FIRST ASSURANCE COMPANY LIMITED

ANNUAL REPORT

AND FINANCIAL STATEMENTS

31 DECEMBER 2021

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FIRST ASSURANCE COMPANY LIMITED
CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2021

DIRECTORS

Mary Ngige	-	Chairman
Stephen Lokonyo	-	Appointed on 1 May 2021
Allan Walmsley*		
Jeremy Awori		
Laila Macharia		
David Kabeberi		
Karen Miller	-	Resigned on 26 April 2021
Nazim Mahmood**	-	Appointed on 26 April 2021

*British
**Pakistani

COMPANY SECRETARY

Wilson K. Murage
Absa Headquarters
First Floor, Waiyaki Way
P.O. Box 30120 – 00100
Nairobi

REGISTERED OFFICE

First Assurance House
Clyde Gardens off Gitanga Road, Lavington
P.O. Box 30064 - 00100
Nairobi

EXECUTIVE COMMITTEE (EXCO)

Stephen Lokonyo	-	Managing Director
Reuben Bundi	-	Chief Finance Officer
Johannes Kitaka	-	Chief Operations Officer
John Mugambi	-	Operations Manager – General Underwriting – Appointed on 01 October 2021
Hilary Mwangi	-	Operations Manager – Medical Underwriting
Peter Nuthu	-	Finance Manager
Paul Sewe	-	Claims Manager
Anne Njiru	-	Business Development Manager
Jacob Sila	-	Compliance Manager
Catherine Nyaga	-	Internal Auditor
Dennis Adem	-	ICT Manager
Janerose Gitonga	-	Legal Manager
Elias Kariuki	-	Risk Manager
Emily Gachaiya	-	Human Resources Manager
Daniel Mwangi	-	Head of Bank Assurance Underwriting – Appointed on 22 March 2021

BRANCH MANAGERS

Faith Mwenda	-	Branch Manager CBD
Isaac Nguono	-	Branch Manager Kisumu
Stephen Nato	-	Branch Manager Mombasa
Jane Muthee	-	Branch Manager Nakuru

PRINCIPAL OFFICER

Stephen Lokonyo

AUDITORS

Ernst & Young LLP
Kenya Re Towers,
Upperhill, Off Ragati Road,
P.O. Box 44286 - 00100
Nairobi

PRINCIPAL LEGAL ADVISORS

Bowmans
5th Floor, West Wing, ICEA Lion Centre
Riverside Park, Chiromo Road, Nairobi
PO Box 10643-00100
Nairobi

PRINCIPAL BANKERS

Absa Bank Kenya Plc
Office Park Branch
P.O. Box 30120 - 00100
Nairobi

NCBA Bank Limited
Junction Branch
P.O. Box 30437 - 00100
Nairobi

The Co-operative Bank of Kenya Plc
Nairobi Business Centre Branch
P.O. Box 90681 - 80100
Nairobi

KCB Bank Kenya Limited
United Mall Branch
P.O. Box 598 - 40100
Kisumu

CONSULTING ACTUARIES

Zamara Actuaries, Administrators & Consultants Limited
Landmark Plaza, 10th Floor
Argwings Kodhek Road
Opposite Nairobi Hospital
P.O. Box 52439 - 00200
Nairobi

Introduction

I am pleased to present to you the 2021 annual report and audited financial statements.

Economic and Business Environment

2021 saw the global economic recovery begin to emerge, however this faces significant headwinds amid new waves of Covid-19 infections, lingering supply-chain disruptions, labour market challenges and rising inflationary pressures. Elevated inflation is expected to persist for longer than envisioned with ongoing supply chain disruptions and high energy prices continuing in 2022. As a result, the 2021 global economic growth was 5.5% but is expected to slow to a growth of 4.4% in 2022 and 3.8% in 2023, according to the International Monetary Fund World Economic Outlook. The recovery in 2021 was driven mainly by strong consumer spending and some uptake in investment, with trade in goods surpassing pre-pandemic levels. However, this momentum, especially in China, the United States, and the European Union, slowed considerably towards the end of 2021, as the effects of monetary and fiscal stimuli began to recede and major supply-chain disruptions emerged.

Rising inflationary pressures and low fiscal support in many economies are posing additional risks to recovery. Performance of developed economies is expected to revert to pre-pandemic levels in 2022, while those for emerging markets and developing economies are likely to remain subdued. Risks related to pandemic resurgence, supply chain disruptions, climate change related disasters, financial distress and possible high inflation rates will persist.

In Sub-Saharan Africa, growth closed at 3.5% for 2021, supported by a rebound in commodity prices and the gradual easing of Covid-19 restrictions. However, several countries continue to face new Covid-19 variants resurgence against the backdrop of low vaccine uptake, thereby adversely impacting the expected rate of recovery. Growth in 2022-23 is expected to remain at 3.7%, which is insufficient to reverse the Covid-19 induced increases in poverty and the decline in per capita income.

The Kenya economy showed resilience throughout 2021, with output in several sectors in the first half of the year surpassing pre-pandemic levels. Gross domestic product is expected to grow by 5%, being one of the fastest growing economies in sub-Saharan Africa. For 2022, the economy is expected to achieve growth levels of approximately 5.4%, to attain pre-pandemic levels of economic growth. The opening up of the economy has seen growth in jobs and household incomes, mainly in the services and agricultural sectors, which together have pushed up private consumption.

Despite this economic rebound, poverty levels continue to be problematic resulting in the depletion of savings levels and endangering coping mechanisms. Throughout 2021 however, the Government successfully adopted a mix of night curfews, restrictions on travel across several counties, continued restrictions on the number of people in public places, public activities and places of worship in order to curb infection rates. While the year started with limited vaccine suppliers, the same has improved significantly and despite the slow initial uptake, the number of adults vaccinated with one jab crossed the 10 million mark by the close of 2021. These measures supported the opening of the economy in the second half of 2021.

Robust diaspora remittances have been sustained while mobile money and the digital lending sectors have shown resilience and sustained growth. The education sector has fully rebounded while the tourism sector is slowly recovering. However, long tail pandemic effects remain a factor moving forward. A significant issue will be how to support further recovery, reduce debt distress risks and rebuild space for social and development spending by the Government continuing to implement medium-term fiscal consolidation plans. Also, imminent risks brought about by drought in various counties with likely crop failure and livestock deaths, the rising cost of energy and the upcoming general election, will negatively impact economic growth in Kenya moving forward.

Insurance Industry

For the nine months to end September 2021, the insurance industry registered a growth of 19% in total gross written premiums as against 2020 (general insurers 15.5% and long-term business 24%). This growth translated to gross written premiums of KShs 213.53 billion, compared to KShs 179.41 billion for same period 2020. General insurance underwriters remained the largest contributor to total industry premiums, contributing 56.9% or KShs 121.41 billion of the total. Motor insurance and medical insurance classes accounted for 63.2% of this total.

However, general insurers reported an increase in underwriting losses for the nine months to KShs 4.13 billion compared to losses of KShs 879.28 million in 2020. A significant deterioration and mainly attributed to the significant increase in loss ratios in the motor private and motor commercial classes, following relaxation of Covid-19 travel restrictions.

For general insurance operators, the motor classes posed the most significant challenge. These classes comprised 52.3% of total claims but contributed only 29.5% of total gross written premium. Workmen's compensation class made the highest underwriting profit for the industry at KShs 1.65 billion while motor private and motor commercial incurred the highest underwriting losses at KShs 4.83 billion and KShs 2.48 billion respectively. The industry would have recorded an underwriting profit of KShs 3.18 billion were the motor classes to be excluded.

Company Results and Dividends

With the emergence of new Covid-19 variants, the business environment remained challenging during the year under review. The Board, through management, adopted enhanced business continuity measures and disaster recovery plans. These measures ensured that over 80% of our staff worked remotely throughout the year and were still able to fully render services to our esteemed customers. This quick action ensured protection of our staff and all other stakeholders during the period under review. The majority of insurance contracts were renewed remotely and customers were able to receive all required services. Customers expended less effort to acquire service from the Company as all social media and online channels were activated.

With the relaxation of the stringent Covid-19 containment measures by the Government, the increase in vaccine roll out and the general change in business fundamentals, many clients are now returning to the office expecting face to face services. Management has had to manage this new expectation by having a carefully scheduled mix of remote and office working for all staff.

The year under review saw the country reset to normal with a concomitant increase in vehicle traffic. This increased the number of accidents leading to significant underwriting losses for the motor classes. Further, compared to 2020, more insureds visited hospitals and many long-delayed procedures were undertaken. This in turn, led to a significant increase in medical claims, placing the medical book under severe pressure as well.

The company maintained stringent underwriting and cost control policies in both claims and management expenses. Several upward price reviews were effected during the year, loss making contracts and schemes were exited and claims cost containment measures were enhanced. The company recorded a 9% growth in the gross written premium from KShs 4.14 billion to KShs 4.51 billion. The sale of Clyde apartments was a key milestone for the year as this would go a long way in boosting the company's solvency position. Overall, the company made a KShs 67 million underwriting loss against a profit of KShs 30 million in 2020. Investment income for the year was KShs 117 million, (after a loss on disposal of KShs 41.5 million from one of our properties), compared to KShs 162 million in the prior year. The company closed the year with profit before tax of KShs 50 million against a profit of KShs 88 million in 2020.

The industry continues to implement the risk-based capital management framework. The minimum capital adequacy requirement (CAR) remains at 100%. However, the industry is expected to progressively increase CAR to between 150% - 200%, where the Regulator would not prescribe remedial or surveillance measures.

With the initial onset of Covid-19 and its adverse effects on businesses and the country's economy at large, the Treasury Cabinet Secretary extended the CAR compliance to the minimum rate of 100% to December 2020 and therefore, 2021 was expected to have operated under the risk-based capital guidelines. The company's capital adequacy ratio (CAR) at 31 December 2021 was 143.9% (2020 - 125%). Measures to boost CAR to 200%, which is the self-regulating threshold, are underway. These measures include improved profitability, asset realignment and rebalancing, investment income improvement and focused debt management through enforcement of the debt management guidelines to enable timely premium collections.

The Board and management carefully assessed Company performance during the year under review. As per the Company dividend policy, a dividend declaration is triggered only if CAR is above 200% and its declaration and payment will leave the Company with sufficient liquidity. Consequently, the Board does not recommend the payment of a dividend for the year.

The Business Outlook

The Board of Directors approved a 5-year strategic plan for the Company in 2021, which incorporates the 2022 budget. The impact of Covid-19, emerging political risks and fragility in the economic fundamentals were considered in setting the strategic plan and the 2022 budget and despite all challenges and risks, the Board is working with management to achieve the set targets.

Management has built sufficient safeguards into business to support the attainment of top-line growth and the containment of both claims and management expenses moving forward. Company processes ensure early policy renewals, robust risk management measures, realistic pricing and proper intermediary relationship management. We will continue to bolster our current distribution channels of brokers, agents, bancassurance, facultative placements and online retail sales supported by increased automation of the various customer touch points. To support staff and ensure smooth delivery of services to all customers, business continuity management and disaster recovery plans will remain robust.

On customer support and cashflow management, the business will continue to encourage early premium payments through partnerships with financial institutions providing premium financing. The management of the motor claims supply chain will remain a key focus area throughout 2022 to ensure quality and fast service to all our customers at an optimal cost. This will help eliminate service delays and offer a delightful customer experience. To enhance reachability and ensure a 360-degree view of all customer communication, the Company will deploy an integrated customer call service centre for both inbound and outbound calls. This will be in addition to availing customer and intermediary applications for ease of online transactions with the Company.

The control environment will continue to be strengthened across all verticals and processes and our right talent retention scheme will ensure appropriate human resource policies to attract and retain the best skills in the market. Finally, the Board, through management, will continue its efforts to dispose of certain investment properties to strengthen the Company's cashflow and capital adequacy parameters.

Appreciation

With the effects of Covid-19, 2021 was yet another difficult year not only affecting the Company but the country and many other sectors across the world. Our shareholders, customers, business associates and our employees remained supportive throughout the year. We appreciate you all for this robust partnership. My colleagues on the Board accorded support to both myself and management, with constant formal and non-formal engagements. This support is highly appreciated. The success of the Company has also been due to the diligence, commitment and resilience of the Company's management and staff who have remained engaged throughout the period, despite the disruptions and economic downturn brought about by the Covid-19 pandemic. The Board of Directors remains committed to engaging management and providing them with the right support and guidance to ensure the Company's strategy is delivered successfully.

Mary Ngige
Board Chairperson

24 March 2022

On behalf of management, I am delighted to present to you the annual report and audited financial statements for the year ended 31st December 2021.

Overview

In 2021, the economy displayed significant resilience in the face of the adverse effects of the Covid-19 pandemic. GDP growth in the second and third quarters of the year averaged 10%, albeit off a very low base compared to the same period in 2020. This growth was mainly due to increased output from the industrial and services sub-sectors, following easing of the pandemic containment measures.

Overall inflation increased to an average of 6.7 percent in the third quarter of 2021, up from 6.0 percent in quarter two mainly driven by high food and fuel prices. Food inflation increased due to lower food supplies occasioned by unfavourable weather conditions whilst fuel inflation was also significant but in line with trends in the international oil market.

Industry Performance

Industry gross written premium totalled KShs 213.53 billion for the nine months to end September 2021, representing an increase of 19% from the KShs 179.41 billion reported for the same period 2020. Motor and medical insurance classes maintained their leading position in terms of contribution to total general insurance premium at 29.5% and 33.6% respectively.

Total general insurance premium amounted to KShs 121.41 billion for the nine months, recording a growth of 15.5% as against 2020. However, underwriters incurred claims amounting to KShs 51.30 billion, to record a claims incurred loss ratio of 68.6% in the period, as against 63.3% in 2020. This was a significant deterioration driven by poor performance in the motor and medical books across the industry.

General insurance underwriters reported an increase in underwriting losses to KShs 4.13 billion, compared to a loss of only KShs 879.28 million 2020, mainly attributed to a very significant increase in loss ratios in the motor private and motor commercial classes. The relaxation of Covid-19 restrictions that had been imposed on travel resulted in a marked increase in accident claims across both motor books.

Company Performance

In 2021, gross written premium grew by 9% with a 100% achievement to budget. The excellent performance was due to the continued efforts at rendering improved customer service and sustaining good relationships with our intermediaries and strategic partners. The Company achieved a profit before tax and before the loss on sale of investment property of KShs 88 million in 2021.These results were largely in line with our strategic objectives to grow the business profitability and sustainably.

The performance was also attributed to risk remediation measures implemented by management, coupled with recent claims cost containment initiatives put in place. Our objective was to control our claims costs through improved risk analysis, fraud prevention measures and an improved general claims process. On the medical book we conducted various member health education sessions with our insureds and negotiated for favourable discounts from our service providers.

The company continued to make deliberate efforts at investing in its employees to develop them through trainings and skills alignment and to improve staff motivation and productivity at all levels. We have a pool of employees that are qualified and have the technical knowledge to support the business in achieving its set objectives.

The Company has various initiatives in place and in process to show its continued commitment to achieving high level staff performance. These include capacity building, diverse recognition methods and creating an open environment in which to work.

Outlook

In 2022, management remains committed to building a sustainable business through the achievement of the set strategic objectives. The business will focus on achieving the 2022 strategic objectives, specifically to grow profitability and focus on being more digitally enabled. Other key objectives will include profitable growth through attracting and maintaining quality business portfolios, rebalancing channel revenues, product realignment and developing systems that enhance support for all our processes and sustain robust risk management initiatives.

We have developed an effective hybrid working model to ensure the business is running smoothly and the staff members working from home are adequately facilitated to deliver optimally. Our business processes remain effective and efficient in supporting both our clients and staff members.

The business will continue to expand its regional footprint with two new satellite offices in Eldoret and Nyeri to serve the North Rift and Mt. Kenya region respectively. Additionally, we will continue expanding our product offering, having launched our new product, Bima Taasisi. We will continue working closely with the industry and market players to deliver value through insurance solutions.

Appreciation

I wish to sincerely thank our customers, business partners and intermediaries for their continued business support. We appreciate you for believing and trusting in us and our brand. Finally, I am grateful to the Board, management team and all members of staff in First Assurance for their valuable contribution in 2021. Above all we give our major appreciation to the Almighty for his continued blessings.

Stephen Lokonyo
Managing Director

24 March 2022

Introduction

First Assurance Company Limited (the "Company") remains committed to achieving the highest standards of corporate governance in the recognition that the ethical running of corporations and the integrity of their systems and processes are a key component in enhancing the financial performance and sustainability of such corporations as well as the economy in general.

The Board of Directors therefore takes a keen interest in the implementation and reinforcement of corporate governance practices for the benefit of all stakeholders.

The Board and management are guided by the shared values of integrity, professionalism, security and quality service as well as ensuring that the Company remains a responsible corporate citizen. We have put in place elaborate governance processes which comply with best practice as set out in various codes on corporate governance.

Board of Directors

The Board of Directors is collectively responsible for delivering the long term success of the Company. The Board works with the executive team by providing support and advice to complement and enhance the work undertaken.

The Board performs the following roles:

- Establishing the strategic direction of the Company and overseeing its implementation
- Establishing appropriate corporate governance structures and practices
- Ensuring that the Company operates ethically and in compliance with all applicable laws and regulations
- Establishing an appropriate risk management framework which identifies and manages all risks in line with the Company's risk appetite
- Ensuring that both internal and external audit functions are in place and are effective and that robust accounting and internal controls are in place
- Selecting, compensating and monitoring key executives and overseeing succession planning
- Approving business plans and overseeing and approving capital expenditures
- Ensuring business continuity

At each Board meeting, the Board receives and reviews reports on operations, financial performance, strategy, risk and individual Board committee reports.

Board composition and appointments

The Board of Directors comprises six non-executive directors and the managing director who is an executive director. The Board is composed of directors with a good mix of skills, experience and competencies in their relevant fields of expertise.

The appointment and removal of directors are in accordance with the Company's Articles of Association.

Before each meeting, the directors are provided with meaningful information on the activities of the Company that forms the basis for discussion at the meeting. Any additional information requested by any Board member is provided to ensure that they have all the information required to perform their duties.

Chairman and Managing Director roles

The roles of the chairman and managing director are clearly defined and separated. The chairman is responsible for managing the Board and providing leadership to the Company while the managing director is responsible to the Board for running the business of the Company in accordance with instructions given by the Board. The managing director directs the implementation of Board decisions and instructions. The managing director also oversees the general management of the business of the Company with the assistance of the management team.

All Board members have a fiduciary duty to act honestly at all times in the best interest of the Company. Our Company has a policy to ensure this is implemented and Board members are required to declare in writing once any conflict of interest arises. All transactions with the Company must be at arm's length.

Board meetings

The Board meets at least once every quarter to review the Company's performance with additional meetings being held as and when the need arises. The directors are provided with regular reports on the performance of the Company in all areas of operation to enable them to carry out their roles. Four Board meetings were held in the year and the attendance was as follows: -

Director	10/03/2021	12/05/2021	19/08/2021	24/11/2021
Mary Ngige	✓	✓	✓	✓
Allan Walmsley	✓	✓	✓	✓
Karen Miller	✓	n/a	n/a	n/a
Nazim Mahmood	n/a	✓	✓	✓
Jeremy H Awori	✓	✓	×	×
Laila Macharia	✓	✓	✓	✓
David Kabeberi	✓	×	✓	✓
Stephen Lokonyo	n/a	n/a	✓	✓

✓ Present
× Absent with apology
n/a Not applicable

Board Committees

The Board has delegated some of its responsibilities to Board committees who operate within defined terms of reference as detailed by the Board. These committees are as follows:-

Audit and Risk Committee

The Board has set up the audit and risk committee which is charged with the responsibility of reviewing and monitoring the quality, effectiveness and comprehensiveness of the financial reporting process, risk management process, the system of internal controls, the management of strategic and major financial and operational risks and the audit process. It is chaired by a non-executive director. The members of the Committee for the year 2021 were Allan Walmsley (chair), Karen Miller/Nazim Mahmood and David Kabeberi. The committee meets quarterly.

Investment and Asset Liability Committee

The investment and asset liability management committee comprises of three members, all of whom are non-executive Directors. It meets frequently as required but at least once a quarter. It evaluates the Company's investment strategy, monitors the performance of the investment portfolio and adherence to all approved mandates. The committee makes recommendations to the Board of Directors regarding investment management strategies and actions as well as investment proposals. It is chaired by a non-executive director. The members of the committee for the year 2021 were Laila Macharia (chair), Mary Ngige and David Kabeberi.

Corporate Governance and Nomination Committee

The Corporate Governance and Nominations Committee is headed by a non-executive director. The Committee has oversight responsibility in determining the policy on nomination procedures and remuneration packages for the principal officer and the executive directors, managing succession planning and Board continuity, leading the Board in the review of its performance as well as the performance of the various Board committees in place and leading the Board in shaping the corporate governance practices of the Company. The committee receives reports on staff growth and development. The current members are Mary Ngige (chair), Karen Miller/Nazim Mahmood and Jeremy Awori. The Committee meets quarterly.

Company Secretary

The company secretary is accessible to all Board members and is responsible for ensuring that all Board procedures are followed and statutory returns filed. The company secretary also provides dedicated support for the Board and is a point of reference and support for all directors. The company secretary consults regularly with directors to ensure that they receive any necessary information and will work with the chairman, managing director and management to ensure the presentation of high-quality supporting information to the Board and its committees. The company secretary, along with the chairman, regularly reviews the Board and Company's governance processes with a view to ensuring they are fit for purpose and recommend or develop initiatives to strengthen the governance of the Company. The company secretary is Wilson Murage.

Directors Emoluments

Director's emoluments are set as per the Articles and Memorandum of Association and approved by shareholders. The aggregate amounts of emoluments paid to directors are disclosed in note 40(c) of the financial statements.

Internal Controls and Accounting

The Company has defined procedures and financial controls to ensure the reporting of complete, accurate and timely accounting information. These procedures and controls ensure verification and validation of transactions and compliance with laws and regulations that have significant financial implications. They are designed to ensure material errors are prevented or detected within a reasonable time. The procedures also ensure physical controls over assets as well as segregation of duties.

We also have in place a management accounting system which enables management to monitor financial and operational performance. Weekly management meetings are held to discuss performance and take corrective measures.

Employee Welfare

Management and employees' relationship

There has been good relationship between employees and management for the year 2021. There were no unresolved complaints received by management from employees during the year.

The Company is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position, free from discrimination of any kind and without regard to factors such as gender, marital status, tribe, religion or disability which does not impair the ability to discharge duties.

The Company had 145 employees as at 31 December 2021, out of which 59 were female and 86 were male (2020: 135 employees, 55 female and 80 male).

Medical assistance

The Company has medical insurance which covers both inpatient and outpatient expenses for members of staff and their dependants. The Company also has group personal accident and group life cover for members of staff where we insure our staff against injury or death.

Health and safety

The Company has a strong health and safety department which ensure that a robust culture of safety prevails at all times. A safe working environment is ensured for all employees by providing adequate and proper equipment, training and supervision as necessary.

Shareholding

The shareholders of the Company as at 31 December 2021.

Name	%
First Assurance Holdings Limited	63.32
First Assurance Investments Limited	16.98
Syndicate Nominees Limited	12.35
Stephen Githiga	4.00
Chandaria Ventures Limited	1.67
Absa Pension Services Limited	0.84
Epoch Investments Limited	0.84
Total	100.00

Mary Ngige
Chairperson

Stephen Lokonyo
Managing Director

Date: 24 March 2022

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2021, which disclose the state of financial affairs of First Assurance Company Limited (the "Company").

1. PRINCIPAL ACTIVITIES

The principal activity of the company is the transaction of general insurance business. The company also invests in government securities and property.

2. RESULTS

The results for the year are presented below.

	2021	2020
	KShs '000	KShs '000
Profit before tax	49,809	88,380
Tax charge	(39,567)	(59,446)
Profit for the year	10,242	28,934

3. DIVIDENDS

No interim dividend was paid in 2021 (2020: Nil). The directors do not recommend a final dividend.

4. DIRECTORS

The members of the Board who served during the year and up to the date of this report are shown on page 1.

5. BUSINESS REVIEW

During the year 2021, revenues grew by 9% as against 2020, for a 100% achievement to the budget. The business generated new business of KShs 1.6 billion, underlying our continued ability to onboard new customers through improved customer experience and leveraging on our relationships with intermediaries and strategic partners such as Absa Bank Kenya Plc. The business performance is as reported in the Managing Director's report.

The Kenyan economy has continued to show its resilience as it weathers the Covid-19 storm by recording real growth of more than 10.0 percent in the 3rd quarter of 2021 alone, signaling economic recovery as a result of the easing of Covid-19 containment measures. According to the World Bank, Kenya's economy has demonstrated resilience to the Covid-19 shock, with output in the first half of the year rising above pre-pandemic levels. In 2021, gross domestic product (GDP) grew by 5.0 per cent, one of the faster recoveries among Sub-Saharan African countries.

Kenya's economy is expected to grow at a robust pace in 2022 which is an election year. A consensus outlook from 14 world-leading banks, consultancies and think-tanks suggests the economy, as measured by GDP, will likely grow at 5.4 percent in 2022, sustained by improving household and capital spending. Robust public spending and accommodative monetary policy should provide further fuel. On the downside however, Kenya's reliance on foreign capital for infrastructure and a rise in external debt poses some risk to the outlook.

Principal risks and uncertainties facing the Company are as per note 5 to the financial statements.

6. EMPLOYEES

The Company had 145 employees as at the end of 31 December 2021 (31 December 2020: 135). These comprised 28 in underwriting, (2020: 34), 13 in claims (2020: 18), 19 in finance (2020: 17), 27 in medical (2020: 26) and 60 in business development, branches, risk and compliance, human resources and support staff (2020: 40).

7. STATEMENT AS TO DISLOSURE 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 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.

8. TERMS OF APPOINTMENT OF THE AUDITOR

The Company's auditors, Ernst and Young LLP, have indicated their willingness to continue in office in accordance with Section 721 (2) of the Kenyan 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 of KShs 5,300,000 has been charged to profit or loss in the year.

9. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue in a meeting held by the Board of Directors on 24 March 2022.

BY ORDER OF THE BOARD

WILSON KAHORO MURAGE
CERTIFIED PUBLIC SECRETARY
CPS (K)
CPS R/2967
P.O. BOX 57210-00200, NAIROBI.

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Wilson K. Murage
Company Secretary

Date: 24 March 2022

FIRST ASSURANCE COMPANY LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2021

The Kenyan Companies Act, 2015, requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Company keeps proper accounting records that:

(a) show and explain the transactions of the Company;

(b) disclose, with reasonable accuracy, the financial position of the Company; and

(c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

(i) designing, implementing and maintaining such internal controls as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) selecting suitable accounting policies and applying them consistently; and

(iii) making accounting estimates and judgements that are reasonable in the circumstances.

Having assessed the Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

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

Approved by the Board of Directors on 24 March 2022 and signed on its behalf by:

Mary Ngige
Chairperson

David Kabeberi
Director

Wilson K. Murage
Company Secretary

WILSON KAHORO MURAGE
CERTIFIED PUBLIC SECRETARY
CPS (K)
CPS R/2967
P.O. Box 57210-00200, NAIROBI.

Date: 24 March 2022

FIRST ASSURANCE COMPANY LIMITED
REPORT OF THE CONSULTING ACTUARY GENERAL INSURANCE BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2021

I have conducted an actuarial valuation of the General Insurance Business of First Assurance Company Limited entity as at 31 December 2021.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act (CAP 487). 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 audited financial statements of the Company.

In my opinion, the general insurance business of the Company was financially sound and the actuarial value of the liabilities in respect of all classes of general insurance business did not exceed the amount of funds of the general business at 31 December 2021.

James I O Olubayi
Fellow of the Institute of Actuaries
Zamara Actuaries, Administrators & Consultants Limited
Nairobi

Date: 24 March 2022

Building a better working world

Ernst & Young LLP
Certified Public Accountants
Kenya Re Towers
Upper Hill
Off Ragati Road
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LLP/2015/52

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of First Assurance Company Limited (the 'Company') set out on pages 21 to 88, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for Opinion

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

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits of financial statements of the company and in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits of the company and in Kenya.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Key Audit Matter	How the matter was addressed in the audit
Allowance for expected credit losses	
The expected credit losses on financial assets carried at amortised cost are determined under the application of IFRS 9 Financial Instruments. This was a key audit matter because significant judgement was involved in determining the credit losses, amounts due from related parties, staff loans, deposits with financial institutions, deposits and commercial papers, and cash & bank balances as described in note 5. Key areas of judgement included: • the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Company's expected credit loss model; • the identification of exposures with a significant deterioration in credit quality; • assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking macroeconomic factors; and • the need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.	Our audit procedures included the following: • We assessed and tested the design and operating effectiveness of the controls over the: i. data used to determine the expected credit losses on financial assets carried at amortised cost. ii. expected credit loss model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy. • We assessed the modelling techniques/methodology against the requirements of IFRS 9 - Financial Instruments. • We assessed and tested the material modelling assumptions as well as overlays with a focus on the: i. key modelling assumptions adopted by the Company; ii. basis for and data used to determine overlays; and iii. sensitivity of the collective provisions to changes in modelling assumptions. • In addition, we assessed the adequacy of the disclosures in the financial statements.
Estimation of Insurance contract liabilities	
As disclosed in note 33 to the financial statements, Insurance contract liabilities amounted to KShs 2.56 Billion as at 31 December 2021 and constituted 46% of the company's total liabilities. Valuation of these liabilities is highly judgmental because it requires several assumptions to be made with high estimation uncertainty such as loss ratios, estimates of the frequency and severity of claims. The significant accounting judgements and assumptions are further described in note 4. Small changes in the assumptions used to value the liabilities particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation of insurance liabilities. The valuation of insurance liabilities depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate, then material impacts on the valuation of insurance liabilities may arise. Consequently, we have determined the valuation of insurance contract liabilities to be a key audit matter.	We performed the following procedures: • Review of sensitivity analysis over key judgements and assumptions. • Evaluation and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data). The controls included reconciliations between data in the actuarial reserving systems and data in the policy administration systems. • We also compared samples of claims case reserves to appropriate documentation, such as reports from loss adjusters to test the controls over the valuation of individual claims reserves. We assessed the adequacy of the company's disclosures in respect of the assumptions used in valuation.

Other Information

The directors are responsible for the other information. The other information comprises the Corporate Information, Report of the Directors as required by the Kenyan Companies Act, 2015, Chairperson's review; the Managing Director's report; the Corporate Governance statement and the Actuary's report, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon, other than that prescribed by the Kenyan Companies Act, 2015, as set out below.

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

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine 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.

The directors are responsible for overseeing the Company's financial reporting processes.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

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

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

REPORT ON OTHER MATTERS PRESCRIBED BY THE KENYAN COMPANIES ACT, 2015.

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that in our opinion, the information given in the report of the directors on page 10-11, is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Allan Gichuhi, Practising certificate number 1899.

Allan Gichuhi

For and on behalf of Ernst & Young LLP
Certified Public Accountants
Nairobi, Kenya

30 March 2022

FIRST ASSURANCE COMPANY LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 KShs' 000	2020 KShs' 000
Gross written premiums	7(a)	4,513,425	4,144,460
Gross earned premiums	7(a)	4,378,934	3,943,145
Less: reinsurance premiums ceded	7(b)	(1,781,510)	(1,560,073)
Net earned premiums		2,597,424	2,383,072
Commissions earned	8(a)	364,082	345,670
Interest revenue calculated using the effective interest method	9(a)	148,442	165,098
Other investment income	9(b)	5,208	6,276
Other gains and losses	9(c)	(39,497)	(103,781)
Foreign exchange (losses)/gains	10	490	(488)
Fair value loss on financial assets at fair value through profit or loss	11	1,909	(9,037)
Total income		3,078,058	2,786,810
Gross claims incurred	12	3,600,154	2,299,241
Less claims recoverable from reinsurers	5(iv)	(1,835,289)	(949,288)
Net claims incurred	12	1,764,865	1,349,953
Commissions incurred	8(b)	595,049	516,779
Operating and other expenses	13	748,034	754,811
Expected credit loss allowance (write back)/expense	14	(79,699)	76,887
Total expenses		3,028,249	2,698,430
Profit before tax		49,809	88,380
Tax charge	16	(39,567)	(59,446)
Profit for the year		10,242	28,934
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurement effects on retirement benefit asset recognised in other comprehensive Income	21	19,713	(18,093)
Surplus on revaluation of freehold land and buildings		-	150
Tax relating to components of other comprehensive income		(5,914)	5,383
Other comprehensive income/(loss) or the year net of tax		13,799	(12,560)
Total comprehensive income for the year		24,041	16,374

FIRST ASSURANCE COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021

	Notes	2021 KShs '000	2020 KShs '000
ASSETS			
Property and equipment	17	462,327	460,244
Intangible assets	18	52,707	71,250
Investment property	19	1,080,000	1,450,000
Right-of-use asset	20(a)	16,141	21,300
Deferred tax asset	35	67,191	93,721
Retirement benefit asset	21	22,371	4,427
Deferred acquisition costs	22	207,143	174,928
Kenya Motor Insurance Pool	23	18,757	27,539
Tax recoverable	16(c)	67,662	34,149
Receivables arising out of direct insurance arrangements	5(ii)	577,838	551,858
Receivables arising out of reinsurance arrangements	5(ii)	294,339	226,847
Reinsurers' share of insurance liabilities	24	2,001,721	1,260,399
Other receivables	25	29,885	42,630
Government securities	26	775,096	530,598
Deposits with financial institutions	27	1,578,031	1,070,073
Cash and bank balances	37(b)	(17,538)	89,365
Total assets		7,233,671	6,109,328
EQUITY (Page 24)			
Share capital	29	810,000	810,000
Share premium	29	512,138	512,138
Revaluation surplus	30	260,218	260,218
Retained earnings	31	131,439	107,398
Total equity		1,713,795	1,689,754
LIABILITIES			
Insurance contract liabilities	33	2,557,449	1,943,895
Unearned premium provision	34	1,782,947	1,537,199
Additional unexpired risk reserve	41	36,649	27,926
Payables arising from reinsurance arrangements		567,065	266,490
Other payables	36	274,574	247,735
Due to related parties	40(d)	280,934	370,356
Lease liability	20(b)	20,258	25,973
Total liabilities		5,519,876	4,419,574
Total equity and liabilities		7,233,671	6,109,328

The financial statements were approved and authorised for issue by the Board of Directors on 24 March 2022 and were signed on its behalf by:

Mary Ngige	David Kabeberi	Stephen Lokonyo
Chairperson	*Director*	*Principal Officer*

FIRST ASSURANCE COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital KShs '000	Share premium KShs '000	Revaluation surplus KShs '000	Retained earnings KShs '000	Total KShs '000
At 1 January 2020	810,000	512,138	260,113	91,129	1,673,380
Changes in equity in 2020					
Profit for the year	-	-	-	28,934	28,934
Other Comprehensive Income					
Re-measurement of retirement benefit obligation	-	-	-	(18,093)	(18,093)
Surplus on revaluation of freehold land and buildings	-	-	150	-	150
Related tax	-	-	(45)	5,428	5,383
Total comprehensive income for the year	-	-	105	16,269	16,374
At 31 December 2020	810,000	512,138	260,218	107,398	1,689,754
At 1 January 2021	810,000	512,138	260,218	107,398	1,689,754
Changes in equity in 2021					
Profit for the year				10,242	10,242
Other Comprehensive Income					
Re-measurement of retirement benefit obligation	-	-	-	19,713	19,713
Related tax	-	-	-	(5,914)	(5,914)
Total comprehensive income for the year	-	-	-	24,041	24,041
At 31 December 2021	810,000	512,138	260,218	131,439	1,713,795

FIRST ASSURANCE COMPANY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 KShs' 000	2020 KShs' 000
Cash flows from operating activities			
Cash generated from/ (used in) operations	37(a)	346,304	102,439
Taxation paid	16(c)	(24,077)	-
Net cash flows generated from operating activities		322,227	102,439
Cash flows from investing activities			
Purchase of property and equipment	17	(16,158)	(8,934)
Purchase of intangible asset	18	(2,875)	(25,701)
Proceeds from Kenya motor pool	23	10,691	-
Proceeds from disposal of property and equipment		341,327	-
Redemption in corporate bonds		-	20,785
Net movement in government securities		(246,135)	611,075
Net movement in fixed deposits maturing after 90 days		(165,956)	(207,626)
Investment in First Assurance Tanzania		-	(104,828)
Net cash flows generated (used in) / from investing		(79,106)	284,771
Net cash flows used in financing activities			
Payment of interest on lease liabilities	20	(2,372)	(3,288)
Repayment of principal portion of lease liability	20	(5,718)	(2,783)
Net cash flows used in financing activities		(8,090)	(6,071)
Net increase in cash and cash equivalents		235,031	381,139
Cash and cash equivalents at 1 January		612,491	231,352
Cash and cash equivalents at 31 December	37(b)	847,522	612,491

1. REPORTING ENTITY

First Assurance Company Limited (the Company) is incorporated as a limited company in Kenya under the Kenyan Companies Act, 2015 and is domiciled in Kenya. The address of its registered office is as follows:

First Assurance House
Clyde Gardens Off Gitanga Road
Lavington
P.O. Box 30064 - 00100
Nairobi

The separate financial statements of the Company as at and for the year ended 31 December 2021 comprise the Company financial statements.

The ultimate holding entity is Absa Group Limited which is incorporated in South Africa.

2. BASIS OF PREPARATION

(a) Basis of preparation

The separate financial statements of First Assurance Company Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Kenya Companies Act, 2015. The separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, financial assets measured at fair value through other comprehensive income, and financial assets and financial liabilities at fair value through profit or loss.

Details of the significant accounting policies are included in note 3.

(b) Statement of compliance

For purposes of reporting under the Kenya Companies Act, 2015, in these financial statements the balance sheet is represented by or is equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

(c) Functional and presentation currency

The financial statements are presented in Kenya shillings which is also the Company's functional currency, the currency of the primary economic environment in which the entity operates. Except as otherwise indicated, financial information presented in Kenya shillings (KShs) has been rounded to the nearest thousand (KShs '000).

(d) Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) New standards, amendments and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following new standards and amendments became effective as at 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component .

These amendments had no impact on the financial statements of the Company, but the Company intends to use the practical expedients in future periods if they become applicable.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.
The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021.
These amendments have no impact on the financial statements of the Company as it has not received Covid-19-related rent concessions but the Company intends to use the Covid-19-related rent concessions in future periods if they become applicable

(b) Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current
In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Standards issued but not yet effective (continued)

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.
At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.
The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.
The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.
The amendments are not expected to have a material impact on the Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.
The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.
The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company does not have any onerous contracts hence does not expect any impact upon adoption.

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:
- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for 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. This standard is not applicable to the Company.

The Company is in the process of implementing IFRS 17, which is currently being done in phases by the local management team and is guided by the group. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Standards issued but not yet effective (Continued)

IFRS 17 Insurance Contracts (continued)

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.
The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.
The amendments are not expected to have an impact on the Company when they become effective.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.
The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.
The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.
The amendments are not expected to have a material impact on the Company.

IAS 41 Agriculture – Taxation in fair value measurements
As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.
An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.
The amendments are not expected to have an impact on the Company when they become effective.

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'.
The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.
The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.
The amendments are not expected to have a material impact on the Company when they become effective.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Standards issued but not yet effective (Continued)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.
The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.
The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.
The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures

(c) Insurance contracts

The Company issues insurance contracts which are classified as:

(i) Short term insurance business

This refers to insurance business other than long term business. The classes of general insurance business offered by the Company are Engineering, Fire Domestic, Fire Industrial, Liability, Marine, Motor Private, Motor Commercial, Personal Accident, Theft, Workmen's Compensation and Employer's Liability, Medical Insurance and Miscellaneous.

(d) Revenue recognition

Gross premiums

Gross written premiums comprise the total premiums receivable for the whole period of the cover provided by the contract and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Gross earned premiums comprise the total premiums receivable for the respective accounting period which is under consideration and are recognised up to the end of the reporting period, there no rebates offered on the premiums. Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Reinsurance premiums

Gross reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.
Reinsurance premiums and claims on the face of the statement of profit or loss have been presented as negative items within premiums and net benefits and claims, respectively, because this is consistent with how the business is managed.

Commission income

Commission income relates to income from premiums ceded with reinsurers. It is recognised in profit and loss in the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Revenue recognition (continued)

Investment income

Interest income is recognised in the statement of profit or loss as it accrues and is calculated by using the effective interest rate (EIR) method. Under IFRS 9, interest income is recognised using EIR method for all financial assets measured at amortised cost. Interest income on interest bearing financial assets measured at fair value through OCI under IFRS 9 is also recorded using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore the amortised cost of the financial asset) is calculated taking into account transaction costs and any discount or premium on acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The company recognises interest income using the EIR method.

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

Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. Investment income also includes dividend income which is recognised when the right to receive the payment is established.

Rental income is on a straight-line basis over the lease term. The excess of rental income on a straight-line over cash received is recognised as an operating lease asset. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Realised / unrealised gains and losses

Realised / unrealised gains and losses recorded in the statement of profit or loss on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transactions, more details on the on how the gains have been arrived has been discussed in the specific policies relating to the assets.

(e) Commissions payable and deferred policy acquisition costs

The proportion of commissions payable that relates to the periods after the current year of reporting is deferred and amortised over the period in which the related premiums are earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the year end. The deferred acquisition costs are subsequently amortised over the life of the contracts. All other costs are recognised as expenses when incurred.

(f) Claims incurred

Claims incurred comprise claims paid in the year and changes in the provision for outstanding claims. Claims paid represent all payments made during the year, whether arising from events during that or earlier years. Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of each reporting period, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed and include provisions for claims incurred but not reported ("IBNR") at the end of each reporting period based on the Company's experience but subject to the minimal percentage set by the Commissioner of Insurance. Outstanding claims are not discounted.

(g) Expenses

Expenses are recognised in the profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably and is independent from transactions with equity participants. This means, in effect, that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets (for example, the accrual of employee entitlements or the depreciation of property and equipment).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Expenses (continued)

When economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined expenses are recognised in profit or loss on the basis of systematic and rational allocation procedures. This is often necessary in recognising the income associated with the using up of assets such as property and equipment in such cases the expense is referred to as a depreciation or amortisation. These allocation procedures are intended to recognise expenses in the accounting period in which the economic benefits associated with these items are consumed or expire.

An expense is recognised immediately in the profit or loss when expenditure produces no future economic benefits or when, and to the extent that; future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

(h) Non-life insurance contract liabilities

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the end of each reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims and therefore the ultimate cost of this category of claims cannot be known with certainty at the end of each reporting period. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract at which time it is recognised as premium income.

(i) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in the separate statement of comprehensive income and statement of financial position as appropriate.

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

The impairment loss is recognised in profit or loss and is assessed as per IFRS 9.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment as per IFRS 9 requirements, with the impairment loss recognised in profit or loss. Forward-looking information is factored into the measurement of expected losses through the use of expected macro-economic scenarios that are reflected in estimates of PD and LGD. In its ECL models, the company relies on a broad range of forward-looking information as economic inputs, such as:

- GDP Growth rate
- Central Bank Base rates

(k) Property and equipment

(i) Recognition and measurement

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses except for buildings which is measured based on revalued amounts. Valuation of buildings is carried out every year.

Increases in the carrying amount of buildings arising on revaluation are dealt with through other comprehensive income and accumulated under a separate heading of revaluation surplus in the statement of changes in equity. However, if an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss, decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

(ii) Depreciation

Freehold land is not depreciated. Depreciation is calculated on other property and equipment on the straight-line basis to write down the cost of each asset, or the revalued amount to its residual value over its estimated useful life, using the following annual rates applicable to the current and prior years:

Motor vehicles	20%
Computer equipment	30%
Furniture, fittings and equipment	20%
Buildings	2.0%

(iii) Subsequent costs

The cost of replacing a component of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Property and equipment (continued)

(iv) Disposal of property and equipment

An item of property and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Gains and losses on derecognition of property and equipment are determined by reference to their carrying amounts. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings. The date of disposal of an item of property, and equipment is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied. The amount of consideration to be included in the gain or loss arising from the derecognition of property and is determined in accordance with the requirements for determining the transaction price in IFRS 15.

The residual value, useful lives and methods of depreciation of property and equipment are reviewed at each financial year end are adjusted prospectively, if appropriate.

(l) Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is initially recognised at cost including the transaction costs. The investment properties are carried at fair value representing the open market value at the reporting date determined by annual valuations carried out by Legend Valuers Limited as at 31 December 2021 and 31 December 2020. Gains or losses arising from changes in the fair value are included in determining the profit or loss for the year to which they relate.

The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

When the Company can reliably determine the fair value of a self-constructed investment property under construction or development, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the profit or loss.

Investment properties are derecognised when either they have been disposed off (i.e., at the date the recipient obtains control) or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is charged or credited to profit or loss. The date of disposal of an item of investment property is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied. The amount of consideration to be included in the gain or loss arising from the derecognition of Investment property is determined in accordance with the requirements for determining the transaction price in IFRS 15.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the company accounts for such property in accordance with the policy stated under plant and equipment to the date of change in use.

(m) Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software products;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Intangible assets (Continued)

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

The useful lives of intangible assets are assessed as either finite or indefinite. The company does not have assets with indefinite life and hence the amortisation is calculated using the straight line method (16.7%) to write down the cost of each licence or item of software over its estimated useful life (six years).

(n) Financial instruments

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

Date of recognition

Financial assets and liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the company's business model for managing them. With the exception of other receivables and amount due from related parties, which do not contain significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs

For a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (continued)

Financial assets at amortised cost (debt instruments)
This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include, Cash and cash equivalents, Other assets, Fixed deposit, Deposits and commercial paper, Government securities, staff loans and Corporate bonds.

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Company's financial assets classified as debt instruments at fair value through OCI, include Government securities.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. The Company's financial assets classified as debt instruments at fair value through profit loss, include Kenya Motor Insurance Pool.

Derecognition other than for substantial modification

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (continued)

Derecognition other than for substantial modification (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

Derecognition due to substantial modification of terms and conditions

The company derecognises a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new instrument, with the difference recognised as derecognition gain or loss. When assessing whether or not to derecognise an instrument, amongst others, the Company considers the following factors: introduction of an equity feature, change in counterparty and if the modification is such that the instrument would no longer meet the SPPI criterion.

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

Impairment of financial assets

Overview of Expected Credit Loss (ECL) principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Company considers three scenarios (a base case, optimistic (upside) and pessimistic (downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call it earlier.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (continued)

Impairment of financial assets (continued)

The company allocates its assets subject to ECL calculations into these categories determined as follows:

- 12MECL (Stage 1) - The 12MECL is calculated as the portion of the LTECL that represents the ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. The Company calculates the 12MECL allowance based on the expectation of a default occurring within 12 months following the reporting date.
- LTECL (Stage 2) - This is recorded when a financial instrument has shown a significant increase in credit risk since origination.
- Impairment (Stage 3) - For debt instruments considered credit-impaired, the Company recognises the lifetime expected credit losses for these instruments.

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

- GDP Growth rate
- Central Bank Base rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The Company did not provide detailed information on how the forecast economic conditions have been incorporated in the determination of ECL because the impact is not significant.

Write offs

Financial assets are written off either partially or in entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount Any subsequent recoveries are credited to credit loss expense. There were no write offs over the period reported in these financial statements.
The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The company's financial liabilities include other payables, amounts due to related parties.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial instruments (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The Company has no liabilities in this category and has not designated any.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

(o) Impairment for non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss to the amount of an impairment already taken to profit or loss while the remainder will be a revaluation amount through other comprehensive income.

(p) Other financial liabilities and insurance contract liabilities

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost.

Trade and other liabilities are classified as financial liabilities and are carried at amortised cost.

Gains and losses on financial liabilities at amortised cost are recognised on derecognition and through the amortisation process. Gains and loss on financial liabilities at fair value through profit or loss are recognised in the profit or loss.

Insurance contract liabilities include the outstanding claims provision, the provision for incurred but not reported and the provision for premium deficiency.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Fair value measurements

The company measures financial instruments classified as financial assets at fair value through OCI and financial assets at fair value through profit or loss including investment properties at fair value at each reporting date.

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

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

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Involvement of external valuers is decided upon annually by the senior finance and investment manager who discusses the basis and assumptions with the valuer. This is then approved by the group Chief Finance Officer. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

(r) Leases

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

As a lessee

The Company implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard. As a lessee, the Company leases some branch, office premises, and printing equipment. Lease payment for low value and short term leases are accounted for as an expense.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Leases (continued)

As a lessee (continued)

The Company recognises right-of-use assets and lease liabilities for leases of branch and office premises at the commencement date of the contract for all leases conveying the right to control the use of an identified assets for a period of time. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:
the amount of the initial measurement of the lease liability;
any lease payments made at or before the commencement date, less any lease incentives; and
any initial direct costs incurred by the lessee.

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability.
Depreciation is calculated using the straight-line method over the estimated useful lives

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. These include:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; amounts expected to be payable by the lessee under residual value guarantees; the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments are discounted using the company's incremental borrowing rate or the rate implicit in the lease contract

After the commencement date, the company measures the lease liability by:
- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect lease payments made, and
- re-measuring the carrying amount to reflect any reassessment or lease modifications.

As a lessor

When the Company acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Company applies the de-recognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is recognised on all temporary differences between the carrying amounts of financial assets and financial liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

Deferred tax is calculated on the basis of the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realised simultaneously.

(t) Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term highly liquid investments maturing within 90 days from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in fair value.

(u) Employee benefits

Defined contributions provident fund

The Company operates a defined contribution post-employment provident fund for eligible employees. The fund is funded by contributions from the employees and the company. The assets of the fund are held and administered independently of the company's assets.

Retirement benefit asset

The Company operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.
Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Company recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation under operating and other expenses in the statement of profit or loss:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Employee benefits (continued)

Statutory pension scheme

The Company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute and are currently at KShs 200 per employee per month. The Company's contributions to the defined contribution schemes are charged to profit or loss as they fall due.

Leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the reporting date.

(v) Provisions

General provisions

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

Onerous contracts

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceeds the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

(w) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Incremental costs attributable to the issue or cancellation of equity instruments are recognised directly in equity, net of tax if applicable.

(x) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared.

(y) Comparatives

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

In the process of applying the accounting policies adopted by the Company, the directors make certain judgements and estimates that may affect the carrying values of assets and liabilities in the next financial period. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The directors evaluate these at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available.

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the company. Such changes are reflected in the assumptions when they occur.

Premiums collected by intermediaries

Premiums collected by intermediaries (agents and brokers), but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums written.

Incurred but not reported claims (IBNR)

Estimates must be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, as well as by significant business lines. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claim's development data on which the projections are based. This amount is determined using actuarial rates based on the different classes as determined by the Kenya Insurance Regulatory Authority.

Impairment of financial assets and insurance receivables

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

See note 5(ii) or financial assets that are subject to impairment assessment.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES (continued)

Operating lease commitments – Company as lessor

The Company has entered commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Income taxes

The Company is subject to income taxes in Kenya. Significant judgement is required in determining the Company's provision for income taxes and to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits together with future tax planning strategies. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Fair value of financial instruments

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

Revaluation of property and investment properties

The Company carries certain classes of property and equipment at fair value, with changes in fair value being recognised in the other comprehensive income. Land and buildings were valued based on open market value by independent valuers, Legend Valuers Limited. For investment properties valuation methodologies were used by reference to properties off similar nature location and condition among other factors which are highly judgemental.

Refer to note 17 and 19 where detailed assumptions have been disclosed.

Contingent liabilities

The Company is exposed to various contingent liabilities in the normal course of business including a number of legal cases. The Directors evaluate the status of these exposures on a regular basis to assess the probability of the Company incurring related liabilities. However, provisions are only made in the financial statements where, based on the Directors' evaluation, a present obligation has been established. Judgement and assumptions are required in:

- assessing the existence of a present obligation (legal or constructive) as a result of a past event,
- assessing the probability that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- Estimating the amount of the obligation to be paid out.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Company's activities expose it to a variety of financial and insurance risks. 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.

RISK MANAGEMENT FRAMEWORK

i) Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Company has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a company policy framework which sets out the risk profiles for the company, risk management, control and business conduct standards for the company's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Company.

The board of directors approves the Company's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Company's identification of risk and its interpretation, limit its structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements

ii) Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and shareholders
- To retain financial flexibility by maintaining strong liquidity
- To align the profile of assets and liabilities taking account of risks inherent in the business
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders

The operations of the Company are also subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy at 100 % to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as they arise. The Company has met all of these requirements throughout the financial year.

In reporting financial strength, capital and solvency are measured using the rules prescribed by the Kenyan Insurance Regulatory Authority (IRA). These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written.
The company had capital adequacy ratio of 126% as compared to 100% which is the minimum as per IRA requirements.

The Company's capital management policy for its insurance and non-insurance business is to hold sufficient capital to cover the statutory requirements based on the IRA directives, including any additional amounts required by the regulator.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

ii) Capital management objectives, policies and approach (continued)

Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders
The Company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics. An important aspect of the Company's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholders.

The primary source of capital used by the Company is total equity. The Company also utilises, where it is efficient to do so, sources of capital such as reinsurance, in addition to more traditional sources of funding.

The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analyses. The process is ultimately subject to approval by the Board.

The Company has made no significant changes, from previous years, to its policies and processes for its capital structure. The constitution of capital managed by the company is as shown below:

	2021 KShs '000	2020 KShs '000
Share capital	810,000	810,000
Share premium	512,138	512,138
Revaluation reserve	260,218	260,218
Statutory reserve	161,293	107,398
	1,743,649	1,689,754

iii) Regulatory framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Company are subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimise the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.

iv) Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces, due to the nature of its investments and liabilities, is interest rate risk. The Company manages these positions within an ALM framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance.by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

iv) Asset liability management (ALM) framework (continued)

The Company's ALM is:

Integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities

As an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance.

The Company has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the Company's ALM framework.

a) Insurance risk

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under 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.

Insurance risk in the Company arises from:

(i) Fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations;
(ii) Unexpected claims arising from a single source;
(iii) Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten;
(iv) Inadequate reinsurance protection or other risk transfer techniques; and
(v) Inadequate reserves

(i), (ii) and (iii) can be classified as the core insurance risk, (iv) relates to reinsurance planning, while (v) is about reserving.

Core insurance risk

This risk is managed through:

- Diversification across a large portfolio of insurance contracts;
- Careful selection guided by a conservative underwriting philosophy;
- Continuous monitoring of the business performance per class and per client and corrective action taken as deemed appropriate;
- A minimum of one review of each policy at renewal to determine whether the risk remains within the acceptable criteria;
- Having a business acceptance criteria which is reviewed from time to time based on the experience and other developments; and
- Having a mechanism of identifying, quantifying and accumulating exposures to contain them within the set underwriting limits.

Reinsurance planning

Reinsurance purchases are reviewed annually to verify that the levels of protection being sought reflect developments in exposure and risk appetite of the Company. The bases of these purchase is underpinned by the Company's experience, financial modelling by and exposure of the reinsurance broker.

The reinsurance is placed with providers who meet the Company's counter party security requirements.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

iv) Asset liability management (ALM) framework (continued)

Reinsurance planning (continued)

The table below sets out the concentration of insurance contract liabilities by type of contract:

	2021			2020		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims payable by principal class of business:	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Motor	1,185,259	71,429	1,113,830	833,852	102,534	731,318
Fire	119,122	79,082	40,040	98,798	76,205	22,593
Workmen's compensation	389	2,552	-2,163	(4,179)	(4,236)	57
Marine	24,677	6,139	18,538	33,087	4,504	28,583
Engineering	572,607	513,661	58,945	116,514	88,658	27,856
Medical	1,563,683	1,044,842	518,841	1,136,391	655,560	480,831
Other	134,419	117,584	16,835	84,778	26,063	58,715
	3,600,154	1,835,289	1,764,865	2,299,241	949,288	1,349,953

Key assumptions

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once–off occurrence; changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Claims reserving

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

Insurance contracts

The Company engages in short term and funds the insurance liabilities with a portfolio of investments in equity and debt securities exposed to market risk. An analysis of the Company's financial assets and its insurance liabilities is presented below;

	2021	2020
Net short-term insurance liabilities-property risk	2.0 years	2.0 years
Net short-term insurance liabilities-casualty risk	2.0 years	2.0 years
Financial assets (excluding equity securities)	3.0 years	3.0 years

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

(a) Insurance risk (continued)

	2021	2020
Financial assets	KShs '000	KShs '000
Government bonds and treasury bills	775,096	530,598
Other receivable (Note 25)	3,615	14,020
Receivables arising from direct insurance arrangements	577,838	551,858
Receivables arising from reinsurance arrangements	294,339	226,847
Cash and bank balances	(17,538)	89,365
Deposits with financial institutions	1,578,031	1,070,073
Total	3,211,380	2,482,761
Financial liabilities		
Insurance contracts- short term	2,557,449	1,943,895
Payables arising from reinsurance arrangements	567,065	266,490
Less assets arising from reinsurance contracts (held-short term)	(1,325,278)	(716,119)
Total	1,799,236	1,494,266

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing. However, due to the time value of money and the impact of interest rates on the level of bodily injury incurred by the Company's policyholders (where a reduction of interest rate would normally produce a higher insurance liability), the Company matches the cash flows of assets and liabilities in this portfolio by estimating their mean duration.

The mean duration of liabilities is calculated using historical claims data to determine the expected settlement pattern for claims arising from the insurance contracts in force at the end of each reporting period (both incurred claims and future claims arising from the unexpired risks at the end of each reporting period).

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

(a) Insurance risk (continued)

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the Company's Asset Liability Management (ALM) framework for management of short term insurance contracts as of 31 December 2021 and 2020:

	Carrying amount 31.12.2021 KShs '000	Contractual cash flows (undiscounted) 0-1 yr KShs '000	1-2 yrs KShs '000	2-3 yrs KShs '000	3-4 yrs KShs '000	> 4 yrs KShs '000
Financial assets						
Government bonds and treasury bills-fixed rate	775,096	270,402	14,854	292,852	15,509	210,548
Other receivables	3,615	1,764	1,925	603	-	-
Receivables from insurance contracts	577,838	577,838	-	-	-	-
Receivables from reinsurance contracts	294,339	294,339	-	-	-	-
Cash, bank balances and deposits	1,560,492	1,560,492	-	-	-	-
Total	3,211,380	2,704,835	16,779	293,455	15,509	210,548
Financial liabilities						
Insurance contracts-short term	2,557,449	1,559,542	434,216	261,760	194,258	186,244
Payables arising from reinsurance arrangements	567,065	567,065	-	-	-	-
Less assets arising from reinsurance contracts	(1,325,278)	(808,160)	(225,012)	(135,645)	(100,665)	(96,512)
Total	1,799,236	1,318,448	209,204	126,115	93,593	89,732
Difference in contractual cash flows	1,412,143	1,386,387	(192,425)	167,340	(78,084)	120,816

The table below indicates the contractual timing of cash flows arising from assets and liabilities included in the Company's ALM framework for management of short-term insurance contracts as of 31 December 2020:

	Carrying amount 31.12.2020 KShs '000	Contractual cash flows (undiscounted) 0-1 yr KShs '000	1-2 yrs KShs '000	2-3 yrs KShs '000	3-4 yrs KShs '000	> 5 yrs KShs '000
Financial assets						
Government bonds and treasury bills-fixed rate	530,598	118,184	14,443	-	-	397,971
Other receivables	14,020	976	4,316	6,603	2,125	-
Receivables from insurance contracts	551,858	551,858	-	-	-	-
Receivables from reinsurance contracts	226,847	226,847	-	-	-	-
Cash, bank balances and deposits	1,159,438	1,159,438	-	-	-	-
Total	2,482,761	2,057,303	18,759	6,603	2,125	397,971
Financial liabilities						
Insurance contracts-short term	1,943,895	1,360,511	310,975	155,487	77,743	38,871
Payables arising from reinsurance arrangements	266,490	266,490	-	-	-	-
Less assets arising from reinsurance contracts	(716,119)	(501,204)	(114,562)	(57,280)	(28,640)	(14,320)
Total	1,494,266	1,125,797	196,413	98,207	49,103	24,551
Difference in contractual cash flows	988,495	931,506	(177,654)	(91,604)	(46,978)	373,420

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

(a) Insurance risk (Continued)

Sensitivities

The insurance claim liabilities are sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

	Change in assumptions	Increase/ (decrease) on gross Liabilities	Increase/ (decrease) on net Liabilities	Increase/ (decrease) on profit before tax	Increase/ (decrease) on equity
31 December 2021					
Average Claim Cost	+10/-10	259,026	85,242	63,932	47,949
Average number of claims	+10/-10	233,123	76,718	57,538	43,154
31 December 2020					
Average Claim Cost	+10/-10	229,924	134,995	94,929	66,450
Average number of claims	+10/-10	206,932	121,496	85,436	59,805

It should be noted that movements in these assumptions are non–linear. The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

b) Financial risk

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risks, equity price risk and foreign exchange currency risk. The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant:

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed Interest rate risk as it engages primarily on the investments in fixed interest securities Which are held at amortised cost.

(b) Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company is not exposed to equity securities price risk as it disposed of all its holdings in equity investments which are listed and traded on the Nairobi Securities Exchange during the year. Exposure to equity price risk in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

The Company has a defined investment policy which sets limits on the Company's exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the Company's price risk arising from its investments in equity securities. Investment management meetings are held regularly. At these meetings, the investment committee meets to discuss investment return and concentration of the equity investments.

The company has no listed equity securities (2020: None).

(c) Foreign exchange currency risk

Foreign exchange currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's financial assets are primarily denominated in the same currencies as its insurance contract liabilities, which mitigate the foreign currency exchange rate risk. The currency risk is also effectively managed by ensuring that the transactions between the Company and other parties are designated in the functional currencies of the individual Company.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

(i) Market risk (continued)

(c) Foreign exchange currency risk (continued)

At 31 December 2021, if the Kenya Shilling had weakened/strengthened by 5% against the US dollar with all other variables held constant, the pre-tax loss for the year would have been KShs 226,575 (2020: 30,825) higher/lower, mainly as a result of translation of US dollar on fixed deposits and bank balances.

d) Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

(ii) Credit risk

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

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from corporate bond issuers
- Bank balances (including fixed deposits)

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

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

In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy.

The narrative disclosures with respect to maturities and/or new additions for the corporate bonds, government securities and deposits are outlined in notes 26 and 27 respectively.

The table below indicates the carrying amounts of assets bearing credit risk:

	2021 KShs '000	2020 KShs '000
Financial assets		
Debt securities - held to maturity:		
- Government bonds and treasury bills	775,096	530,598
Other receivables	3,615	14,020
Reinsurers share of insurance liabilities	2,001,721	1,260,399
Receivables arising from direct insurance arrangements	577,838	551,858
Receivables arising from reinsurance Arrangements	294,339	226,847
Cash, bank balances and deposits	1,560,492	1,159,416
Total	5,213,101	3,743,138

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

(ii) Credit risk (continued)

The exposure to individual counterparties is also managed through other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs.

Credit quality analysis

Trade receivables as at 1 January and 31 December 2021

The following tables provides information about the exposure to credit risk and ECLs for receivables arising from reinsurance arrangements and receivables arising from direct insurance arrangements as at 31 December 2021 and 31 December 2020.

Receivables arising from direct insurance arrangements

31 December 2021	Weighted average loss rate	Gross carrying amount KShs '000	Loss allowance KShs '000	Net carrying amount KShs '000
0-30	0.17%	300,280	505	299,775
31-90	2.18%	284,251	6,188	278,063
Above 90	100.00%	484,635	484,635	-
		1,069,166	491,329	577,838

Receivables arising from direct insurance arrangements

31 December 2020	Weighted average loss rate	Gross carrying amount KShs '000	Loss allowance KShs '000	Net carrying amount KShs '000
0-30	0.79%	102,219	808	101,411
31-90	8.59%	492,760	42,313	450,447
Above 90	100.00%	499,493	499,493	-
		1,094,472	542,614	551,858

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

(ii) Credit risk (continued)

Credit quality analysis - continued

Movements on the loss allowance for impairment of receivable arising from direct insurance arrangements are as follows:

	2021 KShs '000	2020 KShs '000
As at 1 January	542,854	465,967
Write off	(2,639)	-
Loss allowance	(48,886)	76,877
	491,329	542,854

*Receivables from reinsurance contracts**

31 December 2021	Weighted average loss rate	Gross carrying amount KShs '000	Loss* allowance KShs '000	Net carrying amount KShs '000
0-30	1.08%	33,781	364	33,417
31-90	0.64%	262,594	1,672	260,922
Above 90	100.00%	49,276	49,276	-
		345,651	51,312	294,339
31 December 2020				
0-30	1.43%	38,429	550	37,879
31-90	2.18%	193,177	4,209	188,968
Above 90	100.00%	75,905	75,905	-
		307,511	80,664	226,847

*The large write-downs recognized in the receivables from reinsurance contracts is attributable to the facultative insurance which had been entered in the previous years. Subsequently, the company has significantly reduced the facultative reinsurance contracts held and as a result the company's historical loss rate experienced for facultative does not extend to the rest of the reinsurance portfolio.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(ii) Credit risk (continued)

Credit quality analysis – continued

Receivables from reinsurance contracts – continued
Movements on the loss allowance for impairment of receivable arising from reinsurance insurance arrangements are as follows:

	2021 KShs '000	2020 KShs '000
As at 1 January	80,665	80,665
Loss allowance	(29,352)	-
As at 31 December	51,313	80,665

The debtors under the fully performing category are paying their debts as they continue trading. These are considered to be low credit risk and are classified under Stage 1.

Debtor's balances that are over 30 days and continue to be paid are classified under Stage 2. Management actively follows this debt.

The debtors that have been fully impaired are classified under Stage 3. However, management is following up on collection of these debts.

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

Measurement of ECL

The Company uses an allowance matrix to measure the expired credit losses of trade receivables from individual customers which comprise of a very large number of small balances.

Loss rates are calculated using a 'roll rate'' method based on the probability of a receivable progressing through successive stages of delinquency to write off. Roll rates are calculated separately for exposures in different segments based on common credit risk characteristics. i.e. Insurance contracts and reinsurance.

Loss rates are based on central credit risk loss experience overtime past five years. These rates are adjusted by a scalar factor to reflect differences between economic conditions during the historical period, current conditions and the company's view of economic conditions we, the life of receivables.

Other financial assets

Other financial assets comprise Government securities, corporate bonds, deposits with financial institutions and cash bank balances. The Company holds other financial assets with only counter parties that are credit worthy, that are rated B to BA and with the Central Bank of Kenya.

A 12 month and lifetime probabilities of default are based on historical data supplied by Moody's rating agency for each credit rating. Loss given default rates are based on assumed recovery rate of 0%.

The company relies on a broad range of forward-looking information as economic inputs, such as: GDP Growth rate and Central Bank base rates, in the estimation of expected credit loss models.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(ii) Credit risk (continued)

Credit quality analysis (continued)

The following table provides information about the exposure to credit risk and ECLs for other financial assets as at 31 December 2021:

2021:	Risk Rating*	Gross carrying amount KShs '000	Loss allowance KShs '000	Net carrying amount KShs '000
Government securities	Ba	779,454	4,358	775,096
Deposits with financial institutions	Baa	1,580,625	2,594	1,578,031
Cash and bank balance	Baa	(16,065)	1,473	(17,538)
Other receivables		5,718	2,103	3,615
		2,349,731	10,528	2,339,203

**Risk rating used is as per Moody's risk rating.*

2020:	Risk Rating	Gross carrying amount KShs '000	Loss allowance KShs '000	Net carrying amount KShs '000
Government securities	Ba	536,593	5,995	530,598
Corporate bonds	B	-	-	-
Deposits with financial institutions	Baa	1,071,668	1,595	1,070,073
Cash and bank balance	Baa	90,771	1,406	89,365
Other receivables		45,623	2,993	42,630
		1,744,655	11,989	1,732,666

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(ii) Credit risk (continued)

Credit quality analysis (continued)

An analysis of changes in the gross carrying amount and corresponding ECLs is, as follows:

Government Securities

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	2021 KShs '000	2020 KShs '000
Gross carrying amount as at 1 January	536,593	-	-	536,593	1,147,668
New assets purchased	439,174	-	-	439,174	371,246
Assets matured	(196,313)	-	-	(196,313)	(982,321)
	779,454	-	-	779,454	536,593
ECL as at 1 January	5,995	-	-	5,995	5,995
New assets purchased	(1,637)	-	-	(1,637)	-
Assets matured	-	-	-	-	-
	4,358	-	-	4,358	5,995
Net carrying amount as at 31 December	775,096	-	-	775,096	530,598

Deposit with financial institution

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	2021 KShs '000	2020 KShs '000
Gross carrying amount as at 1 January	1,071,668	-	-	1,071,668	448,988
Deposits placed	764,232	-	-	764,232	950,326
Deposits matured	(255,275)	-	-	(255,275)	(327,646)
	1,580,625	-	-	1,580,625	1,071,668
ECL as at 1 January	1,595	-	-	1,595	1,595
ECL on deposits placed	999	-	-	999	-
ECL on deposits matured	-	-	-	-	-
	2,594	-	-	2,594	1,595
Net carrying amount as at 31 December	1,578,031	-	-	1,578,031	1,070,073

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(ii) Credit risk (continued)

Credit quality analysis (continued)

Other receivables

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	2021 KShs '000	2020 KShs '000
Gross carrying amount as at 1 January	45,623	-	-	45,623	99,504
New assets purchased	13,635	-	-	13,635	23,838
Assets matured	(27,270)	-	-	(27,270)	(77,719)
	31,988	-	-	31,988	45,623
ECL as at 1 January	2,993			2,993	2,993
New assets purchased	(890)			(890)	-
Assets matured	-	-	-	-	-
	2,103	-	-	2,103	2,993
Net carrying amount as at 31 December	29,885	-	-	29,885	42,630

Cash and bank

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	2021 KShs '000	2020 KShs '000
Gross carrying amount as at 1 January	90,771	-	-	90,771	124,685
New assets purchased	39,916	-	-	39,916	13,283
Assets matured	(146,752)	-	-	(146,752)	(47,197)
	(16,065)	-	-	(16,065)	90,771
ECL as at 1 January	1,406	-	-	1,406	1,406
New assets purchased	67	-	-	67	-
Assets matured	-	-	-	-	-
	1,473	-	-	1,473	1,406
Net carrying amount as at 31 December	(17,538)	-	-	(17,538)	89,365

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(iii) 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 only short term financial liabilities relates to other payables and amounts due to related parties that are due within 12 months from the reporting date.

Maturity profiles

The table in (a) Insurance risk page 51 summarises the maturity profile of the financial assets, financial liabilities and insurance contract liabilities of the Company based on remaining undiscounted contractual obligations, including interest payable and receivable.

For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums have been excluded from the analysis as they are not contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

FAIR VALUE MEASUREMENT

The Company specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi stock exchange.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.
- Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components, property, equipment and investment property

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

The table in the next page shows an analysis of assets recorded at fair value by level of the fair value hierarchy

There were no transfers between Level 1 and level 2 during the year.

31 December 2021	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amount Shs'000
Assets:					
Government securities	775,096	-	-	775,096	775,096
Kenya Motor Insurance Pool through other comprehensive income	-	-	18,757	18,757	18,757
Retirement benefit asset	-	22,371	-	22,371	22,371
Owner occupied property and equipment	-	-	439,550	439,550	439,550
Investment properties	-	-	1,080,000	1,080,000	1,080,000
Total	775,096	22,371	1,538,307	2,335,774	2,335,774

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

FAIR VALUE MEASUREMENT (CONTINUED)

31 December 2020	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amount Shs'000
Assets:					
Government securities	518,856	-	-	518,856	530,598
Kenya Motor Insurance Pool through other comprehensive income	-	-	27,539	27,539	27,539
Retirement benefit asset	-	4,427	-	4,427	4,427
Owner occupied property and equipment	-		439,000	439,000	439,000
Investment properties	-	-	1,450,000	1,450,000	1,450,000
Total	518,856	4,427	1,916,539	2,439,822	2,451,564

Valuation techniques used in determining fair value of financial assets

Instrument	Level	Valuation basis	Inputs
Corporate bonds	2	Discounted Cash Flow	Implied Yield to Maturity
Retirement benefit asset	2	Discounted Cash Flow	Implied Yield to Maturity

The significant unobservable inputs used in the fair value measurements categorised in level 3 of the fair value hierarchy as at 31 December 2021 and as at 31 December 2020 are as shown below. Since there were no changes in the value of the property or in the assumptions the sensitivity analysis remained the same.

Instrument	Level	Valuation basis	Sensitivity of input to the fair value
Kenya Motor Insurance Pool through Other comprehensive income	3	Net asset of the pool	Increase/(decrease) in net asset of 5% would decrease/(increase) fair value by KShs 1.8 million
Owner occupied property and equipment	3	Capitalised rent income method	Increase/(decrease) in discount of 5% would decrease/(increase) fair value by KShs 26.7 million.
	3		Increase/(Decrease) in annual rent of 5% would (decrease)/increase the fair value by by Ksh 7.6 million
	3		Increase/(Decrease) in annual growth rate of 5% would (decrease)/increase the fair value by Ksh 10.8 million
Investment properties	3	Capitalised rent income method	Increase/(decrease) in discount of 5% would decrease/(increase) fair value by KShs 72.5 million.
	3		Increase/(Decrease) in annual rent of 5% would (decrease)/increase the fair value by by Ksh 1.9 million
	3		Increase/(Decrease) in annual growth rate of 5% would (decrease)/increase the fair value by Ksh 2.7 million

6. CAPITAL RISK MANAGEMENT

The Company maintains an efficient capital structure which consists of shareholders' funds comprising share capital, revaluation surplus and retained earnings as disclosed in the statement of changes in equity on pages 23 and 24, consistent with the Company's risk profile and the regulatory and market requirements of its business. The Company did not have any borrowings for the two years ended 31 December 2021 and 31 December 2020.

The Company's objectives in managing its capital are:

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

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

The operations of the Company are also subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

The Company has met all of these requirements throughout the financial year.

The Kenyan Insurance Act requires each insurance company to hold the minimum level of paid up capital as follows:

	KShs '000
Composite insurance companies	1,000,000
General insurance companies	600,000
Long-term insurance companies	400,000

Risk based capital was introduced in Kenya where a risk charge is attached for the various assets held as well as a charge for operation risk based on technical balances. The minimum capital under this model is KShs 600,000,000 (2020: 600,000,000) for General insurance Companies. As at 31 December 2021 the Risk Based Capital was 144% (2020: 126%) for general insurance business.

7. (a) GROSS EARNED PREMIUMS

The premium income of the Company can be analysed among the main classes of business as shown below:

	Gross written premiums		Gross earned premiums	
	2021	2020	2021	2020
	KShs '000	KShs '000	KShs '000	KShs '000
Motor	1,581,270	1,325,692	1,441,146	1,254,700
Fire	402,473	313,574	400,525	315,523
Personal accident	78,501	94,745	81,251	97,060
Theft	144,011	138,919	169,970	106,632
Workmen's compensation	78,152	89,988	81,817	105,937
Marine	67,370	66,664	69,287	64,851
Medical	1,884,598	1,861,396	1,851,241	1,735,949
Miscellaneous, Liability, Engineering	277,050	253,482	283,697	262,493
	4,513,425	4,144,460	4,378,934	3,943,145

Reconciliation of Gross Written Premiums and Gross Earned Premiums

	2021	2020
	KShs	KShs
Gross written premiums	4,513,425	4,144,460
Movement in Unearned Premium Reserve	(134,491)	(201,315)
Gross earned premiums	4,378,934	3,943,145

(b) REINSURANCE

Reinsurance premium comprise the total premiums for the whole cover provided by contracts entered and are recognised on the date on which the policy incepts.

	2021	2020
	KShs	KShs
Motor	65,799	44,173
Fire	294,633	223,109
Personal accident	19,669	29,415
Theft	26,640	29,558
Workmen's compensation	3,083	2,628
Marine	14,982	11,385
Medical	1,036,411	1,023,883
Miscellaneous, Liability, Engineering	320,293	195,922
	1,781,510	1,560,073

8. (a) COMMISSION INCOME

Fire	68,007	58,648
Personal accident	4,744	7,549
Theft	6,626	7,593
Marine	3,142	2,467
Medical	197,740	209,560
Miscellaneous, Liability, Engineering	83,823	59,853
	364,082	345,670

8. (b) COMMISSION EXPENSE

	2021 KShs	2020 KShs
Motor	194,796	142,911
Fire	102,215	83,209
Personal accident	16,996	20,491
Theft	24,352	20,898
Workmen's compensation	17,455	19,548
Marine	13,298	13,158
Medical	177,357	166,486
Miscellaneous, Liability, Engineering	48,580	50,078
	595,049	516,779

9. (a) INTEREST REVENUE CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2021 KShs	2020 KShs
Interest from Government securities	67,459	101,501
Interest on deposits with financial institutions	79,963	60,046
Interest on corporate bonds	-	1,717
Loan interest receivable	1,020	1,834
	148,442	165,098

(b) OTHER INVESTMENT INCOME

	2021 KShs	2020 KShs
Rental income from investment properties	7,580	9,564
Other	(2,372)	(3,288)
	5,208	6,276

9. (c) OTHER GAINS AND LOSSES

	2021 KShs	2020 KShs
Write-off of investment in First Assurance Tanzania	-	(104,828)
Loss on disposal of investment property*	(30,000)	-
Miscellaneous income	(9,497)	1,047
	(39,497)	(103,781)

* This relates to the disposal of Clyde Apartments investment property at Ksh 340,000,000. The book value was Kshs 370,000,000 (Note 19)

10. FOREIGN EXCHANGE GAINS AND LOSSES

	2021 KShs	2020 KShs
Exchange gain/(loss)	490	(488)

11. FAIR VALUE GAINS ON FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 KShs	2020 KShs
Fair value gain/(loss) on Kenya Motor Pool investment	1,909	(9,037)

12. CLAIMS AND POLICYHOLDER BENEFITS PAYABLE

	2021		2020	
	KShs '000 Gross	KShs '000 Net	KShs '000 Gross	KShs '000 Net
Claims payable by principal class of business:				
Motor	1,185,259	1,113,830	833,852	731,318
Fire	119,122	40,040	98,798	22,593
Workmen's compensation	389	(2,163)	(4,179)	57
Marine	24,677	18,538	33,087	28,583
Engineering	572,607	58,945	116,514	27,856
Medical	1,563,683	518,841	1,136,391	480,831
Other	134,417	16,834	84,778	58,715
	3,600,154	1,764,865	2,299,241	1,349,953

Gross amounts relate to gross claims incurred while net amounts are the net claims incurred by the company after offsetting the amount recoverable from reinsurance.

13. OPERATING AND OTHER EXPENSES

	2021 KShs '000	2020 KShs '000
Staff costs (Note 15)	352,482	336,685
Directors remuneration:		
- fees	7,759	6,800
- other remuneration	14,610	27,911
Auditors' remuneration (Inclusive of VAT)	6,148	6,148
Depreciation – Property and equipment (Note 17)	14,075	20,039
Depreciation – Right of use assets (Note 20)	5,162	5,617
Amortisation of intangible assets (Note 18)	21,418	18,953
Repairs, maintenance and vehicle expenses	5,541	5,551
Premium levy and policyholder's compensation fund	46,833	42,262
Marketing, telephone, and rental expenses	9,785	26,580
Travelling	12,874	9,682
Advertising	3,774	3,611
Stationery	27,001	24,952
Consultancy	25,933	31,456
Group recharges expenses	8,447	24,104
Intra-group recharges	16,335	16,714
Service contract	63,990	55,343
Pension	33,316	30,882
Insurance	12,713	14,431
Utilities	8,220	9,232
Motor valuation expenses	12,709	9,346
Office expenses	16,673	12,828
Others	22,236	15,684
TOTAL	748,034	754,811

14. EXPECTED CREDIT LOSSES (WRITE BACK)/EXPENSE

Expected credit losses (write back)/ expense on insurance receivables

	2021 KShs '000	2020 KShs '000
Amount arising from direct insurance arrangements	(48,886)	76,887
Amount arising from reinsurance arrangements	(29,352)	-
Government bonds and treasury bills	(1,637)	-
Other receivables	(890)	-
Cash, Bank balances and deposits	1,066	-
	(79,699)	76,887

15. STAFF COSTS

	2021 KShs '000	2020 KShs '000
Salaries and wages	313,227	308,645
Social security benefit costs	1,827	1,758
Staff medical costs	35,659	26,888
Retirement benefit charge/(credit) (Note 21)	1,769	(606)
	352,482	336,685

The average number of employees in 2021 was 147 (2020: 135). These comprise 28 underwriting, (2020: 34), 13 Claims (2020: 18), 19 Finance (2020: 17), 27 Medical (2020: 26) and 60 Business Development, Branches, Risk and Compliance, Human Resource department and Support staff (2020: 40).

16. TAXATION

(a) Statement of profit or loss	2021 KShs '000	2020 KShs '000
Current year charge	18,951	29,184
Deferred tax (note 35):		
- Deferred tax movement	20,616	30,977
- Prior year under/(over) provision	-	(715)
	39,567	59,446

(b) A reconciliation of taxation (credit)/expense to expected tax based on accounting profit is shown below:

	2021 KShs '000	2020 KShs '000
Accounting profit before taxation	49,809	88,380
Tax at the applicable rate of 30% (2020: 25%)	14,943	22,095
Tax effect of income not subject to tax	(4,289)	(3,811)
Tax effect of expenses not deductible for tax	28,913	41,877
Prior year (over)/under provision - deferred tax	-	(715)
	39,567	59,446

The effective tax rate for the year ended 31 December 2021 is 79.4% (2020: 67.3%)

(c) Statement of financial position	2021 KShs '000	2020 KShs '000
At 1 January	(34,149)	(63,333)
Current tax charge for the year (Note 16(a))	18,951	29,184
Paid in the year-Balance of Tax	(28,387)	-
Paid in the year-Instalment Tax	(24,077)	-
At 31 December net – recoverable	(67,662)	(34,149)

17. PROPERTY AND EQUIPMENT

Cost/valuation:	Buildings & freehold land KShs '000	Motor vehicles KShs '000	Computers KShs '000	Furniture, fittings & equipment KShs '000	Total KShs '000
At 1 January 2021	436,500	14,997	75,640	69,755	596,892
Additions	3,050	-	6,148	6,960	16,158
Revaluation surplus	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 December 2021	439,550	14,997	81,788	76,715	613,050
Comprising:					
At cost	134,493	14,997	81,788	76,715	307,993
At valuation – 2021	305,057	-	-	-	305,057
	439,550	14,997	81,788	76,715	613,050
Depreciation:					
At 1 January 2021	-	11,914	64,287	60,447	136,648
Charge for the year	2,600	1,947	6,601	5,527	16,675
Written back on revaluation	(2,600)	-	-	-	(2,600)
At 31 December 2021	-	13,861	70,888	65,974	150,723
Carrying amount					
At 31 December 2021	439,550	1,136	10,900	10,741	462,327

Cost/valuation:	Buildings & freehold land KShs '000	Motor vehicles KShs '000	Computers KShs '000	Furniture, fittings & equipment KShs '000	Total KShs '000
At 1 January 2020	439,000	14,997	66,850	69,611	590,458
Additions	-	-	8,790	144	8,934
Revaluation surplus	(2,500)	-	-	-	(2,500)
At 31 December 2020	436,500	14,997	75,640	69,755	596,892
Comprising:					
At cost	134,493	14,997	75,640	69,755	294,885
At valuation – 2020	302,007	-	-	-	302,007
	436,500	14,997	75,640	69,755	596,892
Depreciation:					
At 1 January 2020	-	9,673	54,579	55,006	119,258
Charge for the year	2,649	2,241	9,708	5,441	20,039
Written back on revaluation	(2,649)	-	-	-	(2,649)
At 31 December 2020	-	11,914	64,287	60,447	136,648
Carrying amount					
At 31 December 2020	436,500	3,083	11,353	9,308	460,244

Included in computers, motor vehicles, equipment, furniture and fittings are assets with a cost of KShs 125,730,765 (2020 – KShs 120,297,806) which were fully depreciated but still in use. The normal annual depreciation charge on these assets would have been KShs 31,043,997 (2020 – KShs 27,005,614).

17. PROPERTY AND EQUIPMENT (Continued)

Buildings and freehold land were last revalued as at 31 December 2021 by Legend Valuers Limited. Land was revalued on the open market basis while buildings were revalued on depreciated replacement cost basis. There was no change in value in 2021.

The Company's policy is to professionally revalue freehold land and buildings on an annual basis. If buildings and freehold land were stated on the historical cost basis, the amounts would be as follows:

	2021	2020
Carrying amount	KShs '000	KShs '000
Cost	67,785	67,785
Accumulated depreciation	(11,721)	(9,009)
Net book value	56,064	58,776

Refer to note 5 for fair value disclosures.

18. INTANGIBLE ASSETS

Cost		
At 1 January	149,206	118,472
WIP- Intangible assets *	-	6,204
Additions	9,079	30,734
At 31 December	158,285	155,410
Amortisation		
At 1 January	84,160	65,207
Charge for the year	21,418	18,953
At 31 December	105,578	84,160
Carrying amount		
At 31 December	52,707	71,250

The intangible assets relate to costs incurred in the acquisition of software in use by the company. The cost is amortised on a straight-line basis over the estimated useful lives of six years at a rate of 16.7% p.a.

19. INVESTMENT PROPERTIES

	2021 KShs '000	2020 KShs '000
At 1 January	1,450,000	1,450,000
Disposal	(370,000)	-
Fair value gains	-	-
At 31 December	1,080,000	1,450,000

There are no contractual commitments in respect of the investment properties.

Net rental income on the Clyde Gardens arising from operating lease arrangements has been disclosed in note 9 to the financial statements.

Rental income earned during the year was KShs 14,911,400 (2020 – KShs 9,564,000). The company significantly incur costs for maintenance for the rented property. The company has entered into operating lease arrangements.

Property expenses incurred during the year amounted to KShs 7,331,380 (2020 – KShs 3,294,000).

19. INVESTMENT PROPERTIES (Continued)

The investment properties were revalued on 31 December 2021 by registered valuers, Legend Valuers Limited, on the basis of open market value. Legend Valuers Limited are industry specialists in valuing these types of investment properties. In arriving at the value of the investment properties, the valuer used capitalization of the rental income using the year purchase method. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Generally, a change in the assumption made for the estimated rental value is accompanied by:

i) a directionally similar change in the rent growth per annum and discount rate (and exit yield)

ii) an opposite change in the long-term vacancy rate

Description of valuation techniques used and key inputs to valuation on investment properties:

	Level 3	Total
	KShs'000	KShs'000
Capitalized rent income (year purchase) method	Net annual rent	7,580
	Annual rent growth rate	5%
	Discounting rate	13%

Considering the economic fundamentals in the country and the trends in property markets, management is of the opinion that there will not be significant change in the inputs to the valuation method during the year. Valuations are performed on an annual basis and the fair value gains and losses are recorded within the profit or loss. The fair valuation basis takes into account the existing use and the tenancies and also considers the normal lease structure for similar buildings.

On the other hand, Ngong road plots are based on market value that is price at which an interest in a property might reasonably be expected to be sold by a private treaty at the date of valuation assuming:

a) It is based on current sale
b) a willing buyer, willing seller;
c) a reasonable period within which to negotiate the sale by taking into account the nature of the property;
d) values will remain static throughout the period;
e) the property will be freely exposed to the market within reasonable publicity;
f) no account is taken of an individual bid by a special purchaser.

Details of the fair value hierarchy for the Company's investment property held at fair value as at 31 December 2021 are as follows:

	Level 1	Level 2	Level 3	Total
	Sh'000	Sh'000	Sh'000	Sh'000
At 31 December 2021				
- Investment properties	-	-	1,080,000	1,080,000
At 31 December 2020				
- Investment properties	-	-	1,450,000	1,450,000

20. (a) LEASES – RIGHT OF USE

The right of use asset and lease liability is due to leased office for branches in Nakuru, Kisumu and Nairobi Central Business District.
Set out below are the carrying amounts of the right-of-use assets recognised and the movements during the year

	2021 KShs '000	2020 KShs '000
At 1 January	31,564	26,974
Prior year correction	(4,590)	-
Additions	4,593	4,590
	31,567	31,564
Depreciation:		
As at 1 January	10,264	4,647
Prior year correction*	(637)	-
Charge for the year	5,799	5,617
As at 31 December	15,426	10,264
Carrying amount as at 31 December	16,141	21,300

* The company paid a deposit and entered into a draft lease agreement that should have run from March 2020, but that was pending approval by the Ministry of Lands. The company recognised the lease in 2020, but later reversed it in January 2021, when the lease agreement was finalised, and recognised the signed agreement running from January 2021.

(b) LEASES – CARRYING AMOUNT

Set out below are the carrying amounts of lease liabilities (included under other liabilities) and the movements during the year:

	2021 KShs '000	2020 KShs '000
As at 1 January	25,973	24,166
Prior year correction	(4,590)	-
Additions	4,593	4,590
Accretion of interest	2,372	3,288
Payments	(8,090)	(6,071)
As at 31 December	20,258	25,973
Amounts recognised in profit or loss Leases under IFRS 16		
Interest on lease liabilities	2,372	3,288
Depreciation expense	5,799	5,617
Amounts recognised in cash flows from financing activities		
Payment of principal of lease liabilities	5,718	2,783
Payment of interest	2,372	3,288
Total cash outflow for leases	8,090	6,071

20 (b) LEASES – CARRYING AMOUNT (Continued)

Lease liability maturity analysis

	Due on demand KShs '000	Due within 3 months KShs '000	Due between 3 and 12 months KShs '000	Due between 1 and 5 years KShs '000	Due after 5 years KShs '000	Total KShs '000
2021						
Lease liabilities	-	2,017	6,074	12,167	-	20,258
2020						
Lease liabilities	-	1,849	4,191	19,933	-	25,973

Lease commitments

(i) Company as a lessee

The future minimum lease payments under non-cancellable leases are as follows:

	2021 KShs '000	2020 KShs '000
Not later than 1 year	-	-
Later than 1 year and not later than 5 years	25,749	25,749
Later than 5 years	5,651	5,651
	31,400	31,400

(ii) Company as a lessor

Rental income earned during the year was KShs 7,580,020 (2020 – KShs 9,564,133). At the end of the reporting period, the Company disposed of the Clyde Apartments and therefore had not contracted with tenants for the following future lease receivables:

	2021 KShs '000	2020 KShs '000
Within 1 year	-	16,190
Later than 1 year	-	5700
Later than 2 year	-	2,300
Later than 3 year	-	1,370
Later than 4 year		
	-	25,560

21. RETIREMENT BENEFIT ASSET

	2021 KShs '000	2020 KShs '000
Fair value of plan assets	284,621	263,722
Present value of funded obligations	(155,447)	(198,462)
	129,174	65,260
Irrecoverable surplus	(106,803)	(60,833)
Retirement benefit asset as at 31 December	22,371	4,427
Plan assets consist of the following:		
Government securities	208,324	199,399
Corporate bonds	2,387	1,441
Equities	70,828	60,231
Cash	3,082	2,651
	284,621	263,722
Movement in plan assets		
Fair value of plan assets at 1 January	263,722	280,327
Interest income on assets	33,248	35,157
Benefits and expenses paid by the plan	(16,005)	(13,713)
Employee contributions	-	-
Return on plan assets (less)/ greater than discount rate	3,656	(38,049)
Fair value of plan assets at 31 December	284,621	263,722
Movement in present value of funded obligations		
Retirement benefit obligations at 1 January	198,462	189,967
Interest cost	24,830	23,590
Current service cost	2,340	2,200
Participants contributions	-	-
Benefits paid by the plan	(16,005)	(13,713)
Recognised actuarial losses	(54,180)	(3,582)
Present value of funded obligations as at 31 December	155,447	198,462

The costs recognised in the profit or loss is as follows:

Interest cost	(24,830)	(23,590)
Interest on assets	33,248	35,157
Interest cost on irrecoverable surplus	(7,847)	(8,761)
Current service cost	(2,340)	(2,200)
	(1,769)	606

The components remeasurement effects recognised in the other comprehensive income is as follows:

	2021 KShs '000	2020 KShs '000
Actuarial gain on defined benefit obligation arising during period	(54,180)	(3,582)
Return on plan assets (greater) / less than discount rate	(3,656)	38,049
Change in Irrecoverable Surplus other than interest	38,123	(16,374)
Remeasurement Effects Recognised in OCI	(19,713)	18,093

21. RETIREMENT BENEFIT ASSET (Continued)

The movement in the retirement benefit obligations in the statement of financial position is as follows:

	2021 KShs '000	2020 KShs '000
At 1 January	4,427	21,914
Return on plan assets recognised in the income statement	(1,769)	606
Remeasurement Effects Recognised in OCI	19,713	(18,093)
At 31 December	22,371	4,427

Historical information	2021 KShs '000	2020 KShs '000	2019 KShs '000	2018 KShs '000	2017 KShs '000	2016 KShs '000
Fair value of plan assets	284,621	263,722	280,327	238,622	224,648	244,281
Present value of funded obligations	(155,447)	(198,462)	(189,967)	(190,584)	(122,297)	(153,010)
Retirement benefit obligations before asset ceiling	129,174	65,260	90,360	48,038	102,351	91,271
Irrecoverable surplus	(106,803)	(60,833)	(68,446)	(46,545)	(52,108)	(4,564)
Retirement benefit obligations	22,371	4,427	21,914	1,493	50,243	86,707

Key assumptions

The actuarial valuation method adopted entails the comparison of the value of the scheme's assets at the valuation date with its liabilities and an assessment of the ability of the scheme to meet its obligations to members.

The principal actuarial assumptions used at the reporting date were:

	2021 %	2020 %
Discount rate	13.10%	12.90%
Future salary increases	8.00%	9.50%
Mortality (pre-retirement)	PA (90) Ultimate	PA (90) Ultimate
Mortality (post retirement)	PA (90) Ultimate	PA (90) Ultimate
Future pension increases	-	-

The overall expected long-term rate of return on the assets is 13.1% (2020 – 12.9%) based on the portfolio as a whole and not on the sum of returns on the individual assets.
COVID -19 did not have a significant impact on the assumptions above.

The company has no arrangements and funding policy that affect future contributions since the Defined Benefit scheme was closed for future contributions with effect from 1 January 2020.

Maturity profile of the defined benefit obligation

Benefit payments are expected to be made from plan assets as follows:

	2022 KShs '000	2023 KShs '000	2024 KShs '000	2025 KShs '000	2026 KShs '000	2027 – 2031 KShs '000
Expected benefit payments	10,398	10,442	10,816	11,568	12,049	72,753

21. RETIREMENT BENEFIT ASSET (Continued)

These assumptions are likely to change in the future and this will affect the value placed on the liabilities. For example, changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined obligation by the amounts shown below:

	2021		2020	
	Increase KShs '000	Decrease KShs '000	Increase KShs '000	Decrease KShs '000
Discount rate (-1% movement)	11,866	-	23,018	-
Discount rate (+1% movement)	-	11,866	-	23,018

Although this analysis does not look at simultaneous changes in the assumptions, it does provide an approximation of the sensitivity to the main assumptions. While changes in other assumptions would also have an impact, the effect would not be as significant.

The defined benefit scheme is subjected to actuarial valuation by independent actuaries once every three years to fulfill the requirements under the scheme rules and the requirements of the Income Tax (Retirement Benefits) Rules 1994 and the Retirement Benefits Act 1997.

For purposes of reporting in the financial statements of First Assurance Company Limited, a valuation was carried out by Zamara Actuaries, Administrators & Consultants as at 31 December 2021 and revealed that the fund had a surplus of KShs 22,371,000 (2020: 4,427,000). The next valuation is due as at 31 December 2022.

22. DEFERRED ACQUISITION COSTS

Commission earned and payable are recognized in the period in which relevant premiums are written or ceded. A proportion of commissions payable is deferred and amortized over the period in which the related premium is earned. Deferred acquisition costs represent a proportion of acquisition costs that relate to policies that are in force at the end of the year. All other costs are recognized as expenses when incurred. The deferred policy acquisition costs are subsequently amortized over the policy period.

		2021			2020	
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Acquisition costs by principal class of business:	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Motor	67,075	403	66,672	52,953	315	52,638
Fire	32,874	24,923	7,951	23,781	16,018	7,763
Workmen's compensation	5,198	-	5,198	6,352	2,540	3,812
Marine	3,979	810	3,169	4,383	796	3,587
Engineering	9,273	12,682	(3,409)	12,817	17,700	(4,883)
Medical	68,293	72,341	(4,048)	53,873	55,829	(1,956)
Other	20,451	19,150	1,301	20,769	8,004	12,765
	207,143	130,309	76,834	174,928	101,202	73,726
		note 24			note 24	

23. KENYA MOTOR INSURANCE POOL

This represents the Company's share of the net assets of the pool. This balance is recoverable from the pool through a refund of the amount due upon discontinuation of the pool.

	2021 KShs '000	2020 KShs '000
At 1 January	27,539	36,576
Receipts in the year	(10,691)	-
Change in fair value of financial assets through profit and loss	1,909	(9,037)
At 31 December	18,757	27,539

24. REINSURERS' SHARE OF INSURANCE LIABILITIES

	2021 KShs '000	2020 KShs '000
Reinsurers' share of:		
- unearned premiums (Note 34)	600,794	483,952
- notified claims outstanding (Note 33)	1,325,278	716,119
- Incurred but not reported claims (Note 33)	205,860	161,462
- Additional unexpired risk reserve (Note 41)	98	68
- Deferred acquisition costs (Note 22)	(130,309)	(101,202)
	2,001,721	1,260,399

25. OTHER RECEIVABLES

	2021 KShs '000	2020 KShs '000
Staff receivables	5,718	17,013
Prepayments	18,481	27,777
Deposits	952	(1,946)
Sundry debtors	6,837	2,779
Less: Loss allowance	(2,103)	(2,993)
	29,885	42,630

An analysis of changes in the gross carrying amount and corresponding ECL allowances debt instruments at fair value through OCI and at amortised cost has been disclosed in note 5 (ii).

26. FINANCIAL ASSETS AT AMORISED COSTS - GOVERNMENT SECURITIES

	2021 KShs '000	2020 KShs '000
Within 90 days	228,176	74,942
After 90 days but within 1 year	38,589	43,242
In 1-5 years	296,396	301,761
After 5 years	216,293	116,648
Expected credit loss allowance	(4,358)	(5,995)
	775,096	530,598
Movement in Government securities can be summarised as follows:		
At 1 January	530,598	1,141,673
Additions	445,169	371,246
Maturities	(196,313)	(976,326)
Expected credit loss allowance	(4,358)	(5,995)
At 31 December	775,096	530,598

Government securities amounting to KShs 480,500,000 (2020 - KShs 472,500,000) are held under lien in favour of the Commissioner of Insurance in accordance with Section 32 of the Kenyan Insurance Act (Cap 487). An analysis of changes in the gross carrying amount and corresponding ECL allowances debt instruments at fair value through OCI and at amortised cost has been disclosed in note 5(ii).

27. DEPOSITS WITH FINANCIAL INSTITUTIONS

	2021 KShs '000	2020 KShs '000
NCBA Bank Kenya Limited	251,958	470,088
The Co-operative Bank of Kenya Limited	320,890	349,525
KCB Bank Kenya Limited	142,707	-
SBM Bank Kenya Limited	11,269	16,608
Absa Bank Kenya PLC	279,560	1,259
Equity Bank Kenya	232,977	234,188
Escrow account (NCBA) - Clyde sale deposit	341,264	-
Expected credit loss allowance	(2,594)	(1,595)
	1,578,031	1,070,073
Deposits maturing:		
Within 90 days	865,060	523,126
After 90 days but within 1 year	715,565	548,542
After 1 year	-	-
Expected credit loss allowance	(2,594)	(1,595)
	1,578,031	1,070,073

An analysis of changes in the gross carrying amount and corresponding ECL allowances debt instruments at fair value through OCI and at amortised cost has been disclosed in note 5(ii).

28. WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

	2021 %	2020 %
Government securities	10.85	11.32
Deposits with financial institutions	7.85	8.01
Corporate bonds	12.75	12.75

Deposits with financial institutions in 2021 had an average maturity of nine months (2020: nine months).

29. SHARE CAPITAL

	2021 KShs '000	2020 KShs '000
Authorised share capital:		
At 1 January and 31 December		
(50,000,000 ordinary shares of KShs 20 each)	1,000,000	1,000,000
Issued and fully paid:		
At 1 January and 31 December		
(40,500,000 ordinary shares of KShs 20 each)	810,000	810,000

All the ordinary shares rank equally with regards to Company's residual assets and are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

30. REVALUATION SURPLUS

The revaluation reserve solely represents the surpluses on the revaluation of buildings and freehold land (included within property and equipment), net of deferred tax. This reserve is not distributable as dividend.

31. RETAINED EARNINGS

The retained earnings balance represents the amount available for distribution to the shareholders of the Company.

32. DIVIDENDS

No interim dividend was declared and paid during the year (2020 – nil). The directors do not recommend a final dividend in respect of the year ended 31 December 2021 (2020 – nil).

Payment of dividends is subject to withholding tax at the rate of 0%, 5% or 10%, depending on the nature of ownership and residence of the individual shareholders.

33. INSURANCE CONTRACT LIABILITIES

	2021 KShs '000	2020 KShs '000
Claims reported and claims handling expenses	1,975,336	1,392,853
Claims incurred but not reported	582,113	551,042
Total	2,557,449	1,943,895

Gross claims reported, claims handling expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2021 and 2020 are not material.

Outstanding claims represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of each reporting period, but not settled at that date. Outstanding claims are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims incurred but not reported ("IBNR") at the end of each reporting period based on the Company's experience but subject to the minimal percentage set by the Commissioner of Insurance.

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

The table below illustrates the movements in insurance liabilities and reinsurance assets for the company's general insurance contracts.

	2021			2020		
	Gross KShs '000	Re-insurance KShs '000	Net KShs '000	Gross KShs '000	Re-insurance KShs '000	Net KShs '000
Notified claims	1,392,853	(716,119)	676,734	1,418,324	(634,955)	783,369
Incurred but not reported	551,042	(161,462)	389,580	575,883	(188,544)	387,339
At 1 January	1,943,895	(877,581)	1,066,314	1,994,207	(823,499)	1,170,708
Cash paid for claims settled in year	(3,031,261)	1,242,700	(1,788,561)	(2,322,576)	838,427	(1,484,149)
Increase in liabilities:						
- arising from current year claims	2,926,246	(1,834,465)	1,091,781	1,745,070	(828,990)	916,080
- arising from prior year claims	718,569	(61,792)	656,777	527,194	(63,519)	463,675
At 31 December	2,557,449	(1,531,138)	1,026,311	1,943,895	(877,581)	1,066,314
Analysed as;						
Notified claims	1,975,336	(1,325,278)	650,058	1,392,853	(716,119)	676,734
Incurred but not reported	582,113	(205,860)	376,253	551,042	(161,462)	389,580
At 31 December	2,557,449	(1,531,138)	1,026,311	1,943,895	(877,581)	1,066,314

33. INSURANCE CONTRACT LIABILITIES (continued)

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

COMPANY	2017	2018	2019	2020	2021	**TOTAL**
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Accident year						
Estimate of ultimate claims costs:						
At end of accident year	418,743	921,093	1,713,317	1,069,273	1,788,561	5,910,987
one year later	1,000,176	1,364,021	1,029,750	1,574,610	-	4,968,557
Two years later	1,176,462	1,235,283	1,133,880	-	-	3,545,625
three years later	627,385	1,328,418	-	-	-	1,955,803
Four years later	5,085,998	-	-	-	-	5,085,998
Current estimate of cumulative claims	5,085,998	1,328,418	1,133,880	1,574,610	1,788,561	10,911,467
Less: cumulative payments to date	(5,564,796)	(1,266,868)	(1,033,235)	(1,383,292)	(1,097,145)	(10,345,336)
Liability in the statement of financial position	(478,798)	61,550	100,645	191,318	691,416	566,131
Liability in respect of prior years						83,927
Total claims reported and claims handling expenses						650,058
Claims incurred but not reported						376,253
Total gross claims liability included in the statement of financial position						1,026,311

IBNR claims expense is determined in line with the minimum rates as prescribed by the Kenya Insurance Regulatory Authority

33. INSURANCE CONTRACT LIABILITIES (continued)

COMPANY	2016 KShs '000	2017 KShs '000	2018 KShs '000	2019 KShs '000	2020 KShs '000	Total KShs '000
Accident year						
Estimate of ultimate claims costs:						
At end of accident year	2,449,765	763,370	1,679,155	3,123,384	1,949,288	9,964,962
one year later	3,159,987	1,823,324	2,486,616	1,877,239	-	9,347,166
Two years later	2,125,235	2,144,695	2,251,926	-	-	6,521,856
three years later	2,477,062	1,143,725	-	-	-	3,620,787
Four years later	7,656,114	-	-	-	-	7,656,114
Current estimate of cumulative claims	7,656,114	1,143,725	2,251,926	1,877,239	1,949,288	14,878,292
Less: cumulative payments to date	(7,529,754)	(1,009,754)	(2,062,144)	(1,651,599)	(1,471,724)	(13,724,975)
Liability in the statement of financial position	126,360	133,971	189,782	225,640	477,564	1,153,317
Liability in respect of prior years						239,536
Total claims reported and claims handling expenses						1,392,853
Claims incurred but not reported						551,042
Total gross claims liability included in the statement of financial position						1,943,895

IBNR claims expense is determined in line with the minimum rates as prescribed by the Kenya Insurance Regulatory Authority

33. INSURANCE CONTRACT LIABILITIES (Continued)

Net claims reported, claims handling expense liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The expected recoveries at the end of 2020 and 2021 are not material.

Accident year	2017 KShs'000	2018 KShs'000	2019 KShs'000	2020 KShs'000	2021 KShs'000	TOTAL KShs'000
Estimate of ultimate claims costs:						
At end of accident year	763,370	1,679,155	3,123,384	1,949,288	3,031,261	10,546,458
One year later	1,823,324	2,486,616	1,877,239	2,668,656	-	8,855,834
Two years later	2,144,695	2,251,926	1,921,704	-	-	6,318,325
Three years later	1,143,725	2,251,409	-	-	-	3,395,134
Four years later	8,619,772	-	-	-	-	8,619,772
Current estimate of cumulative claims	8,619,772	2,251,409	1,921,704	2,668,656	3,031,261	18,492,802
Less: cumulative payments to date	(8,557,628)	(2,147,094)	(1,751,131)	(2,344,409)	(1,859,446)	(16,659,708)
Liability in the statement of financial position	62,144	104,315	170,573	324,247	1,171,815	1,833,094
Liability in respect of prior years						142,243
Total net claims reported and claims handling expenses						1,975,337
Claims incurred but not reported						582,112
Total net claims liability included in the statement of financial position						2,557,449

33. INSURANCE CONTRACT LIABILITIES (Continued)

Accident year	2016	2017	2018	2019	2020	TOTAL
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Estimate of ultimate claims costs:						
At end of accident year	1,343,807	418,743	921,093	1,713,317	1,069,273	5,466,233
One year later	1,733,396	1,000,176	1,364,021	1,029,750	-	5,127,343
Two years later	1,165,788	1,176,462	1,235,283	-	-	3,577,533
Three years later	1,358,781	627,385	-	-	-	1,986,166
Four years later	4,199,725	-	-	-	-	4,199,725
Current estimate of cumulative claims	4,199,725	627,385	1,235,283	1,029,750	1,069,273	8,161,416
Less: cumulative payments to date	(4,130,411)	(553,896)	(1,131,179)	(905,977)	(807,307)	(7,528,770)
Liability in the statement of financial position	69,314	73,489	104,104	123,773	261,966	632,646
Liability in respect of prior years						44,088
Total net claims reported and claims handling expenses						676,734
Claims incurred but not reported						389,580
Total net claims liability included in the statement of financial position						1,066,314

34. UNEARNED PREMIUM PROVISION

The provision for unearned premiums represents the liability for short term business contracts where the Company's obligations have not expired at the year end. The unexpired risk provision relates to insurance contracts for which the Company expects to pay claims in excess of the related unearned premiums provision. Movements in the reserves are shown below:

	2021			2020		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims payable by principal class of business:	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Motor	694,587	1,790	692,797	548,478	1147	547,331
Fire	146,597	88,737	57,860	99,378	43,652	55,726
Workmen's compensation	27,528	-	27,528	32,348	-	32,348
Marine	23,486	2,945	20,541	25,235	2,654	22,581
Engineering	59,393	49,329	10,064	66,355	54,491	11,864
Medical	692,254	380,740	311,514	622,744	342,509	280,235
Other	139,102	77,253	61,849	142,661	39,499	103,162
	1,782,947	600,793	1,182,153	1,537,199	483,952	1,053,247
		note 24			note 24	

35. DEFERRED TAXATION

Deferred tax is calculated, in full, on all temporary differences using a principal tax rate of 30% (2020: 30%).

The deferred tax is attributable to the following items:

Year ended 31 December 2021:	At 31 December 2020	Recognised in P&L	Recognised in OCI	At 31 December 2021
	KShs'000	KShs'000	KShs'000	KShs'000
Property and equipment	(3,313)	(2,770)	-	(6,083)
Right of use asset	(7,792)	1,715	-	(6,077)
Lease liability	6,390	(1,548)	-	4,842
Revaluation surplus	106,350	-	-	106,350
Unrealised exchange differences	(146)	146	-	-
Leave pay provisions	(7,527)	(1,801)	-	(9,328)
Retirement benefit asset	(12,598)	(531)	5,914	(7,215)
Impairment provision	(161,352)	24,701	-	(136,651)
Kenya Motor Pool	6,310	573	-	6,883
Imperial and Chase deposits provision	(20,043)	131	-	(19,912)
	(93,721)	20,616	5,914	(67,191)

35. DEFERRED TAXATION (Continued)

Year ended 31 December 2020:	At 31 December 2019	Recognised in P&L	Prior year over – provision recognised in P&L	Recognised in OCI	At 31 December 2020
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Property and equipment	(437)	(2,876)	-	-	(3,313)
Right of use Asset	(7,249)	(543)	-	-	(7,792)
Lease liability	6,698	(308)	-	-	6,390
Revaluation surplus	107,100	-	-	(750)	106,350
Unrealised exchange differences	156	(302)	-	-	(146)
Leave pay provisions	(7,895)	368	-	-	(7,527)
Retirement benefit asset	(7,351)	181	-	(5,428)	(12,598)
Impairment provision	(138,379)	(22,973)	-	-	(161,352)
Kenya Motor Pool	9,021	(2,711)	-	-	6,310
Imperial and Chase deposits provision	(20,173)	130	-	-	(20,043)
Tax losses	(60,091)	60,011	(715)	795	-
	(118,600)	30,977	(715)	(5,383)	(93,721)

The movement on the deferred tax account is as follows:

	2021 KShs '000	2020 KShs '000
At 1 January	(93,721)	(118,600)
Recognised in profit or loss (Note 16)	20,616	30,977
Recognised in other comprehensive	5,914	(5,383)
Prior year (over)/under provision of deferred tax	-	(715)
At 31 December - Asset	(67,191)	(93,721)

36. OTHER PAYABLES

a) Other payables

	2021 KShs '000	2020 KShs '000
Accrued expenses	178,627	181,653
Payroll deductions	3,834	3,087
Medical smart card	31,896	-
Sundry creditors*	60,217	62,995
	274,574	247,735

*Sundry creditors relate to withholding taxes payable, levies to IRA payable and rent deposits.

	2021 KShs '000	2020 KShs '000
b) Maturity analysis		
Within 1 year	274,574	247,735
After 1-5 years	-	-
	274,574	247,735

37. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2021 KShs'000	2020 KShs'000
Profit before tax	49,809	88,380
Interest on lease liability (note 20)	2,372	3,288
Depreciation – property and equipment (note 17)	14,075	20,039
Amortisation of intangible assets (note 18)	21,418	18,953
Fair value gains on financial assets at fair value through profit and loss (note 11)	(1,909)	9,037
Loss on disposal of investment property (Note 9c)	30,000	-
Depreciation on ROU asset (note 20)	5,799	5,617
Adjusted profit before working capital changes	121,564	145,314
Write-off of investment in First Assurance Tanzania	-	104,828
ECL on other receivables	(891)	-
ECL on government securities	(1,637)	-
ECL on cash and bank and deposits	1,066	-
ECL on direct insurance (note 14)	(48,886)	76,887
ECL on reinsurance	(29,352)	-
Adjusted profit before working capital changes	41,864	327,029
Working capital movements:		
Receivables arising out of direct insurance arrangements	22,906	(167,659)
Receivables arising out of reinsurance arrangements	(38,140)	(27,274)
Other receivables	13,636	53,881
Unearned premiums provisions	245,748	234,724
Other payables	26,839	25,430
Payables arising from reinsurance arrangements	300,575	(11,248)
Reinsurers' share of insurance liabilities	(741,322)	(62,025)
Insurance contract liabilities	613,554	(50,312)
Retirement benefit asset (note 21)	1,769	(606)
Deferred acquisition costs	(32,215)	(17,265)
Other related parties	(89,422)	(194,035)
Additional unexpired risk reserve (note 41)	8,723	(8,201)
Cash flows generated from operations	346,304	102,439

37. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(b) Cash and cash equivalents

	2021 KShs '000	2020 KShs '000
Cash balances	230	22
Bank balances	(17,768)	89,343
For the purpose of the statement of cash flows, cash and cash equivalents comprised of the following as at 31 December		
Bank and cash balances	(17,538)	89,365
Deposits with banks maturing within 90days (note 27)	865,060	523,126
	847,522	612,491

38. COMMITMENTS

Capital commitments and bank guarantees

Capital commitments at the end of the year for which no provision has been made in these financial statements are as follows:

	2021 KShs '000	2022 KShs '000
Authorised and contracted for	595	10,960
Authorised but not contracted for	83,904	66,441
	84,499	77,401
Bank guarantees	61,390	72,824

In common practice with the insurance industry in general, the company tenders for business. Such tenders require that a guarantee or performance bond is placed with a bank.

39. CONTINGENT LIABILITIES

In common with the insurance industry in general, the Company is subject to litigations arising in the normal course of insurance business. The Directors are of the opinion that these litigations will not have a material effect on the financial position of the Company.

The Company is subject to solvency requirements as specified in the Insurance Act in respect of its insurance and investment contracts and was in compliance with those regulations at 31 December 2021 and 2020.

40. RELATED PARTIES

The company is a subsidiary of First Assurance Holdings Limited, which owns 63.32% shares of the company. The ultimate parent company is Absa Group Limited which exercises its control over the company through Absa Insurance Company. Absa Life Assurance Kenya Limited is related to the company through common shareholding. Absa Bank Kenya Plc is related to the company by having the same parent company, Absa Group Limited.

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

Services to and from related parties are made on terms defined by their transfer pricing policy. Outstanding balances at year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivable or payable for the year ended 31 December 2021. No provision for bad debts has been made in respect to related party receivable balances.

40. RELATED PARTIES (continued)

Below is a summary of transactions with related parties during the year and amounts due to and from related parties at the year-end:

		2021 KShs '000	2020 KShs '000
(a)	Insurance business transacted with related parties		
	Gross written premium:		
	Directors	356	127
	Senior management	1,385	1,392
	Absa Bank Kenya Plc	616,270	663,429
	At 31 December	618,011	664,948
(b)	Outstanding balances due from related parties		
	Premiums receivable from related parties		
	Included in receivables		
	- Directors	6	356
	- Senior management	504	183
	Other related parties	64,719	88,420
		65,229	88,959
(c)	Directors' remuneration		
	Directors' fees	7,759	6,800
	Salary costs	14,610	27,911
		22,369	34,711
(d)	Key management compensation (excluding directors)		
	Salaries	154,206	154,206
	Due to related parties		
	Absa Insurance Company	276,267	327,820
	Absa Bank Kenya Plc	3,288	30,950
	Absa Life Assurance Kenya Limited	1,379	11,586
		280,934	370,356

Due to related parties relates to the following:

i. Absa Insurance Company - These are the amount attributable to group recharges accumulated since 2018.
ii. Absa Bank Kenya Plc - These were the reimbursement of the staff salaries processed and paid by the bank and the management fees for the payroll processing.
iii. Absa Life Assurance Kenya Limited - These are the payroll cost for the shared resources who are in the payroll.

(e) Maturity analysis

	2021 KShs '000	2020 KShs '000
Within 1 year	4,666	42,536
After 1-5 years	276,267	327,820
	280,934	370,356

41. ADDITIONAL UNEXPIRED RISK RESERVE

The unexpired risk provision relates to insurance contracts for which the Company expects to pay claims in excess of the related unearned premiums provision as recommended by the Actuaries. Movements in the reserves are shown below:

	2021			2020		
	Gross KShs '000	Re-insurance KShs '000	Net KShs '000	Gross KShs '000	Re-insurance KShs '000	Net KShs '000
At 1 January	27,926	68	27,858	36,127	280	35,847
Decrease in the year	8,723	30	8,693	(8,201)	(212)	(7,989)
At 31 December	36,649	98	36,551	27,926	68	27,858
		(Note 24)			(Note 24)	

42. INCORPORATION

The Company is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The ultimate holding company is Absa Group Limited which is incorporated in South Africa.

43. EVENTS AFTER REPORTING DATE

There are no events after the reporting date that require disclosure in these financial statements.

FIRST ASSURANCE COMPANY LIMITED
COMPANY GENERAL INSURANCE BUSINESS REVENUE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2021

Class of insurance Business	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor Private	Motor Commercial	Personal Accident	Theft	Workmen's Comp	Miscellaneous	Medical	2021 Total	2020 Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Gross premium written	169,474	32,822	369,651	47,554	67,370	865,360	715,910	78,501	144,011	78,152	60,022	1,884,598	4,513,425	4,144,460
Change in gross UPR	(2,823)	441	1,507	(2,178)	(1,917)	58,953	81,170	(2,750)	(25,960)	(3,665)	(1,644)	33,358	134,491	(201,315)
Gross earned premiums	172,298	32,381	368,144	49,732	69,287	806,407	634,740	81,251	169,970	81,817	61,666	1,851,241	4,378,934	3,943,145
Less: reinsurance payable	(155,523)	(13,180)	(281,453)	(10,247)	(14,982)	(34,151)	(31,648)	(19,669)	(124,081)	(3,083)	(57,084)	(1,036,411)	(1,781,510)	(1,560,073)
Net earned premiums	16,775	19,202	86,691	39,485	54,305	772,256	603,092	61,582	45,890	78,734	4,583	814,830	2,597,424	2,383,072
Gross claims paid	75,984	11,920	102,578	19,877	27,224	646,045	426,474	39,085	25,967	35,526	224	1,620,358	3,031,261	2,322,470
Change in gross o/s claims	23,362	(2,495)	(5,345)	(6,775)	(5,910)	67,504	(26,193)	(2,134)	(1,185)	(37,689)	(714)	(26,121)	(23,696)	(23,229)
Less: reinsurance recoverable	(40,401)	(430)	(66,190)	-	(2,776)	-	-	(39,557)	(13,799)	-	(4,152)	(1,075,396)	(1,242,700)	(949,288)
Net claims incurred	58,945	8,996	31,044	13,101	18,538	713,549	400,281	(2,606)	10,982	(2,163)	(4,642)	518,841	1,764,865	1,349,953
Commissions receivable	(41,541)	(21,595)	(46,412)	(2,760)	(3,142)	-	-	(4,744)	(6,626)	-	(39,522)	(197,740)	(364,082)	(345,670)
Commissions payable	38,266	6,819	100,470	10,280	13,036	100,781	84,808	16,743	22,965	16,673	6,850	177,357	595,049	480,779
Management expenses	3,774	5,313	23,857	10,092	14,171	224,635	185,094	15,914	31,749	20,306	(25,563)	158,992	668,335	867,699
Total expenses and commissions	499	(9,462)	77,915	17,612	24,065	325,416	269,902	27,912	48,088	36,979	(58,235)	138,609	899,301	1,002,808
Underwriting profit/(loss)	(42,670)	19,668	(22,268)	8,772	11,702	(266,709)	(67,091)	36,276	(13,180)	43,918	67,460	157,381	(66,743)	30,311
Key ratios														
Loss ratio	351%	47%	36%	33%	34%	92%	66%	-4%	24%	-3%	-101%	64%	68%	57%
Commission payable ratio	23%	21%	27%	22%	19%	12%	12%	21%	16%	21%	11%	9%	13%	12%
Management expense ratio	2%	16%	6%	21%	21%	26%	26%	20%	22%	26%	-43%	8%	15%	21%

Loss ratio *(net claims incurred/net earned premium)*
Commission ratio (commissions payable/gross written premium)
Expense ratio *(management expense /gross written premium)*

The revenue account was approved by the Board of Directors on 24 March 2022 and was signed on its behalf by:

Director

Director

Principal Officer