FIRST ASSURANCE COMPANY LIMITED

ANNUAL REPORT

AND FINANCIAL STATEMENTS

31 DECEMBER 2019

FIRST ASSURANCE COMPANY LIMITED
ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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DIRECTORS

Mary Ngige	-	Chairman - Appointed 22 August 2019
Ahmed S Ndope	-	Chairman - Resigned 22 August 2019
Fredrick Ruoro	-	Appointed 6 May 2019
George O Alande	-	Resigned 28 January 2019
Allan Walmsley*		
Jeremy E H Awori		
Laila Macharia		
Karen Miller*		
Norah Odwesso	-	Resigned 31 July 2019

*South African

COMPANY SECRETARY

Wilson K. Murage - Appointed 01 January 2020
Absa Headquarters
First Floor, Waiyaki Way
PO Box 30120 - 00100
Nairobi

Azali Certified Public Secretaries LLP - Resigned 31 December 2019
Hillside Apartments
First Floor, Suite 04
Ragati Rd, Upperhill
PO Box 6219 - 00200
Nairobi

REGISTERED OFFICE

First Assurance House
Clyde Gardens off Gitanga Road, Lavington
PO Box 30064 - 00100
Nairobi

EXECUTIVE COMMITTEE (EXCO)

Fredrick Ruoro	-	Managing Director
Johannes Kitaka	-	Chief Operations Officer
Reuben Bundi	-	Chief Finance Officer
Robert Mbugua	-	Operations Manager – General Underwriting
Hilary Mwangi	-	Operations Manager – Medical Underwriting
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
Joanelose Mwangi	-	Senior Human Resources Business Partner
Charles Wachira	-	Bancassurance Manager
Vincent Ochieng	-	Head of Retail Business
Peter Nuthu	-	Finance Manager

BRANCH MANAGERS

Stephen Biko	-	Branch Manager CBD
Isaac Nguono	-	Branch Manager Kisumu
Stephen Nato	-	Branch Manager Mombasa
Edward Hombe	-	Branch Manager Nakuru

PRINCIPAL OFFICERS

Fredrick Ruoro	-	Appointed 6 May 2019
George O Alande	-	Resigned 28 January 2019

AUDITORS

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

PRINCIPAL LEGAL ADVISORS

Shapley Barret & Co Advocates
Prudential Assurance Building
Wabera Street
PO Box 40286 - 00100 GPO
Nairobi

PRINCIPAL BANKERS

Absa Bank Kenya Plc
Office Park Branch
PO Box 30120 - 00100 GPO
Nairobi

Cooperative Bank of Kenya Plc
Nairobi Business Centre Branch
PO Box 90681 - 80100
Nairobi

NCBA Bank Limited
Junction Branch
PO Box 30437 - 00100 GPO
Nairobi

KCB Bank Kenya Limited
United Mall Branch
PO Box 598 - 40100
Kisumu

CONSULTING ACTUARIES

GENERAL BUSINESS

Zamara Actuaries, Administrators & Consultants Limited
Landmark Plaza, 10th Floor
Argwings Kodhek Road
Opposite Nairobi Hospital
PO Box 52439 Code 00200 City Square
Nairobi

Introduction

It gives me great pleasure to present to you the financial year 2019 annual report and audited financial statements thereof.

Economic and Business Environment

The global growth is forecast at 3.0 percent for 2019 (Q3 World Bank Report). The growth is projected to pick up to 3.4 percent in 2020, primarily projecting improvement in economic performance in a number of emerging markets in Latin America, the Middle East, and emerging and developing Europe that are under macroeconomic strain. However, these projected growths face uncertainty, as most of these countries have projected depressed prospects. There is projected slowdown in China and the United States with much more subdued pace of global activity that could as well materialize.
The Kenyan economy grew by 5.7% in 2019, distinguishing itself as one of the fastest growing sub - Saharan Africa economies. This growth was on the backdrop of stable political and macro - economic environment, and a resilient service sector. Further, the political environment cooled down because of the handshake between the President and his political protagonist, the leader of the opposition party. This change could have cushioned the economy from any deteriorations.

Despite this modest growth, the trickledown effect has not been felt across the whole populace, with many Kenyans still living below the poverty line. Several factors of poverty, poor governance, increasing debt levels and climate change remain key risks to Kenya's economic performance in 2020. A review of key economic indicators demonstrate stability in both exchange rate and inflation. Kenya Bankers Association - Housing price index reported a depressed housing market in 2019 following an interplay between demand and supply coupled with tight credit conditions.
Insurance Industry
The insurance industry continues its depressed performance during 2019. As per 3rd Quarter 2019 IRA report, the General Insurance Business grew by 3.7% to Ksh. 105.2Bn. In the same period, the long-term business grew by 11% to Ksh. 69.7Bn. The depressed market growth has resulted into severe price undercutting leaving little room for innovation and enhanced insurance penetration in the country. top 5 largest classes in the industry were: Medical - 32%, Motor commercial - 17.4%, Motor private - 17.1%, Fire Industrial - 5.0% and Workmen's compensation - 5.1%. From an underwriting results perspective, both Motor private and Motor Commercial deteriorated with a loss of Ksh. 3.2 B and Ksh. 1.2 B respectively. The Medical class showed a marked improvement with a loss of Ksh. 231 M from a loss of Ksh. 1.2 B in the prior year. Industry's investment trends showed an increase in investment in both Government securities and fixed deposits and a drop in all other types of investments. This is expected as insurance companies continue to align their investment approaches to maximizing the Capital Adequacy Ratio.

On 7th November 2019, Finance Bill 2019 was signed into law. Among its other provisions the bill lifted the capping on bank interest rates. Accordingly, it is expected there shall be improved access to credit with the consequent improvement in consumer demand and investment in the country and hence more opportunities for underwriters. At the same time, the national insurer NHIF ran into headwinds in 2019 following corruption allegations, lack of liquidity and more importantly, directive from the Treasury prohibiting them from participating in commercial insurance market. This will increase the size of the of the insurance market for commercial underwriters, as parastatals and County governments seek health insurance solutions from commercial underwriters.

The industry players are expected to meet 200% capital adequacy ratio by end of June 2020. Whether this will trigger mergers and acquisitions is a question that remains answered. This is in line with the risk based capital model, which is now in operation, and industry players must now maintain capital in line with the risks they have underwritten. The adherence to the law is expected to improve risk management in the industry as players become aware of the impact on capital of the operations and investment decisions that they make.

Our Board and Committees

There company has a board that provides strategic direction and takes ultimate responsibility in place. The board is composed of membership with broad and diverse skills that ate useful in providing direction and leadership to the company. The Directors who held office in 2019 are listed on page 1 of this Report. The board has constituted several board committees, whose composition is detailed elsewhere in the report who also performed to expectation and ensured that corporate governance principles were duly complied with during the period under review.

Results and Dividends

The combination of stringent underwriting principles and cost controls in both claims and management expenses saw the company register a turnaround. At the underwriting level, the company registered a marked improvement of an underwriting loss of Kes 24m (A loss of Kshs 522m in prior year. The company reported a profit before tax of Ksh. 169 Million compared to a loss before tax of Kshs 300.3 for the prior year. At the same time, the capital adequacy ratio was 128%, far below the IRA prescribed rate of 150% - 200% by June 2020. To preserve cash flow and build sufficient capital reserves, the board does not recommend the payment of any dividend for the year.

COVID-19 and Business Outlook

WHO declared COVID-19 a pandemic in March 2020. The coronavirus outbreak is first and foremost a human tragedy, affecting hundreds of thousands of people. It is also having a growing impact on the global economy.

The President acknowledged that following the declaration by the World Health Organization (WHO) categorising COVID-19 as a pandemic, it was necessary for the government to make targeted state interventions to mitigate shocks arising from the impact of the pandemic and to empower the public as well as the private sector to work together to support the Kenyan economy during these tough times. The Central Bank of Kenya revised the 2020 GDP expected growth from 6.2% to 3.1% as a result of the COVID-19 pandemic.

This development may necessitate a review of the strategic plan to ensure alignment with the market and economic environment. In the current business environment, the priority is to secure the business and ensure that it emerges from this pandemic successfully, the company has therefore put in place growth and risk management strategies to ensure growth in market share and profitability. Some of the strategies the management are focusing on include intermediary engagement and partnership for profitable business acquisition, embedment of performance management standards across the business for both internal and external stakeholders and removal of all roadblocks towards an efficient customer journey for improved customer delight.

Appreciation

I sincerely that you our shareholders, customers and business associates for your continued support throughout the year. The stability and sustainability of the company would not have been successful without the unwavering support of you my colleagues on the board, for your dedication and contribution in steering the company in the right direction during the difficult times of transition. To the management and staff, we appreciate your resilience and commitment as you worked diligently throughout the year. It is the board commitment for continued support and guidance and support as we play our oversight role over the company operations to ensure that you deliver improved results in the coming year.

Mary Ngige
Chairperson

FIRST ASSURANCE COMPANY LIMITED
MANAGING DIRECTOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

On behalf of the management, it is my pleasure to present the Annual Report and the Financial Statements for the year ended 31st December 2019.

Overview

In 2019, the Kenyan economy was stable, with a 5.7% growth ranking it among the fastest-growing sub-Saharan economies. Despite the favorable economic experience, the General insurance market grew at a slower rate of 3.7% owing to a depressed investment climate and low liquidity as a result of interest rate capping. As has been the trend, the industry was characterized by relentless competition, slow collection of premiums, fraud, and players struggling to break away from the traditional insurance products.

Among the emerging issues in 2019 was the adoption of digital tools to optimize processes, distribution, and customer experience. Key among them was the adoption of digital motor certificates, an industry initiative by Association of Kenya Insurers (AKI). First Assurance is among the early adopters, and we are currently issuing digital motor certificates from the AKI portal. The industry also experienced nationwide attention on Insurance Fraud perpetuated by both Hospitals and Garages.

The investment market was unpredictable despite the political stability experienced in 2019. Capping of the interest rate adversely affected the investment market and the returns reported by the financial players.

On a positive note, we expect macroeconomic stability to continue in 2020 and 2021, with favorable weather, continuing foreign direct investments, and the government's commitment to the big four agenda targeting Health care, Housing, Manufacturing, and Food security.

Industry Performance

The industry grew by 3.7% in 2019 as per IRA 3rd quarter report.. Adjusting for inflation, which was 5.2% in 2019, the insurance industry had real negative growth. The industry's loss ratio deteriorated by 1% to 65%. This performance was as a result of uncontrolled competition leading to poorly priced risks, poor investment returns, fraud, and high management expenses. In the same period, our revenues dropped by 3%, but we defied industry profitability trends by growing our profitability from a loss of Ksh. 300 Million in 2018 to a profit before tax of Ksh. 169 Million.

Company performance

In 2019, our revenues shrunk by 3% to Ksh. 3.6 Billion as a result of risk remediation exercise undertaken by the management, which saw some of our customers move to our competition attracted by lower premiums leading to a renewal premium of Ksh. 2.4 Billion, a renewal rate of 64%. The business generated new business worth Ksh. 1.2 Billion underlying our continued ability to onboard new customers through improved customer experience and leveraging on our relationship with intermediaries and strategic partners such as Absa Bank Kenya Ltd. In the same period, the company reported a profit before tax of Ksh. 169 Million, a remarkable improvement when compared to 2018, as highlighted above. These outcomes are in line with our objective to grow the business profitably and sustainably.

In 2019, our loss ratio improved to 58% from the prior year's 74%. The improvement was as a result of risk remediation exercise undertaken by the management, together with various claim cost management initiatives.

A review of our product classes demonstrates an improvement in loss ratio amongst our key product classes, Motor private - 84% to 64%, Motor commercial - 86% to 56%, and Medical - 79% to 72%. Majority of our product classes shrunk as the management focused more on proper pricing and underwriting practices. Towards the end of the year, the revenue growth turned positive as management onboarded several new intermediaries who subscribe to the concept of profitable growth and prudent underwriting.

Claim cost management was another key focus area in 2019. Our objective was to manage the claims process to improve customer experience and minimize leakages. Among the critical achievements we had in this area are Automation of salvage disposal process, sourcing of parts directly from part suppliers, effective inhouse third party claims negotiations that led to savings on legal fees, and higher court awards. On the medical claim cost containment, we conducted various health education clinics to our members in conjunction with our partners and negotiated favorable rates and discounts from our providers. First Assurance remains a key participant in an industry-wide initiative by AKI to manage medical cost of claims and reduce medical fraud.

The implementation of ICARUS, a process Re-engineering initiative to improve controls and modernize our processes, is underway. The targeted functions are Finance, Underwriting, and Claims. The implementation of ICARUS was in two phases. Phase 1 is complete, and the implementation of phase 2 is underway. At its conclusion, ICARUS will enable automation of several manual processes and the establishment of more robust and dependable processes in the three functions. In 2019, our General Business went paperless after implementing an Electronic Document Management system (EDMS) and workflow process management system. We now have efficient access to documents and can serve our customers quicker and more effectively. In 2020, we plan to cascade EDMS and workflow to our health

Our employees are vital to execution and achievement of our strategic objectives, and their engagement is critical. We have continued to employ various initiatives to maintain their commitment at very high levels, including but not limited to diverse recognition methods, training, and creating an open environment where they can work and express themselves freely towards building a better company.

Corona Virus (Covid-19)

The first case of Covid-19 was reported in Kenya in Kenya in March. To tame its spread, the Government and citizenry have responded vigorously, shutting down international flights, public and private gatherings and entertainment spots. In these trying moments, our top priority is the health of our staff, their families and our customers. To avoid unnecessary movements, we have enabled all key staff to work from home. We have issued our105 out of 135 employees with laptops and remote access to all business systems - Premia, email, Electronic document management systems and Smart applications. As at date of this report, 85 members of staff out of 135 have been working from home with minimal impact on productivity. The social distance in our business is in excess of 3 meters. Should the government go for a total lockdown, the Management is confident that we will be able to serve our customers effectively on phone and email from home. From a hygiene perspective, dand sanitizers have been issued to all of our offices country wide and more critical the Management has emphasized the essence of washing hands regularly. We have also adopted Group and Government standards for self-isolation, quarantine, and reporting of COVID-19.

COVID-19 is a very recent occurrence and as at the date of this report its indirect effects on our revenues and profitability are yet to be felt. However, the impact on both Marine insurance and Travel insurance has been dramatic. As the effects of COVID on the economy evolve, we expect a natural drop in aggregate demand across the entire economy from which the insurance industry is not exempt. To secure our position, the Management has rallied the entire staff to improve our customer experience to retain our existing customers. In uncertain times, people refrain from making decisions that could potentially introduce more uncertainty into their business and personal lives. This includes decisions to change underwriters or make significant investments. The implication is that in the foreseeable future, there will be fewer new business opportunities than anticipated during our budgeting process. This development may necessitate a review of the strategic plan to ensure alignment with the market and economic environment. Therefore, delivering outstanding customer experience through digital channels is a critical business imperative to aid sailing through these turbulent times.

Outlook.

Before COVID-19, the future economic outlook was positive with regular rainfall, coupled with stable political and macro-economic environment. It was also expected that there will be an improvement in liquidity and access to credit following repeal of the law capping interest rates. Arrival of Covid-19 has cast a long shadow on the positive outlook the economy had with an expected shrinkage in aggregate demand, loss of employment and several businesses shutting down.

In the circumstance, the management's priority is to secure the business and ensure that it emerges from this pandemic successfully. Our staff are secure working from home. Our business processes remain effective and efficient through digital enablement. We are focused on renewing our existing customers through improved customer experience and accessibility via digital channels. We continue engaging our intermediaries remotely to secure the few new business opportunities available in the market.

2020 is our first year of the Five years Strategic plan approved by the board whose fundamental theme is profitable growth through outstanding customer experience and dependable relationships with our partners and customers. To this end, we will continue seeking opportunities to grow our intermediary footprint and bancassurance production. We will also continue to work on improving and automating our business processes through the ICARUS process. We will also actively seek opportunities to work closely with the industry and market players to deliver value through insurance.

Appreciation

I wish to sincerely thank our Customers, Intermediaries, and Business partners for their continuing trust, loyalty, and support. Finally, I am grateful to the leadership team and all members of staff in First Assurance for their vital contribution in 2019.

I also extend my gratitude to my fellow Directors for their continued commitment to First Assurance Company Ltd.

Fredrick Ruoro
Managing Director

Date: 10 March 2020

Introduction

First Assurance Company Limited 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 the 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, 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 of 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 competence 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 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 and 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 supposed 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 performance of the Company in all areas of operation to enable them carry out their roles. Four Board meetings were held in the year and the attendance was as follows

Director	12/03/2019	14/05/2019	22/08/2019	27/11/2019
Mary Ngige	×	×	✓	×
Ahmed Ndope	✓	✓	✓	×
Fredrick Ruoro	×	✓	✓	×
Allan Walmsley	✓	✓	×	×
Karen Miller	✓	✓	✓	×
Jeremy H Awori	✓	✓	×	×
Laila Macharia	×	✓	✓	×
Norah Odwesso	✓	×	×	×

✓ Present
× Absent

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 committee which is charged with the responsibility of advising on audit and compliance issues of the Company. It is chaired by a non-executive director. The members of the Committee for the year 2019 were Allan Walmsley (chair), Karen Miller and Norah Odwesso. The committee meets quarterly.

Investment and asset liability Committee

The investment committee comprises of three members, two of whom are non-executive Directors. It meets frequently as required but at least once a month. It reviews the Company's investment strategy and monitors the performance of the investment portfolio. It is chaired by a non-executive Director. The committee advises the Board on investment proposals. The members of the committee for the year 2019 were Laila Macharia (chair), Ahmed Ndope and Mary Ngige.

Governance and nomination Committee

The Human Resources Committee is headed by a non-executive Director and is responsible for all staff matters as well as appointments to the Board and the general overall policy. First Assurance recognizes that its prime resource is its employees. It is upon their commitment and effort that the Company depends for its continuity and growth. The Committee monitors staff development. The current members are Mary Ngige (chair) and Jeremy Awori. The Committee meets quarterly.

Company secretary

The Company secretary is assessable to all Board members and is responsible for ensuring that all Board procedures are followed and statutory returns filed. 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 44(c) of

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 authority for transactions and compliance with laws and regulations that have significant financial implications. They are designed to ensure materials errors are prevented or detected within a reasonable time. The procedures also ensure physical controls of 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.

Employees' welfare

Management and employees' relationship

There has been good relationship between employees and management for the year 2019. There were no unresolved complaints received by management from the 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 like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties.

The Company had 137 employees as at 31 December 2019, out of which 58 were female and 79 were male (2019: 133 employees, 57 female and 76 male).

Medical assistance

The Company has a medical insurance which covers both inpatient and outpatient expenses for members of staff and their dependants. The Company also has a group personal accident and group life cover for members of staff where we have insured our staff against injury or death to mitigate them and their dependants in case of such eventuality.

Health and safety

The Company has a strong health and safety department which ensure that a strong 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.

Employees benefit plan

The Company pays contributions to staff pension scheme and all members of staff are eligible to join after confirmation. The scheme is a defined benefit scheme which is run by an independent fund manager; custodian and administrator in accordance with the Retirement Benefits Authority rules. The Company also pays contributions to the National Social Security Fund which is a defined contribution scheme.

Shareholding

The shareholders of the Company as at 31 December 2019.

Name	%
First Assurance Holdings Limited	63.32
First Assurance Investments Limited	16.98
Syndicate Nominees Limited	12.35
Stephen Githiga	4.00
Barclays Pension Services Limited	0.84
Epoch Investments Limited	0.84
Chandaria Ventures Limited	1.67
Total	100

Mary Ngige
Chairperson

Fredrick Ruoro
Managing Director

FIRST ASSURANCE COMPANY LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors have pleasure in presenting their report together with the audited separate financial statements of First Assurance Company Limited (the "Company") for the year ended 31 December 2019, which show their state of financial affairs.

1. PRINCIPAL ACTIVITIES

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

2. RESULTS

The results for the year are presented below.

	General business	Life business 2019	Total	General business	Life business 2018	Total
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Profit before taxation	169,687	17,173	186,860	(299,991)	37,185	(262,806)
Taxation charge	(60,044)	(5,702)	(65,746)	100,324	(13,108)	87,216
Profit for the year	109,643	11,471	121,114	(199,667)	24,077	(175,590)

3. DIVIDENDS

No interim dividend was paid in 2019 (2018: KShs 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 2019, the Company performed well due to improved performance of medical and workmen's compensation classes of business. These results are as a result of measures the Board and Management have put in place measures to turn around the Company's results in terms of cost containment and growing a profitable top line. The business performance is as reported in the Managing Director's report.

Increased uncertainties in the global markets and the prevailing political situation in Kenya are likely to affect the projections for growth and inflation. The weak economic growth has been due to declining private sector credit growth which has impacted businesses negatively. Principal risks and uncertainties facing the Company are as per note 5 to the financial statements.

The Life assurance division was discontinued on 30 June 2019 and transferred to Absa Life Assurance Limited formerly Barclays Life Assurance Limited.

6. EMPLOYEES

The Company had 137 employees as at the end of 31 December 2019 (31 December 2018: 133). These comprise 29 from underwriting, (2018: 24), 18 from Claims & department (2018: 18), 14 from Finance department (2018: 9), 24 from Medical (2018: 24) and 52 from Business Development, Branches, Risk and Compliance, Human Resource department and Support staff (2018: 58).

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 the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

8. TERMS OF APPOINTMENT OF THE AUDITOR

Ernst & Young LLP was appointed during the year and continues in office in accordance with the company's Articles of Association and Section 719 of the Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditor. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration 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 10 March 2020.

BY ORDER OF THE BOARD

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

....
Wilson K. Murage
Company Secretary

Date: 10 March 2020

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

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

Approved by the board of directors on 10 March 2020 and signed on its behalf by:

Mary Ngige
Chairperson

Laila Macharia
Director

Wilson K. Murage
Company Secretary

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

Date: 10 March 2020

FIRST ASSURANCE COMPANY LIMITED
REPORT OF THE CONSULTING ACTUARY GENERAL INSURANCE BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2019

I have conducted an actuarial valuation of the General Insurance Business of First Assurance Company Limited entity as at 31 December 2019.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Kenyan Insurance Act (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 2019.

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

Date: 10 March 2020

EY
Building a better working world

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LLP/2015/52

INDEPENDENT AUDITOR'S REPORT
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 19 to 96, which comprise the statement of financial position as at 31 December 2019, 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 accompanying financial statements present fairly, in all material respects, the financial position of First Assurance Company Limited as at 31 December 2019, 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 (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya and we have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of First Assurance Company Limited for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 12 March 2019.

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 Matters (continued)

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>Allowance for expected credit losses</td><td></td></tr>
<tr><td>
The expected credit losses on financial assets carrier at amortised cost are determined under 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 loan, deposits with financial institutions, deposits and commercial papers, corporate bonds 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.

</td><td>
Our audit procedures included the following:

We assessed and tested the design and operating effectiveness of the controls over the:
<ol type="i">
data used to determine the expected credit losses on financial assets carried at amortised cost.
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:
<ol type="i">
key modelling assumptions adopted by the Company;
basis for and data used to determine overlays; and
sensitivity of the collective provisions to changes in modelling assumptions.

In addition, we assessed the adequacy of the disclosures in the financial statements.

</td></tr>
<tr><td>Accounting for discontinued operations</td><td></td></tr>
<tr><td>
During 2019, the company transferred all the assets and liabilities of the life line of business to ABSA Life Assurance Kenya Limited as at 1 July 2019 with no consideration. The Life business being presented as discontinued operations in the financial statements. The details of assets and liabilities transferred are further described in note 17 Discontinued operations. One effect of this is that these operations have been separately presented from continuing operations in the income statement with comparative numbers represented accordingly. Accounting for discontinued operations requires management's judgment and estimates in identifying and separating the financial effects from continuing and discontinued operations as well as assessing if the criteria in IFRS are fulfilled to account for discontinued operations.
</td><td>
Our audit procedures included, but were not limited to:

assessing company's policies and procedures for accounting for discontinued operations in compliance with IFRS,
assessment of the financial effects from the discontinued operations and that they have been appropriately separated from continuing operations, and
assessing the adequacy of the disclosures in the financial statements.

</td></tr>
</table>

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Key Audit Matters (continued)

Estimation of Insurance contract liabilities	
As disclosed in note 37 in the financial statements, Insurance contract liabilities amounted to KShs 1.99 Billion as at 31 December 2019 and constituted 45% 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 and Statement of Director's Responsibilities 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.

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of 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.

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

Ernst & Young

Nairobi, Kenya

31 March 2019

T ASSURANCE COMPANY LIMITED
TEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
THE YEAR ENDED 31 DECEMBER 2019

	Notes	General Insurance business KShs' 000	Life assurance Business** KShs' 000	2019 KShs' 000	General Insurance business KShs' 000	Life assurance Business** KShs' 000	Restated Total 2018 KShs' 000
s written premiums	7(a)	3,672,369	93,236	3,765,605	3,789,808	109,189	3,898,997
s earned premiums	7(a)	3,705,722	93,236	3,798,958	3,642,587	109,189	3,751,776
: reinsurance premiums ceded	7(b)	(1,487,948)	(83,247)	(1,571,195)	(1,607,306)	(88,673)	(1,695,979)
earned premiums		2,217,774	9,989	2,227,763	2,035,281	20,516	2,055,797
missions earned	8(a)	324,394	20,812	345,206	316,691	22,205	338,896
est revenue calculated using the effective interest method	9(a)	166,060	15,351	181,411	169,024	36,486	205,510
r investment income	9(b)	17,478	600	18,078	12,805	1,200	14,005
r gains and losses	9 (c)	65	-	65	354	-	354
ign exchange gains/(losses)	10	521	-	521	(185)	-	(185)
value loss on financial assets at fair value through profit or	11	3,084	-	3,084	277	-	277
value gains on investment property	20	-	-	-	40,000	4,000	44,000
l income		2,729,376	46,752	2,776,128	2,574,247	84,407	2,658,654
s claims incurred	12	2,210,742	152,455	2,363,197	2,606,101	181,534	2,787,635
claims recoverable from reinsurers		(928,609)	(138,694)	(1,067,303)	(1,109,154)	(157,198)	(1,266,352)
claims incurred	12	1,282,133	13,761	1,295,894	1,496,947	24,336	1,521,283
missions payable	8(b)	448,270	7,385	455,655	467,527	8,497	476,024
rating and other expenses	13	902,592	8,433	911,025	828,452	28,060	856,512
cted credit loss allowance (write back)/ expense	14	(73,306)	-	(73,306)	81,312	(13,671)	67,641
l expenses		2,559,689	29,579	2,589,268	2,874,238	47,222	2,921,460

T ASSURANCE COMPANY LIMITED
TEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)
THE YEAR ENDED 31 DECEMBER 2019

	Notes	General Insurance business KShs' 000	Life assurance Business** KShs' 000	2019 KShs' 000	General Insurance business KShs' 000	Life assurance Business** KShs' 000	Restated Total 2018 KShs' 000
it/(loss) before taxation		169,687	17,173	186,860	(299,991)	37,185	(262,806)
tion (credit)/charge	16	(60,044)	(5,702)	(65,746)	100,324	(13,108)	87,216
it/(loss) for the year		109,643	11,471	121,114	(199,667)	24,077	(175,590)
r comprehensive income:							
s that will not be reclassified to profit or loss							
easurement effects on retirement benefit asset recognised in r comprehensive Income	22	24,968	-	24,968	(49,876)	-	(49,876)
lus on revaluation of freehold land and buildings	18	4,640	-	4,640	10,000	-	10,000
ss depreciation transfer		-	-	-	1,000	-	1,000
relating to components of other comprehensive income		(8,883)	-	(8,883)	11,663	-	11,663
r comprehensive income or the year net of tax		20,725	-	20,725	(27,213)	-	(27,213)
l comprehensive income/(loss) for the year		130,368	11,471	141,839	(226,880)	24,077	(202,803)

ee note 17 on Discontinued Operation.

rtain figures shown here do not correspond to the 2018 financial statements and reflect adjustments made as detailed in note 46

ST ASSURANCE COMPANY LIMITED
TEMENT OF FINANCIAL POSITION
31 DECEMBER 2019

	Notes	2019 General Insurance business KShs '000	2018 Restated* General Insurance business KShs '000	2018 Life assurance Business** KShs '000	2018 Restated* Total KShs '000	1 January 2018 Restated* General Insurance business KShs '000	1 January 2018 Life assurance Business** KShs '000	1 January 2018 Restated* Total KShs '000
ETS								
erty and equipment	18	471,200	393,846	82,002	475,848	391,215	78,009	469,224
ngible assets	19	64,502	68,629	-	68,629	85,177	-	85,177
stment property	20	1,450,000	1,450,000	-	1,450,000	1,410,000	-	1,410,000
t of Use Asset	21(a)	22,327	-	-	-	-	-	-
rred tax asset	39	118,600	187,527	-	187,527	16,186	-	16,186
ement benefit asset	22	21,914	1,493	-	1,493	50,243	-	50,243
y investments at fair value		-	-	-	-	14,054	-	14,054
rred acquisition costs	24	157,663	188,510	-	188,510	162,891	-	162,891
a Motor Insurance Pool	25	36,576	33,492	-	33,492	33,132	-	33,132
ecoverable	16(c)	63,333	63,333	-	63,333	62,990	-	62,990
ivables arising out of direct insurance ngements	5(ii)	461,086	462,115	10,046	472,161	428,342	27,496	455,838
ivables arising out of reinsurance arrangements	5(ii)	199,573	217,069	15,252	232,321	231,000	-	231,000
surers' share of insurance liabilities	26	1,198,374	1,471,782	207,382	1,679,164	1,100,125	156,505	1,256,630
r receivables	27	96,511	64,997	-	64,997	103,703	22,353	126,056
orate bonds	28	20,785	29,467	-	29,467	46,278	-	46,278
rnment securities	29	1,141,673	1,253,518	293,470	1,546,988	1,337,861	257,397	1,595,258
sits with financial institutions	30	447,393	291,944	60,167	352,111	245,716	53,427	299,143
and bank balances	41(b)	123,279	133,276	23,179	156,455	54,135	18,230	72,365
assets		6,094,789	6,310,998	691,498	7,002,496	5,773,048	613,417	6,386,465

T ASSURANCE COMPANY LIMITED
TEMENT OF FINANCIAL POSITION (Continued)
31 DECEMBER 2019

	Notes	2019 General Insurance business KShs '000	2018 Restated* General Insurance business KShs '000	2018 Life assurance Business** KShs '000	2018 Restated* Total KShs '000	1 January 2018 Restated* General Insurance business KShs '000	1 January 2018 Life assurance Business** KShs '000	1 January 2018 Restated* Total KShs '000
TY (Page 24)								
e capital	32	810,000	660,000	150,000	810,000	660,000	150,000	810,000
e premium	32	512,138	512,138	-	512,138	512,138	-	512,138
luation surplus	33	260,113	256,865	-	256,865	249,165	-	249,165
utory reserve	35	-	-	182,486	182,486	-	158,409	158,409
ined earnings		91,129	114,009	-	114,009	348,589	-	348,589
l equity		1,673,380	1,543,012	332,486	1,875,498	1,769,892	308,409	2,078,301
ILITIES								
rance contract liabilities	37	1,994,207	2,226,238	232,363	2,458,601	1,843,498	174,919	2,018,417
rned premium provision	38	1,302,475	1,473,452	-	1,473,452	1,256,398	-	1,256,398
tional unexpired Risk reserve	45	36,127	89,253	-	89,253	31,367	-	31,367
rred tax liability	39	-	-	93,931	93,931	-	82,777	82,777
bles arising from reinsurance Arrangements		277,738	467,857	-	467,857	544,083	36,365	580,448
r payables	40	222,305	243,176	30,765	273,941	267,810	10,280	278,090
to related parties	44(d)	564,391	268,010	-	268,010	60,000	-	60,000
e Liability	21(b)	24,166	-	-	-	-	-	-
payable	16(c)	-	-	1,953	1,953	-	667	667
liabilities		4,421,409	4,767,986	359,012	5,126,998	4,003,156	305,008	4,308,164
equity and liabilities		6,094,789	6,310,998	691,498	7,002,496	5,773,048	613,417	6,386,465

financial statements were approved and authorised for issue by the Board of Directors on 10 March 2020 and were signed on its behalf by:

iscontinued Operation
ertain figures shown here do not correspond to the 2018 financial statements and reflect adjustments made as detailed in note 46

Ngige
rperson

Laila Macharia
Director

Fredrick Ruoro
Principal Officer

FIRST ASSURANCE COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital KShs '000	Share premium KShs '000	Revaluation surplus KShs '000	Statutory reserve** KShs '000	Retained earnings KShs '000	Tot KShs '00
At 31 December 2017	810,000	512,138	249,165	191,243	462,393	2,224,93
Adjustment on initial application of IFRS 9	-	-	-	(32,834)	(197,847)	(230,681
Related tax	-	-	-	-	59,354	59,35
Effect of correction of prior period errors	-	-	-	-	26,627	26,62
Deferred tax on correction of prior period errors	-	-	-	-	(1,938)	(1,93
Restated balance at 1 January 2018	810,000	512,138	249,165	158,409	348,589	2,078,30
Changes in equity in 2018						
Profit for the year	-	-	-	24,077	(199,667)	(175,59
Other Comprehensive Income						
Remeasurement of retirement benefit obligation	-	-	-	-	(49,876)	(49,87
Surplus on revaluation of freehold land and buildings	-	-	11,000	-	-	11,00
Related tax	-	-	(3,300)	-	14,963	11,66
Total comprehensive income for the year	-	-	7,700	24,077	(234,580)	(202,80
At 31 December 2018	810,000	512,138	256,865	182,486	114,009	1,875,49
At 1 January 2019	810,000	512,138	256,865	182,486	114,009	1,875,49
Changes in equity in 2019						
Profit for the year	-	-	-	11,471	109,643	121,11
Other Comprehensive Income						
Re-measurement of retirement benefit obligation	-	-	-	-	24,968	24,96
Surplus on revaluation of freehold land and Buildings	-	-	4,640	-	-	4,64
Related tax	-	-	(1,392)	-	(7,491)	(8,88
Total comprehensive income for the year	-	-	3,248	11,471	127,120	141,83
	810,000	512,138	260,113	193,957	241,129	2,017,33
Equity transfer	-	-	-	-	(150,000)	(150,00
Transfer to ALAK	-	-	-	(193,957)	-	(193,95
	-	-	-	(193,957)	(150,000)	(343,95
At 31 December 2019	810,000	512,138	260,113	-	91,129	1,673,38

FIRST ASSURANCE COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

Life assurance business*

2018	Share capital KShs '000	Statutory reserve** KShs '000	Total KShs '000
At 31 December 2017	150,000	191,243	341,243
Adjustment on initial application of IFRS 9	-	(32,834)	(32,834)
Restated balance at 1 January 2018	150,000	158,409	308,409
Changes in equity in 2018			
Profit for the year	-	24,077	24,077
At 31 December 2018	150,000	182,486	332,486
2019			
At 31 December 2018	150,000	182,486	332,486
Profit for the period	-	11,471	11,471
Transfer to Barclays Life Assurance Kenya	(150,000)	(193,957)	(343,957)
At 31 December 2019	-	-	-

** See note 17 on Discontinued Operation.

T ASSURANCE COMPANY LIMITED
TEMENT OF CASH FLOWS
THE YEAR ENDED 31 DECEMBER 2019

		General insurance business KShs' 000	Life Life assurance Business** KShs' 000	2019 KShs' 000	General insurance Business* KShs' 000	Life assurance Business** KShs' 000	Total 2018 KShs' 000
flows from operating activities							
generated from/ (used in) operations	42(a)	133,465	(6,175)	127,290	36,424	52,420	88,844
tion paid	16(c)	-	-	-	(343)	(667)	(1,010)
ash flows generated from/ (used in) operating activities		133,465	(6,175)	127,290	36,081	51,753	87,834
flows from investing activities							
hase of property and equipment	18	(91,277)		(91,277)	(9,131)	-	(9,131)
hase of intangible asset	19	(11,237)		(11,237)	(249)	-	(249)
eeds from disposal of property and equipment		-		-	3,504	-	3,504
novement in government securities		111,243	17,279	128,522	78,885	(37,145)	41,740
mption in corporate bonds		9,058		9,058	15,080	-	15,080
novement in fixed deposits maturing after 90 days		(228,986)	-	(228,986)	(110,334)		(110,334)
eeds from disposal of equity investments		-	-	-	13,971	-	13,971
ash flows generated from/ (used in) investing		(211,199)	17,279	(193,920)	(8,274)	(37,145)	(45,419)
ash flows used in financing activities							
nent of interest on lease liabilities		(2,992)	-	(2,992)	-	-	-
yment of principal portion of lease liability		(2,808)	-	(2,808)	-	-	-
sfer of cash to BLAK		-	(94,450)	(94,450)	-	-	-
ash flows used in financing activities		(5,800)	(94,450)	(100,250)	-	-	-
ncrease /(decrease) in cash and cash equivalents		(83,534)	(83,346)	(166,880)	27,807	14,608	42,415
and cash equivalents at 1 January		314,886	83,346	398,232	287,079	68,738	355,817
and cash equivalents at 31 December	42(b)	231,352	-	231,352	314,886	83,346	398,232

See note 17 on Discontinued Operation.

ertain figures shown here do not correspond to the 2018 financial statements and reflect adjustments made as detailed in note 46

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
PO Box 30064 - 00100
Nairobi

The separate financial statements of the Company as at and for the year ended 31 December 2019 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) and in the manner required by the Kenyan 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 the Kenyan Companies Act, 2015 reporting purposes, 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

New standards, amendments and interpretations effective and adopted during the year

The company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard and amendment is described below.

	Effective for accounting period beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
.IP IFRS 3 Business Combinations - Previously held Interests in a joint operation	1 January 2019
AIP IFRS 11 Joint Arrangements - Previously held Interests in a joint operation	1 January 2019
AIP IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity	1 January 2019
AIP IAS 23 Borrowing Costs - Borrowing costs eligible for capitalization	1 January 2019

Except for the adoption IFRS 16 Leases as discussed below, all the other amendments and annual improvements did not have an impact on the entity.

IFRS 16, 'Leases'

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Company has lease contracts for various branches. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as operating leases. Refer to Note 3(t) for the accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases. Refer to Note 3(t) for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases. The right-of-use assets were recognised based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) New standards, amendments and interpretations (continued)

New standards, amendments and interpretations effective and adopted during the year (continued)

IFRS 16-Leases (continued)

Impact on financial statements

On transition to IFRS 16, the right-of-use assets were recognised based on the amount equal to the lease liabilities. The Impact on transition is summarised below.

	01-Jan-19
	KShs '000
Right-of-use assets	26,974
Long term lease liability	26,974
Short term lease liability	-

When measuring lease liabilities for leases classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019.

The incremental borrowing rate used was 13.88%.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows: -

	KShs '000
Operating lease commitments at 31 December 2018	37,897
Weighted average incremental borrowing rate as at 1 Jan 2019	13.88%
Discounted operating lease commitments as at 1 Jan 2019	26,974
Less: Commitments relating to short term leases	-
Commitments relating to leases of low value	-
Add: Lease payments relating to renewal period not included in operating lease commitments as at 31 December 2018	-
Lease liabilities as at 1 Jan 2019	26,974

As a lessor

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. However, if the company has a lease and a non-lease component this would be accounted for differently. The company leases did not have any non- lease component as a result IFRS 16 did not have an impact for leases where the company is the lessor.

Standards issued but not yet effective:

	Effective for accounting period beginning on or after
Amendments to IFRS 3: Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
The Conceptual Framework Financial Reporting	1 January 2020
IFRS 17 Insurance contracts	1 January 2021
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or indefinitely Joint Venture	Effective date deferred indefinitely

The above new standards and amendments to existing standards issued but not yet effective are not expected to have an impact except for IFRS 17 Insurance contracts and Amendments to IAS 1 and IAS 8: Definition of Material.

IAS 1 and IAS 8 Definition of Material

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) New standards, amendments and interpretations (continued)

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also add the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.
The company is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

(b) New Standards, New Interpretations and Amendments to Standards adopted in the current period

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 *Insurance Contracts*. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short- duration which typically applies to certain non-life insurance contracts.

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

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non- distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) New Standards, New Interpretations and Amendments to Standards adopted in the current period (Continued)

The Company has started a project to implement IFRS 17, which is currently being done in phases the first is the change in the software currently being used .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.

(c) Insurance contracts

The Company issues insurance contracts which are classified in to two main categories:

(i) *Long term insurance business*

Under this classification, the Company offers group life contracts.

(ii) *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 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

A proportion of commissions' payable 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

(i) 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.

(ii) 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.

Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recognised in profit or loss.

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 whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recognised in profit or loss.

(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.

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)

(l) 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 2019 and 31 December 2018. 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)

(o) 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).

(p) 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)

(p) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial instruments (continued)

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

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 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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial instruments (continued)

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.

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)

(p) 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.

(q) 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.

(r) Other financial liabilities and insurance contract liabilities

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit or loss. Subsequently, all financial pension liabilities are carried at amortised cost using the effective interest method except for financial liabilities at fair value through profit or loss which are carried at fair value.

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)

(s) 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.

(t) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

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.
This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

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. These relate to leases of printing equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Leases (continued)

As a lessee (continued)

The Company previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, 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.

Policy applicable before 1 January 2019

As a lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

As a lessor

Where the Company is the lessor, and the lease is a finance lease, the leased asset is not held on the statement of financial position; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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.

(v) 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.

(w) Employee Benefits

Defined contributions provident fund

The Company operates a defined contribution post-employment providen 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Provision

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.

(y) 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.

(z) Dividends

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

(cc) 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 and insurance receivables. 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 18 and 20 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 127% 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:

	2019 KShs '000	2018 KShs '000
Share capital	810,000	810,000
Share premium	512,138	512,138
Revaluation reserve	260,113	256,865
Retained earnings	-	73,997
Statutory reserve	91,129	182,486
	1,673,380	1,835,486

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

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

(a) General insurance business:	2019			2018		
	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	709,479	11,987	697,492	849,799	19,759	830,040
Fire	60,023	20,341	39,682	131,236	69,533	61,703
Workmen's compensation	20,960	39,072	(18,112)	68,763	5,593	63,170
Marine	16,491	(2,630)	19,121	49,698	11,744	37,954
Engineering	118,263	82,992	35,271	248,776	223,493	25,283
Other	1,285,526	776,847	508,679	1,257,829	779,032	478,797
	2,210,742	928,609	1,282,133	2,606,101	1,109,154	1,496,947
(b) Life assurance business:						
Insurance contracts with fixed and guaranteed terms:						
Death, maturity and surrender benefits	-	-	-	181,534	157,198	24,336
	2,210,742	928,609	1,282,133	2,787,635	1,266,352	1,521,283

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, (the long-term insurance contracts was discontinued in June 2019) 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;

	2019	2018
Net short-term insurance liabilities-property risk	2.0years	2.0years
Net short-term insurance liabilities-casualty risk	2.0years	2.0years
Financial assets (excluding equity securities)	3.0years	3.0years

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

(c) Insurance risk (continued)

General insurance Business: Financial assets	2019 KShs '000	2018 KShs '000
Government bonds and treasury bills	1,141,673	1,253,518
Corporate bonds	20,785	29,467
Equity securities - at fair value through profit or loss:		
- Listed securities	-	-
Other receivable (Note 27)	22,678	31,579
Receivables arising from direct insurance arrangements	461,086	462,115
Receivables arising from reinsurance arrangements	199,573	217,069
Cash and bank balances	123,279	133,276
Deposits with financial institutions	447,393	291,944
Total	2,416,467	2,418,968

General insurance business

Financial liabilities		
Insurance contracts- short term	1,994,437	2,226,238
Payables arising from reinsurance arrangements	277,738	467,857
Less assets arising from reinsurance contracts (held-short term)	(634,955)	(937,004)
Total	1,637,220	1,757,091

Life assurance business:	2019	2018
Financial assets	KShs '000	KShs '000
Government bonds and treasury bills	-	293,470
Receivables arising from direct insurance arrangements	-	10,046
Receivables arising from reinsurance arrangements	-	15,252
Cash and bank balances	-	23,179
Deposits with financial institution	-	60,167
Total	-	402,114
Financial liabilities		
Insurance contracts- short term	-	232,363
contracts (held-short term)	-	(207,382)
Total	-	24,981

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 2019 and 2018:

General insurance Business:	Carrying amount 31.12.2019 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	1,141,673	997,912	30,932	17,339	-	157,247
Corporate bonds	20,785	20,785	-	-	-	-
Other receivables	22,678	1,578	6,982	10,680	3,438	-
Receivables from insurance contracts	461,086	461,086	-	-	-	-
Receivables from reinsurance contracts	199,573	199,573	-	-	-	-
Cash, bank balances and deposits	570,672	570,672	-	-	-	-
Total	2,416,467	2,251,606	37,914	28,019	3,438	157,247
Financial liabilities						
Insurance contracts-short term	1,994,437	1,395,885	319,060	159,530	79,764	39,882
Payables arising from reinsurance arrangements	277,738	277,738	-	-	-	-
Less assets arising from reinsurance contracts	(634,955)	(444,398)	(101,577)	(50,788)	(25,394)	(12,697)
Total	1,637,220	1,229,225	217,483	108,742	54,370	27,185
Difference in contractual cash flows	779,247	1,022,381	(179,569)	(80,723)	(50,932)	130,062

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 2018:

General insurance Business:	Carrying amount 31.12.2018 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	1,253,518	1,088,594	56,944	41,121	14,959	223,433
Corporate bonds	29,467	13,015	22,550	-	-	-
Other receivables	31,579	14,505	11,397	6,907	1,727	-
Receivables from insurance contracts	462,115	462,115	-	-	-	-
Receivables from reinsurance contracts	217,069	217,069	-	-	-	-
Cash, bank balances and deposits	425,220	425,220	-	-	-	-
Total	2,418,968	2,220,518	90,891	48,028	16,686	223,433
Financial liabilities						
Insurance contracts-short term	2,226,238	1,558,120	356,142	178,071	89,035	44,517
Payables arising from reinsurance arrangements	467,857	467,857	-	-	-	-
Less assets arising from reinsurance contracts	(937,004)	(653,762)	(151,063)	(75,531)	(37,766)	(18,883)
Total	1,757,091	1,372,215	205,079	102,540	51,269	25,634
Difference in contractual cash flows	661,877	848,303	(114,188)	(54,512)	(34,583)	197,799

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

(a) Insurance risk (Continued)

Life assurance business:	Carrying amount 31.12.2018 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	293,470	254,859	13,332	9,627	3,502	52,309
Receivables from insurance contracts	10,046	10,046	-	-	-	-
Receivables from reinsurance contracts	15,252	15,252	-	-	-	-
Cash, bank balances and deposits	83,346	83,346	-	-	-	-
Total	402,114	363,503	13,332	9,627	3,502	52,309
Financial liabilities						
Insurance contracts-short term	232,363	162,628	37,172	18,586	9,293	4,647
Less assets arising from reinsurance contracts	(207,382)	(145,935)	(33,697)	(16,044)	(7,512)	(4,194)
Total	24,981	16,693	3,475	2,542	1,781	453
Difference in contractual cash flows	377,133	346,810	9,857	7,085	1,721	51,856

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 2019					
Average Claim Cost	+10/-10	221,074	128,213	92,861	65,003
Average number of claims	+10/-10	198,967	115,392	83,575	58,503
31 December 2018					
Average Claim Cost	+10/-10	260,610	149,695	110,915	77,641
Average number of claims	+10/-10	234,549	134,725	99,824	69,877

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 ratesThe Company is not exposed interest rate risk as it engages primarily on the investments in fixed interest securities Which are held at amortised cost.

(d) 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 (2018: 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 2019, 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 81,124 (2018: 62,943) 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 28,29 and 30 respectively.

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

	2019	2018
General insurance business:	KShs '000	KShs '000
Financial assets		
Debt securities - held to maturity:		
- Government bonds and treasury bills	1,141,673	1,253,518
- Corporate bonds	20,785	29,467
Other receivables	22,678	31,579
Reinsurers share of insurance liabilities	1,220,314	1,471,782
Receivables arising from direct insurance arrangements	461,086	462,115
Receivables arising from reinsurance Arrangements	199,573	217,069
Cash, bank balances and deposits	570,672	425,220
Total	3,636,781	3,890,750

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

(ii) Credit risk (continued)

	2019	2018
Life assurance business:	KShs '000	KShs '000
Financial assets		
Debt securities - held to maturity:		
- Government bonds and treasury bills	-	293,470
Reinsurers share of insurance liabilities	-	207,382
Receivables arising from direct insurance arrangements	-	10,046
Receivables arising from reinsurance Arrangements	-	15,252
Cash, bank balances and deposits	-	83,346
Total	-	609,496

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 2019

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 2019 and 31 December 2018.

Receivables arising from direct insurance arrangements

General business:

31 December 2019	Weighted average loss rate	Gross carrying amount KShs '000	Loss allowance KShs '000	Net carrying amount KShs '000
Stage 1	1.60%	30,324	486	29,838
Stage 2	18.38%	528,372	97,124	431,248
Stage 3	100.00%	368,357	368,357	-
		927,053	465,967	461,086

Receivables arising from direct insurance arrangements

General business:

31 December 2018	Weighted average loss rate	Gross carrying amount KShs '000	Loss allowance KShs '000	Net carrying amount KShs '000
Stage 1	2.11%	108,931	2,301	106,630
Stage 2	25.57%	477,641	122,156	355,485
Stage 3	100.00%	391,048	391,048	-
		977,620	515,505	462,115

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

(ii) Credit risk (continued)

Credit quality analysis - continued

Life assurance business:

Life assurance business:

31 December 2018	Weighted average loss rate	Gross carrying amount KShs '000	Loss allowance KShs '000	Net carrying amount KShs '000
Stage 1	2.14%	2,816	90	2,726
Stage 2	29.03%	(5,204)	(1,068)	(4,136)
Stage 3	71.84%	34,270	22,814	11,456
		31,882	21,836	10,046

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

General Business:	2019 KShs '000	2018 KShs '000
As at 1 January	515,505	400,850
Loss allowance	(49,538)	114,655
	465,967	515,505
Life assurance business:		
As at 1 January		7,734
Loss allowance	-	14,102
	-	21,836

*Receivables from reinsurance contracts**

31 December 2019 General Business:	Weighted average loss rate	Gross carrying amount KShs '000	Loss* allowance KShs '000	Net carrying amount KShs '000
Stage 1	1.50%	7,575	114	7,461
Stage 2	3.10%	198,258	6,146	192,112
Stage 3	100.00%	74,405	74,405	-
		280,238	80,665	199,573
31 December 2018 General Business:				
Stage 1	21.00%	6,082	1,277	4,805
Stage 2	3.56%	220,100	7,836	212,264
Stage 3	100.00%	82,672	82,672	-
		308,854	91,785	217,069

*The large write-downs recognized in the for the receivables from reinsurance contracts is attributable to the facultative insurance which had been entered in the previous years. Subsequently, the company has significantly the facultative reinsurance contracts held and as a result the company the historical loss rate experienced for the 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:

General Business:	2019 KShs '000	2018 KShs '000
As at 1 January	91,785	127,328
Loss allowance	(11,120)	(35,543)
	80,665	91,785

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

31 December 2018 Life assurance business:	Gross carrying amount KShs '000	Loss allowance KShs '000	Net carrying amount KShs '000
Fully performing	15,252	-	15,252
	15,252	-	15,252

The debt that is underperforming is not impaired relates to balances over 30 days old and continues to be paid. The management is actively following this debt.

The debt that is impaired has been fully provided for. However, management is following up on the impaired debt.

Movement in impairment provisions	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs '000	Total KShs '000
2019				
Balance at beginning of the year	91,785	-	-	91,785
Movement in impairment during the year	(11,120)	-	-	(11,120)
Amounts written off during the year as uncollectible	-	-	-	-
Balance at end of the year	80,665	-	-	80,665
2018				
Balance at beginning of the year	127,328	-	-	127,328
Movement in impairment during the year	(35,543)	-	-	(35,543)
Amounts written off during the year as uncollectible	-	-	-	-
Balance at end of the year	91,785	-	-	91,785

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(ii) Credit risk (continued)

Credit quality analysis (continued)

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.

The exposure to credit risk for debt securities at amortised cost, at the reporting date by category was as follows:

The following table provides information about the exposure to credit risk and ECLs for other financial assets as at 31 December 2019:

2019: General Business:	Risk Rating	Gross carrying amount KShs '000	Loss allowance KShs '000	Net carrying amount KShs '000
Government securities	Ba	1,147,668	5,995	1,141,673
Corporate bonds	B	21,373	588	20,785
Deposits with financial institutions	Baa	448,988	1,595	447,393
Cash and bank balance	Baa	124,685	1,406	123,279
Other receivables		25,671	2,993	22,678
		1,768,385	12,577	1,755,808

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(ii) Credit risk (continued)

Credit quality analysis (continued)

2018: General Business:	Risk Rating	Gross carrying amount KShs '000	Loss allowance KShs '000	Net carrying amount KShs '000
Government securities	Ba	1,258,911	5,393	1,253,518
Corporate bonds	B	30,430	963	29,467
Deposits with financial institutions	B	302,721	10,777	291,944
Cash and bank balance	B	137,058	3,782	133,276
Other receivables		35,885	4,306	31,579
		1,765,005	25,221	1,739,784

2018: Life assurance business:	Risk Rating	Gross carrying amount KShs '000	Loss allowance KShs '000	Net carrying amount KShs '000
Government securities	Ba	294,842	1,372	293,470
Deposits with financial institutions	B	62,384	2,217	60,167
Cash and bank balance	B	24,013	834	23,179
		381,239	4,423	376,816

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

	Stage 1 KShs '000	Stage 2 KShs '000	Stage 3 KShs'000	2019 KShs '000	2018 KShs '000
Gross carrying amount as at 1 January	30,431	-	-	30,431	46,278
New assets purchased	-	-	-	-	-
Assets matured	(10,333)	-	-	(10,333)	(15,847)
Accrued interest capitalised	1,275	-	-	1,275	-
Amount written off	-	-	-	-	-
	21,373	-	-	21,373	30,431
ECL as at 1 January	964	-	-	964	-
New assets purchased	-	-	-	-	964
Assets matured	(376)	-	-	(376)	-
	588	-	-	588	964

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

(ii) Credit risk (continued)

Credit quality analysis (continued)

Government Securities

	Stage 1	Stage 2	Stage 3	2019	2018
Gross carrying amount as at 1 January	1,258,911	-	-	1,258,911	1,337,861
New assets purchased	1,013,163	-	-	1,013,163	1,434,462
Assets matured	(1,119,013)	-	-	(1,119,013)	(1,513,412)
	1,153,061	-	-	1,153,061	1,258,911
ECL as at 1 January	5,393	-	-	5,393	-
New assets purchased	859	-	-	859	5,393
Assets matured	(257)	-	-	(257)	-
	5,995	-	-	5,995	5,393

Deposit with financial institution

	Stage 1	Stage 2	Stage 3	2019	2018
Gross carrying amount as at 1 January	291,944	-	-	291,944	245,716
Deposits placed	1,097,453	-	-	1,097,453	698,755
Deposits matured	(942,004)	-	-	(942,004)	(652,527)
	447,393	-	-	447,393	291,944
ECL as at 1 January	10,777	-	-	10,777	-
ECL on deposits placed	12,645	-	-	12,645	23,465
ECL on deposits matured	(21,827)	-	-	(21,827)	(12,688)
	1,595	-	-	1,595	10,777

Other receivables

	Stage 1	Stage 2	Stage 3	2019	2018
Gross carrying amount as at 1 January	69,303	-	-	69,303	103,703
New assets purchased	53,854	-	-	53,854	25,343
Assets matured	(23,653)	-	-	(23,653)	(59,743)
	99,504	-	-	99,504	69,303
ECL as at 1 January	4,306	-	-	4,306	-
New assets purchased	1,313	-	-	1,313	7,809
Assets matured	(2,626)	-	-	(2,626)	(3,503)
	2,993	-	-	2,993	4,306

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 50 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.

General business

31 December 2019	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amount Shs'000
Assets:					
Corporate bonds	-	20,000	-	20,000	20,785
Government securities	1,134,832	-	-	1,134,832	1,141,673
Kenya Motor Insurance Pool through other comprehensive income	-	-	36,576	36,576	36,576
Retirement benefit asset		21,914		21,914	21,914
Owner occupied property and equipment	-	-	439,000	439,000	439,000
Investment properties	-	-	1,450,000	1,450,000	1,450,000
Total	1,134,832	41,914	1,925,576	3,102,322	3,109,948

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (Continued)

FAIR VALUE MEASUREMENT (CONTINUED)

31 December 2018	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amount Shs'000
Assets:					
Corporate bonds	-	28,879	-	28,879	29,467
Government securities	1,228,448	-	-	1,228,448	1,253,518
Kenya Motor Insurance Pool through other comprehensive income	-	-	33,492	33,492	33,492
Retirement benefit asset		1,493		1,493	1,493
Owner occupied property and equipment	-	-	355,000	355,000	355,000
Investment properties	-	-	1,450,000	1,450,000	1,450,000
Total	1,228,448	30,372	1,838,492	3,097,312	3,122,970

Life assurance business

31 December 2018	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000	Carrying amount Shs'000
Assets:					
Government securities	287,014	-	-	287,014	293,470
Owner occupied property	-	-	82,000	82,000	82,000
Total	287,014	-	82,000	369,014	375,470

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 2019 and as at 31 December 2018 are as shown below. Since there were no changes in the value of the property or in the assumptions the sensitivity analysis reminded 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 2019 and 31 December 2018.

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 (2018: 600,000,000) for General insurance Companies. As at 31 December 2019 the Risk Based Capital was 126% (2018: 111%)for General Business.

7. (a) GROSS EARNED PREMIUMS

The Company is organised into two main divisions, general insurance and life assurance. However, the Life assurance division which was discontinued on 30 June 2019 and transferred to Absa Life Assurance Limited formerly Barclays Life Assurance Limited. The business division related to the underwriting of risks r
elating to death of an insured person, and included contracts subject to the payment of premiums for a term dependent on the termination or continuance of the life of an insured person. General insurance business relates to all other categories of short-term insurance business written by the Company, analysed into several sub-classes of business based on the nature of the assumed risks.

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

	Gross written premiums		Gross earned premiums	
	2019	2018	2019	2018
	KShs '000	KShs '000	KShs '000	KShs '000
General insurance business				
Motor	1,173,912	1,103,956	1,151,906	984,879
Fire	309,745	354,057	305,742	361,937
Personal accident	103,386	130,574	111,013	137,726
Theft	125,319	130,830	130,436	120,172
Workmen's compensation	98,560	100,017	99,453	110,443
Marine	69,542	93,442	71,615	108,577
Medical	1,527,828	1,562,764	1,547,737	1,500,464
Miscellaneous, Liability, Engineering	264,077	314,168	287,820	318,389
	3,672,369	3,789,808	3,705,722	3,642,587
Life assurance business:				
Superannuation	93,236	109,189	93,236	109,189

Reconciliation of Gross Written Premiums and Gross Earned Premiums

	2018	2018
	KShs	KShs
Gross written premiums	3,672,369	3,789,808
Movement in Unearned Premium Reserve	33,353	(147,221)
Gross earned premiums	3,705,722	3,642,587

7. (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.

General insurance business:	2018	2018
	KShs	KShs
Motor	32,317	29,123
Fire	193,448	233,610
Personal accident	27,377	38,088
Theft	69,697	35,947
Workmen's compensation	2,708	2,663
Marine	17,052	28,996
Medical	916,275	937,659
Miscellaneous, Liability, Engineering	229,074	301,220
	1,487,948	1,607,306
Life assurance business:		
Superannuation	83,247	88,673

8. (a) COMMISSION INCOME

	2019 KShs '000	2018 KShs '000
General insurance business:		
Fire	59,428	68,460
Personal accident	5,991	5,404
Theft	13,834	9,853
Marine	3,444	6,083
Medical	163,609	140,648
Miscellaneous, Liability, Engineering	78,088	86,243
	324,394	316,691
Life assurance business:		
Superannuation	20,812	22,205
Total	345,206	338,896

8. (b) COMMISSION EXPENSE

	2019 KShs '000	2018 KShs '000
General insurance business:		
Motor	109,608	103,144
Fire	75,665	86,260
Personal accident	20,802	22,917
Theft	17,658	13,847
Workmen's compensation	19,470	19,822
Marine	12,031	16,461
Medical	149,754	150,402
Miscellaneous, Liability, Engineering	43,282	54,674
	448,270	467,527
Life assurance business:		
Superannuation	7,385	8,497
Total	455,655	476,024

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

	2019 KShs '000	2018 KShs '000
General insurance business:		
Interest from Government securities	108,256	137,153
Interest on deposits with financial institutions	46,487	24,569
Interest on corporate bonds	8,873	4,667
Loan interest receivable	2,444	2,635
	166,060	169,024
Life assurance business:		
Interest from Government securities	12,375	31,420
Interest on deposits with financial institutions	2,976	5,066
	15,351	36,486
Total	181,411	205,510

9. (b) OTHER INVESTMENT INCOME

	2019 KShs '000	2018 KShs '000
General insurance business:		
Rental income from investment properties	9,867	8,628
Dividends receivable from equity investments	-	965
Other	7,611	3,212
	17,478	12,805
Life assurance business:		
Rental income from investment properties	600	1,200
Total	18,078	14,005
Total Investment income	199,489	219,515

9. (c) OTHER GAINS AND LOSSES

	2019 KShs '000	2018 KShs '000
Gain on disposal of property and equipment	-	320
Miscellaneous income	65	34
	65	354

10. FOREIGN EXCHANGE GAINS AND LOSSES

Exchange gain/(loss)	521	(185)

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

General insurance business:

Fair value losses on equity investments	-	(83)
Fair value on Kenya Motor Pool investment	3,084	360
	3,084	277

12. CLAIMS AND POLICYHOLDER BENEFITS PAYABLE

	2019 KShs '000		2018 KShs '000	
General insurance business:	Gross	Net	Gross	Net
Claims payable by principal class of business:				
Motor	709,479	697,492	849,799	830,040
Fire	60,023	39,682	131,236	61,703
Workmen's compensation	20,960	(18,112)	68,763	63,170
Marine	16,491	19,121	49,698	37,954
Engineering	118,263	35,271	248,776	25,283
Other	1,285,526	508,679	1,257,829	478,797
	2,210,742	1,282,133	2,606,101	1,496,947
Life assurance business:				
Insurance contracts with fixed and guarant terms:				
Death, maturity and surrender benefits	152,455	13,761	181,534	24,336
	2,363,197	1,295,894	2,787,635	1,521,283

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

13. OPERATING AND OTHER EXPENSES

General insurance business:	2019 KShs '000	2018 KShs '000
Staff costs (Note 15)	340,451	289,030
Directors remuneration:		
- fees	6,967	6,800
- other remuneration	16,143	44,835
Auditors' remuneration (Inclusive of VAT)	5,998	5,948
Depreciation - Property and equipment (Note 18)	18,563	15,711
Depreciation - Right on use assets (Note 17)	4,647	-
Amortisation of intangible assets (Note 19)	15,364	15,327
Repairs, maintenance and vehicle expenses	13,758	12,677
Premium levy and policyholder's compensation fund	36,904	37,016
Marketing, telephone, and rental expenses	79,362	89,356
Travelling	11,094	14,877
Advertising	10,864	8,560
Stationery	28,889	30,476
Consultancy	19,282	13,531
Group recharges expenses	121,516	112,641
Intra-group recharges	46,540	9,747
Service contract	54,280	45,226
Pension	20,304	28,972
Insurance	12,561	8,881
Utilities	9,025	9,018
Office Expenses	9,761	8,535
Movement in defined benefit asset	4,547	(1,126)
Others	15,772	22,414
	902,592	828,452
Life assurance business:		
Staff costs (Note 15)	2,505	8,410
Directors remuneration:		
- other remuneration	184	2,360
Auditors' remuneration (Inclusive of VAT)	150	200
Depreciation - Property and equipment (Note 18)	2	7
Premium levy and policyholders compensation fund	-	86
Marketing, telephone, and rental expenses	6	225
Travelling	-	15
Advertising	193	221
Consultancy	1,515	9,800
Group recharges provision	3,631	5,929
Others	247	807
	8,433	28,060
TOTAL	911,025	856,512

14. EXPECTED CREDIT LOSSES (WRITE BACK)/EXPENSE

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

	General insurance		Life assurance	
	2019 KShs '000	2018 KShs '000	2019 KShs '000	2018 KShs '000
- amount arising from direct insurance arrangements	(49,540)	114,655	-	(14,102)
- amount arising from rein-insurance- arrangements	(11,120)	(35,543)	-	-
Government bonds and treasury bills	602	(65)	-	431
Corporate bonds	(375)	(767)		
Other receivables	(1,313)	1,244		
Cash, Bank balances and deposits	(11,560)	1,788	-	-
	(73,306)	81,312	(13,671)	(13,671)

15. STAFF COSTS

	2019	2018
General insurance business:	KShs '000	KShs '000
Salaries and wages	310,548	263,971
Social security benefit costs	1,723	1,530
Staff medical costs	23,633	24,655
Retirement benefit charge/(credit) (Note 22)	4,547	(1,126)
	340,451	289,030
Life assurance business:		
Salaries and wages	2,390	7,943
Social security benefit costs	5	23
Staff medical costs	110	444
	2,505	8,410

The average number of employees in 2019 was 137 (2018: 133). These comprise 29 underwriting, (2018: 24), 18 Claims (2018: 18), 14 Finance (2018: 9), 24 Medical (2018: 24) and 52 Business Development, Branches, Risk and Compliance, Human Resource department and Support staff (2018: 58).

16. TAXATION

(a) Statement of profit or loss

	2019 KShs '000	2018 KShs '000
General Business		
Current year charge	-	-
Deferred tax (note 39):		
- Deferred tax movement	59,598	(98,767)
- Prior year under/(over) provision	446	(1,557)
	60,044	(100,324)
Life insurance business:		
Current year charge	550	1,953
Deferred tax:		
- Deferred tax movement	5,152	11,155
	5,702	13,108

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

General insurance business:

	2019 KShs '000	2018 KShs '000
Accounting Profit/(loss) before taxation	166,603	(300,351)
Tax at the applicable rate of 30%	50,906	(90,105)
Tax effect of income not subject to tax	(3,311)	(11,155)
Tax effect of expenses not deductible for tax	12,003	2,493
Prior year (over)/under provision - deferred tax	446	(1,557)
	60,044	(100,324)
Life insurance business:		
Accounting profit before taxation	17,173	37,185
Tax at the applicable rate of 30%	5,152	11,155
Tax effect of expenses not deductible for tax	550	1,953
	5,702	13,108

16. TAXATION (Continued)

General insurance business:	2019 KShs '000	2018 KShs '000
(c) Statement of Financial position		
General insurance business:		
At 1 January	(63,333)	(62,990)
Current tax charge for the year (Note 16(a))	-	-
Paid in the year	-	(343)
At 31 December net - recoverable	(63,333)	(63,333)
Life insurance business:		
At 1 January	1,953	667
Current tax charge for the year (Note 16(a))	550	1,953
Paid in the year	-	(667)
Transfer to ALAK	(2,503)	-
At 31 December	-	1,953

17. DISCONTINUED OPERATION

In line with group strategy and in compliance with regulatory vision to have separate life and general business companies, the board of directors decided to transfer the Life assurance business to Barclays Life Assurance Kenya Limited (now - Absa Life Assurance Limited) at no consideration. This decision would aid clear business focus as well as enhanced capitalization in line with the regulatory Risk Based Capital requirements.

The Life Assurance business was classified as held-for-sale as at 31 December 2018. Accordingly, the results of the life business are presented in this financial statement as a discontinued operation.

The financial information relating to the life assurance business for the period to the date of transfer of 30 June 2019 is as set out below.

a. Profit or loss

	30 June 2019
Gross earned premiums	93,236
Less: reinsurance premiums ceded	83,247
Net earned premiums	9,989
Investment income	15,951
Commissions earned	20,812
Total investment income and other income	36,763
Claims and policy holder benefits payable	152,455
Less: amounts recoverable from reinsurers	138,694
Net claims payable	13,761
Operating and other expenses	8,433
Commissions payable	7,385
	15,818
Profit before tax	17,173
Income tax expense	(5,702)
Profit after tax	11,471

17. DISCONTINUED OPERATION (Continued)

b. Statement of financial position

	30 June 2019 Shs'000
ASSETS	
Investment property	82,000
Receivables arising out of direct insurance arrangements	4,165
Receivables arising from reinsurance arrangements	27,738
Reinsurers' share of insurance liabilities	267,789
Government securities held to maturity	276,191
Deposits with financial institutions	60,972
Cash and bank balances	33,478
Total assets	752,333
EQUITY	
Share capital	150,000
Retained earnings	194,507
Share capital, life fund and reserves	344,507
LIABILITIES	
Insurance contract liabilities	293,342
Deferred Income Tax	99,084
Other payables	13,448
Current income tax payable	1,952
Total liabilities	407,826
Total assets and Liabilities	752,333

18. 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 2019	355,000	14,997	61,018	66,166	497,181
Additions	-	-	5,832	3,445	9,277
Transfer from life business	82,000	-	-	-	82,000
Elimination on revaluation	(2,640)	-	-	-	(2,640)
Revaluation surplus	4,640	-	-	-	4,640
At 31 December 2019	439,000	14,997	66,850	69,611	590,458
Comprising:					
At cost	134,493	14,997	66,850	69,611	285,951
At valuation - 2019	304,507	-	-	-	304,507
	439,000	14,997	66,850	69,611	590,458
Depreciation:					
At 1 January 2019	-	7,322	46,121	49,892	103,335
Transfer to intangible assets (Note 19)					
Write back					
Charge for the year	2,640	2,351	8,458	5,114	18,563
Written back on revaluation	(2,640)	-	-	-	(2,640)
At 31 December 2019	-	9,673	54,579	55,006	119,258
Carrying amount					
At 31 December 2019	439,000	5,324	12,271	14,605	471,200

18. PROPERTY AND EQUIPMENT (Continued)

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 2018	345,000	21,820	58,437	59,616	484,873
Additions	-	-	2,581	6,550	9,131
Revaluation	10,000	-	-	-	10,000
Elimination on revaluation	-	-	-	-	-
Disposals	-	(6,823)	-	-	(6,823)
At 31 December 2018	355,000	14,997	61,018	66,166	497,181
Comprising:					
At cost	52,493	14,997	61,018	66,166	194,674
At valuation - 2018	302,507	-	-	-	302,507
	355,000	14,997	61,018	66,166	497,181
Depreciation:					
At 1 January 2018	-	7,191	41,787	44,680	93,658
Transfer to intangible assets (note 19)	-	-	(1,470)	-	(1,470)
Write back	-	7	1	67	75
Charge for the year	1,000	3,763	5,803	5,145	15,711
Written back on revaluation	(1,000)	-	-	-	(1,000)
Disposals	-	(3,639)	-	-	(3,639)
At 31 December 2018	-	7,322	46,121	49,892	103,335
Carrying amount					
At 31 December 2018	355,000	7,675	14,897	16,274	393,846

Life assurance business*	Buildings	Computers	Furniture, fittings &equipment	Total
Cost/valuation	KShs '000	KShs '000	KShs '000	KShs '000
At 1 January/31 December 2019	-	322	96	418
Depreciation:				
At 1 January 2019		322	94	416
Charge for the year	-	-	2	2
At 31 December 2019	-	322	96	418
Carrying amount				
At 31 December 2019	-	-	-	-
1 January 2018	-	322	96	418
Correction of error note 46	82,000	-	-	82,000
31 December 2018	82,000	322	96	82,418
Depreciation:				
At 1 January 2018	-	319	90	409
Charge for the year	-	3	4	7
At 31 December 2018	-	322	94	416
Carrying amount				
At 31 December 2018	82,000	-	2	82,002

Included in computers, motor vehicles, equipment, furniture and fittings are assets with a cost of KShs 119,781,040 (2018 - KShs 108,025,677) which were fully depreciated but still in use. The normal annual depreciation charge on these assets would have been KShs 26,433,839 (2018 - KShs 25,399,656).

18. PROPERTY AND EQUIPMENT (Continued)

Buildings and freehold land were last revalued as at 31 December 2019 by Legend Valuers Limited. Land was revalued on the open market basis while buildings were revalued on depreciated replacement cost basis. The resulting revaluation surplus was credited to other comprehensive income and accumulated in the revaluation surplus in equity.

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:

	2019 KShs '000	*2018 KShs '000
General business		
Carrying amount		
Cost	67,785	52,493
Accumulated depreciation	(9,009)	(8,211)
Net book value	58,776	44,282
Life business		
Carrying amount		
Cost	-	15,292
Accumulated depreciation	-	(398)
Net book value	-	14,894

Refer to note 5 for fair value disclosures.

Refer to note 5 for fair value disclosures.

* Certain figures shown here do not correspond to the 2018 financial statements and reflect adjustments made as detailed in note 46

19. INTANGIBLE ASSETS

	2019 KShs '000	2018 KShs '000
General insurance business:		
Cost		
At 1 January	118,472	118,223
WIP- Intangible assets *	11,237	-
Additions	-	249
At 31 December	129,709	118,472
Amortisation		
At 1 January	49,843	33,046
Transfer from property and equipment (note 18)	-	1,470
	49,843	34,516
Charge for the year	15,364	15,327
At 31 December	65,207	49,843
Carrying amount		
At 31 December	64,502	68,629

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.

*WIP- Intangible assets relates to the Premia System upgrade that is ongoing.

20. INVESTMENT PROPERTIESS

	2019 KShs '000	2018* KShs '000
General insurance business:		
At 1 January	1,450,000	1,410,000
Fair value gains	-	40,000
At 31 December	1,450,000	1,450,000
Life assurance business:		
At 1 January	-	78,000
Fair value gains	-	4,000
Transfer to Property and equipment	-	(82,000)
At 31 December	-	-

* Certain figures shown here do not correspond to the 2018 financial statements and reflect adjustments made as detailed in note 46

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 8 to the financial statements.
Rental income earned during the year was KShs 9,867,324 (2018 - KShs 8,627,578). The tenants significantly incur costs for maintenance for the rented property. The company have entered into operating lease arrangements.

Property expenses incurred during the year amounted to Sh3,293,664 (2018 - Sh2,766,886).

The investment properties were revalued on 31 December 2019 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 Sh'000	Total Sh'000
Capitalized rent income (year purchase) method	Net annual rent		
	Annual rent growth rate		
	Discounting rate		13%

Considering the physical economic parameters 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.

20. INVESTMENT PROPERTIES (Continued)

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: Its based on current sale

a) a willing buyer, willing seller;

b) a reasonable period within which to negotiate the sale by taking into account the nature of the property;

c) values will remain static throughout the period;

d) the property will be freely exposed to the market within reasonable publicity;

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 2019 are as follows:

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
General insurance business:				
At 31 December 2019				
- Investment properties	-	1,450,000	-	1,450,000
At 31 December 2018				
- Investment properties	-	1,450,000	-	1,450,000

21. (a) LEASES - RIGHT OF USE

Set out below are the carrying amounts of the right-of-use assets recognised and the movements during the year

	2019 KShs '000
At 1 January	26,974
Depreciation:	
As at 1 January	-
Charge for the year	4,647
As at 31 December	4,647
Carrying amount as at 31 December	22,327

(b) LEASES - CARRYING AMOUNT

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

	KShs '000
As at 1 January	26,974
Additions	-
Accretion of interest	2,992
Payments	(5,800)
As at 31 December	24,166

21 (b) LEASES - CARRYING AMOUNT (Continued)

Amounts recognised in profit or loss 2019 - Leases under IFRS 16	2019 KShs'000
Interest on lease liabilities	2,992
Depreciation expense	4,647

Amounts recognised in cash flows from financing activities

Payment of principal of lease liabilities	2,808
Payment of interest	2,992
Total cash outflow for leases	5,800

Lease liability maturity analysis

2019	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
Lease liabilities	-	1,582	4,745	25,749	-	32,076

Lease commitments

(i) Company as a lessee

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

General business: '000	2019 KShs '000	2018 KShs
Not later than 1 year	6,327	13,537
Later than 1 year and not later than 5 years	25,749	20,741
Later than 5 years	-	3,901
	32,076	38,179

(i) Company as a lessor

Rental income earned during the year was KShs 9,867,324 (2018 - KShs 8,627,578). At the end of the reporting period, the Company had contracted with tenants for the following future lease receivables:

	2019 KShs '000	2018 KShs '000
General business:		
Within 1 year	19,188	20,204
Later than 1 year and not later than 5 years	11,652	17,658
	30,840	37,862

22. RETIREMENT BENEFIT ASSET

General insurance business:	2019 KShs '000	2018 KShs '000
Fair value of plan assets	280,327	238,622
Present value of funded obligations	(189,967)	(190,584)
	90,360	48,038
Irrecoverable surplus	(68,446)	(46,545)
Retirement benefit asset as at 31 December	21,914	1,493
Plan assets consist of the following:		
Government securities	185,878	170,562
Corporate bonds	6,425	14,152
Equities	86,416	35,548
Cash	1,608	18,360
	280,327	238,622
Movement in plan assets		
Fair value of plan assets at 1 January	238,622	224,648
Interest income on Assets	30,513	29,373
Benefits and expenses paid by the plan	(30,513)	(16,487)
Employee contributions	6,980	8,113
Return on Plan Assets Greater / (Less) than Discount Rate	34,725	(7,025)
Fair value of plan assets at 31 December	280,327	238,622
Movement in Present value of funded obligations		
Retirement benefit obligations at 1 January	190,584	122,297
Interest cost	23,247	15,494
Current service cost	5,995	5,979
Participants contributions	6,980	8,113
Benefits paid by the plan	(30,513)	(16,487)
Recognised actuarial losses	(6,326)	55,188
Present value of funded obligations as at 31 December	189,967	190,584

The costs recognised in the income statement is as follows:

	2019 KShs '000	2018 KShs '000
Interest cost	(23,247)	(15,494)
Interest on Assets	30,513	29,373
Interest cost on irrecoverable surplus	(5,818)	(6,774)
Current service cost	(5,995)	(5,979)
	(4,547)	1,126

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

	2019 KShs '000	2018 KShs '000
Actuarial (Gain) / Loss on DBO Arising During Period	(6,326)	55,188
Return on Plan Assets (Greater) / Less than Discount Rate	(34,725)	7,025
Change in Irrecoverable Surplus other than Interest	16,083	(12,337)
Remeasurement Effects Recognised in OCI	(24,968)	49,876

22. RETIREMENT BENEFIT ASSET

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

	2019 KShs '000	2018 KShs '000
At 1 January	1,493	50,243
Return on plan assets recognised in the income statement	(4,547)	1,126
Remeasurement Effects Recognised in OCI	24,968	(49,876)
At 31 December	21,914	1,493

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

	2019 KShs '000	2018 KShs '000
At 1 January	1,493	50,243
(Charge)/credit to the profit or loss	(4,547)	1,126
Recognised in other comprehensive income	24,968	(49,876)
At 31 December	21,914	1,493

Historical information	2019 KShs '000	2018 KShs '000	2017 KShs '000	2016 KShs '000	2015 KShs '000
Fair value of plan assets	280,327	238,622	224,648	244,281	212,023
Present value of funded obligations	(189,967)	(190,584)	(122,297)	(153,010)	(108,586)
Retirement benefit obligations before asset ceiling	90,360	48,038	102,351	91,271	103,437
Irrecoverable surplus	(68,446)	(46,545)	(52,108)	(4,564)	(36,616)
Retirement benefit obligations	21,914	1,493	50,243	86,707	66,821

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:

	2019 %	2018 %
Discount rate	12.80%	12.5%
Future Salary increases	9.50%	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 12.8% (2018 - 12.5%) based on the portfolio as a whole and not on the sum of returns on the individual assets.

22. 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:

	2019		2018	
	Increase KShs '000	Decrease KShs '000	Increase KShs '000	Decrease KShs '000
Discount rate (-1% movement)	22,227	-	23,761	-
Discount rate (+1% movement)	-	22,227	-	23,761

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 valuations 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 2019 and revealed that the fund had a surplus of KShs 21,914,000.40 (2018: 1,493,000). The next valuation is due as at 31 December 2020.

23. INVESTMENT IN SUBSIDIARIES

AT COST:	Beneficial ownership	Country of incorporation	2019 Sh'000	2018 Sh'000
First Assurance Company Limited Tanzania	52.5%	Tanzania	52,929	52,929
Impairment provision			(52,929)	(52,929)
			-	-
First Assurance Properties Limited	100%	Kenya	-	-

First Assurance Company Limited Tanzania underwrites all classes of general business in Tanzania except Medical and Aviation. Investment in First Assurance Company Limited Tanzania was fully impaired in 2017 due to loss in value.

On 14 February 2019, the Company received a rights issue offer amounting to TZS 2,000,000,000 (two billion Tanzanian shillings) for its holding in First Assurance Tanzania, a subsidiary incorporated in Tanzania. On 12 March 2019, the Directors of the Company ratified a resolution to subscribe for all the rights offer shares. This transaction will have a financial impact of KShs 100 million in the Company's 2020 financial statements. The effect will have an impact in 2020 once the deal is signed off.

The investment in First Assurance Properties Limited is dormant and fully impaired. No consolidation was been done in the books. In accordance with the exception under IFRS 10 Consolidated Financial Statements, the company does not consolidate subsidiaries in the financial statements. Investments in subsidiaries are accounted for as financial instruments at cost. The consolidation is done in Absa Group Limited (the ultimate parent) incorporated in south Africa. The financial statements can be accessed from the group's website.

24. 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.

	2019			2018		
	Gross KShs '000	Re-insurance KShs '000	Net KShs '000	Gross KShs '000	Re-insurance KShs '000	Net KShs '000
At 1 January	188,510	149,448	39,062	162,891	141,989	20,902
(Decrease)/Increase in the year	(30,847)	(38,006)	18,323	25,619	7,459	18,160
At 31 December	157,663	111,442	57,385	188,510	149,448	39,062
		(note 26)			(note 26)	

25. 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.

	2019 KShs '000	2018 KShs '000 Restated
At 1 January	33,492	33,132
Change in fair value of financial assets through OCI	3,084	360
At 31 December	36,576	33,492

26. REINSURERS' SHARE OF INSURANCE LIABILITIES

General insurance business reinsurers' share of:		
- unearned premiums (Note 38)	486,037	648,792
- notified claims outstanding (Note 37)	634,955	779,268
- Incurred but not reported claims (Note 37)	188,544	157,736
- Additional unexpired risk reserve (Note 45)	280	35,434
- Deferred acquisition cost (Note 24)	(111,442)	(149,448)
	1,198,374	1,471,782
Life assurance business reinsurers' share of:		
- notified death claims payable	-	158,151
- actuarial value of insurance contract liabilities	-	49,231
Total	-	207,382
	1,198,374	1,679,164

27. OTHER RECEIVABLES

Staff receivables	25,671	35,885
Prepayments	25,760	22,295
Deposits	12,616	11,123
Sundry debtors	35,457	-
Less: Loss allowance	(2,993)	(4,306)
	96,511	64,997

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. FINANCIAL ASSETS AT AMORISED COSTS - CORPORATE BONDS

	2019 KShs '000	2018 KShs '000
NCBA Bank Limited	21,373	20,098
KENGEN	-	6,103
Consolidated Bank of Kenya	-	4,230
Expected credit loss allowance	(588)	(964)
At 31 December	20,785	29,467
Maturity analysis:		
Within 1 year	21,373	10,333
After 1-5 years	-	20,098
Loss allowance	(588)	(964)
	20,785	29,467
Movement in corporate bonds can be summarised as follows:		
At 1 January	29,467	46,278
Redemptions/maturities	(8,094)	(15,847)
Expected credit loss allowance	(588)	(964)
At 31 December	20,785	29,467

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).

29. FINANCIAL ASSETS AT AMORISED COSTS - GOVERNMENT SECURITIES

	2019 KShs '000	2018 KShs '000
Within 90 days	343,946	-
After 90 days but within 1 year	653,966	990,915
In 1-5 years	42,423	56,374
After 5 years	107,333	211,622
Expected credit loss allowance	(5,995)	(5,393)
	1,141,673	1,253,518
General insurance business: Movement in Government securities can be summarised as follows:		
At 1 January	1,253,518	1,337,861
Additions	1,013,163	1,434,462
Maturities	(1,119,013)	(1,513,412)
Expected credit loss allowance	(5,995)	(5,393)
At 31 December	1,141,673	1,253,518
Life assurance business: Treasury bills and bonds maturing:		
Within 90 days	-	-
After 90 days but within 1 year	-	248,285
In 1-5 years	-	20,624
After 5 years	-	25,933
Expected credit loss allowance	-	(1,372)
	-	293,470

29. FINANCIAL ASSETS AT AMORISED COSTS - GOVERNMENT SECURITIES (continued)

Movement in Government securities can be summarised as follows:

	2019 KShs '000	2018 KShs '000
At 1 January	-	257,397
Additions	-	344,959
Maturities	-	(307,514)
Expected credit loss allowance	-	(1,372)
At 31 December	-	293,470

Government securities amounting to KShs 480,500,000 (2018 - KShs 536,500,000) 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).

30. DEPOSITS WITH FINANCIAL INSTITUTION

	2019 KShs '000	2018 KShs '000
General insurance business:		
NCBA Bank Kenya	235,395	138,146
Co-operative Bank of Kenya	97,971	90,395
KCB Bank Kenya	80,241	34,968
SBM Bank Kenya	21,738	26,663
Diamond Trust Bank	11,217	10,474
Absa Bank Kenya PLC	2,426	2,075
Expected credit loss allowance	(1,595)	(10,777)
	447,393	291,944
General insurance business:		
Deposits maturing:		
Within 90 days	108,073	181,610
After 90 days but within 1 year	331,819	103,336
After 1 year	9,096	17,775
Expected credit loss allowance	(1,595)	(10,777)
	447,393	291,944
Life assurance business:		
Deposits maturing:		
Within 90 days	-	33,220
After 90 days but within 1 year	-	26,215
After 1 year	-	2,949
Expected credit loss allowance	-	(2,217)
	-	60,167

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).

31. WEIGHTED AVERAGE EFFECTIVE INTEREST RATES

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

	2019 %	2018 %
Government securities	10.07	10.57
Deposits with financial institutions	7.85	7.47
Corporate bonds	12.75	12.88

Deposits with financial institutions in 2019 had an average maturity of nine months (2018: six months).

32. SHARE CAPITAL

	2019 KShs '000	2018 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

	2019 Number of shares	2019 KShs '000	2018 Number of shares	2018 KShs '000
At 1 January and 31 December	40,500,000	810,000	40,500,000	810,000

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

33. 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.

34. STATUTORY RESERVE

The statutory reserve relates to the surplus on the life assurance business which is not distributable as dividends as per the requirements of the Insurance Act (Cap 487).

35. RETAINED EARNINGS

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

36. DIVIDENDS

No interim dividend was declared and paid during the year (2018 - KShs nil). The directors do not recommend a final dividend in respect of the year ended 31 December 2019 (2018 - KShs 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.

37. INSURANCE CONTRACT LIABILITIES

	2019 KShs '000	2018 KShs '000
General Business		
Claims reported and claims handling expenses	1,418,324	1,704,403
Claims incurred but not reported	575,883	521,835
Total	1,994,207	2,226,238
Group life insurance contracts:		
Claims reported and claims handling expenses	-	171,128
Actuarial value of insurance contract liabilities	-	61,235
Total	-	232,363
Total gross insurance liabilities	1,994,207	2,458,601

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

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.

	2019			2018		
	Gross KShs '000	Re-insurance KShs '000	Net KShs '000	Gross KShs '000	Re-insurance KShs '000	Net KShs '000
Notified claims	1,704,403	(779,268)	925,135	1,421,390	(545,059)	876,331
Incurred but not reported	521,835	(157,736)	364,099	422,108	(122,387)	299,721
At 1 January	2,226,238	(937,004)	1,289,234	1,843,498	(667,446)	1,176,052
Cash paid for claims settled in year	(2,473,581)	1,072,922	(1,400,659)	(2,258,710)	874,945	(1,383,765)
Increase in liabilities:						
- arising from current year claims	1,918,084	(1,158,538)	759,546	1,353,250	(568,387)	784,863
- arising from prior year claims	323,466	199,122	522,588	1,288,200	(576,116)	712,084
At 31 December	1,994,207	(823,498)	1,170,709	2,226,238	(937,004)	1,289,234
Analysed as;						
Notified claims	1,418,324	(634,955)	783,369	1,704,403	(779,268)	925,135
Incurred but not reported	575,883	(188,544)	387,339	521,835	(157,736)	364,099
At 31 December	1,994,207	(823,499)	1,170,709	2,226,238	(937,004)	1,289,234

37. INSURANCE CONTRACT LIABILITIES (ccontinued)

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

Life assurance business

	2019			2018		
	Gross KShs '000	Re-insurance KShs '000	Net KShs '000	Gross KShs '000	Re-insurance KShs '000	Net KShs '000
At 1 January	232,363	207,382	24,981	174,919	156,505	18,414
Cash paid for claims settled in year	50,692	50,351	341	(124,091)	(106,322)	(17,769)
Increase in liabilities:						
- arising from current year claims	10,287	10,056	231	163,234	141,966	21,268
- arising from previous year claims	-	-	-	63,319	58,697	4,622
- arising from actuarial valuation	-	-	-	(45,018)	(43,464)	(1,554)
Transfer to Barclays Life Assurance Kenya (now- Absa Life Assurance Company Limited)	(293,342)	(267,789)	(25,553)	-	-	-
At 31 December	-	-	-	232,363	207,382	24,981

Gross 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 2018 and 2019 are not material.

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

37. 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	2015 KShs '000	2016 KShs '000	2017 KShs '000	2018 KShs '000	2019 KShs '000	Total KShs '000
Accident year						
Estimate of ultimate claims costs:						
At end of accident year	2,162,268	2,449,765	763,370	1,679,155	3,123,384	10,177,942
one year later	2,493,183	3,159,987	1,823,324	2,486,616	-	9,963,110
Two years later	2,551,206	2,125,235	2,144,695	-	-	6,821,136
three years later	2,625,241	2,477,062	-	-	-	5,102,303
Four years later	2,232,285	-	-	-	-	2,232,285
Current estimate of cumulative claims	2,232,285	2,477,062	2,144,695	2,486,616	3,123,384	12,464,042
Less: cumulative payments to date	(2,066,036)	(2,325,322)	(1,979,327)	(2,155,237)	(2,735,289)	(11,261,211)
Liability in the statement of financial position	166,249	151,741	165,368	331,378	388,095	1,202,831
Liability in respect of prior years						215,493
Total claims reported and claims handling expenses						1,418,324
Claims incurred but not reported						575,883
Total gross claims liability included in the statement of financial position						1,994,207

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

37. INSURANCE CONTRACT LIABILITIES (continued)

COMPANY	2014 KShs '000	2015 KShs '000	2016 KShs '000	2017 KShs '000	2018 KShs '000	Total KShs '000
Accident year						
Estimate of ultimate claims costs:						
At end of accident year	2,045,400	2,162,268	2,449,765	763,370	1,679,155	9,099,958
one year later	2,138,005	2,493,183	3,159,987	1,823,324	-	9,614,499
Two years later	2,164,722	2,551,206	2,125,235	-	-	6,841,163
three years later	2,227,977	2,625,241	-	-	-	4,853,218
Four years later	2,128,740	-	-	-	-	2,128,740
Current estimate of cumulative claims	2,128,740	2,625,241	2,125,235	1,823,324	1,679,155	10,381,695
Less: cumulative payments to date	(2,006,147)	(2,236,596)	(1,890,696)	(1,551,080)	(1,260,714)	(8,945,233)
Liability in the statement of financial position	122,593	388,645	234,539	272,244	418,441	1,436,462
Liability in respect of prior years						267,941
Total claims reported and claims handling expenses						1,704,403
Claims incurred but not reported						521,835
Total gross claims liability included in the statement of financial position						2,226,238

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

Group life insurance contracts

The Company determines its liabilities on group life on the advice of the consulting actuary and actuarial valuations carried on an annual basis. The latest actuarial valuation of the life fund was carried out as at 31 December 2018 by QED Actuaries and Consultants.

37. 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 2018 and 2019 are not material.

Accident year	2015 KShs'000	2016 KShs'000	2017 KShs'000	2018 KShs'000	2019 KShs'000	TOTAL KShs'000
Estimate of ultimate claims costs:						
At end of accident year	1,189,247	1,347,371	419,854	923,535	1,443,481	5,323,488
One year later	1,371,251	1,737,993	1,002,828	1,403,104	-	5,515,176
Two years later	1,403,163	1,168,879	1,372,470	-	-	3,944,512
Three years later	1,443,882	1,362,189	-	-	-	2,806,071
Four years later	1,241,326	-	-	-	-	1,241,326
Current estimate of cumulative claims	1,241,326	1,362,189	1,372,470	1,403,104	1,443,481	6,822,570
Less: cumulative payments to date	(1,149,889)	(1,278,732)	(1,281,517)	(1,220,846)	(1,230,029)	(6,161,013)
	91,437	83,457	90,953	182,258	213,452	661,557
Liability in respect of prior years						121,812
Total net claims reported and claims handling expenses						783,369
Claims incurred but not reported						387,339
Total net claims liability included in the statement of financial position						1,170,708

37. INSURANCE CONTRACT LIABILITIES (Continued)

Accident year	2014 KShs'000	2015 KShs '000	2016 KShs '000	2017 KShs '000	2018 KShs '000	Total KShs '000
Estimate of ultimate claims costs:						
At end of accident year	1,104,516	1,167,625	1,322,873	412,219	906,744	4,913,977
one year later	1,154,523	1,346,319	1,706,393	984,595	-	5,191,830
Two years later	1,168,950	1,377,651	1,147,627	-	-	3,694,228
three years later	1,203,107	1,417,630	-	-	-	2,620,737
Four years later	1,149,519	-	-	-	-	1,149,519
Current estimate of cumulative claims	1,149,519	1,417,630	1,147,627	984,595	906,744	5,606,115
Less: cumulative payments to date	(1,083,319)	(1,207,762)	(1,020,976)	(837,583)	(680,786)	(4,830,426)
	66,200	209,868	126,651	147,012	225,958	775,689
Liability in respect of prior years						149,446
Total net claims reported and claims handling expenses						925,135
Claims incurred but not reported						364,099
Total net claims liability included in the statement of financial postion						1,289,234

38. 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:

General insurance business

	2019			2018		
	Gross KShs '000	Re-insurance KShs '000	Net KShs '000	Gross KShs '000	Re-insurance KShs '000	Net KShs '000
At 1 January	1,473,452	(648,792)	824,660	1,256,398	(570,745)	685,653
Increase/(Decrease) in the year	(170,977)	162,755	(8,222)	217,054	(78,047)	139,007
At 31 December	1,302,475	(486,037) (Note 26)	816,438	1,473,452	(648,792) (Note 26)	824,660

39. DEFERRED TAXATION

Deferred tax is calculated, in full, on all temporary differences using a principal tax rate of 30% (2018: 30%).

The deferred tax is attributable to the following items:
General insurance business:

Year ended 31 December 2019:	At 31 December 2018	Recognised in P&L	Prior year over - provision recognised in P&L	Recognised in OCI	At 31 December 2019
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Property and equipment	(157)	(1,072)	-	792	(437)
Right of use Asset	-	(7,249)	-	-	(7,249)
Lease liability		6,698			6,698
Revaluation surplus	106,500	-	-	600	107,100
Unrealised exchange differences	-	156	-	-	156
Leave pay provisions	(9,853)	1,958	-	-	(7,895)
Retirement benefit asset	(13,816)	(1,026)	-	7,491	(7,351)
Impairment provision	(180,699)	42,320	-	-	(138,379)
Kenya Motor Pool	7,988	925	108		9,021
Tax losses	(95,990)	15,388	338	-	(80,264)
Corporate Bond write off	(1,500)	1,500	-	-	-
	(187,527)	59,598	446	8,883	(118,600)

39. DEFERRED TAXATION (Continued)

General insurance business:

Year ended 31 December 2018: *	At 31 December 2017 KShs'000	Recognised in Retained earnings KShs'000	Day 1 adjustment KShs'000	Recognised in P&L KShs'000	Prior year over - provision recognised in P&L KShs'000	Recognised in OCI KShs'000	At 31 December 2018 KShs'000
Property and equipment	(752)	-	-	295	-	300	(157)
Revaluation surplus	103,500	-	-	-	-	3,000	106,500
Unrealised exchange differences	409	-	-	(409)	-	-	-
Leave pay provisions	(8,353)	-	-	(1,500)	-	-	(9,853)
Retirement benefit asset	7,197	(6,050)	-	-	-	(14,963)	(13,816)
Impairment provision	(99,633)		(59,354)	(21,712)	-	-	(180,699)
Kenya Motor Pool	-	7,988		-	-	-	7,988
Tax losses	(20,492)	-	-	(73,941)	(1,557)	-	(95,990)
Corporate Bond write off	-	-	-	(1,500)	-	-	(1,500)
	(18,124)	1,938	(59,354)	(98,767)	(1,557)	(11,663)	(187,527)

* Certain figures shown here do not correspond to the 2018 financial statements and reflect adjustments made as detailed in note 46

Life assurance business: Year ended 31 December 2019:	At 31 December 2018 KShs'000	Recognised in P&L KShs'000	Transfer to BLAK* KShs'000	Recognised in OCI KShs'000	At 31 December 2019 KShs'000
Actuarial gain	93,931	5,152	(99,083)	-	-

Life assurance business: Year ended 31 December 2018:	At 1 January 2018 KShs'000	Recognised in P&L KShs'000	Recognised in OCI KShs'000	At 31 December 2018 KShs'000
Actuarial gain	82,776	11,155	-	93,931

* The transfer was made to Barclays Life Assurance Limited (now - Absa Life Assurance Limited)

The movement on the deferred tax account is as follows:

	2019 KShs '000	2018 KShs '000
At 1 January	(174,502)	(18,124)
Day 1 impairment losses	-	(59,354)
Recognised in profit or loss (Note 14(a))	75,077	(98,767)
Recognised in other comprehensive	1,392	3,000
Prior year (over)/under provision of deferred tax	((20,567)	(1,257)
At 31 December - Asset	(118,600)	(174,502)

39. DEFERRED TAXATION (Continued)

	2019 KShs '000	2018 KShs '000
Life assurance business:		
Actuarial gains	-	93,931
Total	-	93,931

The movement on the deferred tax account is as follows:

	2019	2018
At 1 January	93,931	82,776
Recognised in profit or loss (Note 14(a))	5,152	11,155
Transfer to Barclays Life Assurance Kenya	(99,083)	-
At 31 December-Liability	-	93,931

40. OTHER PAYABLES*

	2019	2018
General insurance business:		
Accrued expenses	178,064	128,606
Payroll deductions	10,885	19,922
Sundry creditors	33,356	94,648
	222,305	243,176
Life assurance business:		
Accrued expenses	-	2,665
Other payables	-	28,100
	-	30,765

* Certain figures shown here do not correspond to the 2018 financial statements and reflect adjustments made as detailed in note 46

NOTES TO THE STATEMENT OF CASH FLOWS

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

	General insurance business KShs'000	Life assurance business KShs'000	Total 2019 KShs'000	General insurance business KShs'000	Life assurance business KShs'000	Total * 2018 KShs'000
Profit /(loss) before tax	169,687	17,173	186,860	(299,991)	37,185	(262,806)
Interest on lease liability	2,992	-	2,992	-	-	-
Depreciation - property and equipment (note 18)	18,563	2	18,565	15,711	7	15,718
Depreciation write back - property and equipment (note 18)	-	-	-	75	-	75
Amortisation of intangible assets (note 19)	15,364	-	15,364	15,327	-	15,327
Gain in fair value of investment property (note 20)	-	-	-	(40,000)	(4,000)	(44,000)
Fair value gains on financial assets at fair value through profit and loss	(3,084)	-	(3,084)	(277)	-	(277)
Gain disposal of property and equipment	-	-	-	(320)	-	(320)
Depreciation on ROU asset	4,647	-	4,647	-	-	-
Adjusted profit before working capital changes	208,169	17,175	225,344	(309,475)	33,192	(276,283)
ECL on other receivables	(1,313)	-	(1,313)	-	-	-
ECL on corporate bonds	(376	-	(376	-	-	-
ECL on government securities	602	-	602	-	-	-
ECL on cash and bank and deposits	(11,560)	-	(11,560)	-	-	-
ECL on direct insurance	(49,540)	-	(49,540)	-	-	-
ECL on reinsurance	(11,120)	-	11,120	-	-	-
Adjusted profit before working capital changes	134,862	17,175	152,037	(309,475)	33,192	(276,283)
Working capital movements:						
Receivables arising out of direct insurance arrangements	50,569	5,881	56,450	(45,083)	21,442	(23,641)
Receivables arising out of reinsurance arrangements	28,616	(12,486)	16,130	(11,090)	(15,252)	(26,342)
Other receivables	(18,641)	-	(18,641)	35,643	22,353	57,996
Unearned premiums provisions	(170,977)	-	(170,977)	217,054	-	217,054
Other payables	(20,871)	(17,317)	(38,188)	(24,634)	20,484	(4,150)
Payables arising from reinsurance arrangements	(190,119)	-	(190,119)	(76,226)	(36,365)	(112,591)
Reinsurers' share of insurance liabilities	273,408	(60,407)	213,001	(371,657)	(50,877)	(422,534)
Insurance contract liabilities	(232,031)	60,979	(171,052)	382,741	57,443	440,184
Retirement benefit asset (note 22)	4,547	-	4,547	(1,126)	-	(1,126)
Deferred acquisition costs (note 24)	30,847	-	30,847	(25,619)	-	(25,619)
Other related parties	296,381	-	296,381	208,010	-	208,010
Additional unexpired risk reserve	(53,126)	-	(53,126)	57,886	-	57,886
Cash flows generated from/ (used in) operations	133,465	(6,175)	127,290	36,424	52,420	88,844

*Certain figures shown here do not correspond to the 2018 financial statements and reflect adjustments made as detailed in note 46

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

(b) Cash and cash equivalents

General insurance business:	2019 KShs '000	2018 KShs '000
Cash balances	182	300
Bank balances	123,097	132,976
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	123,279	133,276
Deposits with banks maturing within 90days (note 30)	108,073	181,610
	231,352	314,886
Life assurance business:		
Bank and cash balances	-	23,179
Deposits with banks	-	60,167
	-	83,346

42. 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:

General insurance business:	2019 KShs '000	2018 KShs '000
Authorised and contracted for	20,377	9,318
Authorised but not contracted for	73,100	8,400
	93,477	17,718
Bank guarantees	45,253	45,002

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.

43. 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 or profits of the Company.

Included in the related party balances, is an amount due to Absa Insurance Company of Kshs 303,717,000 (2018: 178,570,000).

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 2019 and 2018.

44. 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 exercise its control over the company through Absa Insurance Company. Absa Life 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.

44. 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:

		2019 KShs '000	2018 KShs '000
(a)	Insurance business transacted with related parties		
	Gross written premium:		
	Directors	647	578
	Senior management	1,117	1,165
	Absa Bank Kenya Plc	606,902	803,178
	At 31 December	608,666	804,921
(b)	Outstanding balances due from related parties		
	Premiums receivable from related parties		
	Included in receivables		
	- Directors	416	506
	- Senior management	237	3
	Other related parties	2,164	65,134
		2,817	65,643
(c)	Directors' remuneration		
	Directors' fees	6,967	6,800
	Salary costs	19,864	47,195
		26,831	53,995
(d)	Key management compensation (excluding directors)		
	Salaries	143,124	131,753
	Due to related parties		
	Absa Insurance Company	303,717	178,570
	Absa Bank Kenya Plc	171,102	83,987
	Absa Life Assurance Kenya	89,572	5,453
		564,391	268,010

Due to related parties relates to the following:

i. Absa Insurance Company- These are the amount attributable to group recharge accumulated since 2017.
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- These are the payroll cost for the shared resources who are in the payroll.

45. ADDITIONAL UNEPIRED 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:

	2019			2018		
	Gross KShs '000	Re-insurance KShs '000	Net KShs '000	Gross KShs '000	Re-insurance KShs '000	Net KShs '000
At 1 January	89,253	(35,434)	53,819	31,367	(3,923)	27,444
Decrease in the year	(53,126)	35,154	(17,972)	57,886	(31,511)	26,375
At 31 December	36,127	280 (Note 26)	35,847	89,253	(35,434)	53,819

46. PRIOR YEAR ADJUSTMENTS.

On 1/1/2018 the company adopted IFRS 9 on financial instruments however the company did not consider the assessment of the measurement and classification of the Kenya Motor Pool as at that date. Further the entity had recognised the impairments relating to the assets as other payables for the period. continued to carry the Kenya motor Pool asset at cost less impairment. Since the asset relates to the share of the net assets then this should be classified as debt instrument and measured at fair value through profit or loss. Further, the company did not recognize the deferred tax retirement benefits asset remeasured. The main effects resulting from this adjustment are as follows:

	As previously stated KShs'000	Adjustment KShs'000	As Restated KShs'000
1 January 2018			
Statement of financial position and Statement of changes in equity			
Kenya motor pool	29,489	3,643	33,132
Other Payables	290,794	(22,984)	267,810
Deferred tax asset	18,124	(1,938)	16,186
Kenya motor pool	[redacted]	(7,988)	
Retirement Benefit asset		6,050	
Retained earnings	323,900	24,689	348,589
Kenya motor pool	[redacted]	18,639	
Retirement Benefit asset		6,050	
31st December 2018			
Statement of financial position and Statement of changes in equity			
Kenya motor pool	29,489	4,003	33,492
Other Payables	296,925	(22,984)	273,941
Deferred tax asset	174,502	13,025	187,527
Kenya motor pool	[redacted]	(7,988)	
Retirement Benefit asset		21,013	
Retained earnings	73,997	40,012	114,009
Kenya motor pool	[redacted]	18,999	
Retirement Benefit asset		21,013	
31st December 2018			
Statement of Profit or loss and other comprehensive income			
Fair value gains and losses	(83)	360	277
Tax relating to components of other comprehensive income	(3,300)	14,963	11,663
31 December 2018			
Statement of Cashflows			
Cash from operating activities			
Profit before tax	(263,166)	(360)	(262,806)
Fair value gains on losses	(83)	360	277

46. PRIOR YEAR ADJUSTMENTS (continued)

In 2018, Fixed deposit of 110 million maturing after days had been classified as cash and cash equivalent in the statement of cashflow instead of investing activity. The main effects resulting from this reclassification are as follows:

	As previously stated KShs '000	Reclassification KShs '000	As restated KShs '000
As at 31 December 2018			
Net movement in fixed deposits maturing after 90 days	-	110,334	110,334
Cash and cash equivalents	425,220	(110,334)	314,886

Land and building amounting to Kshs 78 million that met the criteria for classification as property and equipment were classified and presented as investment property instead. The main effects resulting from this reclassification are as follows:

	As previously stated KShs '000	Reclassification KShs '000	As restated KShs '000
As at 1 January 2018			
Property, plant and equipment	9	78,000	78,009
Investment property	78,000	(78,000)	-
As at 31 December 2018			
Property, plant and equipment	2	82,000	82,002
Investment property	82,000	(82,000)	-

47. EVENTS AFTER THE REPORTING PERIOD

Apart from uncertainties arising from COVID-19 as discussed below, there are no events after the reporting date that would require adjustments to, or disclosure in, the financial statements.

Initial cases of Covid-19 infection were reported in China towards the end of 2019. The viral infection has spread to other regions in the world . On 11 March 2020 World Health Organization (WHO) declared the viral disease a pandemic. The first case of Covid-19 was reported in Kenya on 13 March 2020. Since then additional cases have been confirmed and the first death confirmed, as at date of signing this report.

Because of the COVID – 19, the annual global GDP growth is projected to drop to 2.4% in 2020 as a whole, from an already weak 2.9% in 2019, with growth possibly even being significantly negative in the first quarter of 2020. Before the Coronavirus outbreak, the Kenyan GDP was projected to grow by 5.8% in the FY2020 up from 5.2% for the prior year. In view of Covid-19 pandemic, the economy is likely to shrink from the effects of contraction of output in China and other global majors. This is likely have a devastating impact on commodity prices. Due to travel disruptions, the tourism industry in likely to feel the blunt of the pandemic and the anticipated longer recovery of the economies is likely to have a significant negative spill over on the financial systems around the globe. The Nairobi Securities Exchange index- NSE 20 share index has already dropped to a 17 year low as investors keep booking losses due to the havoc being wrecked around the world by the pandemic.

The Company anticipates increased likelihood of default in payment of insurance receivables, increased medical claims and reduced premium income in year 2020 due to the outbreak of Covid-19 pandemic. The main class of business that is projected to be affected is Medical. The pandemic is projected to slow down economies of many markets, mainly due to lockdown of major cities which will curtail movement of capital and people. Measures such as governments seeking extension of repayment periods from financial institutions on financial instruments have also affected the insurance sector with some intermediaries already seeking extension of premium repayment periods.

47. EVENTS AFTER THE REPORTING PERIOD (continued)

Management has put in place ample measures such as remote working for some employees, with an exception of those offering essential services to ensure continuity in business operations. Further, management has stepped up debt collection measures to minimize cases of default. Management is prudently investing in short term investments to avoid volatility in the market and they believe that these measures will mitigate any going concern uncertainties that may arise due to the outbreak.

Management assesses that it is not practicable to accurately estimate the financial impact on COVID-19 now as the effects are yet to fully materialize.

48. 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.

SSURANCE COMPANY LIMITED
NY GENERAL INSURANCE BUSINESS REVENUE ACCOUNT
E YEAR ENDED 31 DECEMBER 2019

surance	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor Private	Motor Commercial	Personal Accident	Theft	Workmen's Comp	Miscellaneous	Medical	2019 Total	2018 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
mium written	152,641	30,754	278,991	36,770	69,542	578,932	594,980	103,386	125,319	98,560	74,666	1,527,828	3,672,369	3,789,809
gross UPR	10,129	(909)	(3,093)	1,471	2,073	12,756	(34,762)	7,682	5,116	894	12,086	19,909	33,352	(147,221)
ned premiums	162,770	29,845	275,898	38,241	71,615	591,688	560,218	111,068	130,435	99,454	86,752	1,547,737	3,705,721	3,642,588
surance payable	(127,271)	(7,719)	(185,729)	(9,598)	(17,052)	(15,935)	(16,382)	(27,377)	(69,697)	(2,707)	(92,205)	(916,275)	(1,487,947)	(1,607,306)
d premiums	35,499	22,126	90,169	28,643	54,563	575,753	543,836	83,691	60,738	96,747	(5,453)	631,462	2,217,774	2,035,282
ms paid	289,043	4,426	61,889	37,129	31,399	359,012	337,153	77,748	64,419	54,308	817	1,156,238	2,473,581	2,258,710
gross o/s claims	(170,781)	157	(6,448)	(19,303)	(14,909)	5,854	7,459	6,126	(2,290)	(59,637)	2,544	(11,611)	(262,839)	347,391
surance le	(82,991)	(341)	(20,000)	1,152	2,630	(1,115)	(10,872)	(20,919)	(41,381)	(39,073)	(3,051)	(712,648)	(928,609)	(1,109,154)
incurred	35,271	4,242	35,441	18,978	19,120	363,751	333,740	62,955	20,748	(44,402)	310	431,979	1,282,133	1,496,947
ons receivable .	(52,221)	(654)	(58,774)	(2,422)	(3,444)	-	-	(5,991)	(13,834)	-	(23,446)	(163,608)	(324,394)	(316,691)
ons payable	30,694	5,740	69,925	7,158	12,094	52,287	57,321	20,802	17,658	19,470	5,367	149,754	448,270	467,528
ent expenses	11,102	10,080	40,813	11,891	22,970	246,375	253,202	33,262	24,341	41,946	(7,675)	140,979	829,286	909,764
nses and ons	(10,425)	15,166	51,964	16,627	31,620	298,662	310,523	48,073	28,165	61,416	(25,754)	127,125	953,162	1,060,601
ing loss	10,653	2,718	2,764	(6,962)	3,823	(86,660)	(100,427)	(27,337)	11,825	79,733	19,991	72,358	(17,521)	(522,266)
	99%	19%	39%	66%	35%	63%	61%	75%	34%	-46%	-6%	68%	58%	74%
on payable ratio	20%	19%	25%	19%	17%	9%	10%	20%	14%	20%	7%	10%	12%	12%
ent expense ratio	7%	33%	15%	32%	33%	43%	43%	32%	19%	43%	-10%	9%	23%	24%

o (net claims incurred/net earned premium)
ion ratio (commissions payable/gross written premium)
ratio (management expense /gross written premium)

enue account was approved by the Board of Directors on.. and was signed on its behalf by:

Director

Principal Officer