MAYFAIR INSURANCE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Table of contents

DIRECTORS	Vishal Patel	- Chairman
	Joshua Chiira	- Managing Director
	Shehnaz Sumar	- Retired on 31 December 2018
	Ambrose D Rachier	- Retired on 31 December 2018
	Harish Shah	- Retired on 31 December 2018
	Christopher Harrison	- Retired on 31 December 2018
	Bharat V Shah	
	Diana Bird	
	Rajni Varia	
	Deepa Doshi	- Appointed in July 2018
	Shamil Manek	- Appointed in January 2019
	Alvin Rachier	- Appointed in January 2019
	Bhavik Patel	- Appointed in January 2019
MANAGEMENT	Joshua Chiira	- Managing Director
	Rajiv Ranjan	- Executive Director
	S K Singh	- General Manager
	Gurbux Singh	- Assistant General Manager
	James Ndegwa	- Reinsurance Manager
	Anand Lakhani	- Regional Manager
	Gibson Ndungu	- Business Development Manager
	James Macharia	- Underwriting Manager
	Eva Wambui	- Claims Manager
	Emma Mwangi	- Legal Manager
	Darshna Patel	- Asst. Manager – Accounts

SECRETARY

Susan Wanjiru Gichina
Certified Company Secretary (Kenya)
P O Box 45761 – 00100
Nairobi

REGISTERED OFFICE

8th Floor, Mayfair Centre
Ralph Bunche Road
P O Box 45161 – 00100
Nairobi

AUDITORS

PricewaterhouseCoopers
PwC Tower, Waiyaki Way / Chiromo Road, Westlands
P O Box 43963 - 00100
Nairobi

ADVOCATES

Coulson Harney
5th Floor, West Wing, ICEA Lion Centre
Riverside Park, Chiromo road
P O Box 10643 – 00100
Nairobi

BANKERS

Stanbic Bank Kenya Limited
Kenyatta Avenue
P O Box 72833 – 00200
Nairobi

Mayfair Bank
Mayfair Center
P O Box 2051 – 00606
Nairobi

The directors submit their report together with the audited financial statements for the year ended 31 December 2018 which disclose the state of affairs of Mayfair Insurance Company Limited ("the company"). The annual report and financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Kenyan Companies Act, 2015.

Principal activities

The principal activities of the Company are the underwriting of general classes of insurance business as defined by the Insurance Act.

Principal risks and mitigation strategies

Key risks that the Company is exposed to are included in Note 4 of the financial statements.

The following are also risks faced by the Company:

- Capital adequacy risk – The Company intends to maintain the Capital Adequacy Ratio at above 200% (2018 – 242%) through prudent underwriting and additional capital injection if required.
- Credit risk – The Company's credit control policy is to contain the premium outstanding within the recommended company aged limit of 90 days.

Business review

The Company operates in a competitive environment fraught with economic risks and uncertainties. Despite these challenges, the Company posted a growth of 24% in gross written premiums. The Company's business improved across key performance indicators. Total assets increased from Shs 5.377 billion in 2017 to Shs 6.375 billion in 2018. Expenses increased by 15% over the previous year while net income grew by 32% over the previous year.

Key performance highlights

The table below highlights some of the key performance indicators over a period of 4 years

	2015	2016	2017	2018
	Shs 000	Shs 000	Shs 000	Shs 000
Underwriting profit	238,417	236,501	260,756	273,952
Gross loss ratio %	31%	42%	35%	35%
Profit before income tax	402,652	403,879	409,539	508,344
Net assets	1,653,323	1,823,097	2,234,990	2,700,638
Capital adequacy ratio %	165%	170%	216%	242%

Dividend

The Directors recommend a first and final cash dividend of Shs. 17.5 per share amounting to Shs. 175,000,000 (2017: Cash dividend of Shs. 10 per share amounting to Shs. 75,000,000 and a bonus share for the year amounting to Shs. 75,000,000)

Directors

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

Auditor

Disclosures to auditors

The directors confirm that with respect to each director at the time of approval of this report:

a. there was, so far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and
b. each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Terms of appointment of auditors

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract which sets out the terms of the auditor's appointment and the associated fees on behalf of the shareholders.

By order of the Board

Company Secretary

Nairobi

26 MARCH 2019

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its profit or loss for that year. The directors are responsible for ensuring that the company keeps proper accounting records that are sufficient to show and explain the transactions of the company; disclose with reasonable accuracy at any time the financial position of the company; and that enables them to prepare financial statements of the company that comply with prescribed financial reporting standards and the requirements of the Companies Act. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and 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 internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. Selecting suitable accounting policies and then apply them consistently; and
iii. Making judgements and accounting estimates 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 responsibility.

Approved by the board of directors on 26 MARCH 2019 and signed on its behalf by:

Vishal Patel
Chairman

Bharat Shah
Director

Joshua Chiira
Managing Director

I have conducted an Insurance Liability Valuation of the short-term business of Mayfair Insurance Company Limited as at 31 December 2018.

The valuation was conducted in accordance with the generally accepted actuarial principles and the requirements of The Kenya Insurance Act. These principles require prudent provision for insurance liabilities in the financials on a best estimate basis.

I verify that the calculation of the short-term insurance liabilities as at 31st December 2018 is appropriate.

I am satisfied that the Unearned Premium Reserve, Deferred Acquisition Cost, Outstanding Claims Reserve, Incurred But Not Reported Reserve as per the valuation are sufficient and appropriate given the nature of the business and existing liabilities.

James I. O. Olubayi

Fellow of the Institute of Actuaries

Zamara Actuaries, Administrators & Consultants Limited

26 MARCH 2019

pwc

Independent auditor's report to the shareholders of Mayfair Insurance Company Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Mayfair Insurance Company Limited ("the Company") set out on pages 10 to 69 which comprise the statement of financial position at 31 December 2018 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion the accompanying financial statements of Mayfair Insurance Company Limited give a true and fair view of the financial position of the Company at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

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

We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers CPA. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 – 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

Partners: E Kerich B Kimacia M Mugasa A Murage F Muriu P Ngahu R Njoroge S O Norbert's B Okundi K Saiti

Independent auditor's report to the shareholders of Mayfair Insurance Company Limited (continued)

Key audit matter	***How our audit addressed the key audit matter***
Valuation of outstanding claims provision The outstanding claims provision included in Note 28 of the financial statements is made up of reported claims and incurred but not reported ("IBNR") claims. As disclosed in Note 3 to the financial statements, the estimation of outstanding claims involves significant judgement given the uncertainty in estimating the amounts likely to be paid in settlement of notified claims. There is further uncertainty in relation to IBNR claims as there is generally less information available in relation to these claims. The IBNR provision is determined annually by the Company's consulting actuaries who provide an estimate for the valuation which relies on the accuracy of claims data and the assumption that future claims development will follow a similar pattern to past claims development experience.	We evaluated and tested controls around the claim handling, settling and valuation. We tested the reasonableness of the Company's estimation process for a sample of claims outstanding by comparing the estimated claims provision to supporting documentation. We performed a review of the methodology and assumptions used by the appointed actuary to compute the actuarial reserves as at 31 December 2018 and compared the assumptions to expectations based on the Company's historical experiences current trends and our own industry knowledge.

Other information

The other information comprises Corporate information, Report of the Directors, Statement of Directors' Responsibilities, Report of the consulting actuary which we obtained prior to the date of this auditor's report, and the rest of the other information in the Annual Report which are expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 on the other information we have received prior to the date of this auditor's report we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the rest of the other information in the Annual Report and we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

pwc

Independent auditor's report to the shareholders of Mayfair Insurance Company Limited (continued)

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view 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.

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.

pwc

Independent auditor's report to the shareholders of Mayfair Insurance Company Limited (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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.

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 2 – 3 is consistent with the financial statements.

PricewaterhouseCoopers

Certified Public Accountants
Nairobi

29 March **2019**

CPA Bernice Kimacia – Practising Certificate No. 1457
Signing partner responsible for the independent audit.

Statement of profit or loss

	Notes	Year ended 31 December 2018 Shs'000	2017 Shs'000
Gross written premiums		3,004,593	2,431,420
Gross earned premiums	5	2,863,238	2,391,427
Less: reinsurance premiums ceded		(1,456,922)	(1,068,744)
Net earned premiums		1,406,316	1,322,683
Investment income	6	244,437	218,960
Commissions earned		410,618	282,628
Other income	7	3,417	1,768
Total income		2,064,788	1,826,039
Net claims incurred	8	(717,853)	(618,724)
Operating and other expenses	9(a)	(466,886)	(381,145)
Commissions payable		(403,915)	(381,716)
Impairment losses on financial assets	9(b)	(1,088)	-
Total expenses		(1,589,742)	(1,381,585)
Share of profit /(loss) of associate after tax	16	33,298	(34,915)
Profit before income tax		508,344	409,539
Income tax expense	11	(146,518)	(139,023)
Profit for the year		361,826	270,516

The notes on pages 15 to 69 are an integral part of these financial statements.

Statement of comprehensive income

	Notes	Year ended 31 December 2018 Shs'000	2017 Shs'000
Profit for the year		361,826	270,516
Other comprehensive income:			
Items that may be reclassified to profit or loss		-	-
Items that will not be reclassified to profit or loss			
Fair value gains on equity investment at FVOCI	18	5,398	84,712
Exchange (loss) /gain on equity investments at FVOCI	18	(5,337)	533
Surplus on revaluation of building	13	8,538	17,547
Deferred income tax on revaluation surplus	32	(2,561)	(11,415)
		6,038	91,377
Total comprehensive income for the year		367,864	361,893

The notes on pages 15 to 69 are an integral part of these financial statements.

Statement of financial position

	Notes	31 December 2018 Shs'000	31 December 2017 Shs'000
ASSETS			
Property and equipment	13	354,259	302,896
Investment properties	15	426,089	460,459
Intangible assets	14	4,907	11,149
Investment in associate	16	319,614	185,053
Investment in joint arrangements	17	320,052	269,822
Equity investments at FVOCI	18	811,887	805,441
Receivables arising out of direct insurance	21	496,717	403,231
Receivables arising out of reinsurance arrangements		24,878	70,032
Reinsurers' share of technical provisions and reserves	19	1,085,727	759,149
Deferred acquisition costs	20	203,676	155,878
Government securities at amortised cost	23	1,039,621	730,458
Corporate bonds at amortised cost	24	52,493	98,895
Other receivables	22	20,206	48,326
Deposits with financial institutions	25	1,165,633	1,062,042
Cash and cash equivalents		17,675	14,572
TOTAL ASSETS		6,343,434	5,377,403
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital	27	1,000,000	750,000
Investment revaluation reserve		327,642	327,581
Property revaluation reserve		107,961	101,984
Retained earnings		1,265,035	1,055,425
Total equity		2,700,638	2,234,990
Liabilities			
Outstanding claims provision	28	1,835,758	1,740,264
Unearned premiums reserve	30	1,329,206	952,551
Payables arising from insurance arrangements		22,204	8,533
Payables arising out of reinsurance arrangements		196,351	237,003
Deferred reinsurance commissions	31	118,952	83,566
Deferred income tax	32	80,405	71,052
Other payables	33	56,175	45,300
Current income tax	11	3,745	4,144
Total liabilities		3,642,796	3,142,413
TOTAL EQUITY AND LIABILITIES		6,343,434	5,377,403

The financial statements on pages 10 to 69 were approved for issue by the board of Directors on 26 MARCH 2019 and signed on its behalf by:

Vishal Patel	**Bharat Shah**	**Joshua Chiira**
Chairman	**Director**	**Managing Director**

Statement of changes in equity

	Notes	Share capital	Investments revaluation reserve	Property revaluation reserve	Retained earnings	Total equity
		Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Balance at 1 January 2017		600,000	242,336	95,852	884,909	1,823,097
Profit for the year		-	-	-	270,516	270,516
Other comprehensive income:		-	85,245	6,132	-	91,377
Transactions with owner:						
Additional share capital		150,000	-	-	-	150,000
Dividends:						
Dividends Paid – 2016		-	-	-	(100,000)	(100,000)
Balance at 31 December 2017		750,000	327,581	101,984	1,055,425	2,234,990
Balance at 1 January 2018		750,000	327,581	101,984	1,055,425	2,234,990
Changes on initial application of IFRS 9					(2,216)	(2,216)
		750,000	327,581	101,984	1,053,209	2,232,774
Profit for the year		-	-	-	361,826	361,826
Other comprehensive income:		-	61	5,977	-	6,038
Transactions with owners:						
Additional share capital		175,000	-			175,000
Issue of Bonus shares		75,000	-	-	-	75,000
Dividends Paid – 2017		-	-	-	(150,000)	(150,000)
Balance at 31 December 2018		1,000,000	327,642	107,961	1,265,035	2,700,638

The notes on pages 15 to 69 are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December 2018 Shs'000	2017 Shs'000
Cash flows from operating activities			
Cash generated from operations	34	601,085	499,302
Income tax paid	11(c)	(139,174)	(116,788)
Net cash generated from operating activities		461,911	382,514
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(30,642)	(5,315)
Purchase of intangible assets	14	(4,096)	(6,531)
Investment in associates	16	(101,263)	(154,596)
Investment in joint arrangements	17	(50,230)	-
Purchase of investment property	15	-	(4,983)
Purchase of equity investments	18	(6,385)	(6,056)
Net investments in treasury bonds/ bills maturing after 90 days	23	(309,003)	(300,096)
Net investments in corporate bonds	24	46,402	12,485
Net cash used in investing activities		(455,217)	(465,092)
Cash flows from financing activities			
Dividends paid to shareholders		(75,000)	(50,000)
Issue of new shares	27	175,000	100,000
Net cash generated from financing activities		100,000	50,000
Net increase /(decrease) in cash and cash equivalents		106,694	(32,578)
Cash and cash equivalents at beginning of year		1,076,614	1,109,192
Cash and cash equivalents at end of year	34(b)	1,183,308	1,076,614

The notes on pages 15 to 69 are an integral part of these financial statements.

Notes

1 General information

Mayfair Insurance Company Limited ("the Company") deals with general insurance business and is incorporated in Kenya under the Kenyan Companies Act, 2015 as a private limited liability Company. The Company is domiciled in Kenya and the address of its registered office is:

Mayfair Centre, 8th floor, Ralph Bunche Road
PO Box 45161
Nairobi 00100.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except as disclosed in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) *New and amended standards adopted by the Company*

The following standards and interpretations have been applied by the Company for the first time for the financial reporting year commencing on or after 1 January 2018:

IFRS 9 - Financial Instruments

The Company has fully adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

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

Notes (continued)

2. Significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(i) *New standards and interpretations adopted by the Company*

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

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

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company

a) Classification and measurement of financial instruments

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

	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets				
Equity investments – quoted	Available for sale	Fair value through other comprehensive income	197,161	197,161
Equity investments – unquoted	Available for sale	Fair value through other comprehensive income	608,280	608,280
Loans receivable	Held to maturity	Amortised cost	14,065	14,065
Receivables arising out of direct insurance arrangements	Held to maturity	Amortised cost	403,231	401,276
Rent and other receivables	Held to maturity	Amortised cost	32,605	32,605
Government securities	Held to maturity	Amortised cost	730,458	730,028
Corporate bonds	Held to maturity	Amortised cost	98,895	98,873
Deposits with financial institutions	Held to maturity	Amortised cost	1,062,042	1,061,281
Cash and bank balances	Held to maturity	Amortised cost	14,572	14,572
Total financial assets			**3,161,309**	**3,158,141**

Notes (continued)

2. Significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(i) New standards and interpretations adopted by the Company

b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9:

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

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

	Carrying amount 31 December 2017 under IAS 39 Shs' millions	Reclassifications Shs' millions	Remeasurements (ECL allowance) Shs' millions	Carrying amount 1 January 2018 under IFRS 9 Shs' millions
Financial assets at amortised cost				
Cash and balances	14,572	-	-	14,572
Deposits with financial institutions	1,062,042	-	(760)	1,061,282
Government securities	730,458	-	(429)	730,029
Receivables arising out of direct insurance arrangements	403,231	-	(1,955)	401,276
Corporate bonds	98,895	-	(23)	98,872
Loans receivable	14,065	-	-	14,065
Rent and other receivables	32,605	-	-	32,605
Total financial assets measured at amortised cost	**2,355,868**	**-**	**(3,167)**	**2,352,697**
Fair value through other comprehensive income (FVOCI):				
Equity investments	805,441	-	-	805,411
Total financial assets at FVTOCI	**805,411**	**-**	**-**	**805,411**

Notes (continued)

2. Significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9
The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Financial asset	Impairment under IAS 39	Reclassifications	Remeasurements	Expected Credit Loss under IFRS 9
	Shs' 000	Shs' 000	Shs' 000	Shs' 000
Cash and bank balances	-	-	-	-
Deposits with financial institutions	-	-	760	760
Receivables arising from direct insurance arrangements	-	-	1,955	1,955
Loans receivable	-	-	-	-
Rent and other receivables	-	-	-	-
Government securities at amortised cost	-	-	429	429
Corporate bonds	-	-	23	23
Total	-	-	**3,167**	**3,167**

(i) New standards and interpretations adopted by the Company

The Company applied the following standards and interpretations for the first time for their annual reporting period commencing 1 January 2018 and they did not have a significant impact on the financial statements:

- Revenue from contracts with customers – IFRS 15
- Transfers of Investment Property – Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Annual improvements 2014-2016 cycle

Notes (continued)

2. Significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(ii) *New standards and interpretations not yet adopted by the Company*
The following standards and interpretations have been issued but were not mandatory for annual reporting periods ending 31 December 2018

Title	Key requirements	Effective date
IFRS 16 Leases	IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, 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.	1 January 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time.
IFRS 17 Insurance Contracts	IFRS 17 was issued in May 2017 as replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: • discounted probability-weighted cash flows • an explicit risk adjustment, and • a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.	1 January 2021

Notes (continued)

2. Significant accounting policies (continued)

Changes in accounting policy and disclosures (continued)

(ii) *New standards and interpretations not yet adopted by the Company*
The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Title	**Key requirements**	**Effective date**
Interpretation 23 Uncertainty over Income Tax Treatments	The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses: • how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a Company, depending on which approach better predicts the resolution of the uncertainty • that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored • that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment • that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and • that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements. While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.	1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	The following improvements were finalised in December 2017: • IFRS 3 - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages. • IFRS 11 - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation. • IAS 12 - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. • IAS 23 - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings	1 January 2019

The Directors do not plan to apply the above standards, until they become effective. Based on their assessment of the potential impact of application of the above, only IFRS 16 and IFRS 17 are expected to have an impact on the Company's financial statements. The directors are still assessing the impact of this application.

There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions.

Notes (continued)

2. Significant accounting policies (continued)

(b) Insurance Contract

The Company issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts in the company are classified in accordance with the provisions of the Insurance Act. The business mainly relates to general insurance business.

Classes of Short term insurance include aviation, engineering insurance, fire insurance - domestic risks, Fire insurance - industrial and commercial risks, liability insurance, marine insurance, motor insurance - private vehicles, motor insurance - commercial vehicles, personal accident insurance, theft insurance, workmen's Compensation and employer's liability insurance and miscellaneous insurance (i.e. class of business not included under those listed above).

Motor insurance business means the business of affecting and carrying out contracts of insurance against loss of, or damage to, or arising out of or in connection with the use of, motor vehicles, inclusive of third party risks but exclusive of transit risks

Personal accident insurance business means the business of affecting and carrying out contracts of insurance against risks of the persons insured sustaining injury as the result of an accident or of an accident of a specified class or dying as the result of an accident or of an accident of a specified class.

Fire insurance business means the business of affecting and carrying out contracts of insurance, otherwise than incidental to some other class of insurance business against loss or damage to property due to fire, explosion, storm and other occurrences customarily included among the risks insured against in the fire insurance business.

(c) Revenue Recognition

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below.

Premium income for general business is recognised on assumption of risks and includes estimates of premiums due but not yet received, less unearned premiums. Unearned premiums represent the proportion of the premiums written in periods up to the accounting date which relate to the unexpired terms of policies in force at the reporting date and are calculated using the 365ths basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Commissions receivable are recognised as income in the period in which they are earned.

Interest income for all interest-bearing financial instruments is recognised using the effective interest method. Dividends income on available for sale equities is recognised as income in the period in which the right to receive payment is established. Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

2 Summary of significant accounting policies (continued)

(d) 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 profit and loss 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 the 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.

(e) 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 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.

(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 provisions represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the reporting date, but not settled at that date. Outstanding claims provisions 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 reporting date based on the Company's experience but subject to the minimum percentage set by the Commissioner of Insurance. Outstanding claims are not discounted

Notes (continued)

2 Summary of significant accounting policies (continued)

(g) Commissions payable and deferred acquisition costs

A proportion of commission 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.

(h) Outstanding claims provision

The outstanding claims provision, which is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, 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 reporting date. 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.

(i) Unearned premium reserve

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.

(j) Investment property

Investment properties comprise land and buildings and parts of buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined periodically by external independent valuers. Fair value is based on open market basis determined using the highest and best use valuation model.

Investment properties are not subject to depreciation. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss for the year.

Notes (continued)

2 Summary of significant accounting policies (continued)

(k) Property, plant and equipment

(i) Cost model

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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

Partitioning	12.5%
Buildings	2.5%
Motor vehicles	25%
Furniture, fittings and equipment	12.5%
Computer hardware	30%

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts.

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

(ii) Revaluation model

Buildings are stated at valuation less accumulated depreciation and any accumulated impairment losses. Any surplus arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation reserve. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to profit or loss. On subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

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

Building	Over the period of the lease

The annual depreciation on the revaluation surplus element of property, plant and equipment is transferred from the revaluation surplus to retained earnings net of the resultant deferred tax.

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(l) Intangible assets

Intangible assets represent computer software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised on a straight line basis over the useful economic life from the date it is available for use, currently at 30% and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method is reviewed at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense is recognised in profit or loss.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(m) Financial assets

i) Classification

From 1 January 2018, the Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:
those to be measured subsequently at fair value (either through OCI or through profit or loss), and
those to be measured at amortised cost.

ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depends on:

(i) the Company's business model for managing the financial assets; and
(ii) the cash flow characteristics of the asset.

Notes (continued)

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

iii) Measurement (continued)

Debt instruments (continued)

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/ (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/ (losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/ (losses) in the period in which it arises.

Business model: the business model reflected how the Company manages the assets in order to generate cash flows i.e. whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a Company of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments' cash flow represent solely payments of principal and interest ('SPPI test'). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Notes (continued)

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

iii) Determination of fair value

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings. Dividends earned are recognised in the profit or loss statement and are included in the 'investment income' line item.

Changes in the fair value of financial assets at FVPL are recognised in other gains/ (losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on 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. This includes listed equity securities and quoted debt instruments on major exchanges (NSE). The quoted market price used for financial assets held by the Company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. E.g. a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Notes (continued)

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

iv) Impairment

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

IFRS 9 replaced the previous 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model applies to the following financial instruments that are not measured at FVTPL or FVTOCI:

- Government securities measured at amortised cost
- Receivables arising from direct insurance arrangements
- Rent receivables;
- Staff loans;
- Corporate bonds at amortised cost;
- Deposits with financial institutions at amortised cost; and
- Cash and bank balances.

No impairment loss is recognised on equity investments and financial assets measured at FVPL.

The Company recognises loss allowance at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Company will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- Debt instruments that are determined to have low credit risk at the reporting date. The Company will consider a debt instrument to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade' and investments in government securities; and
- Other financial instruments (other than trade and lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for premium and rent receivables will always be measured at an amount equal to lifetime ECLs. The impairment requirements of IFRS 9 require management judgement, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of expected credit losses

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;

An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset.

Notes (continued)

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

iv) Impairment (continued)

Expected credit losses

Expected credit losses are computed as a product of the Probability of Default (PD), Loss Given Default (LGD) and the Exposure at Default (EAD).

$$ECL = PD \times LGD \times EAD$$

In applying the IFRS 9 impairment requirements, the Company follows one of the approaches below:

- The general approach
- The simplified approach

The Company will apply the approaches below to each of its assets subject to impairment under IFRS 9:
Notes (continued)

Financial Asset	Impairment approach
Government securities	General approach
Receivables arising out of direct insurance arrangements	Simplified approach
Rent and inter-company receivables	General approach
Loans receivable	General approach
Corporate bonds at amortised cost	General approach
Deposits with financial institutions at amortised cost	General approach
Cash and bank balances	General approach

The General Approach

Under the general approach, at each reporting date, the Company determines whether the financial asset is in one of three stages in order to determine both the amount of ECL to recognise as well as how interest income should be recognised.

- **Stage 1** - where credit risk has not increased significantly since initial recognition. For financial assets in stage 1, the Company will recognise 12 month ECL and recognise interest income on a gross basis – this means that interest will be calculated on the gross carrying amount of the financial asset before adjusting for ECL.

- **Stage 2** - where credit risk has increased significantly since initial recognition. When a financial asset transfers to stage 2, the Company will recognise lifetime ECL but interest income will continue to be recognised on a gross basis.

- **Stage 3** - where the financial asset is credit impaired. This is effectively the point at which there has been an incurred loss event. For financial assets in stage 3, the Company will continue to recognise lifetime ECL but they will now recognise interest income on a net basis. As such, interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.

The Simplified approach

Under the simplified approach, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

Notes (continued)

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

iv) Impairment (continued)

Definition of default

The Company will consider a financial asset to be in default when:

- the counterparty or borrower is unlikely to pay their credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the counterparty or borrower is more than 90 days past due on any material credit obligation to the Company. This will be consistent with the rebuttable criteria set out by IFRS 9 and existing practice of the Company; or

In assessing whether the counterparty or borrower is in default, the Company considers indicators that are:

- Qualitative: e.g. Breach of covenant and other indicators of financial distress;
- Quantitative: e.g. Overdue status and non-payment of another obligation of the same issuer to the Company; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk (SIICR)

When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience, expert credit assessment and forward-looking information.

The Company primarily identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit losses and one that is based on lifetime expected credit losses.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month and lifetime ECL measurements.

Notes (continued)

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

iv) Impairment (continued)

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL. It formulates a 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on a variety of external actual and forecast information. External information includes economic data and forecasts published by governmental bodies and monetary authorities.

The base case represents a best estimate and is aligned with information used by the Company for other purposes, such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Company also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

Measurement of ECL

The key inputs into the measurement of ECL are the term structures of the following variables (i)Probability of Default; (ii) Loss given default (LGD); and (iii) Exposure at default (EAD).

To determine lifetime and 12-month PDs, the Company uses internally developed PD tables based on the default history of obligors with the same credit rating. The Company adopts the same approach for unrated investments by mapping its internal risk grades to the equivalent external credit ratings (see (i)).The PDs are recalibrated based on current bond yields and CDS prices, and adjusted to reflect forward-looking information as described above. Changes in the rating for a counterparty or exposure lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-¬value ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. Where modelling of a parameter is carried out on a collective basis, the financial instruments are classified on the basis of shared risk characteristics, which include: instrument type; credit risk grading; collateral type; date of initial recognition; remaining term to maturity; industry; and geographic location of the borrower. The classifications are subject to regular review to ensure that exposures within a particular Company remain appropriately homogeneous.

Notes (continued)

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

iv) Impairment (continued)

When ECL are measured using parameters based on collective modelling, a significant input into the measurement of ECL is the external benchmark information that the Company uses to derive the default rates of its portfolios. This includes the PDs provided by rating agencies.

Insurance receivables

The ECL of operating insurance receivables are determined at using a provision matrix. Loss rates are calculated with reference to days past due and actual credit loss experience over the past few years.

v) Modification of contracts

The Company rarely renegotiates or otherwise modifies the contractual cash flows of securities. When this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

- If the counterparty is in financial difficulty;
- Whether any substantial new terms are introduced that affect the risk profile of the instrument;
- Significant extension of the contract term when the borrower is not in financial difficulty;
- Significant change in interest rate;
- Change in the currency the security is denominated in;or
- Inclusion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered the date of initial recognition for impairment calculation purposes, including the purpose of determining whether a SICR has occurred.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR.

vi) Write off policy

The Company writes off financial assets, in whole or in part when it has exhausted all practical recovery effort and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity; and (ii) the Company is foreclosing on collateral and the value of the collateral is such as there is no reasonable expectation of recovering in full.

The Company may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was KShs Nil (2017: Nil). The Company still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery

Notes (continued)

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

vii) Accounting policies applied until 31 December 2017

The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Classification

Until 31 December 2017, the Company classified its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

Reclassification

The Company could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Company could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Company had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

Subsequent measurement

The measurement at initial recognition did not change on adoption of IFRS 9. Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised as follows:

- for financial assets at FVPL – in profit or loss within other gains/(losses).
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income.
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and losses from investment securities.

Notes (continued)

2. Summary of significant accounting policies (continued)

(m) Financial assets (continued)

vii) Accounting policies applied until 31 December 2017 (continued)

Impairment

The Company assessed at the end of each reporting period whether there was objective evidence that a financial asset or Company of financial assets was impaired. A financial asset or a Company of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or Company of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

(n) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Company are measured using the currency of the primary economic environment in which the entity operates (the Functional Currency'). The financial statements are presented in currency' Kenya Shillings' which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the Functional Currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other income'.

(0) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities

Notes (continued)

2 Summary of significant accounting policies (continued)

(p) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds.

(q) Dividends

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

(r) Income tax expense

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in the profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

a) Current income tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the reporting date. The Directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes (continued)

2 Summary of significant accounting policies (continued)

(s) Employee benefits

(i) Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The assets of the scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and the employer, with the employer contributing 5% while the employee contribution is voluntary. The Company also contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to these schemes are determined by local statute and are currently limited to Shs 200 per employee per month.

3 Critical accounting estimates and judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The ultimate liability arising from claims made under insurance contracts

Estimates have to 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 statement of financial position date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty.

All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

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, 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 claims development data on which the projections are based.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Notes (continued)

3 Critical accounting estimates and judgement (continued)

Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

4 Financial risk management objectives and policies

The Company's activities expose it to a variety of insurance and financial risks. Financial risks include credit risk, liquidity risk and market risk which includes the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates.

The Company's overall risk management programme focuses on the unpredictability of financial markets, identification and management of risks. It 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.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors. The board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity

4.1 Insurance risk

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

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

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

Notes (continued)

4 Financial risk management objectives and policies (continued)

4.1 Insurance risk (continued)

Insurance risk in the Company arises from

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

(a), (b) and (c) can be classified as the core insurance risk, (d) relates to reinsurance planning, while (e) 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 purchases is underpinned by the Company's experience, financial modelling by and exposure of the reinsurance broker. Reinsurance is placed with providers who meet the Company's counter-party security requirements.

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 upon 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.

Notes (continued)

4 Financial risk management objectives and policies (continued)

4.1 Insurance risk (continued)

The table below sets out the concentration of general insurance sums assured by type of contract:

Year ended 31 December 2018	Gross sum assured Shs'000	Ceded under reinsurance contracts Shs'000	Net sum assured Shs'000
Fire	730,691,065	642,757,882	87,933,183
Motor	19,700,795	704,105	18,996,690
Workmen's compensation	48,527,209	1,455,816	47,071,393
Engineering	230,468,694	168,242,147	62,226,547
Marine	56,936,300	15,372,801	41,563,499
Theft	44,277,571	27,452,094	16,825,477
Miscellaneous	14,597,675	11,824,117	2,773,558
Liability	35,893,940	10,050,303	25,843,637
Personal accident	15,240,646	4,267,381	10,973,265
Aviation	830,587	672,775	157,812
	1,197,164,482	882,799,421	314,365,061

Year ended 31 December 2017	Gross sum assured Shs'000	Ceded under reinsurance contracts Shs'000	Net sum assured Shs'000
Fire	658,528,168	559,657,266	55,350,719
Motor	16,309,378	652,375	15,657,003
Workmen's compensation	39,818,501	1,194,555	38,623,946
Engineering	171,286,328	125,039,019	46,247,309
Marine	148,547	40,108	108,439
Theft	75,227,320	46,640,938	28,586,382
Miscellaneous	7,644,465	6,192,016	1,452,449
Liability	30,818,691	8,629,233	22,189,458
Personal accident	19,988,845	5,596,877	14,391,968
Aviation	64,974,000	52,628,940	12,345,060
	1,084,744,243	826,290,611	258,453,632

Notes (continued)

4 Financial risk management objectives and policies (continued)

4.2 Financial risk

The Company is exposed to financial risk 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 its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, currency risk and credit 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. Appraisal of investment portfolio is done on a regular basis and the investment spread reviewed depending on the existing interest rates.

(a) 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 and comprises of three types of risk: interest rate risks, equity price risk and foreign exchange currency risk. The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant:

(i) Interest rate risk

The Company is exposed to the risk that the level of interest income and in effect the cash flows will fluctuate due to changes in market interest rates. To manage this risk, the Company ensures that the investment maturity profiles are well spread.

The sensitivity analysis presented below shows how profit and equity would change if the interest rates had increased/(decreased) on the reporting date with all other variables held constant.

	2018 Shs '000		**2017 Shs '000**	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity
+ 5 percentage point movement	5,249	5,249	5,045	5,045
- 5 percentage point movement	(5,249)	(5,249)	(5,045)	(5,045)

(ii) 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.

Notes (continued)

4 Financial risk management objectives and policies (Continued)

4.2 Financial risk (continued)

(a) Market risk (continued)

The Company is exposed to equity securities price risk as a result of its holdings in equity investments which are listed and traded on the Nairobi Securities Exchange. Exposure to equity price risks 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 equity securities both in aggregate terms and by category/share. This policy of diversification is used to manage the Company's price risk arising from its investments in equity securities.

Changes in the price of equities would have the following impact on the other comprehensive income with all other variables held constant:

(ii) Equity price risk

	Gross Portfolio Shs'000	% change in price	Impact to OCI Shs'000
31st December 2018	811,887	+/- 5%	41,791
31st December 2017	805,441	+/- 5%	35,022

(iii) Foreign exchange currency risk

Foreign exchange currency risk is the risk that the fair value of future cash flows of a financial instrume will fluctuate because of changes in foreign exchange rates. Management believes that there is minim risk of significant losses due to exchange rate fluctuations.

The following sensitivity analysis shows how profit and other comprehensive income would change if the exchange rates changed at the reporting date with all other variables held constant, mainly as a result of translation of US Dollar denominated equity investments and cash balances.

	Gross Portfolio Shs'000	% change in price	Impact to OCI Shs'000
31st December 2018	459,102	+/- 5%	22,696
31st December 2017	431,901	+/- 5%	20,232

Notes (continued)

4 Financial risk management objectives and policies (Continued)

4.2 Financial risk (continued)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the Company by failing to discharge a contractual obligation. The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- Net exposure limits are set for each counterparty or group of counterparties i.e. limits are set for investments and cash deposits, and minimum credit ratings for investments that may be held.
- Reinsurance is placed with counterparties that have a good credit rating.
- Ongoing monitoring by the management credit committee.

The exposure to individual counterparties is also managed through other mechanisms, such as the right · offset where counterparties are both debtors and creditors of the Company. Management information reporte to
the Directors include details of provisions for impairment on receivables and subsequent write offs.
Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitorir of the controls associated with regulatory solvency.
The table below shows the carrying amounts of financial assets bearing credit risk

Maximum exposure to credit risk before collateral held

	2018 Shs'000	2017 Shs'000
Corporate bonds	52,493	98,895
Other receivables	20,206	48,326
Receivables arising out of direct insurance arrangements	496,717	403,231
Receivables arising out of reinsurance arrangements	24,878	70,032
Government securities at amortised cost	1,039,621	730,458
Deposits with financial institutions	1,165,633	1,062,042
Bank balances	17,675	14,572
	2,817,223	**2,427,556**

<u>Management of credit risk</u>

The Board of Directors has delegated responsibility for the management of credit risk to the Company's management through the Managing Director.

The Company has no significant concentrations of credit risk. The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved periodically by the Board Investment Committee (BIC) and ratified 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 for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

Notes (continued)

4 Financial risk management objectives and policies (Continued)

4.2 Financial risk (continued)

(b) Credit risk

The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on loans and receivables and subsequent write-offs. BIC makes regular reviews to assess the degree of compliance with the Company 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 of the Company.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings if available or historical information about counterparty default rates.

Owing to the fact that there is no readily available credit rating information, the Company assesses the credit quality of the institution, taking into account its financial position, pas experience and other factors.

The table below provides the information regarding the credit risk exposure of the Company.

Notes (continued)

4 Management of Insurance and financial risk (continued)

4.2 Financial risk (continued)

(b) Credit risk (continued)

31 December 2018	ECL stage 1 Shs'000	ECL stage 2 Shs'000	ECL stage 3 Shs'000	Total Shs'000
Receivable arising out of direct insurance Arrangements	496,717	-	-	496,717
Receivable arising out of reinsurance Arrangements	24,878	-	-	24,878
Government securities	1,039,621	-	-	1,039,621
Corporate bonds	52,493	-	-	52,493
Deposits with financial institutions	1,165,633	-	-	1,165,633
Staff loans	12,606	-	-	12,606
Rent & other receivables	7,600	-	-	7,600
Cash and bank balances	17,675	-	-	17,675
	2,817,223	-	-	2,817,223

31 December 2017	ECL stage 1 Shs'000	ECL stage 2 Shs'000	ECL stage 3 Shs'000	Total Shs'000
Receivable arising out of direct insurance Arrangements	403,231	-		403,231
Receivable arising out of reinsurance Arrangements	70,032	-	-	70,032
Government securities	730,458	-	-	730,458
Corporate bonds	98,895	-	-	98,895
Deposits with financial institutions	1,062,042	-	-	1,062,042
Staff loans	14,065	-	-	14,065
Rent & other receivables	22,605	-	10,000	32,605
Cash and bank balances	14,572	-	-	14,572
	2,415,900	-	10,000	2,425,900

The stage 3 receivable balance was written off in the year.

The following is a movement of impairment provision account:

Notes (continued)

4 Management of Insurance and financial risk (continued)

4.3 Financial risk (continued)

(b) Credit risk (continued)

	Government securities	Corporate Bonds	Insurance receivables	Other receivables	Deposits with financial institutions	Total
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
The movement in the provisions is as follows:						
At 1 January 2018	429	23	1,955	-	760	3,167
Additional provision	611	-	465	-	12	1,088
Unused amounts reversed	-	-	-	-	-	-
At end of year	1,041	23	2,420	-	772	4,256

Notes (continued)

4 Management of Insurance and financial risk (continued)

4.2 Financial risk (continued)

(c) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. Ultimate responsibility for liquidity risk management rests with the board of Directors, which has developed and put in place an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Between 1 – 3 months Shs'000	Over 12 months Shs'000	Undefined maturity Shs'000	Total Shs'000
At 31 December 2018				
Payables arising from				
- reinsurance arrangements	196,351	-	-	196,351
- insurance arrangements	22,204	-	-	22,204
Outstanding claims provisions	1,835,758	-	-	1,835,758
	2,054,313	-	-	2,054,313
At 31 December 2017				
Payables arising from				
- reinsurance arrangements	237,003	-	-	237,003
- insurance arrangements	8,533	-	-	8,533
Outstanding claims provisions	1,740,264	-	-	1,740,264
	1,985,800	-	-	1,985,800

Notes (continued)

4 Financial risk management objectives and policies (continued)

4.3 Capital management

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

- 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;
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk;
- to comply with the capital requirements as set out in the Insurance Act; and
- to comply with the regulatory solvency requirements as set out in the Insurance Act.

An important aspect of the Company's overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the Company is focused on the creation of value for shareholders.

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.

Externally imposed capital requirements

The Insurance Act in Kenya requires a general insurance Company to hold the minimum level paid up capital as the higher of:

- Shs 600 million
- Risk based capital determined from time to time, or
- 20% of the net earned premiums of the preceding financial year.

During the year the Company met requirements for the minimum paid up capital for an insurance business as prescribed by section 41 (1) of the Insurance Act.

The Capital Adequacy Ratio of the Company as at 31 December 2018 and 2017 is illustrated below.

	2018 Ratio (%)	2017 Ratio (%)
Capital Adequacy Ratio	242%	216%

Notes (continued)

4 Financial risk management objectives and policies (continued)

4.4 Fair value estimation (Continued)

(a) Fair value hierarchy of financial assets at fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's financial assets and liabilities measured at fair value at 31 December 2018 and 31 December 2017

	Level 1 Ksh'000	Level 2 Ksh'000	Level 3 Ksh'000	Total Ksh'000
31 December 2018				
Equity instruments at FVOCI	163,901	-	647,986	811,887
31 December 2017				
Equity instruments at FVOCI	197,161	-	608,280	805,441

(b) Fair value hierarchy of financial assets at amortised cost

The following table presents the fair value of the Company's financial assets measured at amortised cost at 31 December 2018 and 31 December 2017:

Financial assets	**Amortised cost** Shs '000	**Fair Value** Shs '000
At 31 December 2018		
Government securities	1,040,661	1,110,110
Corporate bonds	52,493	52,493
Receivables arising out of direct insurance arrangements	496,717	496,717
Deposits with financial institutions	1,165,633	1,165,633
Other receivables	7,600	7,600
Loans receivable	12,606	12,606
Cash and cash equivalents	17,675	17,675
Total	2,793,385	2,862,834

Notes (continued)

4 Financial risk management objectives and policies (continued)

4.3 Fair value estimation (Continued)

(b) Fair value hierarchy of financial assets at amortised cost (continued)

Financial assets

At 31 December 2017	**Amortised cost Shs '000**	**Fair Value Shs '000**
Government securities	730,458	755,966
Corporate bonds	98,895	98,895
Receivables arising out of direct insurance arrangements	403,231	403,231
Deposits with financial institutions	1,062,042	1,062,042
Other receivables	34,261	34,261
Staff loans	14,065	14,065
Cash and cash equivalents	14,572	14,572
Total	2,357,524	2,383,032

5 Gross earned premium

	2018 Shs'000	**2017 Shs'000**
Motor	632,847	558,954
Fire	936,051	790,731
Workmen's compensation	336,220	345,049
Marine	154,034	166,440
Personal accident	43,632	36,135
Engineering	399,595	219,571
Aviation	11,750	10,709
Miscellaneous	160,757	83,989
Theft	137,549	127,225
Others	50,803	52,624
Total	2,863,238	2,391,427

Notes (continued)

6 Investment income

	2018 Shs'000	2017 Shs'000
Fair value gain on investment properties (Note15)	3,531	20,502
Interest on bank deposits	83,721	90,481
Interest on Government securities	110,100	49,817
Rental income from investment properties (Note 15)	22,604	24,176
Dividends receivable on equity instruments	13,432	20,153
Interest on corporate bonds	11,049	13,471
Total	244,437	218,960

Investment income earned analysed by category of assets, is as follows:

	2018 Shs'000	2017 Shs'000
Cash and bank balances	83,721	90,481
Government security & corporate bonds	121,149	63,288
Equity investments	13,432	20,513
Investment property	26,135	44,678
Total investment income	244,437	218,960

7 Other income

	2018 Shs'000	2017 Shs'000
Miscellaneous income	3,417	1,768
	3,417	1,768

8 Claims incurred

	2018 Shs'000	2017 Shs'000
Motor	360,800	305,661
Workmen's compensation	157,845	159,473
Marine	42,436	42,331
Theft	25,833	9,043
Fire	75,254	55,972
Engineering	38,339	35,843
Personal accident	3,967	(1,389)
Other	13,379	11,790
	717,853	618,724

Notes (continued)

9 (a) Operating and other expenses

	2018 Shs'000	2017 Shs'000
Staff costs (Note 10)	225,224	192,103
Depreciation of property, plant and equipment (Note 13)	23,480	20,025
Amortisation of computer software (Note 14)	10,338	13,240
Subscriptions	2,485	2,334
Repairs and maintenance expenditure	12,507	9,745
Rent, rates and parking	9,310	6,557
Printing and stationery	8,041	7,279
Telephone and postage	5,076	4,273
Travelling and entertainment	34,513	14,350
Advertising costs	19,312	12,473
Licenses and insurance	7,444	6,026
Auditors' remuneration	5,144	5,753
Directors' emoluments	4,199	3,438
Premium tax	34,014	28,470
Other expenses	65,799	55,079
	466,886	381,145

9 (b) Net impairment losses on financial instruments

	2018 Shs'000	2017 Shs'000
Government securities	611	-
Bank and cash balances	12	-
Receivables arising out of direct insurance arrangements	465	-
	1,088	-

10 Staff costs

	2018 Shs'000	2017 Shs'000
Salaries and benefits	206,404	176,262
Defined contribution retirement schemes		
- Pension Fund	18,603	15,635
- National Social Security Fund	217	206
	225,224	192,103

The average number of employees during the year was as follows

	2018	2017
Underwriting and claims	47	42
Management and administration	43	47
Total	90	89

Notes (continued)

		2018	2017
11	**Income tax expense**	**Shs '000**	**Shs '000**
(a)	**Taxation charge**		
	Current tax expense in respect of the year	138,775	123,007
	Deferred income tax – charge recognised (Note 31)	7,743	5,150
	Over provision of deferred tax in prior years (Note 31)	-	10,866
	At 31 December	146,518	139,023

(b) Reconciliation of taxation charge to expected based on accounting profit

The Company's income tax expense is computed in accordance with income tax rules applicable to general insurance companies.

	2018 Shs '000	2017 Shs '000
Profit before income tax	508,344	409,539
Tax calculated at a tax rate of 30%	152,503	122,862
Tax effect of:		
- Income not subject to tax	(15,550)	(12,887)
- Expenses not deductible for tax purposes	9,565	18,182
- Over provision of deferred tax in prior years	-	10,866
At 31 December	146,518	139,023

(c)	**Corporate tax payable/(recoverable)**		
	At 1 January	4,144	(2,075)
	Taxation charge – Note (11a)	138,775	123,007
	Tax paid	(139,174)	(116,788)
	At 31 December	3,745	4,144
12	**Earnings per share – basic and diluted**		
	Profit for the year (Shs '000)	361,826	270,516
	Weighted average number of shares in issue during the year	10,000,000	7,500,000
	Earnings per share (basic and diluted) (Shs)	36.18	36.07

Notes (continued)

13 Property and equipment

	Building	Partitioning	Motor vehicles	Computer equipment	Furniture fittings and equipment	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cost or valuation						
At 1 January 2017	215,962	63,908	11,212	17,028	62,652	370,762
Additions	-	-	1,550	2,510	1,255	5,315
Surplus on revaluation	10,798	-	-	-	-	10,798
Disposals	-	-	(742)	-	-	(742)
At 31 December 2017	226,760	63,908	12,020	19,538	63,907	386,133
At 1 January 2018	226,760	63,908	12,020	19,538	63,907	386,133
Additions	-	14,567	6,600	4,912	4,563	30,642
Surplus on revaluation	1,223	-	-	-	-	1,223
Transfer from IP	37,901	-	-	-	-	37,901
Disposals	-	-	(2,260)	(517)	(3,069)	(5,846)
At 31 December 2018	265,884	78,475	16,360	23,933	65,401	450,053
Comprising						
At cost	82,708	78,475	16,360	23,933	65,401	266,877
At valuation 2018	183,176	-	-	-	-	183,176
At 31 December 2018	265,884	78,475	16,360	23,933	65,401	450,053
Depreciation						
At 1 January 2017		24,981	5,343	12,775	27,510	70,609
Charge for the year	6,749	4,866	1,832	2,029	4,549	20,025
Eliminated on disposal	-	-	(648)	-	-	(648)
Reversal on revaluation	(6,749)	-	-	-	-	(6,749)
At 31 December 2017	-	29,847	6,527	14,804	32,059	83,237
At 1 January 2018	-	29,847	6,527	14,804	32,059	83,237
Charge for the year	7,315	6,078	2,869	2,850	4,367	23,479
Eliminated on disposal	-	-	(1,643)	(372)	(1,592)	(3,607)
Reversal on revaluation	(7,315)	-	-	-	-	(7,315)
At 31 December 2018	-	35,925	7,753	17,282	34,834	95,794

Notes (continued)

13 Property and equipment (Continued)

	Building Shs'000	Partitioning Shs'000	Motor vehicles Shs'000	Computer equipment Shs'000	Furniture fittings and equipment Shs'000	Total Shs'000
Net book value						
At 31 December 2018	265,884	42,550	8,607	6,651	30,567	354,259
At 31 December 2017	226,760	34,061	5,493	4,734	31,848	302,896

	Building Shs'000	Partitioning Shs'000	Motor vehicles Shs'000	Computer equipment Shs'000	Furniture fittings and equipment Shs'000	Total Shs'000
Net book value (cost basis)						
At 31 December 2018	82,708	38,927	5,869	4,353	35,042	166,899
At 31 December 2017	57,153	38,927	5,869	4,353	35,042	141,344

The building was valued on 31st December 2018 by Gimco Limited, registered valuers, on an open market value basis using the
highest and best use valuation principle.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Notes (continued)

13 Property and equipment (continued)

Details of the fair value hierarchy of the Company's property held at fair value as at 31 December 2018 are as follows:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2018				
- Property, plant and equipment	-	-	265,884	265,884
31 December 2017				
- Property, plant and equipment	-	-	226,760	226,760

14 Intangible assets – computer software

	2018 Shs'000	2017 Shs'000
Cost		
At 1 January	54,440	47,909
Additions	4,096	6,531
At 31 December	58,536	54,440
Amortisation		
At 1 January	43,291	30,051
Charge for the year	10,338	13,240
At 31 December	53,629	43,291
Net book value	4,907	11,149

15 Investment properties

Revaluation		
At 1 January	460,459	434,974
Additions	-	4,983
Transfer to PPE	(37,901)	-
Fair value gain (Note 6)	3,531	20,502
At 31 December	426,089	460,459

Notes (continued)

15 Investment properties (continued)

Investment properties comprise a building and leasehold land. The building constructed on the land is held for the purposes of earning rental income and capital appreciation. The investment properties are held at fair value. The properties were valued on 31st December 2018 by Gimco Limited, registered valuers, on an open market value basis using the highest and best use valuation principle.

Rental income arising from investment properties during the year amounted to Ksh 22,604,000 (2017: Ksh 20,513,000) as disclosed in note 6. Expenses relating to investment property amounted to Ksh 1,289,821 (2017: Ksh 1,171,729).

Details of the fair value hierarchy of the Company's Investment property held at fair value as at 31 December 2018 are as follows:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2018	-	-	426,089	426,089
31 December 2017	-	-	460,459	460,459

16 Investment in associates

The Company has a 40% equity interest in Mayfair Insurance Company Zambia Limited, Mayfair Insurance Company Tanzania Limited and Mayfair Insurance Company Rwanda Limited. The share of net assets of the associate as at 31 December is as shown below

	2018 Shs '000	2017 Shs '000
At 1 January	185,053	65,372
Share of net profit		
- Mayfair Zambia	12,019	4,200
- Mayfair Rwanda	1,971	(32,148)
- Mayfair Tanzania	19,308	(6,967)
Total	33,298	(34,915)
Additions	101,263	154,596
At 31 December	319,614	185,053

Further information on the associate companies is as shown below:

Notes (continued)

16 Investment in associates (continued)

Company	% owned	Country of incorporation
Mayfair Insurance Company Zambia Limited	40	Zambia
Mayfair Insurance Company Tanzania Limited	40	Tanzania
Mayfair Insurance Company Rwanda Limited	40	Rwanda
Mayfair Insurance Company Uganda Limited	40	Uganda

A summary of financial information as of 31st December 2018 in respect of the associate companies is set out below:

	Zambia Shs'000	Rwanda Shs'000	Tanzania Shs'000	Uganda Shs'000
Total assets	2,117,477	338,856	2,022,551	191,170
Total liabilities	(1,902,796)	(194,701)	(1,790,832)	(4,941)
Net assets	214,681	144,155	231,719	186,229
Company's share of net assets	85,872	57,662	92,688	74,492
Net earned premiums	343,240	74,868	353,198	93
Profit/ (Loss) before income tax	92,070	261	86,280	(17,939)
Income tax	(31,511)	-	(26,093)	-
Profit for the year	60,559	261	55,348	(17,939)
Cash flows from operating activities	(274,745)	16,342	138,091	(18,859)
Cash flows from investing activities	(26,588)	(106,463)	(161,222)	(23,276)
Cashflows from financing activities	(8,439)	54,471	-	204,167
Net movement in cash flows	(309,772)	(35,650)	(23,131)	162,032

Notes (continued)

17 Investment in joint arrangements

The Company holds interests in joint operations for the acquisition and the development of real estate projects in the above companies. Currently, the Company has deposited funds with the Companies that are serving as vehicles for execution of joint arrangement projects. The joint operations have not yet commenced full operation.

	2018 Shs'000	2017 Shs'000
At 1 January	269,822	269,822
Additions	50,230	-
At 31 December	320,052	269,822

Name of joint arrangement	Principal activity	Place of incorporation	Proportion of ownership interest held by the Company	2018 Shs'000	2017 Shs'000
Mayfair Estates Limited	Real Estate	Kenya	50%	69,850	69,850
Kitisuru Development Limited	Real Estate	Kenya	30%	138,503	88,503
Sealine Holdings Limited	Real Estate	Kenya	30%	68,859	68,829
Rushmore Investments Limited	Real Estate	Kenya	20%	42,840	42,640
				320,052	269,822

18 Equity investments at FVOCI

	Quoted shares Shs'000	Unquoted equity investments Shs'000	Total Shs'000
2018			
At 1 January	197,161	608,280	805,441
Additions	-	6,385	6,385
Exchange losses	-	(5,337)	(5,337)
Fair value gains through other comprehensive income	(33,260)	38,658	5,398
At 31 December	163,901	647,986	811,887

Notes (continued)

18 Equity investments at FVOCI (continued)

	Quoted shares Shs'000	Unquoted equity investments Shs'000	Total Shs'000
2017			
At 1 January	164,948	549,192	714,140
Additions	-	6,056	6,056
Exchange gains	-	533	533
Fair value gains through other comprehensive income	32,213	52,499	84,712
At 31 December	197,161	608,280	805,441

The unquoted investments relate to ordinary shares in PTA Reinsurance Company Limited, Family Bank Company Limited, UAP Holdings and Mayfair Bank. The investments are carried at fair value and are denominated in the US Dollar in the case of the investment in PTA Reinsurance and in Kenya shillings in all other cases. The investments denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of reporting period. The exchange gains and losses are dealt with through other comprehensive income.

19 Reinsurers' share of technical provisions and reserves

	2018 Shs'000	2017 Shs'000
Reinsurers' share of		
- Unearned premiums	691,855	456,555
- Notified claims (Note 28)	337,923	246,389
- Claims incurred but not reported (Note 28)	55,949	56,205
	1,085,727	759,149

20 Deferred acquisition costs

	2018	2017
At 1 January	155,878	147,217
Increase in the year	47,798	8,661
	203,676	155,878

Notes (continued)

21 Receivables arising out of direct insurance

	2018 Shs'000	2017 Shs'000
Premium receivables	499,138	403,231
Provision for impairment	(2,421)	-
	496,717	403,231

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

22 Other receivables

	2018 Shs'000	2017 Shs'000
Deposits held at financial institution under statutory management	-	10,000
Prepayments and deposits	1,591	1,656
Loans receivable	12,606	14,065
Rent and other receivables	6,009	22,605
	20,206	48,326

23 Government securities – amortised cost

Treasury bills and bonds maturing		
- In 1 to 5 years	45,437	381,920
- More than 5 years	994,184	348,538
	1,039,621	730,458

Movement in government securities

At 1 January	730,458	430,268
Additions	647,550	300,190
Maturities/ redemptions	(337,346)	-
Impairment provision	(1,041)	-
At 31 December	1,039,621	730,458

Notes (continued)

24 Corporate bonds – amortised cost

Kengen – Public Infrastructure Bond	2,772	5,487
British American Insurance Bond	-	43,380
UAP Holdings Bond	16,448	16,467
NIC Bank Bond	33,273	33,561
	52,493	98,895
Movement in corporate bonds		
At 1 January	98,895	111,380
Maturities/ redemptions	(46,402)	(12,485)
Impairment provision	(22)	-
At 31 December	52,493	98,895
Corporate bonds maturing		
- In less than 1 year	52,493	43,380
- In 1 to 5 years	-	55,515
At 31 December	52,493	98,895

25 Deposits with financial institutions

	2018 Shs'000	2017 Shs'000
Deposits maturing within 3 months	1,165,633	1,062,042
Movement in deposits with financial institutions		
At 1 January	1,062,042	1,039,416
Additions	225,663	127,041
Redemptions	(121,300)	(104,415)
Impairment provision	(772)	-
At 31 December	1,165,633	1,062,042

Notes (Continued)

26 Weighted average effective interest rates

The following table summarises the weighted average effective interest rates realised during the year on interest-bearing investments:

	2018 %	2017 %
Government securities	12.5	12.2
Deposits with financial institutions	8.7	9.5
Corporate bonds	12.7	12.0

27 Share capital

	2018 Shs'000	2017 Shs'000
Authorised		
10,000,000 ordinary shares of Shs 100 each	1,000,000	750,000
Issued and fully paid		
1,000,000 (2017: 7,500,000) ordinary shares of Shs 100 each	1,000,000	750,000
Movement		
At 1 January	750,000	600,000
Capitalization of dividends	75,000	50,000
Share capital injection	175,000	100,000
At 31 December	1,000,000	750,000

28 Outstanding claims provision

Outstanding claims	1,549,820	1,495,474
Claims incurred but not reported	285,938	244,790
At 31 December	1,835,758	1,740,264

Notes (Continued)

28 Outstanding claims provision (Continued)

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The table below illustrates how the Company's estimate of total claims outstanding for each accident year has changed at successive year ends.

Accident year	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs '000**	**Shs'000**
Claims outstanding						
At end of accident year	651,592	727,803	769,828	669,585	905,476	
One year later	575,793	845,832	852,405	679,110	-	
Two years later	625,718	903,624	925,021	-	-	
Three years later	650,597	899,571	-	-	-	
Four years later	654,399	-	-	-	-	
Current estimate of cumulative claims	654,399	899,571	925,021	679,110	905,476	4,063,577
Less: Cumulative payments to date	(513,204)	(632,987)	(703,977)	(495,884)	(356,669)	(2,702,721)
Liability in the statement of financial position	141,195	266,584	221,044	183,226	548,807	1,360,856
Liability in respect of prior years	-	-	-	-	-	188,964
Incurred but not reported	-	-	-	-	-	285,938
Total gross claims liability included in the statement of financial position						1,835,758

Notes (continued)

29 Movement in insurance liabilities and reinsurance assets

The table below shows the movement in the Company's outstanding claims provision and related reinsurance share of outstanding claims.

	Gross outstanding claims Shs'000	Reinsurance share Shs'000	Net Shs'000
At 1 January 2018			
Notified claims	1,495,474	246,389	1,249,085
Incurred but not reported	244,790	56,205	188,585
Total at beginning of year	1,740,264	302,594	1,437,670
Claims paid in year	963,894	250,257	713,637
Increase in liabilities: -			
- Arising from current year claims	701,326	86,214	615,112
- Arising from prior year claims	170,538	57,401	113,137
At end of year	1,835,758	393,872	1,441,746
Notified claims	1,549,820	337,923	1,211,897
Incurred but not reported	285,938	55,949	229,989
Total at end of year	1,835,758	393,872	1,441,886
At 1 January 2017			
Notified claims	1,337,238	254,603	1,082,635
Incurred but not reported	223,109	61,744	161,365
Total at beginning of year			
Claims paid in year	1,560,347	316,347	1,244,000
Increase in liabilities: -	695,911	270,854	425,057
- Arising from current year claims			
- Arising from prior year claims	699,761	228,092	471,669
	176,066	29,008	147,058
At end of year	1,740,264	302,594	1,437,670
Notified claim	1,495,474	246,389	1,249,085
Incurred but not reported	244,790	56,205	188,585
Total at end of year	1,740,264	302,594	1,437,670

Notes (continued)

30 Unearned premium reserve

	2018 Shs'000	2017 Shs'000
At 1 January	952,551	966,042
Increase/ (decrease) in the year	376,655	(13,491)
At 31 December	1,329,206	952,551

31 Deferred reinsurance commissions

	2018 Shs'000	2017 Shs'000
At 1 January	83,566	83,388
Increase in the year	35,386	178
At 31 December	118,952	83,566

32 Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2017: 30%). Deferred tax assets and liabilities, and the deferred tax charge/(credit) in the statement of profit or loss (P/L) and in other comprehensive income (OCI) are attributable to the following items:

	2018 Shs'000	2017 Shs'000
At 1 January	71,052	43,621
Charge to statement of profit or loss	7,743	16,016
Charge to statement of comprehensive income	2,561	11,415
Adjustment on initial application of IFRS 9	(951)	-
At 31 December	80,405	71,052

Notes (continued)

32 Deferred income tax (continued)

Year ended 31 December 2018	**At 1 Jan 2018 Shs'000**	**(Credited/ charged to P/L Shs'000**	**(Credited) /charged to OCI Shs'000**	**IFRS 9 application adjustment Shs'000**	**At 31 Dec 2018 Shs'000**
Deferred income tax asset					
Leave pay provision	(2,912)	964	-	-	(1,948)
Unrealised exchange losses	(223)	76	-	-	(147)
Provisions	-	-	-	(951)	(951)
Deferred income tax asset	(3,135)	1,040		(951)	(3,046)
Deferred income tax liability					
Accelerated capital allowances	27,119	6,703	-	-	33,822
Revaluation surplus	47,068	-	2,561	-	49,629
Deferred income tax liability	74,187	6,703	2,561	-	83,451
Net deferred tax liability	71,052	7,743	2,561	(951)	80,405

Year ended 31 December 2017	**At 1 Jan 2017 Shs'000**	**(Credited/ charged to P/L Shs'000**	**(Credited) /charged to OCI Shs'000**	**IFRS 9 application adjustment**	**At 31 Dec 2017 Shs'000**
Deferred income tax asset					
Leave pay provision	(2,261)	(651)	-	-	(2,912)
Unrealised exchange losses		(223)	-	-	(223)
Deferred income tax asset	(2,261)	(874)	-	-	(3,135)
Deferred income tax liability					
Accelerated capital allowances	10,865	16,254	-	-	27,119
Unrealised exchange gains	928	(928)	-	-	-
Revaluation surplus	34,089	1,564	11,415	-	47,068
Deferred income tax liability	45,882	16,890	11,415	-	74,187
Net deferred tax liability	43,621	16,016	11,415	-	71,052

Notes (continued)

32 Deferred income tax (continued)

The charge to other comprehensive income relates to:

	2018 Shs'000	2017 Shs'000
Items that will not be reclassified subsequently to profit or loss:		
Surplus on revaluation of property and equipment	2,561	11,415

33 Other payables

	2018 Shs'000	2017 Shs'000
Accrued expenses	18,306	19,444
Other liabilities	37,870	25,856
	56,176	45,300

34 Notes to the statement of cashflows

	2018 Shs'000	2017 Shs'000
(a) Cash generated from operations		
Reconciliation of profit before income tax to cash generated from operations;		
Profit before income tax	508,344	409,539
Adjustments for:		
Depreciation (note 13)	23,479	20,025
Amortisation of intangible asset (note 14)	10,338	13,240
Fair value gain on investment properties (note 15)	(3,531)	(20,502)
Impairment of financial assets as per IFR 9	(1,088)	-
Share of profit of associate after tax	(33,298)	34,915
Changes in:		
- receivables arising out of reinsurance arrangements	45,154	(58,390)
- receivables arising out of direct insurance arrangements	(93,486)	12,209
- reinsurers share of technical provisions and reserves	(326,578)	67,237
- deferred acquisition cost	(47,798)	(8,661)
- other receivables	28,120	1,181
- outstanding claims provisions	95,494	179,916
- unearned premiums reserve	376,655	(13,491)
- payables arising out of reinsurance arrangements	(40,652)	(100,400)
- payables arising out of direct insurance arrangements	13,671	(11,911)
- deferred reinsurance commission	35,386	178
- other payables	10,875	(25,783)
Cash generated from operations	601,085	499,302

Notes (continued)

34 Notes to the statement of cashflows (continued)

b) Analysis of cash and cash equivalents

	2018 Shs'000	2017 Shs'000
Cash and bank balances	17,675	14,572
Deposits with financial institutions maturing in 3 months (Note 24)	1,165,633	1,062,042
At 31 December	1,183,308	1,076,614

35 Related parties

The following transactions were carried out with related parties		
Directors' fees	4,199	3,438
Directors and key management remuneration	122,839	116,258
Gross earned premiums Related party	1,984	1,521

36 Dividends

The Directors recommend a first and final cash dividend of Shs 17.50 per share amounting to Shs 175,000,000 in respect of the year ended 31 December 2017 (2017 dividends Shs. 150,000,000) The movement in the dividend account is as follows:

	2018 Shs'000	2017 Shs'000
Proposed at 1 January	150,000	100,000
Final dividend declared	175,000	150,000
Declared dividends paid	(150,000)	(100,000)
At 31 December	175,000	150,000

Notes (continued)

37 Operating lease commitments

Outstanding commitments under operating leases are as follows:

	2018 Shs'000	2017 Shs'000
Company as a lessor:		
Not later than one year	23,502	24,409
Amounts charged to the profit or loss in the Year in respect of operating leases	22,604	20,513

38 Contingent liabilities

The company received an assessment of Shs 87 million (including interest and penalties) payable to Kenya Revenue Authority. The assessment was with regards to excise duty on excisable revenue streams that the authority assessed the Company should have declared. A provision of Shs 9 million has been carried in the books based on the directors' assessment of what is payable. The matter is still under discussion and the directors are not yet in a position to quantify the amount, if any, that will eventually be paid. The assessment is based on a legal opinion from our lawyer's interpretation of the law and conclusion that there is not likely to be any outflow of resources in excess of the provision held.

APPENDIX

COMPANY REVENUE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Class of insurance business	Aviation	Engineering	Fire Domestic	Fire ndustrial	Liability	Marine	Motor Private	Motor Commercial	Personal Accident	Theft	Workmens' Compensation	Miscellaneous	2018 Total	2017 Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Gross premium written	12,353	413,521	68,206	860,634	51,638	177,774	371,041	352,437	48,779	153,829	347,503	146,878	3,004,593	2,431,420
Unearned premium at the beginning of the year	1	32,395	9,794	49,388	13,635	15,398	114,656	91,885	8,424	10,878	119,199	30,343	495,996	456,003
Unearned premium at the end of the year	604	46,321	13,827	38,144	14,469	39,138	145,249	151,923	13,572	27,158	130,482	16,464	637,351	495,996
Premium ceded to re-insurers	9,981	303,276	31,137	784,752	14,513	47,553	16,555	9,621	13,640	94,658	11,906	119,330	1,456,922	1,068,744
Net earned premium	1,769	96,319	33,036	87,126	36,291	106,481	323,893	282,778	29,991	42,891	324,314	41,427	1,406,316	1,322,683
Claims paid	-	31,130	11,691	28,516	2,135	48,368	185,157	195,470	3,262	18,091	189,290	527	713,637	425,057
Claims outstanding brought forward	-	30,671	7,854	20,895	19,286	68,725	156,539	416,250	1,221	11,645	688,915	15,668	1,437,669	1,244,001
Claims outstanding carried forward	47	37,880	7,504	56,294	26,403	62,793	162,301	390,661	1,926	19,386	657,471	19,219	1,441,885	1,437,669
Claims incurred	47	38,339	11,341	63,915	9,252	42,436	190,919	169,881	3,967	25,832	157,846	4,078	717,853	618,725
Commissions (net)	(462)	(58,602)	2,799	(47,183)	6,411	14,284	30,608	26,336	4,182	(2,279)	63,119	(45,916)	(6,703)	99,089
Expenses of management	383	53,499	8,664	46,793	5,795	24,855	85,185	69,177	4,043	16,574	58,096	14,136	387,200	315,644
Premium tax	140	4,681	772	9,743	585	2,013	4,200	3,990	552	1,741	3,934	1,663	34,014	28,469
Total expenses	61	(422)	12,235	9,353	12,791	41,152	119,993	99,503	8,777	16,036	125,149	(30,117)	414,511	443,202
Underwriting profit	1,661	58,402	9,460	13,858	14,248	22,893	12,981	13,394	17,247	1,023	41,319	67,466	273,952	260,576

Vishal Patel
Chairman

Bharat Shah
Director

Joshua Chiira
Managing Director