	(13,702,684)	(25,417,921)	(7,535,854)	(38,810,904)	(67,094,857)	(51,652,819)	(3,937,648)	(39,977,874)	(68,548,395)	(5,046,987)	(4,164,587)	(331,336,762)	(323,503,016)
Total expenses and commissions	(2,915,624)	(19,645,838)	(7,041,222)	(11,314,254)	(51,200,675)	(84,289,624)	(64,552,638)	(6,442,051)	(61,050,924)	(103,838,371)	(6,319,118)	(3,555,267)	(422,165,604)	(404,219,643)
Underwriting profit/(loss)	(8,776,921)	(2,650,121)	48,389,081	(2,631,316)	28,366,043	29,557,844	(16,510,891)	4,434,995	4,329,004	19,611,215	1,982,262	12,296,296	118,397,493	178,455,815