PKF

# PIONEER ASSURANCE COMPANY LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2019

**CONTENTS**

## COMPANY INFORMATION

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

## REPORT OF THE DIRECTORS

The directors submit their report and the audited financial statements for the year ended 31 December 2019, 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. 3,226,073,677 to Shs. 3,207,374,848. This was mainly attributed to loss of a major client in group life business whose annual premium was Shs. 414,563,168.

The company reported a profit before tax of Shs. 73,054,794 as compared to a loss before tax of Shs. 48,282,552. Commission and acquisition expenses grew by Shs. 139,977,573 mainly as a result of growth in bancassurance business. Operational expenses have declined by Shs. 568,395,709 mainly as a result of incurred credit loss of Shs. 532,833,287 provided in 2018 under coinsurance arrangements.

| **KEY PERFORMANCE INDICATORS** | **2019 Shs** | **2018 Shs Restated*** |
|---|---|---|
| Gross premiums written | 5,028,314,075 | 5,227,889,615 |
| Gross earned premiums | 5,028,314,075 | 5,227,889,615 |
| Less: reinsurance premium ceded | (1,820,939,227) | (2,001,815,938) |
| Net earned premiums | 3,207,374,848 | 3,226,073,677 |
| Investment and other income | 294,163,197 | 242,629,124 |
| Commissions earned | 380,964,018 | 417,387,531 |
| Net income | 3,882,502,063 | 3,886,090,332 |

* Refer to Note 42.

### 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 revenue growth whilst maintaining profit margins, 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 recent coronavirus outbreak. Whilst at this stage it is too early to predict the full potential impact of this outbreak on the company operations, the directors continue to monitor this situation closely with a view to assessing and mitigating its impact on the company.

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

**REPORT OF THE DIRECTORS (CONTINUED)**

**SHARE CAPITAL**

The authorised share capital of the company was increased on 31 December 2019 from Shs. 150,000,000 representing 1,500,000 ordinary shares of Shs. 100 each to Shs. 400,000,000 representing 4,000,000 ordinary shares of Shs. 100 each.

The issued and paid up share capital of the company was increased on 31 December 2019 from Shs. 150,000,000 to Shs. 400,000,000 by the issuance of 2,500,000 ordinary shares of Shs. 100 each.

**DIVIDEND**

The directors do not recommend payment of a dividend for the year (2018: 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, no director is due for retirement by rotation.

**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, a partnership, was on 10 March 2020 converted to PKF Kenya LLP, a Limited Liability Partnership under the Limited Liability Partnership Act, 2011. PKF Kenya LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the 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 agreed auditor's remuneration has been charged to profit or loss in the year.

**BY ORDER OF THE BOARD**

FOR: ADILI CORPORATE SERVICES KENYA - SECRETARY

**COMPANY SECRETARY**
**NAIROBI**

20 April 2020

**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 2019 and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Having made an assessment of the company's ability to 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 20 April 2020 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 2019.

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 2019.

**Abed Mureithi**
Actuarial Services (E.A) Ltd

21 APRIL 2020

**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 55, which comprise the statement of financial position as at 31 December 2019, 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 2019 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**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**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.



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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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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 IFRSs and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- 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.

PKF Kenya LLP

**Certified Public Accountants**
**Nairobi**

24 April 2020

**CPA Jalpesh Shah, Practising certificate No. 1219**
**Signing partner responsible for the independent audit**

**308/20**

## STATEMENT OF PROFIT OR LOSS

| | Notes | 2019 Shs | 2018 Shs Restated* |
|---|---|---|---|
| Gross earned premiums | 4(a) | 5,028,314,075 | 5,227,889,615 |
| Premium ceded to reinsurers | 4(b) | (1,820,939,227) | (2,001,815,938) |
| **Net earned premiums** | | **3,207,374,848** | **3,226,073,677** |
| Investment income | 5 | 293,068,181 | 242,510,193 |
| Commissions income | 6 | 380,964,018 | 417,387,531 |
| Other income | 7 | 1,095,016 | 118,931 |
| **Net income** | | **3,882,502,063** | **3,886,090,332** |
| Claims and policy holder benefits payable | 8 | (4,196,229,070) | (3,630,986,867) |
| Recoverable under reinsurance arrangements | 8 | 1,488,309,740 | 1,226,560,058 |
| **Net claims payable** | | **(2,707,919,330)** | **(2,404,426,809)** |
| Operating and other expenses | 9 | (536,188,207) | (1,104,583,916) |
| Commissions payable | 11 | (565,339,732) | (425,362,159) |
| **Profit/(loss) before tax** | | **73,054,794** | **(48,282,552)** |
| Tax credit/(charge) | 12(a) | 69,433,590 | (22,536,296) |
| **Profit/(loss) for the year** | | **142,488,384** | **(70,818,848)** |
| Earnings/(loss) per share (basic and diluted) | 13 | 35.62 | (47.21) |

The notes on pages 14 to 55 form an integral part of these financial statements.

Report of the independent auditor - pages 6 to 9.

* Refer to Note 42.

**STATEMENT OF FINANCIAL POSITION**

| | | As at 31 December | |
|---|---|---|---|
| | Notes | 2019 Shs | 2018 Shs Restated* |
| **Assets** | | | |
| Property and equipment | 14 | 37,821,865 | 44,703,688 |
| Intangible assets | 15 | 3,808,427 | 6,324,941 |
| Right-of-use assets | 16 | 78,131,382 | - |
| Investment properties | 17 | 1,515,200,000 | 1,411,500,000 |
| Financial assets at fair value through profit or loss: | | | |
| - quoted investments | 18(a) | 23,817,525 | 21,350,048 |
| - unquoted investments | 18(b) | 100,000,000 | - |
| - investments with fund managers | 19 | 145,237,865 | 129,958,093 |
| Policy loans receivable | 20 | 76,104,905 | 69,831,252 |
| Government securities held to maturity | 21 | 773,117,277 | 464,543,097 |
| Kenya Motor Insurance Pool | 22 | 11,966,543 | 14,409,237 |
| Receivables arising from reinsurance arrangements | 23 | 1,464,321,258 | 692,164,833 |
| Receivables arising out of direct insurance arrangements | 24 | 117,946,451 | 2,908,741,425 |
| Other receivables | 25 | 283,844,836 | 324,786,662 |
| Deposits with financial institutions | 26 | 839,588,360 | 391,027,948 |
| Cash and cash equivalents | 27 | 2,116,054,465 | 528,517,809 |
| Tax recoverable | 12(b) | 31,812,106 | - |
| **Total assets** | | 7,618,773,265 | 7,007,859,033 |
| **Equity** | | | |
| Share capital | 28 | 400,000,000 | 150,000,000 |
| Retained earnings | | 283,435,999 | 211,176,883 |
| Statutory fund | 29 | 327,059,262 | 506,829,994 |
| **Total equity** | | 1,010,495,261 | 868,006,877 |
| **Liabilities** | | | |
| Insurance contract liabilities | 30 | 2,797,890,111 | 2,518,285,620 |
| Payables under deposit administration contracts | 31 | 897,996,763 | 527,381,602 |
| Payables under investment contracts | 32 | 182,615,738 | 166,145,396 |
| Outstanding claims | 33 | 834,949,454 | 1,216,890,956 |
| Creditors arising from reinsurance arrangements | 34 | 1,229,642,187 | 1,368,264,237 |
| Other payables | 35 | 413,789,624 | 82,259,357 |
| Lease liabilities | 36 | 84,490,500 | - |
| Deferred tax | 37 | 166,903,627 | 238,763,226 |
| Current tax | 12(b) | - | 21,861,762 |
| **Total liabilities** | | 6,608,278,004 | 6,139,852,156 |
| **Total equity and liabilities** | | 7,618,773,265 | 7,007,859,033 |

The financial statements on pages 10 to 55 were approved and authorised for issue by the Board of Directors on 20 April 2020 and were signed on its behalf by:

**Principal Officer** **Chairman**

**Director**

The notes on pages 14 to 55 form an integral part of these financial statements.

Report of the independent auditor - pages 6 to 9.

* Refer to Note 42.

## STATEMENT OF CHANGES IN EQUITY

| | Note | Share capital Shs | Retained earnings Shs | Statutory reserve Shs | Total Shs |
|---|---|---|---|---|---|
| **Year ended 31 December 2018** | | | | | |
| At start of year - as previously stated | | 150,000,000 | 259,257,996 | 564,754,986 | 974,012,982 |
| Transition adjustments: | | | | | |
| - Changes on initial application of IFRS 9 (2017) | 1(a) | - | (35,187,257) | - | (35,187,257) |
| At start of year - as restated | | 150,000,000 | 224,070,739 | 564,754,986 | 938,825,725 |
| (Loss) for the year | | - | (70,818,848) | - | (70,818,848) |
| Transfer (net of deferred tax) | 29 | - | 57,924,992 | (57,924,992) | - |
| At end of year | | 150,000,000 | 211,176,883 | 506,829,994 | 868,006,877 |
| **Year ended 31 December 2019** | | | | | |
| At start of year - as previously stated | | 150,000,000 | 259,388,891 | 506,829,994 | 916,218,885 |
| Transition adjustments: | | | | | |
| - Changes on initial application of IFRS 9 (2017) | 1(a) | - | (35,187,257) | - | (35,187,257) |
| - IFRS 9 (2018) | 9 | - | (13,024,751) | - | (13,024,751) |
| At start of year - as restated | | 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 | 28 | 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 |

The notes on pages 14 to 55 form an integral part of these financial statements.

Report of the independent auditor - pages 6 to 9.

**STATEMENT OF CASH FLOWS**

| | Notes | 2019 Shs | 2018 Shs |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) before tax | | 73,054,794 | (48,282,552) |
| **Adjustments for:** | | | |
| Depreciation on property and equipment | 14 | 13,562,811 | 12,717,531 |
| Amortisation of intangible assets | 15 | 2,910,450 | 4,042,367 |
| Depreciation on right of use asset | 16 | 26,686,411 | - |
| (Decrease) in impairment of bank balances | 27 | - | (4,541,314) |
| Fair value (gain) on investment property | 17 | (103,700,000) | (121,153,000) |
| Fair value (gain)/loss on quoted investments | 18(a) | (2,467,477) | 2,648,470 |
| Fair value (gain) on investments with fund managers | 19 | (30,155,292) | (1,931,820) |
| Increase in insurance contract payables | | 5,144,001 | 788,940,988 |
| Increase/(decrease) in actuarial liabilities | | 279,604,491 | (181,310,561) |
| Impairment of policy loans | | (8,290,304) | 84,049 |
| Lease liabilities interest | 36 | 12,461,543 | - |
| (Gain) on disposal of property and equipment | | - | (25,000) |
| Changes in working capital: | | | |
| - receivables and other assets | | 2,059,580,375 | (1,834,642,197) |
| - payables and other liabilities | | 192,908,217 | 1,214,186,134 |
| **Cash from/(used in) operations** | | 2,521,300,019 | (169,266,904) |
| Interest paid on lease liabilities | 36 | (12,461,543) | - |
| Tax paid | 12(b) | (56,099,875) | (2,055,682) |
| **Net cash from/(used in) operating activities** | | 2,452,738,601 | (171,322,586) |
| **Investing activities** | | | |
| Purchase of property and equipment | 14 | (6,680,988) | (21,719,159) |
| Proceeds from disposal of property and equipment | 14 | - | 25,000 |
| Purchase of intangible assets | 15 | (393,936) | (736,890) |
| Purchase of investment properties | 17 | - | (48,500,000) |
| Purchase of quoted investments | 18 | - | (1,197,852) |
| Proceeds from disposal of quoted investments | 18 | - | 1,190,867 |
| Purchase of unquoted investments | 18(b) | (100,000,000) | - |
| Additions to investments with fund managers | 19 | (14,792,172) | (28,894,715) |
| Disposal of investments with fund managers | 19 | 29,667,692 | - |
| Policy loans advanced | 20 | (53,757,041) | (29,113,825) |
| Policy loans repaid | 20 | 64,221,445 | 21,097,814 |
| Interest on policy loans | 20 | (8,447,753) | (3,582,083) |
| (Increase) in government securities | 21 | (308,574,180) | (181,742,127) |
| Proceeds from liquidation of corporate bond | | - | 1,000,000 |
| (Increase) in Kenya Motor Insurance Pool | 22 | (1,095,016) | (118,931) |
| Proceeds from disposal of Kenya Motor Insurance Pool | 22 | 3,537,710 | - |
| Change in deposits with financial institutions over 90 days | 26 | (448,560,412) | 289,205,845 |
| **Net cash (used in) investing activities** | | (844,874,652) | (3,086,056) |
| **Financing activities** | | | |
| Payments of principal portion of the lease liability | 36 | (20,327,293) | - |
| **Net cash (used in) financing activities** | | (20,327,293) | - |
| Increase/(decrease) in cash and cash equivalents | | 1,587,536,656 | (174,408,642) |
| **Cash and cash equivalents at start of year** | | 528,517,809 | 702,926,451 |
| **Cash and cash equivalents at end of year** | 27 | 2,116,054,465 | 528,517,809 |

The notes on pages 14 to 55 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 and other comprehensive income 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 or Estimate of future benefit payments and premiums arising from long-term insurance 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 are set out in Note 3.

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

**New standards, amendments and interpretations adopted by the company**

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

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

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

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

**International Financial Reporting Standard 16 (IFRS 16): Leases**

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

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

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

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

The measurement of assets and liabilities that were recognised as finance leases under the previous accounting policy has continued unchanged. Right-of-use assets and lease liabilities in respect of operating leases (excluding leases with a term, on commencement, of 12 months or less and leases for which the underlying asset is of low value) in force at 1 January 2019 have been recognised in accordance with the transition requirements of IFRS 16, as described above.

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

| | **2019** **Shs** |
|---|---|
| Lease liabilities | 104,817,793 |
| Right-of-use assets | 104,817,793 |
| Net adjustment to retained earnings as at 1 January 2019 | - |

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### a) Basis of preparation (continued)

**New and amended standards adopted by the company (continued)**

**International Financial Reporting Standards 9 (IFRS 9): Financial Instruments**

IFRS 9 requires all financial assets to be measured at fair value on initial recognition and subsequently at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" (ECL) model based on the concept of providing for expected losses at the inception of a contract; this will require judgement in quantifying the impact of forecast economic factors. For financial assets for which there has not been a significant increase in credit risk since initial recognition, the loss allowance should represent ECLs that would result from probable default events within 12 months from the reporting date (12-month ECLs). For financial assets for which there has been a significant increase in credit risk, the loss allowance should represent lifetime ECLs. A simplified approach is allowed for receivables and lease receivables, whereby lifetime ECLs can be recognised from inception.

The company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2019, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The company did not early adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the company elected not to restate comparative figures. Therefore the adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in opening retained earnings.

Consequently, for notes and disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes and disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the company. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in note 1(a) (i) and note 3.

**i) Classification and measurement of financial instruments**

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

**NOTES (CONTINUED)**

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

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

**New and amended standards adopted by the company (continued)**

**International Financial Reporting Standards 9 (IFRS 9): Financial Instruments (continued)**

| | IAS 39 | | IFRS 9 | |
|---|---|---|---|---|
| **Financial assets** | **Measurement category** | **Carrying amount Shs.** | **Measurement category** | **Carrying amount Shs.** |
| Cash and bank balances | Loans and receivables | 702,926,451 | Amortised cost | 698,698,143 |
| Deposits with financial institutions | Loans and receivables | 684,975,148 | Amortised cost | 677,321,807 |
| Receivables arising from reinsurance arrangements | Loans and receivables | 782,793,586 | Amortised cost | 765,623,974 |
| Receivables arising out of direct insurance arrangements | Loans and receivables | 1,075,914,664 | Amortised cost | 1,071,204,454 |
| Other financial assets; | | | | |
| Fair value through profit or loss: | | | | |
| - quoted investments | FVTPL (Held for trading) | 23,991,533 | FVTPL | 23,991,533 |
| - investments with fund managers | FVTPL (Held for trading) | 99,131,558 | FVTPL | 99,131,558 |
| Government securities held to maturity | Amortised cost | 285,135,467 | Amortised cost | 283,709,681 |
| | | 3,654,868,407 | | 3,619,681,150 |

**(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9**

The company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. For more detailed information regarding the new classification requirements of IFRS 9, refer to note 1(a) (i).

The following table on page 18 reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

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

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

**New and amended standards adopted by the company (continued)**

**(ii) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)**

| | IAS 39 Carrying amount 31-12-2017 Shs. | Re-measurement Shs. | IFRS 9 Carrying amount 01-01-2018 Shs. |
|---|---|---|---|
| **Amortised cost:** | | | |
| **Cash and cash equivalents** | | | |
| Balance under IAS 39 | 702,926,451 | - | 702,926,451 |
| Remeasurement: ECL allowance | - | 4,228,308 | 4,228,308 |
| | 702,926,451 | 4,228,308 | 698,698,143 |
| **Deposits with financial institutions** | | | |
| Balance under IAS 39 | 684,975,148 | - | 684,975,148 |
| Remeasurement: ECL allowance | - | 7,653,341 | 7,653,341 |
| | 684,975,148 | 7,653,341 | 677,321,807 |
| **Receivable out of direct insurance and reinsurance arrangements** | | | |
| Balance under IAS 39 | 1,858,708,250 | - | 1,858,708,250 |
| Remeasurement: ECL allowance | - | 21,879,822 | 21,879,822 |
| | 1,858,708,250 | 21,879,822 | 1,836,828,428 |
| **Government securities - 'Amortised cost'** | | | |
| Balance under IAS 39 | 285,135,467 | - | 285,135,467 |
| Remeasurement: ECL allowance | - | 1,425,786 | 1,425,786 |
| | 285,135,467 | 1,425,786 | 283,709,681 |
| **Fair value through profit or loss:** | | | |
| Investment in unquoted equity shares | | | |
| Balance under IAS 39 | 23,991,533 | - | 23,991,533 |
| Remeasurement: ECL allowance | - | - | - |
| | 23,991,533 | - | 23,991,533 |
| Balance under IFRS 9 - carrying amount | 3,555,736,849 | 35,187,257 | 3,520,549,592 |

As at 1 January 2018:-

- Total provision for impairment of trade and receivables amounted to Shs. 21,879,822.
- Total provision for impairment of cash and cash equivalents amounted to Shs. 4,228,308.
- Total provision for impairment of government securities amounted to Shs. 1,425,786.
- Total provision for impairment of deposits with financial institutions amounted to Shs. 7,653,341.
- Overall decrease in equity due to adoption of IFRS 9 is Shs. 35,187,257.

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

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

**New and amended standards adopted by the company (continued)**

**Other standards and amendments**

The following, which became effective from 1 January 2019, have been adopted but have not had a significant impact on the company's financial statements.

- Amendments to IAS 12 'Income Taxes' effective for annual periods beginning on or after 1 January 2019 clarifying on the recognition of income tax consequences of dividends.

- Amendments to IAS 19 'Employee Benefits' effective for annual periods beginning on or after 1 January 2019 clarifying the effects of a retirement benefit plan amendment, curtailment or settlement.

- Amendments to IAS 23 'Borrowing Costs' effective for annual periods beginning on or after 1 January 2019 clarifying that specific borrowings remaining unpaid at the time the related asset is ready for its intended use or sale will comprise general borrowings.

- Amendments to IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2019 clarifying that the existence of prepayment features with negative compensation will not in itself cause the instrument to fail the amostised cost classification.

- IFRIC 23 'Uncertainty over Income Tax Treatments' (issued June 2017) effective for annual periods beginning on or after 1 January 2019 clarifies the accounting for uncertainties in income taxes.

**New standards, amendments and interpretations issued but not effective**

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

- Amendments to IFRS 3 'Definition of a Business' (issued in October 2018) applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

- Amendments to 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.

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

- IFRS 17 'Insurance Contracts' (issued 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.

**NOTES (CONTINUED)**

1. **Significant accounting policies (continued)**

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

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

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.

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.

**NOTES (CONTINUED)**

## 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. as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due at each reporting date.

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 (Note 1 (g)).

**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 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, or the revalued amount, 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 |

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.

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 profit before tax.

**e) Investment properties**

Investment properties are long-term investments in land and buildings that are not occupied substantially for own use. Investment properties are initially recognised at cost and subsequently carried at fair value representing open market value at the reporting date. Changes in fair value are recorded in profit or loss.

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.

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

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.

**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.

**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.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

**ii) Fair Value Through Other Comprehensive Income (FVTOCI):**
Financial assets that are held for collection of contractual cash flows where these cash flows comprise SPPI and also for liquidating the assets depending on liquidity needs and that are not designated at FVTPL, are classified and measured at value through other comprehensive income (FVTOCI). Movements in the carrying amount are taken through OCI, except for recognition of impairment gain or losses, interest revenue and foreign exchange gain and losses. Gains and losses previously recognised in OCI are reclassified from equity to profit or loss on disposal of such instruments. Gains and losses related to equity instruments are not reclassified.

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

Notwithstanding the above, the company may:

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

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

**Derecognition/write off**

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

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### h) Financial instruments (continued)

**Derecognition/write off(continued)**

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

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

**Impairment**

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

- Receivables arising out of direct insurance arrangements
- Receivables arising out of reinsurance arrangements
- Policy loans
- Government securities
- Deposits with financial institutions
- Cash and bank balances
- 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.

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.

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

**h) Financial instruments (continued)**

***Financial liabilities***

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

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

All financial liabilities are classified as non-current except those held for trading, those expected to be settled in the Company's normal operating cycle, those payable or expected to be paid within 12 months of the 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.

**Offsetting financial instruments**

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

**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.

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

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

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

Leasehold land 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 retained earnings to revaluation surplus reserve.

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

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

**The company as lessor**

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

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group'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 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 employees of the company are also members of the National Social Security Fund ("NSSF"). The company's contributions to the defined contribution scheme and NSSF are charged to the profit or loss in the year to which they relate. The company has no further obligation once the contributions have been paid.

**k) Employee benefits(continued)**

**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 values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

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.

**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. **Critical accounting estimates and judgments**

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

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 recent 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.

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 Defaul (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.

**NOTES (CONTINUED)**

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

**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.

b) **Impairment losses**

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

c) **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.

d) **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.

e) **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.

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

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

g) **Accounting for leases under IFRS 16**

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

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

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

For leases of 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.

3. **Management of financial risk**

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

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

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.

**NOTES (CONTINUED)**

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

3.1 **Insurance risk (continued)**

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

This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

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

i) **Frequency and severity of claims**

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 2019** | **Number of policies** | **Before Reinsurance Shs** | **%** | **After Reinsurance Shs** |
| **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 |
| **As at 31 December 2018** | | | | |
| **Age of assured** | | | | |
| 18 - 30 years | 5,369 | 803,364,930 | 18% | 770,788,765 |
| 31 - 40 years | 11,727 | 1,677,142,173 | 38% | 1,571,151,733 |
| 41 - 50 years | 9,047 | 1,241,351,791 | 28% | 1,124,142,326 |
| 51 - 60 years | 6,035 | 676,324,086 | 15% | 651,330,573 |
| More than 60 years | 404 | 43,099,462 | 1% | 40,454,475 |
| | 32,582 | 4,441,282,442 | 100% | 4,157,867,872 |

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**

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.

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.

**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% (2018: 4.2%). The discount rates used to measure the actuarial liabilities match the interest rates disclosed above.

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

**3.1 Insurance risk (continued)**

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

**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 |
|---|---|---|
| | **2019** | **2018** |
| Increase in interest rate by 5% | 5,202,020 | 3,593,223 |
| (Decrease) in interest rate by 5% | (5,202,020) | (3,593,223) |

The table below gives the concentration of interest risk:

| | | |
|---|---|---|
| Interest from government securities | 49% | 46% |
| Interest from bank deposits | 44% | 48% |
| Interest from policy loans | 6% | 3% |
| Other interest income | 1% | 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, commercial paper and loans at year end totalled Shs. 1,612,705,637 (2018: Shs. 855,571,045) 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. 56,444,697 (2018: Shs. 29,944,987).

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 19% (2018: 100%) 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. 1,667,227 (2018: Shs. 1,494,503).

Unquoted equity securities represent 81% (2018: 0%) 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. 7,000,000 (2018: Shs. Nil).

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. institutions and commercial papers.

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

### 3.2 Financial risk (continued)

#### b) Credit risk

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**<br>**As at 31 December 2019** | **12-month expected credit losses Shs** | **Lifetime expected credit losses Shs** | **Total 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' | 3,865,695 | - | 3,865,695 |
| Deposits with financial institutions | 11,697,699 | 34,488,012 | 46,185,711 |
| Cash and bank balances | 7,706,273 | - | 7,706,273 |
| Gross carrying amount | 5,367,819,829 | 5,367,819,829 | 5,367,819,829 |
| Loss allowance | 70,904,661 | 576,401,952 | 647,306,613 |
| Exposure to credit risk | 5,296,915,168 | 4,791,417,877 | 4,720,513,216 |

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 2018** | **12-month expected credit losses Shs** | **Lifetime expected credit losses Shs** | **Total Shs** |
|---|---|---|---|
| Receivables arising out of direct insurance arrangements | 3,082,059 | 7,848,581 | 10,930,640 |
| Receivables arising out of reinsurance arrangements | 33,512,783 | 532,833,287 | 566,346,070 |
| Government securities - 'Amortised Cost' | 2,334,497 | - | 2,334,497 |
| Deposits with financial institutions | 4,741,355 | 34,012,311 | 38,753,666 |
| Cash and bank balances | 4,541,314 | - | 4,541,314 |
| Gross carrying amount | 6,702,579,043 | 6,702,579,043 | 6,702,579,043 |
| Loss allowance | 48,212,008 | 574,694,179 | 622,906,187 |
| Exposure to credit risk | 6,654,367,035 | 6,127,884,864 | 6,079,672,856 |

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** | |
|---|---|---|---|---|
| | **2019 Shs** | **2018 Shs** | **2019 Shs** | **2018 Shs** |
| 0 to 30 days past | 69,232,192 | 49,039,018 | 1,284,893,866 | 577,336,082 |
| 31 to 60 days past | 26,278,681 | 2,857,508,686 | 142,765,985 | 76,236,490 |
| 61 to 90 days past | 25,652,122 | 5,355,902 | 51,004,455 | 72,105,042 |
| Over 90 days past | 7,674,793 | 7,768,459 | 564,314,549 | 532,833,287 |
| Expected credit losses | (3,216,545) | (3,082,059) | (44,418,449) | (33,512,783) |
| Incurred credit losses | (7,674,793) | (7,848,581) | (534,239,147) | (532,833,287) |
| | 117,946,451 | 2,908,741,425 | 1,464,321,259 | 692,164,831 |

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**<br>**Year ended 31 December 2019** | **12-month expected credit losses Shs** | **Lifetime expected credit losses Shs** | **Total Shs** |
|---|---|---|---|
| At start of year | - | 574,694,179 | 574,694,179 |
| IFRS 9 transition adjustment | 48,212,008 | - | 48,212,008 |
| At start of year - as restated | 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 | 22,692,653 | 1,707,773 | 24,400,426 |
| At end of year | 70,904,661 | 576,401,952 | 647,306,613 |

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

| Basis for measurement of loss allowance<br>**As at 31 December 2019** | **12-month expected credit losses Shs** | **Lifetime expected credit losses Shs** | **Total Total 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' | 3,865,695 | - | 3,865,695 |
| Deposits with financial institutions | 11,697,699 | 34,488,012 | 46,185,711 |
| Cash and bank balances | 7,706,273 | - | 7,706,273 |
| **Total** | 70,904,661 | 576,401,952 | 647,306,613 |

| **As at 1st January 2019** | **12-month expected credit losses Shs** | **Lifetime expected credit losses Shs** | **Total Shs** |
|---|---|---|---|
| Receivables arising out of direct insurance arrangements | 3,082,059 | 7,848,581 | 10,930,640 |
| Receivables arising out of reinsurance arrangements | 33,512,783 | 532,833,287 | 566,346,070 |
| Government securities - 'Amortised Cost' | 2,334,497 | - | 2,334,497 |
| Deposits with financial institutions | 4,741,355 | 34,012,311 | 38,753,666 |
| Cash and bank balances | 4,541,314 | - | 4,541,314 |
| **Total** | 48,212,008 | 574,694,179 | 622,906,187 |

The company does not hold any collateral against the past due or impaired receivables. The 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:

| As at 31 December 2019 | Up to 3 months Shs | 4 to 12 months Shs | 1 to 5 years Shs | No fixed maturity Shs | Total Shs |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Insurance contract liabilities | - | - | - | 2,797,890,111 | 2,797,890,111 |
| Outstanding claims | 834,949,454 | - | - | | 834,949,454 |
| Payable under investment contracts | - | - | 1,080,612,501 | - | 1,080,612,501 |
| 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 |
| **As at 31 December 2018** | | | | | |
| **Liabilities** | | | | | |
| Insurance contract liabilities | - | - | - | 2,518,285,620 | 2,518,285,620 |
| Outstanding claims | 1,216,890,956 | - | - | - | 1,216,890,956 |
| Payable under investment contracts | - | - | 693,526,998 | - | 693,526,998 |
| Payables under reinsurance arrangements | 1,368,264,237 | - | - | - | 1,368,264,237 |
| Other payables | - | 82,259,357 | - | - | 82,259,357 |
| | 2,585,155,193 | 82,259,357 | 693,526,998 | 2,518,285,620 | 5,879,227,168 |

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

3.3 **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:

| | 2019<br>Shs | 2018<br>Shs |
|---|---|---|
| Tier-1 Capital | 1,010,495,261 | 868,006,877 |
| Deductions | 41,630,292 | 51,028,629 |
| **Total Capital Available (TCA)** | **968,864,969** | **816,978,248** |
| Absolute Amount Minimum 1 | 400,000,000 | 400,000,000 |
| Volume of Business Minimum 2 | 143,614,253 | 151,432,190 |
| Risk Based Capital Minimum | 797,419,090 | 1,426,565,300 |
| **Minimum Required Capital** | **797,419,090** | **1,426,565,300** |
| **Capital Adequacy Ratio** | 122% | 57% |

## 4. Insurance premium revenue

| | 2019 Shs | 2018 Shs |
|---|---|---|
| **a) Gross earned premiums** | | |
| Ordinary life | 968,911,350 | 723,457,300 |
| Annuity | 22,826,379 | 45,333,331 |
| Group Credit | 647,118,328 | 532,590,289 |
| Group life | 3,389,458,018 | 3,926,508,695 |
| Gross underwritten premiums | 5,028,314,075 | 5,227,889,615 |
| **b) Premiums ceded to reinsurers** | | |
| Ordinary life | (1,968,213) | (2,177,754) |
| Group life | (1,818,971,014) | (1,999,638,184) |
| | (1,820,939,227) | (2,001,815,938) |
| **Net earned premiums** | 3,207,374,848 | 3,226,073,677 |

## 5. Investment income

| | 2019 Shs | 2018 Shs |
|---|---|---|
| Interest on policy loans (Note 20) | 8,447,753 | 3,582,083 |
| Interest on government securities | 72,395,474 | 47,359,245 |
| Interest on deposits with financial institutions | 66,086,072 | 49,289,838 |
| Gain/(loss) on revaluation of quoted shares (Note 18) | 2,467,477 | (2,648,470) |
| Gain on revaluation of managed funds (Note 19) | 30,155,292 | 1,931,820 |
| Rental income from investment properties | 10,437,750 | 9,925,000 |
| Investment property expenses | (3,824,478) | (2,349,919) |
| Gain on revaluation of investment properties (Note 17) | 103,700,000 | 121,153,000 |
| Dividend income | 786,735 | 938,826 |
| Other investment income | 2,416,106 | 13,328,770 |
| | 293,068,181 | 242,510,193 |

## 6. Commission income

| | 2019 Shs | 2018 Shs |
|---|---|---|
| Group life | 380,523,836 | 417,195,715 |
| Ordinary life | 440,182 | 191,816 |
| | 380,964,018 | 417,387,531 |

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

## 7. Other income

| | 2019 Shs | 2018 Shs |
|---|---|---|
| Share of profit from Kenya Motor Insurance Pool (Note 22) | 1,095,016 | 118,931 |

**NOTES (CONTINUED)**

| 8. Claims and policyholders benefits payable | 2019 Shs | 2018 Shs |
|---|---|---|
| Death | 3,459,143,193 | 3,380,508,801 |
| Maturities | 334,508,476 | 296,002,772 |
| Surrenders | 32,798,045 | 66,454,801 |
| Withdrawals | 10,160,259 | 21,062,723 |
| Change in actuarial value of policyholders liabilities (Note 30) | 279,604,491 | (181,310,561) |
| Interest declared on investment products | 80,014,606 | 48,268,331 |
| Gross claims and policyholders' benefits payable | 4,196,229,070 | 3,630,986,867 |
| Recoverable under reinsurance contracts | (1,488,309,740) | (1,226,560,058) |
| **Net claims and policyholders' benefits payable** | 2,707,919,330 | 2,404,426,809 |

## 9. Operating and other expenses

| | | |
|---|---|---|
| Auditors' remuneration | 3,132,000 | 3,624,753 |
| Director's remuneration | 36,672,708 | 30,596,600 |
| Directors' fees | 5,414,292 | 6,455,019 |
| Impairment (gain)/loss on policy loans (Note 20) | (8,290,304) | 84,049 |
| Impairment provisions for receivables | 751,047 | 556,845,598 |
| Expected credit losses | 25,312,629 | 13,024,751 |
| Repairs and maintenance | 9,305,650 | 9,560,937 |
| Operating lease rentals | 729,570 | 29,723,085 |
| Depreciation on property and equipment (Note 14) | 13,562,811 | 12,717,531 |
| Amortisation of intangible assets (Note 15) | 2,910,450 | 4,042,367 |
| Staff costs (Note 10) | 208,135,272 | 226,503,604 |
| Other operating expenses | 238,552,084 | 211,405,624 |
| | 536,188,207 | 1,104,583,916 |

## 10. Staff costs

| | | |
|---|---|---|
| Salaries and wages | 160,124,383 | 138,729,136 |
| Staff leave accrual | (445,297) | 4,156,749 |
| Insurance | 22,200,737 | 12,737,404 |
| Pension costs: | | |
| - National Social Security Fund | 243,600 | 227,400 |
| - Defined contribution scheme | 14,215,816 | 12,174,231 |
| Other staff costs | 11,796,033 | 58,478,684 |
| | 208,135,272 | 226,503,604 |

The average number of staff during the year were 111 (2018: 96).

## 11. Commission expense

| | | |
|---|---|---|
| Ordinary life | 284,551,604 | 223,458,259 |
| Group life | 280,788,128 | 201,903,900 |
| | 565,339,732 | 425,362,159 |

12. a) **Tax**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| Current tax | 2,426,009 | 41,303,643 |
| Deferred income tax (credit) (Note 37) | (71,859,599) | (18,767,347) |
| **Tax (charge)/credit** | (69,433,590) | 22,536,296 |

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

| | 2019 Shs | 2018 Shs |
|---|---|---|
| Profit/(loss) before tax | 73,054,794 | (48,282,552) |
| Tax calculated at a tax rate of 30% (2018: 30%) | 21,916,438 | (14,484,766) |
| Tax effect of: | | |
| - income less expenses not subject to tax | (91,350,028) | 33,113,637 |
| - Impairment provisons - IFRS 9 transition adjustment | - | 3,907,425 |
| **Tax (charge)/credit** | (69,433,590) | 22,536,296 |

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

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | 21,861,762 | (17,386,200) |
| Current tax charge | 2,426,009 | 41,303,643 |
| Paid during the year | (56,099,875) | (2,055,681) |
| At end of year | (31,812,106) | 21,861,762 |

13. **Earnings/(loss) per share**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| Total number of shares in issue during the year (Note 28) | 4,000,000 | 1,500,000 |
| Profit/(loss) after tax | 142,488,384 | (70,818,848) |
| Basic and diluted earnings/(loss) per share | 35.62 | (47.21) |

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

14. **Property and equipment**

**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 |

14. **Property and equipment (continued)**

**Year ended 31 December 2018**

| | Motor vehicles Shs | Fittings and equipment Shs | Computer equipment Shs | Total Shs |
|---|---|---|---|---|
| **Cost** | | | | |
| At start of year | 18,737,675 | 41,366,418 | 37,303,514 | 97,407,607 |
| Additions | 13,025,380 | 5,376,701 | 3,317,078 | 21,719,159 |
| Disposals | - | - | (71,000) | (71,000) |
| At end of year | 31,763,055 | 46,743,119 | 40,549,592 | 119,055,766 |
| **Depreciation** | | | | |
| At start of year | 11,590,757 | 22,840,397 | 27,274,393 | 61,705,547 |
| Charge for the year | 4,769,775 | 3,943,650 | 4,004,106 | 12,717,531 |
| On disposals | - | - | (71,000) | (71,000) |
| At end of year | 16,360,532 | 26,784,047 | 31,207,499 | 74,352,078 |
| **Net book value** | 15,402,523 | 19,959,072 | 9,342,093 | 44,703,688 |

15. **Intangible assets (computer software)**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| **Cost** | | |
| At start of year | 35,239,611 | 34,502,721 |
| Additions | 393,936 | 736,890 |
| At end of year | 35,633,547 | 35,239,611 |
| **Amortisation** | | |
| At start of year | 28,914,670 | 24,872,303 |
| Charge for the year | 2,910,450 | 4,042,367 |
| At end of year | 31,825,120 | 28,914,670 |
| **Net book value** | 3,808,427 | 6,324,941 |

Included in the cost of intangible assets above is an amount of Shs. 20,990,484 (2018: Shs. 20,910,484) fully amortised assets.

16. **Right of use asset**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | - | - |
| Effect of change in accounting policy (Note 1(a)) | 104,817,793 | - |
| Depreciation charge for the year | (26,686,411) | - |
| At end of year | 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.

17. **Investment properties**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | 1,411,500,000 | 1,241,847,000 |
| Additions | - | 48,500,000 |
| Fair value gain (Note 5) | 103,700,000 | 121,153,000 |
| At end of year | 1,515,200,000 | 1,411,500,000 |

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 2019 on an open market basis.

The fair valuation of investment properties is done using the Level 3 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**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | 21,350,048 | 23,991,533 |
| Additions | - | 1,197,852 |
| Disposals | - | (1,190,867) |
| Fair value gain/(loss) (Note 5) | 2,467,477 | (2,648,470) |
| At end of year | 23,817,525 | 21,350,048 |

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**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | - | - |
| Additions | 100,000,000 | - |
| At end of year | 100,000,000 | - |

These relate to investments in Pioneer General Insurance Limited.

19. **Investments with fund managers**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | 129,958,093 | 99,131,558 |
| Subscriptions for the year | 14,792,172 | 28,894,715 |
| Disposals | (29,667,692) | - |
| Fair value gain (Note 5) | 30,155,292 | 1,931,820 |
| At end of year | 145,237,865 | 129,958,093 |

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 2 technique as described in the basis of preparation of these financial statements.

**NOTES (CONTINUED)**

**20. Policy loans receivable**

| | 2019<br>Shs | 2018<br>Shs |
|---|---|---|
| At start of year | 127,852,071 | 116,253,977 |
| Loans advanced | 53,757,041 | 29,113,825 |
| Interest charged (Note 5) | 8,447,753 | 3,582,083 |
| Loan repayments | (64,221,445) | (21,097,814) |
| | 125,835,420 | 127,852,071 |
| Less: Expected credit losses | (49,730,515) | (58,020,819) |
| At end of year | 76,104,905 | 69,831,252 |
| **Movement in expected credit losses** | | |
| At start of year | 58,020,819 | 57,936,770 |
| (Reversal)/additions | (8,290,304) | 84,049 |
| At end of year | 49,730,515 | 58,020,819 |
| **Maturity of gross amounts advanced** | | |
| Maturing: | | |
| Within 1 year | 15,421,904 | 15,669,057 |
| 1 year to 2 years | 41,585,846 | 42,252,305 |
| 3 years to 5 years | 68,827,670 | 69,930,709 |
| | 125,835,420 | 127,852,071 |

The weighted average effective interest rate on policy loans was 11% (2018: 7%) 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**

| | 2019<br>Shs | 2018<br>Shs |
|---|---|---|
| **Held to maturity** | | |
| **Treasury bills and bonds:** | | |
| Maturing after 91 days but less than 1 year | 126,958,010 | 61,511,024 |
| Maturing after 1 year | 646,159,267 | 403,032,073 |
| | 773,117,277 | 464,543,097 |

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 2019 was 11.76% (2018: 12.18%).

| | 2019<br>Shs | 2018<br>Shs |
|---|---|---|
| At start of year | 491,000,000 | 289,000,000 |
| Purchase | 435,000,000 | 219,000,000 |
| Maturity | (132,000,000) | (17,000,000) |
| At end of year | 794,000,000 | 491,000,000 |
| Maturing within 91 days | - | (16,797,126) |
| Unearned interest | (9,071,881) | (3,691,850) |
| Expected credit losses | (3,970,109) | (2,334,497) |
| Discount on purchase | (7,840,733) | (3,633,430) |
| At end of year | 773,117,277 | 464,543,097 |

Included in Government securities are treasury bonds and treasury bills with Central Bank of Kenya amounting to Shs. 314 million (2018 : Shs. 234 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.

**NOTES (CONTINUED)**

**22. Kenya motor insurance pool (KMIP)**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | 14,409,237 | 14,290,306 |
| Proceeds from disposal | (3,537,710) | - |
| Share of profit (Note 7) | 1,095,016 | 118,931 |
| At end of year | 11,966,543 | 14,409,237 |

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

**23. Receivables arising from reinsurance arrangements**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| Claims recoverable | 2,042,978,855 | 1,258,510,901 |
| Expected credit losses | (44,418,449) | (33,512,783) |
| Incurred credit losses | (534,239,147) | (532,833,287) |
| | 1,464,321,259 | 692,164,831 |

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**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| Check off schemes | 69,021,043 | 76,875,569 |
| Direct clients | 59,816,746 | 2,842,796,496 |
| Expected credit losses | (3,216,545) | (3,082,059) |
| Incurred credit losses | (7,674,793) | (7,848,581) |
| | 117,946,451 | 2,908,741,425 |

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**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| Agents loans and advances | 67,680,424 | 48,951,601 |
| Expected credit losses | (17,613,578) | (15,000,000) |
| Staff loans and advances | 9,240,967 | 33,094,895 |
| Deposits | 34,209,237 | 57,333,373 |
| Prepayments | 16,387,146 | 16,788,794 |
| Rent receivable | 6,695,022 | 462,000 |
| Interest receivable | 33,418,655 | 26,453,709 |
| Receivable from related parties (Note 38) | 61,564,678 | 144,284,850 |
| Guarantees and performance bonds | 69,443,538 | 9,528,789 |
| Other sundry debtors | 2,818,747 | 2,888,651 |
| | 283,844,836 | 324,786,662 |

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

| | 2019 Shs | 2018 Shs |
|---|---|---|
| **Maturing:** | | |
| Maturing between 90 days and 1 year | 885,774,071 | 429,781,614 |
| Expected credit losses | (11,697,699) | (4,741,355) |
| Incurred credit losses | (34,488,012) | (34,012,311) |
| | 839,588,360 | 391,027,948 |

These relate to investments in fixed and call deposits. The weighted average effective interest rate on deposits with financial institutions was 9.15% (2018: 7.96%) at the reporting date.

Restricted bank balances relate to balances held with SBM Bank (Kenya) Limited which were transferred from Chase Bank Kenya Limited as part of the statutory management. These balances are not immediately available for use.

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. 34,012,311 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

| | 2019 Shs | 2018 Shs |
|---|---|---|
| Cash at bank and in hand | 1,533,141,728 | 374,661,997 |
| Government securities maturing within 91 days | - | 16,797,126 |
| Deposits with financial institutions maturing within 91 days | 590,655,479 | 141,600,000 |
| Expected credit losses | (7,742,742) | (4,541,314) |
| | 2,116,054,465 | 528,517,809 |

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:**

| | 2019 | 2018 |
|---|---|---|
| 4,000,000 (2018: 1,500,000) ordinary shares of Shs. 100 each | 400,000,000 | 150,000,000 |

The authorised share capital of the company was increased on 31 December 2019 from Shs. 150,000,000 representing 1,500,000 ordinary shares of Shs. 100 each to Shs. 400,000,000 representing 4,000,000 ordinary shares of Shs. 100 each.

The issued and paid up share capital of the company was increased on 31 December 2019 from Shs. 150,000,000 to Shs. 400,000,000 by the issuance of 2,500,000 ordinary shares of Shs. 100 each.

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.

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | 506,829,994 | 564,754,986 |
| Transfer (to) profit or loss | (256,815,331) | (82,749,989) |
| Deferred tax | 77,044,599 | 24,824,997 |
| At end of year | 327,059,262 | 506,829,994 |
| Recommeded for distribution by the actuary | - | - |
| | 327,059,262 | 506,829,994 |

30. **Insurance contract liabilities**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | 2,518,285,620 | 2,699,596,181 |
| Increase/(decrease) in actuarial value of policyholders liabilities (Note 8) | 279,604,491 | (181,310,561) |
| At end of year | 2,797,890,111 | 2,518,285,620 |

31. **Payables under deposit administration contracts**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | 527,381,602 | 272,667,249 |
| Deposits received during the year | 369,792,558 | 242,662,044 |
| Benefits paid | (65,663,830) | (28,518,260) |
| Deposit administration expenses | (5,930,605) | (1,232,100) |
| Interest declared | 72,417,038 | 41,802,669 |
| At end of year | 897,996,763 | 527,381,602 |

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 11% for the year (2018: 11.5%). 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**

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | 166,145,396 | 109,099,232 |
| Received during the year | 81,378,716 | 98,436,876 |
| Withdrawals during the year | (72,505,942) | (47,856,150) |
| Interest declared | 7,597,568 | 6,465,438 |
| At end of year | 182,615,738 | 166,145,396 |

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 2.3% for the year (2018: 2.3%).

**NOTES (CONTINUED)**

| 33. **Outstanding claims** | **2019 Shs** | **2018 Shs** |
|---|---|---|
| Ordinary life | 7,726,697 | 32,915,776 |
| Group life | 821,121,507 | 1,177,873,930 |
| General business run off | 6,101,250 | 6,101,250 |
| | 834,949,454 | 1,216,890,956 |
| **Movement in outstanding claims:** | | |
| At start of year | 1,216,890,956 | 739,710,485 |
| Claims intimated during the year | 3,916,624,579 | 3,808,662,542 |
| Claims paid during the year | (4,298,566,081) | (3,331,482,071) |
| At end of year | 834,949,454 | 1,216,890,956 |

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** | **2019 Shs** | **2018 Shs** |
|---|---|---|
| Group Life | 1,229,642,187 | 1,368,264,237 |

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** | **2019 Shs** | **2018 Shs** |
|---|---|---|
| Commission payable | 26,292,186 | 26,617,356 |
| Agents bonds | 4,002,428 | 3,702,538 |
| Accrued expenses | 10,524,182 | 15,246,116 |
| Provision for gratuity | - | 4,750,971 |
| Provision for accrued leave | 13,198,121 | 25,057,269 |
| Other sundry creditors | 359,772,707 | 6,885,107 |
| | 413,789,624 | 82,259,357 |

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** | **2019 Shs** | **2018 Shs** |
|---|---|---|
| Lease liabilities | 84,490,500 | - |
| Reconciliation of lease liabilities: | | |
| At start of year | - | - |
| Transition adjustment (Note 1(a)) | 104,817,793 | - |
| Interest charged to profit or loss | 12,461,543 | - |
| Cash flows: | | |
| - Operating activities (interest paid) | (12,461,543) | - |
| - Payment of lease obligations | (20,327,293) | - |
| At end of year | 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% (2018: 30%). The movement on the deferred income tax account is as follows:

| | 2019 Shs | 2018 Shs |
|---|---|---|
| At start of year | 238,763,226 | 257,530,573 |
| Charge to profit or loss (Note 12) | (71,859,599) | (18,767,347) |
| At end of year | 166,903,627 | 238,763,226 |

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 | 217,214,854 | (77,044,599) | 140,170,255 |
| Investment property fair value gains | 21,550,372 | 5,185,000 | 26,735,372 |
| | 238,765,226 | (71,859,599) | 166,905,627 |

38. **Related party 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 party balances and transactions are as follows:

| | 2019 Shs | 2018 Shs |
|---|---|---|
| i) **Transactions with related parties** | | |
| Gross premiums | 2,499,302 | 1,214,784 |
| ii) **Outstanding balances** | | |
| Receivable from related company (Note 25) | 61,564,678 | 144,284,850 |
| Key management staff personnel loans | 2,953,680 | 10,184,907 |
| iii) **Key management personnel compensation** | | |
| Salaries and other short-term employment benefits | 82,803,723 | 76,120,641 |
| Post-employment benefits | 6,884,870 | 5,285,980 |
| | 89,688,593 | 81,406,621 |

39. **Capital commitments**

| | 2019 | 2018 |
|---|---|---|
| i) Authorized and contracted for | 2,321,000 | 8,200,695 |
| ii) Authorized but not contracted for | 44,235,500 | 32,929,305 |

40. **Fair value of financial instruments**

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 2019** | **Level 1 Shs** | **Level 2 Shs** | **Total Shs** |
|---|---|---|---|
| **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 |
| **Total assets** | 23,817,525 | 245,237,865 | 269,055,390 |
| **As at 31 December 2018** | | | |
| **Assets** | | | |
| **Financial assets** | | | |
| Quoted shares at fair value through profit or loss | 21,350,048 | - | 21,350,048 |
| Investments with fund managers | - | 129,958,093 | 129,958,093 |
| | 21,350,048 | 129,958,093 | 151,308,141 |

40. **Fair value of financial instruments (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 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 | - | - | 773,117,277 | 773,117,277 |
| Kenya Motor Insurance Pool | 11,966,543 | - | - | 11,966,543 |
| Policy loans receivable | 76,104,905 | - | - | 76,104,905 |
| Receivables arising from: | | | | |
| Reinsurance arrangements | 1,464,321,258 | - | - | 1,464,321,258 |
| Direct insurance arrangements | 117,946,451 | - | - | 117,946,451 |
| Other receivables | 283,844,836 | - | - | 283,844,836 |
| Deposits with financial institutions | 839,588,360 | - | - | 839,588,360 |
| Cash and cash equivalents | 2,116,054,465 | - | - | 2,116,054,465 |
| | 4,909,826,818 | 269,055,390 | 773,117,277 | 5,951,999,485 |
| **As at 31 December 2018** | | | | |
| Quoted shares | - | 21,350,048 | - | 21,350,048 |
| Investments with fund managers | - | 129,958,093 | - | 129,958,093 |
| Government securities | - | - | 464,543,097 | 464,543,097 |
| Kenya Motor Insurance Pool | 14,409,237 | - | - | 14,409,237 |
| Policy loans receivable | 69,831,252 | - | - | 69,831,252 |
| Receivables arising from: | | | | |
| Reinsurance arrangements | 692,164,833 | - | - | 692,164,833 |
| Direct insurance arrangements | 2,908,741,425 | - | - | 2,908,741,425 |
| Other receivables | 324,786,662 | - | - | 324,786,662 |
| Deposits with financial institutions | 391,027,948 | - | - | 391,027,948 |
| Cash and cash equivalents | 528,517,809 | - | - | 528,517,809 |
| | 4,929,479,166 | 151,308,141 | 464,543,097 | 5,545,330,404 |

40. **Fair value of financial instruments (continued)**

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

i) **Financial assets by category (continued)**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| **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** |
| Creditors arising from reinsurance arrangements | - | 1,229,642,187 | 1,229,642,187 | - | 1,368,264,237 | 1,368,264,237 |
| Other creditors and liabilities | - | 413,789,624 | 413,789,624 | - | 82,259,357 | 82,259,357 |
| | - | 1,643,431,811 | 1,643,431,811 | - | 1,450,523,594 | 1,450,523,594 |

41. **Contingencies**

**Litigation against the company**

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.

42. **Prior year adjustment**
Comparative figures have been adjusted to recognize expected credit loss provision on financial assets following adoption of IFRS 9.

43. **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.

| | Ordinary Life 2019 Shs | Annuity 2019 Shs | Group Credit 2019 Shs | Group Life 2019 Shs | Total 2019 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** | **(1,132,181,027)** | **(57,417,075)** | **(627,641,951)** | **(1,992,207,216)** | **(3,809,447,269)** |
| **Surplus before income tax** | **41,854,647** | **(13,165,926)** | **(60,460,996)** | **104,827,069** | **73,054,794** |

| | Ordinary Life 2018 Shs | Annuity 2018 Shs | Group Credit 2018 Shs | Group Life 2018 Shs | Total Shs |
|---|---|---|---|---|---|
| Insurance premium revenue | 723,457,300 | 45,333,331 | 532,590,289 | 3,926,508,695 | 5,227,889,615 |
| Gross earned premiums | 723,457,300 | 45,333,331 | 532,590,289 | 3,926,508,695 | 5,227,889,615 |
| Premium ceded to reinsurers | (2,177,754) | - | (106,518,058) | (1,893,120,126) | (2,001,815,938) |
| **Net earned premiums** | **721,279,546** | **45,333,331** | **426,072,231** | **2,033,388,569** | **3,226,073,677** |
| Investment and other income | 174,891,055 | 18,329,300 | 13,226,690 | 36,063,148 | 242,510,193 |
| Commissions earned | 191,816 | - | 36,259,603 | 380,936,112 | 417,387,531 |
| Other income | 118,931 | - | - | - | 118,931 |
| **Total income** | **896,481,348** | **63,662,631** | **475,558,524** | **2,450,387,829** | **3,886,090,332** |
| Death claims | (13,992,739) | - | (505,486,926) | (2,861,029,136) | (3,380,508,801) |
| Surrenders | (66,454,801) | - | - | - | (66,454,801) |
| Maturity & Annuity claims | (297,983,785) | (19,081,710) | - | - | (317,065,495) |
| Change in actuarial value of policyholders' benefits | (90,371,530) | (48,340,784) | (23,984,232) | 344,007,106 | 181,310,560 |
| Interest declared under investment contracts | (6,465,438) | - | - | (41,802,893) | (48,268,331) |
| Recoverable under reinsurance contracts | - | - | 101,097,385 | 1,125,462,673 | 1,226,560,058 |
| **Net claims and policyholder benefits payable** | **(475,268,293)** | **(67,422,494)** | **(428,373,773)** | **(1,433,362,250)** | **(2,404,426,810)** |
| Operating and other expenses | (345,993,611) | (2,266,667) | (37,281,320) | (719,042,318) | (1,104,583,916) |
| Commissions payable | (222,098,259) | (1,360,000) | (58,584,932) | (143,318,968) | (425,362,159) |
| **Total policy owner benefits and expenses** | **(1,043,360,163)** | **(71,049,161)** | **(524,240,025)** | **(2,295,723,536)** | **(3,934,372,885)** |
| **(Deficit) before income tax** | **(146,878,815)** | **(7,386,530)** | **(48,681,501)** | **154,664,293** | **(48,282,553)** |
| Management Expense Ratio | 48% | 5% | 7% | 18% | 21% |
| Commission ratio | 31% | 3% | 11% | 4% | 8% |
| Claims ratio | 66% | 149% | 101% | 70% | 75% |