PIONEER ASSURANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS	: Evani Amai Olubayi : John Mark Okondo : Michael Kenga Mure : Moses Njuguna Kimani : Mtalaki Mwashimba : Shirazali Abdulla Guram Hussein Jeraj : David Kipruto Ronoh
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS	: Pioneer House, Moi Avenue : P.O. Box 20333, 00200 : NAIROBI
INDEPENDENT AUDITOR	: PKF Kenya LLP : Certified Public Accountants : P.O. Box 14077, 00800 : NAIROBI
COMPANY SECRETARIES	: Adili Corporate Services Kenya : Certified Public Secretaries : P.O. Box 764, 00606 : NAIROBI
PRINCIPAL BANKERS	: NCBA Bank Kenya PLC : NAIROBI : Co-operative Bank of Kenya Limited : NAIROBI : Diamond Trust Bank Kenya Limited : NAIROBI : Ecobank Limited : NAIROBI : National Bank of Kenya Limited : NAIROBI
PRINCIPAL LEGAL ADVISERS	: Ajaa Olubayi & Company Advocates : NAIROBI : Milimo Muthomi & Company Advocates : NAIROBI
CONSULTING ACTUARY	: Abed Mureithi : Actuarial Services East Africa Limited : NAIROBI

REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of the company.

COUNTRY OF INCORPORATION

The company is incorporated in Kenya under the Kenyan Companies Act 2015, as a private limited liability company and is domiciled in Kenya.

PRINCIPAL ACTIVITIES

The principal activities of the company are those of provision of insurance and related services as licensed by the Kenyan Insurance Act. The company provides individual life assurance, group life assurance, annuities and pension administration.

BUSINESS REVIEW

During the year, the company's net earned premiums decreased from Shs. 3,207,374,848 to Shs. 2,779,835,127. This was mainly attributed to loss of a major client in group life business whose annual premium was Shs. 2,295,990,096.

The company reported a loss before tax of Shs. 96,492,003 as compared to a profit before tax of Shs. 73,054,794. This was mainly attributtable to a reduction of net earned premium by Shs. 427,539,721, reduction in commission income by Shs. 165,324,570 and a reduction in investment income by Shs 98,518,053. The above reductions in income have been offset in part by a reduction in expenses, mainly claims and policy holder benefits payable Shs. 408,519,603 and a reduction in commission expenses Shs. 120,048,075.

KEY PERFORMANCE INDICATORS	2020 Shs	2019 Shs
Gross premiums written	3,714,134,284	5,028,314,075
Net earned premiums	2,779,835,127	3,207,374,848
(Loss)/profit before tax	(96,492,003)	73,054,794
(Loss)/profit after tax	(122,256,553)	142,488,384
Total assets	6,691,328,191	7,618,773,265
Net assets	888,238,708	1,010,495,261

PRINCIPAL RISKS AND UNCERTAINTIES

The overall business environment continues to remain challenging and this has a resultant effect on overall performance of the company. The company's strategic focus is to enhance growth in gross written premiums, gaining market share, whilst maintaining both underwriting and accounting profits, the success of which remains dependent on overall market conditions, marketing strategies, innovativeness to sustain market share and other factors such as the impact of the coronavirus outbreak. Whilst at this stage it is difficult to predict the full potential impact of this outbreak on the company's operations as the virus mutates, the world population has embarked to get itself vaccinated. So far, we have had 64 customers losing their lives as a result of Covid-19 whose claims stands at Shs. 106,479,901 as at December 2020.

REPORT OF THE DIRECTORS (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

The agility of our information and operational systems enabled underwriting, claims management, customer service and finance to offer the core business services remotely. This resulted in savings of Shs. 54,000,000 in operational expenses. The saving was however reduced by a decision by the regulator (IRA) to levy premium tax on group life premium.

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

DIVIDEND

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

DIRECTORS

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

In accordance with the company's Articles of Association, 1/3 of the directors retire by rotation and are eligible for re-election.

STATEMENT AS TO DISCLOSURE TO THE COMPANY'S AUDITOR

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

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

TERMS OF APPOINTMENT OF THE AUDITOR

PKF Kenya LLP has indicated willingness to continue in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

The Report of Directors was approved by the Board of Directors on 30 MARCH 2021 and signed on its behalf by the Secretary.

BY ORDER OF THE BOARD

FOR ADILI CORPORATE SERVICES KENYA
COMPANY SECRETARY
NAIROBI

30 MARCH 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the company as at 31 December 2020 and of the company's financial performance and cash flows for the 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 continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

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

Approved by the board of directors on 30 MARCH 2021 and signed on its behalf by:

DIRECTOR

DIRECTOR

REPORT OF THE CONSULTING ACTUARY

I have conducted an actuarial valuation of the life assurance business of Pioneer Assurance Company Limited (the "company") as at 31 December 2020.

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

In my opinion, the life assurance business of the company was financially sound and the actuarial value of the liabilities in respect of all classes of life insurance business did not exceed the amount of funds of the life assurance business at 31 December 2020.

Abed Mureithi
Actuarial Services (E.A) Ltd

31 March 2021

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF PIONEER ASSURANCE COMPANY LIMITED

Opinion

We have audited the financial statements of Pioneer Assurance Company Limited set out on pages 10 to 54, which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss, 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 Pioneer Assurance Company Limited's financial position as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Kenyan Companies Act, 2015.

Basis for Opinion

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

Key Audit Matters

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

Expected credit loss provision on receivables

The directors exercise significant judgement in making provisions for receivables arising out of direct insurance arrangements and reinsurance arrangements based on various risk categories and classifications in Note 1(h) and Notes 23 and 24 to the financial statements as well as the level of expected credit loss necessary for each category of receivables which is based on the company's past experience and relevant consideration of forward looking factors. Because of the significance of these judgements and the quantum of the receivables from direct insurance arrangements and reinsurance arrangements, the audit of the expected credit loss provisions is a key audit matter.

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 expected credit loss provision as included under Note 3(3.2(b)) to the financial statements.

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF PIONEER ASSURANCE COMPANY LIMITED (CONTINUED)

Key Audit Matters (continued)

Valuation of insurance contract liabilities, payables under deposit administration contracts and payables under investment contracts

The directors exercise significant judgement in estimation of insurance contract liabilities, payables under deposit administration contracts and payables under investment contracts. Accounting policy (b), included in Note 1 to the financial statements, describe the basis for such liabilities and Notes 30, 31 and 32 to the financial statements set out the disclosures in respect of these liabilities. These liabilities are determined by an independent management appointed actuary, based on multiple sources of information including models developed that rely on a number of assumptions that have been further described in Note 3 of these financial statements. Because of the complexity of such models, the degree of judgement and estimation involved and the quantum of these liabilities, the audit of these liabilities is a key audit matter.

Our audit procedures included testing the key controls over the completeness and accuracy of the data that is used by the actuary in his models as well as the reasonability of the assumptions applied in estimating the liabilities. We tested the completeness and accuracy of the databases used to generate the policyholders profiles. We also challenged the assumptions used by the actuary and on a sample basis tested the accuracy of the models.

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.

We tested the design and implementation of the controls around the information technology environment and operating effectiveness for controls that were critical to databases within the scope of our audit and the financial reporting process. Where our procedures identified deficiencies, we assessed the design and implementation of any controls that mitigated the identified risks and extended the scope of our tests of operating effectiveness of controls and/or substantive audit procedures.

Other information

The directors are responsible for the other information. The other information comprises report of the directors, statement of directors' responsibilities, report of the consulting actuary and supplementary information comprising the long term 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.

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REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF PIONEER ASSURANCE COMPANY LIMITED (CONTINUED)

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 International Financial Reporting Standards (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 has 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 the International Standards of Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

- 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.

PKF

REPORT OF THE INDEPENDENT AUDITOR
TO THE MEMBERS OF PIONEER ASSURANCE COMPANY LIMITED (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

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

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

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

In our opinion the information given in the report of the directors on pages 2 and 3 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Mehul Bhavsar, practising certificate No. 1818

For and on behalf of PKF Kenya LLP
Certified Public Accountants
Nairobi, Kenya

30 April 2021

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STATEMENT OF PROFIT OR LOSS

	Notes	2020 Shs	2019 Shs
Gross earned premiums	4(a)	3,714,134,284	5,028,314,075
Premium ceded to reinsurers	4(b)	(934,299,157)	(1,820,939,227)
Net earned premiums		**2,779,835,127**	**3,207,374,848**
Investment income	5	194,550,128	293,068,181
Commissions income	6	215,639,448	380,964,018
Other income	7	465,927	1,095,016
Net income		**3,190,490,630**	**3,882,502,063**
Claims and policy holder benefits payable	8	(3,787,709,467)	(4,196,229,070)
Recoverable under reinsurance arrangements	8	1,472,515,339	1,488,309,740
Net claims payable		**(2,315,194,128)**	**(2,707,919,330)**
Operating and other expenses	9	(494,833,041)	(518,414,835)
Impairment losses	9	(31,663,807)	(17,773,372)
Commissions payable	11	(445,291,657)	(565,339,732)
(Loss)/profit before tax		**(96,492,003)**	**73,054,794**
Tax (charge)/credit	12(a)	(25,764,550)	69,433,590
(Loss)/profit for the year		**(122,256,553)**	**142,488,384**
(Loss)/earnings per share (basic and diluted)	13	(30.56)	35.62

The notes on pages 14 to 54 form an integral part of these financial statements.

Report of the independent auditor - pages 6 to 9.

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2020 Shs	2019 Shs
Assets			
Property and equipment	14	27,465,324	37,821,865
Intangible assets	15	25,366,625	3,808,427
Right-of-use assets	16	51,664,200	78,131,382
Investment properties	17	1,512,000,000	1,515,200,000
Financial assets at fair value through profit or loss:			
- quoted investments	18(a)	51,336,770	23,817,525
- unquoted investments	18(b)	100,000,000	100,000,000
- investments with fund managers	19	31,245	145,237,865
Policy loans receivable	20	102,784,083	76,104,905
Government securities held to maturity	21	914,043,327	775,159,116
Kenya Motor Insurance Pool	22	12,432,470	11,966,543
Receivables arising from reinsurance arrangements	23	1,979,987,129	1,464,321,260
Receivables arising out of direct insurance arrangements	24	476,167,247	117,946,451
Other receivables	25	283,710,427	281,802,997
Deposits with financial institutions	26	412,799,642	839,588,360
Cash and bank balances	27	711,222,598	2,116,054,465
Tax recoverable	12(b)	30,317,104	31,812,104
Total assets		6,691,328,191	7,618,773,265
Equity			
Share capital	28	400,000,000	400,000,000
Retained earnings		120,204,376	283,435,999
Statutory reserve	29	368,034,332	327,059,262
Total equity		888,238,708	1,010,495,261
Liabilities			
Insurance contract liabilities	30	2,432,862,296	2,797,890,111
Payables under deposit administration contracts	31	1,137,602,072	897,996,763
Payables under investment contracts	32	312,824,539	182,615,738
Outstanding claims	33	1,082,512,562	834,949,454
Creditors arising from reinsurance arrangements	34	503,176,812	1,229,642,187
Other payables	35	87,370,536	413,789,624
Lease liabilities	36	62,443,294	84,490,500
Deferred tax	37	184,297,372	166,903,627
Total liabilities		5,803,089,483	6,608,278,004
Total equity and liabilities		6,691,328,191	7,618,773,265

The financial statements on pages 10 to 54 were approved and authorised for issue by the Board of Directors on 30 MARCH 2021 and were signed on its behalf by:

Principal Officer **Director**

Director

The notes on pages 14 to 54 form an integral part of these financial statements.
Report of the independent auditor - pages 6 to 9.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital Shs	Retained earnings Shs	Statutory reserve Shs	Total Shs
Year ended 31 December 2019					
At start of year		150,000,000	211,176,883	506,829,994	868,006,877
Profit for the year		-	142,488,384	-	142,488,384
Issue of ordinary share capital		250,000,000	(250,000,000)	-	-
Transfer (net of deferred tax)	29	-	179,770,732	(179,770,732)	-
At end of year		400,000,000	283,435,999	327,059,262	1,010,495,261
Year ended 31 December 2020					
At start of year		400,000,000	283,435,999	327,059,262	1,010,495,261
(Loss) for the year		-	(122,256,553)	-	(122,256,553)
Transfer (net of deferred tax)	29	-	(40,975,070)	40,975,070	-
At end of year		400,000,000	120,204,376	368,034,332	888,238,708

The notes on pages 14 to 54 form an integral part of these financial statements.

Report of the independent auditor - pages 6 to 9.

STATEMENT OF CASH FLOWS

Cash flows (used in)/from operating activities	**Notes**	**2020 Shs**	**2019 Shs**
(Loss)/profit before tax		(96,492,003)	73,054,794
Adjustments for:			
Depreciation on property and equipment	14	12,443,295	13,562,811
Amortisation of intangible assets	15	5,291,876	2,910,450
Depreciation on right of use asset	16	26,467,182	26,686,411
Fair value loss/(gain) on investment property	17	3,300,000	(103,700,000)
Fair value loss/(gain) on quoted investments	18(a)	8,262,640	(2,467,477)
Fair value loss/(gain) on investments with fund managers	19	15,214,756	(30,155,292)
Increase in insurance contract payables		617,377,218	5,144,001
(Decrease)/increase in actuarial liabilities	30	(365,027,815)	279,604,491
Impairment of policy loans		(8,378,161)	(8,290,304)
Lease liabilities interest	36	9,601,508	12,461,543
(Gain) on disposal of property and equipment		142,150	-
Changes in working capital:			
- receivables and other assets		(875,794,095)	2,059,580,375
- payables and other liabilities		(1,052,884,463)	192,908,217
Cash (used in)/from operating activities		(1,700,475,913)	2,521,300,019
Interest paid on lease liabilities	36	(9,601,508)	(12,461,543)
Tax paid	12(b)	(6,875,803)	(56,099,875)
Net cash (used in)/from operating activities		(1,716,953,224)	2,452,738,601
Cash flows from/(used in) investing activities			
Purchase of property and equipment	14	(2,086,755)	(6,680,988)
Proceeds from disposal of property and equipment	14	(142,150)	-
Purchase of intangible assets	15	(26,850,074)	(393,936)
Purchase of investment properties	17	(100,000)	-
Purchase of quoted investments	18	(44,611,965)	-
Proceeds from disposal of quoted investments	18	8,830,080	-
Purchase of unquoted investments	18(b)	-	(100,000,000)
Additions to investments with fund managers	19	-	(14,792,172)
Disposal of investments with fund managers	19	129,991,864	29,667,692
Policy loans advanced	20	(53,943,048)	(53,757,041)
Policy loans repaid	20	48,276,648	64,221,445
Interest on policy loans	20	(12,634,617)	(8,447,753)
(Increase) in government securities	21	(138,884,211)	(308,574,180)
(Increase) in Kenya Motor Insurance Pool	22	(465,927)	(1,095,016)
Proceeds from disposal of Kenya Motor Insurance Pool	22	-	3,537,710
Change in deposits with financial institutions over 90 days	26	426,788,718	(448,560,412)
Net cash from/(used in) investing activities		334,168,563	(844,874,652)
Cash flows (used in) financing activities			
Payments of principal portion of the lease liability	36	(22,047,206)	(20,327,293)
Net cash (used in) financing activities		(22,047,206)	(20,327,293)
(Decrease)/increase in cash and cash equivalents		(1,404,831,867)	1,587,536,656
Cash and cash equivalents at start of year		2,116,054,465	528,517,809
Cash and cash equivalents at end of year	27	711,222,598	2,116,054,465

The notes on pages 14 to 54 form an integral part of these financial statements.

Report of the independent auditor - pages 6 to 9.

1. **Significant accounting policies**

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

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

a) **Basis of preparation**

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

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

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

Transfer between levels of the fair value hierarchy are recognised by the directors at the end of the reporting period during which the change occurred.

Going concern

The financial performance of the company is set out in the report of the directors and in the statement of profit or loss. The financial position of the company is set out in the statement of financial position. Disclosures in respect of principal risks and uncertainties are included within the report of the directors and disclosures with respect to risk management and capital management are set out in Note 3.

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

New standards, amendments and interpretations adopted by the company

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

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

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

Amendments to IAS 1 and IAS 8 Definition of Material (issued in October 2018)
The amendments, applicable to annual periods beginning on or after 1 January 2020, clarify the definition of material and how it should be applied by including in the definition guidance that previously featured elsewhere in IFRS.

Amendments to IFRS 3: Definition of a Business (issued in October 2018)
The amendments, applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. These amendments had no impact on the financial statements of the company, but may impact future periods should the company enter into any
statements of the company, but may impact future periods should the company enter into any

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

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

New standards, amendments and interpretations issued but not effective

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

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

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

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

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

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

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

- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (issued in September 2014), applicable from a date yet to be determined, address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

- IFRS 17 'Insurance Contracts' (issued in May 2017), effective for annual periods beginning on or after 1 January 2023, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short duration which typically applies to certain non-life insurance contracts.

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

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

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

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfillment cash flows)

- A Contractual Service Margin (CSM)that is equal and opposite to any day one gain in the fulfillment cash flows of a company of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)

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

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

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

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

  - Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense

  Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

  IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted; provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. However, if full retrospective application for a company of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

  The company plans to adopt the new standard on the required effective date (see above). The company started a project to implement IFRS 17 and has been performing a high-level impact assessment of IFRS 17. The company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the company and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

  The directors expect that the future adoption of IFRS17 may have a material impact on the amounts reported. However, it is not practicable to provide a reliable estimate of the effects of the above until a detailed review has been completed. The directors do not expect that adoption of the other Standards and Interpretations will have a material impact on the financial statements in future periods. The entity plans to apply the changes above from their effective dates noted above.

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:

· That are likely to be a significant portion of the total contractual benefits;

· Whose amount or timing is contractually at the discretion of the company; and

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 company (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

Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Claims and policy benefits payable

Benefits are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claim becomes due for payment. Death claims are accounted for on notification. Surrenders are accounted for on payment.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions. The liabilities are recalculated at each reporting date using the assumptions established at inception of the contracts.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Insurance contracts (continued)

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.

Insurance contracts and investment contracts are classified into various categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

Payables under investment contracts

These contracts insure human life events over a long duration. However, insurance premiums are recognised directly as liabilities. These liabilities are increased by credited interest (in the case of universal life contracts) or change in the investment prices (in the case of payables under investment contracts) and are decreased by policy administration fees, mortality and surrender changes and any withdrawals. These liabilities are the contract holders' account balance.

Revenue consists of fees deducted for mortality, policy administration and surrender changes. Interest or changes in the investment prices credited to the account balances and excess benefit claims in excess of the account balances incurred in the period are charged as expenses in the profit or loss for the year.

Deposit administration contracts

The company administers the funds of a number of retirement benefit schemes. The liability of the company to the schemes has been included within the statement of financial position.

The company assesses its reinsurance assets for impairment at each reporting date. 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 the statement of 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.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents 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 the statement of 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 (Note 1(g)).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Insurance contracts (continued)

Life Insurance contract liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case, a margin for risk and adverse deviation is generally included. A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and premium deficiency, as well as for claims outstanding.

Adjustments to the liabilities at each reporting date are recorded in the statement of profit or loss in claims and policy holder benefits payable. Profits originated from margins of adverse deviations on run-off contracts are recognized in profit of loss over the life of the contract, whereas losses are fully recognised in of profit or loss during the first year of run-off. The liability is derecognised when the contract expires, is discharged or is cancelled.

c) Investment and 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, are recognised in the statement of 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 quoted shares is recognised when the right to receive payment is established.

Rental income

Rental income is accounted for on an accrual basis, on a straight line basis.

d) Property and equipment

All property and equipment is initially recorded at cost and thereafter stated at historical cost less accumulated depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

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

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

d) **Property and equipment (continued)**

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

	Rate %
Motor vehicles	20
Fittings and equipment	12.5
Computer equipment	20

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

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining (loss)/profit before tax.

e) **Investment properties**

Fair value model:

Investment property is property held to earn rentals or for capital appreciation or both. Investment property, which can include right-of-use assets, is initially recognized at cost including the transaction costs. Subsequently, investment property is carried at fair value representing the open market value at the reporting date determined by annual valuations carried out by external registered valuers (Level 1). Gains or losses arising from changes in the fair value are included in determining the profit or loss for the year to which they relate.

Subsequent expenditure on investment properties where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment properties. All other expenditure is recognised as an expense in the year which it is incurred.

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

f) **Intangible assets**

Computer software programmes are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their useful lives which are estimated to be 5 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the acquisition of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

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

g) **Impairment of non-financial assets and intangible assets**

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

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually.

An impairment loss is recognised for the amount by which the 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 the end of each reporting period.

h) **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 Profit or Loss (FVTPL):
Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income 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.

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.

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

h) **Financial instruments (continued)**

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

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

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

The company recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI):

- Receivables arising out of direct insurance arrangements
- Receivables arising out of reinsurance arrangements
- Policy loans
- Government securities
- 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).

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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Financial instruments (continued)

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

Impairment (continued)

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

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

Derecognition

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

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal 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.

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

i) **Cash and cash equivalents**

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

j) **Accounting for leases**

The company 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.

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 and buildings are 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 revaluation surplus reserve to retained earnings.

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

The company as lessor

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

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

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

The company as lessor (continued)

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 investment proprty in the statement of financial position.

k) **Employee benefits**

i) **Retirement benefit obligations**

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

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

ii) **Other entitlements**

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

l) **Taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss.

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

Deferred tax

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

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using fair value model, the carrying amounts of such properties are presumed to be recoverable entirely through sale unless presumption is rebutted. The presumption is rebutted when the investment property is depreciable and held within a business model whose objective is to consume substantially all its economic benefits embodied in it over time rather than through sale.

NOTES (CONTINUED)

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

l) **Taxation (continued)**

Deferred tax (continued)

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

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

m) **Dividends**

Proposed dividends are disclosed as a separate component of equity until declared.

Dividends are recognised as a liability in the period in which they are approved by the company's shareholders.

n) **Share capital**

Ordinary shares are classified as equity.

o) **Statutory fund**

The statutory reserve represents accumulated life fund inclusive of surpluses whose distribution is subject to restrictions imposed by the Kenyan Insurance Act. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of actuarially determined valuation surpluses of the life business.

p) **Earnings per share**

The company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the year.

q) **Comparatives**

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

2. **Significant accounting judgements, estimates and assumptions**

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

The directors have made the following assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The assumptions and judgements set-out below do not consider the full potential impact of the coronavirus outbreak as it is too early at this stage to predict the full potential impact of this on the financial statements of the company.

2. **Critical accounting estimates and judgments (continued)**

a) **Measurement of expected credit losses (ECL):**

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

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and associated ECL; and
- Establishing companys of similar financial assets for the purposes of measuring ECL.

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

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

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

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

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

- **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.

2. **Critical accounting estimates and judgments (continued)**

b) **Estimate of future benefit payments and premiums arising from long-term insurance contracts**

The determination of the liabilities under insurance contracts is dependent on estimates made by the company. Estimates are made as to the expected number of deaths for each of the years in which the company is exposed to risk. The company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the company's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that accidents arising from concentration of risk, epidemics such as AIDS, TB and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the company in which it has significant exposure to mortality risk

Judgment is also applied in the estimation of future contractual cash flows in relation to reported losses and losses incurred but not reported. There are several sources of uncertainty that need to be considered in the estimate of the ability that the company will ultimately pay for such claims. Case estimates are computed on the basis of the best information available at the time the records for the year are closed.

c) **Impairment of receivables**

The company reviews their portfolio of receivables on an annual basis. In determining whether receivables are impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected.

d) **Held to maturity financial assets**

The directors have reviewed the company's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the company's positive intention and ability to hold those assets to maturity.

e) **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, intangible assets and right-of-use assets on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

f) **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).

2. **Critical accounting estimates and judgments (continued)**

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

For leases of office space, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the company is typically reasonably certain to extend (or not terminate).

- If any leasehold improvements are expected to have a significant remaining value, the company is typically reasonably certain to extend (or not terminate).

- Otherwise, the company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in 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.

g) **Operating lease commitments - company as lessor**

The company has entered into commercial property leases on its investment property portfolio. The company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

h) **Fair value of financial instruments**

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See notes 17, 18 and 19 for further discussion.

i) **Revaluation of investment property**

The company carries investment properties at fair value, with changes in fair value being recognised in profit or loss. Investment propertiesd are valued on the basis of open market value by independent valuers, Nnamdi Maende & Associates Company Limited and Rubyland Limited.

3. **Management of insurance and financial risk**

3.1 **Insurance risk**

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities.

3. Management of insurance and financial risk (continued)

3.1 Insurance risk (continued)

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

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are accidents arising from concentration of risk, epidemics;such as;

AIDS and TB or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk insured by the company. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The table below presents the undiscounted concentration of insured benefits across five bands of insured benefits per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described above.

	Total benefits insured			
As at 31 December 2020	**Number of policies**	**Before Reinsurance Shs**	**%**	**After Reinsurance Shs**
Age of assured				
18 - 30 years	11,059	1,604,064,614	30%	1,567,357,570
31 - 40 years	14,095	1,946,297,712	36%	1,865,356,135
41 - 50 years	8,980	1,265,641,880	24%	1,167,362,347
51 - 60 years	3,854	538,545,865	10%	504,213,972
More than 60 years	70	18,622,177	0%	11,532,403
	38,058	5,373,172,247	100%	5,115,822,426
As at 31 December 2019				
Age of assured				
18 - 30 years	10,614	1,552,752,649	31%	1,502,333,810
31 - 40 years	13,062	1,818,033,786	36%	1,715,386,130
41 - 50 years	8,309	1,126,397,970	22%	1,045,700,076
51 - 60 years	3,565	486,231,974	10%	442,125,318
More than 60 years	71	24,603,421	0%	12,453,013
	35,621	5,008,019,800	100%	4,717,998,348

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

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in contract holder behaviour.

3. Management of insurance and financial risk (continued)

3.1 Insurance risk (continued)

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

The company uses appropriate base tables of standard mortality according to the type of contract being written and the territory in which the insured person resides. An investigation into the actual experience of the company over the last few years is carried out, and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future.

The principal risk that the company faces under insurance contracts is that the actual claims and benefits payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the company is to ensure that sufficient reserves are available to cover these liabilities. The above risk exposure is mitigated by diversification across a large portfolio of insurance products. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Where data is sufficient to be statistically credible, the statistics generated by the data are used without reference to an industry table. Where this is not the case, the best estimate of future mortality is based on standard industry tables adjusted for the company's overall experience. For contracts that insure survival, an adjustment is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies. The impact of any historical evidence of selective termination behaviour will be reflected in this experience. The company maintains voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates. An allowance is then made for any trends in the data to arrive at a best estimate of future termination rates.

iii) Process used to decide on assumptions

For long-term insurance contracts with fixed and guaranteed terms and with DPF, estimates are made in two stages. At inception of the contract, the company determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions. These assumptions are 'locked in' for the duration of the contract.

Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered ('unlocked') to reflect the latest current estimates; no margin is added to the assumptions in this event.

The assumptions used for the insurance contracts disclosed in this note are as follows:

Mortality - the company uses KE 2007 - 2010 as a base table of standard mortality. Statistical methods are used to adjust the rates reflected on the table based on the company's experience. For contracts insuring survivorship, an allowance for future mortality improvements made on trends identified in the data.

Persistence - Statistical methods are used to determine an appropriate persistency rate, with reference to the company's experience over the most recent five years. An allowance is then made for any trends in the date to arrive at the best estimate if future persistency rates.

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

iii) **Process used to decide on assumptions (continued)**

Investment returns - A weighted average rate of investment return is derived with reference to the portfolio that backs the liabilities. In the current valuation, the rate of return was 4.2% (2019: 4.2%). The discount rates used to measure the actuarial liabilities match the interest rates disclosed above.

Renewal expense level, inflation and tax - the current tax level of expenses is taken to be an appropriate expense base. Expense inflation is assumed to be 9%. It has been assumed that the current tax legislation and rates continue unaltered.

The sensitivity on the actuarial valuation are as follows:

	Impact on post tax profit	**Impact on post tax profit**
	2020	**2019**
Increase in interest rate by 5%	7,438,597	5,230,877
(Decrease) in interest rate by 5%	(7,438,597)	(5,230,877)

The table below gives the concentration of interest risk:

Interest from government securities	57%	49%
Interest from bank deposits	33%	44%
Interest from policy loans	6%	6%
Other interest income	4%	2%

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) **Interest rate risk**

Interest rate risk arises primarily from investments in fixed interest securities. The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts described in this note, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in market risks.

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

3.2 **Financial risk (continued)**

a) **Market risk (continued)**

i) **Interest rate risk (continued)**

The government securities, deposits with financial institutions and loans at year end totalled to Shs. 1,334,842,322 (2019: Shs. 1,630,415,284) 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. 50,036,947 (2019: Shs. 50,179,833).

ii) **Equity price risk**

The company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets fair value through profit or loss. Exposure to equity shares in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Stock Exchange.

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

Listed equity securities represent 6% (2019: 22%) of total equity investments. If equity market indices had increased/decreased by 10%, with all other variables held constant, and all the company's equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by Shs. 5,136,801 (2019: Shs. 2,381,753).

Unquoted equity securities represent 66% (2019: 81%) of total equity investments. If equity market indices had increased/decreased by 10%, with all other variables held constant, and all the company's equity investments moving according to the historical correlation with the index, the profit for the year would increase/decrease by Shs. 10,000,000 (2019: Shs. 10,000,000).

iii) **Currency risk**

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The company primarily transacts in Kenya shilling and its assets and liabilities are denominated in the same currency. The company is not exposed to material currency risk.

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.

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

3.2 **Financial risk (continued)**

b) **Credit risk (continued)**

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.

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 **As at 31 December 2020**	**12-month expected credit losses Shs**	**Lifetime expected credit losses Shs**	**Total Shs**
Gross carrying amount	5,627,216,223	5,627,216,223	5,627,216,223
Loss allowance			
Receivables arising out of direct insurance arrangements	21,717,182	7,674,793	29,391,975
Receivables arising out of reinsurance arrangements	67,995,713	536,679,409	604,675,122
Government securities - 'Amortised Cost'	4,616,000	-	4,616,000
Deposits with financial institutions	3,383,353	34,488,012	37,871,365
Cash and bank balances	2,856,239	-	2,856,239
Other receivables	9,176,525	16,562,190	25,738,715
Policy loans receivable	(8,378,161)	49,730,515	41,352,354
Total loss allowance	101,366,851	645,134,919	746,501,770
Exposure to credit risk	5,525,849,372	4,982,081,304	4,880,714,453

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

3.2 **Financial risk (continued)**

(b) **Credit risk (continued)**

Basis for measurement of loss allowance (continued)

As at 31 December 2019	**12-month expected credit losses Shs**	**Lifetime expected credit losses Shs**	**Total Shs**
Gross carrying amount	6,385,769,142	6,385,769,142	6,385,769,142
Loss allowance			
Receivables arising out of direct insurance arrangements	3,216,545	7,674,793	10,891,338
Receivables arising out of reinsurance arrangements	44,418,449	534,239,147	578,657,596
Government securities - 'Amortised Cost'	3,970,109	-	3,970,109
Deposits with financial institutions	11,697,699	34,488,012	46,185,711
Cash and bank balances	7,742,742	-	7,742,742
Other receivables	751,047	16,862,531	17,613,578
Policy loans receivable	(8,290,304)	58,020,819	49,730,515
Total loss allowance	63,506,287	651,285,302	714,791,589
Exposure to credit risk	6,322,262,855	5,734,483,840	5,670,977,553

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 balance sheet 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 direct insurance arrangements		**Receivables arising out of reinsurance arrangements**	
	2020 Shs	**2019 Shs**	**2020 Shs**	**2019 Shs**
0 to 30 days past	445,953,625	69,232,192	1,826,577,262	1,284,893,866
31 to 60 days past	26,278,681	26,278,681	142,765,985	142,765,985
61 to 90 days past	25,652,122	25,652,122	51,004,455	51,004,455
Over 90 days past	7,674,793	7,674,793	564,314,549	564,314,549
Expected credit losses	(21,717,182)	(3,216,545)	(67,995,713)	(44,418,449)
Incurred credit losses	(7,674,793)	(7,674,793)	(536,679,409)	(534,239,147)
	476,167,247	117,946,451	1,979,987,129	1,464,321,259

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**	**Total**
Year ended 31 December 2020	**Shs**	**Shs**	**Shs**
At start of year	63,506,287	651,285,302	714,791,589
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	37,860,564	(6,150,383)	31,710,181
At end of year	101,366,851	645,134,919	746,501,770
Year ended 31 December 2019			
At start of year	48,212,008	574,694,179	622,906,187
Changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses	15,294,279	76,591,123	91,885,402
At end of year	63,506,287	651,285,302	714,791,589

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**	**Total Total**
As at 31 December 2020	**Shs**	**Shs**	**Shs**
Receivables arising out of direct insurance arrangements	21,717,182	7,674,793	29,391,975
Receivables arising out of reinsurance arrangements	67,995,713	536,679,409	604,675,122
Government securities - 'Amortised Cost'	4,616,000	-	4,616,000
Deposits with financial institutions	3,383,353	34,488,012	37,871,365
Cash and bank balances	2,856,239	-	2,856,239
Other receivables	9,176,525	16,562,190	25,738,715
Policy loans receivable	(8,378,161)	49,730,515	41,352,354
Total	101,366,851	645,134,919	746,501,770

	12-month expected credit losses	**Lifetime expected credit losses**	**Total**
As at 31st December 2019	**Shs**	**Shs**	**Shs**
Receivables arising out of direct insurance arrangements	3,216,545	7,674,793	10,891,338
Receivables arising out of reinsurance arrangements	44,418,449	534,239,147	578,657,596
Government securities - 'Amortised Cost'	3,970,109	-	3,970,109
Deposits with financial institutions	11,697,699	34,488,012	46,185,711
Cash and bank balances	7,742,742	-	7,742,742
Other receivables	751,047	16,862,531	17,613,578
Policy loans receivable	(8,290,304)	58,020,819	49,730,515
Total	63,506,287	651,285,302	714,791,589

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

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

3.2 **Financial risk (continued)**

c) **Liquidity risk**

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the company is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand. The maturity profile of assets and liabilities is as shown below.

The maturity profile of undiscounted cash flows payable by the company is as follows:

	Up to 3 months	4 to 12 months	1 to 5 years	No fixed maturity	Total
As at 31 December 2020	Shs	Shs	Shs	Shs	Shs
Liabilities					
Insurance contract liabilities	-	-	-	2,432,862,296	2,432,862,296
Outstanding claims	1,082,512,562	-	-	-	1,082,512,562
Payables under deposit administration contracts	-	-	1,137,602,072	-	1,137,602,072
Payables under investment contracts	-	-	312,824,539	-	312,824,539
Payables under reinsurance arrangements	503,176,812	-	-	-	503,176,812
Other payables	-	87,370,536	-	-	87,370,536
	1,585,689,374	87,370,536	1,450,426,611	2,432,862,296	5,556,348,817
As at 31 December 2019					
Liabilities					
Insurance contract liabilities	-	-	-	2,797,890,111	2,797,890,111
Outstanding claims	834,949,454	-	-	-	834,949,454
Payables under deposit administration contracts	-	-	897,996,763	-	897,996,763
Payables under investment contracts	-	-	182,615,738	-	182,615,738
Payables under reinsurance arrangements	1,229,642,187	-	-	-	1,229,642,187
Other payables	-	413,789,624	-	-	413,789,624
	2,064,591,641	413,789,624	1,080,612,501	2,797,890,111	6,356,883,877

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

3.3 **Financial risk (continued)**

a) **Comparison by class of the carrying amount and fair values of the financial instruments**

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Management has assessed that investment in Government securities- treasury bills, deposits with financial institutions, cash and bank balances, other receivables, receivables arising out of direct insurance arrangements, receivables arising out of reinsurance arrangements trade receivables, trade payables, other payables, borrowings and payables arising out of reinsurance arrangements approximate their carrying amounts largely due to the short-term maturities of these instruments.

The table below sets out the company's classification of each class of financial assets and liabilities, and comparison of the carrying amount and their fair values:

As at 31 December 2020	Level 1 Shs	Level 3 Shs	Total Shs
Assets			
Financial assets			
Quoted shares at fair value through profit or loss	51,336,770	-	51,336,770
Unquoted investments	-	100,000,000	100,000,000
Investments with fund managers	-	31,245	31,245
Total assets	51,336,770	100,031,245	151,368,015
As at 31 December 2019			
Assets			
Financial assets			
Quoted shares at fair value through profit or loss	23,817,525	-	23,817,525
Unquoted investments		100,000,000	100,000,000
Investments with fund managers	-	145,237,865	145,237,865
	23,817,525	245,237,865	269,055,390

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

3.3 **Financial risk (continued)**

a) **Comparison by class of the carrying amount and fair values of the financial instruments (continued)**

i) **Financial assets by category**

	Loans and receivables Shs	Financial assets at fair value through profit or loss upon initial recognition Shs	Held to maturity Shs	Total Shs
As at 31 December 2020				
Quoted shares	-	51,336,770	-	51,336,770
Unquoted investments		100,000,000	-	100,000,000
Investments with fund managers	-	31,245	-	31,245
Government securities	-	-	914,043,327	914,043,327
Kenya Motor Insurance Pool	12,432,470	-	-	12,432,470
Policy loans receivable	102,784,083	-	-	102,784,083
Receivables arising from:				
Reinsurance arrangements	1,979,987,129	-	-	1,979,987,129
Direct insurance arrangements	476,167,247	-	-	476,167,247
Other receivables	283,710,427	-	-	283,710,427
Deposits with financial institutions	412,799,642	-	-	412,799,642
Cash and cash equivalents	711,222,598	-	-	711,222,598
	3,979,103,596	151,368,015	914,043,327	5,044,514,938
As at 31 December 2019				
Quoted shares	-	23,817,525	-	23,817,525
Unquoted investments	-	100,000,000	-	100,000,000
Investments with fund managers	-	145,237,865	-	145,237,865
Government securities	-	-	775,159,116	775,159,116
Kenya Motor Insurance Pool	11,966,543	-	-	11,966,543
Policy loans receivable	76,104,905	-	-	76,104,905
Receivables arising from:				
Reinsurance arrangements	1,464,321,260	-	-	1,464,321,260
Direct insurance arrangements	117,946,451	-	-	117,946,451
Other receivables	281,802,997	-	-	281,802,997
Deposits with financial institutions	839,588,360	-	-	839,588,360
Cash and cash equivalents	2,116,054,465	-	-	2,116,054,465
	4,907,784,981	269,055,390	775,159,116	5,951,999,487

NOTES (CONTINUED)

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

3.3 **Financial risk (continued)**

a) **Comparison by class of the carrying amount and fair values of the financial instruments (continued)**

ii) **Financial liabilities by category**

	2020			2019		
Financial liabilities	**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	-	2,432,862,296	2,432,862,296	-	2,797,890,111	2,797,890,111
Payables under deposit administration contracts	-	1,137,602,072	1,137,602,072	-	897,996,763	897,996,763
Payables under investment contracts	-	312,824,539	312,824,539	-	182,615,738	182,615,738
Outstanding claims	-	1,082,512,562	1,082,512,562	-	834,949,454	834,949,454
Creditors arising from reinsurance arrangements	-	503,176,812	503,176,812	-	1,229,642,187	1,229,642,187
Other payables	-	87,370,536	87,370,536	-	413,789,624	413,789,624
	-	5,556,348,817	5,556,348,817	-	6,356,883,877	6,356,883,877

3. Management of insurance and financial risk (continued)

3.4 Capital management

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

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

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

	2020 Shs	2019 Shs
Tier-1 Capital	888,238,708	1,010,495,261
Deductions	83,103,963	41,630,292
Total Capital Available (TCA)	**805,134,745**	**968,864,969**
Absolute Amount Minimum 1	400,000,000	400,000,000
Volume of Business Minimum 2	169,523,729	143,614,253
Risk Based Capital Minimum	789,945,515	797,419,090
Minimum Required Capital	**789,945,515**	**797,419,090**
Capital Adequacy Ratio	102%	122%

NOTES (CONTINUED)

4. Insurance premium revenue

	2020 Shs	2019 Shs
a) Gross earned premiums		
Ordinary life	1,069,271,737	968,911,350
Annuity	54,420,872	22,826,379
Group Credit	856,299,385	647,118,328
Group life	1,734,142,290	3,389,458,018
Gross underwritten premiums	3,714,134,284	5,028,314,075
b) Premiums ceded to reinsurers		
Ordinary life	(3,894,377)	(1,968,213)
Group life	(930,404,780)	(1,818,971,014)
	(934,299,157)	(1,820,939,227)
Net earned premiums	2,779,835,127	3,207,374,848

5. Investment income

Interest on policy loans (Note 20)	12,634,617	8,447,753
Interest on government securities	120,099,000	72,395,474
Interest on deposits with financial institutions	70,534,489	66,086,072
Loss/(gain) on revaluation of quoted shares (Note 18)	(8,262,640)	2,467,477
(Loss)/gain on revaluation of managed funds (Note 19)	(15,214,756)	30,155,292
Rental income from investment properties	8,847,652	10,437,750
Investment property expenses	(3,824,478)	(3,824,478)
(Loss)/gain on revaluation of investment properties (Note 17)	(3,300,000)	103,700,000
Dividend income	1,657,474	786,735
Other investment income	11,378,770	2,416,106
	194,550,128	293,068,181

6. Commission income

Group life	214,565,350	380,523,836
Ordinary life	1,074,098	440,182
	215,639,448	380,964,018

The company earns commissions from its reinsurers on agreed percentage basis for business ceded to them.

7. Other income

Share of profit from Kenya Motor Insurance Pool (Note 22)	465,927	1,095,016

8. **Claims and policyholders benefits payable**	**2020 Shs**	**2019 Shs**
Death	3,663,881,683	3,459,143,193
Maturities	314,257,844	334,508,476
Surrenders	50,214,260	32,798,045
Withdrawals	24,844,635	10,160,259
Change in actuarial value of policyholders liabilities (Note 30)	(365,027,815)	279,604,491
Interest declared on investment products	99,538,860	80,014,606
Gross claims and policyholders' benefits payable	3,787,709,467	4,196,229,070
Recoverable under reinsurance contracts	(1,472,515,339)	(1,488,309,740)
Net claims and policyholders' benefits payable	2,315,194,128	2,707,919,330

9. **Operating and other expenses**

Auditors' remuneration	2,850,000	3,132,000
Director's remuneration	55,374,790	36,672,708
Directors' fees	4,096,660	5,414,292
Impairment losses on policy loans (Note 20)	(8,378,161)	(8,290,304)
Impairment provisions for receivables	16,456,924	751,047
Expected credit losses	23,585,044	25,312,629
Repairs and maintenance	12,569,138	9,305,648
Operating lease rentals	676,008	729,570
Depreciation on property and equipment (Note 14)	12,443,295	13,562,811
Amortisation of intangible assets (Note 15)	5,291,876	2,910,450
Staff costs (Note 10)	175,482,049	208,135,272
Other operating expenses	226,049,226	238,552,084
	526,496,848	536,188,207

10. **Staff costs**

Salaries and wages	144,357,462	160,124,383
Staff leave accrual	(5,897,501)	(445,297)
Insurance	14,110,447	22,200,737
Pension costs:		
- National Social Security Fund	242,400	243,600
- Defined contribution scheme	14,928,639	14,215,816
Other staff costs	7,740,602	11,796,033
	175,482,049	208,135,272

The average number of staff during the year were 101 (2019: 111).

11. **Commission expense**

Ordinary life	221,081,929	284,551,604
Group life	224,209,728	280,788,128
	445,291,657	565,339,732

NOTES (CONTINUED)

12. a) **Tax**	**2020 Shs**	**2019 Shs**
Current tax	8,370,805	2,426,009
Deferred income tax (credit) (Note 37)	17,393,745	(71,859,599)
Tax charge/(credit)	25,764,550	(69,433,590)

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

(Loss)/profit before tax	(96,492,003)	73,054,794
Tax calculated at a tax rate of 25% (2019: 30%)	(28,947,601)	21,916,438
Tax effect of:		
- income less expenses not subject to tax	54,712,151	(91,350,028)
Tax charge/(credit)	25,764,550	(69,433,590)

b) **Reconciliation of tax (recoverable)**

At start of year	(31,812,104)	21,861,762
Current tax charge	8,370,805	2,426,009
Paid during the year	(6,875,803)	(56,099,875)
At end of year	(30,317,104)	(31,812,104)

13. **(Loss)/earnings per share**

Total number of shares in issue during the year (Note 28)	4,000,000	4,000,000
(Loss)/profit after tax	(122,256,553)	142,488,384
Basic and diluted (loss)/earnings per share	(30.56)	35.62

There were no potentially dilutive shares outstanding as at 31 December 2020 and 2019.

14. **Property and equipment**

Year ended 31 December 2020

	Motor vehicles Shs	**Fittings and equipment Shs**	**Computer equipment Shs**	**Total Shs**
Cost				
At start of year	31,763,055	49,330,417	44,643,282	125,736,754
Additions	-	78,292	2,008,463	2,086,755
Disposals	(494,733)	(36,335)	-	(531,068)
At end of year	31,268,322	49,372,374	46,651,745	127,292,441
Depreciation				
At start of year	21,564,488	30,942,963	35,407,438	87,914,889
Charge for the year	4,554,235	4,120,691	3,768,370	12,443,296
Disposals	(494,733)	(36,335)	-	(531,068)
At end of year	25,623,990	35,027,319	39,175,808	99,827,117
Net book value	5,644,332	14,345,055	7,475,937	27,465,324

14. Property and equipment (continued)

Year ended 31 December 2019

	Motor vehicles Shs	Fittings and equipment Shs	Computer equipment Shs	Total Shs
Cost				
At start of year	31,763,055	46,743,119	40,549,592	119,055,766
Additions	-	2,587,298	4,093,690	6,680,988
At end of year	31,763,055	49,330,417	44,643,282	125,736,754
Depreciation				
At start of year	16,360,532	26,784,047	31,207,499	74,352,078
Charge for the year	5,203,956	4,158,916	4,199,939	13,562,811
At end of year	21,564,488	30,942,963	35,407,438	87,914,889
Net book value	10,198,567	18,387,454	9,235,844	37,821,865

15. Intangible assets (computer software)

	2020 Shs	2019 Shs
Cost		
At start of year	35,633,547	35,239,611
Additions	26,850,074	393,936
At end of year	62,483,621	35,633,547
Amortisation		
At start of year	31,825,120	28,914,670
Charge for the year	5,291,876	2,910,450
At end of year	37,116,996	31,825,120
Net book value	25,366,625	3,808,427

Included in the cost of intangible assets above is an amount of Shs. 20,990,484 (2019: Shs. 20,990,484) fully amortised assets.

16. Right of use asset

	2020 Shs	2019 Shs
At start of year	78,131,382	-
Effect of change in accounting policy (Note 1(a))	-	104,817,793
Depreciation charge for the year	(26,467,182)	(26,686,411)
At end of year	51,664,200	78,131,382

The company leases various offices across the country. The leases of offices are typically for periods of between 5 years and 7 years. None of the leases contains any restrictions or covenants other than the protective rights of the lessor or carries a residual value guarantee.

NOTES (CONTINUED)

17. **Investment properties**

	2020 Shs	2019 Shs
At start of year	1,515,200,000	1,411,500,000
Additions	100,000	-
Fair value (loss)/gain (Note 5)	(3,300,000)	103,700,000
At end of year	1,512,000,000	1,515,200,000

The valuation exercise was carried out by Nnamdi Maende & Associates and Rubyland Limited, all are registered professional valuers. The valuation was done as at 31 December 2020 on an open market basis.

The fair valuation of investment properties is done using the Level 1 technique as described in the basis of preparation of these financial statements.

18. **Financial assets at fair value through profit or loss**

a) **Quoted investments**

	2020 Shs	2019 Shs
At start of year	23,817,525	21,350,048
Additions	44,611,965	-
Disposals	(8,830,080)	-
Fair value (loss)/gain (Note 5)	(8,262,640)	2,467,477
At end of year	51,336,770	23,817,525

These relate to investment in quoted equities traded at the Nairobi Securities Exchange. The fair valuation is done using the Level 1 technique as described in the basis of preparation of these financial statements.

b) **Unquoted investments**

	2020 Shs	2019 Shs
i) Preference share capital		
At start of year	100,000,000	-
Additions	-	100,000,000
Converted into share capital pending allotment	(100,000,000)	
At end of year	-	-
ii) Share capital pending allotment		
At start of year	-	-
Conversion from preference share capital	100,000,000	-
At end of year	100,000,000	-

Unquoted investments relate to investment in Pioneer General Insurance Limited. The investment was converted on 31 December 2020 by the conversion of preference shares to ordinary shares through the necessary resolutions. The filing of all the necessary documents relating to the change were filed with the Registrar of Companies on 31 March 2021. The change was pending approval from the Commissioner of Insurance as of the date of approval of these financial statements.

19. **Investments with fund managers**

	2020	2019
At start of year	145,237,865	129,958,093
Subscriptions for the year	-	14,792,172
Disposals	(129,991,864)	(29,667,692)
Fair value (loss)/gain (Note 5)	(15,214,756)	30,155,292
At end of year	31,245	145,237,865

The fund managers invest the fund in unit trusts which are valued at fair value as at the end of the year.

The fair valuation of investments with fund managers is done using the Level 3 technique as described in the basis of preparation of these financial statements.

NOTES (CONTINUED)

20. Policy loans receivable

	2020 Shs	2019 Shs
At start of year	125,835,420	127,852,071
Loans advanced	53,943,048	53,757,041
Interest charged (Note 5)	12,634,617	8,447,753
Loan repayments	(48,276,648)	(64,221,445)
	144,136,437	125,835,420
Less: Expected credit losses	(41,352,354)	(49,730,515)
At end of year	102,784,083	76,104,905

Movement in expected credit losses

	2020 Shs	2019 Shs
At start of year	49,730,515	58,020,819
Reversals	(8,378,161)	(8,290,304)
At end of year	41,352,354	49,730,515

Maturity of gross amounts advanced

	2020 Shs	2019 Shs
Maturing:		
Within 1 year	61,181,713	15,421,904
1 year to 2 years	51,461,298	41,585,846
3 years to 5 years	31,493,426	68,827,670
	144,136,437	125,835,420

The weighted average effective interest rate on policy loans was 12% (2019: 11%) at the reporting date The collateral for the policy loans is the cash surrender value of the underlying policy. In case of default the loan is written off against the cash surrender value. Impairment loss has been assessed on policy loans that are no longer being repaid by the policy holders. The impaired amount is the balance in excess of the security that the company holds.

21. Government securities

	2020 Shs	2019 Shs
Held to maturity		
Treasury bills and bonds:		
Maturing after 91 days but less than 1 year	65,163,509	126,958,010
Maturing after 1 year	848,879,818	648,201,106
	914,043,327	775,159,116

Treasury bonds and bills are debt securities issued by the Government of Kenya and are classified as held to maturity. The effective interest rate realised on these securities for the year ended 31 December 2020 was 12.09% (2019: 11.76%).

	2020 Shs	2019 Shs
At start of year	794,000,000	491,000,000
Purchase	310,600,000	435,000,000
Maturity	(181,400,000)	(132,000,000)
At end of year	923,200,000	794,000,000
Unearned interest	-	(9,071,881)
Premium on bonds	4,098,537	2,041,839
Expected credit losses	(4,616,000)	(3,970,109)
Discount on purchase	(8,639,210)	(7,840,733)
At end of year	914,043,327	775,159,116

21. Government securities (continued)

Included in Government securities are treasury bonds and treasury bills with Central Bank of Kenya amounting to Shs. 380 million (2019 : Shs. 314 million) which are under lien as required by the Insurance Regulatory Authority. The company has the intention and ability to hold the securities until maturity.

22. Kenya motor insurance pool (KMIP)

	2020 Shs	2019 Shs
At start of year	11,966,543	14,409,237
Proceeds from disposal	-	(3,537,710)
Share of profit (Note 7)	465,927	1,095,016
At end of year	12,432,470	11,966,543

This represents the company's share of the net assets of the pool.

23. Receivables arising from reinsurance arrangements

	2020 Shs	2019 Shs
Claims recoverable	2,584,662,251	2,042,978,855
Expected credit losses	(67,995,713)	(44,418,449)
Incurred credit losses	(536,679,409)	(534,239,147)
	1,979,987,129	1,464,321,259

The amounts receivable do not carry interest and are due within periods ranging from 30 days to 180 days.

24. Receivables arising out of direct insurance arrangements

	2020 Shs	2019 Shs
Check off schemes	82,497,144	69,021,043
Direct clients	423,062,078	59,816,746
Expected credit losses	(21,717,182)	(3,216,545)
Incurred credit losses	(7,674,793)	(7,674,793)
	476,167,247	117,946,451

The amounts receivable do not carry interest.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The company does not hold any collateral as security.

25. Other receivables

	2020 Shs	2019 Shs
Agents loans and advances	81,492,866	67,680,424
Expected credit losses	(25,738,715)	(17,613,578)
Staff loans and advances	19,039,556	9,240,967
Deposits	61,619,771	34,209,237
Prepayments	84,918,535	16,387,146
Rent receivable	3,748,886	6,695,022
Interest receivable	39,864,199	33,418,655
Receivable from related parties (Note 38)	-	61,564,678
Guarantees and performance bonds	3,998,360	69,443,538
Other sundry debtors	14,766,969	776,908
	283,710,427	281,802,997

25. **Other receivables (continued)**

The carrying amounts of the company's other receivables are denominated in Kenya Shillings.

The amount for guarantees and performance bonds relates to cash cover held by financial institutions in relation to bid and performance bonds issued.

In the opinion of the directors, the carrying amounts of these balances approximate their fair value

26. **Deposits with financial institutions**	**2020 Shs**	**2019 Shs**
Maturing:		
Maturing after 1 year	3,200,000	-
Maturing between 90 days and 1 year	447,471,007	885,774,071
Expected credit losses	(3,383,353)	(11,697,699)
Incurred credit losses	(34,488,012)	(34,488,012)
	412,799,642	839,588,360

These relate to investments in fixed and call deposits. The weighted average effective interest rate on deposits with financial institutions was 8.38% (2019: 9.15%) at the reporting date.

In determining the basis of measurement of balances held with Chase Bank Kenya Limited (In Receivership) and SBM Bank (Kenya) Limited, the directors have assessed whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected, the perpetual period of such cash flows and the arrangement in relation to the transfer of deposits from Chase Bank Kenya Limited (In Receivership) to SBM Bank (Kenya) Limited.

Chase Bank Kenya Limited (In Receivership) was placed under statutory management and subsequently 75% of all balances held were transferred to SBM Bank (Kenya) Limited. Deposits amounting to Shs. 34,488,012 which relate to the 25% of deposits still held with Chase Bank Kenya Limited (In Receivership) have been fully impaired due to uncertainty over recovery of the same.

27. **Cash and cash equivalents**	**2020 Shs**	**2019 Shs**
Cash at bank and in hand	714,078,837	1,533,141,728
Deposits with financial institutions maturing within 91 days	-	590,655,479
Expected credit losses	(2,856,239)	(7,742,742)
	711,222,598	2,116,054,465

For the purposes of the statement of cash flows, the year-end cash and cash equivalents comprise the above.

28. **Share capital**

Authorised, issued and fully paid:

4,000,000 (2019: 4,000,000) ordinary shares of Shs. 100 each	400,000,000	400,000,000

29. Statutory fund

The statutory fund represents a reserve maintained within the long term insurance business and represents unallocated surpluses from previous actuarial valuations as required by the Kenyan Insurance Act. Transfers from this fund are made upon recommendation of the actuary.

	2020 Shs	2019 Shs
At start of year	327,059,262	506,829,994
Transfer from/(to) profit or loss	58,533,815	(256,815,331)
Deferred tax	(17,558,745)	77,044,599
At end of year	368,034,332	327,059,262
Recommeded for distribution by the actuary	-	-
	368,034,332	327,059,262

30. Insurance contract liabilities

At start of year	2,797,890,111	2,518,285,620
(Decrease)/increase in actuarial value of policyholders liabilities (Note 8)	(365,027,815)	279,604,491
At end of year	2,432,862,296	2,797,890,111

31. Payables under deposit administration contracts

At start of year	897,996,763	527,381,602
Deposits received during the year	248,453,955	369,792,558
Benefits paid	(85,281,045)	(65,663,830)
Deposit administration expenses	(12,665,410)	(5,930,605)
Interest declared	89,097,809	72,417,038
At end of year	1,137,602,072	897,996,763

Deposit administration contracts are recorded at amortised cost. The liabilities are shown inclusive of interest accumulated to the reporting date. Interest was declared and credited to the client accounts at a weighted average rate of 9% for the year (2019: 11%). Members' contributions accrue interest from receipt date and cease accruing interest upon withdrawal. Interest is credited as per the received returns less administration expenses subject to the minimum guaranteed rate of return.

32. Payables under investment contracts

At start of year	182,615,738	166,145,396
Received during the year	143,430,078	81,378,716
Withdrawals during the year	(23,662,328)	(72,505,942)
Interest declared	10,441,051	7,597,568
At end of year	312,824,539	182,615,738

This relates to the investment allocation portion of the investment products. Interest was declared and credited to the client accounts at a weighted average rate of 3.6% for the year (2019: 2.3%).

NOTES (CONTINUED)

33. Outstanding claims

	2020 Shs	2019 Shs
Ordinary life	4,398,945	7,726,697
Group life	1,072,012,367	821,121,507
General business run off	6,101,250	6,101,250
	1,082,512,562	834,949,454

Movement in outstanding claims:

	2020 Shs	2019 Shs
At start of year	834,949,454	1,216,890,956
Claims intimated during the year	4,152,737,282	3,916,624,579
Claims paid during the year	(3,905,174,174)	(4,298,566,081)
At end of year	1,082,512,562	834,949,454

The balance at year end represents intimated amounts remaining unsettled. The amounts payable do not carry interest and are due within period ranging from 30 days to 90 days from the reporting date.

34. Creditors arising from reinsurance arrangements

	2020 Shs	2019 Shs
Group Life	503,176,812	1,229,642,187

The balance at the reporting date represents premiums owed to reinsurers with respect to business in excess of the company's retention limits at year end.

35. Other payables

	2020 Shs	2019 Shs
Commission payable	7,013,921	26,292,186
Agents bonds	4,347,200	4,002,428
Accrued expenses	7,267,109	10,524,182
Provision for accrued leave	7,300,620	13,198,121
Payable to related party (Note 38)	28,184,466	-
Other sundry creditors	33,257,219	359,772,707
	87,370,536	413,789,624

The carrying amounts disclosed above reasonably approximate fair value at the reporting date due to their short-term nature. The amounts payable do not carry interest and are due within period ranging from 30 days to 180 days.

36. Lease liabilities

	2020 Shs	2019 Shs
Lease liabilities	62,443,294	84,490,500
Reconciliation of lease liabilities:		
At start of year	84,490,500	-
Transition adjustment (Note 1(a))	-	104,817,793
Interest charged to profit or loss	9,601,508	12,461,543
Cash flows:		
- Operating activities (interest paid)	(9,601,508)	(12,461,543)
- Payment of lease obligations	(22,047,206)	(20,327,293)
At end of year	62,443,294	84,490,500

37. **Deferred income tax**

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

	2020 Shs	2019 Shs
At start of year	166,903,627	238,763,226
Charge to profit or loss (Note 12)	17,393,745	(71,859,599)
At end of year	184,297,372	166,903,627

Deferred income tax liabilities and deferred income tax charge to profit or loss are attributable to the following items:

Deferred income tax liabilities	At start of year Shs	Charged to profit or loss Shs	At end of year Shs
Statutory reserve	140,170,255	17,558,745	157,729,000
Investment property fair value gains	26,733,372	(165,000)	26,568,372
	166,903,627	17,393,745	184,297,372

38. **Related parties transactions**

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

Details of related parties balances and transactions are as follows:

	2020 Shs	2019 Shs
i) **Transactions with related parties**		
Gross premiums	2,499,302	2,499,302
ii) **Outstanding balances**		
Receivable from related company (Note 25)	-	61,564,678
Payable to related company (Note 35)	28,184,466	-
Key management staff personnel loans	10,730,133	2,953,680
iii) **Key management personnel compensation**		
Salaries and other short-term employment benefits	82,341,522	82,803,723
Post-employment benefits	5,731,727	6,884,870
	88,073,249	89,688,593

39. **Capital commitments**

	2020	2019
i) Authorized and contracted for	-	2,321,000
ii) Authorized but not contracted for	-	44,235,500

40. **Contingencies**

Litigation against the company

The Kenya Revenue Authority has issued an assessment notice indicating corporate tax obligation amounting to Shs. 29,789,996 where an objection has been filled. The Kenya Revenue Authority has not responded to the objection notice filled.

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 the ongoing litigations as at the reporting date will not have material effect on the financial position or profits of the company.

41. **Events after the reporting date**

The directors are not aware of events after the reporting date that requires disclosure or an adjustment to the financial statements as at the date of this report.

Appendix I – Long term insurance business revenue account

	Ordinary Life 2020 Shs	Annuity 2020 Shs	Group Credit 2020 Shs	Group Life 2020 Shs	Total 2020 Shs
Insurance premium revenue	1,069,271,737	54,420,872	856,299,385	1,734,142,290	3,714,134,284
Gross earned premiums	1,069,271,737	54,420,872	856,299,385	1,734,142,290	3,714,134,284
Premium ceded to reinsurers	(3,894,377)	-	(208,647,542)	(721,757,238)	(934,299,157)
Net earned premiums	**1,065,377,360**	**54,420,872**	**647,651,843**	**1,012,385,052**	**2,779,835,127**
Investment and other income	21,516,619	12,424,770	17,456,211	143,152,528	194,550,128
Commissions earned	1,074,098	-	53,317,787	161,247,563	215,639,448
Other income	465,927	-	-	-	465,927
Total income	**1,088,434,004**	**66,845,642**	**718,425,841**	**1,316,785,143**	**3,190,490,630**
Death claims	(12,969,741)	-	(462,318,608)	(3,188,593,334)	(3,663,881,683)
Surrenders	(75,058,895)	-	-	-	(75,058,895)
Maturity & Annuity claims	(287,995,810)	(26,262,034)	-	-	(314,257,844)
Change in actuarial value of policyholders' benefits	(122,060,727)	(20,567,833)	(222,073,085)	729,729,460	365,027,815
Interest declared under investment contracts	(10,441,051)	-	-	(89,097,809)	(99,538,860)
Recoverable under reinsurance contracts	-	-	120,669,577	1,351,845,762	1,472,515,339
Net claims and policyholder benefits payable	**(508,526,224)**	**(46,829,867)**	**(563,722,116)**	**(1,196,115,921)**	**(2,315,194,128)**
Operating and other expenses	(315,898,109)	(5,264,968)	(78,974,527)	(126,359,244)	(526,496,848)
Commissions payable	(219,585,355)	(1,496,574)	(85,629,939)	(138,579,790)	(445,291,657)
Total policy owner benefits and expenses	**(1,044,009,688)**	**(53,591,409)**	**(728,326,582)**	**(1,461,054,954)**	**(3,286,982,633)**
(Deficit) before income tax	**44,424,316**	**13,254,233**	**(9,900,741)**	**(144,269,811)**	**(96,492,003)**
Expense ratio	30%	10%	9%	7%	14%
Commission ratio	21%	3%	10%	8%	12%
Claims ratio	48%	86%	87%	118%	83%

Appendix I – Long term insurance business revenue account (continued)

	Ordinary Life 2019 Shs	Annuity 2019 Shs	Group Credit 2019 Shs	Group Life 2019 Shs	Total Shs
Insurance premium revenue	968,911,350	22,826,379	647,118,328	3,389,458,018	5,028,314,075
Gross earned premiums	968,911,350	22,826,379	647,118,328	3,389,458,018	5,028,314,075
Premium ceded to reinsurers	(1,968,213)	-	(129,423,666)	(1,689,547,348)	(1,820,939,227)
Net earned premiums	**966,943,137**	**22,826,379**	**517,694,662**	**1,699,910,670**	**3,207,374,848**
Investment and other income	205,557,339	21,424,770	13,226,690	52,859,382	293,068,181
Commissions earned	440,182	-	36,259,603	344,264,233	380,964,018
Other income	1,095,016	-	-	-	1,095,016
Total income	**1,174,035,674**	**44,251,149**	**567,180,955**	**2,097,034,285**	**3,882,502,063**
Death claims	(9,352,254)	-	(505,486,926)	(2,944,304,013)	(3,459,143,193)
Surrenders	(42,958,304)	-	-	-	(42,958,304)
Maturity & Annuity claims	(311,044,103)	(23,464,373)	-	-	(334,508,476)
Change in actuarial value of policyholders' benefits	(283,888,976)	(19,863,205)	(98,450,573)	122,598,263	(279,604,491)
Interest declared under investment contracts	-	-	-	(80,014,606)	(80,014,606)
Recoverable under reinsurance contracts	-	-	101,097,385	1,387,212,355	1,488,309,740
Net claims and policyholder benefits payable	**(647,243,637)**	**(43,327,578)**	**(502,840,114)**	**(1,514,508,001)**	**(2,707,919,330)**
Operating and other expenses	(201,070,578)	(13,404,705)	(53,618,821)	(268,094,104)	(536,188,207)
Commissions payable	(283,866,813)	(684,791)	(71,183,016)	(209,605,112)	(565,339,732)
Total policy owner benefits and expenses	**(1,132,181,028)**	**(57,417,073)**	**(627,641,951)**	**(1,992,207,217)**	**(3,809,447,269)**
Profit before income tax	**41,854,646**	**(13,165,924)**	**(60,460,996)**	**104,827,068**	**73,054,794**
Management Expense Ratio	21%	59%	8%	8%	11%
Commission ratio	29%	3%	11%	6%	11%
Claims ratio	67%	190%	97%	89%	84%