KENYA

Regional Presence

- Zambia
- Tanzania
- Rwanda
- Uganda
- DR Congo

MAYFAIR INSURANCE

You are in safe hands

Annual Report
& Financial Statements

2019

FINANCIAL STRENGTH RATING A+ (KE) MAYFAIR INSURANCE CO. LTD

Welcome to our Annual Report and Financial Statements.

2019

COMPANY INFORMATION

COMPANY REPORT

FINANCIAL STATEMENTS

DIRECTORS

Vishal Patel	Chairman
Joshua Chiira	Managing Director
Bharat .V. Shah	
Diana Bird	
Rajnikant Varia	
Deepa Doshi	
Shamil Manek	
Alvin Rachier	
Bhavik Patel	

MANAGEMENT

Joshua Chiira	Managing Director
Rajiv Ranjan	Executive Director
S.K. Singh	General Manager
Vivek Singh	Assistant General Manager
James Ndegwa	Reinsurance Manager
Anand Lakhani	Regional Manager
Gibson Ndungu	Business Development Manager
James Macharia	Underwriting Manager
Gabriel Juma	Underwriting Asst. Manager
Leah Mburu	Bancassurance Manager
Priya Shah	Mombasa Branch Manager
Peter Ngugi	Deputy Manager - IT
Eva Wambui	Claims Manager
Emma Mwangi	Legal Manager
Darshna Patel	Finance Manager
Gladys Gichogo	Finance Manager
Joseph Mutinda	Marketing, Branding & Communication Asst. Manager

SECRETARY

Jophece O. Yogo
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

AUDITOR

PricewaterhouseCoopers LLP
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

PRINCIPAL BANKERS

MayfairCIB Bank Limited
Mayfair Center
P O Box 2051 – 00606,
Nairobi.

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

Our values and goals

VISION

To be distinguished as a reliable and Innovative Pan-African Financial Services Leader.

MISSION

To provide financial security through reliable and innovative Insurance solutions

CORE VALUES

- Integrity
- Professionalism
- Reliability
- Respect

FINANCIAL STRENGTH RATING
A+
(KE)
MAYFAIR INSURANCE CO. LTD

KENYA
ZAMBIA
TANZANIA
RWANDA
UGANDA
DR CONGO

Our Regional presence and growing customer base shows our commitment to deliver exceptional customer experience.

Board of Directors

Vishal Patel - Chairman

Joshua Chiira
Managing Director

Rajnikant Varia
Director

Bhavik Patel
Director

Deepa Doshi
Director

Bharat .V. Shah
Director

Shamil Manek
Director

Diana Bird
Director

Alvin Rachier
Director

BOARD STRATEGY COMMITTEE

- ✓ Mr. Rajnikant Varia
- ✓ Ms. Diana Bird
- ✓ Mr. Shamil Manek
- ✓ Mr. Joshua Chiira

BOARD INVESTMENT & HR COMMITTEE

- ✓ Mr. Bharat Shah
- ✓ Mr. Alvin Rachier
- ✓ Mr. Bhavik Patel
- ✓ Mr. Joshua Chiira

BOARD AUDIT RISK & COMPLIANCE COMMITTEE

- ✓ Ms. Deepa Doshi
- ✓ Mr. Rajnikant Varia
- ✓ Mr. Alvin Rachier
- ✓ Mr. Joshua Chiira

Management Team

JOSHUA CHIIRA

MANAGING DIRECTOR

RAJIV RANJAN

EXECUTIVE DIRECTOR

VIVEK SINGH

ASST. GENERAL MANAGER

JAMES NDEGWA

REINSURANCE MANAGER

JAMES MACHARIA

UNDERWRITING MANAGER

ANAND LAKHANI

REGIONAL MANAGER

EMMA MWANGI

LEGAL MANAGER

GIBSON NDUNGU

BUSINESS DEVELOPMENT MANAGER

EVA WAMBUI

CLAIMS MANAGER

Management Team Cont...

DARSHNA PATEL

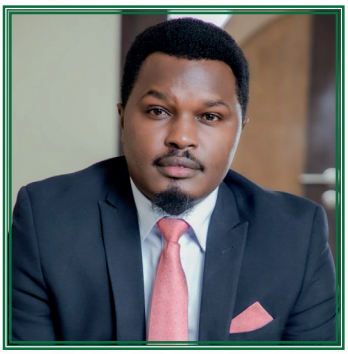
FINANCE MANAGER

GLADYS GICHOGO

FINANCE MANAGER

PRIYA SHAH

BRANCH MANAGER, MSA



JOSEPH MUTINDA

MARKETING, BRANDING & COMMUNICATIONS ASST. MANAGER

LEAH MBURU

BANCASSURANCE MANAGER

PETER NGUGI

DEPUTY IT MANAGER

ANDREW KARANJA

ASST. BRANCH MANAGER, ELDORET

SALLY SAKWA

HUMAN RESOURCES

GABRIEL JUMA

ASST. UNDERWRITING MANAGER

Company Activities

NAIVASHA RETREAT

We hosted our key intermediaries for a weekend getaway at Lake Naivasha Resort, Naivasha from 14th – 16th June 2019.

RALLY SPONSORSHIP

Mayfair Insurance sponsored three rally vehicles going to Zambia.

MAHARAJA JASSA SINGH RAMGARHIA MISL CONFERENCE – SPONSORSHIP

Mayfair Insurance sponsored the Maharaja Jassa Singh Ramgarhia MISL conference, which was held from 04th to 05th May 2019 at Ole Sereni Hotel.

Mayfair Insurance sponsored and participated in the 2019 Rhino Charge held at Isiolo's Nannapa Conservancy. This is a fundraising event for the conversation of Kenya's prime mountains forests and key source of water.

TREE PLANTING IN ELDORET ARBORETUM

ELDORET CITY MARATHON SPONSORSHIP

Company Activities Cont...

STAFF TRAINING ON FIRST AID AND SAFETY MEASURES

AGENTS TRAINING ON GIT AND CARRIERS LIABILITY INSURANCE.

MAYFAIR GOLF SPONSORSHIPS

Chairman's Statement

Vishal Patel
Chairman

Chairman's Report

It is a great honour to present to you the annual report and financial statements for the year ended 31st December 2019.

These accounts have been prepared in accordance with International Financial Reporting Standards (IFRS).

Business Environment

In the year 2019, the real GDP grew by an estimated 5.9%, driven by household consumption and investment on the demand side and services on the supply side, such as public administration, information technology, finance and insurance, and transport and storage. At 5.2%, inflation remained within the central bank's 5 ± 2.5% target band.

The exchange rate remained stable due to the narrowing current account deficit, from 5.0% of GDP in 2018 to 4.9% in 2019 thanks to increased transfers.

The Insurance sector continues to undergo transition mainly on the digital transformation and regulation front, which is critical for the stability and sustainability of a conducive business environment for one of the key sectors of Kenya's economy.

Insurance companies have a lot they can do in order to register considerable growth and improve the level of penetration in the country. Insurance penetration in Kenya stood at 2.43% of Gross Domestic Product (GDP) in 2018, the lowest it has been in 15 years, on the back drop of predatory pricing in an industry where players are facing increasingly tough competition.

GCR Rating

The Company was upgraded in its Global Credit Rating in the current year to A+ (KE) Outlook Stable, compared to the A (KE) rating in 2018.

Mayfair's national scale financial strength rating reflects support from very strong risk adjusted capitalisation and sound through the cycle earnings generation.

Business and Financial Results

Mayfair Insurance Company Limited remained resilient in the backdrop of tough economic times.

The Gross Written Premiums amounted to Shs. 3.017 billion, a flat growth from prior period. The Company recorded an underwriting profit of Shs. 270 million, and an operating Gross Profit before income tax of Shs. 509 million after taking into account investment and other income, a marginal growth from prior period.

The shareholder's funds amounted to Shs. 2.9 billion as at 31st December 2019. Total assets grew by 7.7% to close at Shs. 6.8 billion.

Regional Performance

Mayfair Insurance Zambia Limited posted a 57% increase in Gross Written Premium to close at KShs 1.93 billion in 2019. Mayfair Insurance Tanzania Limited posted a 14% growth to close at Gross Written Premiums of Kshs 977 million while Mayfair Insurance Rwanda Limited posted a 54% growth in Gross Premiums Written to close at Kshs 303 million. Mayfair Insurance Uganda Limited started its operations in October 2018 and closed 2019 with Gross Written Premium of Kshs 142 million.

We are happy to announce that the Company received a license to enter the Democratic Republic of Congo (DRC) in March 2020. DRC opened up its market to private insurers last year, and we become one of the eight insurance companies and seven brokerages operating in DRC. The growing regional presence affirms our Company's vision to be distinguished as a reliable and innovative pan-African financial services leader.

Dividends

In line with the dividend policy, the Board recommends a first and final cash dividend of Shs. 15 per share amounting to Shs. 150 million and an appropriation of Shs. 500 million from the retained earnings to Share Capital. The Directors recognize the need to retain adequate reserves for re-investing back to support the ambitious growth strategy as well as meeting the statutory capital requirements.

Board of Directors & Corporate Governance

The Board of Directors, under the leadership of the Chairman, is responsible for determining the overall strategy of the Company, including a strong commitment to sustainability. Diversity is a key factor for success in today's fast-changing global environment.

Our Board of Directors remains strong with a diverse mix of skills and a wealth of experience. They are strong profiles with insight and knowledge. In the last couple of years, we have deliberately aimed at strengthening areas that we consider strategically important to the Company. In January 2019, the Board of Directors was further strengthened with the appointment of Directors Mr. Shamil Manek, Mr. Alvin Rachier, and Mr. Bhavik Patel.

The Board has the following committees, which report to the Board Quarterly and submit proposals for resolution by the Board;

The Board Strategic Committee is headed by Mr. Rajnikant Varia and includes Directors Mrs. Diana Bird, Mr. Shamil Manek, and Mr. Joshua Chiira.

The Board Audit, Risk and Compliance Committee is chaired by Ms. Deepa Doshi and includes Directors, Mr. Rajnikant Varia, Mr. Alvin Rachier and Mr. Joshua Chiira.

The Board Investment & HR Committee is headed by Mr. Bharat Shah, and includes Directors Mr. Alvin Rachier, Mr. Bhavik Patel and Mr. Joshua Chiira.

The Board committees had a 100% attendance.

An optimal Board composition remains as the key success factor for the performance of the board. A strong board succession pipeline is at the heart of the Chairman's ongoing duties, with a focus of achieving the best possible diversity in terms of thinking among Board members.

Human Resources

We have strong, consistent people policies designed to make Mayfair Insurance Company a great place to work. As the Company evolves in its operations and digital agenda, we are empowering our staff by reinforcing the right mindset, skillset development and providing the right toolsets for current and future possibilities.

The Company is and will continue to inspire potential in our staff, as we grow our engagement and improve in productivity. We have qualified, sincere, dedicated and committed staff whose performance is managed based on the Balance Scorecard system. The Directors are committed to the skills development of the staff as well as the creation of an enabling environment to realize their maximum potential.

Outlook for 2020

Kenya's economy is projected to record a growth expanding by 6.2 percent this year from 5.7 percent posted in 2019. However, the coronavirus (COVID-19) outbreak poses a potential threat to the global economy and has already brought considerable human suffering and major economic disruption.

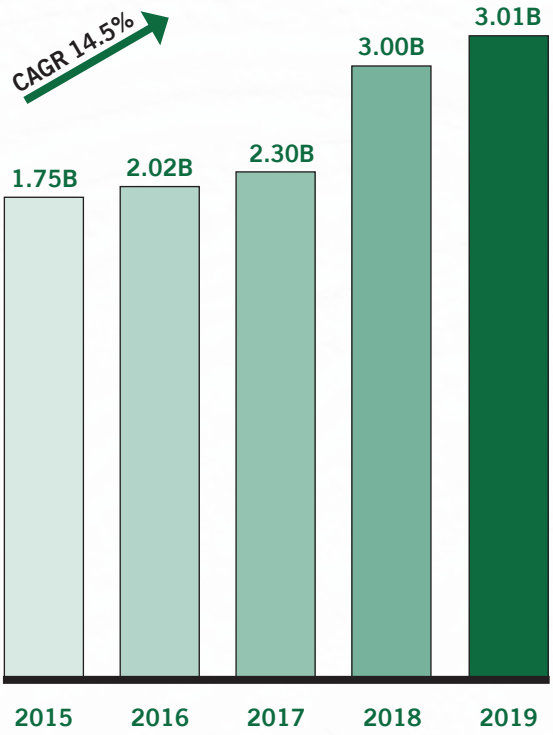
Nevertheless, our outlook remains optimistic and resilient. Our focus shall continue to be on our customers and in providing high-quality service levels. The Company is positioning itself to be industry leaders in Technology and Innovations through various strategies such as going paperless and developing a Company Mobile Application for sale of Insurance products. Partnerships and superior services leveraged on proficient human capital and technology continue to be pivotal in our strategy for the local market. We aim to enhance these to exploit the opportunities for insurance presented by the economy in 2020.

On the regional front, we remain resolute in our commitment to the vision of being distinguished as a reliable and innovative Pan-African financial services leader.

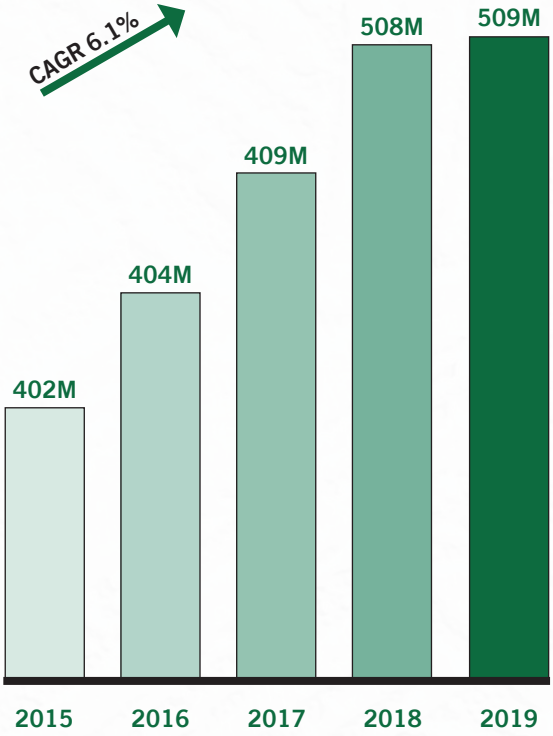
Appreciation

The Board of Directors wishes to thank our loyal customers, dedicated staff, and shareholders for their continued confidence in the Company and we look forward to sharing more successes with you. We will strive to be worthy of the trust you have bestowed on us.
Lastly, I thank you, fellow board members for your contribution, dedication, and support as we together propel this great organization to greater heights.

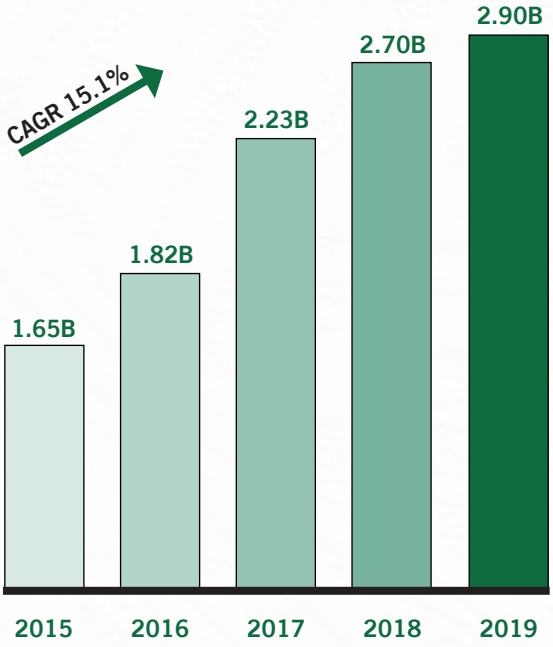
GROSS WRITTEN PREMIUM
(Figures in thousands (Ssh '000)



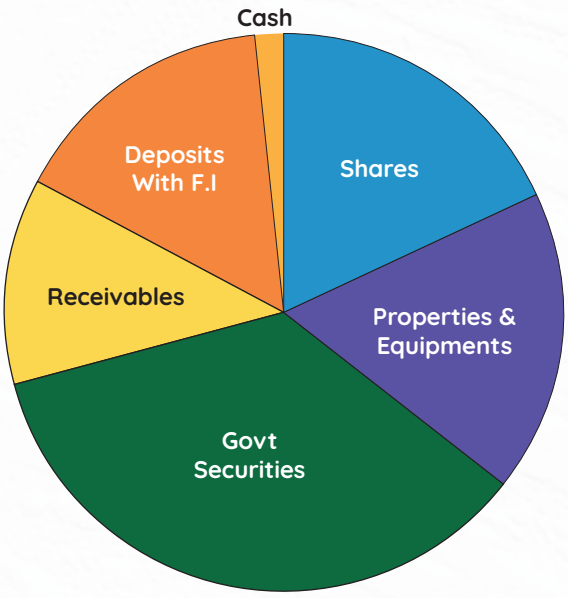
PROFIT BEFORE TAX
(Figures in thousands (Ssh '000)



SHAREHOLDERS FUNDS
(Figures in thousands (Ssh '000)



DISTRIBUTION OF ASSETS
(Figures in thousands (Ssh '000)



Report Of The Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2019 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.

Business Review

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 245% (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.

Company's Performance

The Company recorded a profit before tax of Shs 509 million (2018: Shs 508 million).

Key performance highlights

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

	2016	2017	2018	2019
	Shs 000	Shs 000	Shs 000	Shs 000
Underwriting profit	236,501	260,756	273,952	270,026
Gross loss ratio %	42%	35%	35%	65%
Profit before income tax	403,879	409,539	508,344	509,431
Net assets	1,823,097	2,234,990	2,700,638	2,906,185
Capital adequacy ratio %	170%	216%	242%	245%

Dividend

The Directors recommend a first and final cash dividend of Shs. 15 per share amounting to Shs. 150,000,000 (2018: Cash dividend of Shs. 17.5 per share amounting to Shs. 175,000,000).

Directors

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

Report Of The Directors Cont...

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 LLP 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

Jophece O. Yogo
Company Secretary
Nairobi
26th March 2020

Statements of Directors' Responsibilities

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the 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 _____*25th March*_____ 2020 and signed on its behalf by:

VIshal Patel
Chairman

Bharat Shah
Director

Joshua Chiira
Managing Director

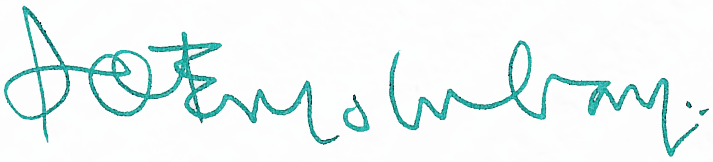
Report of the consulting Actuary

I have conducted an Insurance Liability Valuation of the short-term business of Mayfair Insurance Company Limited as at 31 December 2019.

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 2019 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
26th March 2020

Report of the Auditor

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 24 to 84 which comprise the statement of financial position at 31 December 2019 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 2019 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.

Report of the Auditor Cont...

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

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of outstanding claims provision Outstanding claims provision included in Note 29 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 the outstanding claims involved 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 claims 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 reviewed the methodology and assumptions used by the appointed actuary to compute the actuarial reserves as at 31 December 2019 and compared the assumptions to expectations based on the Company's historical experiences, current trends and our own industry knowledge. We reviewed and assessed the adequacy of the disclosures around key judgements and assumptions in the financial statements.

Other information

The other information and Corporate information, Directors' Report, 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.

Report of the Auditor

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

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.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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.

- 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.

Report of the Auditor Cont...

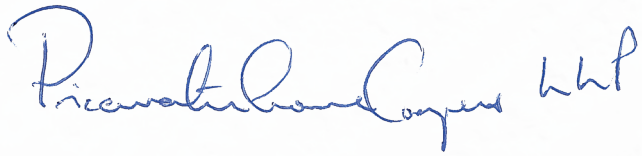
Independent auditor's report to the shareholders of Mayfair Insurance Company Limited

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.



Certified Public Accountants
Nairobi (29th March 2020)
CPA Kang'e Saiti Practising certificate No. 1652
Signing partner responsible for the independent audit

Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	2019 Shs '000	2018 Shs '000
Gross written premiums		**3,017,305**	3,004,593
Gross earned premiums	5	**2,984,818**	2,863,238
Less: reinsurance premiums ceded		**(1,262,078)**	(1,456,922)
Net earned premiums		**1,722,740**	1,406,316
Investment income	6	**281,803**	244,437
Commissions earned		**429,792**	410,618
Other income	7	**987**	3,417
Total income		**2,435,322**	2,064,788
Net claims incurred	8	**(941,177)**	(717,853)
Operating and other expenses	9(a)	**(514,542)**	(466,886)
Commissions payable		**(490,398)**	(403,915)
Impairment losses on financial assets	9(b)	**(4,607)**	(1,088)
Finance Cost	33	**(1,971)**	-
Total expenses		**(1,952,695)**	(1,589,742)
Share of profit of associate after tax	17	**26,804**	33,298
Profit before income tax		**509,431**	508,344
Income tax expense	11	**(149,939)**	(146,518)
Profit for the year		**359,492**	361,826

Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 Shs'000	2018 Shs'000
Profit for the year		**359,492**	361,826
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	19	**17,392**	5,398
Realized loss on equity investment at FVOCI		**(2,953)**	-
Exchange (loss) /gain on equity investments at FVOCI	19	**(2,247)**	(5,337)
Surplus on revaluation of building	13	**8,863**	8,538
Deferred income tax on revaluation surplus	34	**-**	(2,561)
		21,055	6,038
Total comprehensive income for the year		**380,547**	367,864

Statement of Financial Position

For the year ended 31 December 2019

ASSETS	Notes	2019 Shs'000	2018 Shs'000
Property and equipment	13	**362,874**	354,259
Investment properties	16	**426,089**	426,089
Intangible assets	14	**6,819**	4,907
Investment in associate	17	**390,348**	319,614
Right-of-use assets	15	**14,598**	-
Investment in joint arrangements	18	**320,552**	320,052
Equity investments at FVOCI	19	**819,048**	811,887
Receivables arising out of direct insurance arrangements	22	**436,827**	496,717
Receivables arising out of reinsurance arrangements		**80,452**	24,878
Reinsurers' share of technical provisions and reserves	20	**1,117,888**	1,085,727
Deferred acquisition costs	21	**194,343**	203,676
Government securities at amortised cost	24	**1,588,695**	1,039,621
Corporate bonds at amortised cost	25	**-**	52,493
Other receivables	23	**25,621**	20,206
Deposits with financial institutions	26	**975,933**	1,165,633
Current income tax	11	**7,279**	-
Cash and cash equivalents	36(a)	**63,810**	17,675
TOTAL ASSETS		**6,831,176**	6,343,434
EQUITY AND LIABILITIES			
Equity attributable to owners			
Share capital		**1,000,000**	1,000,000
Investment revaluation reserve	28	**342,787**	327,642
Property revaluation reserve		**113,871**	107,961
Retained earnings		**1,449,527**	1,265,035
Total equity		**2,906,185**	2,700,638
Liabilities			
Outstanding claims provision	29	**2,135,861**	1,835,758
Unearned premiums reserve	31	**1,244,267**	1,329,206
Payables arising from insurance arrangements	32	**34,019**	22,204
Payables arising out of reinsurance arrangements		**173,083**	196,351
Deferred reinsurance commissions		**99,666**	118,952
Lease liabilities	33	**15,434**	-
Deferred income tax	34	**85,429**	80,405
Other payables	35	**137,232**	56,175
Current income tax	11	**-**	3,745
Total liabilities		**3,924,991**	3,642,796
TOTAL EQUITY AND LIABILITIES		**6,831,176**	6,343,434

Vishal Patel
Chairman

Bharat Shah
Director

Joshua Chiira
Managing Director

Statement of change in Equity

For the year ended 31 December 2019

	Notes	Share capital Shs'000	Investments revaluation reserve Shs'000	Property revaluation reserve Shs'000	Retained earnings Shs'000	Total equity Shs'000
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
Total comprehensive income		-	61	5,977	361,826	367,864
Transactions with owner:						
Additional share capital		175,000	-	-	-	175,000
Issue of Bonus shares		75,000	-	-	-	75,000
Dividends:						
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
Balance at 1 January 2019		**1,000,000**	**327,642**	**107,961**	**1,265,035**	**2,700,638**
Profit for the year		**-**	**-**	**-**	**359,492**	**359,492**
Other comprehensive income:		**-**	**12,192**	**8,863**	**-**	**21,055**
Total comprehensive income		**-**	**12,192**	**8,863**	**359,492**	**380,547**
Transactions with owner:						
Dividends:						
Dividends Paid – 2018		**-**	**-**	**-**	**(175,000)**	**(175,000)**
Balance at 31 December 2019		**1,000,000**	**339,834**	**116,824**	**1,449,527**	**2,906,185**

Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 Shs'000	2018 Shs'000
Cash flows from operating activities			
Cash generated from operations	36(a)	**784,412**	601,085
Income tax paid	11(c)	**(155,940)**	(139,174)
Net cash generated from operating activities		**628,472**	461,911
Cash flows from investing activities			
Purchase of property, plant and equipment	13	**(25,972)**	(30,642)
Purchase of intangible assets	14	**(8,182)**	(4,096)
Proceeds from sale of PPE		**220**	-
Payment of lease liabilities	33	**(4,930)**	-
Proceeds from sale of shares		**17,337**	-
Investment in joint arrangements	18	**(500)**	(50,230)
Investment in joint associates	17	**(70,734)**	(101,263)
Purchase of equity investments	19	**(12,500)**	(6,385)
Net investments in treasury bonds/ bills maturing after 90 days		**(544,269)**	(309,003)
Net investments in corporate bonds	25	**52,493**	46,402
Net cash used in investing activities		**(597,037)**	(455,217)
Cash flows from financing activities			
Dividends paid to shareholders		**(175,000)**	(75,000)
Issue of new shares		**-**	175,000
Net cash generated from financing activities		**(175,000)**	100,000
Net increase /(decrease) in cash and cash equivalents		**(143,565)**	106,694
Cash and cash equivalents at beginning of year		**1,183,308**	1,076,614
Cash and cash equivalents at end of year	36(b)	**1,039,743**	1,183,308

Notes

Notes to the Financial Statements

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 2019:

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies(continued)

a. Basis of preparation (continued)

Changes in accounting policy and disclosures(continued)

i. New and amended standards adopted by the Company (continued)

Number	Effective date	Executive summary
IFRS 16 – Leases	Annual periods beginning on or after 1 January 2019 – earlier application permitted if IFRS 15 is also applied. (Published January 2016)	This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. 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. IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies(continued)

a. Basis of preparation (continued)

Changes in accounting policy and disclosures(continued)

i. New and amended standards adopted by the Company (continued)

The following standards have been issued but do not have a material impact on the Company:

Number	Effective date	Executive summary
Amendments to IFRS 9 – 'Financial instruments' on prepayment features with negative compensation and modification of financial liabilities.	Annual periods beginning on or after 1 January 2019.	The narrow-scope amendment covers two issues: • The amendments allow companies to measure particular pre-payable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities. • How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.
IFRIC 23, 'Uncertainty over income tax treatments'	Annual periods beginning on or after 1 January 2019 Published 7 June 2017)	• IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies(continued)

a. Basis of preparation (continued)

Changes in accounting policy and disclosures(continued)

i. New and amended standards 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 2019:

Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2021 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17. (published May 2017)	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. 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. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

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 17 is expected to have a significant impact on the Company's financial statements.

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)

Notes to the Financial Statements

2. Summary of 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.

Notes (Continued)

Notes to the Financial Statements

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)

Notes to the Financial Statements

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)

Notes to the Financial Statements

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)

Notes to the Financial Statements

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

The Company has applied IFRS 9 and classifies its financial assets in the following measurement categories:
those to be measured subsequently at fair value through OCI, 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.

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies(continued)

m. Financial assets (continued)

ii. Measurement (continued)

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.

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.

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies(continued)

m. Financial assets (continued)

ii. Measurement (continued)

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.

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.

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.

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies(continued)

m. Financial assets (continued)

iii. Determination of fair value (continued)

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.

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.

iv. Impairment

The Company assesses impairment 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

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 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.

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies(continued)

m. Financial assets (continued)

iv. Impairment (continued)

The Company recognises loss allowances 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 that result from default events that are possible within the 12 months after the reporting date.

The Company recognises 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 are 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.

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 x LGD x EAD

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

- The general approach
- The simplified approach

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies(continued)

m. Financial assets (continued)

iv. Impairment (continued)

Expected credit losses (continued)

The Company applies the approaches below to each of its assets subject to impairment under IFRS 9:

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)

Notes to the Financial Statements

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.

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies(continued)

m. Financial assets (continued)

iv. Impairment (continued)

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.

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.

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies(continued)

m. Financial assets (continued)

iv. Impairment (continued)

Measurement of ECL (continued)

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.

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.

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

m. Financial assets (continued)

v. Modification of contract (continued)

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 2019 was KShs Nil (2018: 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. 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.

n. Financial liabilities

The Company classifies its financial liabilities as subsequently measured at amortised cost. Amounts due to related parties and other payables are classified at amortised cost.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

o. 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'.

p. 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)

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

q. 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.

r. 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.

s. 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)

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

t. Employee benefits

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.

u. Leases

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The Company has adopted IFRS 16 Leases retrospectively from 1January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 13%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

u. Leases (continued)

Measurement of lease liabilities

Lease liability were measured at the liability accruing from over the lease period adjusted for by the amount of payments and the interest on the liability discounted at the rate of 13%.

Measurement of right of use assets

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any pre-paid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

The Company's leasing activities and how these are accounted for

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third-party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Notes (Continued)

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

u. Leases (continued)

Measurement of lease liabilities

The Company's leasing activities and how these are accounted for (continued)

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less

Impairment on non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Notes (Continued)

Notes to the Financial Statements

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)

Notes to the Financial Statements

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 counter party risk), volatilities and correlations require management to make estimates.

4. Financial risk management objectives and policies

4.1 Insurance Risk

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.

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)

Notes to the Financial Statements

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 2019	Gross sum assured Shs'000	Ceded under reinsurance contracts Shs'000	Net sum assured Shs'000
Fire	667,810,859	550,772,430	117,038,429
Motor	24,463,341	1,590,889	22,872,452
Workmen's compensation	52,144,978	2,134,988	50,009,990
Engineering	176,381,275	123,549,098	52,832,177
Marine	155,411,408	32,314,001	123,097,407
Theft	50,871,091	46,202,454	4,668,637
Miscellaneous	21,720,935	19,083,766	2,637,169
Liability	45,393,346	11,397,793	33,995,553
Personal accident	17,520,584	9,064,582	8,456,002
Aviation	1,121,531	1,116,214	5,317
	1,212,839,348	797,226,215	415,613,133

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

Notes (Continued)

Notes to the Financial Statements

4. Financial risk management objectives and policies (continued)

4.1 Insurance 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.

4.2 Financial Risk

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.

	2019 Shs '000		2018 Shs '000	
	Effect on profit	**Effect on equity**	**Effect on profit**	**Effect on equity**
+ 5 percentage point movement	**3,906**	**3,906**	5,249	5,249
- 5 percentage point movement	**(3,906)**	**(3,906)**	(5,249)	(5,249)

(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)

Notes to the Financial Statements

4. Financial risk management objectives and policies (continued)

4.2 Financial Risk (continued)

a. Market Risk (continued)

ii. Equity price 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:

	Gross Portfolio Shs'000	% change in price	Impact to OCI Shs'000
31st December 2019	**819,048**	**+/- 5%**	**35,077**
31st December 2018	811,887	+/- 5%	41,791

iii. Foreign exchange currency risk

Foreign exchange currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Management believes that there is minimal 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 2019	**536,295**	**+/- 5%**	**26,815**
31st December 2018	459,102	+/- 5%	22,696

Notes (Continued)

Notes to the Financial Statements

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

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

Exposures to individual policyholders and groups of policyholders are collected within the ongoing monitoring 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.

	2019 Shs'000	2018 Shs'000
Corporate bonds	-	52,493
Other receivables	24,169	18,615
Receivables arising out of direct insurance arrangements	436,827	496,717
Receivables arising out of reinsurance arrangements	80,452	24,878
Government securities at amortised cost	1,588,695	1,039,621
Deposits with financial institutions	975,933	1,165,633
Bank balances	63,810	17,675
	3,169,886	**2,815,632**

Management of credit risk

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 counter party, or groups of counter parties. 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.

Notes (Continued)

Notes to the Financial Statements

4. Financial risk management objectives and policies (continued)

4.2 Financial Risk (continued)

b. Credit risk (continued)

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.

The exposure to individual counter parties is also managed by other mechanisms, such as the right of offset where counter parties 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 homogeneous 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 counter party 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.

Notes (Continued)

Notes to the Financial Statements

4. Financial risk management objectives and policies (continued)

4.2 Financial Risk (continued)

b. Credit risk (continued)

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

31 December 2019	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	436,827	-	6,806	443,633
Receivable arising out of reinsurance Arrangements	80,452	-	-	80,452
Government securities	1,588,695	-	1,590	1,590,285
Deposits with financial institutions	975,933	-	443	976,376
Staff loans	9,846	-	-	9,846
Rent & other receivables	14,323	-	-	14,323
Cash and bank balances	63,810	-	-	63,810
	3,169,886	-	8,839	3,178,725

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

The stage 3 receivables were written off in the year.

Notes (Continued)

Notes to the Financial Statements

4. Financial risk management objectives and policies (continued)

4.2 Financial Risk (continued)

b. Credit risk (continued)

The following is a movement of impairment provision account:

The movement in the provisions is as follows:	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
At 1 January 2019	1,041	22	2,420	-	772	4,255
Additional provision	549	-	4,386	-	-	4,935
Unused amounts reversed	-	(22)	-	-	(329)	(351)
At end of year	1,590	-	6,806	-	443	8,839

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.

Notes (Continued)

Notes to the Financial Statements

4. Financial risk management objectives and policies (continued)

4.2 Financial Risk (continued)

c. Liquidity (continued)

As at December 2019	Less than 12 months Shs'000	Over 12 months Shs'000	Total Shs'000
Payables arising from			
– Reinsurance arrangements	173,083	-	173,083
– Insurance arrangements	34,019	-	34,019
Outstanding claims provisions	2,135,861	-	2,135,861
Lease liability	3,344	12,090	15,434
Other payables	137,233	-	137,233
Deferred reinsurance commissions	99,666	-	99,666
	2,583,206	12,090	2,595,296

As at 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
Lease liability	-	-	-
Other payables	56,175	-	56,175
Deferred reinsurance commissions	118,952	-	118,952
	2,229,440	-	2,229,440

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.

Notes (Continued)

Notes to the Financial Statements

4. Financial risk management objectives and policies (continued)

4.3 Capital Management (continued)

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 optimize its debt to equity structure in order to ensure that it can consistently maximize 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 2019 and 2018 is illustrated below.

	2019 Ratio (%)	2018 Ratio (%)
Capital Adequacy Ratio	**245%**	242%

Notes (Continued)

Notes to the Financial Statements

4. Financial risk management objectives and policies (continued)

4.4 Fair Value Estimation

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).

	Level 1 Ksh'000	Level 2 Ksh'000	Level 3 Ksh'000	Total Ksh'000
31 December 2019				
Equity instruments at FVOCI	**159,880**	**541,668**	**117,500**	**819,048**
31 December 2018				
Equity instruments at FVOCI	163,901	542,986	105,000	811,887

Level 2 Assets Valuation Technique

Assets under level 2 comprise unquoted shares that are valued using the OTC (Over The Counter) prices issued by the counter party based on recent shares traded.

Level 3 Movement

The table below shows the movement in Level 3 Equity Instruments

	2019 Ksh'000	2018 Ksh'000
Opening Balance	**105,000**	-
Additions	**12,500**	105,000
Disposals	**-**	-
Fair value adjustments	**-**	-
Closing Balance	**117,500**	105,000

Notes (Continued)

Notes to the Financial Statements

4. Financial risk management objectives and policies (continued)

4.4 Fair Value Estimation (continued)

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 2019 and 31 December 2018:

Financial assets	Amortised cost Shs '000	Fair Value Shs '000
At 31 December 2019		
Government securities	1,588,695	1,588,695
Receivables arising out of direct insurance arrangements	436,827	436,827
Deposits with financial institutions	975,933	975,933
Other receivables	14,323	14,323
Loans receivable	9,846	9,846
Cash and cash equivalents	63,810	63,810
Total	3,089,434	3,089,434

Financial assets	Amortised cost Shs '000	Fair Value Shs '000
At 31 December 2018		
Government securities	1,039,621	1,039,621
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	2,792,345	2,792,345

Notes (Continued)

Notes to the Financial Statements

5. Gross earned premium

	2019 Shs'000	2018 Shs'000
Motor	**880,277**	632,847
Fire	**737,093**	936,051
Workmen's compensation	**417,099**	336,220
Marine	**213,824**	154,034
Personal accident	**55,265**	43,632
Engineering	**257,005**	399,595
Aviation	**23,594**	11,750
Miscellaneous	**211,795**	160,757
Theft	**138,921**	137,549
Others	**49,945**	50,803
Total	**2,984,818**	2,863,238

6. Investment Income

Fair value gain on investment properties (Note15)	-	3,531
Interest on bank deposits	**84,745**	83,721
Interest on Government securities	**152,990**	110,100
Rental income from investment properties (Note 15)	**23,869**	22,604
Dividends receivable on equity instruments	**15,714**	13,432
Interest on corporate bonds	**4,489**	11,049
Loss on disposal of equity	**(4)**	-
Total	**281,803**	244,437

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

	2019 Shs'000	2018 Shs'000
Cash and bank balances	**84,745**	83,721
Government security & corporate bonds	**157,479**	121,149
Equity investments	**15,710**	13,432
Investment property	**23,869**	26,135
Total investment income	**281,803**	244,437

Notes (Continued)

Notes to the Financial Statements

7. Other Income	2019 Shs'000	2018 Shs'000
Miscellaneous income	**987**	3,417
	987	3,417

8. Claims Incurred		
Motor	**491,280**	360,800
Workmen's compensation	**203,705**	157,845
Marine	**68,580**	42,436
Theft	**17,427**	25,833
Fire	**72,746**	75,254
Engineering	**44,287**	38,339
Personal accident	**3,257**	3,967
Other	**39,895**	13,379
	941,177	717,853

9. (a) Operating and other expenses		
Staff costs (Note 10)	**239,658**	225,224
Depreciation of property, plant and equipment (Note 13)	**25,996**	23,480
Depreciation of right of use asset	**3,795**	-
Amortisation of computer software (Note 14)	**6,270**	10,338
Subscriptions	**2,737**	2,485
Repairs and maintenance expenditure	**13,646**	12,507
Rent, rates and parking	**10,967**	9,310
Printing and stationery	**11,001**	8,041
Telephone and postage	**6,425**	5,076
Traveling and entertainment	**21,706**	34,513
Advertising costs	**22,438**	19,312
Licenses and insurance	**7,581**	7,444
Auditors' remuneration	**5,407**	5,144
Directors' emoluments	**7,029**	4,199
Premium tax	**33,726**	34,014
Other expenses	**96,160**	65,799
	514,542	466,886

Notes (Continued)

Notes to the Financial Statements

9. (b) Net impairment losses on financial instruments	2019 Shs'000	2018 Shs'000
Government securities	**550**	611
Bank and cash balances	**(329)**	12
Receivables arising out of direct insurance arrangements	**4,386**	465
	4,607	1,088

10. Staff costs		
Salaries and benefits	**219,978**	206,404
Defined contribution retirement schemes		
- Pension Fund	**19,443**	18,603
- National Social Security Fund	**237**	217
	239,658	225,224
The average number of employees during the year was as follows		
Underwriting and claims	**50**	47
Management and administration	**49**	43
Total	**99**	90

Notes (Continued)

Notes to the Financial Statements

11. Income tax expense	2019 Shs '000	2018 Shs '000
a. Taxation charge		
Current tax expense in respect of the year	**144,916**	138,775
Deferred income tax – charge recognized (Note 34)	**5,023**	7,743
At 31 December	**149,939**	146,518
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.		
Profit before income tax	**509,431**	508,344
Tax calculated at a tax rate of 30%	**152,829**	152,503
Tax Effect of:		
- Income not subject to tax	**(12,855)**	(15,550)
- Expenses not deductible for tax purposes	**9,965**	9,565
At 31 December	**149,939**	146,518
c. Corporate tax (recoverable) / payable		
At 1 January	**3,745**	4,144
Taxation charge – Note (11a)	**144,916**	138,775
Tax paid	**(155,940)**	(139,174)
At 31 December	**(7,279)**	3,745
12. Earnings per share - basic and diluted		
Profit for the year (Shs '000)	**359,492**	361,826
Weighted average number of shares in issue during the year	**10,000,000**	10,000,000
Earnings per share (basic and diluted) (Shs)	**35.95**	36.18

Notes (Continued)

Notes to the Financial Statements

13. Property and equipment

Cost or valuation	Building Shs'000	Partitioning Shs'000	Motor vehicles Shs'000	Computer equipment Shs'000	Furniture fittings and equipment Shs'000	Total Shs'000
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
At 1 January 2019	**265,884**	**78,475**	**16,360**	**23,933**	**65,401**	**450,053**
Additions	**-**	**14,213**	**-**	**3,719**	**8,040**	**25,972**
Disposals	**-**	**-**	**-**	**-**	**(598)**	**(598)**
At 31 December 2019	**265,884**	**92,688**	**16,360**	**27,652**	**72,843**	**475,427**
Comprising						
At cost	**82,708**	**92,688**	**16,360**	**27,652**	**72,843**	**292,251**
At valuation 2019	**183,176**	**-**	**-**	**-**	**-**	**183,176**
At 31 December 2019	**265,884**	**92,688**	**16,360**	**27,652**	**72,843**	**475,427**
Depreciation						
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
At 1 January 2019	**-**	**35,925**	**7,753**	**17,282**	**34,834**	**95,794**
Charge for the year	**8,863**	**7,095**	**2,152**	**3,111**	**4,775**	**25,996**
Eliminated on disposal	**-**	**-**	**-**	**-**	**(374)**	**(374)**
Reversal on revaluation	**(8,863)**	**-**	**-**	**-**	**-**	**(8,863)**
At 31 December 2019	**-**	**43,020**	**9,905**	**20,393**	**39,235**	**112,553**

Notes (Continued)

Notes to the Financial Statements

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 2019	**265,884**	**49,668**	**6,455**	**7,259**	**33,608**	**362,874**
At 31 December 2018	265,884	42,550	8,607	6,651	30,567	354,259
Net book value (cost basis)						
At 31 December 2019	**259,236**	**43,020**	**9,905**	**20,393**	**39,235**	**371,789**
At 31 December 2018	221,101	38,927	5,869	4,353	35,042	305,292

The building was valued on 31 December 2019 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).

Details of the fair value hierarchy of the Company's property held at fair value as at 31 December

2019 are as follows:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2019				
Property, plant and equipment	**-**	**-**	**265,884**	**265,884**
31 December 2018				
Property, plant and equipment	-	-	265,884	265,884

Notes (Continued)

Notes to the Financial Statements

14. Intangible assets – computer software

Cost	2019 Shs'000	2018 Shs'000
At 1 January	58,536	54,440
Additions	8,182	4,096
At 31 December	66,718	58,536
Amortisation		
At 1 January	53,629	43,291
Charge for the year	6,270	10,338
At 31 December	59,899	53,629
Net book value	6,819	4,907

15. Right -of -use Asset

Day 1 Adjustment	18,393	-
Depreciation	(3,795)	-
At 31 December	14,598	-

The Company leases rental property in the two branches - Eldoret and Mombasa.-

16. Investment Properties

Revaluation	2019 Shs '000	2018 Shs '000
At 1 January	426,089	460,459
Additions	-	-
Transfer to PPE	-	(37,901)
Fair value gain (Note 6)	-	3,531
At 31 December	426,089	426,089

Notes (Continued)

Notes to the Financial Statements

16. 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 2019 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 23,869,000 (2018: Ksh 22,604,000) as disclosed in note 6. Expenses relating to investment property amounted to Ksh 1,424,334 (2018: Ksh 1,289,821).

Details of the fair value hierarchy of the Company's Investment property held at fair value as at 31 December 2019 are as follows:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2019	**-**	**-**	**426,089**	**426,089**
31 December 2018	-	-	426,089	426,089

17. 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

	2019 Shs '000	2018 Shs '000
At 1 January	**319,614**	185,053
Share of net profit		
– Mayfair Zambia	**7,372**	12,019
– Mayfair Rwanda	**986**	1,971
– Mayfair Tanzania	**39,192**	19,308
– Mayfair Uganda	**(20,746)**	-
Total	**26,804**	33,298
Additions	**43,930**	101,263
At 31 December	**390,348**	319,614

Further information on the associate companies is as shown below:

Notes (Continued)

Notes to the Financial Statements

17. 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 2019 in respect of the associate companies is set out below:

	Zambia Shs'000	Rwanda Shs'000	Tanzania Shs'000	Uganda Shs'000
Total assets	3,381,188	476,431	2,121,982	281,326
Total liabilities	(3,148,077)	(282,159)	(1,792,279)	(123,345)
Due from shareholders	-	60,802	-	-
Net assets	233,111	255,074	329,703	157,981
Company's share of net assets	93,244	102,030	131,881	63,192
Net earned premiums	323,753	92,660	472,932	86,572
Profit/ (Loss) before income tax	116,301	20,294	126,527	(35,443)
Income tax	(45,884)	-	(31,336)	-
Profit for the year	70,417	20,294	95,191	(35,443)
Cash flows from operating activities	315,600	117,791	110,056	(19,012)
Cash flows from investing activities	31,092	(138,588)	(120,739)	(23,465)
Cash flows from financing activities	(14,520)	40,236	-	205,825
Net movement in cash flows	332,172	19,439	(10,683)	163,348

Notes (Continued)

Notes to the Financial Statements

18. 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.

	2019 Shs'000	2018 Shs'000
At 1 January	**320,052**	269,822
Additions	**500**	50,230
At 31 December	**320,552**	320,052

Name of Joint arrangement	Principal activity	Place of incorporation	Portion of ownership interest held by the company	Maximum loss exposure	
				2019 Shs' 000	2018 Shs' 000
Mayfair Estates Limited	Real Estate	Kenya	50%	**70,350**	69,850
Kitisuru Development Limited	Real Estate	Kenya	30%	**138,503**	138,503
Sealine Holdings Limited	Real Estate	Kenya	30%	**68,859**	68,859
Rushmore Investments Limited	Real Estate	Kenya	20%	**42,840**	42,840
				320,552	320,052

The maximum loss exposure is the cost invested by the company in the joint arrangements. The carrying amounts of the joint investment in the joint arrangement are carried at cost as they have not commenced any operations.

Notes (Continued)

Notes to the Financial Statements

19. Equity investments at FVOCI

	Quoted shares Shs'000	Unquoted equity investments Shs'000	Total Shs'000
2019			
At 1 January	**163,901**	**647,986**	**811,887**
Additions	**-**	**12,500**	**12,500**
Disposals	**(20,484)**	**-**	**(20,484)**
Exchange losses	**-**	**(2,247)**	**(2,247)**
Fair value gains through other comprehensive income	**16,463**	**929**	**17,392**
At 31 December	**159,880**	**659,168**	**819,048**

	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 gains	-	(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

20. Reinsurers' share of technical provisions and reserves

	2019 Shs'000	2018 Shs'000
Reinsurers' share of		
- Unearned premiums	**574,429**	691,855
- Notified claims (Note 28)	**477,394**	337,923
- Claims incurred but not reported (Note 28)	**66,065**	55,949
	1,117,888	1,085,727

Notes (Continued)

Notes to the Financial Statements

21. Deferred acquisition costs

	2019 Shs'000	2018 Shs'000
At 1 January	**203,676**	155,878
Increase in the year	**(9,333)**	47,798
	194,343	203,676

22. Receivables arising out of direct insurance

Premium receivables	**443,633**	499,138
Provision for impairment	**(6,806)**	(2,421)
	436,827	496,717

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

23. Other receivables

Prepayment and deposits	**1,452**	1,591
Loans receivable	**9,846**	12,606
Rent and other receivables	**14,323**	6,009
	25,621	20,206

24. Government Securities - amortised cost

in 1 to 5 years	**76,058**	45,437
More than 5 years	**1,512,637**	994,184
	1,588,695	1,039,621

Notes (Continued)

Notes to the Financial Statements

24. Government securities – amortised cost (continued)

Movement in government securities	2019 Shs'000	2018 Shs'000
At 1 January	**1,039,621**	730,458
Additions	**550,664**	647,550
Maturities/ redemptions	**-**	(337,346)
Impairment provision	**(1,590)**	(1,041)
At 31 December	**1,588,695**	1,039,621

25. Corporate Bonds - amortised cost

Kengen – Public Infrastructure Bond	-	2,772
UAP Holdings Bond	-	16,448
NIC Bank Bond	-	33,273
	-	52,493

Movement in corporate bonds

At 1 January	**52,493**	98,895
Maturities/ redemptions	**(52,493)**	(46,380)
Impairment provision	**-**	(22)
At 31 December	**-**	52,493
Corporate bonds maturing -In less than 1 year	**-**	52,493
At 31 December	**-**	52,493

26. Deposits with financial institutions

Deposits maturing within 3 months	**975,933**	1,165,633

Movement in deposits with financial institutions

At 1 January	**1,165,633**	1,062,042
Additions	**427,961**	225,663
Redemptions	**(617,218)**	(121,300)
Impairment provision	**(443)**	(772)
At 31 December	**975,933**	1,165,633

Notes (Continued)

Notes to the Financial Statements

27. Weighted average effective interest rates

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

	2019	2018
	%	%
Government securities	**12.4**	12.5
Deposits with financial institutions	**8.2**	8.7
Corporate bonds	**12.7**	12.7

28. Share capital

Authorised		
10,000,000 ordinary shares of Shs 100 each	**1,000,000**	1,000,000
Movement		
At 1 January	**1,000,000**	750,000
Capitalization of dividends	**-**	75,000
S\hare capital injection	**-**	175,000
At 31 December	**1,000,000**	1,000,000

29. Outstanding claims provision

Outstanding claims	**1,812,770**	1,549,820
Claims incurred but not reported	**323,091**	285,938
At 31 December	**2,135,861**	1,835,758

Notes (Continued)

Notes to the Financial Statements

29. 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	2015	2016	2017	2018	2019	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs '000	Shs'000
Claims outstanding						
At end of accident year	727,803	769,828	669,585	905,476	1,105,694	
One year later	845,832	852,405	679,110	1,665,994	-	
Two years later	903,624	925,021	665,879	-	-	
Three years later	899,571	875,125	-	-	-	
Four years later	963,997	-	-	-	-	
Current estimate of cumulative claims	963,997	875,125	665,879	1,665,994	1,105,694	
Less: Cumulative payments to date	(780,100)	(749,655)	(535,642)	(1,274,378)	(483,952)	
Liability in the statement of financial position	183,897	125,471	130,237	391,616	621,741	1,452,962
Liability in respect of prior years	-	-	-	-	-	359,808
Incurred but not reported	-	-	-	-	-	323,091
Total gross claims liability included in the statement of financial position						**2,135,861**

Notes (Continued)

Notes to the Financial Statements

30. 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 2019			
Notified claims	**1,549,820**	**337,923**	**1,211,897**
Incurred but not reported	**285,938**	**55,949**	**229,989**
Total at beginning of year	**1,835,758**	**393,872**	**1,441,886**
Claims paid in year	**1,674,029**	**883,368**	**790,661**
Increase in liabilities: -			
- Arising from current year claims	**647,431**	**343,547**	**303,884**
- Arising from prior year claims	**1,326,701**	**689,408**	**637,293**
At end of year	**2,135,861**	**543,459**	**1,592,402**
Notified claims	**1,812,770**	**477,394**	**1,335,376**
Incurred but not reported	**323,091**	**66,065**	**257,057**
Total at end of year	**2,135,861**	**543,459**	**1,592,402**
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	358,062	255,321	102,741
At end of year	1,835,758	393,872	1,441,886
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

Notes (Continued)

Notes to the Financial Statements

31. Unearned premium reserve

	2019 Shs'000	2018 Shs'000
At 1 January	**1,329,206**	952,551
Decrease/(increase) in the year	**(84,939)**	376,655
At 31 December	**1,244,267**	1,329,206

32. Deferred reinsurance commissions

At 1 January	**118,952**	83,566
Increase in the year	**(19,286)**	35,386
At 31 December	**99,666**	118,952

33. Lease liabilities

	Shs' 000
Operating lease commitments disclosed as at 31 December 2018	22,604
Discounted using the lessee's incremental borrowing rate at the date of initial application	18,393
Add: finance lease liabilities recognized as at 31 December 2018	-
(Less): short-term leases not recognized as a liability	-
(Less): low-value leases not recognized as a liability	-
Lease liability recognized as at 1 January 2019	18,393

	2019 Shs'000	2018 Shs'000
Day 1 Adjustment	**18,393**	-
Interest on lease liability	**1,971**	-
Lease payments	**(4,930)**	-
	15,434	-

Notes (Continued)

Notes to the Financial Statements

34. Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2018: 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:

	2019 Shs'000	2018 Shs'000
At 1 January	**80,405**	71,052
Charge to statement of profit or loss	**5,274**	7,743
Charge to statement of comprehensive income	**-**	2,561
Adjustment on initial application of IFRS 9	**-**	(951)
Adjustment on initial application of IFRS 16	**(250)**	-
At 31 December	**85,429**	80,405

Notes (Continued)

Notes to the Financial Statements

34. Deferred income tax (continued)

Year ended 31 December 2019	At 1 Jan 2018 Shs'000	(Credited/ charged to P/L Shs'000	(Credited)/ charged to OCI Shs'000	IFRS 16 application adjustment Shs'000	At 31 Dec 2019 Shs'000
Deferred income tax asset					
Leave pay provision	(1,948)	(1,815)	-	-	(3,763)
Unrealized exchange losses	(147)	(523)	-	-	(670)
Provisions	(951)	-	-	888	(63)
Deferred income tax asset	(3,046)	(2,338)	-	-	(4,496)
Deferred income tax liability					
Accelerated capital allowances	33,822	7,612	-	-	41,434
Revaluation surplus	49,629	-	-	-	49,629
Right of use asset	-	-	-	(1,138)	(1,138)
Deferred income tax liability	83,451	7,612	-	(1,138)	89,925
Net deferred tax liability	80,405	5,274	-	(250)	85,429

Year ended 31 December 2018					
Deferred income tax asset					
Leave pay provision	(2,912)	964	-	-	(1,948)
Unrealized exchange losses	(223)	76	-	-	(147)
Provisions	-	-	-	(951)	(951)
Deferred income tax asset	(3,135)	1,040	-	(951)	(3,046)
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**

Notes (Continued)

Notes to the Financial Statements

34. Deferred income tax (continued)

The charge to other comprehensive income relates to:

	2019 Shs'000	2018 Shs'000
Items that will not be reclassified subsequently to profit or loss:		
Surplus on revaluation of property and equipment	-	2,561

35. Other payables

Accrued expenses	**51,527**	18,306
Other liabilities	**85,705**	37,870
	137,232	56,176

36. Notes to the statement of cash flows

a. Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations;		
Profit before income tax	**509,431**	508,344
Adjustments for:		
Depreciation (note 13)	**25,996**	23,479
Amortisation of intangible asset (note 14)	**6,270**	10,338
Fair value gain on investment properties (note 16)	-	(3,531)
Amortisation of leases (Notes 15)	**3,795**	
Finance charge on leases (Note 33)	**1,971**	
Impairment of financial assets as per IFRS 9	**(4,607)**	(1,088)
Share of profit of associate after tax	-	(33,298)
Changes in:		
– Receivables arising out of reinsurance arrangements	**(55,574)**	45,154
– Receivables arising out of direct insurance arrangements	**59,890**	(93,486)
– Re-insurers share of technical provisions and reserves	**(32,161)**	(326,578)
– Deferred acquisition cost	**9,333**	(47,798)
– Other receivables	**(5,415)**	28,120
– Outstanding claims provisions	**300,103**	95,494
– Unearned premiums reserve	**(84,939)**	376,655
– Payables arising out of reinsurance arrangements	**(23,268)**	(40,652)
– Payables arising out of direct insurance arrangements	**11,815**	13,671
– Deferred reinsurance commission	**(19,286)**	35,386
– Other payables	**81,058**	10,875
Cash generated from operations	**784,412**	601,085

Notes (Continued)

Notes to the Financial Statements

36. Notes to the statement of cash flows

b. Analysis of cash and cash equivalents

	2019 Shs'000	2018 Shs'000
Cash and bank balances	**63,810**	17,675
Deposits with financial institutions maturing in 3 months (Note 24)	**975,933**	1,165,633
At 31 December	**1,039,743**	1,183,308

37. Related parties

The following transactions were carried out with related parties

Directors' fees	**7,029**	4,199
Directors and key management remuneration	**128,237**	122,839
Gross earned premiums	**2,358**	1,984

38. Dividends

The Directors recommend a first and final cash dividend of Shs. 15.00 per share amounting to Shs. 150,000,000 in respect of the year ended 31 December 2019 (2018 dividends Shs. 175,000,000). The movement in the dividend account is as follows:

Proposed at 1 January	**175,000**	150,000
Final dividend declared	**150,000**	175,000
Declared dividends paid	**(175,000)**	(150,000)
At 31 December	**150,000**	175,000

39. Subsequent events

Subsequent to year end, the directors intend to issue a bonus share of Shs. 500 million.

Company Revenue Accounts

For the year ended 31 December 2019

Class of insurance business	Aviation	Engineering	Fire Domestic	Fire Industrial	Liability	Marine	Motor Private	Motor Commercial	Personal Accident	Theft	Workmens' Compensation	Miscellaneous	2019 Total	2018 Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Gross premium written	23,011	257,010	73,995	667,557	49,010	208,527	462,817	454,117	49,879	116,067	447,334	207,981	3,017,305	3,004,593
Unearned premium at the beginning 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
Unearned premium at the end of the year	21	46,326	12,276	44,153	13,534	33,841	168,947	164,883	8,186	4,304	160,717	12,650	669,838	637,351
Premium ceded to re-insurers	22,902	180,027	40,918	570,672	12,306	43,358	28,148	31,482	25,806	105,415	18,315	182,729	1,262,078	1,456,922
Net earned premium	692	76,978	34,628	90,876	37,639	170,466	410,971	409,675	29,459	33,506	398,784	29,066	1,722,740	1,406,316
Claims paid		45,237	16,925	55,506	892	55,823	211,226	163,167	3,485	22,009	203,563	12,828	790,661	713,637
Claims outstanding brought forward	47	37,880	7,504	56,294	26,403	62,793	162,301	390,661	1,927	19,386	657,471	19,219	1,441,886	1,437,669
Claims outstanding carried forward	9	36,930	9,932	54,179	43,608	75,549	175,146	494,705	1,698	14,805	657,613	28,228	1,592,402	1,441,885
Claims incurred	(38)	44,287	19,353	53,391	18,097	68,579	224,071	267,211	3,256	17,428	203,705	21,837	941,177	717,853
Commissions (net)	(58)	(13,967)	4,818	(62,253)	6,520	28,151	41,101	39,996	4,190	(1,837)	72,958	(59,013)	60,606	(6,703)
Expenses of management	99	13,914	8,531	47,917	5,606	26,821	128,995	78,940	3,990	14,909	72,920	14,562	417,204	387,200
Premium tax	257	2,873	827	7,462	548	2,331	5,173	5,076	558	1,297	5,000	2,325	33,727	34,014
Total expenses	298	2,820	14,176	(6,874)	12,674	57,303	175,269	124,012	8,738	14,369	150,878	(42,126)	511,537	414,511
Underwriting profit	432	29,871	1,099	44,359	6,868	44,584	11,631	18,452	17,465	1,709	44,201	49,355	270,026	273,952

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